



Families locked out of the banks pay a Christmas poverty premium - new Family Action report

A new report by charity Family Action published on November 23rd demonstrates the way in which the poor pay a premium for Christmas because they are excluded from mainstream methods of spreading the cost of the festive season. The Christmas Poverty Premium report calls on the Government to put more money into the pockets of the poorest and to do more to raise awareness of the high cost of home credit, as Family Action estimates that at a minimum between half a million and £1.8 million is being collected in interest repayments on home credit from some of the UK's poorest families every week.

Many long-term poor families are effectively denied access to mainstream bank accounts and affordable credit, and turn to other more expensive ways of budgeting. Millions more could be affected as unemployment rises. The Christmas Poverty Premium reveals how

- Poor families who save in advance toward Christmas through pre-payment schemes, such as hampers, could lose bank interest and end up paying three times the usual price of the goods
- Those who use home shopping instalment plans, for example through catalogues, can end up paying twice the price for goods
- Those who take out home credit loans to finance Christmas could end up paying the equivalent of 545 per cent APR even if they opt to pay back the loan as quickly as possible.

Helen Dent, Chief Executive of Family Action said:

"It is scandalous that the families who can least afford it could pay the most for Christmas. It is particularly unjust that those who save in advance for Christmas or who attempt to pay off their debts quickly will be effectively penalised for doing so.

"However we must look beyond this Christmas to the future. If the profits of the doorstep lenders and the pre-payment companies are not to spiral in this recession it is urgent that the Government raises awareness of the high cost of home credit and boosts the poorest families' incomes so they are able to budget more flexibly. They must also help drive innovation in how alternative providers are making affordable loans and other financial products available to low income families."

Examples of the Christmas poverty premium which Family Action has found include

- A pre-paid fresh fruit and vegetable hamper paid for over 45 weeks at 85 pence a week cost £38.25: a price difference of £24.99 or around 200 per cent more than if paid for in a major supermarket shopping site.
- A Nintendo Wii console plus Wii Sports Resort costing £297.44 from an online catalogue if paid for at £2.86 for 104 weeks (29.9 per cent APR) compared to a one off payment of £164.99 from Amazon

- A home credit company loaning £50 for a cost of £74.75 to customers paying £3.25 over 23 weeks amounting to 545 per cent APR. Customers taking longer to pay back get a cheaper rate of APR. They pay back 31 weeks at £2.50 or £77.50 but still at 365.1 per cent APR.

Family Actions' recommendations are

More must be done to raise awareness of the high cost of home credit. It is argued that home credit companies need to charge higher interest rates because they are loaning to customers with poor credit histories. However interest rates of 545 per cent APR on home loans are stratospheric. It is pernicious that repayment under existing home credit schemes is structured so that those who pay back debt fastest are penalised for doing so. Too much consumer information is on the Web where we know the poorest cannot access it. The Government should ensure low income households can access independent information about financial products like home credit and Christmas Clubs other than through the Web.

There needs to be more competition in the range of lending that is effectively on people's doorsteps, for example through supporting the growth of credit union capacity in local multi-agency outlets such as children's centres which have track records for engaging hard-to-reach groups. In particular Government should fund housing associations to extend the reach of their financial inclusion work with tenants given that low income households are disproportionately living in social housing and housing associations are already active in developing financial product options and facilitating access to credit unions

More income needs to go into the pockets of the poorest families as it is lack of income which causes their lack of flexibility in budgeting and pressure on their attempts to save. Family Action supports the End Child Poverty campaign for Government to invest at least £3 billion in tax credits and benefits. Other measures that would help would include the Government extending funding and access to social fund grants and interest-free loans; and extending the coverage of LEA schemes to assist parents with children's school clothing costs.

Notes to editors

1) Family Action has been a leading provider of services to disadvantaged and socially isolated families since 1869. We work with over 45,000 families a year by providing practical, emotional and financial support through over 100 community-based services across England. Additionally in 2008-2009 we distributed 3,235 grants totaling over £641,000 to UK families and individuals who were in need but were refused Social Fund assistance. Family Action won the 2009 Charity Awards Foundation award for effectiveness. www.family-action.org.uk

2) For example the Provident's interim report says the company makes 1.7 million collection visits a week to collect repayments for home credit. If you borrow from Provident the smallest loan is £50 and the fastest you can pay it back is in 23 weeks. The total repayment will be £74.75. If you repay it in this period you pay the highest APR, of 545.2 per cent. The weekly repayment is £3.25. This means the interest element per week is £1.08. $\frac{£50}{23 \text{ weeks}} = £2.17$ repayment before interest. Therefore the weekly interest is $[£3.25 - £2.17] = £1.08$ 1.7 million collection visits for the lowest amount borrowed, repaid at the highest rate of APR= £1.836 million in interest ($1.7\text{m} \times £1.08$) If you repay back at a slower rate over 31 weeks the total repayment is £77.50 (APR 365 per cent), and the weekly repayment is £2.50 meaning the weekly payment of interest will be $[£2.50 - £2.17] = 33 \text{ pence}$ 1.7 million collection visits for the lowest amount borrowed repaid at the slower rate and lower rate of APR= £561,000 in interest. Therefore, based on the smallest available loan, in any week Provident collects between £561,000 and £1.836 million in interest from its customers.