

Shining a light on illegal money lending: consumer experiences of unauthorised lending in the UK

November 2017

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Foreword

Illegal money lending operates below the regulatory radar. It can be difficult to identify and quantify unauthorised lending activity, given the taboos that surround it and what is at stake. For consumers, that could be shame or violence, and for lenders fines or imprisonment. To overcome this, we reached out through our network of consumer and community contacts across the UK.

We wanted to improve our understanding of illegal money lending, by hearing the stories of hard-to-reach consumers from those who work to help them. This is important to us because we regulate consumer credit, including high cost credit (see our recent feedback publication on high cost credit¹). Additionally, the illegal operation of credit lending has implications for the legitimate market. We issue warnings and take appropriate enforcement action against unauthorised activity and work closely with the Illegal Money Lending Teams (IMLTs).

The stories we heard through our outreach do not provide statistically significant evidence of the prevalence or otherwise of illegal lending, but we considered it would be helpful to those with an interest in this area to share them. We recognise that the nature and findings of this more exploratory approach are a departure from the regular research put out by the FCA.

From speaking to people who work with those affected by illegal money lending, and the information they have shared, we have gained some insight into:

- how consumers become involved with unauthorised lenders
- what those lenders look like and
- how they operate.

These are their stories: we are grateful to those who took the trouble to share them.

'My first experience of money lending came to me at 15 years of age when my dodgy uncle was looking at a prison sentence for armed robbery. Knowing that his money could be found by ramblers, walkers or dog walkers or even worse the police, he decided to loan it out.

The return on his £50k over 12 months could be between £75-£80k. My cousin and I were to collect it every Friday or Saturday without fail. We loaned to all walks of life from publicans to drug dealers. Over a twelve month period people were taking loans on top of loans and over the next 3 years while my uncle was away there was over £225k lying out. He charged (Home Collected Credit) rates but collected it in quicker. Most people get into it not because they want to get into it but because they don't want to get caught with illegal earnings from their criminal activity which the courts would take from them. Instead they loan it out, which

1 www.fca.org.uk/publication/feedback/fs17-02.pdf



makes sure the money is secure from police and they can earn a small amount back every week (wage). I'm happy to say that I'm away from all criminal activity but unfortunately at 15 years of age this led me down a slippery path, but after a short prison sentence I cleared up my act.'

Insight into lender journey: anonymous



1 Introduction

- 1.1** Unauthorised lending – often referred to as illegal money lending (IML) – is the practice of lending money to individuals without regard to the rules and requirements of the regulatory framework. It operates below the regulatory radar: both the consumers and the lenders involved are hard to reach and reluctant to share what they know.
- 1.2** Conversations with front line staff suggested that the practice is surrounded by many complex social and economic issues. It is a long-standing, often deep rooted and largely hidden practice in many deprived communities in the UK. It can take many different forms and affect a range of consumer groups. But the common theme we heard is that the consumers that use such lenders have exhausted all available resources and have a desperate and urgent need for money, often being tipped into using it by a crisis or unexpected particular shortfall in income.
- 1.3** Because the practice is so hidden, it has been difficult to establish hard evidence of the number of consumers involved in unauthorised lending. The main focus for this discussion is how and who. Our initial consideration of the limited existing research revealed we needed a fresh approach to get good insight into the problem and the people involved.
- 1.4** Throughout 2016, we held a series of conversations and discussions in parts of the UK with historic reports of illegal lending, to get underneath the surface of this complex issue. Find out more about our approach in Annex 1.
- 1.5** We are interested to hear new insights on this subject or stories to add so we can keep our understanding of the issues up to date. Contact us at consumerinsight@fca.org.uk.



2 Background

- 2.1** The FCA took over responsibility for regulating consumer credit from the Office of Fair Trading in 2014. Consumer credit activities aimed at individuals (i.e. not companies), whether or not interest is charged, will generally require authorisation, with some exemptions. We authorise firms that provide consumer credit to ensure that they meet the required standards and treat customers fairly. Lenders undertaking regulated activity without the necessary authorisation are likely to be operating illegally.
- 2.2** The IMLTs in the UK work in partnership with our Unauthorised Business Department (UBD), which takes action against those undertaking unauthorised activity around the perimeter of regulated credit activity. The IMLTs have primary responsibility for criminal enforcement against illegal lenders, and engage closely with the police and others where activity overlaps with wider criminality. They are an important partner and source of information for this project.
- 2.3** The IMLTs also have important intelligence gathering, information sharing and educational functions. They raise awareness in local communities about illegal lending, encourage reports of activity and provide practical support and assistance to consumers who come to them with information.
- 2.4** Understanding what the unauthorised lending sector looks like, and the way it operates and affects consumers, is an important aspect of supporting the integrity of the legitimate credit sector.



3 What we found

- 3.1** Our contacts told us that unauthorised lending:
- has existed in our communities for generations
 - happens across the UK and
 - is most likely to be found in areas of high economic deprivation, particularly within social and rented housing estates (in both urban and rural areas) with close knit communities.

- 3.2** But we also heard that activity is not confined to deprived areas. Case studies were reported across all age groups and consumer types, including those in work, with their own businesses and from financially comfortable backgrounds. The common unifying factor is that borrowers have an income shortfall and need money urgently.

Consumer context

- 3.3** We heard from our partners that their clients are facing a tough financial environment. They identified some external factors that were placing pressure on incomes for sections of the population, at a time when consumers were reporting increasing demands on essential expenditure.
- 3.4** The Money Advice Trust told us in discussions that consumers are now coming to them for help with problem debt at lower levels than previously and that debt is more likely to be driven by household essential expenditure e.g. utilities, Council Tax, or rent. This is also evidenced in their research report, Changing Household Budgets.²
- 3.5** While unauthorised lending is not confined to deprived areas, and is found across all demographics and sectors of the population, the consumers seen most often by our partners were from low income families on economically deprived estates. One adviser, for example, reported illegal lenders targeting consumers outside food banks.
- 3.6** Our partners reported that some of their clients are cut off from credit completely and others avoid mainstream lenders: either because they expect to be turned down or is outside their experience and they find them too complicated to use.
- 3.7** In many cases, we heard that affected consumers were on benefits and often in work, but work that was low paid or intermittent. Notably, there were many cases involving people with mental or physical disabilities and the statistics gathered by the IMLTs show that they are highly represented among those consumers they come into contact with.³ These consumers are particularly vulnerable.
- 3.8** Many of our partners observed that lack of financial education, in tandem with custom and practice in some communities, supported continued use of unauthorised lenders.

² www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/changing_household_budgets_report_final.pdf

³ In Wales during 2014/2015, 71% of loan shark victims had a recognised mental or physical disability.



For example borrowers may have grown up in places where the unauthorised lender was a familiar part of the culture: when they need to get money urgently they know where to go.

'In one estate loan sharks were hanging around the school gate, handing out their details on cards to the children as they left school, telling them to get their mums to ring them if they wanted new trainers'

Anonymous adviser report

3.9 We heard examples of different types of consumers who had turned to unauthorised loans, often triggered by a change in circumstances. These included insights about:

- Lone parents, generally mothers, who have exhausted other options e.g. they may have recently moved into an area with few contacts and are in a cycle of debt with no access to credit.
- Consumers with cultural, language or educational barriers to legitimate sources of lending and form filling e.g. poor literacy or learning difficulties.
- SMEs who need money for their business to overcome cash flow problems e.g. taxi drivers facing an expensive repair.
- Prisoners coming back into the community e.g. who may need money for accommodation and have few choices.
- Immigrants without access to alternatives e.g. new to the UK with no credit history.

'One man was a painter and decorator by trade. He had a period of illness and couldn't work so needed money urgently. He went to a loan shark. The lender got him to do jobs for him unpaid, and this carried on indefinitely. His debt didn't reduce and he had little time to work to earn money'

Anonymous adviser report

3.10 Another insight was about pensioners who borrowed small sums week to week, paying back the money to the loan shark at the post office when they get their pension. Sometimes the lender held the pensioners' cards or passbooks between pension payment days.

3.11 We heard insights about people with addictions among those who use unauthorised lenders. One case involved an addict who had lost possession of his cash card to the loan shark, and had come to rely on him completely. There were cases of loan sharks operating out of casinos, taking advantage of people with gambling addictions. And there were examples of consumers becoming addicted to online bingo and borrowing money as a result.

'A young man from a good background had started taking drugs and got into a cycle of debt. Consequently he ended up running drugs for the lender and got sucked deeper and deeper into criminality, eventually ending up in prison'

Anonymous adviser report



- 3.12** We also heard a range of insights into unauthorised lending within ethnic and migrant groups. There were examples from many different communities including Chinese, Bangladeshi, Portuguese, Eastern European, and Filipino, that had imported their own models of lending and continued to operate them in the UK. These consumers were generally even less likely to report activity to the authorities and their models were less visible to, or well understood by, our partners.

'In one case loan sharks admitted lending within their own community but the person who reported it was ostracised (not the lender) for bringing shame on the community, providing a very powerful disincentive for people to talk'

Anonymous adviser report

The Lenders

- 3.13** We heard that illegal lenders have always existed: they are part of a way of life and within the fabric of many communities. Both lending and borrowing activity can pass along generations. Where arrests have removed activity the gap is sometimes filled by others in the family.

- 3.14** We also heard that there are different types of unauthorised lenders. They are as varied as the consumers they supply. The lending takes many forms, and can be found in many places – wherever there are people who have an urgent need to borrow. But lenders tend to keep within local boundaries, relying on word of mouth in their own communities.

'One young woman was punched in the face at a house party in front of a room full of her peers as punishment for non-payment. No one would report the attacker even though many people saw what happened and who had done it'

IMLT report

- 3.15** The reports of consumer experience of unauthorised lenders ranged from relatively benign to life threatening. At the softer end of the scale lenders operate what feels like a legitimate business from a consumer perspective, sometimes even alongside regulated lending. This is known as parallel lending.
- 3.16** Examples of unauthorised lending were reported operating alongside authorised forms of lending including Home Collected Credit (HCC), catalogue lending, pawnbroking and credit brokerage (e.g. on premises such as car dealers). This parallel lending is made from the lender's own pocket rather than on the books of the authorised lender.
- 3.17** Some lenders used paperwork from authorised loan companies so that the loan looks legitimate: the customer may not always know they are borrowing 'off the books'. This may come to light when they go to a debt advisor. Lenders will make 'a quick buck for themselves if they can'.
- 3.18** Further along the scale, lenders operate deep within communities below the regulatory radar. These loan sharks are reported to exploit and intimidate consumers for financial and personal gain, often as part of a wider criminal lifestyle.



3.19 It was reported that a police focus on organised crime in Manchester had found related unauthorised lending.

'One lender coerced a borrower who owed him money into setting up a cannabis farm in his spare room. They put the risk onto their victims and control them through debt and fear – "you owe me"
Anonymous adviser report

3.20 Lenders at the extreme criminal end of unauthorised lending, which can be a tool for money laundering for wider criminal activity, tended to be male. Both women and men were observed in parallel lending scenarios, but the more violent loan sharks tended to be men. There were examples of women lending within their own community groups.

3.21 At worst, we heard examples of consumers being coerced into criminal activity, such as prostitution or drug running. There were insights into a world of physical violence and threat, with borrowers scared for their family's safety. According to IMLT research with victims of illegal money lending conducted in 2016⁴, 5% of those victims said that they had considered suicide directly as a result of being involved with a loan shark.

'A man had borrowed on payday loans, got into worse debt, and then went to an unauthorised lender for money. His partner was approached with her child outside the school when he fell behind, as a warning to pay. At this point he called the IMLT helpline'
Anonymous adviser report

Models of lending

3.22 The practice of 'renting' money was reportedly common. Here, lenders lent an amount – sometimes to a sole trader – and the borrower paid a weekly 'rent amount' until they paid the lump sum back in full. It was hard for the borrower to get the full amount to pay back and with further lending the repayments could go on almost indefinitely.

3.23 Strong demand for rented accommodation in some parts of the UK, and high associated costs, are also said to be driving the rise of the landlord lender. High deposits and delays in income payments were reportedly leaving people vulnerable to exploitation by landlords who could put the rent up at will (because the tenant wouldn't have the capital to finance deposit and expenses for a move) or inflate it to punish late payment. We were told landlords sometimes get tenants to do work for them to pay rent.

3.24 There were also lenders embedded in workplaces. This was partly a hangover from the peak of heavy industry (steel works, factories and shipyards) where there would be a 'go to' person to borrow from when workers needed a bit of cash to tide them over. Hospitals were cited as a host for activity in various locations we visited. More generally, large institutions with a low paid, often migrant workforce, were a recognised likely source of unauthorised activity, including in rural areas where itinerant work on the land was common.

⁴ Illegal Money Lending Team England, LIASE Witness Statistics for the period January - December 2016



- 3.25** There was little visibility of lenders advertising, they relied on word of mouth. This extended to social media such as Facebook which could be used to threaten or expose non payers. People looking to borrow money would post statuses asking where to get loans and they be referred through friends, or lenders themselves would follow up. IMLT had examples of lending through the Craigslist site and advertisements on Gumtree, but most were careful to stay out of the public domain.
- 3.26** There were also reports of lenders who hadn't applied for FCA authorisation but who carried on credit business anyway, which is a criminal offence. In such circumstances, the FCA's Unauthorised Business Department works closely and effectively with the IMLTs, providing mutual support regarding casework and intelligence and, where appropriate, referring cases of illegal money lending to the IMLTs for their consideration.
- 3.27** For example, in September 2015, the FCA received a report from a consumer who worked at a hospital. The consumer stated that a colleague borrowed money from a doctor there, and there was also a suggestion that the doctor had placed a charge on the borrower's property. Having recognised this type of activity as something the IMLTs would be interested in, the matter was referred to them and the IMLT consequently executed a search warrant in December 2015. This resulted in the arrest of the suspect, along with the seizure of £5,000, the identification of assets worth £3m, and the recovery of books and records that led to the identification of a number of other borrowers. The doctor was charged with offences in June 2016 and pleaded guilty.
- 3.28** The FCA took its own, first criminal action against an individual acting as unlicensed consumer credit lender in January this year and the trial will take place in early 2018.⁵ There are reporting restrictions in place, so we cannot provide any further details about the action.
- 3.29** We were told that in some cases the rates offered by illegal lenders compared favourably with - or were cheaper and more accessible than - some other sources of authorised credit open to sub-prime consumers.

Regional variations

- 3.30** We heard some common stories about lending across different parts of the UK, but there were also regional differences, for example in Northern Ireland.

'A father took on his son's loan from a paramilitary and found that a £5k loan quickly became £50k as penalties and unexplained charges were added on. Another participant agreed that paramilitary lenders would charge sky-high rates. Debts could quickly escalate. A £20 loan for drugs could quickly become a £500 loan. The client resorted to stealing to buy food and two years later still owed £550 despite having made many payments.'

Anonymous adviser report

⁵ www.fca.org.uk/news/press-releases/fca-takes-first-criminal-action-against-individual-acting-unlicensed-consumer



3.31 In urban areas with a higher transient population, including parts of London and Birmingham, traditional models of illegal lending seemed to be breaking down and there were more stories of people going to lenders outside their immediate area, using technology to make contact.

3.32 Rural areas like those around seaside and market towns tended to host traditional forms of illegal lending activity within the close knit economically deprived communities, but also reflected local variations due to the seasonal nature of work, often within the migrant populations, including exploitation by gangmasters.⁶

‘One Brazilian student was billed £350 when he wanted to give up his seasonal job working on the land – he had no money to pay so was trapped. The advice agency stepped in.’

Anonymous adviser report



4 Conclusion

- 4.1** As we said in our feedback statements on high cost credit⁷ we did not see strong evidence of a rise in illegal money lending because of the price cap. A key part of our judgement of the cap's risks and benefits was that being excluded from High Cost Short Term Credit due to the impact of the cap was unlikely to mean those consumers turned to illegal money lenders. At the time, our analysis suggested that less than 5% of declined applicants would consider turning to these sources and the results from our recent survey do not show any change in this. Where declined individuals in our survey had subsequently used informal sources, 3% said that the person they approached lends as a way of earning money. This is in line with our previous analysis. For those who were aware that the person that they would go to would charge, the expected costs were substantial - an average expected interest of £167 on a £250 loan.
- 4.2** Many of the factors we identified as likely to be significant in the prevalence of unauthorised lending fall outside the immediate regulatory remit of the FCA. This includes social and environmental factors identified as possible drivers of the circumstances that lead consumers to use this type of lending. But it is important for us to have insight into the consumer experience of illegal lending, particularly when thinking about the most vulnerable consumers, as part of Our Mission⁸ and our recently published FCA Mission – Our Future Approach to Consumers.⁹
- 4.3** At the core of many of the stories we heard was an individual, vulnerable to exploitation, either because of their financial desperation or because of inherent vulnerability to influence and manipulation. The lenders seek them out, put them in their debt and seek to keep them there – providing the lender with an ongoing income stream.
- 4.4** This approach ensures the borrowers are dependent on the lender and therefore subject to continuing exploitation, increasing their vulnerability. Many consumers we heard about were so reliant on the lender that they could not see they were being exploited or saw the arrangement as a way of life.
- 4.5** Often the consumers are not aware that the lender is operating illegally, or where they did know usually the more immediate consideration in the moment of borrowing was to get the funds they needed urgently.
- 4.6** We will continue to work with our consumer network partners to keep our insights into both the legitimate and illegal markets up to date. This will ensure we remain well informed when making our regulatory decisions and continue to be alive to the possibility of any unintended consequences of our interventions.
- 4.7** We are very grateful to our consumer network who shared information with us so generously to enable us to compile these insights, and in particular to the IMLTs who gave us their considerable and valuable experience and time.

7 www.fca.org.uk/publication/feedback/fs17-02.pdf

8 www.fca.org.uk/publications/corporate-documents/our-mission

9 www.fca.org.uk/publications/corporate-documents/our-future-approach-consumers



- 4.8** In addition to this report we have developed three scenarios which illustrate consumer types and circumstances which may leave them vulnerable to unauthorised lending, where and how it can happen, and any longer term consequences for them (see Annex 2).

Annex 1

Research Methodology

To help plan our methodology, our team consulted a panel of consumer research bodies with expertise in accessing hard to reach groups. The consumer user group in this market is particularly hard to reach and reluctant to talk, but those who work with them have valuable insights into this hidden issue.

We worked closely with the Illegal Money Lending Teams and the relevant bodies in Northern Ireland. We built on their experience to identify known areas of activity and used their contacts to expand our networks and find advisors with knowledge of lenders and the consumers using them. This approach was designed to overcome the barriers we had identified to hearing the relevant consumer voices and to capture insights and experience on the ground.

We hosted 8 roundtables in carefully chosen areas around the country with over 70 people from more than 50 organisations that deal with consumers who had experience of unauthorised lenders, or were aware of their operating methods. This took place from June to September 2016.

This initial group helped us to identify a wider set of over 150 contacts with potential knowledge in this area and we contacted them over the phone and via email to consolidate our understanding.

Where did we go?

We visited a good geographical spread (see figure 1) of different hotspots around the UK. Before finalising each event we sought to establish sufficient local experience and interest in the issue to make the discussion worthwhile for all involved.

Figure 1



1. Birkenhead (North West England) 21 June 2016
2. Glasgow (Scotland) 24 June 2016
3. Birmingham (Midlands) 27 June 2016
4. London (South East England) 30 June 2016
5. Cardiff (Wales) 12 July 2016
6. Belfast (Northern Ireland) 20 July 2016
7. Hastings (South Coast) 8 August 2016
8. Kings Lynn (East Anglia) 17 August 2016



Organisations including Citizens Advice, StepChange, the Money Advice Service, the Illegal Money Lending Teams, local debt and money advice services, voluntary community charities, housing association advisers, credit unions and others involved with consumers in desperate need, contributed to the discussions, on a non-attributable basis in order to protect their clients' confidentiality.



Consumer Insight: Unauthorised Lending



Consumer profile

Single mother of three on benefits

- Transferred to Universal Credit
- Sanctions applied
- Capped benefit
- Zero hours contract



I live in an area of deprivation...

- Social housing
- Urban conurbation
- Low-rise estate
- Limited mobility



...living day-to-day

- Spiralling debt
- Can't cover bills for energy
- In rent arrears
- Outstanding HCC loan
- Bad credit rating



My child needs new shoes and her brother wants to go on a school trip to London.



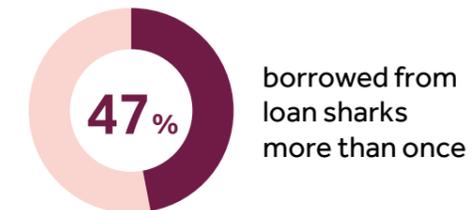
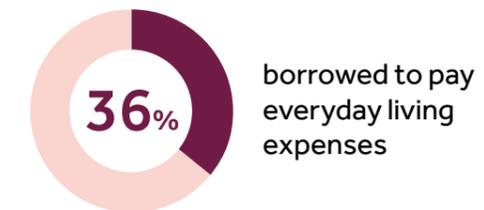
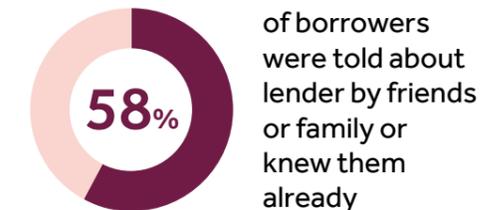
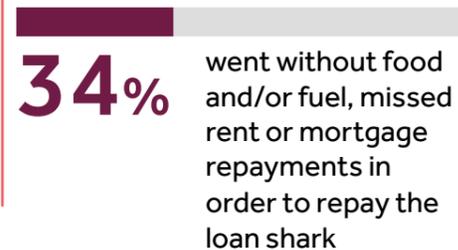
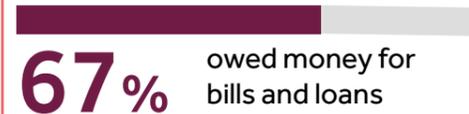
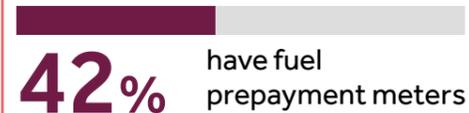
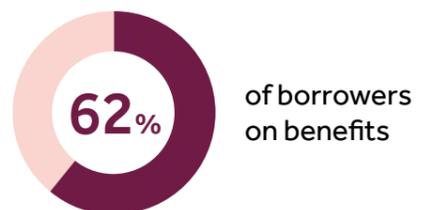
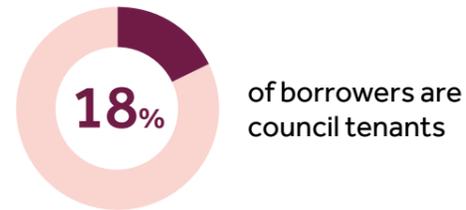
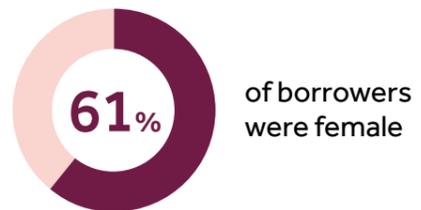
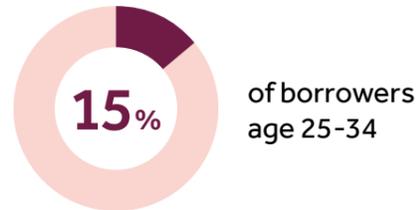
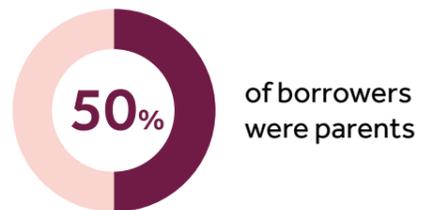
Borrowed £250 from the man in the pub...

- Heard about him through 'word of mouth'
- Friend of a friend
- Gave me the cash there and then, no forms
- Pay back £25 per week
- Seems a nice bloke



One year on...

- Paid back over £750, still owe more
- He's holding my bank cards
- I have bigger rent arrears and an eviction notice
- I just can't get a loan anywhere else



"I felt suicidal – not going to sleep, watching the window all the time."

Real borrower

Consumer Insight: Unauthorised Lending

Consumer profile

Self employed taxi driver. Low income, working parent:

- Was receiving Working Tax Credits
- Moved to Universal Credit
- Reduced benefit

I live on an estate in a fading seaside town...

- Private rental
- Local family, elderly mother
- Old council house stock

...only just getting by

- Seasonal income (less work in winter)
- Struggling to cover household bills and rent
- As self employed, hard to get loans
- Big overdraft
- Partner doesn't work

I had an accident and couldn't work for a month, then my gearbox packed up and I had to get it repaired.

Borrowed £1000 from a man who runs a taxi firm...

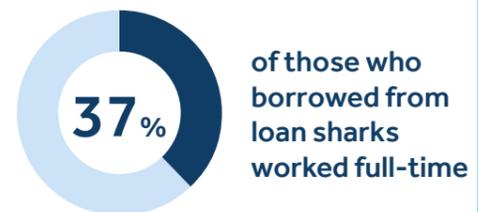
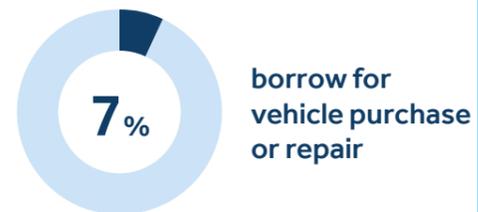
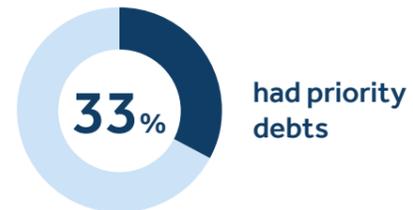
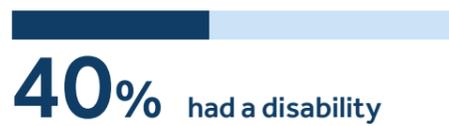
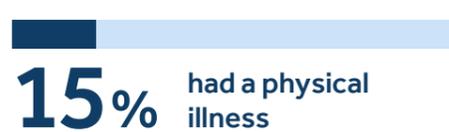
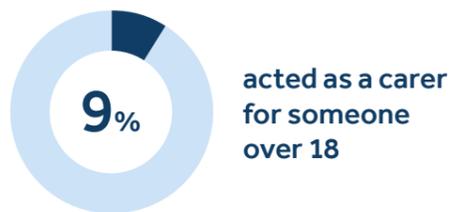
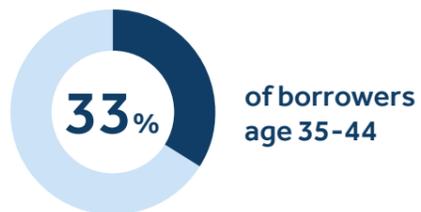
- Heard about him through a friend at workplace
- Friend of a friend
- Rented me the cash for £50 per week
- Well known in the community

One year on...

- I still haven't enough cash to repay in full
- The lender makes me do unpaid work for him, sometimes delivering drugs
- He threatened my family
- He demands random payments so I'm behind with other bills too



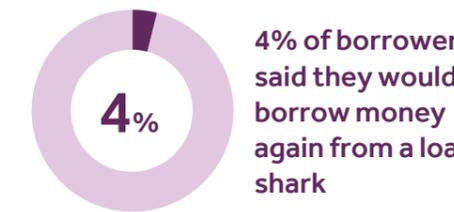
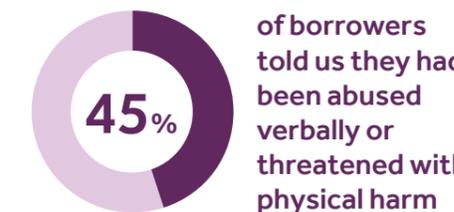
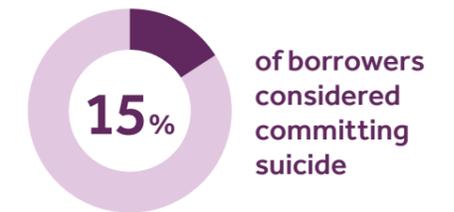
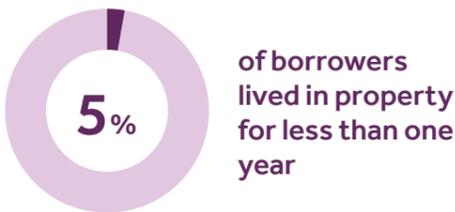
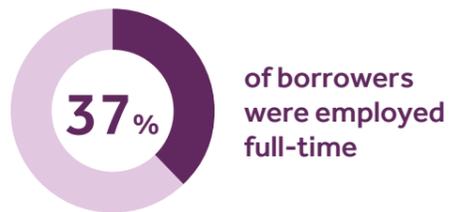
Fewer males report using unauthorised lenders, but up to **50%** of borrowers are thought to be male.



"He's a bully – I felt I couldn't get out of the situation."

Real borrower

Consumer Insight: Unauthorised Lending



"They have bled me dry and caused me misery."
Real borrower

