

Press Release

21 October 2011

Payday loans fuel UK consumer debt problem

New research has found that payday loans are fuelling consumer debt problems, while demand for this type of easy-access credit looks to be soaring across the UK.

A new survey¹ by national debt charity, Debt Advice Foundation has found that 41 per cent of those struggling with debt claim their financial problems are the result of high interest 'payday' lending.

There is also a worrying upward trend of people in the UK seeking this type of expensive short-term credit. The charity's online analysis² has found that searches for 'payday loans' have doubled in the past 12 months.

David Rodger, Managing Director of Debt Advice Foundation, explains: "Online searches for 'payday loans' have been steadily rising across the UK over the past four years – worryingly, we've seen a sharp increase during 2011, with searches now double what they were this time last year.

"There has been an influx of companies offering payday loans, with many people now turning to this easily accessible credit to keep finances afloat until their next pay-packet arrives."

The charity has found that one in four people who have taken out a payday loan - needed the money to buy food or essentials for their household, with 44 per cent using them to pay off other debts and one in ten (9 per cent) claiming to have used the money to buy something they could do without.

It also found that almost half (49 per cent) of those who had used this type of credit didn't feel they had been fully informed about the rate being charged and the total amount they would pay back.

David continues: "Payday loans are an expensive form of credit, often with Annual Percentage Rates (APRs) in the thousands. They are designed for short-term, occasional use.

"Many lenders are quick to point out that an APR is not an appropriate measure for these types of short-term products and that most borrowers are happy with the cost of the credit in monetary terms. However, for those who exceed the loan period, these high interest rates can rapidly transform a relatively small and manageable debt into a much larger liability.

"It's no coincidence that as the popularity of payday loans has increased; the charity's helpline has seen a significant rise in payday loans related debt enquiries. It's essential that consumers are clear about the agreement they are entering in to – and make an informed choice as to whether it is right for them."

The charity also has concerns about the lack of credit checking, David commented: "Many payday loans companies actually advertise the fact that they don't check a borrower's credit worthiness - which can result in people accumulating multiple unaffordable high-interest debts. We believe lenders should be obliged to inform credit reference agencies when a loan is taken out and check whether an applicant has any current outstanding liabilities."

People struggling with debt can access free advice and support from Debt Advice Foundation by visiting www.debtadvicefoundation.org/help or calling 0800 2922077.

- Ends -

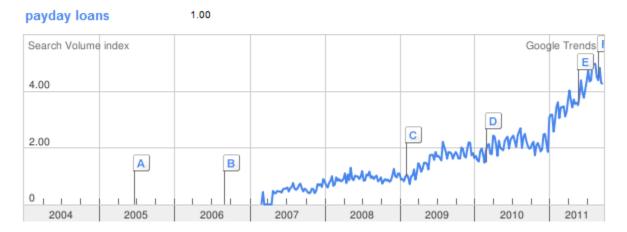
Further information:

Kate Jones - 07966 829143 or Claire Hawes – 07896 547206 / 0161 838 5623 or email pressoffice@debtadvicefoundation.org

Editors Notes

¹ Research carried out by Debt Advice Foundation. Survey conducted on the charity's website – www.debtadvicefoundation.org - from May 2011 to September 2011. 309 visitors to the website took part.

- ² Google trends analysis by Debt Advice Foundation highlights the growing number of searches in the UK for 'payday loans'. Search levels have doubled since 2010:
 - Scale is based on the average traffic of payday loans from United Kingdom in all years. Learn more
 - An improvement to our geographical assignment was applied retroactively from 1/1/2011. Learn more



About Debt Advice Foundation

Debt Advice Foundation's telephone helpline service is available six days a week on 0800 2922077, lines are open from 8am-8pm Mon-Fri and 9am – 5pm on Saturdays.

Debt Advice Foundation is a registered charity, with the following objectives:

- Provide free, impartial and appropriate advice to people with unaffordable debt.
- Help people with debt problems to gain free access to solutions that will help them.

- Promote the education of young people in money management so as to reduce the likelihood they will mis-use debt later in their lives.
- Undertake or fund research to understand why problem debt happens and its effect on individuals, families and the wider UK economy.
- To use this evidence to become a force for beneficial change within the credit and debt solutions industry and to work with government to bring about legislative change to benefit UK consumers.

The charity is a member of AdviceUK, the UK's largest support network for free, independent advice centres and all of the charity's advisors are associate members of the Institute of Money Advisors, a charitable body that aims to promote free money advice and develop professional standards. It is also a registered supporter of the All-Party Parliamentary Group on Financial Education for Young People and the All-Party Parliamentary Group on Debt and Personal Finance.