Credit Counts and COVID-19:
A rapid evidence review

Evidence Review

May 2021

Executive Summary

Credit Counts: the impact of COVID-19 on this Agenda for Change

Impact on credit

- Whilst the overall use of consumer credit has fallen during the pandemic, this headline hides a more complex situation.
- Most of those classified as financially vulnerable show a decreased ability to repay their debts once the pandemic is over.
- Households who are struggling to pay their bills have had to use credit to make ends meet more during the pandemic than before.
- There was an overall decline in credit card and affordable credit borrowing but an increase in the use of Buy Now Pay Later. This masks an increased use of credit by low income households and a high debt repayment rate for professionals that have been able to keep working and retain their income.
- 6.6 million (13%) UK adults needed to use credit or borrow money more than usual in July 2020, with an increase to 8.8 million (17.4%) by December 2020[1].

Impacts on particular groups

- Disabled people are more likely to borrow using credit cards or overdrafts to pay for essentials.
- Ethnic minorities are more likely to be experiencing rising debt levels.
- Parents are more likely to use credit for essentials during the pandemic.
- Social and private renters are more likely to fall behind on housing costs and bills and have to turn to borrowing, and the former are more affected than the latter. The number of renters claiming benefits has increased, but benefits are not always enough to cover rent.
- Young people are more likely to rely on informal borrowing and are increasingly claiming Universal Credit.
- Universal Credit claimants are under great financial pressure, despite the increase of £20 to Universal Credit payments which has now been extended until September 2021.
- Low-income households are more likely to borrow to cover their everyday living expenses than before the pandemic.

Introduction

About this report

This review was written by Dr Raffaella Calabrese, Yujia Chen and Dr Lynne Robertson-Rose of the University of Edinburgh.

This briefing provides a summary of external evidence (published from 1 July 2020 - 14 February 2021) on the economic impacts of COVID-19 and how these may affect UK credit use.

Background

In 2018 MaPS [2] estimated that nine million adults (around 17% of the adult population), borrowed money, or used a credit card or overdraft for everyday essentials such buying food or paying their bills, because they had run out of money.

To address this problem, in early 2020, MaPS identified ‘Credit Counts’ as one of the five Agendas for Change in its UK Strategy for Financial Wellbeing 2020-2030[3]. The ambitious goal of Credit Counts is to decrease the number of UK adults that borrow money for everyday essentials to seven million by 2010.

Research approach

We directed the search to primary and secondary research from government and organisations known to publish research on savings and the use of credit. We considered a wider range of evidence than in traditional literature reviews, recognising evidence from a range of sources, including organisational sources, practitioners and stakeholders. In this, we included grey literature from financial companies and the financial press.

Acknowledgements

We would like to thank Helen Pitman and Nick Watkins of MaPS for their invaluable insights and assistance on this review.

The wider context

The use of consumer credit has fallen overall during the pandemic

- Because of the lockdown restrictions across the UK, there has been a reduction in consumer spending during the pandemic. Spending fell initially by a quarter at the beginning of the pandemic. From June, when non-essential retail reopened, spending was at 90% of the 2019 levels[4].
- This expenditure behaviour explains the findings provided by the Bank of England[5] that consumer credit use was lower than the previous year until June 2020 but returned to the pre-COVID level in July and August 2020. Since September, credit use again decreased sharply and remained lower than pre-COVID levels until the latest published data for November 2020.
- Lloyds Bank[6] found that, during the pandemic, people also borrowed less from friends and family across all the nations in the UK. Those in Wales were the least likely to borrow money from friends and family (5%), and the South West and North West in England showed the highest figure (15%).

The overall reduction in credit masks a decreased ability to repay debts amongst the financially vulnerable

- Some households are increasingly falling behind on their bills and loans.
- The Institute for Public Policy Research (IPPR) [7] identified that one in ten households were behind on their bills prior to the pandemic, and this figure increased to one in seven during the crisis.
- Citizens Advice[8] found that by July 2020 one in nine UK adults, the equivalent of six million people, reported falling behind on households bills because of COVID-19. This number increased to 7.3 million in November[9]. The top two largest sources of arrears were rent and council tax. These numbers represent an increase compared to the three million people that fell behind on paying their bills across Great Britain in 2017, estimated by StepChange[10], and although these figures may not be measured in exactly the same way they do give an indication of the scale of the change.
- Monthly surveys from TransUnion in late 2020[11] showed that overall, around two-thirds of consumers are concerned about their ability to pay current bills and loans. The percentages are in line with findings from StepChange[12] where 67% of their new customers showed a reduced ability to repay their debts compared to before the pandemic.

Some households, especially those struggling to pay their bills, have to borrow money or use credit to make ends meet

- Citizens Advice[13] found that among those falling behind on their bills, 27% have borrowed from friends and family to make ends meet, and 20% have gone to a commercial lender. Lloyds Bank[14] estimated that borrowing from friends and family decreased by 29% between March 2019 and March 2020, and then by a further 40% during lockdown. The main reason for borrowing from loved ones during the pandemic was to consolidate other debts.
- TransUnion[15] found that besides using savings, people borrowed from a friend or family (27%) to pay their current bills or loans. Using credit cards, or transferring balances to new credit cards, to keep bills constant during the pandemic, while taking out personal loans, has increased by 4%.

- ONS[16] found that 13% (6.6 million) of adults needed to use credit or borrow money more than usual at the end of July 2020, and this figure increased to 17.4% (8.8 million) in December 2020[17]. The annual growth rate of consumer lending is 5.5% in July 2019[18].
- A survey from Ipsos MORI[19] showed that in September 2020, 16% of Britons spent more money using a credit card. 14% accessed money using their bank account's overdraft facility and 12% borrowed from friends or family. These have all increased slightly since April.
- Research from Experian[20] showed 30% of interviewees reported using credit to defer payments so they can afford things they need.
- Resolution Foundation[21] identified that 42% of adults reported using at least one form of borrowing to cover everyday living costs in September 2020.
- Standard Life Foundation[22] also found that around 3.7 million households have a payment arrangement (either a full payment holiday, such as a mortgage holiday, or making reduced payments). 43% of these used a credit card, overdraft or borrowed money to buy food or to pay expenses because they had run out of money. Payment arrangements on mortgages, credit cards and council tax were the most common.
- Research from Turn2us[23] identified that, until September 2020, almost 18 million people (34%) had to take on some form of 'debt' to get by, such as credit cards (14%), overdraft facilities (11%) or personal loans (4%). 10% of people also borrowed from friends or family.
- StepChange[24] conducted a survey on 95,000 clients who completed a debt advice session with them. The most common form of 'debt' their clients have is credit card debt. This was held by 69% of new clients in 2019, which increased to 70% between April and October 2020, reaching a peak of 79% in August 2020. The second and the third most-used forms of debt during the COVID-19 outbreak are personal loans (51%, against 48 in 2019) and overdrafts (40%, against 46% in 2019). Almost 50% of StepChange's clients are behind on credit card repayments and over 30% are behind on other loan repayments (excluding mortgages).

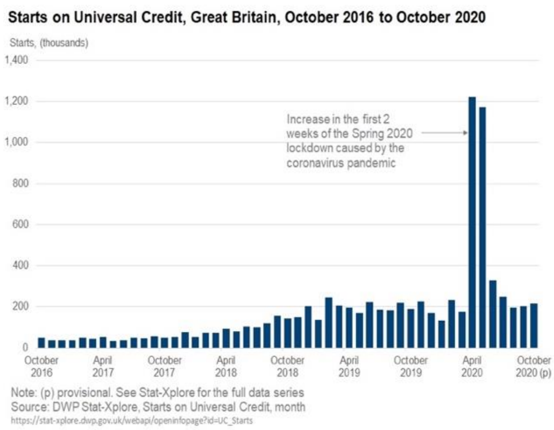
Support from financial regulators and the government

Financial regulators took action to relieve stress of borrowing for people negatively affected by the pandemic

- In March 2020, the Financial Conduct Authority (FCA) [25] issued guidance on mortgage payment deferral with up to six months' payment deferral for customers with financial difficulties due to the pandemic. In April 2020, FCA[26] announced payment deferral guidance for consumer credit to help customers negatively affected by the pandemic. This included temporary payment holidays on personal loans, credit cards, BNPL service and Rent-To-Own (RTO) agreements for up to a total of six months for payments due before 31st July 2021 (the application deadline was on 31st March 2021). It also offered a payment holiday on High-Cost Short-Term credit (HCSTC) for one month with an extension to eligible customers until 31 March 2021. For overdraft customers, borrowers can apply for up to £500 charged at zero interest for three months, but this support scheme ended in October 2020. Some lenders voluntarily extended the scheme beyond this deadline.
- UK Finance[27] found that the number of mortgage payment deferrals in place had increased sharply in the first two weeks in March. Deferrals reached a peak in June 2020 and then decreased sharply.
- UK Finance[28] revealed that, after June, the number of customers with consumer credit deferrals in place fell significantly. By November, 55,000 credit card payment deferrals remained in place out of the 1.18 million granted since the launch of the scheme in March 2020. Similarly, 22,000 personal loan payment deferrals were in operation out of the 828,000 granted over the course of the pandemic. In addition, over 27 million interest-free overdrafts were offered during the pandemic.
- The Bank of England[29] cut the interest rate to almost zero (0.1%), and reduced the charge for service provided to the banks at the start of the pandemic, so that banks could cut their interest rates and charge their customers lower borrowing costs.

The Government increased Universal Credit by £20 per week

- For a year from April 2020, the standard allowance of Universal Credit and Working Tax Credit has been increased by £20 per week. This is to help those households on a low income or out of work with their living costs[30]. The minimum income floor was cancelled when calculating the Universal Credit payments during the pandemic to better help the self-employed in financial difficulties.
- Based on data from the Department for Work and Pensions (DWP)[31], there was an unprecedented increase in the number of claims for Universal Credit at the start of the lockdown, with 1.1 million claims made between 20 March 2020 and 2 April 2020. This was more than ten times the weekly average for 2019 prior to 12 March 2020 of 54,000 claims. Following the initial surge, the number of claims gradually reduced and returned to a pre-pandemic level around the end of June 2020. There were 6 million people on Universal Credit on 14 January 2021. This is a 98% increase since 12 March 2020[32].



Source: www.gov.uk/government/publications/universal-credit-statistics-29-april-2013-to-8-october-2020/universal-credit-statistics-29-april-2013-to-8-october-2020#starts-on-uc-header

Types of credit

Credit cards

A decline in credit card borrowing

- Detailed data from the Bank of England[33] shows that changes in consumer credit were primarily driven by credit card borrowing. The annual growth rate of credit card borrowing fell to -0.3% in March 2020 and it continued falling throughout the year to -14.5% in November.
- UK Finance[34] reported a sharp decline in credit card spending (25% reduction in 2020 compared to 2019), together with a contraction in the demand for personal loans and the use of overdrafts during the pandemic. Credit card use and personal loans requests did increase in Q3 2020 but were still lower than in 2019. UK Finance also found that the use of overdrafts fell significantly in Q2 2020 and remained constant during Q3 2020, with the initial fall caused by some customers revising budgets and repaying borrowing because of uncertainty. However, research from Experian[35] found that 15% of those surveyed used an existing credit card more than usual for daily spending, and a further 26% reported they used more credit than before the pandemic. This is particularly marked among those on furlough, who have been made redundant or seen a reduction in income with 21% using their credit card more than usual.
- A survey in November 2020 by Finder[36] showed that while 41% of credit card holders had used credit cards at the same level since March, 43% had used their cards more and 16% had used them less. In general, the number of online transactions, for example home deliveries and streaming services, increased. The report is not clear if credit card balances were being repaid or revolved.

Buy Now Pay Later (BNPL)

An increased use of BNPL

- The payment processor Worldpay reports that BNPL is the fastest-growing online payment method in the UK, at a rate of 39% a year to February 2020, with its market share set to double by 2023[37].
- A survey from Finder[38] found that 24% of consumers had changed their use of BNPL during the pandemic. 19% reported having used BNPL more than usual during the pandemic and 13% (8.6 million) said they planned to use BNPL more in the future. Specifically, there was a larger proportion of Millennials (35%) that used BNPL more during the lockdown and 24% of them intended to use it more afterwards. 27% of people using BNPL did so because they did not want to use or take out a credit card, and more so among young people (31% of Generation Z).
- Research in December 2020 by the Financial Conduct Authority found that five million consumers in the UK had used a BNPL product since the beginning of the pandemic. The main reasons given for this were; increased visibility of offers by providers, and more retailers offering BNPL products[39]. Data reported by the FCA from providers shows that 25% of users are aged 18-24 and 50% are aged 25-36. 75% of users are female and 90% of transactions involve fashion and footwear.
- Experian[40] also concluded that BNPL could be more attractive to consumers than credit cards in this time of uncertainty, since consumers can spread out the cost of payment over a longer period using interest-free instalments. For example, a study that compared transactions between March and April 2020, with data from the previous year, found that shoppers are choosing longer instalment plans during lockdown an average of seven instalments, instead of the previous five [41].

Affordable loans

Affordable credit lending fell overall, but the number of applications for small loans increased significantly at the start of the pandemic

- Almost 70% of Credit Unions and Community Development Financial Institutions (CDFIs) reported the scale of demand for loans was much lower, with loan values dropping by 70% in April 2020 compared to April 2019, from £23.3 million to £7 million[42].
- A Carnegie UK Trust[43] survey on Credit Unions and CDFIs analysed the impact of COVID-19 on the affordable credit sector. The smallest loans (less or equal to £1,000) had a much higher number of applications compared with those lending larger amounts (greater or equal to £2,000) in February and March 2020. The number of affordable loans disbursed declined slightly in 2019 compared to 2020.

The deep dive: impact on specific groups

Impact on those with disabilities and mental health problems

Disabled people are more likely to face financial difficulty and to use credit cards or overdrafts to pay for essentials

- A survey from Citizens Advice[44] showed that people with disabilities were at least twice as likely to fall behind on their bills during the pandemic. The IPPR[45] also found a similar situation among disabled people and concluded that they were more likely to be experiencing financial difficulty during the pandemic.
- Turn2us[46] found that 33% of disabled people run out of money before the end of the week or month, compared to 18% of people without disabilities. This means that disabled people are 1.8 times more likely to run out of money than those without disabilities.
- A ONS Survey [47] found that the percentage of disabled people borrowing more than £1,000 increased from 13% in June to 36% in December 2020.

Impact on ethnic minority communities

Ethnic minorities are more likely to be behind on their bills and rent and be experiencing rising debt levels

- Firstly, it is important to note that these reports often do not separate ethnic minority communities to a granular level, so it is often unclear what differences there might be within these ethnic minority groups.
- A survey from Citizens Advice[48] revealed that 18% of those from ethnic minority groups were behind on one or more bills in August 2020. This figure rose to 28% in December 2020[49]. The survey identified significant variation between different ethnic minority groups. Black people are the more likely to be behind on their bills (31%) than white people (11%).
- According to IPPR[50], people from ethnic minorities are twice as likely to predict that they will be behind on their bills and expenses in the following three months.
- The Royal Society for Arts, Manufactures and Commerce (RSA)[51] found that ethnic minority key workers were more likely to struggle to pay an unexpected bill of £100 (25% vs. 16% of white key workers) and are more worried about their household debt (38% vs. 29% of white key workers) during the pandemic. This was a COVID-19-specific piece of work, and it is unclear how this situation is different to pre-pandemic.
- YouGov[52] found that people from ethnic minority communities were more likely to report that the pandemic has been "bad for their debts" (26%), compared to 20% of white people.

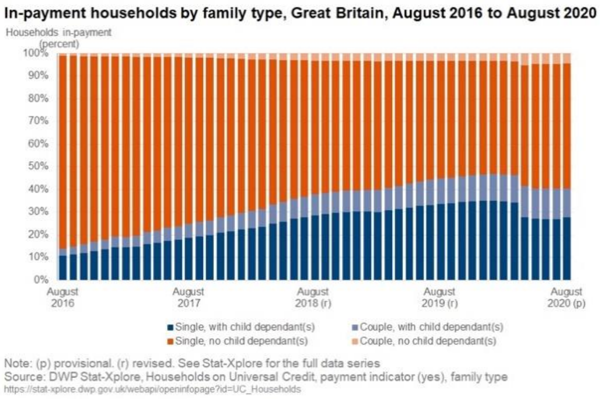
Impact on parents

Parents are more likely to fall behind on bills and use credit for essentials

- Research by the Standard Life Foundation found that three million children in the UK live in a family that is struggling to buy food and other essentials. This means that 21% of families struggle with this, compared to 11% of households without children. Three in ten families are using consumer credit to make ends meet: twice the proportion of households without children (31% vs. 15%)[53].
- Citizens Advice[54] identifies that 24% of parents and carers have fallen behind on their bills, compared to only 7% of those without caring

responsibilities. This figure rose to 30% for parents with children aged five or under[55].

- An ONS survey[56] found that only 47.5% of parents reported being able to afford an unexpected but necessary expense of £850 (compared to 60.8% of those without children). More than one in five parents say they had to borrow money or use credit more than before the pandemic.



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Impact on renters

Renters are more likely to fall behind on housing costs and bills, and turn to borrowing

- The Resolution Foundation[57] found that 17% of social renters and 12% of private renters have fallen behind on their rents due to the pandemic, while only 7% of those with mortgages fell behind on their payments in October 2020. These figures are higher than those before the pandemic, and are higher than some other estimates.
- Citizens Advice[58] reported that 58% of private renters who were behind on rent at the end of 2020 were not in arrears before the pandemic and 40% of those who were behind on their rent before the pandemic have seen their rent arrears increase due to the crisis.
- Moreover, IPPR[59] noted that renters (26%) were significantly more likely to fall behind on bills than homeowners (7%) or those with mortgages (11%). Similar findings were reported by of Citizens Advice[60].
- The Joseph Rowntree Foundation[61] found that renters have had to turn to borrowing to manage arrears. 42% of private renters in rent arrears have borrowed from either a bank, a building society, payday lender, or friends and family to manage their arrears.

The number of renters claiming benefits has increased, but benefits are insufficient to cover rent

- The Resolution Foundation[62] found that the number of renters claiming Universal Credit and Housing Benefit from February to September 2020 increased by 33%. However, new claimants driven by the pandemic were likely to see the amount of benefits fell short of what they needed to pay for their rent, since most of these private renters did not choose homes with benefit levels in mind.

The ban on bailiff-enforced evictions may have a negative impact on renters' borrowing and credit records

- The National Residential Landlords Association[63] noted that the extended ban on house repossessions can be heaping up more renters' debts on top of their existing arrears. This could eventually lead to more renters losing their homes. FTAdviser[64] also quoted the Head of Insurance at lettings platform Goodlord as stating that the repeated ban on evictions could be harmful to renters in the future as they increase the total debt.
- The Welsh Government[65] and Scottish Government[66] announced the Tenancy Saver Loan and Tenant Hardship Loan respectively, aiming to help tenants in rent arrears due to COVID-19 to pay their rent. There has been no similar scheme in England or Northern Ireland .
- The National Residential Landlords Association, Nationwide and debt charity StepChange issued a joint statement to call on the Government to help renters in England pay off arrears built up since March 2020[67]. As mentioned above, government schemes are already implemented in Wales and Scotland.

Impact on young adults

Young people are more likely to be behind on their bills and relying on informal borrowing

- Citizens Advice[68] found that 20% of young people aged between 18 and 34 had fallen behind on their bills in August 2020, compared with only 8% of those aged over 35[69]. This figure increased to 27% by the end of 2020.
- Turn2us[70] identified that 40% of young people aged between 18 and 24 were more likely to run out of money before the end of the week or month and need to borrow to get by (40%). This compares to 19% before the pandemic and contrasts with only 8% of people aged over 55. Lloyds Bank[71] identified that the proportion of young people borrowing money from friends and family has dropped from 51% pre-pandemic to 30% during the pandemic. But this age group was still the most likely to lean on friends and family for financial help.

Impact on the self-employed

Self-employed people are under greater financial pressure

- The Bank of England[72] identified that 66% of self-employed people were likely to see a reduction in income. Similarly, The Resolution Foundation[73] found more than half of self-employed workers have received lower earnings in every month since prior to the pandemic.
- Citizens Advice[74] reported that 58% of the self-employed that they helped with debt advice were unable to cover their essential household bills during the pandemic. This is up from 40% in 2019.
- Data from ONS[75] showed that self-employed people were more likely (60.9%) to borrow more than £1,000 than employees (49.4%) in December 2020.
- Because of their lack of documented proof of earnings, it is very difficult for those who have recently become self-employed to qualify for the bounce-back loans designed to help small businesses quickly access finance during the pandemic.

Impact on key workers

Key workers are more likely to be in arrears on bills and, in some specific sectors, more inclined to borrow for essentials

- Citizens Advice[76] found that 21% of key workers fell behind on their bills during the crisis, compared to only 7% of non-key workers.
- The RSA[77] identified that supermarket workers were the most likely to be unable to pay an unexpected bill of £100 (27%), compared to 14% of those working in key public services (for example, in the justice sector or frontline charities). Social care workers were the most worried about their debts and borrowing (41%) and the most likely to borrow for essentials during the pandemic, and were most likely to borrow or go without essentials (5%).

Impact on Universal Credit claimants

Universal Credit Claimants are under great financial pressure

- Turn2us[78] found that 49% of Universal Credit claimants run out of money before the end of a week or month and need to borrow to get by, compared with 37% of all benefit claimants and only 12% of people who were not claiming any benefit.
- Citizens Advice[79] identified that 43% of people they provided debt advice to, who receive Universal Credit or Working Tax Credit, cannot cover their essential household bills. They maintain that this figure would increase dramatically to 75% if the uplift to Universal Credit and Working Tax Credit is not extended after April 2021.
- The Institute for Employment Studies and Standard Life Foundation[80] interviewed 40 low-income households and many of them reported that the amount they received from Universal Credit was not enough to cover all essentials.
- Resolution Foundation[81] found that the withdrawal of the extra £20 on Universal Credit and Working Tax Credit introduced during the

pandemic would reduce the income of six million households with Universal Credit by around £1,000. This would result in a fall of 4% or more in the income of the poorest fifth of working-age households. For this reason, both Citizens Advice and Resolution Foundation called on the Government to extend the £20 benefit uplift. This has now been confirmed until September 2021[82]

Impact on low-income households

Low-income households are more likely to borrow to cover their everyday living costs

- The Resolution Foundation[83] [84] found that over half of low-income households have had to borrow money to cover everyday living costs during the COVID-19 pandemic. They were more likely than high-income ones to use high-cost consumer credit. Specifically, there was more rapid growth in the use of credit cards, overdrafts and credit purchases among the lowest-income quintile of households. This group also turned to informal borrowing from friends and family to make ends meet.
- ONS[85] noted that those with a personal income between £10,000 and £20,000 saw the largest rise in the number of people who were unable to pay an unexpected expense. From the beginning to the end of July, the percentage rose from 31.3% to 41.5%. They were as likely to be unable to afford such an expense as those in the lowest income group (earning up to £10,000).

Conclusions

The Credit Counts strategy aims to get two million fewer people using credit for food and bills by 2030. To achieve this goal, MaPS needs to understand and work with those groups who increased the use of credit during the pandemic.

Types of credit

- **Overall consumer credit**

Aggregate consumer credit remained lower than usual until June but returned to pre-COVID levels in July and August[86]. Since September, credit borrowing decreased sharply and to November 2020 was showing net repayments.

- **Credit cards and overdrafts**

The annual growth rate of credit card borrowing has decreased since March 2020, reaching -14.5% in November 2020. Overdraft borrowing fell sharply in quarters two & three 2020[87]. These overall statistics mask different trends on specific groups: lower-income households [88], benefit claimants and people on Universal Credit[89] are more likely to borrow during the pandemic.

- **BNPL and affordable loans**

A larger proportion of Millennials (35%) used BNPL more during the lockdowns [90]. The number of affordable loans disbursed declined slightly in 2019 compared to 2020[91].

- **Specific groups**

There was a general reduction in borrowing among wealthier sections of society, but increases in borrowing among certain groups, particularly the low paid and self-employed.

- **Disabled people**

Turn2us found that 33% of disabled people run out of money before the end of the week or month, compared to 18% of people without disabilities

- **Self-employed workers**

Self-employed workers have been hit particularly hard by the pandemic and showed higher default levels on unsecured credit[92].

- **Parents**

Families with children are twice as likely to be using credit to make ends meet than those without[93].

- **Low-income households**

More than half of low-income households have borrowed to cover day-to-day expenses during the pandemic[94 95].

- **Renters**

The number of renters claiming benefits increased during the pandemic, but benefits are often insufficient to cover their rent[96]: 9% of private renters and 8% of social renters have to borrow money to pay housing costs.

- **Universal credit claimants**

Nearly half of Universal Credit claimants run out of money before the end of the week or month and need to borrow to get by[97].

- **Key workers**

Social care workers were the most likely to borrow or go without essentials during the pandemic[98], and 5% found themselves in this situation.

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