Centre for Responsible Credit

How do credit scores impact the financial behaviours of lower income households? Qualitative evidence.

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About the Centre for Responsible Credit

The Centre for Responsible Credit is a registered charity working to improve how credit is provided to lower income households, and to create better support and solutions for people struggling with debt. We undertake research and design, test, and evaluate interventions (both policy and practice-based) to improve services and support. For further information see **responsible-credit.org.uk**

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Executive Summary

Low-to-middle income borrowers can be extremely sensitive to their credit scores, and experience potential harms and detriments. This may cause borrowers to refrain from default or getting help with financial difficulties; and to prioritise credit repayments over household bills and other essentials.

- More than two thirds of our qualitative study participants (30 low-to-middle income borrowers) checked their credit score at least once a month, and a fifth checked their scores weekly or even more frequently. While access to credit was important, **half reported financial difficulties in the last 12 months, and some were using credit to pay for essentials on a regular basis**.

- All but one of the participants had an active line of credit though **a fifth had previous severe debt problems and experienced using an insolvency procedure**. Among our study, ClearScore, Experian, and Credit Karma were the most common credit score providers consulted.

- Sensitivity to their credit scores and the desire to maintain access to credit may have a **'disciplinary effect' for these borrowers: encouraging them to prioritise credit repayments over household bills and essential spending**.

    - Asked hypothetically, what they would do if they were finding it impossible to make their credit obligations, **most indicated that in the first instance they would seek to talk to their lenders. However, only a fifth of participants had in fact done so**.

- Worryingly, many participants felt that the **best way to improve their credit scores was by taking out more credit** and using it regularly, and **half of the participants felt credit score providers encouraged them to take on more debt**. Participants felt that it was inappropriate for credit score providers to act in this way.

- Just under **half of the participants had experienced errors in their credit reports**, through falsely assigned credit accounts, out-of-date information, and fraud. But participants who contacted their providers to correct errors said **it had taken a least a month, and sometimes several months, to fix their problems**, negatively impacting their imminent credit options.

- People with a history of debt problems felt that **lenders placed too much emphasis on credit scores, because scores do not take account of the reasons for prior missed payments and defaults**. Some also reported that they had learned from their previous debt problems and that they were now much more cautious when using credit. In these cases, credit scores might overstate default risks.

Financial struggles

Credit use and debt problems had mainly been driven by major 'life events' prior to the cost-of-living crisis, such as bereavement, redundancy and, in some cases economic abuse (with previous partners taking out credit in the participants' names).

The spike in the cost of living meant that participants were often caught in a spiral, striving to maintain their credit repayments despite struggling to pay for essentials and falling into arrears on household bills:

- More than half of the participants told us they have struggled with their financial situation in the last 12 months.
- The cost-of-living crisis has required many participants to limit their spending to the essentials. For some, meeting even basic costs is now impossible.
- Half were in arrears with their household bills or had been late making payments in the year. A third had reduced their spending on energy, and a fifth told us they use food banks and utility vouchers to get by.

In view of these pressures, retaining access to credit was seen as vital by many. This remained the case even where participants had previously experienced debt problems.

Our findings provide strong evidence that **credit information sharing can have a disciplinary effect : that is, knowing that their repayment behaviour is monitored and shared between lenders encourages borrowers to refrain from default** even though they are in serious financial difficulties. It can, for example, cause borrowers to prioritise credit repayments over household bills and other essentials.

While **this disciplinary effect** reduces the risk of default for consumer credit lenders (and increases profitability) it also has potentially **negative welfare impacts for borrowers in difficulty**.

Questions for lenders and policymakers

For borrowers who are sensitive to their credit scores, **the sharing of credit information may be encouraging them to prioritise credit repayments over household bills** and other essentials. We also have concerns about the extent to which some low-to-middle income households have become reliant on credit to meet their basic needs.

Given the considerable cuts to spending that many participants have already made, taking the step of contacting their lenders would undoubtedly be a last resort, and the attitude of lenders to forbearance requests is important. **It would**

be beneficial to undertake further research to better understand how lender attitudes toward forbearance requests impact default rates and credit scores.

Credit score providers may be facilitating inappropriate offers of credit to borrowers under severe financial pressures. This may be due to problems with the messages from credit score providers to borrowers, or understanding of messages in this respect, which requires further exploration.

However, the problem may be more fundamental – some lenders may be downplaying affordability issues. For credit score providers to be able to offer opportunities for borrowers to take out further credit, there must be lenders who are willing to grant that credit. Credit score providers are also brokers: matching the information they hold about borrowers to selection criteria provided to them by lenders. They then advertise the lender's product as one which the borrower is likely to be accepted for. Given the financial pressures reported by study participants, the fact they are still being offered additional credit indicates some lenders appear willing to take the concept of affordability to its extreme.

Inaccuracies in credit reports appear to be commonplace, and it can take considerable time to have these corrected. In the interim, scores, and therefore levels of access to, and the costs, of credit will both be negatively impacted.

Finally, there is a question of whether it would be useful for credit reports to **more fairly reflect the circumstances giving rise to payment problems and defaults**, as well as whether the borrower has sought forbearance and whether this has been provided.

We welcome stakeholder views on where action is needed to address these concerns.

1 Introduction

We are exploring how sensitivity to credit scores has been impacting financial behaviours in the cost-of-living crisis. This report provides the findings from the first phase of the project, comprising online semi-structured qualitative interviews with thirty working-age, predominantly low-to-middle-income, borrowers. These interviews have been used to gain an understanding of the financial pressures they have been facing during the cost-of-living crisis: to assess how sensitive they are to their credit scores and how this has impacted their financial behaviours.

We now wish to discuss these findings with key stakeholders, including lenders, credit reference agencies, the Financial Conduct Authority and consumer and research bodies. Following input from these agencies, the next phase of the project will involve the design, commissioning and analysis of a representative sample of low-to-middle income households. This is intended to provide evidence regarding the prevalence of the problems highlighted in this report, and to identify which groups are most affected. A final report, making recommendations for policy and practice is planned for the end of this year.

Structure of this report

The report is structured as follows:

Section 2 provides the regulatory context for the project. This focuses on the creditworthiness assessment rules put in place by the Financial Conduct Authority (FCA) in 2018, and comments on the tension between the profit maximisation strategies of lenders and their responsibility to ensure that credit is affordable for the borrower. It also describes the potential disciplinary effect of credit information sharing on borrowers in financial difficulties: encouraging them to avoid defaulting for longer than would otherwise be the case. Credit information sharing can also make borrowers reluctant to seek forbearance or debt advice. This increases their profitability for lenders but is likely to have negative welfare impacts.

Section 3 briefly sets out our recruitment methods and details the key demographics of the study participants.

Section 4 details our findings. We first report the financial pressures that participants have been experiencing during the cost-of-living crisis, as well as the extent to which they have been using credit. We then proceed to explore the relationships that participants have with their scores: including how often they checked these; why they did so, and how important they felt these to be. Finally, we report findings with respect to the experience of using credit score providers, including how these appear to promote taking out further credit). This section also includes participant views concerning credit scores and their role in lender decision-making, and the potential disciplinary effects of credit information sharing for participants.

Section 5 concludes and provides the next steps for the project. Our interviews indicate that some low-to-middle income borrowers are extremely sensitive to their credit scores: maintaining their credit repayments despite struggling to meet the costs of essentials and having fallen into arrears with their household bills.

Retaining access to credit is seen as vital by some lower income borrowers as a means of dealing with future possible 'emergency' situations, but some are also using credit to pay for essentials on a regular basis. These findings provide evidence of credit scores exerting a disciplinary effect, although they also point to a more general problem concerning the extent to which some lower income households have become reliant on credit to meet their basic needs.

Our interviews also indicate that credit score providers often promote further credit offers to borrowers experiencing significant financial pressures, and that affordability concerns may therefore be being downplayed by some lenders.

2 Regulatory context

Both the extent to which we can access credit and the price we pay for it are determined by lender assessments of our creditworthiness. In 2018, the FCA revised its rules[1] concerning these. For the first time, lenders were required to reasonably assess 'affordability' as well as 'credit risk' (i.e., the risk of defaulting). With respect to affordability assessment, the rules require lenders to establish whether their customers can afford the repayments and other essential outgoings and still be left with sufficient resources to lead a "basic quality of life" [2]).

Introducing the new rules the FCA (2018, para 1.14) stated its overall objective was for:

> ***"...firms to make a reasonable assessment, not just of whether the customer will repay, but also of their ability to repay affordably and without this significantly affecting their wider financial situation."***

At first sight it may appear strange that the FCA should have needed to make this intervention. It may be thought that a borrower's ability to repay largely determines whether they will do so. It should therefore be in the lender self-interest to assess affordability. In fact, this is not necessarily the case. Many borrowers make considerable personal sacrifices; cut back spending on food and other essentials, fall into arrears with household bills, or borrow more (for example, by consolidating or 'rolling over' debts) to avoid defaulting. For this reason, the first step in the debt advice process is to help debtors to draw up a realistic and sustainable budget covering ongoing essential living costs. Following this, debtors are advised to prioritise payments from any surplus to their different creditors according to their enforcement capabilities. This results in payments toward any household bill (e.g., rent, Council Tax, and energy) arrears being prioritised above consumer credit debts. Many debtors have these priorities in reverse prior to seeking advice.

Knowing borrowers will often strive to maintain credit repayments despite experiencing considerable financial pressure, credit scoring techniques have traditionally focused on whether people *will repay* rather than whether they can reasonably afford to do so.[3] Since the 1980s the information shared via credit reference agencies concerning the credit histories and repayment behaviours of borrowers has also increasingly fed into the development of lender *profit optimisation strategies*.[4]

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[1] FCA Policy Statement 18/19. "Assessing creditworthiness in consumer credit – Feedback on CP17/27 and final rules and guidance."

[2] FCA Consumer Credit Sourcebook (CONC) 5.2A.18.

[3] See, for example, Lauer, J. (2017). "Creditworthy: A history of consumer surveillance and financial identity in America".

[4] Guttman-Kenney, B., & Shahidinejad. A., (2025, p.3). "Unraveling information sharing in consumer credit markets". SSRN 4629496.

Profit optimisation strategies go beyond the binary question of whether the borrower will default or not. Although the risk of defaulting remains pertinent to some extent, lenders are more concerned with the profitability of borrower behaviours. They use the information flowing through credit reference agencies to help them to design their products and marketing strategies to maximise profit over the lifetime use of the product (i.e., prior to balances being cleared or to a 'complete default' event). Over the years, many products have been developed that contain high default fees and over-limit charges, for example. Lenders have also targeted lower income borrowers – facing frequent cashflow challenges - with products that 'roll over' debts: compounding fees and interest. The drive to maximise profits also explains why some credit card lenders unilaterally increase borrowing limits when consumers are nearing these. Borrowers carrying high balances, making minimum repayments for long periods, and even missing occasional payments, can be profitable, although these behaviours often indicate financial distress.

As the FCA noted[5] - in the consultation paper preceding the 2018 changes - there can be a tension between profit optimisation and affordability concerns:

> ***"Without a requirement for firms to assess affordability, firms may be motivated to offer unaffordable credit to applicants who they expect to be profitable even if they are at high risk of suffering financial distress."***

The information flowing to lenders from credit reference agencies not only helps lenders design products in ways that maximise profit; it also informs their marketing strategies. Here, research[6] has found that advertising often 'shrouds' the true cost of credit and exploits the behavioural biases[7] of some, especially lower-income and price insensitive, borrowers.

'Creditworthiness assessment' could therefore be more accurately be described as 'profitability assessment'. The information credit reference agencies provide to lenders is combined with data from application forms and other proprietary sources (e.g., from bank account transactions) and used to determine the likely profitability of applicants. Lower-income borrowers will often be profitable; provided they refrain from a 'complete default' for a sufficiently lengthy period.

[5] Para 2.5, FCA Consultation Paper, 17/27 "Assessing creditworthiness in consumer credit: proposed changes to our rules and guidance".

[6] Ru. H., & Schoar, A., 2020, "Do credit card companies screen for behavioural biases?". BIS Working Papers No.842.

[7] These include over-optimism, which can result in people taking on debt with expectations of earlier repayment, but which is borne for longer periods and 'present bias', which leads to people valuing rewards in the present but discounting longer term costs. Present bias can, for example, mean people will be tempted by low cost introductory 'teaser rates' on credit cards and ignore the post introductory offer costs.

The sharing of information through credit reference agencies – and the marketing of the importance of maintaining credit scores to consumers – plays a significant role in this respect. Knowing repayments are monitored - and affect both the types, and cost of, credit they will be able to access – has a disciplinary effect[8] on borrowers: encouraging them to avoid defaulting for longer than would otherwise be the case. It can also make borrowers reluctant to seek forbearance[9] or debt advice.[10]

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8 Japelli, T & Pagano, M. (2005, p.9). "Role and effects of credit information sharing". Working Paper No. 136. Centre for Studies in Economics and Finance, University of Salerno.

9 The FCA's Financial Lives Survey for 2024 (fig 3.11, p.61) reports that 20% of consumer credit borrowers experiencing financial difficulties chose not to contact their lenders about these because they were worried this would impact their credit rating or affect their access to credit in the future.

10 StepChange (2022). "Mixed messages: Why creditor communications to people in financial difficulty need to offer a clearer, better route to help."

3 Recruitment methods and sample

Participants were recruited from three separate sources. We recruited eleven from our own consumer panel:[11] except for one participant, these were all living in South London. To ensure representation from Scotland, nine were then recruited from the Scottish Poverty Alliance's research panel. At that point we reviewed the demographic information for these twenty participants. Identifying these were mainly social housing residents, we subsequently commissioned a commercial recruitment agency to provide a final ten low-to-middle-income private rented sector tenants living in other regions of England. In terms of geography, eleven participants live in London, nine in Scotland, and the remainder are from the English regions of the North-West, North-East, Yorkshire & the Humber, South-East, South-West, and East of England.

A screening survey was conducted by all participants prior to their selection for interview. This was used to ensure that we predominantly recruited low (<£15k per annum) to middle (up to £30k per annum) income borrowers. We also sought to ensure a reasonable variation with respect to other demographics such as gender, housing and ethnicity. Finally, we also focused on people who reported having checked their credit score at least five times during the previous 12 months. This resulted in a sample of participants who were mainly female (63%). Thirty percent were in receipt of low incomes. A further fifty-three percent had incomes above £15k but less than £30k per annum.[12] Participants were mainly tenants, with a reasonably balanced mix of people living in social housing (47%) and the private sector (36%). Most were in some form of employment, with a fifth working full-time and more than a third working part-time, although a quarter were living in households without anyone in work.[13] Participants were also most likely to be single (80%), White (66%), and aged between 45 and 64 years old (60%).

Comparing to the wider population[14], the sample has a much higher percentage of single, older respondents and is skewed towards female participants[15]. However, it has a lower percentage of White participants[16] than may generally be expected. This is likely related to our targeting of respondents in the lower half of the income distribution[17] and because our own consumer panel contains many residents from South London. The housing and employment distributions in the sample are likely impacted for the same reasons.

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11 The CfRC Consumer Panel contains approximately 130 people recruited via previous projects that we have delivered. These include the FlexMyRent project with tenants of Southern Housing and the Financial Shield project, which provides support to people with long-term health conditions and financial problems in Lambeth and Southwark.

12 Four participants did not disclose their income.

13 Twenty percent full-time; twenty percent self-employed; thirteen percent part-time, twenty-three percent without employment

14 **Overview of the UK population - Office for National Statistics**

15 **Overview of the UK population - Office for National Statistics**

16 **Ethnic group, England and Wales - Office for National Statistics**

17 **Household income - GOV.UK Ethnicity facts and figures**

4 Findings

TIn this section, we first report the financial pressures that participants have been experiencing during the cost-of-living crisis, as well as the extent to which they have been using credit. This reveals that most participants have limited their spending to the essentials, but that, for some, meeting even the most basic of costs is now proving impossible. Despite this, consumer credit products continue to be widely used. This remains the case even though almost half of the participants have previously experienced debt problems.

We then proceed to explore the relationships that participants have with their credit scores: including how often participants checked these; why they did so, and how important they felt these to be.

- More than seven in ten of participants checked their credit score at least once a month, and a fifth checked their scores weekly or even more frequently.
- Scores were mainly checked online, with ClearScore, Experian, and Credit Karma proving the most popular providers.
- Those checking their scores most frequently viewed these as a vital tool to gain access to consumer credit in times of emergency.
- The ability to access credit in case of an emergency can, however, be impacted if credit reports contain inaccuracies.
- Just under half had prior experience of inaccuracies, and it had often taken several months to have these rectified.
- In some cases, checking their score had, however, helped participants to identify and address fraudulent activity.

Most participants felt that credit scores were improved by taking on more credit, and more than half felt their score providers encouraged them to do this. While most did not pay too much attention to these offers, they also often felt it was inappropriate for providers to make them. Rather than take up offers of more credit, almost all participants were trying to live within their means and identified repaying existing debts on time as their means of improving, or at least maintaining, their scores.

We also asked participants for their views on credit scores and their role in lender decision-making. In this respect, some participants felt that there was too much emphasis on credit scores because these did not account for the reasons for prior missed payments and defaults.

Finally, we look at the potential disciplinary effects of credit information sharing for participants. The evidence concerning this was mixed. For example, some participants spoke of the importance of their scores and of the need to 'protect' or 'maintain' these, despite also experiencing considerable financial pressures. However, others were clear that they either would not make further cuts to essential spending to maintain their repayments. This likely reflects the fact that, for many, spending has already been pared back to the basics, and in some cases beyond. When asked what actions they would take if they found it impossible to pay, most told us they would contact their lenders to try to arrange reduced payments. However, it should be noted that credit scores do not reflect the behaviours of borrowers faced with payment crises: they fail to distinguish between borrowers maintaining contact with their lenders and those who do not. The responses of lenders to requests for forbearance also go unrecorded in the borrowers' credit files.

Financial pressures, credit use and debt problems

The cost-of-living crisis has required many participants to limit spending to the essentials. For some, meeting even basic costs is now impossible.

More than half (18) of the participants told us they have struggled with their financial situation in the last 12 months. Half (15) were in arrears with their household bills or had been late making payments in the year. A third (10) were borrowing money from friends or family or receiving their financial help more generally. A further third (11) had also reduced their spending on energy, and six participants told us they use food banks and utility vouchers to get by.

These problems arise even though non-essential spending has been severely cut back. Except for one participant, all our interviewees reported having changed their spending habits in response to rising living costs. These included shopping at cheaper stores; more actively comparing product prices and seeking out 'reduced cost' items. Most participants had totally cut out any spending on luxury or 'non-essential' items. Their budgets were now entirely focused on the basics.

"Definitely, there's no more like impulse buying. (...) It's a case of do you want to, or do you need it as the question?" (P17, lower-middle income)

This has meant reduced spending on cultural and social activities for themselves and, in many cases, their children, as well as on clothing. It has also impacted spending on food and drink. Interviewees report cutting out spending on alcohol and 'treats'. As one interviewee told us:

"I have just stopped buying anything that's not an essential food item." (P12, income band not disclosed)

This participant also told us they had stopped buying fruit juice:

"I've definitely changed the way I shop for groceries...I would go and do [my] monthly shopping, [at] Aldi or Lidl and I'd probably buy...10 to 12

bottles of juice and store them in my fridge because they would last. Those bottles would be a pound or 89 pence. They're now all double the price, so I've stopped buying them completely because I don't need juice. I can live without it. And so, I've cut things out that I don't need." (P12, income band not disclosed)

Yet for most of the interviewees, these cutbacks have not been enough to balance their budgets, and even more sacrifices have been required. For example, one participant told us:

"I haven't had heat in the radiator. It has been switched off in my room for I would say more than two years because I can't afford it. So, I use extra blankets in my room. His (participant's child) room always has the heating available to him when he needs it. But it means that I'm cold most nights, I wake up absolutely freezing in the winter." (P6, lower-middle income)

Only one participant, who did not disclose their income, told us that the increased cost of living has not led to changes in their spending habits, but even this interviewee noted that they are no longer able to put aside any money as savings:

"The increasing cost of living, to be honest. It didn't affect me so much...apart [from] I couldn't save any money." (P14, income band not disclosed)

Despite the focus on essentials, consumer credit products continue to be widely used.

Only four participants did not have any active sources of credit. The most common products (17) were credit cards, followed by Buy Now Pay Later ('BNPL') (8). Four had car finance, whilst three used catalogues, two used loans, and one was using their overdraft. Almost two thirds of the participants had more than one source of credit, and almost half use more than one type of credit.

The financial pressures they faced meant that credit use was also often focused on paying for essentials. A third of participants told us they used credit to pay for these: either representing themselves as heavily dependent on credit or using it to bridge the gap between income receipts.

"The thing is, you're assuming I have a choice. There's no choice. If I was to not use credit, then we don't have any food to eat." (P25, low income)

Just under half of participants with credit cards (7) told us they used these to pay for essentials. Less common reasons included: 'building' credit scores (3); smoothing repayments with respect to larger purchases (3), and the additional security provided when making online purchases (1). One participant reported that their cards were currently frozen due to payment problems.

Despite widespread continued credit use, we also identified a small subset of participants who had stopped using credit due to their wider cost-of-living pressures. Two had completely done so, whilst two more were actively working on the repayment of their debts.

"I think I'm left with two credit cards. I've put them far, far away so that I don't touch them. (...) I try not to use them...I put them far [away] so that I don't get tempted. I've stopped it because of the interest you have to pay back." (P18, low income)

In contrast to credit cards, BNPL was exclusively being used to smooth repayments for essential items (such as furniture and clothing for growing children) over time.

Almost half (14) of the participants told us they have had debt issues in the past.

Six of these did not expand further, but nearly all others (6) mentioned insolvency procedures[18] while one referenced County Court judgments and another mentioned entry into a Debt Arrangement Scheme. Most commonly participants reported that their debt problems had been driven by major 'life events' such as bereavement, redundancy and, in some cases economic abuse (with previous partners taking out credit in their names).

Some interviewees expressed how they had learned from these experiences and changed their financial behaviours as a result: some avoided using credit at all or did so only in emergencies, making sure they could afford the repayments. Some also referenced the importance of maintaining their credit score in these conversations:

"I don't want my credit score impacted. I've worked really hard to get it back to where it is, and I want to try and maintain, keep it there. So, I've done what's needed to be done so I can make my repayments but also survive." (P22, lower-middle income)

On the other hand, a few participants with previous debt experience told us they were still using credit in an unsustainable manner, for example by making purchases that they could not realistically afford at times when they felt depressed.

Checking their scores

More than seven out of ten of the participants checked their credit score at least once a month.

Scores were mainly checked online, and the most popular providers were Clear Score (12), Experian (10), Credit Karma (4). A quarter of participants had used more

[18] These included Bankruptcies (2), Individual Voluntary Arrangements (2), Debt Relief Orders (1) and "sequestration" (1).

than one of these. Some expressed confusion with their scores because the scales for these differed depending on the provider that they used.

One in five participants (6) checked their scores weekly or even more frequently.

The monthly checking of scores was usually undertaken in response to an email or app notification from their score provider, while more frequent checkers did so because they felt that their score was particularly important to them. 'Frequent checkers' comprised a sub-group of participants who were extremely sensitive to their scores and who seem to be targeted with more frequent communications.[19]

" I check my account maybe once a day or once every other day. I get emails quite a lot. I feel like sometimes the emails are a bit misleading because they'll say your scores changed and I click on, and it's been the same… [If I didn't get the e-mails] I would probably still check maybe like once a week, but I wouldn't be doing it, you know, every day or every other day.

[Interviewer] And how important is your credit score to you?

In the last couple of years, it's definitely one of my priorities. " (P10, lower-middle income)

Some participants (4) identified closely with their scores. For example, one told us that checking their score was a way of keeping track of "how well they were doing in life" whilst another referenced it as a source of pride:

" My credit score is not great, but it is important to me. I've always placed quite a lot of importance on it just from a personal pride point of view. " (P30, lower-middle income)

When asked why their credit scores were important to them, a few (5) mentioned that a good score could help them achieve their ambitions of home ownership. However, it was more common (10) for participants to reference the importance of scores to help them obtain future credit, and this appears to have been particularly important for participants reliant on credit to pay for essentials.

Nevertheless, it should be noted that many (8) did not have any ambitions to apply for credit when checking their scores. Instead, they use the websites to keep track of their existing outstanding balances.

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[19] A separate question arises as to how the details of an app user's sensitivity to their credit score is being used by credit score providers.

"I went down for the Individual Voluntary Arrangement (IVA). It was just advisable to use those apps just to keep track of how things were with the creditors, the status of the accounts and just stuff like that." (P22, lower-middle income)

Accuracy of credit information

Just under half (12) of all participants had experienced errors in their credit reports. Inaccuracies ranged from seeing out of date information, viewing credit accounts on their report that they had never taken out, and having their reports impacted by fraud. In some cases, checking credit information regularly could help to identify this.

"There was one time I read that I had taken a loan which I didn't take, and that was good because it helped me to find out that someone had used my details fraudulently. I was able to investigate that and get my name removed off it." (P2,lower-middle income)

Only some of the participants mentioned contacting the banks and providers to correct the errors they had identified. Those in less serious situations just waited for the information to update by itself.

"here was one occasion, but I didn't really look into it too much. I kind of just left it because I was thinking maybe it just needs to be updated. It was saying I'm at 99% usage of my credit account when I was very much not, I've only used about half of the amount." (P16,middle-upper income)

In this case, it appears that the error was corrected without the need for any intervention by the participant. However, those who contacted their providers to correct errors said it had taken a least a month, and sometimes several months, to fix their problems. In the meantime, credit scores are often negatively impacted with implications for access to, and the cost of, credit:

"Around three years ago. I had to get something corrected…because they were saying I had a line of credit from someone, which I didn't…Now it really took a while until I got the credit score up again." (P4, low income)

What makes a good credit score?

We asked participants what factors they felt had an important influence on their credit scores based on CRA communication. **A third (11) felt that credit scores were improved by taking out more credit and utilising credit regularly.**

Some participants told us their score providers directed them to tips about how to improve or 'build' their scores, and that these seemed to encourage more borrowing:

"There's a whole section on how to build your credit score…they recommend you use some sort of like other credit products." (P10, lower-middle income).

Half (15) of the participants felt credit score providers were encouraging them to take on more debt.

While most told us that they did not pay too much attention to offers of new credit products, they also often felt that it was inappropriate for providers to promote these. Only one participant had found them useful.

For example, we were told that score providers highlighted the importance of maintaining low 'credit limit utilisation rates'. This is a term used by providers to describe how much of the borrower's agreed credit limit is still available to them.

For example, ClearScore advise that they "look at total borrowing over the last six months across all of your credit cards" and that "keeping below 70% of your credit limits shows lenders your borrowing is under control".

However, there are two ways in which borrowers can react to this messaging. Either by paying down debt, or by taking out a new credit card and boosting their overall credit limit. Participants in our study were aware of this and reported that they were being encouraged to take on more lines of credit.

"The way it's set up is if I wanted to improve my score right now, if I took out two credit cards right now that I don't need, initially my score would go down, but then it would fly up because my utilisation [rate] would [improve]. [I'd be] incredibly more vulnerable because I've just put loads more potential debt around my neck, but that would increase my score." (P25, low income)

"They say, 'oh, you know, take out a credit card' and then they give you suggestions of the best ones you might want to look at. And yeah, I feel like that is bad…because it's coercing people to take out more, which, unless you're able to manage with what you have, you're gonna put yourself in another situation. You end up getting a credit card just to help with your

credit score, but then you don't manage your credit card properly. So then that has a negative impact." (P2, lower-middle income)

Some participants realised they were being targeted with high-cost products but inferred that not all people would necessarily do so.

"t's like you're in a catch 22. So hey, [they say] 'yeah, we can provide you with [credit]'. Depending on your credit score, [the credit score provider] suggests which financial services to use. [But] if you don't understand credit cards, you could be taking out a credit card, and then the APR is so massive due to the fact that your credit score is very low." (P2, lower-middle income)

Despite this, **almost all participants were trying to live within their means and make repayments on time**. Most recognised that although they were being encouraged to take out more credit, this was not going to improve their circumstances. They identified the best way to improve their scores was to make repayments on time. Some also mentioned the importance of registering on the electoral roll and not undertaking too many credit applications.

Perhaps reflecting their need to use credit, none of the participants told us that the best way to improve their score would be to become 'debt free'. Indeed, one participant told us that a good score depended on using credit on an ongoing basis:

"Only request what you can afford to pay back and consistently apply for credit. That's my opinion." (P12, income band not disclosed)

What should lenders consider when assessing credit applications?

We also asked participants what they felt should be considered by lenders when deciding their credit applications. **Some participants felt that there was too much emphasis on credit scores because scores did not account for the reasons for prior missed payments and defaults**. These were often caused by unforeseen events:

"In my opinion, there's maybe a bit too much emphasis put on what people's credit score is. You know, you can probably lend money to the person with the best credit score. It doesn't mean that they're going to be able to afford to pay back over the period that you know is planned, because life changes, things happen, and no one can predict the future. So yeah, I don't think it's always as relevant as it would appear." (P12, income band not disclosed)

“I feel like credit scores…can be a bit negative because some people… may have ended up going bankrupt once. But it’s just that because things like COVID came in. I know a lot of people lost businesses and ended up having to declare bankruptcy because of COVID. And so obviously their credit score has been affected due to those issues. And I feel that that’s where…the negativity comes into it.” (P2, lower-middle income)

However, the experiences of participants had also changed their financial attitudes and behaviours over time, which they felt made their previous payment behaviours less relevant.

“I feel like it’s very historical. I was in a different job. I was in a different mindset. I lived somewhere else. I didn’t understand how they can determine it. I don’t know. I feel like maybe looking at more recent spending patterns [would help].” (P6, lower-middle income)

A disciplinary effect?

Many of the participants had cut back spending to extremely ‘basic’ levels and had also fallen into arrears on their household bills whilst maintaining their credit payments. This indicates that concerns for their scores and future access to credit were having a disciplinary effect: encouraging credit repayments to be prioritised above essential household costs. Indeed, several participants referred to the need to ‘protect’ or ‘maintain’ their score despite facing extreme financial pressures.

However, others were definite that they would not prioritise credit repayments above essential spending.

“No, there’s no way that I would even been thinking about my credit score when I’m trying to think where’s the next bit of food coming from… That would go entirely out the window.” (P13, lower-middle income)

“No. While I do consider my credit score to be important, I don’t think I would sacrifice something in order to improve it.” (P5, low-income)

This may reflect the different ways that participants felt about the desirability of using credit in the future. Although there was no clear correlation between sensitivity to scores (the numbers of time they were checked, for example) and the desire to protect them, the overall impression given by participants who were using credit to meet the costs of essentials was that their credit scores were extremely important to them. For example, one participant was so highly dependent on credit, they felt they had to maintain a certain score level to be able to keep transferring between interest free credit card offers. They were therefore also reticent to reach out to their lenders for help.

However, others felt there was little left in their budgets to cut and no way that they could therefore prioritise the maintenance of their scores more than they were already doing. **When asked what they would do if they found it impossible to make their repayments, most told us that their first action would be to contact their lenders to try to agree reduced payments**. Other actions mentioned included seeking debt advice, borrowing money from friends and family, and "going on a payment break".

The hypothetical nature of the question may, however, mean that people do not actually behave in these ways. Only six participants disclosed that they had previously contacted their creditors to negotiate repayment plans or to inform them if they will be late with their payments.

5 Conclusions and next steps

Our interviews indicate that some low-to-middle income borrowers are extremely sensitive to their credit scores: maintaining their credit repayments despite struggling to meet the costs of essentials and having fallen into arrears with their household bills in the past 12 months. For these borrowers, living 'within their means' – however limited - and making repayments on time are seen as the best way to maintain their scores and ensure future access to credit.

Retaining access to credit is seen as vital by some lower income borrowers as a means of dealing with future possible 'emergency' situations, but some are also using credit to pay for essentials on a regular basis.

These findings provide evidence of credit scores exerting a disciplinary effect, although they also point to a more general problem concerning the extent to which some lower income households have become reliant on credit to meet their basic needs. Some in the study have clearly reached the point where making any further sacrifices to maintain credit repayments and 'protect' their scores is impossible.

The study has also identified a potential harm arising from the practices of credit score providers. Borrowers in difficult financial situations feel they are being encouraged by these to take out further credit, under the guise of improving their credit scores. In this respect, it should be noted that credit score providers are also credit brokers, and that encouraging the take-up of additional credit lines generates revenues.

Whilst our interviewees were resistant to taking on further credit, it is possible that others are less so. Many of our interviewees had prior experience of debt problems and had learnt from the experience. This may reflect our sample, a third of which had previously used CfRC led projects to receive advice or other support related to their financial problems.

In any event, messages from some credit score providers that taking out another credit card can reduce utilisation ratios and improve scores were concerning for our participants. There may be problems with the messages, or understanding of the messages, that borrowers are receiving from credit score providers, which are worth exploring further.

But the problem may be more fundamental. For credit score providers to be able to offer opportunities for borrowers to take out further credit, there must be lenders who are willing to grant that credit. Credit score providers match the information they hold about borrowers to criteria provided to them by lenders. They then advertise the lender's product as one which the borrower is likely to be accepted for. Some lenders may therefore be providing credit score providers with criteria focused on their own profit maximisation, and which downplay affordability concerns. Given the financial pressures reported by many of our participants, the fact they are still being offered additional credit indicates some lenders are willing to take the concept of a 'basic quality of life' to its extreme.

Another potential harm arises if credit reports contain inaccuracies. Although checking scores regularly can help borrowers identify and report fraudulent activities, inaccuracies appear to be commonplace, and it can take considerable time to have these corrected. In the interim, scores, and therefore levels of access to, and the costs, of credit will both be negatively impacted.

Finally, there is a question of whether it would be useful for credit reports to more fairly reflect the circumstances giving rise to payment problems and defaults, as well as whether efforts have been made by borrowers to seek forbearance, and how creditors have reacted to those requests. Almost all our participants indicated that they would contact their lenders if they found their repayments impossible to make. Given the considerable cuts to spending that many have already made, taking the step of contacting their lenders would undoubtedly be a last resort, and the attitude of lenders in these circumstances becomes extremely important. The study therefore indicates that it may be beneficial to undertake further research to better understand how lender attitudes toward forbearance requests impact default rates and credit scores.

Next steps

Although highlighting some significant concerns, we recognise the limitations of an exploratory small-scale qualitative study such as this. We are therefore now seeking stakeholder input to the subsequent phases of the project. These will include a roundtable discussion in the Summer and the design and conduct of a quantitative and representative survey of around 4,000 lower income households in the Autumn. A final report, including recommendations for policy and practice can be expected by the end of the year.

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