



# Pay Day Loan Research Debrief

Presented to The Money Advice Service

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## Research details

### Objectives

- To explore how the tool was used
- To find out whether they thought it would actually change behaviour
- And gather some context about the way people use Payday Loans

### Sample and methodology

- 40 x 40-50 minute depth interviews
- Across 5 cell definitions

### Fieldwork

- London, Birmingham, Manchester, Cardiff, Glasgow and Northern Ireland
- 19<sup>th</sup> - 25<sup>th</sup> of February 2014

## Extended sample details

### 6 x Cell A

- “I’m an online user of payday loans but not over indebted”

### 6 x Cell B

- “I’ve never taken out a payday loan but would consider it” [NB: Must have done some financial transactions online]

### 6 x Cell C

- “I’m an offline user of payday loans – I have used over the counter services or similar”

### 6 x Cell D

- “I’ve never taken out a payday loan but would consider it” [NB: NO financial transactions online]

### 16 x Cell E

- “I’ve used payday loans and also answer ‘yes’ to the following questions”
- Have you missed three or more bill payments in the last 6 months?
- Do you feel that you debts are a heavy burden?

## Recruiters also had the 3 MAS segments for extra detail...

### Starting Out

- 18-35
- Single or in a couple
- No children
- Working full-time
- HH income of less than £25k
- No or little savings
- Agree with one or more of the following:
- 'I'm not confident when making financial decisions'
- 'I'm struggling financially'

### Surviving Families

- 41-55
- Work full or part time or looking after home - at least one of them full time
- Have children at home, older than 6 or adult children
- HH income of max £45K
- No or little savings
- Agree with one or more of the following:
- 'I sometimes experience financial difficulties'
- 'I'm struggling financially'

### Struggling Families

- 35-50
- Working full time or part time
- Have children aged 6 or under and living at home or excepting their first child
- HH income of 35K to 40K maximum
- No or little savings
- Agree with one or more of the following:
- 'I sometimes experience financial difficulties'
- 'I'm struggling financially'

# Logistics

Research sessions took place between 19<sup>th</sup> and 25<sup>th</sup> of February 2014

Moderating, analysis and reporting by Katharine Parker, Alice Morgan and James Ferguson from The Nursery Research and Planning





1. Background and Objectives
2. Observations on the Sample
3. Experience of PDLs
4. Conclusions and Recommendations



Observations of the sample

# A diverse sample

We were struck by how diverse and varied our sample was

As expected, a lot of our sample were experiencing **real financial difficulties**

- PDL were their only means of accessing money
- Had exhausted all other financial options
- Some but not all were unemployed

But others were also taking them **before exploring other avenues**

- Often, had not tried to take out a credit card
- Or asked to borrow money from friends / family

In a few cases, they weren't necessarily struggling financially

- Merely needed / wanted some extra cash prior to their next payday

And often, people **didn't see themselves as 'in debt'**

- Debt, to them was unmanageable, bailiffs at the door...
- They thought they were getting by

*"When you have trouble you don't have anything to rely on. This gives you a leg to stand on when dealing with this situation"*

*"They're for people who are just desperate and the credit facilities aren't there for them. But also for me... why would I get a bank loan for 30 days? Don't need it... nobody needs the long term loans"*

## Different motivators to take a loan

It seemed people were taking out PDLs for a whole host of reasons

The majority were taking them out to pay for essentials

- Rent / mortgage
- Food / bills
- Often those without a regular income
- Saw PDLs as a last resort

Some were managing essentials but taken by surprise by unexpected costs

- Car breaking down, large bill
- Birthdays / Christmas

Others were spending because they wanted rather than needed something

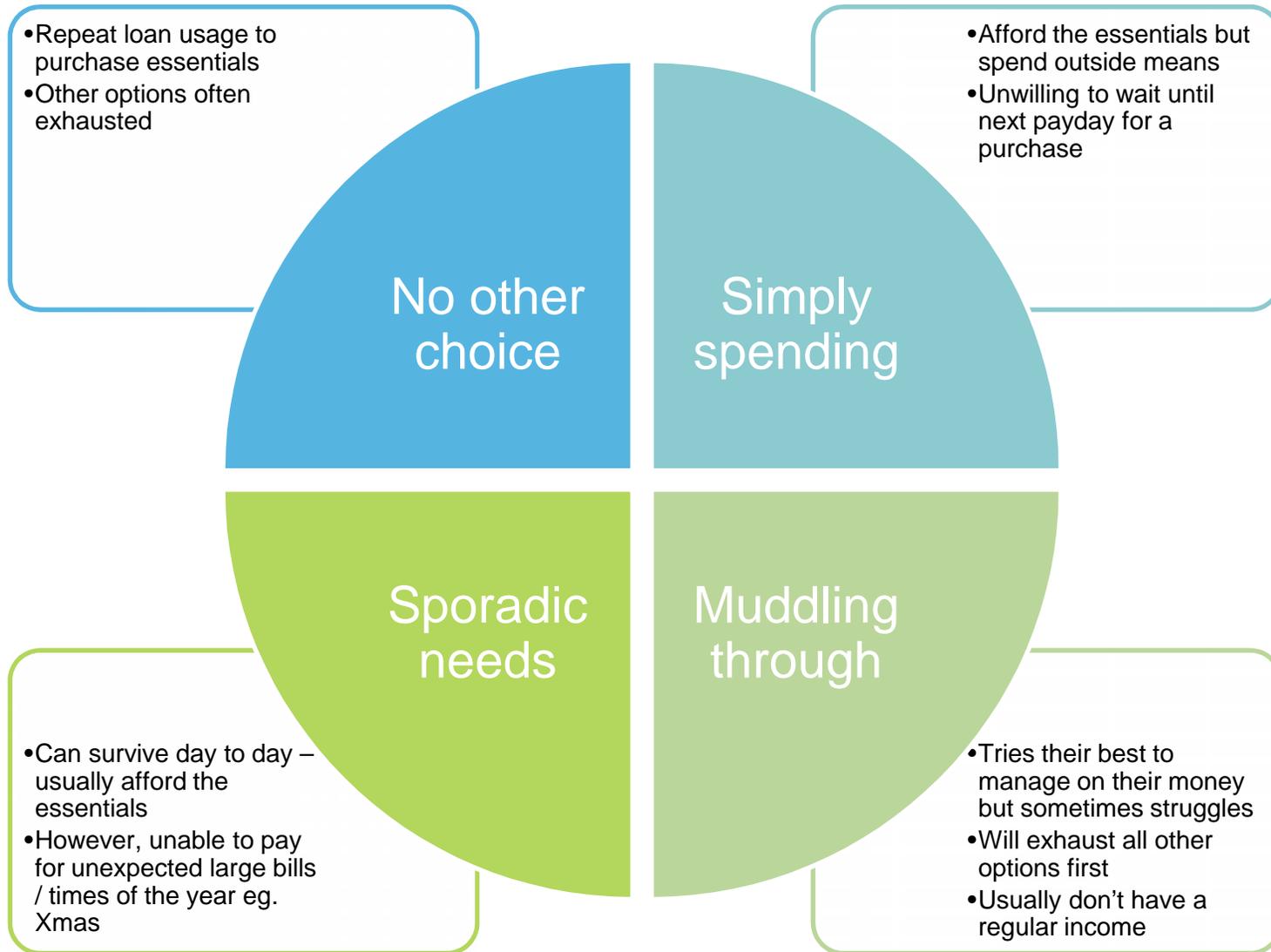
- Nights out
- Shopping

*"I borrowed 60 quid because I was starving, I just had to get food"*

*"I was unemployed and had a big phone bill so I took out a payday loan to pay it. I then just got my mum to pay off the loan – she'd never have paid the phone bill"*

*"I saw a pair of shoes on Net-A-Porter so I got a loan to get them"*

## Different types likely to take out a PDL



## Adil, no other choice

<b>Who</b>	Adil, 31, married with 4 children, living in Manchester
<b>Context</b>	Earning £13,000 pa and struggling to support a family of 6. In constant debt but proud and would never seek help from friends or family. Has exhausted pay advances from employer.
<b>Perceptions of PDLs</b>	Frequent user. Doesn't like using them, but often relies on them to get through the month. Doesn't check interest/repayments, only focuses on instant cash. Thinks 'we're all doing it', has seen evidence of PDLs at siblings' homes, but never openly mentioned.
<b>What They Thought</b>	Easy to use, but long-winded and advice-focused. Some final options gave him hope (Credit builder, legal rights of PDL users) but wouldn't have reached them unprompted.
<b>What They Wanted</b>	Hard hitting and relevant solutions for people needing cash asap. Much of the advice he'd already considered and actively decided against, or exhausted, so relevance to him was limited.

# Darrell, Simply Spending

Who	Darrell, 23, Living at home and “working hard to play hard”
Context	Didn't want to miss out on great experiences, even if he didn't have the money. There is no such thing as “can't afford it”. Had moved back home after an ill-fated attempt at independence (which ended in debt) 4 PDLs for nights out.
Perceptions of PDLs	For Darrell, PDLs were a quick and easy way of getting money which he ‘needed’ for nights out. Often spontaneous and as a result of pressure from friends. He knew they were bad and didn't like getting ripped off but just wanted to have fun.
What They Thought	Liked the tool but thought it needed to be harder hitting. Once you've done it once and your experience has been positive it's really easy to do again. “Younger people just aren't going to care are they”
What They Wanted	To be scared out of it. Wanted something that emphasised the long term damage he could be doing in terms of credit ratings, mortgages etc. Also said he would have liked something graphical / statistical. Something to delay the process



## Kevin, Sporadic Needs

Who	Kevin, 57, married with 3 children
Context	Had taken PDLs from The Money Shop (offline) twice to cover bills he knew he could pay soon after. Money was tight but manageable .
Perceptions of PDLs	Kevin had been recommended PDLs by a friend who “knew I could cope with them”. He thought they were a great thing for people who could manage them properly (which meant paying them off in a matter of days) But had hear horror stories.
What They Thought	Some of the graphics were distracting and the text could have been bigger in places. Felt very intuitive and he raced through it. “Don’t Panic” was a great summary of the type of organisation MAS should be.
What They Wanted	He wasn’t concerned about his relationship with PDLs but for others, felt it was really important to encourage people to reflect before they committed. To get to the meat faster – he didn’t understand why the personal statements were necessary.

# Rachel, Muddling Through

<b>Who</b>	Rachel, 34, Single Mother
<b>Context</b>	Rachel was constantly struggling to balance her outgoings against her salary. Hadn't yet resorted to PDLs but had definitely come close. For her, the term 'debt' was associated with strong feelings of shame, guilt and embarrassment.
<b>Perceptions of PDLs</b>	The option if she had ever exhausted everything else and she meant everything. Felt like a PDL would be the beginning of the end of her financial independence / security
<b>What They Thought</b>	She liked that the tool was from MAS who she knew a bit about and also the its clarity and ease of use. Ultimately though she wasn't sure it was going to make much difference.
<b>What They Wanted</b>	Having had the same deeply embarrassing conversation with different parties, Rachel wanted someone who knew her case and could give her advice and support. MAS saying that they could have some of the conversations for her was really appealing.





# Experience of PDLs

# Few were clear how Payday Loans worked

Knowledge of Payday loans and how they work varied greatly

- From those that were clued up
- To those that were very hazy on the details
- Regardless of whether they had or hadn't taken out a PDL

Generally, there was **an understanding of the basic premise**

- You borrow an agreed amount for a month, paying back with interest the following month

Few knew the interest amount decreased if paid back in advance

- Unless experienced first hand
- None had been informed when taking the loan

Most were aware that there would be a greater interest or a penalty if a payment was missed

However, **knowledge of interest rates and their rights when taking out a loan was minimal**

- Few knew the consequences of defaulting on a loan
- Those who had defaulted had been surprised
- Felt it wasn't explained / hidden in the small print

## Speed strongly associated with PDLs

Payday loans were seen as **quick and easy**

People go to them **when they need money, fast**

- Time is often of the essence
- Sense of urgency surrounding the situation
- Can't wait until they're paid next

Likewise, those who had taken out a loan were often surprised by how quick the process was

- Form short, to the point
- Easy to select amount needed
- Quick credit check

And how speedily the money reached their account

- Often within a few hours

“

*I only get a  
payday loan  
when I'm  
desperate for  
cash and need it  
right away*

”

# Alternatives to Payday loans

In fact, there seemed to be no other way of accessing cash quite so quickly

- And the alternatives to Payday loans could sometimes seem more complicated / difficult
- Unless using something similar (e.g. local lenders etc)

Alternatives often thought to be:

Credit  
cards

Overdraft

Friends /  
family

Pawn  
shops

Local  
'lenders'

Unethical  
means...

Traditional  
bank loans

Credit  
union

# Keeping up appearances

For many, Payday Loans enabled them to keep up appearances

- **People are proud when it comes to money**
- And don't want others to know when they can't make ends meet

A PDL could often be **preferable to asking friends / family**

- An admission of 'failure'
- And a sense that they're probably in the same position as themselves
- Burdening them as well

A Payday loan meant people **still felt financially independent**

- Not owing another person money
- They were responsible for themselves

*I don't want to ask anybody  
and I wouldn't ask anyone to  
do that*

*I think most of these come  
from pride, I don't want  
anyone to know. I'm  
borrowing it because of my  
own greed not because I'm  
going to be evicted.*

*Everyone's struggling just  
as much as you are*

## Just this once...

Nearly everyone had convinced themselves that the PDL they had taken out was a **'one off'**

- Exceptional circumstances

There was usually a trigger to taking out the first loan

- A reason to justify taking it out

The **short term nature of loan made it more permissible** in their minds

- Small sums, quick fix
- Tiding them over until the next pay check..
- Easy to convince themselves it will be better next month

Even for repeat users

*It was my best mate's wedding, it's once in a life time isn't it?*

*I was just desperate, I really needed the money that month, things had gotten really bad*

# A strong temptation to repeat behaviour

Most admitted that **the first payday loan had been a more considered decision**

- Nervous about taking out a loan
- Had really thought about whether they needed it

Yet **once taken out one loan, easier to take out another**

- Normalises it
- Especially if all had gone smoothly

Becomes an option **always in the back of their mind**

- Like a seed had been planted

After taking out a loan, most had been contacted by the provider afterwards

- Text messages e.g. 'you are entitled to £1000'
- Emails / Phone calls
- Even if they had defaulted in the past

Found it difficult to resist

*I'd seen the adverts on telly and thought about it a lot, but never actually did it til then*

*They're mostly fine, but when I took one I couldn't pay back it was a nightmare*

*They send me messages all the time. I delete them straight away; they're too tempting*

# Someone will lend you the money.. No matter what

Some (usually those worse off) had been **refused a payday loan** in the past

- After missing payments

However, had **managed to get the money from elsewhere**

- Sense you will always find a provider to lend you the money
- Although likely to payback more interest

Most were **scared to take out a loan to pay back another**

- The slippery slope best avoided

However, a few had found themselves in this situation

- Desperate, owed various money to various people
- Tended to bury head in sand
- Found it stressful, worrying, scary

“

*Take one to pay  
off another?  
You'd be getting  
yourself in a  
right mess*

”

# The only option?

Those in the worst of situations **assumed they had no other options**

Credit cards, overdrafts, official bank loans weren't available to them

- Credit rating too bad
- Already owed money

**Yet they were still able to get a PDL**

- Even if unemployed
- No way of paying it back

And they were usually recommended PDLs by friends

- Seen as the last resort

“

*I know I've got bad credit, but they didn't ask; you just click the amount and done*

”

# Short term rather than long term mindset

Payday loans are all about the short term

- The short term gains (getting access to money)
- Outweighs the more long term consequences (paying it back with interest)

There was very **little clear understanding of the consequences of taking out a payday loan**

There was a sense that PDL's were 'bad'

- People can easily get into trouble with them
- Negative reports in the press etc.

But often, the **negativity was attributed to the individual rather than the provider**

- If the individual had have paid it back as agreed, they wouldn't have run into issues
- Although the providers terms are seen as harsh
- They 'knew what they were getting themselves into'

Very few knew of the more long term consequences

- Negative credit rating
- Difficulties applying for mortgage etc.

# A modern day alternative to an outdated banking model

In fact, **often, could see PDL as a credible alternative to other borrowing**

- And even preferable to some

The strict rules relating to PDL felt to suit them

- **The small amounts feel manageable and approachable**

And some argued they **force them to be better with money**

- Big consequences if don't pay them back

There was a **fear surrounding credit cards**

- Don't understand how they work
- Not convinced they will use them properly
- Think spending gets out of control
- Some even thought credit cards had higher interest rates than PDLs

**Traditional loans seem inappropriate** to this sample

- Sums seem too large
- Not convinced can pay it back



*Why would I use a credit card if that's going to put me in more debt? Wonga I have to pay back the full thing, if I put it on my credit card NO WAY am I going to pay the full thing, I'd pay the minimum back.*



## Online vs. face to face

Both users of online and money shops had found the process easy and straightforward

In store, the **staff were friendly, welcoming, reassuring**

- Made people feel comfortable, reassured by their decision

In fact, **many had been 'upsold' their loan**

- Come out with a larger amount than first planned

It was only when they'd struggled to pay it back, that they'd experienced anything negative

- At which point staff were firm, less understanding - Although not unpleasant

Online, people easily went through the process

- The form felt simple to fill in
- So easy, they didn't necessarily feel it needed consideration
- Most clicked through without reading terms and conditions

# Conclusions and Recommendations

# The category demands a journey that is as simple as possible

Often users are only a matter of clicks away from securing their PDLs

- It requires neither time nor effort
- And can often be accomplished without having to read any of the terms and conditions
- So the MAS journey should be just as streamlined

We wonder whether you really need the personal statements

- It often felt like they added a step which wasn't wholly necessary
- And sometimes caused confusion

*“So hang on, what am I doing this for, is this part of the application?”*

You could still serve user-specific content if you used ‘Why are you taking out a PDL’ as your segmentation device

- It's easy to use and works really well
- And will allow you to categorise people in much the same way
- E.g users that select Holiday / Going out can be managed accordingly

You wouldn't miss out on the opportunity to gather information about your audience

- But it would make the route to real, actionable guidance more direct
- And mirror the conventions of the PDL category

# The earlier the warning, the more responsive users will be to it

The first purchase is where the greatest opportunity lies

- It's the one that is most considered
- Even agonised over
- And the point where users have no positive experience to use as justification

*"I remember sitting at the computer for literally an hour thinking should I do it..."*

Another reason why the language on the landing page is so important

- Need to make an immediate distinction between where they were (applying)
- And where they are now (being warned or helping themselves)

People are scared of 'getting into debt'

- Debt to them is bailiffs at the door, the end of the road

Even those that are already in 'debt'

- Their situation is not what they associate with the word

