

Red Card

Examining the relationship between subprime credit cards and problem debt

4 million people in the UK have a subprime credit card

Subprime credit cards are credit cards with a high interest rate, typically targeted at people with a low income, who are unemployed, or have an impaired credit file or are new to credit¹

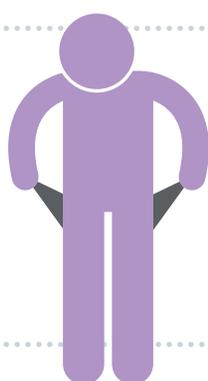
While high cost short-term credit like payday loans are common among StepChange clients, the most common credit product used by low-to middle-income clients struggling with debt are 'revolving' credit products like credit cards.



Key stats

1 in 3

of people in severe problem debt have a subprime credit card



34.9%-69%

subprime credit card representative APRs



18%

of StepChange clients were unemployed when they took out a subprime credit card²

Our key findings

1. Subprime credit cards are being offered to people at significant risk of financial difficulty

25% of those who take out a subprime card are behind on one or more essential bill when they do so.³ This includes having missed rent payments, utility bills and council tax. Subprime credit cards are marketed online, through television advertising, 'pre-approved' postal applications and by on-street marketers. Subprime credit cards are often used by people who already have a number of credit card debts and can no longer access mainstream credit.

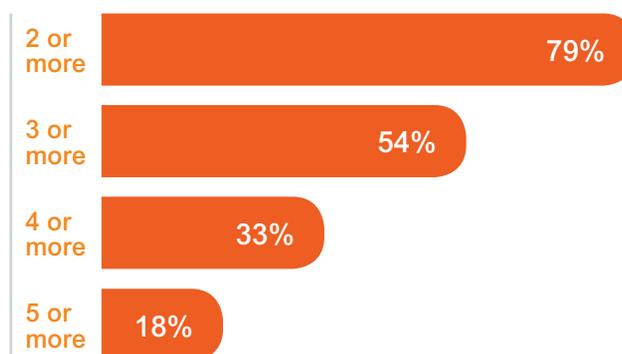
2. The most common use of subprime credit cards is to meet living costs

Clients most often say the main reason they used a subprime card is to pay for living costs like food and clothes, rent and utility bills, particularly following a life transition like the birth of a child or a change in circumstances such as redundancy or ill-health. Cards are also often used to meet unexpected costs, bridge gaps in income or repay existing debts.

3. People with a subprime credit card often get into repayment difficulty

In our national polling one quarter (24%) of those who had borrowed using a subprime credit card experienced repayment difficulty.⁵ Among our clients, two-thirds were only able to repay the monthly minimum payment.

Number of credit cards held by StepChange clients⁴



The cost of £1,000 of persistent credit card debt⁶

APR
35%

£1,130

APR
69%

£2,020

What do our clients think?

79% of StepChange clients with a subprime card felt that overall the card had a negative impact on their financial situation

"I think a lot of these credit cards with high interest rates are 'wolves in disguise'. More of a rip off to vulnerable and desperate individuals like myself rather than really trying to help"

"The credit card company just keeps feeding the rope to you for you to hang yourself"

"I just kept accumulating debt by missed payments"

"As I was struggling to make the minimum payments, the interest began to increase"

"I would have been better off going to a food bank or borrowing money (from) family"

£

Our recommendations

Our report finds that subprime credit card lead many financially vulnerable people to pay an excessive cost for credit and experience serious debt problems.

1. The government and the FCA should protect financially vulnerable borrowers against products that exploit behavioural bias and lead to unreasonable and harmful costs:

- ✓ Policy makers should take a preventative approach and increase statutory minimum credit card payments for new cards to the level required to clear debt without excessive cost
- ✓ Our evidence also shows that there is a role for 'backstop' measures to address excessive costs by suspending interest charges for consumers in persistent debt and limiting the cost of credit to 100% of the amount borrowed in line with comparable high cost credit products.

2. The FCA should take action to prevent irresponsible lending and make subprime credit cards safe for people at risk of financial difficulty by:

- ✓ Strengthening creditworthiness and affordability rules to prevent harmful subprime lending to those in, or at significant risk of, financial difficulty
- ✓ Reviewing persistent credit card debt rules to provide subprime borrowers in financial difficulty with a safe way out of persistent debt
- ✓ Testing and implementing repayment models and tools that help people repay credit card debt promptly
- ✓ Investigating problems linked to the promotion and structure of 'credit builder' products through the credit information market study

To read the full report:

Please visit our website at www.stepchange.org/redcard or email our policy team at policy@stepchange.org



¹ PWC (2018) Sizing the UK Near Prime Credit Card Market.

² This figure excludes those who do not usually work such as full time students and those who are retired.

³ All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 5,326 adults. Fieldwork was undertaken between 29th April - 2nd May 2019. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

⁴ StepChange clients with a subprime credit card.

⁵ Exceeding the card limit, missing repayments or being in persistent debt (paying more in interest charges and fees than reducing the balance over 18 months).

⁶ Assumptions set out in full Red Card report available at www.stepchange.org/redcard.