Scope to...

Disabled people and financial well-being

Credit and debt

Key messages

- Although disabled people are less likely to draw on credit, those that have borrowed are substantially more likely to be over-indebted on some measures, and more likely to draw on loan sharks.
- Disabled people find it hard to access mainstream, affordable credit.
- Low cost forms of credit will diminish with the abolition of the Social Fund unless the government place duties on local authorities to provide equivalents to Crisis Loans.
- Investment in Credit Unions must be effectively spent in co-operation with housing associations.
- Regulators must work with credit providers to ensure that the market is less hostile towards disabled consumers.

The importance of credit

Affordable credit can be an important and positive financial tool in meeting the one-off costs disabled people face. Like dipping into savings, or making a claim on insurance, it can enable disabled people and their families to smooth out fluctuations in their income and expenditure. It is a key product for funding short-term or emergency expenses.

However, there are risks associated with credit. It can be used inappropriately – for example to pay for everyday essentials, or to pay for emergency items in times of distress – when a person may overestimate their ability to make repayments in the future, or simply have no other choice but to borrow. Disabled people are disproportionately exposed to these risks.

The findings

Disabled people find it hard to access credit

- More than one in ten disabled people (13%) have been turned down for credit in the last five years. (1)
- Disabled people are also less likely to draw on credit than non-disabled people. Less than one in five disabled people (18%) use an arranged or authorised overdraft, compared to three in ten of non-disabled people (31%). (2) One in ten (10%) disabled people said they didn't use credit because they feared being turned down for it.
- Many banks are unwilling to lend against benefits that they perceive to be unreliable. (3)

"It is virtually impossible to get any credit when on benefits... Trying to get a credit card is a nightmare...they are geared for people that work even though benefit income is guaranteed." Gary (4)

The credit they do access is often high-cost (5)

- Disabled people are generally over-represented among high cost credit users (18% compared with 5% of non-disabled people). (6)

Disabled people are disproportionately likely to turn to doorstep and payday loans

One in ten (10%) disabled people surveyed had a cash loan from someone who came to their home compared to 3% of non-disabled people. (7)

"I have a huge student loan and some petty loans I took in dire straits from a loan shark, which actually has made money management difficult as I have to pay back hugely every week." Vivien

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1 Unless otherwise referenced, all statistics come from survey analysis conducted by Ipsos MORI (see acknowledgements).

2 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

3 Social Finance (2009) Financial Inclusion: Families with Disabled Children, Understanding their financial needs http://www.socialfinance.org.uk/sites/default/files/dcff.pdf

4 All quotes in this pamphlet are from the 'Scope Money Matters Survey 2009/2010'

5 Note: The cost of high cost credit - borrowing £100 from a mainstream credit card and paying back in full after making just the minimum payment in the first month would cost consumers £1.44. However, the same loan through a payday lender would cost the consumer approximately £37, http://www.nao.org.uk/wp-content/uploads/2012/12/1213685.pdf

6 Personal Finance Research Centre, University of Bristol (2013) The impact on business and consumers of a cap on the total cost of credit, http://www.bristol.ac.uk/geography/research/pfrc/themes/credit-debt/pfrc1306.pdf

7 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing.

Distressed borrowing is more likely amongst disabled people

- Distressed borrowing – when a person borrows in a time of distress or urgency – is more likely for borrowers who are struggling financially. (8)
- Our research shows that one fifth (21%) of disabled people describe their financial situation as poor and disabled people are significantly more likely to live in poverty than non-disabled people. (9) Therefore 'distressed borrowing' of an unaffordable amount is an especially pertinent risk for disabled people.

A huge proportion of disabled people are relying upon credit to meet their basic needs

- Rising living costs has meant that significant numbers of disabled people have taken out loans to pay for the basics in life, such as food or heating. Half (49%) of disabled people have used a credit card or loan to pay for everyday items in the past 12 months (10) – most commonly to pay for clothing and food.
- Disabled people are more likely than non-disabled people to say they took out a loan to pay bills (14% compared to 9%) and to make ends meet (15% compared to 7%). (11)

"If I don't have enough money to pay for basic necessities, I have to use a credit card or other form of debt. This is a last resort; using it means I have already been forced to cut outgoings to the bone and forego buying any form of adaptive equipment or support." Janet

- In these cases, credit is not a useful financial tool – if a person cannot afford to meet their everyday costs now, it is unlikely they will be able to meet even low cost credit repayments in the future. The policy problem here is different to a lack of access to affordable credit – disabled people are using credit to meet daily living expenses because their income is disproportionately low and their needs are disproportionately high. (12)

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8 Financial Conduct Authority (2013) High-level proposals for an FCA regime for consumer credit, Consultation Paper CP13/7, http://www.fsa.gov.uk/static/pubs/cp/cp13-07.pdf

9 Office for Disability Issues (2012) Disability Facts and Figures, http://odi.dwp.gov.uk/disability-statistics-and-research/disability-facts-and-figures.php#ls

10 Note: Respondents were asked if they had used a credit card or loan to pay for clothing for themselves, food, a holiday, an unexpected expense, leisure activities, clothing for other family members, regular bills, non-disability related home improvements, utility (gas/electricity/water) bills, another type of credit (loan, credit card), a car, disability related equipment/services, study and disability related home adaptations.

11 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

12 Note: 23% of households with a disabled member live below the poverty line, compared with 18 per cent of households in the UK generally. They also face extra costs: Once disability-related costs are taken into account, the numbers of households with a disabled person living in poverty jumps from 23 per cent to 47 per cent. A Sen (2009) The Idea of Justice, London: Allen Lane.

The above combine, leaving disabled people disproportionately likely to become trapped in debt

- Households with a disabled person are twice as likely as households without a disabled member to have unsecured debt totalling more than half their household income (16% compared to 8% of households overall). (13)
- Disabled people are more likely to be unable to meet loan repayments. 6% of disabled people are two or more consecutive repayments behind, compared with 4% of non-disabled people. One in five (19%) have been unable to make a minimum payment in the last 12 months (versus 12% non-disabled people). (14)

"I had to pay for delivery of all shopping and for someone to do laundry. I was constantly paying out more than I had… I was almost £12,000 in debt." Emily

Without access to affordable credit, disabled people do without essentials and become dependent on others

- Nearly half (48%) of disabled people 'cut back or do without' when they run out of money, compared to 41% of non-disabled people. (15)
- Disabled people are also slightly more likely to become dependent on others. 39% said they borrowed from family and friends when they ran out of money, compared with 36% of non-disabled people. (16)

"Because I have no spare cash I no longer have a social life as I cannot afford to pay my way. I rely on family help with money to pay for the fuel to put in my car." Ross

But there is a group of disabled people who rely on credit for other things, and for whom low cost credit is both useful and crucially important

- One in five disabled people (17%) rely on credit to meet unexpected costs. It is the most common reason given after paying for food, clothing and a holiday.

"When we haven't been able to get the equipment that our son has needed we have had to put this on the credit cards." Faye

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13 Source: Over-indebtedness in Great Britain: An analysis using the Wealth and Assets Survey and Household Annual Debtors Survey, Report to the Department for Business, Innovation and Skills. Institute for Social and Economic Research, University of Essex, October 2010. Note: Unsecured debt refers to a loan or loans that are not backed by an asset to be used as collateral – i.e., in the same way that a house is in regards to a mortgage. Examples of unsecured household debt can include: catalogue payments, credit cards and unsecured loans.

14 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

15 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

16 Wealth and Assets Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

- At the same time, disabled people are more likely to be unable to afford an unexpected financial shock. Over a third (37%) of disabled people said they could not afford an unexpected but necessary expense of £500 compared to a quarter (26%) of non-disabled people. (17)

"Low income on benefits mean it's a struggle to manage, without using credit to buy large expensive items, then end up in debt, making it even harder to balance the 'books'." Elliot

The supply of low cost forms of credit will be diminished with the abolition of the Social Fund

- On 1st April 2013, the Discretionary Social Fund was abolished and replaced with new local authority welfare schemes. The Social Fund, amongst other things, provided Crisis Loans – interest-free loans to help people meet immediate short-term needs.
- In 2009/10 around one third (31%) of Crisis Loan final decisions were made in respect of disabled people, and this represents an increase of 11 percentage points on the previous year. (18)
- With the localisation of the Social Fund, there has been no statutory duty on local authorities to provide access to equivalent forms of credit or grants, or to ring-fence budgets in order to make such provisions.
- Cumulative impact analysis conducted by Scope and Demos estimates that this will affect 844,360 disabled people who may lose up to £43.2 million in Crisis Loans. (19)
- The introduction of local welfare provision is being accompanied by a budget cut of £37 million (equivalent to 17% of the total) compared to DWP spending on support in 2011 / 12.
- In 2011 restrictions on Crisis Loan provision were announced. (20) Setting an arbitrary limit on the number of applications or awards – without tackling the fundamental problems which result in increased demand for Crisis Loans – means that some disabled people's needs will not be met, and the proportion of disabled people relying on high cost credit to meet basic needs will increase.
- Research indicates that the majority of local authorities have rejected the use of loan schemes and have taken steps to limit cash payments, focusing instead on the direct provision of goods and services or the issuing of vouchers – including gift or pre-paid cards which can only be redeemed at specific outlets. (21) This is a worrying development for disabled people: harsh budgetary cuts are forcing local authorities to take explicit actions to limit the choice and control of those already excluded from mainstream financial products.

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17 Life Opportunities Survey, analysed in Ipsos MORI (2013) Disabled People and Financial Wellbeing

18 Department for Work and Pensions (2011) DWP Local welfare assistance to replace Social Fund Community Care Grants and Crisis Loans for general living expenses - Equality impact assessment

19 Scope and Demos (2013) The Cumulative Impact of Welfare Reforms, http://www.demos.co.uk/files/Table3-detail.pdf

20 Department for Work and Pensions (2011) Press Release: Changes to Crisis Loans – protecting the vulnerable, https://www.gov.uk/government/news/changes-to-crisis-loans-protecting-the-vulnerable

21 Centre for Responsible Credit (2013) Local welfare provision, low-income households, and third sector financial services provision, http://www.responsible-credit.org.uk/uimages/File/local%20welfare%20provision%20low-income%20households%20and%20third%20sector%20financial%20services%20final.pdf

Community Development Finance Institutions (CDFIs) and Credit Unions

- In 2004 the government established the Growth Fund, which was aimed at increasing the availability of affordable personal loans via third sector (not-for-profit) lenders such as Credit Unions and Community Development Finance Institutions (CDFIs).
- The interest rates on Loans provided by Credit Unions and CDFIs are low; repayments can be made weekly, at a level that suits the borrower; and these can be paid flexibly, without the risk of incurring penalty charges. Loans are made without a credit check, through a straightforward application process. It is estimated that the cost of a typical home credit loan over a period of 50 weeks is £525, compared with the cost of the same amount lent by a Credit Union at a cost of £319. (22)
- But at the moment Credit Unions in the UK are not very well developed. They rely mainly upon volunteer labour, have limited accessibility, and offer a small range of products and services, (23) and the DWP has failed to ensure a clear role for Credit Unions, CDFIs and social enterprises in the delivery of local welfare schemes. (24) The DWP has committed a substantial amount on money to bolstering the strength of credit unions (£38 million until 2015), presenting a powerful opportunity to increase disabled people's access to affordable credit.

"I can't use my local credit union because I can't get to them on a weekly basis. There are many things in my household that need replacing, from the roof to the settee, but I have no idea how I can manage to do it." Megan

22 HM Treasury (2010) Financial Inclusion Evidence Review: the costs of credit exclusion and the benefits of access to affordable credit, http://www.transact.org.uk/search.aspx?sitesectionid=156&search=Financial+Inclusion+Evidence+Review

23 Welsh Government (2012) Consultation on options to replace the Social Fund Community Care Grants and Crisis Loans for living expenses, Cardiff: Welsh Government.

24 Centre for Responsible Credit (2013) Local welfare provision, low-income households, and third sector financial services provision, http://www.responsible-credit.org.uk/uimages/File/local%20welfare%20provision%20low-income%20households%20and%20third%20sector%20financial%20services%20final.pdf

Recommendations

Too many disabled people are relying on credit to pay for essentials. This reflects the rising costs of living, and the deep-set poverty disabled people face due to low incomes and extra costs. The government must act quickly to address this deep-seated social problem.

Aside from this, our research shows that crucially, low cost, quickly accessible and flexible forms of credit could be a key financial tool for a large cohort of disabled people. To aid this:

The provision of crisis loans must be ensured

A duty must be placed on local authorities to ring fence funds in order to provide an equivalent to Crisis Loans provided by the Social Fund, without limits on the number of applications for support people can make, or the number of awards people may receive in a year.

Credit Union and CDFI funding must be wisely spent

The government must define clearly the role of credit unions and CDFIs in the delivery of local welfare schemes. Since 46% of social housing tenancies involve a disabled person, (25) the role of Housing Associations in extending the reach of Credit Unions and CDFIs to support and empower disabled people in their own communities should be further explored.

Commercial credit providers should offer flexible, easily accessible, affordable credit

The Financial Conduct Authority (FCA) must work with credit providers to ensure that the market is less hostile towards disabled consumers, and that appropriate products are quickly available to them. This might mean lending against benefits that have previously been unjustifiably perceived as unreliable.

25 Thornhill J, 'Protecting disabled people should be a priority for housing associations', Guardian, 11 Jul 2012, http://www.guardian.co.uk/housing-network/2012/jul/11/disability-related-hate-crime-social-housing

Acknowledgements

This pamphlet is based on a programme of research, conducted by Ipsos MORI's Social Research Institute on behalf of Scope, sought to explore the issues surrounding financial inclusion for disabled people. The primary research comprised a representative survey of 1,009 disabled adults aged 16+ which was carried out between 27 July and 10 August 2012 across Great Britain using a combination of the Ipsos Online Panel and three waves of Ipsos' weekly face-to-face omnibus survey, Capibus. This was complemented by secondary data analysis, which was conducted on the following large national surveys, with selected variables analysed by disabled and non-disabled respondents: Life Opportunities Survey; Understanding Society; Family Resources Survey; Wealth and Assets Survey; ONS Opinions and Lifestyle Survey; and Citizenship Survey.

For more details about this research, please see the published report published at

www.scope.org.uk/financial-wellbeing

The quotes used in this pamphlet are from Scope's 'Money Matters' survey conducted between 2009 and 2010. The survey looked at the financial experiences of disabled people and families with disabled children.

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