MONEY AND MENTAL HEALTH
POLICY INSTITUTE

INFORMAL BORROWING AND MENTAL HEALTH PROBLEMS

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We also present new analysis of Understanding Society, the UK's largest household survey. We are grateful to the UK Data Service and the Institute of Social and Economic Research at the University of Essex for the provision of this data under licence.

A special thanks to the rest of the team at Money and Mental Health.

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Executive summary

This report explores what happens when people experiencing mental health problems borrow informally from friends, family and acquaintances rather than licensed lenders, and considers how best they can be protected from potentially negative consequences.

New analysis of Understanding Society, a nationally representative survey of 40,000 households, reveals that **people experiencing mental health problems are one and a half times as likely to borrow from friends, family and acquaintances** as people not experiencing poor mental health. We estimate **over 200,000 people borrowed informally while experiencing mental health problems in 2012/13**.

People experiencing mental health problems frequently live on a low income and can experience an income drop during periods of acute illness. They often borrow informally when they are desperate for funds, either for essentials or in an emergency, and when they feel they have run out of formal borrowing options.

- 'Push' factors driving people towards informal credit include:
  - Poor credit records
  - Difficulties navigating applications processes

- 'Pull' factors encouraging people to borrow informally include:
  - The speed, flexibility and affordability of loans from family and friends
  - Proactive offers of loans when friends and family can see a person is struggling financially.

Borrowing from family and friends is often a positive experience for people experiencing mental health problems, reducing financial strain and building a sense of social connection. However borrowing from family and friends can also generate feelings of shame and guilt. **Nearly half of research participants said informal borrowing put a strain on their relationship with the lender or that the relationship broke down**.

Informal lenders sometimes engage in a range of problematic collection activities, from emotional pressure through theft to violence and coercion.

To reduce the risks associated with informal borrowing, and reduce the need for people to borrow in this way, we recommend that:

- The new Single Financial Guidance Body should invest in developing norms around informal lending, including providing online tools and templates to help lenders and borrowers reach clear agreements on the terms of loans

- The money advice sector should consider treating informal borrowing differently to other non-priority debts, to ensure the social consequences of non-payment are considered in any proposed debt solution

- The government should extend provision of low-interest Budgeting Advances to Universal Credit claimants at any point in their claim, in partnership with credit unions and with repayment through future benefit payments.

Introduction

Many people across the UK are just one missed paycheck or unexpected expense away from serious financial difficulties. Nearly 17 million working-age people have less than £100 in savings,[1] and an estimated four million people regularly use credit to meet regular living expenses or emergency costs.[2]

People experiencing mental health problems are more likely to be in financial difficulty, with a quarter also being in problem debt.[3] Many find it harder to manage their spending, keep track of bills or contact creditors when they're unwell.[4] Often, expenses increase as a direct result of mental illness - when a person is too unwell to use public transport, for example, or to cook for themselves. Mental health problems are also often associated with difficulties finding and sustaining employment.[5] This combination of low or fluctuating incomes, additional expenses and difficulties managing money can mean that people are both in need of credit, and struggle to access affordable mainstream credit.

In these circumstances, when a person's income falls suddenly or they face an unexpected expense, they face difficult choices. Some will turn to high-cost lenders - for example, high-cost short-term (payday) credit, doorstep lenders or rent-to-own providers. Other people will find that their credit rating or low income means that even these forms of credit are unaffordable. In the past, some of these people would have been able to receive support from the government. However, policy changes in recent years have significantly reduced the support available.

Until 2013, the Department for Works and Pensions administered two types of financial support for benefit recipients in financial difficulty:

- Community Care Grants, available to people in receipt of qualifying benefits who faced 'exceptional' financial pressures or who needed help to meet expenses in order to prevent them from going into residential or institutional care

- Interest-free Crisis Loans of up to £1500, available to anyone over 16 years old who did not have sufficient resources to meet their immediate needs.

These schemes were then replaced by local welfare schemes, administered by local authorities. Initially, the schemes were paid for by central government under a ring fenced arrangement, but from 2015/16 the funding was rolled into the general Revenue Support Grant. As this grant has been significantly reduced, local authorities have had to reduce their offer considerably. Although some have found imaginative solutions, often in partnership with other agencies, there are now substantial holes in this safety net.

In the absence of this support, people may be forced to resort to unarranged overdraft borrowing, which can be even more expensive than high-cost credit,[6] pawning possessions or simply going without essentials. Across the UK, it is estimated that four million households are in fuel poverty,[7] and 4.7 million people are thought to have insufficient food.[8]

1. Money Advice Service. Closing the Savings Gap. 2016.
2. Rodrigues L. The credit safety net. StepChange Debt Charity. 2016.
3. Jenkins R et al. Debt, income and mental disorder in the general population. Psychological Medicine 2008; 38: 1485-1493.
4. Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.
5. Independent Mental Health Taskforce. The Five Year Forward View for Mental Health. NHS England. 2016.
6. Financial Conduct Authority. High-cost credit Feedback Statement. FS17/2. 2017.
7. National Energy Action. Fuel Poverty Statistics. 2017. http://www.nea.org.uk/the-challenge/fuel-poverty-statistics/
8. Taylor A and Loopstra R. Too poor to eat. The Food Foundation. 2016.

In these circumstances, borrowing from friends or family can be a much needed lifeline. While recent headlines have focused on how high property prices mean many young people rely on help from parents to afford a house deposit, informal borrowing can take many other guises, including providing a safety net to people who lack savings to fall back on.[9] Often these loans are flexible, and much more affordable than other options. However they also lack the protection associated with regulated consumer credit. Loans are often made without a formal agreement, which can leave borrowers, particularly those experiencing mental health problems, vulnerable to problematic, or even illegal behaviours. Lenders also risk being left out of pocket if loans are not repaid as expected, and both parties can find that borrowing puts strain on important relationships and social support networks.

The financial challenges associated with experiencing poor mental health may mean that people are more vulnerable to problematic informal borrowing. In speaking to the five thousand members of Money and Mental Health's Research Community, a group of volunteers with lived experience of mental health problems, or caring for someone experiencing a mental health problem who feed into all our work, we frequently hear stories of financial abuse; of 'friends' and family members who take advantage while a person is too unwell to understand what is happening.

In addition to recognising the benefits of informal lending, in this report we seek to understand:

- In section one, the prevalence of informal borrowing among people experiencing mental health problems, and the reasons why people borrow in this way
- In section two, the nature of informal borrowing agreements
- In section three, the implications of informal borrowing for people experiencing mental health problems.

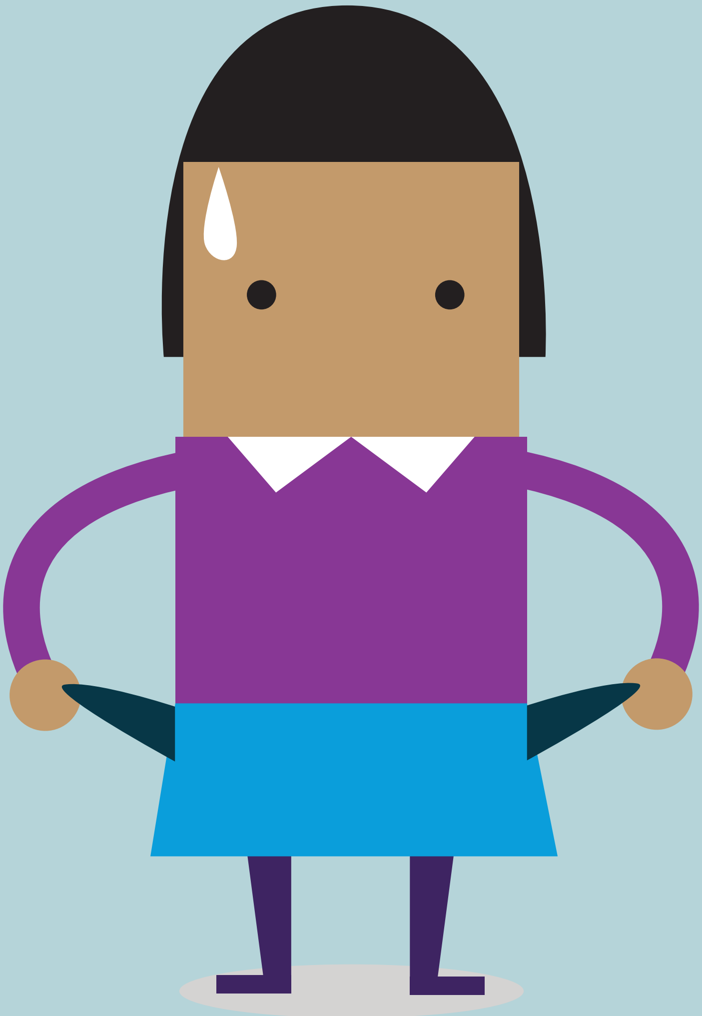
We conclude, in section four, by presenting a series of recommendations aiming to preserve the benefits of informal borrowing while reducing the risks that it can pose to people who are unwell.

Methodology

Firstly, to explore whether people with mental health problems are more likely to borrow informally, we analysed data from Understanding Society, a UK-wide longitudinal survey of over 40,000 households.

New data was also collected from the Money and Mental Health Research Community, a group of over 5,000 people with lived experience of mental health problems. A survey of 422 Research Community members provides new data about experiences of informal borrowing. We also held an online focus group of eight people whose survey responses indicated they may have had experience of problematic informal borrowing, and carried out in-depth interviews with two people.

9. Rodrigues L. The Credit Safety Net. StepChange Debt Charity. 2016.



Section one: Prevalence and drivers of informal borrowing among people experiencing mental health problems

In this chapter we present new statistics on the prevalence of informal debts across the population, and begin to explore why people choose to borrow in this way.

1.1 Are people experiencing mental health problems more likely to borrow informally?

To explore the prevalence of informal borrowing, particularly among people experiencing mental health problems, we draw on the most recent iteration of Understanding Society in which detailed financial information is available, collected in 2012/13. The 12-item General Health Questionnaire, a screening device used to identify mental distress, is used to identify people who are likely to be experiencing a mental health problem.[10]

We examined patterns of informal borrowing, using the indicative variable, "people who currently owe money to… a private individual." The vast majority are likely to be borrowing from family members, friends or acquaintances. Others may be borrowing through formal peer to peer lending platforms, for example RateSetter or Zopa, but we would expect relatively few people in this category as these products were very new in 2012/13 and remain undeveloped even today.

Across the UK, 1.3% of the population owed money to a private individual in 2012/13, according to this data.[11] This is equivalent to around 700,000 people.[12] People experiencing a mental health problem are one and a half times as likely (1.8% vs 1.2%) to borrow informally, compared to those without.[13]

A third (31%) of people borrowing informally are experiencing mental health problems - compared to 23% of the population as a whole. This suggests that in 2012, there were over 200,000 people who were experiencing mental health problems while in debt to family or friends.[14]

In all likelihood, this drastically underestimates the number of people who have borrowed money from friends and family. The survey asks people about borrowing from friends and family members in the context of formal borrowing, such as personal loans, overdrafts and catalogue credit, while in practice people may not think about informal debts in the same way. Research by StepChange, for example, finds that of the 4.1 million people estimated to be using credit as a safety net across the UK, half (51%) have borrowed from family and friends[15] - which would suggest two million people have borrowed in this way.

10. For further details on this variable and our analysis, please see Annex A.
11. Money and Mental Health analysis of Understanding Society. University of Essex. Institute for Social and Economic Research, NatCen Social Research, Kantar Public. (2017). Understanding Society: Waves 1-7, 2009-2016 and Harmonised BHPS: Waves 1-18, 1991-2009. [data collection]. 9th Edition. UK Data Service. SN: 6614, http://doi.org/10.5255/UKDA-SN-6614-10
12. Money and Mental Health analysis of Understanding Society wave 4 and Office for National Statistics, Population Estimates for UK, England and Wales, Scotland and Northern Ireland: mid-2012.
13. Money and Mental Health analysis of Understanding Society wave 4.
14. Money and Mental Health analysis of Understanding Society wave 4 and Office for National Statistics, Population Estimates for UK, England and Wales, Scotland and Northern Ireland: mid-2012.
15. Rodrigues L. The Credit Safety Net. StepChange Debt Charity. 2016.

1.2 Reasons to borrow informally

To understand more about why people with mental health problems borrow money from friends, family and acquaintances, we undertook depth research with the Money and Mental Health Research Community.

Low income is often associated with having a mental health problem. It is therefore unsurprising that a number of our participants said they needed money to pay for essentials, such as housing costs and to cover difficulties with benefits. Many participants borrowed informally when they were desperate for money and felt they had nowhere else to turn.

> "Didn't care at the time even if I had to pay a million percent interest as long as I got the initial money. That's all that mattered!"

Expert by experience

We found there were both 'push' factors, driving people away from licensed credit, and 'pull' factors, reasons why people to chose to borrow informally.

Push factors

1. Poor credit record

The biggest driver of informal borrowing amongst people experiencing mental health problems was a lack of other options. More than half (58%) of participants who had borrowed informally at some point said they had done so because they could not borrow from anywhere else.

A number of our participants said their poor credit rating meant they could not access formal credit.

> "I previously had a problem with overspending and borrowed more than I could afford. I lost my job due to ill health and still have outstanding loans and money owed to various companies... It has ruined my credit rating.… Nobody will touch me with a barge pole due to my outstanding debt and credit rating."

Expert by experience

2. Difficult application processes

16% of participants reported borrowing informally because they didn't want to borrow from a financial services company. Navigating affordability assessment procedures, involving phone calls and completing forms, can be particularly stressful when mentally unwell.[16]

> "I can no longer deal with the application process. I can't talk on the phone without panicking and my mind running away. I don't open post and don't answer the phone. The anxiety is too great."

Expert by experience

Research participants told us they often needed to borrow quickly and flexibly. Several reported needing money to meet an unexpected bill or expense. The speed, affordability and flexibility of informal lending all emerged as significant factors in the use of this type of credit.

> "I borrowed from an informal source so I didn't have to pay interest, lending was flexible especially when my income had decreased and I couldn't prove it would go up again."

Expert by experience

Pull factors

1. The benefits of borrowing informally

Survey participants reported a number of potentially positive reasons for borrowing informally:

- 34% said it was because they had a good relationship with the lender
- 40% said they needed the money quickly
- 31% felt it was the best value option available
- 26% liked the convenience of informal borrowing.[17]

However, our research found that these initial benefits could also be a source of stress and problems with a loan later on, if either party's circumstances or the relationship between borrower and lender changed.

16. Holkar M. Seeing through the fog: How mental health problems affect financial capability. Money and Mental Health Policy Institute. 2017.
17. Money and Mental Health survey of 422 people with lived experience of mental health problems, base for this question: 328 people who had ever borrowed informally.

2. Informal loans offered proactively

One third (32%) of participants reported that they borrowed informally because the lender offered.[18] This could be positive, for example when money is offered on good terms to alleviate sudden financial pressure or where somebody is avoidant about financial problems.

> "I don't have the confidence to ask for money from anyone, if she hadn't offered, I simply don't know what I would have done."

Expert by experience

Others were less positive, reporting that an offer to lend, even when well-intended, led to problems further down the line.

> "People sometimes innocently offer to help without realising what a hassle it turns out to be."

Expert by experience

A smaller group of participants (3%) reported being pressured into borrowing.

Section one summary

- Across the UK 1.3% of the population owed money to a private individual in 2012/13. This is equivalent to nearly 700,000 people.
- People experiencing mental health problems are one and a half times as likely to have borrowed money from friends, family and acquaintances as people not experiencing poor mental health. In 2012, there were over 200,000 people who were experiencing mental health problems while in debt to family or friends.
- People often borrow informally when they are desperate for funds, either for essentials or in an emergency, and when they feel they have run out of formal borrowing options.
- 'Push' factors driving people towards informal credit include:
  - Poor credit records
  - Difficulties navigating applications processes.
- 'Pull' factors encouraging people to borrow informally include:
  - The speed, flexibility and affordability of loans from family and friends
  - Proactive offers of loans when friends and family can see a person is struggling financially.

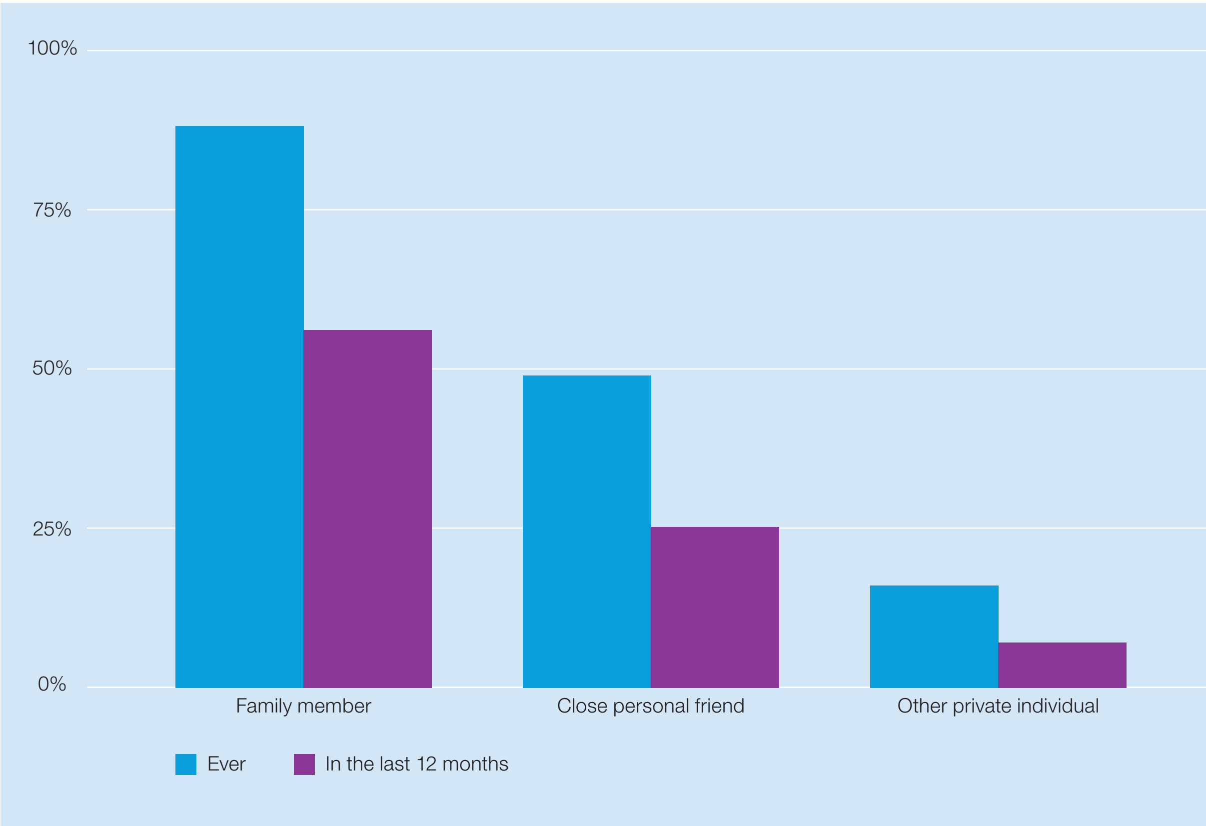
18. Money and Mental Health survey of 422 people with lived experience of mental health problems, base for this question: 328 people who had ever borrowed informally.

Section two: The nature of informal borrowing

Informal borrowing amongst people with mental health problems happens on a continuum, from extraordinarily helpful interventions by loving family and friends, often preventing a financial crisis and providing a welcome safety net, through to more equivocal situations, where relationships may be strained and borrowing more difficult for borrower, lender or both, to problematic and even illegal behaviours.

2.1 Who are the lenders?

Figure 1: Sources of informal borrowing



Source: Money and Mental Health survey of 422 people with lived experience of mental health problems.
Base for this question: 389 people who had ever borrowed informally.

The majority (88%) of our survey participants had borrowed from a family member, and half (49%) had borrowed from a close friend. Around one in six (16%) had borrowed from another private individual, for example a neighbour, friend of a friend or a loan shark. All of this borrowing is informal, so lacks the protections of licensed lending, and is indicative of limited financial alternatives. However, borrowing from another private individual could be seen as particularly risky category, as this relies on weaker social ties than borrowing from close friends or family, and may be more open to abuse.

The benefits of borrowing from family and friends

We heard many heartening stories of family and friends being both willing and able to help out. They often had a strong bond with the participant, understanding both their mental health issues and their financial situation.

> "I'm lucky to have good friends/family who understand that borrowing was a last resort due to being too unwell to work."

Expert by experience

People told us that they were sometimes reluctant to borrow from people they knew had limited resources themselves. Whilst appreciating generosity, participants were also aware of the potential financial burden on family and friends, leading to further feelings of shame and guilt.

> "When I did borrow from family, it was only for quite small amounts... as I knew my daughters had hardly enough money for themselves."

Expert by experience

Strings attached

Whilst an offer to loan money in a time of great need can a lifeline, the dependence this can create can set the scene for abuse, too.

> "I feel under such pressure. My Mum tends to make very barbed comments in front of the whole family which make me feel really stupid."

Expert by experience

People told us about their experiences of more insidious informal loan offers.

> "She always asked me near to payday how I was off for money and when I told her I was struggling she just paid money into my account. It was very kind of her at the time but I didn't realise that she had an agenda and used the money as a way to have power over me."

Expert by experience

At the most problematic end of the spectrum, targeting vulnerable people when they are in distress or crisis is a trademark of loan sharks.[19]

19. Ellison A et al. Interim Evaluation of the National Illegal Money Lending Projects Final report – the evidence base. Policis. 2010.

2.2 Repaying informal loans

When someone takes out a regulated credit agreement, the terms of borrowing must be clear. Borrowers must be given key information, including how much the loan is for, the amounts and timings of repayments, how long the agreement lasts for, rates of interest and charges, and the total amount repayable.

The flexibility and lack of bureaucracy of informal borrowing can be particularly useful for people with mental health problems, whose capacity to repay may fluctuate. However, it can also lead to a dangerous lack of clarity and open the door to manipulation, adverse changes in terms, and abuse, particularly when the borrower's mental health problems might lead to difficulties with memory, cognition and emotional strain.

Our research revealed a range of repayment arrangements. Some agreements were so informal that it was unclear whether the lender was offering a loan or a gift. Participants told us that having an understanding borrower/lender relationship often meant that they were under little or no pressure to repay the money. The relief reduced stress and anxiety, improving the borrower's mental health.

Clear agreements, where borrowers understood what they were expected to do, were generally seen as helpful, whether that agreement was for flexible or regular repayment terms.

> "We have always agreed parameters on lending before I have the money, as well as what it's to be spent on and when repayments are to start, so I can financially plan better."

Expert by experience

A lack of clarity, in some cases, lead to borrowers sometimes feeling obliged to repay, even when the lender did not ask them to do so.

> "I now feel beholden to these people. This makes me feel anxious all the time."

Expert by experience

For some participants, having a clear agreement was less helpful, because they felt backed into a corner by the difficulties of their situation. In some cases, they agreed to terms they knew were unrealistic because they didn't feel there was an alternative.

> "It took longer than expected for me to get well enough to be earning and to be able to afford to pay them back. This led to a lot of strain on the relationship."

Expert by experience

As most participants (78%) borrowed informally during a period of mental ill health,[20] it is unsurprising that many people found their mental health impacted on their ability to understand the repayment terms.

> "When I'm really bad I have no concept of money and it's getting harder to understand and manage."

Expert by experience

20. Money and Mental Health survey of 422 people with lived experience of mental health problems, base for this question: 321 people who had ever borrowed informally.

For some, desperation meant they agreed to terms they did not fully understand.

> "I was desperate and just agreed as I couldn't cope with the stress of trying to find another way."

Expert by experience

A number of participants described finding it difficult to discuss the loan with the lender, and this difficulty could be exacerbated by their mental health problems.

> "It was very difficult to talk to her in any meaningful way about it, so I just strained my own resources to pay her back quicker than we had agreed at the time of borrowing."

Expert by experience

> "I start to have panic attacks about borrowing or talking about money in general."

Expert by experience

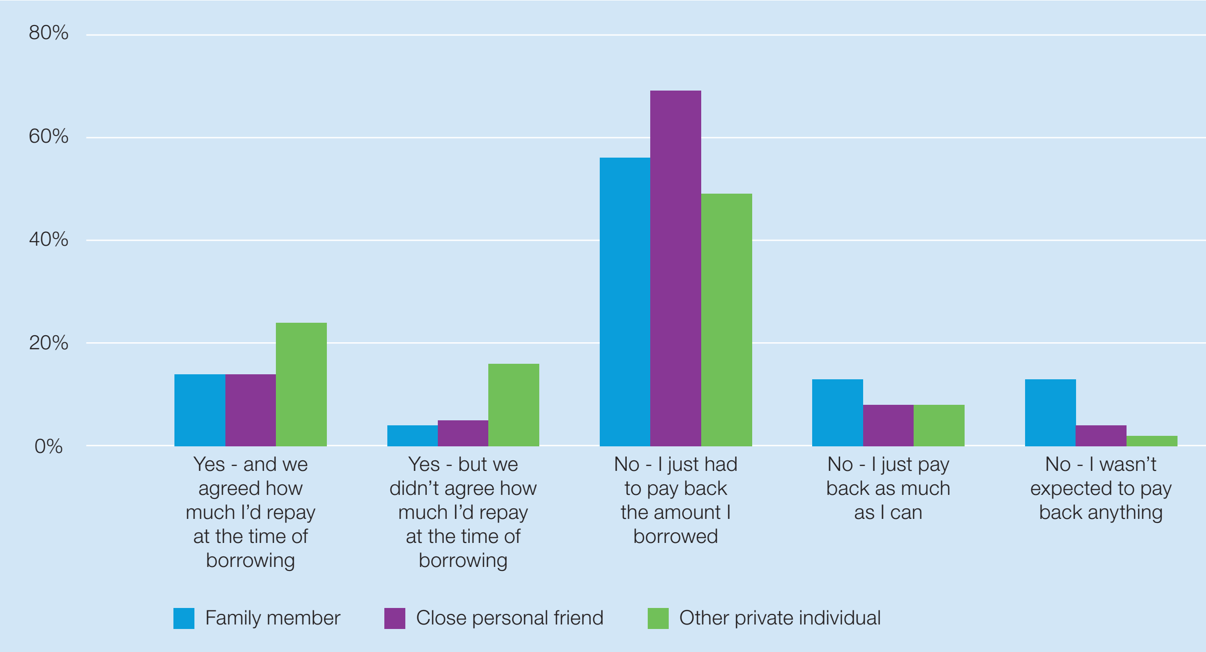
2.3 Interest and charges

We found significant differences in repayment terms, between the various sources of informal borrowing, as illustrated by Figure 1. The most common agreement was to repay the principal sum without any interest, particularly for those borrowing from family (56%) and close friends (69%). Other individuals are more likely than either family or close friends to expect the borrower to pay more than the principal. One in six (16%) of those who borrowed from another private individual were expected to repay more than they borrowed, but didn't agree terms at the time of borrowing. This approach is particularly concerning, as lack of clarity at the outset can be used as a tool for extortion and abuse.

> "I borrowed the money thinking I had time to pay back in instalments, but was told after one week they wanted their money back with interest."

Expert by experience

Figure 2: Informal borrowing repayment terms - have you had to pay back more than your loan?



Source: Money and Mental Health survey of 422 people with lived experience of mental health problems.
Base for this question: 332 people who had ever borrowed informally.

2.4 Problems repaying the loan

Two-thirds of informal borrowers (68%) have been unable to repay money borrowed in this way as expected, for instance making partial payments or missing them entirely. This could sometimes have a positive outcome, where the lender was willing and able to write off all or part of the loan, essentially turning it into a gift.

"My mum gave me the money but insisted I do not pay it back because I was a single parent and she said, 'it's what families do'."

Expert by experience

However, for others, struggling to repay could cause considerable financial hardship, including going without essentials.

"My friends took out a bank loan for me... so it had to be paid every month… to cover paying this I could not afford to pay my gas and electricity."

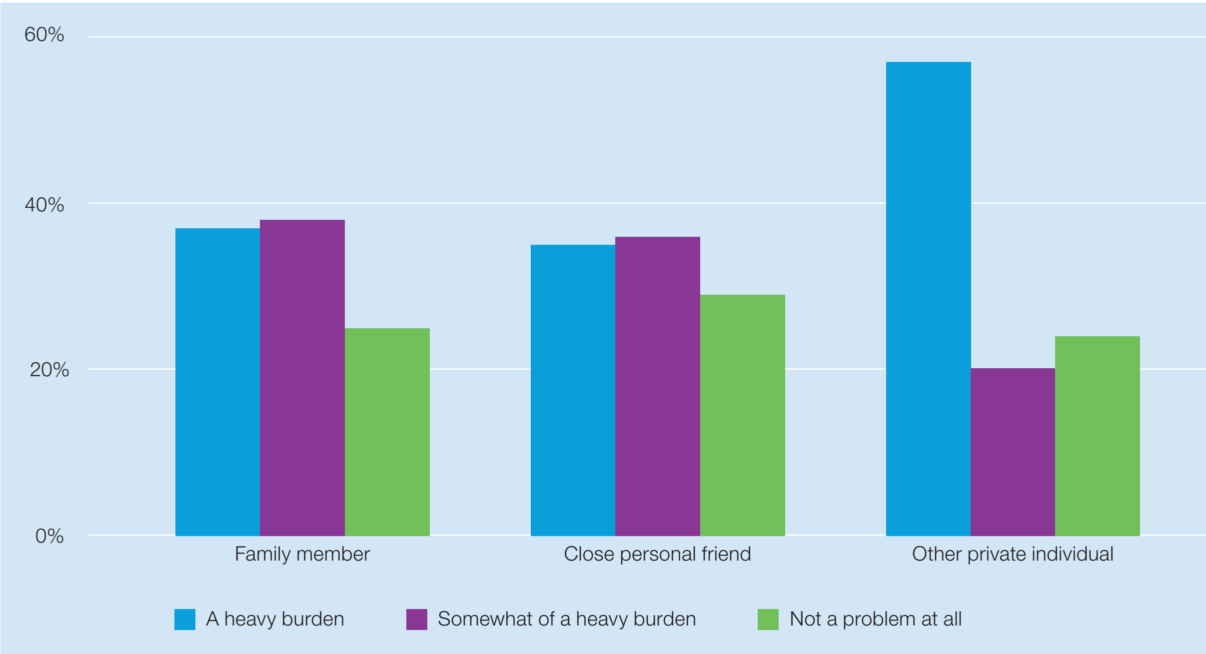
Expert by experience

"I go without food on a regular basis to try and pay back."

Expert by experience

As Figure 2 shows, people are more likely to find repaying this money a heavy financial burden if they've borrowed from another private individual, rather than a close friend or family member.

Figure 3: To what extent is paying back money borrowed informally a financial burden?



Source: Money and Mental Health survey of 422 people with lived experience of mental health problems.
Base for this question: 313 people who had ever borrowed informally.

Informal borrowing is often a positive choice. However, it is sometimes hard to distinguish between a positive offer of swift, sympathetic, flexible help in time of need, and insidious, manipulative targeting in time of vulnerability. Even where the intention is positive at the outset, problems can ensue later if circumstances change.

Section two summary

- Informal borrowing amongst people with mental health problems happens on a continuum, from extraordinarily helpful interventions by loving family and friends, often preventing a financial crisis and providing a welcome safety net, through to more equivocal situations, where relationships may be strained and borrowing more difficult for borrower, lender or both, to problematic and even illegal behaviours.
- Repayment arrangements vary in terms of clarity and flexibility.
- Borrowing from an individual who is not a family member or close friend is more likely to be problematic and to incur interest.
- Many people found repaying informal loans a burden.


CLOSE PERSONAL FRIEND
FAMILY MEMBER
OTHER PRIVATE INDIVIDUAL

Section three: The impact of informal borrowing

Borrowing informally can affect people's mental health positively and negatively - sometimes both at once. The lifting of financial pressure could reduce stress and knowing there are people willing to help sometimes adds to a feeling of connection, both of which are likely to have a positive effect on mental health.[21]

> "It is reassuring to know that my family are able to support me in times of trouble and that they will not put pressure on me to repay. I am very lucky."

Expert by experience

However, participants also reported that difficult emotions, such as shame, guilt, worry and fear, could impact on their mental health. They told us about worsening depression, increasing anxiety, self harming and feeling suicidal.

> "It has a hugely negative impact on my mental health and self esteem, triggering feelings of guilt, self criticism/loathing, and negative thoughts about my ability to cope."

Expert by experience

Owing money to a family member or friend can create distance, even when the lender is putting no pressure on the borrower. Whilst some people found their relationship was not affected or even improved, over a third (37%) of participants said borrowing in this way put a strain on their relationship with the lender and 12% said this relationship broke down completely.[22] Informal borrowing can be particularly difficult to manage where the borrower relies on the lender for other things, like emotional support or childcare.

> "I didn't pay back money to my sister and we now do not speak to each other for over 10 years."

Expert by experience

3.1 Informal collection activities

We heard of a range of problematic collection activities. Several participants told us about informal lenders using the shame and stigma surrounding both debt and mental health by telling other people about the borrower's circumstances, including using social media.

> "She has even posted a 'warning to others' on Facebook that I have left her severely out of pocket and cannot be trusted."

Expert by experience

We heard some worrying stories of informal lenders taking or destroying people's belongings.

> "They took their money and my television, mobile phone and tablet as interest."

Expert by experience

At the extreme end of the spectrum, we heard of people being coerced into illegal activities.

> "The loan shark sent people to say that if I would grow cannabis in my attic they would pay me £2,000."

Expert by experience

21. Berkman L et al. From Social Integration to Health: Durkheim in the New Millennium. Social Science and Medicine 2000. 51(6):843-57.
22. Money and Mental Health survey of 422 people with lived experience of mental health problems. Base for this question: 333 people who had ever borrowed informally.

Lending money informally to another person is not illegal in the UK unless a lender makes loans to four or more people, at which point a money lending licence is required. However in some cases, the behaviour of lenders could be a seperate criminal offense - for example, blackmail or theft.

Julie's story

Julie* has a history of severe depression and anxiety. Some years ago, she was at a particularly low ebb. Her husband left and she was estranged from her family. Her old and valued friend, Sue*, persuaded her to move from the South of England and settle close to her in The North.

"I moved to a place where I didn't know anybody except for her."

Sadly, the move took a further toll on Julie's mental health and she spent a month in hospital. Sue took care of Julie's mortgage repayments, but there was no clear agreement as to whether this was a loan or a gift.

"When I offered to repay her, she just said, 'what are friends for?'."

Julie recovered and found a job, albeit on a low wage. When her boiler broke, she was grateful that Sue could lend her the money to replace it. Sue refused Julie's offer of repayments in instalments, saying she'd prefer a lump sum. As a way of paying her friend back, Julie took on Sue's cleaning, ironing and some administrative tasks.

The situation deteriorated. Sue took to putting money into Julie's account, even though Julie did not want her to.

"She always asked me near to payday how I was off for money and when I told her I was struggling she just paid money into my account. It was very kind of her at the time but I didn't realise that she had an agenda and used the money as a way to have power over me."

Sue's behaviour became more and more controlling.

"She wanted to know every tiny thing I did. Who I'd spoken to. She was constantly putting me down. She seemed only to be happy when I was depressed but as soon as something nice happened to me she would turn nasty."

Things came to a head when Julie decided to go back to her previous area, as she had become closer to her family and was missing them.

"She immediately told me she wants repayment of all the money she has 'lent' me and accused me of being a 'freeloader'."

Sue has threatened legal action and used social media to intimidate and isolate Julie, messaging her neighbour and posting on Facebook. Julie has now moved away. She is repaying Sue £100 per month, even though she is currently unemployed.

"I put this on top of my priority payments just so I can feel I'm free of her and I will know I've done the right thing."

*Names have been changed to protect anonymity.

3.2 Getting help

People experiencing mental health problems often find it difficult to engage with advice services and seek help when they are facing financial difficulties.[23] Seeking help with an informal loan can be particularly difficult, as the money worries are tied up with social obligations and norms. In our survey:

- 25% spoke to a friend or family member
- 15% spoke to the lender
- 12% sought advice from a charity
- 2% reported lenders to an authority
- 64% took none of these actions.[24]

Section three summary

- Borrowing from family and friends is often a positive experience for people experiencing mental health problems, reducing financial strain and building a sense of social connection.
- However borrowing from family and friends can also generate feelings of shame and guilt.
- Nearly half of participants said informal borrowing put a strain on their relationship with the lender or that the relationship broke down.
- Informal lenders sometimes engage in a range of problematic collection activities, from emotional pressure through theft to violence and coercion.
- Two-thirds of people who have borrowed informally while experiencing a mental health problem did not seek any help.

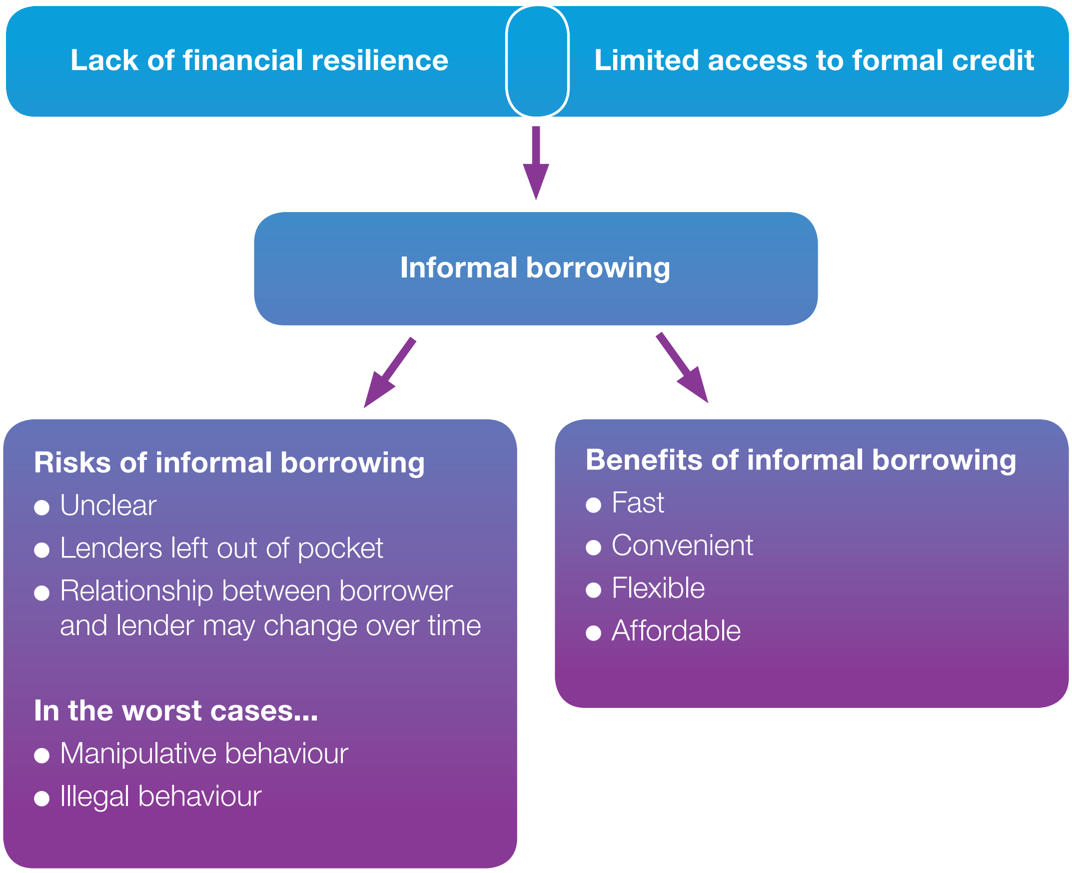
23. Balmer N, Pleasance P and Buck A. Psychiatric morbidity and people's experience of and response to social problems involving rights. Health and Social Care in the Community 2010; 18, 6; 588-597.

24. Money and Mental Health survey of 422 people with lived experience of mental health problems. Base for this question: 329 people who had borrowed informally.

Section four: The challenge to policymakers and recommendations

Informal borrowing happens on a spectrum, from helpful, flexible and affordable lending, through to arrangements which are coercive and unaffordable. Many of our research participants described positive experiences of informal borrowing, and many people will understandably want to help friends and family in difficulties, so discouraging informal borrowing is likely to be unhelpful. However the lack of awareness of the risks of informal borrowing can leave some people, particularly those experiencing mental health problems, vulnerable to harm. There is also a danger that the blurred lines between informal and illegal lending could provide a space for loan sharks to operate in. Figure 3 summarises the drivers of informal borrowing, and the risks and benefits.

Figure 4: The policy challenge - the causes, risks and benefits of informal borrowing



Source: Money and Mental Health Policy Institute

While these risks are likely to be inherent in all forms of informal lending, some are more likely to affect people with mental health problems, or will affect this group in a more problematic way. Specific problems include:

1. **Limited access to affordable credit.**

   High-risk customers, including those on a low income, are expensive to lend to. Previously, the government offered assistance to this group, however in recent years the state aid available has shrunk dramatically. While efforts have been made to expand access to affordable credit through credit unions and community development finance institutions (CDFIs), the former struggle to meet demand while becoming financially self-sustaining, and the latter lack geographic reach.

2. **Managing the risks of informal borrowing.**

   Often, informal borrowing is positive. Family members and friends support each other through tough financial times, strengthening social bonds, reducing the risk that people go without essentials, and limiting reliance on high cost credit. The challenge for policymakers is to protect this positive activity, while reducing the likelihood that a loan becomes a tool for manipulation or abuse.

Our analysis suggests that informal borrowing is more risky where:

a. The borrower relies on informal lending as a last-resort and is unable to access any other form of credit or savings

b. Where the nature of the loan and repayment plan was unclear, and there is limited planning for changes in either the borrower or lenders' circumstances

c. Where the borrower experiences a mental health problem which may reduce their ability to understand the terms of a loan and leave them more vulnerable to emotional manipulation or abuse.

The following three recommendations could help policymakers to balance this delicate mix of benefits and risks. The first two offer ways to support people who rely on informal borrowing, while the third should reduce the need for people to rely on this type of lending, particularly in the cases where it is most risky.

4.1 Reduce the risks of informal borrowing

Building norms of good informal borrowing

Building helpful norms of good informal borrowing could empower consumers to make agreements that are successful for both lender and borrower. The Money Advice Service already offers online guidance for people to consider before borrowing from family and friends. However, for a person experiencing a mental health problem, working through this long list of questions may be exhausting. Simple online tools could make this information more accessible by:

- Using chatbots to break information into manageable chunks and potentially pre-fill a template loan agreement for both parties.
- Utilising Open Banking capabilities to help both parties assess affordability, mimicking - at low cost - some of the protection offered through formal lending arrangements.
- Helping people to check whether a loan is needed, signposting to benefits advice and local organisations which offer grants to people in need.

Particularly for people experiencing mental health problems, who may feel ashamed and guilty about their need to borrow, establishing clear precedents about what unacceptable behaviour from informal lenders looks like could help inform people about when they should seek help. These tools could be offered through the new Single Financial Guidance Body, and potentially syndicated to other websites - such as those of advice charities - to maximise uptake.

Recommendation

The new Single Financial Guidance Body should invest in developing norms around informal lending, including providing online tools and templates to help lenders and borrowers reach clear agreements on the terms of loans.

Ensuring debt advice considers the social impact of informal borrowing

Standard money advice differentiates between priority and non-priority debts based on the power of the creditor to enforce that debt. Thus, housing arrears that could result in eviction and council tax debts that could land the debtor in prison would take priority over debts where the biggest threat is losing goods to bailiffs. Informal loans can only legally be enforced through county court judgements and often not even by that means if, for example, there is no paperwork. As such, standard money advice includes borrowing from family and friends as part of dealing with non-priority debts.

The social ties involved in informal borrowing, however, may mean that treating this debt as non-priority fails to recognise its importance to both borrower and lender. Although informal lenders are unlikely to use the court system to collect, the social consequences of non-payment - which could include loss of social support, guilt, shame and mental distress - could be sufficiently severe that failing to address this debt undermines an otherwise effective debt solution.

The money advice sector should consider treating informal borrowing as different from formal priority and non-priority forms of credit. This might include introducing standard questions to discover the nature of the relationship between lender and borrower, which would have the advantage of helping to gently identify financial abuse, illegal collection or illegal lending behaviour, to ensure that this borrowing is treated appropriately.

Recommendation

The money advice sector should consider treating informal borrowing differently to other non-priority debts, to ensure the social consequences of non-payment are considered in any proposed debt solution.

4.2 Reduce the need for risky informal borrowing

Increasing the availability of affordable credit

Many people relying on informal borrowing recognise the risks, and only borrow in this way because there were no alternatives available. However, people who struggle to access affordable credit in the market are priced out for a reason - usually they are perceived as high-risk, either because they have a thin credit file, have had debt problems in the past, or have a low or fluctuating income. Yet it is precisely this group who are also the least likely to have savings to cushion them in the event of an income shock or unexpected expense, most likely to need emergency credit, and least able to pay a high price for it. The drive for credit unions to be financially self-sustaining means that they can only ever form part of the solution, and the limited geographical coverage of Community Development Financial Institutions means that they too cannot solve the problem. Policy makers should therefore consider ways in which they could support alternative lending provision to people in financial difficulty.

An interest-free Budgeting Advance loan is already available to cover the waiting period between a Universal Credit (UC) application and the first payment. Extending the availability of Budgeting Advance provision, so that claimants could access a low-interest loan to cover emergencies at any time during their claim, could help to reduce the risks associated with informal borrowing driven by a lack of alternatives. The loan itself could be provided by a credit union, using the model of Ireland's It Makes Sense Loans,[25] where repayments can be made through deductions from benefits payments - reducing the risk of default and, as a result, the cost of providing the credit.

Recommendation

The government should extend provision of low-interest Budgeting Advances to UC claimants at any point in their claim, in partnership with credit unions and with repayment through future benefit payments.

25. http://www.citizensinformation.ie/en/money_and_tax/personal_finance/loans_and_credit/microcredit_loans.html

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