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Illegal Lending – **The Human Story**

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1.0 Background

In 2018, the UK government announced a new crack down on illegal lending for the first time ever Northern Ireland (NI). This work focused on an educational campaign to raise awareness of the support available for vulnerable communities in relation to illegal lending, which would be led by the Consumer Council and supported by the Police Service for NI (PSNI).

The Consumer Council commissioned a series of research initiatives to further explore illegal money lending in NI and its consequences. One of these initiatives required Advice NI to explore and highlight the human story and the impacts illegal money lending has had on the clients who have used our advice services.

1. Gov.uk, [2019], <https://www.gov.uk/government/news/northern-ireland-bites-back-in-the-fight-against-loan-sharks>

2.0 Introduction

Advice NI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations to facilitate the delivery of high quality, sustainable advice services. We have over 70 member organisations operating throughout Northern Ireland that provide information, advice and advocacy services on an extensive range of matters including social security, housing, debt, consumer and employment issues. To ensure best practice, best value and effective advice services delivery we provide our members with information management systems, funding and planning, quality assurance support, and training from foundation to diploma level, social policy co-ordination and ICT development.

Advice NI also provides regional frontline advice services. All our services are delivered through a multi-channel approach and are aligned to the NI Advice Quality Standard's principles – independent, impartial, accessible, confidential, effective, accountable and free. Advisers meet the training requirements to be able to deliver a professional quality service.

In 2018/19, the Independent Advice Network dealt with over 234,659 enquiries covering benefits, debt, housing and employment.

3.0 Methodology

During June and July 2019, we contacted members and frontline advisers to ask them to highlight and describe their experiences of dealing with illegal lending cases. From previous experience, Advice NI was acutely aware of how sensitive illegal lending is for clients; therefore, we did not talk directly to clients as we felt this was not appropriate. We asked advisers to provide written case studies to highlight the issues surrounding illegal lending.

To further understand the effects of illegal lending, we attended one of the Debt Action adviser forums. We asked advisers to discuss in detail their experience of dealing with clients who had engaged with illegal lenders. All advisers and case studies included in this research have been anonymised to ensure no one could be identified.

4.0 Findings

4.1. General comments

From the case studies and discussion with advisers, it was noted that there was no correlation between age, gender and area that would determine clients who would engage with illegal lenders. What was notable was that all the cases highlighted included individuals who were vulnerable. Many suffered from poor health, including mental health issues and/or addiction issues and for most situations, i.e. lack of access to credit, low income or benefit dependency, caused them to turn to illegal lending. From the discussions it was clear that access to illegal lending was relatively easy, the client either knew them or had friends who knew the lender. Many approached the lender for money as a last resort. Monies were easily accessible and for others it was an easy way access to cash and/or drugs. From the discussions, the client's main concern was access to cash not the consequences of not repaying the debt, which was often not considered.

Often, when the client presented to the adviser they were unclear what debts they owed as these had escalated quickly. When the person could not pay, there was no clear structure for how interest and penalties were charged. Clients were very fearful of their lender and many had experienced threats and intimidation if they did not repay debts on time. This real fear and associated distress deterred clients from disclosing and reporting illegal lending.

The research also highlighted the role some of our members had in renegotiating the terms of repayment of illegal debts. These were in areas that the member was well established and had good relationships with the local community. By utilising their networks, members were able to reach out to community representatives, in a safe environment, to discuss options for clients. They were able to negotiate a final amount and a repayment schedule to minimise any threats of danger to the client.

Advice NI identified a number of reoccurring interrelating themes during our research. There was clear evidence that there was no one determining factor that made clients access illegal lending; each theme did not stand alone but correlated with each other.

4.2. Themes

Hidden issue

From our research, many advisers said that illegal lending was a hidden issue and it was more prevalent than demonstrated by the statistics. In their experience, many clients will not disclose illegal debt when they present for advice. Often, advisers have suspected illegal lending as the client cannot account for some of their debt or explain what they spend their money on. They said that clients often masked the debt; some say they owed family or friends and that it was vital that they pay them back. Many advisers believe that some clients did not disclose the illegal debt at all during the advice interview and wanted advice to erase their other debts in order to pay an illegal lender.

However, there were occasions where the client disclosed, they have illegal debts. The advisers said that some were relieved to be able to discuss their situation with someone as often they are hiding it from loved ones, which has compounded their stress.

Fear and Intimidation

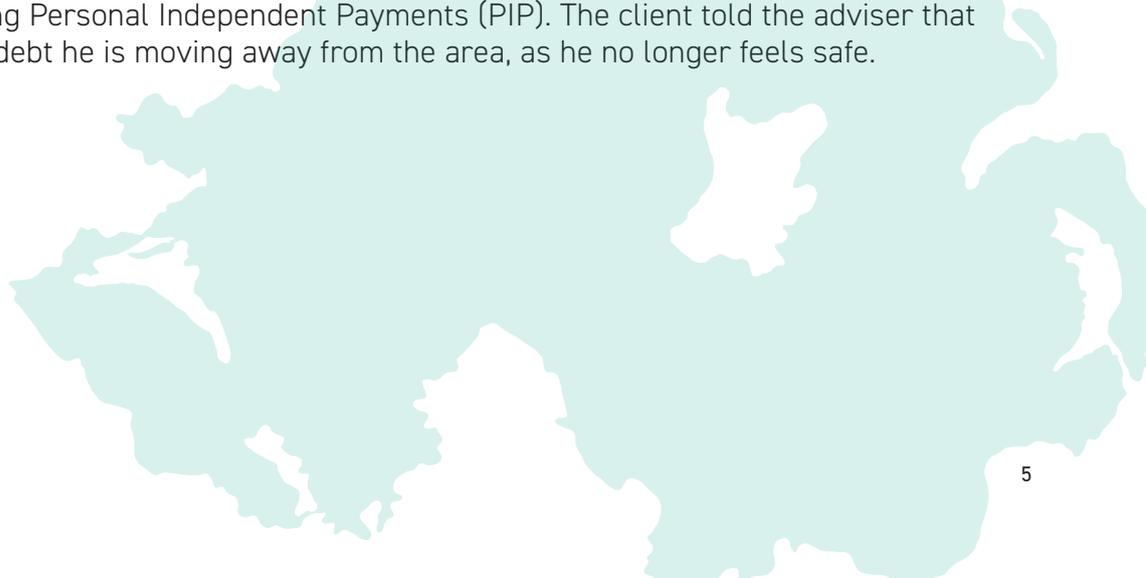
The biggest issue that deterred a client from disclosing illegal lending was the fear associated with such borrowing. The advisers said that clients lived in constant fear of what could happen to them or their family if they did not repay the debt. In almost all the cases highlighted, there were threats of violence. In some instances, the person was physically attacked and in others, the client had to leave the area. Advisers discussed that clients had openly said to them that no one wanted or liked to talk about illegal lending due to the fear of it being reported and them being labelled a tout as they would have to suffer the retaliation from the lender. In fact, there was only one instance where the client, with the support of the adviser, reported the illegal lending to the PSNI. This case is detailed on page 6.

One adviser discussed a case where a woman aged 75 owed an illegal lender approximately £200. He would call to the door to collect the money and if she could not pay him, he stood outside her house and would shout that she owed him money and threaten her, knowing that this would cause her embarrassment and distress.

Paramilitaries and the communities

It was evident from our research and the case studies provided that there was a strong link in NI between the paramilitaries and illegal money lending. This was compounded by the fact that the lenders operated within the local communities and were well known which increased the fear of retribution. Only a few case studies were highlighted that were not directly connected to the paramilitaries but the clients were still threatened with violence to repay.

In one case, the client had a computer supply and repair business. The business had become unprofitable due to the economic climate and the poor health of the client. He had credit cards and rent arrears totalling £50,000. His situation meant that he could no longer access credit. To keep the business afloat he turned to paramilitaries and borrowed £75,000. The lenders were known to the client and he was aware of the consequences when he took out the loan. Initially the client was able to maintain repayments however he could not sustain this. When he failed to repay, his home was attacked and all his windows were broken. The client was also personally threatened. This threat resulted in him suffering from depression and attempting suicide. He was in the process of selling his home to clear the debt and planned to go bankrupt to clear the remaining debt. He claimed social security benefits including Personal Independent Payments (PIP). The client told the adviser that once he pays the illegal debt he is moving away from the area, as he no longer feels safe.



Low income / Lack of access to credit

Another theme that was highlighted was the lack of access to mainstream credit. One adviser told us that many of their clients often had other high interest debts e.g. doorstep lenders, payday loans, catalogues, store cards or pay to rent loans. One client had nearly £8,000 in debt when she spoke to the adviser. She was in receipt of benefits, not able to work due to ill health and was a carer for her two adult children, who still lived with her. She started with doorstep lenders for 'handiness' as she needed credit to support her daily living expenditure. The debt escalated over the months leaving her struggling to repay, which only compounded her situation. The client could not access any more credit and had borrowed money from a local illegal lender. The lender had previously worked for a doorstep lender. During the negotiations the adviser tried to contact the lender to negotiate but to no avail. The client was reluctant to discuss this illegal lender and said she had no issue with him, as he was not harassing her. The adviser tried to find out more details about the lender but to no avail. The client applied for a Debt Relief Order and when it came to submitting the application, the client told the adviser she had received help from a third party to pay this unknown lender.

Another client who had recently moved to NI was in receipt of benefits and had four children. Her husband was in prison in the Republic of Ireland. She was struggling financially and could not access credit. She asked around and got the name of a local illegal lender. She borrowed £400 and agreed to repay £750, at £50 per week. She was able to pay the first five repayments but then fell into difficulty. She discussed this with the lender, who suggested she borrow more over a longer period. She agreed and borrowed £1,000. The lender gave £500 and told her the other £500 was to clear the first loan. He then told her she had pay £70 per week.

This actually left the client worse off and she could not repay. The lender threatened her. It was at this point she sought advice as she was concerned that the lender would harm her and her children. The client wanted to move back to the Republic of Ireland but was afraid that the lender would find her. With the adviser's encouragement, she agreed to report this to the PSNI. The PSNI arrested the lender but he denied all knowledge and was released within 24 hours. The lender immediately visited the client and told her she had 24 hours to get his money in full or he would hurt her. She contacted the adviser, who contacted the PSNI. The PSNI said they would be there when the lender returned. The client was so distressed that the adviser agreed to be in the area to be able to support her after. The lender was arrested, and this time charged. The client moved back to the Republic and was relieved to be free from the situation.

Lack of transparency

Advisers discussed that many of those with long-term illegal debt did not know how much they actually owed or did not fully understand the terms they were agreeing to when they took out the credit if they could not repay. They said that some clients were nearly institutionalised in their response to repaying – simply handing whatever was asked over. However, when lenders were asked how much was owed to clear the debt they would provide an exact figure, though it was unclear how this was derived.

An example was the case of a lone parent with two dependent children. One of her children had health problems and she had to leave work to become a full time carer. The client made a claim for Universal Credit (UC) and when she applied she was not advised by the social security staff of the minimum five week waiting period for payment, the UC advance payment loan or the UC contingency fund grant. Therefore, to help cover her daily living during the waiting period she took a loan from an illegal lender. She borrowed £1,000. The client said she explained her situation to the lender and she thought she had made an agreement to pay back the loan once she received her UC payment. However, the lender started harassing her after only one week and demanded 50% of loan be repaid immediately. Her UC claim amounted to £1,008 per month. The client also did not realise she would only receive half of her UC amount in a first payment. She had to withdraw this in full and pay it to the lender, who at this stage was seriously harassing her for payment. This left her short until her next payment in two weeks. The advice centre provided her with food parcels and helped with her utility bills. This support was offered until the debt was cleared.

Another client, who was aged 19, moved out of his parent's house into a hostel as he was being threatened by illegal lenders. He borrowed £500. He was in receipt of Employment Support Allowance (ESA) and was in the process of applying for PIP. Client told the adviser he did not realise the rate he would have to repay the money as his only income was ESA and he soon found himself unable to pay. In order to help him repay the debt, the client is now receiving food parcels and has made an application to the social security for a discretionary support fund as he was living in a hostel.

Poor Health

There was another clear correlation highlighted during our research around poor health, including addiction and illegal lending. In the cases highlighted many took out loans because of their drug habit.

In one case, a client who was married with two dependent children, had been dealing with ongoing issues from illegal lending for over 20 years. The pressure of trying to deal with it caused him to have a mental breakdown. It began when he was in prison as a young man. He was a recreational drug user and would often purchase drugs 'on tic' as well as borrow money from illegal lenders. These lenders were 'friends of friends' and were not directly involved in but had links to paramilitaries. Over the years he accumulated a substantial amount of debt with high interest being charged, e.g. if he borrowed £1,000, he would have to pay back £1,750. If he did not pay weekly, he would face beatings. Several times the client, his family and his property was threatened and attacked. The lenders accused him of arson and branded him a 'tout'.

Even though the client was working, for years, the client was 'robbing Peter to pay Paul' by taking out various other forms of credit which made his situation worse. He often turned to crime to try to repay the illegal debt. The lenders even approached him and asked him if he would sell drugs for them to reduce the debt but he refused.

During this period, the client had purchased his NI Housing Executive (NIHE) house with his partner. However, he struggled to keep up the payments of the mortgage and his other debts. He soon had arrears of £13,000 and eventually had to surrender the keys of the property. Eventually the client had a mental breakdown due to his debts; he was suicidal and nearly sectioned. He had to give up work and claimed benefits. He tried to deal with this himself and had kept a lot hidden from his partner until his breakdown. By this time, the client had lost his home, his job and was under continued threat of harm from the illegal lenders.

Finally, in 2019, the client received a lump sum through a private pension. With his partners support he used the money to pay off any remaining illegal debt. He contacted the illegal lenders and they agreed a final repayment of £32,000 to clear his debt. They also agreed that they would not bother him again. The client has not had any trouble from them since, however he lives in constant fear and is 'always looking over his shoulder'. He told the adviser his house is like a prison; he rarely leaves and barricades the doors. His biggest fear is that they will target his children, as that is 'how they work'.

The client is now working with a member centre, as another issue has come to light since paying off the illegal lender. When he withdrew the money from the bank, the bank questioned him to determine if anyone had coerced him into taking out the cash. Subsequently, the client believes the bank notified HMRC, who in turn, notified the NIHE and his housing benefit claim was stopped. The NIHE has asked him to provide evidence, i.e. a receipt, for the money he paid to the illegal lenders, which is impossible. The adviser is currently negotiating with the NIHE to see what can be done for this client. This has meant he is struggling to make his rent payments and has begun to borrow money from his sister. Now he fears that he is beginning the debt cycle again. He wants a fresh start but is finding it hard to cope.

In another case a young man in his 20s, had taken illegal credit out due to his drug habit. He was working, single and lived at home. Unfortunately, he failed a drug test in work and was suspended with no pay. His mental health suffered greatly and he attempted suicide. It was at this point his family realised the extent of his problems, both mentally and financially. They were so concerned that they immediately paid off the illegal lender due to the threats to his life. Once they had dealt with the illegal lender, they went for debt advice to deal with his other unsecured debt, which totalled nearly £12,000 over 10 creditors. The client was getting support to deal with his addiction and debts. He was issued with a final warning in work and hoped to return when his mental health improved.

Another young male, aged 22, who was addicted to drugs had borrowed money from paramilitaries. Unfortunately, in this instance he was shot in both knees when he was unable to repay the debt. The paramilitaries also ordered him to leave the area. This client ended up repaying the debt but suffered serious physical and mental injuries. He was referred for advice by his key worker. Together, they were able to secure housing in a different area, a place in rehab and helped him to apply for benefits. With the support of local voluntary and community groups, this client was given a new start but he continues to suffer the serious consequences of taking out illegal credit.

Another client was single, living in a NIHE rented property and in receipt of benefits. He was unable to work due to mental and physical health problems and his circumstances were unlikely to change in the future. Client owed approximately £2,000 to three unsecured creditors. The adviser quickly ascertained that the client also owed money to an illegal lender. However, he was unable to tell the exact amount, but thought it was likely to be less than £2,000.

This client was very vulnerable, and the illegal lender took full advantage of this. They had the client's bankcard and as soon as his benefits were paid they would take the cash out. This left the client with no money for utilities, food and other essential expenses. The client did not have any friends or family that he could ask for help. The client opened up to the adviser and admitted that the debt was due to drugs.

The adviser discussed opening a new bank account, ordering a new bankcard and/or approaching the PSNI. None of which the client wanted to do as he was afraid of what would happen. He did not want to leave the area. He had already tried to take out a loan to consolidate his debts but was rejected due to his low income. Client did not want to deal with his debts as it meant he would have to deal with the lender. The adviser felt helpless. The only support they could give him was to provide him with food parcels and support from St Vincent De Paul and Salvation Army to help with his utilities.

Family Support

Often when things become unmanageable, the borrower turns to their family for support. The advice highlights, this was evident in a number of case studies.

The NIHE referred a couple to one of our member centres. They were in danger of eviction because of the amount of arrears they had built up. The couple seemed to have a reasonable income and initially it was difficult for the adviser to understand the problem. They had a number of non-priority debts with no explanation to why they had borrowed the money. It finally transpired that the couple's son, who had had a drug problem, had borrowed money from an illegal lender and he could not repay. The son had taken an overdose over the stress of the situation.

Whilst the son was recovering, the lender who was involved in the paramilitaries approached the couple stating that they were now responsible for their son's debt. They said that if they did not pay their son might 'have an accident'. The clients were petrified. They would not take the risk of not paying. So every month, they travelled to a car park to meet the lender and make a payment. The clients were so scared they did not want their other adult children to know the situation that their son had left them in. As a result, the wife suffered from severe mental health issues and was hospitalised. The adviser negotiated a repayment plan that covered the priority debts including the illegal debt and agreed token payments with the other non-priority lenders until the illegal lender was fully paid. Under no circumstances would the couple go to the PSNI. This situation has had a detrimental effect on their relationship with their son.

In another case, the borrower was a young man who had taken out a loan for £500 from the local paramilitaries. He could not keep up with the payments because of his drug addiction. He was threatened so he moved to England. Unfortunately, the loan then fell on his parents to pay. The paramilitaries warned them that their son would be killed if they did not repay his debt. Up until this point his parents were unaware of the situation. They did not work due to ill health and were claiming benefits. They approached one of our member centres for a food parcel. It was only when the adviser dropped the food parcel to their home that the full extent of the situation became apparent. The couple were desperate. They were handing over their benefit payments to repay the loan, which meant they could not afford to eat or heat their home. They had sold anything of any value in their home. The couple broke down and disclosed the situation to the adviser. The adviser contacted the community representative to explain the situation. They negotiated a final repayment amount, which totalled £5,000. The adviser then worked out a repayment plan that was more manageable for the couple. The couple had an end goal to work towards and the centre continued to provide them with food parcels until they could get themselves established again. This intervention literally saved their lives.

Another client was 19 years old, single, living with parents and in receipt of Jobseekers Allowance. The client's father brought him for debt advice as he had various non-priority debts. During this advice interview, his father disclosed to the adviser that there were illegal lenders involved. The father said that he had had to take out a secured loan on his property in order to pay the illegal lenders due to fears about his son's safety.

Another client, who was unemployed and waiting on his benefits to be paid had borrowed £300 from a local paramilitary group. He told the adviser that he was not aware that he would have to pay double the amount in full one week later. The client was told that if he did not pay then there could be 'consequences'. The client was terrified and turned to family members to gather the money together to pay the debt. This client was genuinely in fear for his life. Through the adviser he agreed to pay back £500 that he had managed to raise. This situation had a huge impact on his mental health; he was not sleeping or eating with worry. He realised too late the consequences of accepting money from illegal lenders. He is now paying back his family members and will not go down this road again.

Conclusion and Recommendations

From our research, it was clear that the clients who accessed illegal credit were very vulnerable. Either they suffered from poor health, including addiction, or their situation forced them to access illegal credit. Many had no other option but to access this type of lending due to their circumstances. Advice NI believes that illegal lending continues to be prevalent in NI however it remains a hidden issue and the cases highlighted in this report only scratches the surface of the potential problem of illegal lending. The effect of the lending on the client is palpable for the advisers; often they feel helpless as the client is unwilling to take action.

It is difficult to fully understand the extent of the issue due to the underlying fear and secrecy surrounding this type of credit. It is evident from the research that there remains a strong link to paramilitaries and illegal lending. Therefore, clients will not report it. It is difficult for the advice sector as they can only deal with what the client discloses. This research highlights how illegal lending can escalate quickly, often unmanageably so. Ultimately, this detrimentally affects the client mentally as many cases highlighted the person has attempted suicide.

From the research, illegal lending is easily accessible for those who seek it out. However, it is unclear if many are truly aware of the consequences if they fail to repay. Many are left to the whims of the lender in terms of interest, charges and final amounts. There is a need to educate people on illegal lending and its consequences. However, this cannot be a standalone resolution, it must be supported by other forms of more suitable lending solutions.

We believe that there needs to be accessibility to other forms of affordable credit with low or no interest to allow clients to access safe credit that can be paid back in a structured, transparent way. If the person falls into difficulty, they should automatically be referred to a free debt advice service for support. Working with local communities to help educate on the dangers of this credit is essential. Providing clients with information and holistic support is valuable. We recommend that the Consumer Council conduct a scoping exercise on potential alternative lending stream, including costs, partners and viability.

From the research there are correlations between illegal lending and vulnerabilities. Therefore, we recommend that the Consumer Council focuses their awareness and educational campaign on communities where there are indicating factors. These include areas with high poverty levels, high unemployment, high benefit dependency, high rates of social housing, high addiction, suicide or threats of and poor health rates. We believe working with the local community groups, including the advice sector, will help build trust and increase the impact of interventions.





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