

Credit use by people from minority ethnic groups

The use of consumer credit by people from minority ethnic groups is more limited than is justified by their financial circumstances, according to a recent survey by researchers at the Policy Studies Institute. They examined the pattern of credit use among the African-Caribbean, Pakistani and Bangladeshi communities, and found:

- f** People from these communities are similar to others on low incomes both in their level of borrowing and their reasons for doing so. But the type of credit used differs significantly.
- f** The pattern of credit use among low-income African-Caribbean households is broadly similar to that of low-income households in general. Their use of high-street credit is low, and individuals rely on mail-order catalogues, the Social Fund and community-based savings and loans schemes, known as 'partners'.
- f** Attitudes and beliefs, largely informed by Islamic teaching, are important in shaping credit use in the Pakistani community. The use of high-street credit is low, except for house purchase and small business finance. Instead, there is a clear preference for local sources of interest-free credit, such as bond committees (this community's savings and loans scheme).
- f** In contrast, the use of commercial credit within the Bangladeshi community is much higher than might have been expected, given their financial circumstances and their religious beliefs. Lack of community-based alternatives means that high-street credit is often accessed through third parties - including the use of 'go-betweens'.
- f** Community-based savings and loans schemes primarily meet the needs of those in low-paid work and are often inaccessible to people living on benefits.
- f** Across all three communities, access to commercial credit is constrained by language difficulties, lack of knowledge of the credit industry and alleged racism.
- f** The authors conclude that new legislation is not required to deal with the variety of unlicensed practices observed in the study. It requires a combination of enforcement and, above all, increased access to cheaper forms of credit both through licensed commercial lenders and community-based savings and loans schemes.

Background

Members of minority ethnic communities who live on low incomes have a high level of need for credit. This research examines how they meet that need.

Credit use among minority ethnic groups

Overall, the African-Caribbean, Pakistani and Bangladeshi groups were remarkably similar to other low-income households in the population as a whole, both in their level of borrowing and in their reasons for doing so. For example, given the large proportion of families with children and the below-average numbers of pensioners, it was not surprising to find a high level of borrowing across all three communities. Nine out of ten of all the households interviewed currently owed money they had borrowed.

The reasons for borrowing among these three communities also did not differ significantly from those identified among other low-income households. People borrowed for four reasons: to acquire consumer goods; to purchase household items and necessities; to smooth peaks and troughs in income; and to pay bills and other debts.

But the similarities end there. The types of credit used by these groups differed significantly from one another, and from other low-income communities.

Income and work status did not appear to be nearly so significant in determining the source of credit used as earlier research on credit use generally would have suggested. Nor was the influence of Islam (which prohibits the use of credit) as clear-cut as we might have expected.

The African-Caribbean community

The pattern of credit use that emerged in the African-Caribbean community was, in many ways, similar to that found in other low-income communities. The use of high-street credit was low, with less than half the respondents using this type of credit.

Given a choice, most African-Caribbean people preferred to use high-street credit and where they were in stable work they did so. But the importance accorded to such factors as income, work status and tenure in assessing creditworthiness effectively excluded many people from high-street credit sources. Indeed, 13 of the 21 African-Caribbean people interviewed were unlikely to pass most credit-scoring tests. These 13 were all social tenants, and were either living on benefit (they were unemployed, or were lone mothers), or had low-paid jobs and an unstable work history. Moreover, many had been in arrears with other commitments and a small number had county court judgements against their names.

Several members of the African-Caribbean community felt their applications for high-street credit were affected by companies being unwilling to lend to people in their area and by racism:

“Why is it so difficult for us? I don’t know if it is because we are black or what. I just don’t understand it ... They just turn you down and don’t even try to find out if you can pay or not, they don’t give you a chance.”

However, it is difficult to disentangle these beliefs from the fact that African-Caribbean people are much more likely to have social and economic circumstances that would fail credit scoring by high-street creditors.

Some of those interviewed were discouraged from applying for credit from high-street institutions by the lack of African-Caribbean staff in branch offices they visited.

People living on social security benefits relied on a combination of the Social Fund and mail-order catalogues to meet their credit needs. They also borrowed from friends and immediate family. These informal transactions were predominantly between women - in most instances, between mother and daughter or close female friends. The amounts borrowed tended to be small and the loan was often used to tide the borrower over until she was paid or received her benefit cheque. The use of moneylenders and pawnbrokers was rare and was generally resorted to when credit was not available elsewhere.

The main difference in the African-Caribbean community from the general pattern of low-income households lay in the use of community-based savings and loans schemes, generally known as ‘partners’ or ‘sou sous’ (see Box 1). These small-scale, informal organisations were used to meet the need for one-off loans among people who were in low-paid work and would have difficulty obtaining the money through a high-street creditor.

Box 1 Informal savings and loan schemes

These schemes only provide credit for people in work.

Partners

Loans schemes commonly known as ‘partners’ are used by many members of the African-Caribbean community. They are rotating savings and credit associations in which a group of people regularly deposit a fixed amount of money with a main organiser, the ‘banker’, into a central fund. The banker distributes the total sum (the ‘hand’) to members in a pre-arranged order. This system of credit operates almost completely on trust, in that each person who collects his/her lump sum must be trusted to continue paying in the contributions until all members have collected their ‘hand.’ Moreover, there are usually no written agreements. The partners in this study typically consisted of 10 to 12 people and contributions, which were on a weekly basis, ranged from £10 to £25.

Bond committees

A similar savings and loan scheme called ‘bond committees’ exists in the Pakistani community. In addition to their economic function, these committees also appear to be a powerful symbol of ethnicity and ethnic solidarity in the community. They flourish because friendships and networks continue to be confined to narrowly defined linguistic and regional groups.

The Pakistani community

The pattern of credit used by the Pakistani community was quite different from that in white low-income households.

Attitudes and religious beliefs played an important role in shaping credit use in this community. Overwhelmingly, Pakistani respondents had a negative attitude towards credit, and they avoided interest-bearing credit where they could. These attitudes and beliefs were largely influenced by Islamic teachings, since according to Islam, interest is usurious and therefore prohibited. As a consequence, high-street credit was used very sparingly and primarily for house purchase and business finance:

"I have a mortgage which charges interest. In Islam it is forbidden, but in the real world you need a roof over your head and as things are with people like me with very little income, I can't purchase houses cash. It is therefore practically impossible to follow that teaching."

Other needs were met through interest-free sources which included bond committees (see Box 1), while loans to remit to relatives in Pakistan were obtained from local foreign exchange agents (see Box 2). Credit accounts at the local corner shop were also commonplace. Moreover, many respondents relied on a seemingly strong network of friends and extended family for informal loans. Indeed, all 15 Pakistani households interviewed currently owed money to either a friend or family member.

There was also evidence that other forms of interest-free credit were being explored, such as mail-order catalogues. As they sought sources of credit that they could reconcile with Islamic teachings, many people used forms of credit that were 'recommended' to them by their friends or family.

Box 2 Foreign exchange agents

These agents, who are usually members of the Pakistani community, facilitate the transfer of funds from the UK through bank accounts to their family in their country of origin. Agents usually do not work independently but rather on commission for someone else who 'sets them up in business'. Therefore, though the accounts are held in their names, the funds are provided by the person for whom the agent works. Indeed, according to one of the interviewers, given the risk involved in such an arrangement, a prospective agent is vetted thoroughly. It is also believed that in order to ensure that new agents do not abscond with the funds in the account, their passports are held by their 'boss', in some cases, up to one year. Foreign exchange agents also act as moneylenders, granting interest-free loans to clients who have insufficient funds to send overseas.

The Bangladeshi community

Within the Bangladeshi community, levels of high-street credit use were much higher than might have been anticipated given the households' economic circumstances, their generally poor English, their lack of knowledge of the credit industry and their religious beliefs. In contrast to the Pakistani community, they did not restrict their use of commercial credit to house purchase and business finance. Indeed, commercial credit was used for a wide range of purposes, including cash loans to purchase household goods.

"I know that in Islam it is forbidden to take or give interest but in this country everything is based on interest. You just can't avoid it."

The lack of alternatives seemed to explain the pattern that was observed. There was no equivalent to bond committees or partners. The use of credit accounts at the local corner shop and borrowing from foreign exchange agents were both limited because of the practices of the creditors concerned. People felt ashamed to be running accounts at the local corner shop because the details were often made public; while some of the foreign exchange agents were reported to use heavy-handed tactics to ensure they were repaid.

Instead, loans were often obtained from friends and family, but these were constrained to some extent by the large sums of money that were sometimes needed. Unlicensed moneylenders operated in the Bangladeshi community but, given their high charges and undesirable practices, they were avoided wherever possible.

As a consequence, people in the Bangladeshi community persisted in their attempts to obtain high-street credit, particularly when they needed loans for business capital, to remit money to relatives in Bangladesh or to finance weddings. For some people, an improvement in their circumstances meant they were able to obtain high-street loans, although they often needed to provide security for loans. Others used credit in someone else's name - usually a relative or a friend. Still others had paid local 'go-betweens' to arrange credit agreements on their behalf (see Box 3).

Box 3 Go-betweens

Used primarily by the Bangladeshi community, a 'go-between' is an agent who, for a fee, arranges credit for people who have difficulty getting it for themselves. They may have been rejected, or found high-street credit difficult to obtain because either of language problems or unfamiliarity with the system. The go-between system is of dubious legality as it seems unlikely that members are licensed credit brokers.

Conclusions

Improving access to high-street credit

In all three communities, access to high-street credit was more limited than can be justified by individuals' personal and financial circumstances. There were a number of reasons for this. Language difficulties and lack of knowledge of the credit industry both acted as barriers to wider use. Cultural differences, and the credit industry's lack of understanding of the needs of minority ethnic communities were also felt to limit access. Finally, there were allegations of racism in the high-street credit industry across all three communities. The researchers conclude that the credit industry could do more to overcome these additional barriers faced by people from low-income minority ethnic communities.

Community-based schemes

Community-based savings and loans schemes fulfil a need for low-cost credit and were especially important in the Muslim Pakistani community. These schemes are set up by communities where there is an existing model in their country of origin. However, they primarily provide loans for people in work and are therefore much more difficult to establish where a large proportion of people are either in very low-paid employment or do not work at all. Moreover, they tend to be more successful where they have a social as well as an economic function (such as occasioning regular gatherings at people's homes).

Vulnerability of low-income minority ethnic households

Any low-income community with limited access to high-street credit is likely to be prey to people willing to lend money who are not licenced moneylenders. The problems will be magnified where people need money in an emergency, where they speak and write poor English or understand little about the British financial sector. This raises concern, as it creates an environment in which unlicensed moneylenders, 'go-betweens' and foreign exchange agents can operate. The first two forms of credit are expensive, while for all three there was evidence of heavy-handed practices being used to ensure that money is repaid. The researchers conclude that new legislation is not required to deal with these practices, rather that it requires a combination of enforcement and, above all, increased access to cheaper forms of credit both through licenced commercial lenders and community-based savings and loans schemes.

About the study

Three case studies were carried out among a Bangladeshi and a Pakistani community in Oldham, and an African-Caribbean community in Brixton. The researchers undertook a qualitative, in-depth analysis of people's circumstances, experiences and opinions. Information was gathered via desk research, in-depth interviews with 'community leaders' in each of the three communities and individual in-depth interviews with 51 households in the three case-study communities.

Further information

A full report, **Credit use and ethnic minorities**, by Alicia Herbert, is published by the Policy Studies Institute. It is available from the Policy Studies Institute, 100 Park Village East, London, NW1 3SR (ISBN 0 85374 695 8, price £9.95 including postage and packing). Further information about the research can be obtained from Alicia Herbert or Elaine Kempson at the Policy Studies Institute (Tel: 0171 468 0468).

Comparisons with the white community are drawn from an earlier study published as **Hard times? How poor families make ends meet** by Elaine Kempson, Alex Bryson, and Karen Rowlingson (also published by the Policy Studies Institute).

Related *Findings*

The following *Findings* look at related issues:

- 38** Support for the development of community-based credit unions (Jun 93)
- 47** Promoting the growth of credit unions in Britain (Feb 94)
- 53** Strategies used by low-income families with children to make ends meet (Jul 94)
- 59** The provision of social security benefits to minority ethnic communities (Oct 94)
- 68** Moneylenders and their customers (Dec 94)
- 73** Water debt and disconnection (Mar 95)
- 97** Life on a low income (Jun 96)

For further information on these and other *Findings*, contact Sally Corrie on 01904 615905 (direct line/answerphone for publications queries only).



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