CfRC
Centre for
Responsible
Credit

In the Balance:

Consumer Protection and Credit Exclusion in the Affordability Crisis

DAMON GIBBONS

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About the Centre for Responsible Credit

The Centre for Responsible Credit (CfRC) is a registered charity on a mission to change credit for good and to improve support for people in debt. Founded in 2010, we combine ground-breaking research and innovation with campaigns that change policy, practice and lives for the better.

We are committed to promoting greater equity and social justice; to inclusivity and the celebration of diversity, and to empowering lower income people and communities to exercise agency. For further information, see **responsible-credit.org.uk**

About the Author

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Damon is the author of '**Britain's Personal Debt Crisis: How we got here and what to do about it**', published by Searching Finance in 2014, and '**Trust and Power in Consumer Credit Relationships: Rethinking Creditworthiness in the Data-Driven Age**', published by Palgrave Macmillan in 2026.

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Request for Donations

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Executive Summary

Government's Financial Inclusion Strategy sets out a clear and commendable ambition: that people should be able to access "safe, affordable and responsible credit."

We support that goal. But the Strategy does not define those terms, nor monitor how many people are using credit on that basis. Neither does the Strategy detail how many are using credit that is unaffordable, harmful and irresponsibly provided.

Further to this, as regulation of Buy Now, Pay Later (BNPL) products came into force on 15th July 2026, some voices — including Fair4All Finance, the body established by Government to channel Dormant Assets funding toward financial inclusion — warned of a "credit cliff-edge": that the affordability checks BNPL providers are now required to undertake could "unfairly exclude" many of Britain's 14.1 million low- to middle-income (LMI) households from credit they need.

This report investigates these issues using five waves of the Bank of England/NMG Household debt survey data, covering the period between September 2023 and March 2026. The evidence does not support claims of widespread exclusion on affordability grounds. It points in the opposite direction: to a significant problem of unsafe, unaffordable credit and irresponsible lending.

Credit is not scarce. Cross-sectional surveys under-estimate credit use. In each wave of the Bank/NMG survey, only 55% of LMI households report holding credit products. These are snapshots at specific points in time. When we look at the longitudinal element of the data, the percentage rises considerably. Just over 70% of LMI households have used consumer credit at some point over the past two and a half years. The idea that millions are being shut out of the credit market is not supported by the data.

Nearly half of LMI credit-holding households — around 3.5 million — cannot afford both their essential living costs and their credit repayments. For this group, the median budget shortfall is around £7,600 a year (£633 per month). For most of these, income inadequacy is an ongoing problem. Nearly three-quarters of households with a budget shortfall at one survey wave remain in this position six months later; our best estimate is that 2.6 million households are trapped in this position persistently.

Around 1.5 million of these households are both persistently unable to meet the cost of essentials and making deep sacrifices to service consumer credit — cutting food, heating, and other necessities to keep up repayments they cannot genuinely afford. Between them, these households carry around £7 billion in consumer credit debt. This is not marginal hardship at the fringes of the credit market. It is a structural feature of it.

Underlying income inadequacy drives the demand for credit, with repayments prioritised over rent and other household bills: **credit-holding households are significantly more likely as otherwise similar non-holders to fall behind on rent and household bills, after controlling for disposable income and savings.**

The consumer credit market has shifted its risks and costs onto landlords, energy and water companies, and local authorities collecting Council Tax. Four in five non-mortgagor credit-holding households in persistent shortfall keep up their credit repayments. That is not evidence the market is working. Combined with evidence of higher rent and household bill arrears it indicates hardship has been made invisible to lenders and pushed onto others.

Nor is this simply misfortune striking households after they took on debt in better times. Approximately 1.15 million households were extended new credit, or took on more of it, while already demonstrably unable to meet their essential costs — with their budget shortfall in place before the additional lending, not caused by it. These households have taken on at least £1.97 billion in new debt over the past two and a half years and collectively hold at least £4.34 billion.

Contrary to the assumption that irresponsible lending is confined to unregulated or high-cost products, most of this activity runs through mainstream, fully regulated credit cards, overdrafts and personal loans. **This points squarely to a failure of the FCA's existing affordability rules and the Consumer Duty.**

Set against this, **the population at genuine risk of exclusion from safe and responsible credit on affordability grounds is small.** We focus on non-mortgagor LMI households. Mortgagors have already accessed the most stringently underwritten form of credit, and those among them who go without consumer credit are in considerably stronger financial positions than other LMI households who do so. Of non-mortgagors, 3.4 million households hold no consumer credit whatsoever, but 41% are financially comfortable and have little need for it and a further 24% are in such severe financial difficulty that lending to them would clearly deepen hardship rather than relieve it. Only the remaining 1.2 million households sit close enough to the borderline that they could plausibly be at risk of 'unfair' exclusion.

Very few of these are excluded on affordability grounds. Amongst this group, product design — loan size, term, and cost — largely determines whether they would pass or fail an affordability assessment, and most would pass a test for a well-designed, low-cost product. Depending on the terms, between 262,000 and 626,000 households nationally would fail an assessment. **This is a real, addressable problem of product design. It is not evidence that affordability rules are unfairly excluding millions of households who need credit.** Importantly, the financial circumstances of this "in-between" group overlap almost entirely with those of households already using credit despite persistent shortfalls. The two groups may be separated by characteristics the Bank/NMG survey does not capture (e.g., thin credit files, or previous impairments) but affordability does not explain who ends up on which side of the credit market.

Households can also lose access to credit on creditworthiness grounds, when missed payments or defaults impair their credit records. However, widely cited estimates of a '£2 billion credit gap' are based on shaky evidence — they measure what lenders might profitably lend, not what households can afford to repay as unmet demand. Our evidence also suggests that the route from included, through missed payments and credit impairments and to exclusion on creditworthiness grounds is narrower than commonly assumed. It is frequently itself a consequence of irresponsible lending.

Taken together, we find no evidence that consumer protection is choking off access to credit. On the contrary, regulation is failing to prevent harm from the access to credit that millions already have, and it is allowing that harm to be exported onto other creditors and public services.

Summary of recommendations

The ambition of the Financial Inclusion Strategy cannot be achieved by expanding access to credit per se. The focus must be on safety, affordability, and responsibility.

On **safety**, we call on the Credit Information Governance Body (CIGB) and credit reference agencies to use data to improve the routing of households in financial distress to debt advice agencies.

On **affordability**, we call on the FCA to close the gap between rules on paper and practice on the ground: requiring lenders to test affordability against clearer benchmarks and whether applicants have persistent shortfalls before extending credit. The FCA should also ensure that lenders proactively communicate to their customers that credit repayments should not come at the expense of cuts to essential spending. Similarly, forbearance options should be communicated to borrowers throughout the customer journey, rather than waiting for arrears to appear.

On **responsible provision**, we call on Fair4All Finance and the wider financial inclusion sector to focus funding on providing safer alternatives to commercial credit, through the delivery of low cost / preferably interest-free credit union and CDFI lending. Public funds, and Dormant Assets, should not be used to encourage interest-bearing lending to households with persistent budget shortfalls. We therefore call for rigorous independent evaluation of the schemes and providers that Fair4All Finance is currently funding, and for it to support a range of interest-free mechanisms to help households manage their finances; including the development of flexible bill payment schemes to be provided by landlords, utility companies and local authorities.

But **no combination of safer, more affordable, more responsible credit will fix the depth of underlying income inadequacy that millions of households are currently experiencing.** Many underwater households will need their debts to be written down. We call on Government to reform the insolvency framework

to provide a fast-tracked debt write-down route for households whose debts cannot realistically be repaid without sustained harm. These households need to be provided with a genuine 'fresh start'. To facilitate this, the CIGB, Insolvency Service, and credit reference agencies should review the length of time (currently six years) that records of insolvency are maintained on credit files.

Most fundamentally of all, **Government needs a comprehensive plan to address the underlying inadequacy of household incomes.**

Millions of low- to middle-income households are not waiting for more access to credit. They are waiting for the credit they already have — and the market that provides it — to become safe, affordable, and responsible. **The Financial Inclusion Strategy should be revised** to include clear targets in this respect, with a dedicated, longitudinal, survey commissioned to monitor progress.

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1 Introduction

Following mounting evidence of harm, regulation of Buy Now, Pay Later (BNPL) came into effect on 15th July 2026. After more than five years of regulatory delay, lenders are finally required to undertake proportionate creditworthiness and affordability assessments. Recognising that BNPL is often used by low-to middle income (LMI) households[1] to pay for everyday essentials and that the numbers struggling with repayments have risen dramatically, debt advice agencies including the Money Advice Trust welcomed its regulation:[2]

> *"Our National Debtline service has seen a six-fold increase people struggling with Buy Now, Pay Later debt, up from just 3% of people seeking support in 2021 to 18% in 2026, with the average debt now standing at £1,029."*

Regulation was also welcomed by some lenders and their trade associations. Major BNPL providers — including Klarna — publicly backed the requirement to conduct affordability assessments as a mechanism for building consumer trust.[3] Meanwhile, the Finance & Leasing Association welcomed the rules as a crucial step toward establishing market parity, ensuring that all point-of-sale financing adheres to uniform creditworthiness and affordability standards.[4]

However, others such as Fair4All Finance warned that the application of affordability rules (first introduced for the wider consumer credit market by the Financial Conduct Authority in 2018) could be dangerous. The organisation, established in 2019 by Government to channel Dormant Assets funding towards[5] financial inclusion initiatives, warned of the risk of 'unfair exclusion':[6]

> *"New Buy Now Pay Later regulation could create a credit cliff-edge for up to 30% of current BNPL users… our recent research found that nearly **half of those likely to be rejected have not missed a BNPL payment**, so there's a real risk that many people who currently use BNPL responsibly could be **unfairly excluded**."* *(our emphasis)*

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[1] Defined as households with gross incomes in the bottom half of the distribution.

[2] 'Six-fold rise in Buy Now, Pay Later debt shows clear need for regulation', Money Advice Trust, 15/07/2026, https://moneyadvicetrust.org/latest-news/six-fold-rise-in-buy-now-pay-later-debt-shows-clear-need-for-regulation/

[3] 'New regulation set to strengthen consumer trust in BNPL, survey shows', Klarna, 15/07/2026 https://www.klarna.com/international/press/new-regulation-set-to-strengthen-consumer-trust-in-bnpl-survey-shows/

[4] 'FLA welcomes regulation of Buy-Now Pay Later', Finance & Leasing Association, 16/07/2026, https://fla.org.uk/news/fla-welcomes-regulation-of-buy-now-pay-later/

[5] For further details see https://www.gov.uk/government/publications/the-dormant-accounts-scheme

[6] 'FCA regulations begin on Buy Now Pay Later', Fair4All Finance, 16/07/2026, https://fair4allfinance.org.uk/fca-regulations-begin-on-buy-now-pay-later/

This argument defines 'responsible use' as making payments on time, which conflates the two distinct concepts of creditworthiness and affordability.

Creditworthiness is concerned with whether the lender is likely to be repaid — the risk to the lender.

Affordability focuses on whether the borrower can repay sustainably — the risk to the borrower.

A borrower may be creditworthy even if their repayments can only be maintained by cutting back essential spending, such as on rent, Council Tax, food and energy, or by borrowing further. In BNPL's case, more than two in five borrowers[7] use their credit cards, overdraft and payday loans to fund repayments.

The affordability rules are intended to prevent lending to creditworthy borrowers if repayment burdens are likely to cause these types of harm. Households with urgent needs may take out credit and be highly motivated to repay, which can be profitable for lenders, but making repayments they cannot genuinely afford can have consequences for their long-term health and wellbeing and increase costs for other institutions.

As the FCA noted[8] in the consultation paper preceding the affordability rules, there is often 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."*
> *(our emphasis)*

The affordability rules that have now been in place for almost a decade (CONC 5.2A.12 R) are thus intended to limit lender risk appetite and prevent harm by requiring firms to "consider the customer's ability to make repayments [over time]".

Firms are required to ensure repayments will not have a "significant adverse impact" on the borrower's financial situation. The term 'significant' is not defined, but FCA guidance points out that, after taking account of essential costs and any other contractual credit liabilities, households should be left with sufficient resources to afford a "basic quality of life". This term is also undefined.

The rules therefore provide considerable discretion to lenders: to define baseline living standards, what data they will use to establish these, and to determine for themselves what constitutes significant adverse impact. But they also operate within the broader context of the Consumer Duty, which came into effect from 31st July 2023 onwards. This includes a requirement for firms to "avoid causing foreseeable harm", and "focus on delivering good outcomes for customers".

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[7] 'Two fifths borrowed to pay off Buy Now Pay Later', Citizens Advice, 8/06/2022. Press release based on a nationally representative survey of 2,288 UK respondents who had used Buy Now Pay Later in the previous 12 months. Survey conducted by Opinium between 11th and 28th March 2022.

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

Despite lender discretion, Fair4All Finance's argument raises an important question: if firms become over-cautious in response to the regulatory requirements, and people are rejected for credit as a result, could that rejection itself have negative consequences? As their Chief Executive, Kate Pender, said to the BBC:[9]

> *"The need for credit doesn't just disappear when you can't access it – and people are often pushed towards more expensive or unregulated alternatives."*

In short, do we have the correct balance between consumer protection and access?

Getting that balance right is critical at a time when millions are struggling to afford the basics. This report provides new evidence concerning the current state of play.

Before presenting that evidence, it is important to distinguish between a need for essentials and a demand for credit. Financially stressed households need essential goods and services, and that need drives a *demand for money* to pay for them. Credit is, however, only one way of satisfying the *underlying* need. As we discuss later, alternatives (for example the direct provision of essentials, grants, or more flexible bill payment arrangements) are likely to produce better outcomes for poorer households than extending credit, especially when this is provided on commercial terms bearing interest. Desperate borrowers are often price insensitive and are at risk of exploitation.[10]

Even where credit is provided, it need not come from commercial providers charging interest or (in BNPL's case) fees. We welcome that Fair4All Finance has itself been actively funding potential alternatives, including a No Interest Loan Scheme pilot with credit unions between 2022 and 2024 (which is being evaluated by PwC [11]). Our own evaluation of Fair for You's Food Club partnership with Iceland Foods [12], which offers small, interest-free loans to low-income households, found these provide significant improvements to wellbeing and health.

However, for credit to be helpful in these cases it needs to be genuinely interest-free (carrying no fees or charges for late payment) – with person-centred, flexible, collection practices embedded alongside. Where possible, credit should also be directed to purposes that reduce ongoing living costs, for example by enabling households to buy food in bulk, reduce transport costs, or obtain energy efficient appliances.

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[9] 'How will Buy Now Pay Later changes affect you?', BBC News, 15/07/2026. https://www.bbc.co.uk/news/articles/c9q283r9px3o

[10] For evidence of this relating to the UK credit card sector, see Matcham, W. (2025) 'Risk-based borrowing limits in credit card markets' available at https://papers.ssrn.com/sol3/Delivery.cfm?abstractid=4926974

[11] See 'No interest loan scheme pilot: process and impact evaluation, second interim report', PwC, July 2024 available at https://fair4allfinance.org.uk/wp-content/uploads/2024/10/No_Interest_Loan_Scheme_PwC.pdf

[12] 'The Fair for You and Iceland Food Club: Impact Evaluation', Centre for Responsible Credit, December 2024, available at https://www.responsible-credit.org.uk/reports/the-fair-for-you-and-iceland-food-club-impact-evaluation

The depth of budget shortfalls that we uncover in this report indicates that advancing credit without these features is causing considerable harm. Millions of households are cutting back on essential spending and falling into arrears with household bills. Concerted policy action is urgently needed from Government to address their underlying lack of financial resources. While financial inclusion programmes remain important, these need to focus on transitioning households with persistent budget shortfalls away from the commercial sector. Over-emphasising the 'need' for borrowers who cannot afford the essentials to access commercial credit also distracts attention from the structural conditions that are creating the 'demand' for credit in the first place.

The Financial Inclusion Strategy

It is important to note that although Fair4All Finance was established by government, it does not operate as a traditional arm's length organisation and is not directly accountable to any Department. There is no Minister to whom it reports.[13] It may, therefore adopt policy positions independently of Government. Indeed, the Government's recent **Financial Inclusion Strategy**[14] does not call for greater access to credit per se. Its stated ambition (p. 4) — correctly, in our view — is for people to be able to access "safe, affordable and responsible credit".

This report provides empirical evidence into how far that ambition is being met. It has been guided by the following questions:

- How many LMI households can afford their essential living costs?
- Among those who cannot, how many are persistently unable to do so, and what is the depth of their budget shortfalls?
- How many LMI households with persistent credit shortfalls use credit, and what impacts does this have?
- To what extent can we estimate the scale of irresponsible lending?
- Among households not using credit, how many are likely to have been excluded from credit on affordability grounds?
- What evidence is there concerning the difficulties faced by financially constrained households who do use credit, compared to those who do not?

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[13] Fair4All Finance is a not-for-profit 'operating company' of the 'Oversight Trust: Assets for the Common Good', The other operating companies of the Trust are Better Society Capital, Access - The Foundation for Social Investment ("Access"), and the Youth Futures Foundation. The Trust assesses these companies on a quadrennial basis, to ensure their charitable objects remain appropriate; that they are well governed; that strategic plans are in accordance with their objects; and to review achievement of social impact; transparency of financial and impact reporting. The Trust can also provide guidance and advice to the operating companies, if appropriate and practicable, or as requested. However, each of the companies is responsible for its own governance, strategy, policies and procedures, and day-to-day operations.

[14] Available at https://www.gov.uk/government/publications/financial-inclusion-strategy/financial-inclusion-strategy

Structure of the Report

Chapter two describes the data and methodology. Using five waves of the Bank of England/NMG Household Debt Survey for Great Britain, ONS energy-cost data and Money and Pensions Service benchmarks, we establish a consistent affordability framework based on households' ability to meet essential living costs and consumer credit repayments over time.

Chapter three applies this essential-costs measure to LMI households using credit. It examines the scale and persistence of budget shortfalls, the sacrifices made to maintain repayments, and whether households already in sustained hardship have obtained new or additional credit. It provides new evidence of the scale of potential irresponsible lending.

Chapter four examines exclusion among households without consumer credit. It distinguishes those with little need to borrow, those for whom commercial credit is unsuitable because repayments are clearly unaffordable, and a smaller group who may fail affordability assessments but could sustain payments in limited circumstances. We estimate how many households fall into this latter group under different loan amounts and repayment durations. This points to the influence of lender behaviour (product design) on exclusion rates.

Chapter five considers outcomes for financially stressed households. It shows that many credit users with budget shortfalls prioritise repayments over other bills, producing a greater likelihood of arrears on rent, utilities and other household bills than among similarly constrained non-credit users. We discuss the concept of the 'responsible borrower' in this context, arguing that the locus of responsibility remains firmly with lenders. These have shifted their risks and costs onto landlords, local authorities, and utility providers in recent years.

Chapter six concludes with recommendations for government, regulators, lenders and the financial inclusion agenda. There remains an abundance of harmful access to unsafe, irresponsible credit and consumer protections are failing. We call for:

- FCA action to curb irresponsible lending, by strengthening its affordability rules and the enforcement of the Consumer Duty.
- A reappraisal and refocusing of financial inclusion programmes to ensure these genuinely support the delivery of "safe, affordable and responsible" lending. A primary focus should be on the transitioning of LMI households with budget shortfalls away from commercial credit and toward lower cost, preferably interest-free, alternatives.
- Government to do more to address the underlying affordability crisis that millions are experiencing, including by fast-tracking debt write-downs for those experiencing the most severe burdens.

2 Data & Methodological Framework

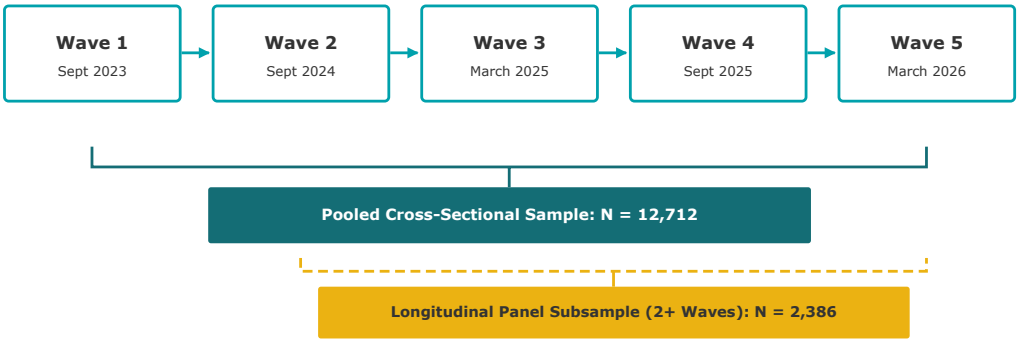
To evaluate the impact of credit use and affordability rules on low-to-middle income (LMI) households, this report establishes an empirical framework built on multi-wave survey data, standardised financial benchmarks, and econometric adjustments for panel attrition. This chapter details the dataset, the construction of essential living cost baselines, key analytical metrics, and the methodology employed.

Primary data source & sample sizes

Our primary data comes from five consecutive waves of the Bank of England / NMG Household Debt Survey, spanning September 2023 through March 2026. This was conducted annually through to September 2024, and every six months thereafter. Each wave captures a nationally representative cross-section of approximately 6,000 households across Great Britain, but it also contains a subset of respondents tracked across multiple waves.

We focus on households falling into the bottom half of the gross income distribution. Following a data cleaning exercise (see below), the core sample comprises 12,712 survey responses from 8,487 LMI households across the five survey waves. Most of these households (72%) took part in only one survey, but more than a quarter (28%, or 2,386 households) can be observed across two or more waves, forming a longitudinal panel (figure 1, below).

Figure 1: Survey waves and LMI household sample sizes, cross-sectional and panel



Data cleaning

Where respondents answered that they "didn't know" or "preferred not to say" to questions, these were treated as missing responses. Several fields in the survey also required cleaning before use, because free-response answers contained implausible values. The following corrections were significant enough to affect national estimates:

- **Household income.** Where a respondent gave a specific figure, this was used if plausible; where only an income band was selected, the band's mid-point was substituted, following the Bank of England's own published approach to this survey.[15] Household income combines the incomes of the main respondent, any partner and other adults in the household. Income is treated as missing if any one earner gave an unusable response, rather than being understated. Implausibly low household income figures were encountered — likely due to some participants mis-stating a weekly or monthly figure as an annual one. Households were only included in our analysis if their income was at least £5,200 per year.

- **Cash savings and housing costs.** Savings were constructed on the same point/band basis. Respondents in the survey's open-ended top band ("more than £150,000") were assigned a value of £175,000. We also took this approach with respect to other variables (e.g. mortgage and rent payments). Because a small number of households reported very high savings figures, this measure was capped at £175,000 to prevent a handful of outliers from disproportionately affecting the results. Implausible housing costs relative to income, again likely due to data entry errors, were also capped.

- **Consumer credit payments.** A small number of free-response answers for monthly credit repayments were judged implausible — values far beyond what any household's income could sustain. A conservative, standard convention was applied: any reported monthly payment exceeding 80% of a household's annualised gross income was treated as unreliable and excluded.

Core sample. After discounting households with implausibly low incomes, 12,713 household-wave observations fall within deciles 1–5, forming the core analytical sample used throughout this report. Not every measure is available for all households: valid savings data exists for 12,069 (94.9%), while valid consumer credit repayment data — necessarily available only among households holding consumer credit — exists for 6,872. Where an analysis draws on both savings and repayment data together, the underlying sample is 6,684 households. The sample size for each specific analysis in this report reflects whichever of these populations it draws on.

Student loans are excluded from our definition of consumer credit, but they cannot be entirely ignored: many LMI households hold a student loan alongside consumer credit, and excluding those households entirely would understate the size of the population this report is about. We apply three distinct treatments, chosen to match what the underlying survey data can and cannot support:

- We do not treat student loans as a form of consumer credit. Where a household's only credit product is a student loan, it is classified as holding no consumer

[15] The survey's raw dataset and a Stata do file regarding the calculation of household incomes are available from the Bank of England at https://www.bankofengland.co.uk/statistics/research-datasets

credit. Where a household holds a student loan *alongside* consumer credit — a credit card, BNPL, an overdraft, a personal loan, store credit, car finance, or the payday/hire-purchase category — it is retained in the consumer-credit-holding population. This distinction relies on the survey's itemised balance-by-product data, which records student loan and other product balances separately.

- Student loan repayments nevertheless impact disposable incomes, and the survey reports a single repayment figure covering all their credit commitments, including student loans. That full figure — student loan included — is treated as reducing disposable income for the purposes of identifying whether a household can afford its essential costs.

- Because repayments are reported as one combined figure for households holding both student loans and consumer credit, there is no way to isolate the student loan specific portion of that figure. We therefore exclude all student loan holders when calculating debt-service-ratios or budget shortfalls caused by consumer credit use. We tested the sensitivity of this exclusion, comparing consumer-credit-only holders against those who also hold a student loan: the two groups' debt-servicing ratios were similar (median 9% versus 9.5%), but their total amounts owed differed by a factor of ten (median £1,000 versus £10,060) — confirming that the major impact of student loans is on total amounts owed rather than monthly repayments.

Measuring essential living costs (the "cost-of-living floor")

To determine whether a household can genuinely afford its credit commitments, disposable income must be calculated against a realistic floor of essential living expenses. This report constructs a customised, composite measure of household essential spending by integrating three distinct data sources:

Actual Housing Costs: Direct respondent-reported monthly mortgage or rental payments from the Bank/NMG survey.

Energy Costs: Office for National Statistics (ONS) national averages for domestic energy expenditure, broken down by gross income decile. It should be noted that these averages are not yet available for 2025/26 and that the 2024/25 figures are therefore used for both that and the current year.

Housekeeping, Personal Care, and Communications: Baseline figures drawn from the Money and Pensions Service (MaPS) Standard Financial Statement (SFS). The SFS benchmarks are generally agreed between the debt advice and creditor sectors as minimum reasonable amounts to be factored in when calculating how much households can afford to repay their debts. The figures reflect actual spending patterns of the lowest income quintile (derived from the ONS Living Costs

and Food Survey) and are adjusted according to specific household composition (number of adults and dependent children). Because the methodology employed by MaPS has changed over time, we took the latest figures and deflated these for prior periods by CPI inflation.

How realistic is our measure?

Our essential living cost baseline is conservative in four key respects:

- Due to the absence of a suitable data source, the baseline explicitly excludes any amounts needed to pay for Council Tax and water charges. For this reason alone, any household with zero disposable income on our measure is already likely to be making a considerable sacrifice to their living standards or falling behind with bills.

- The baseline is likely to understate living costs for households affected by a long-term health condition or disability, since it does not account for associated additional expenses (e.g. specialist equipment, additional heating, dietary requirements). Where households receive disability benefits (PIP/DLA) to help meet these costs, these are reflected in their incomes, but the corresponding living costs are not — inflating their disposable incomes for the purpose of this study. 10.7% of the core sample report receiving PIP or DLA.

- For households with young children, the baseline does not include any childcare costs. 21.5% of the core sample have at least one dependent child under 16, although their ages are not known and broadly speaking, only households with young children will be impacted.

- The energy and SFS components feeding into the baseline are based on ONS surveys of actual spending levels. These figures could be less than is needed to afford a 'reasonable' standard of living. Households may, for example, be failing to eat adequately nutritious diets, or curtailing energy use. These aspects are not reflected in our baseline.[16]

Conversely, one aspect of the baseline's construction may overstate costs for a specific group. The survey's household composition data identifies dependent children as those aged under 16; 16- to 18-year-olds are not captured as children and are instead counted as additional adults. The SFS has its own, lower, living cost

[16] Alternative measures for essential costs are available, which estimate what households need to attain a 'reasonable' living standard. For example, the Joseph Rowntree Foundation's Minimum Income Standard (MIS) calculates this following consultation with members of the public regarding the things a household needs to achieve an acceptable living standard. We ran a comparison of our measure against the MIS (excluding childcare costs). For a single person household our measure provides for a typical annual essential living cost of £18,148. This is beneath the MIS by £121 per week (£349 vs £470) and this widens considerably for households with children. For a lone parent with two children our measure indicates annual essential costs of £25,012, which falls £310 short of the MIS (£481 vs £791) and for a couple with two children the gap is £354 (£612 vs £965). However, for pensioner couples the gap between the two measures is much smaller at £81 per week (£464 vs £546).

allowance for 16- to 18-year-olds, but because the survey does not distinguish this age group from other adults in the household, we have applied the adult rate to them instead. This will tend to overstate the essentials floor for these households. We cannot quantify how many households are affected by this limitation.

On our measure, the median gross income required merely to cover basic essential costs for an LMI household across Great Britain is approximately £20,000 per year, varying dynamically by household size, composition, energy and housing costs.

Core metrics

Several metrics recur throughout this report and are defined here.

Disposable income. For every household, disposable income is calculated as gross household income minus the essentials floor described above. This is the measure used to establish whether a household has anything left over once essential living costs are accounted for, before any consumer credit repayments are considered.

Budget shortfall. Budget shortfall builds on disposable income by also deducting any consumer credit repayments. For households with no consumer credit and negative disposable income, budget shortfall and disposable income levels are the same. For households making credit repayments, budget shortfall can be negative even where disposable income before repayments is positive. A household with a disposable income of £100 per month may be making credit repayments of £200 per month by sacrificing elements of their essential spending. The budget shortfall in this case is £100. This definition of budget shortfall underpins both the affordability analysis of credit-holding households and the "can't afford" classification used later in the financial exclusion analysis of households with no consumer credit, where we model the potential impacts of acquiring it.

Budget sacrifice. For credit-holding households, we also calculate the amount and percentage of the essentials budget that is given up for credit repayments. This is distinct from budget shortfall. A household may have a negative disposable income even before credit repayments are factored in. Credit repayments deepen that shortfall. Budget sacrifice refers to the additional amount of shortfall caused by the credit repayments expressed as a percentage of the essentials budget that is being given up. For example, a household has a budget shortfall before credit repayments of £100 per month, and credit repayments deepen that to £200. We calculate the additional £100 caused by the credit repayment as a share of the household's essential living costs. Given that our essentials measure is already conservative but also includes housing costs, which are a significant expense, this report treats a sacrifice of 5% or more of the essentials floor as considerable throughout.

Repayment duration. For each credit-holding household, this report also calculates how long it would take to clear outstanding balances at the household's current repayment rate (total balance owed divided by the most recent monthly

repayment). This is used alongside the sacrifice measure above to assess both the depth and the expected length of a household's repayment burden (i.e., its severity).

Thresholds for unaffordable debt. Two thresholds recur throughout the analysis in this report. The strict threshold classifies a household as holding unaffordable credit wherever it has any budget shortfall, however brief. A further threshold narrows this to households whose shortfall is expected to persist for six months or more, and where the resulting sacrifice reaches the 5% threshold described above.

Panel mechanics & Inverse Probability Weighting (IPW)

As noted above, the Bank / NMG survey is only partly longitudinal. Most respondents are surveyed only once, while others are retained and re-surveyed in later waves, linked by a unique household identifier. Retention in the panel is not random. Older households and outright homeowners are more likely to remain in the survey than younger households and renters. Crucially, households already experiencing financial difficulty are also less likely to remain, even after controlling for age, tenure and other demographic factors. Without correction, estimates of persistent hardship would be incorrect, because those households most likely to be struggling are also more likely to drop out of the survey.

To address this, we apply an inverse-probability-of-retention weight to each panel-based analysis. A logistic regression estimates the likelihood that a household observed in one wave is retained in the next, based on its characteristics at that point. These typically include age, housing tenure, number of children and employment status, alongside the financial or product-holding measure relevant to the analysis — for example, budget shortfall status and product type when modelling persistent unaffordability. Each retained household is then weighted by the inverse of its predicted probability of retention, combined with the survey's existing cross-sectional weight. In effect, households with a low predicted chance of remaining in the survey, but which did remain, are given greater weight to represent similar households that dropped out.

A separate retention model is estimated for each longitudinal population analysed in the report. This is necessary because the factors associated with retention differ across these groups. The specific model, predictors and results are reported alongside the relevant findings.[17]

[17] Because inverse-probability weights can be distorted by a small number of very large corrections, each IPW model was tested for sensitivity to extreme weights. We capped the largest correction factors at the 99th percentile, or removed the single largest correction entirely, and checked whether the headline estimate changed materially. In every case tested, the estimate moved by no more than a few percentage points, indicating that the results are not driven by a small number of extreme observations.

Validity tests

This report tests the robustness of its headline figures in two ways. Bootstrap resampling is used to estimate the margin of error around each figure, while out-of-sample prediction tests whether a model applies beyond the data on which it was fitted. These methods serve different purposes and are used together where possible.

Bootstrap confidence intervals. Bootstrapping is a statistical method used to test the reliability of data without needing to gather new real-world samples. It works by taking the original dataset and repeatedly picking random data points from it — putting each item back before picking the next — to simulate hundreds of 'new' datasets. This provides a clearer picture of certainty and margin of error. Headline estimates are reported with bootstrapped 95% confidence intervals. Each estimate was tested using 500 replicates, resampling households with replacement and clustering by household where panel data is used, so each household's wave sequence remains intact within a replicate. Where an estimate relies on a retention-corrected weight, the retention model is re-estimated within each replicate rather than simply resampled with the data. This means the confidence interval captures uncertainty in both the model and the sample. The interval reported is the 2.5th to 97.5th percentile of the 500 replicate estimates and is shown alongside the relevant headline figure in this report's footnotes.

Out-of-sample prediction. The retention models used in the longitudinal analysis were also tested out of sample, where the data allowed. Each model was re-estimated using only the earliest available wave-to-wave transitions, holding back the most recent transition as if it had not yet occurred. The model then generated a blind forecast for the held-out period, which was compared with the observed outcome. This tests whether the model generalises to new data rather than simply fitting the sample on which it was built.

3 The Reality of Credit Use

Headline Findings

More than a third (34%) of lower-to-middle-income (LMI) households in Great Britain have no, or negative, disposable income once their essential living costs have been accounted for.

Consumer credit use among these households is nevertheless common, with credit repayments creating additional financial pressure. Around 55% of all LMI households hold consumer credit products at any given point in time. Nearly half of these (44%) cannot afford to meet both their essential living costs and credit repayments, equivalent to approximately **3.5 million households.**

For most of these households, their budget shortfalls are persistent. Nearly three-quarters (73.7%) of credit-holding households with a budget shortfall at a given point in time, **2.6 million credit-holding LMI households nationally, remain in persistent budget shortfall** in the following survey wave.

Their hardship is severe. Among credit-holding households with persistent shortfalls, the median deficit after credit repayments is **£8,320 a year, or £693 a month.** Credit repayments account for a typical sacrifice of **£1,584 a year, or £132 a month**, equivalent to around **7% of their essential living costs.** The repayments cause a meaningful deepening of hardship, but the principal problem is that household incomes are already insufficient to cover essentials before repayments are factored in.

Around **1.5 million of these households** are both persistently unable to meet essential living costs and sacrificing at least 5% of their essentials budget to service their debts. These households hold around £7 billion in consumer credit debt.

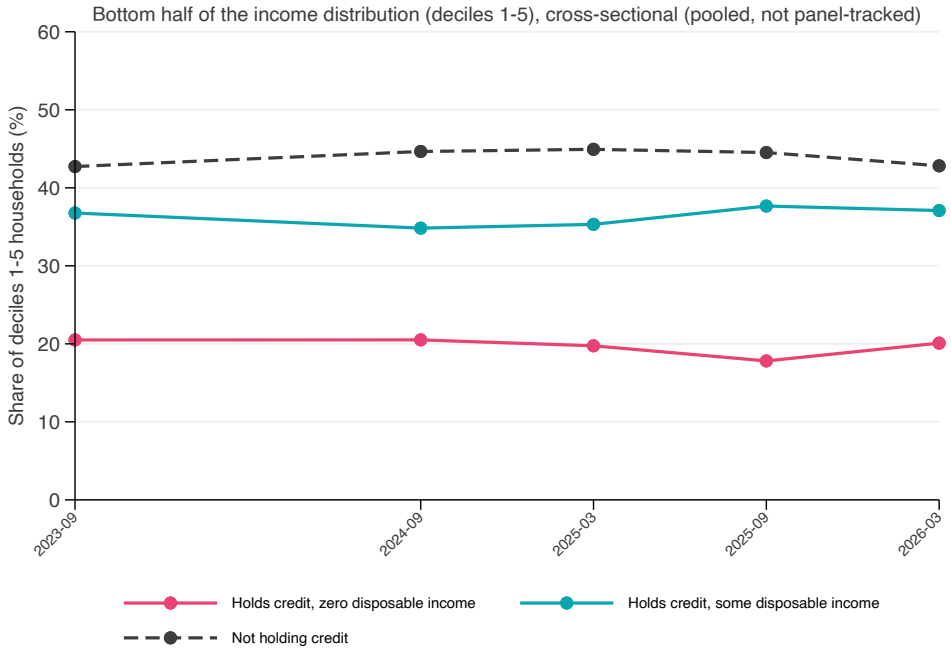
Despite the affordability rules and Consumer Duty, credit continues to be extended to households experiencing persistent hardship. Over the past two and a half years, approximately **1.15 million households** have either acquired consumer credit for the first time or increased their borrowing while clearly and persistently unable to meet essential costs. They took on at least £1.97 billion in new debt and collectively hold at least **£4.34 billion**, indicating potential irresponsible lending on a substantial scale.

Financial hardship is associated with the increased use of certain credit products. Among households with persistent budget shortfalls, **42% revolve credit-card balances, 34% use overdrafts and 23% use BNPL.** Most of the potentially irresponsible lending that has taken place over the past two and a half years has been extended through fully regulated products.

Great Britain contains approximately 14.1 million low-to-middle income (LMI) households. Based on the minimum living costs measure used in this report, more than a third (34%) of these had disposable incomes of zero or less in March of this year. As set out in the previous chapter, the essentials measure being used here is conservative in several respects. For example, it does not make any allowance for Council Tax or water bills.

Around 55% of LMI households report using consumer credit in the Bank of England/NMG survey, a share that has remained reasonably steady across all five waves since September 2023. Figure 2, below, breaks credit holding down across this period, highlighting those using credit who have sufficient income to pay for essentials, and those who do not.

Figure 2: LMI households, credit holding and disposable incomes (September 2023 to March 2026)



Demographics of credit holders, by disposable incomes

Just over a third of all LMI households (37%) hold consumer credit and have sufficient income to pay for essentials on our measure, with the trend for this group broadly flat over the past two and a half years, ranging between 34.8% and 37.7%. Around a fifth hold consumer credit but are unable to meet the cost of essentials.

These two consumer credit user groups differ sharply in their household characteristics (table 1, below), with all differences statistically significant ($p<0.0001$).[18]

[18] Weighted results, using a direct two-group test (Pearson chi-squared for categorical characteristics; Wilcoxon rank-sum for continuous and count characteristics), restricted to LMI households holding consumer credit at the latest survey wave.

Table 1: Credit-holding, household characteristics by disposable income status (latest wave)

Characteristic / category	Zero disposable income (N=484)	Some disposable income (N=955)
Age		
18-34	36.4%	18.9%
35-54	36.7%	24.2%
55+	26.9%	56.8%
Housing tenure		
Owned, with mortgage	15.7%	19.3%
Owned, outright	10.3%	47.5%
Rent	74.1%	33.3%
Employment status		
Full-time employed	22.3%	35.3%
Part-time employed	20.8%	12.4%
Self-employed	6.3%	3.7%
Retired	15.4%	40.1%
Not working (other than retired)	35.1%	8.5%
Children in household		
No children	54.9%	82.3%
One child	19.1%	10.7%
Two or more	26.0%	7.0%
Other characteristics, weighted median		
Savings (GBP)	£250	£6,500
Gross income (GBP/year)	£19,500	£33,000

Values are weighted percentages of each group (latest wave, LMI credit-holding households). Savings and gross income are weighted medians.

Credit-holding households unable to meet the cost of essentials have much lower incomes, even within this half of the distribution, with a weighted median gross household income of £19,500 compared with £33,000. They are also younger:

36% are under 35, around twice the share of those with some disposable income (19%), and they are far more likely to rent (74% vs 33%). Children are much more common: 45% have at least one child, compared with 18%, and a quarter have two or more. Their employment position is different too, with not working for reasons other than retirement accounting for more than one third (unemployment and not working due to long-term illness or disability account for 25%), four times the comparison rate of 8.5%. Their financial buffer is correspondingly thin, with median savings of just £250, compared with £6,500 among those with some spare disposable income.

Does disposable income predict credit use?

These demographic differences are striking, but they leave an important question open. Age, housing tenure, employment status and the presence of children are all closely bound up with a household's financial position — so do households with less disposable income use consumer credit differently because of their income position, or simply because they are disproportionately young, renting, raising children, or out of work? Testing this requires holding these characteristics constant and asking whether disposable income still does independent work.[19]

We find it does, though the relationship is modest rather than dominant. Among the full population of LMI households — not just those who already hold credit — a household's disposable income before credit repayments is a statistically significant, independent predictor of whether it holds consumer credit at all, even once age, tenure, children and employment status are accounted for. Moving from a household at the 10th percentile of disposable income (a shortfall of around £11,100 a year) to one at the 90th percentile (a surplus of around £20,000 a year) raises the predicted likelihood of holding credit from around 51% to 61%, holding everything else fixed.[20] This is a real effect, but a modest one by comparison with the other characteristics in the same model: the presence of children alone moves the equivalent predicted likelihood by a considerably wider margin, as does employment status. Disposable income, in other words, is one driver of whether a household engages with consumer credit at all, but not the principal one.

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[19] Two regressions, both restricted to LMI households (deciles 1-5), pooling all five survey waves with standard errors clustered by household, and controlling throughout for wave, age band, housing tenure, number of children, and employment status.

[20] Logistic regression of whether a household holds any consumer credit (N=12,119), among all LMI households regardless of current credit-holding status. Disposable income before credit repayments: odds ratio 1.000014 per £1 ($p<0.001$). Predicted probabilities calculated at the 10th and 90th percentiles of the observed disposable income distribution, with all other characteristics held at their sample means. By comparison, on the same scale, moving from no children to two or more children raises the predicted probability by around 17.5 percentage points, and the gap between the least and most credit-prone employment categories is around 18 percentage points — both larger ranges than disposable income produces. Model diagnostics (Hosmer-Lemeshow goodness-of-fit test, link specification test, Pearson residuals) showed no evidence of misspecification. Variance inflation factors were unremarkable throughout (mean 2.3), with one expected exception: age 65 and over and retirement status are closely correlated with each other, as one would expect, which limits the model's ability to fully separate their individual contributions — a caveat that applies to interpreting those two characteristics specifically, not to the disposable income finding.

A similar pattern holds among households holding credit with respect to the level of their outstanding balances. Controlling for the same characteristics, those with more disposable income before credit repayments carry meaningfully larger consumer credit balances than those with less — a predicted mean balance of roughly £2,900 for a household at the 10th percentile of disposable income, rising to around £4,650 at the 90th percentile.[21]

Taken together, these two findings tell a consistent story: greater disposable income is associated with somewhat greater engagement with consumer credit, both in whether a household holds it and in how much it holds once it does.

This finding is what we might expect if affordability assessment rules were operating effectively. Two things are, however, worth being clear about. First, this is cross-sectional evidence: it describes an association between a household's current disposable income and its current credit-holding position, not what that household's disposable income looked like at the point it originally took on the credit it now holds. Testing that latter, more precise question requires the longitudinal analysis set out later in this chapter. Second, the fact that disposable income carries explanatory weight independently of these demographic characteristics does not mean the characteristics themselves are unimportant — as Table 1 already shows, they differ sharply between the two groups, and several of them (notably employment status and the presence of children) are stronger predictors than disposable income itself. That suggests affordability might be less important to lenders than other factors, such as household stability and demand.

The Impact of Credit Repayments

Before turning to the longitudinal analysis, it is important to recognise the impact of borrowing on the budgets of LMI households.

The financial position of credit-holding households worsens considerably after accounting for credit repayments. Looking across all LMI households holding consumer credit in the latest survey wave (figure 3, below), nearly half (44%, and **equivalent to around 3.5 million households**) are left with no disposable income once credit repayments are accounted for.[22] In this group, the median budget shortfall is around £7,600 per year (£633 per month). The distribution has a long tail, with a minority of households facing considerably deeper shortfalls, pulling the mean average up to £10,551 per year.

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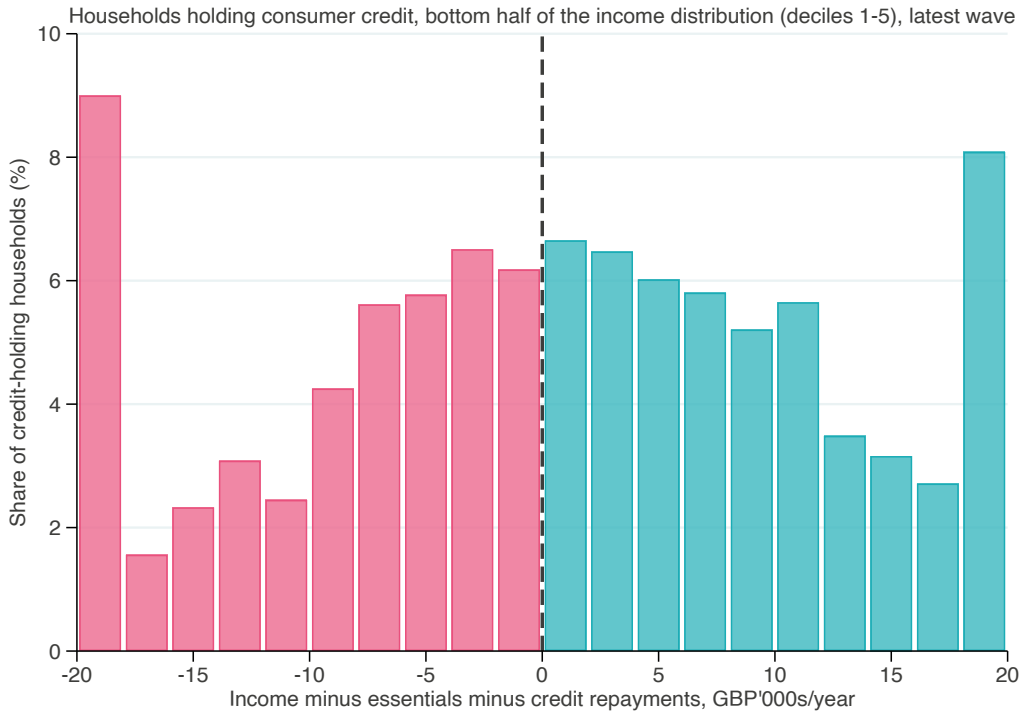
[21] Linear regression of the natural log of total consumer credit balance (excluding student loans) on the same predictors, restricted to LMI households who hold consumer credit (N=5,535). Disposable income before credit repayments: coefficient 0.0000156 ($p<0.001$). Because the outcome is log-transformed and its residuals are not normally distributed, back-transformed pound figures are corrected using Duan's smearing estimator rather than a simple exponential transformation, which would otherwise understate the true expected balance.

[22] A further 7% cannot be classified either way, as the data needed to establish their position is incomplete.

Credit repayments do not simply erode a comfortable margin for a large minority of LMI credit users: for just under half of them, meeting those repayments is only possible if they make substantial cuts to their essential spending.

Figure 3: The depth of unaffordability after credit repayments (LMI households, latest wave)

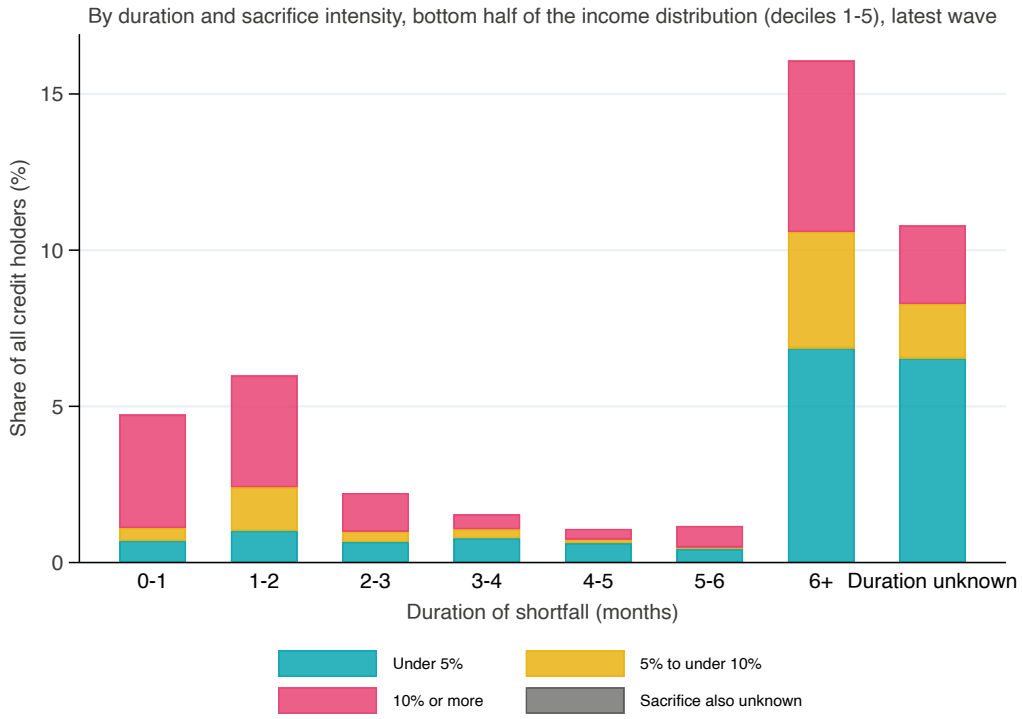


Display range capped at ±£20,000; the outer bars include all households beyond this range. Weighted.

It is nevertheless possible that the sacrifices these households are making to repay credit are sometimes short-lived. **The severity of a debt burden is dictated by both its intensity (the amount of essentials being sacrificed to cover credit repayments) and its duration.** A household that falls £100 short of covering essentials to make credit repayments for a single month is in a very different position from one facing the same shortfall for longer periods.

We therefore examined how long it would take for households to clear their debts based on their most recent repayment levels; and how great a share of their essential living costs they would have to sacrifice to do so (figure 4, below).

Figure 4: Households unable to meet essentials after credit repayments



Missing data regarding total outstanding balances prevents us from establishing how long repayment pressures will last for around 11% of households.

Nevertheless, it is apparent that a cluster of households — 10.8% of all credit-holding LMI households — face a shortfall that would last for no more than two months if their last reported monthly repayment was maintained. This group typically hold a comparatively modest £460 of debt. Most of these households (7.2 percentage points of the 10.8%) are, however, sacrificing 10% or more of their essentials budget to repay this: an intense squeeze.

Very few households sit in the middle of the distribution: only 6% face a shortfall lasting between two and six months — typically owing £800, repaid at a slower £250 a month — but again the squeeze for many of these households is often considerable.

Beyond six months, the pattern changes again: 16% of credit-holding households face a shortfall that, based on their last monthly repayment, will need to persist for six months or longer. These households extrapolate to approximately 1.27 million nationally, and they owe a median £3,500 — more than seven times the short-duration group's balance — while repaying only £200 a month, the lowest median repayment of any group. Of these, around 730,000 are sacrificing more than 5% of their essential living costs to make their credit repayments. This is a noticeably larger group than the short-duration cluster, and a fundamentally different kind of hardship: driven as much by the size of the debt as by the pace of repayment, since a squeeze of this severity cannot plausibly be absorbed through temporary 'belt-tightening' alone.

Regulators and policymakers are therefore presented with a question: how much of the financial pressure being caused by credit repayments in the bottom half of the income distribution is acceptable?

Over-indebtedness

It is important to note that our measure of the sacrifices being made by households to service their debts is different to the FCA's definition of over-indebtedness. The FCA definition includes borrowers who describe keeping up with domestic bills and credit commitments as "a heavy burden", and those who have missed any credit commitments and/ or any domestic bills in any three or more of the last six months. Its 2024 Financial Lives Survey reports 7.3 million people (13% of all adults, across the UK) fall into the first category, and 4.5 million in the second. There is some overlap between these two groups, with Debt Justice subsequently working with the FCA to confirm a total of 10.1 million over-indebted adults across the UK.[23]

Unfortunately, the Bank/ NMG survey does not ask the same questions as the Financial Lives Survey to allow a direct comparison. It also covers only Great Britain as opposed to the entirety of the UK. However, alternative definitions are available. For example, a Governmental Task Force on Over-indebtedness in 2000[24] proposed the following:

- Having four or more current credit commitments.
- Spending more than 25% of gross income (excluding mortgages) on consumer credit.
- Spending more than 50% of gross income (including mortgages) on consumer credit.

Using these, the latest wave of the Bank/ NMG survey indicates that:

- 5.6% have four or more current credit commitments.
- 21.4% are spending more than 25% of their gross income (excluding mortgages) on consumer credit, and
- 9.6% are spending more than 50% of their gross income (including mortgages) on credit commitments.

[23] See Number of 'over-indebted' people in the UK up nearly a third since 2017 - Debt Justice

[24] See https://publications.parliament.uk/pa/cm200304/cmselect/cmtreasy/125/12506.htm

Taken together, more than a quarter (27.3%) of LMI households with consumer credit debts meet at least one of these three criteria.[25] This extrapolates to more than 2 million households nationally. When translated into numbers of adults, this is of a similar order of magnitude to the FCA's own measure of financial strain.[26]

Longitudinal Analysis

While cross-sectional analysis provides an indication of the extent to which households hold credit and are struggling with essential living costs and credit repayments at the time of taking the survey, it does not identify those for whom repayment burdens are persistent. The duration that households are expected to clear their debts within are based on their last reported monthly repayments prior to the survey. These may not, in fact, be sustained. For example, those experiencing financial pressure at the time of the survey could respond by cutting their repayments, or by taking on more debt. Conversely, households could pay down their debts at a faster rate than their last monthly payment implies. The panel element of the survey allows us to explore these issues in detail.

As set out in the Methods chapter, panel retention is not random, and households in financial difficulty are less likely to remain in the survey. We therefore constructed an inverse-probability-of-retention weight specific to this analysis: a logistic regression predicting retention as a function of budget shortfall status, product holdings, age, housing tenure, number of children, and employment status, estimated on all credit-holding household-wave observations across the first four waves for which both a baseline and subsequent-wave outcome could be determined (N=5,128 wave-pairs).

Our model estimates that, of households holding credit and experiencing a budget shortfall at a given point in time, around three quarters (73.7%) still have a shortfall at the following survey wave.[27] **Applied to the national population of LMI**

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[25] N=1,453 for the four-or-more-commitments criterion; N=1,375 for the 25%-of-income (excluding mortgage) criterion; and N=1,364 for the 50%-of-income (including mortgage) criterion. The "at least one criterion" figure is drawn from N=1,369 households. The three individual percentages do not sum to the combined 27.3%, for two separate reasons: a household may satisfy more than one criterion at once, and each percentage is calculated over a slightly different base of households.

[26] We repeated the calculation for the full cross-section of GB households across all ten income deciles, rather than restricting to deciles 1-5. This gives a comparable national estimate of 24.5% of an estimated 16.4 million GB credit-holding households — just over 4 million households (4,017,178) — meeting at least one of the same three criteria. Converting this to an approximate adult count, using ONS mid-2024 population estimates for Great Britain (53.5 million aged 18 and over) divided by this report's own GB household benchmark of 28.25 million, gives an average of around 1.9 adults per household and an implied range of roughly 7.6 million over-indebted adults nationally. This is of a similar order of magnitude to the FCA's estimate of 7.3 million UK adults who, in its Financial Lives 2024 survey, described keeping up with domestic bills and credit commitments as "a heavy burden." The comparison should be read as indicative rather than confirmatory: the FCA's measure is a subjective, self-reported assessment of burden, not a calculated threshold like the criteria used here, and its fieldwork predates our latest wave by two years.

[27] This is a pooled rate across four wave-to-wave transitions: one spanning 12 months (September 2023 to September 2024) and three spanning 6 months each. The persistence rate varies by transition — from 69.2% to 78.8% — without a consistent pattern by transition length: the 12-month transition (70.4%) sits within the range of the three 6-month transitions (78.8%, 69.2%, and 76.6%, which pool to 75.2% combined).

credit-holding households, this means that of the approximately 3.5 million households with a budget shortfall at any given point in time, around 2.6 million remain in that position at least six months later.

This is an estimate of persistent difficulty, and we explored the data to look at how households responded to this: to determine whether repayments were sustained, and whether households took on more debt.

With respect to repayment sustainability, the pattern is nuanced. Of households holding credit and facing a shortfall, more than half (58.2%) were paying less in real terms (CPI adjusted) six months later; the median household's repayment fell by around 5%.

A falling payment need not signal difficulty on its own — it could simply reflect a debt being paid off — so we examined what happened to each household's outstanding balance over the same period.

- For 5.5% we could not determine the balance outcome: these households hold consumer credit but did not report the amount owed at baseline.
- Only 1.5% of households had paid off their debt in full.
- For more than a third (38.4%) the outstanding balance stayed the same or grew alongside the lower payment — a pattern that points clearly to households scaling back their repayments and/or taking on additional debt.
- More than half (54.7%) saw their balance fall alongside the payment — a more ambiguous group that could reflect either normal amortisation or a genuine difficulty in maintaining repayments.

Looking more closely at this ambiguous group, around half of these (49.2%) reduced their payment by a larger proportion than their balance fell, meaning they were repaying proportionately less relative to what they still owed.[28]

Combining these groups, nearly two-thirds (63.8%) of households whose payments fell show some sign of a stalled or worsening repayment trajectory, against slightly more than a quarter (27.7%) showing genuine improvement, with debt being paid off in full remaining rare. For the remaining 8.6%, we could not determine whether their trajectory was worsening or improving, largely because they fall within the ambiguous group described above but lacked complete data.

With respect to additional borrowing, around one third (32.3%) of households with persistent budget shortfalls and who already had an outstanding balance took on further debt — equating to 826,460 households nationally — indicating potential irresponsible lending, which we discuss in more detail later in this chapter.

[28] Within this group, 46.9% (N=48) faced a longer payoff period than before despite the smaller balance, while 53.1% (N=80) saw a shorter or unchanged one. Across the shorter or unchanged group, the median implied payoff period fell from 11 months to 4.3 months — a genuine improvement; across the longer group there was a startling deterioration with the median payoff period rising from 8.8 months to 45.3 months.

Budget shortfalls and sacrifices

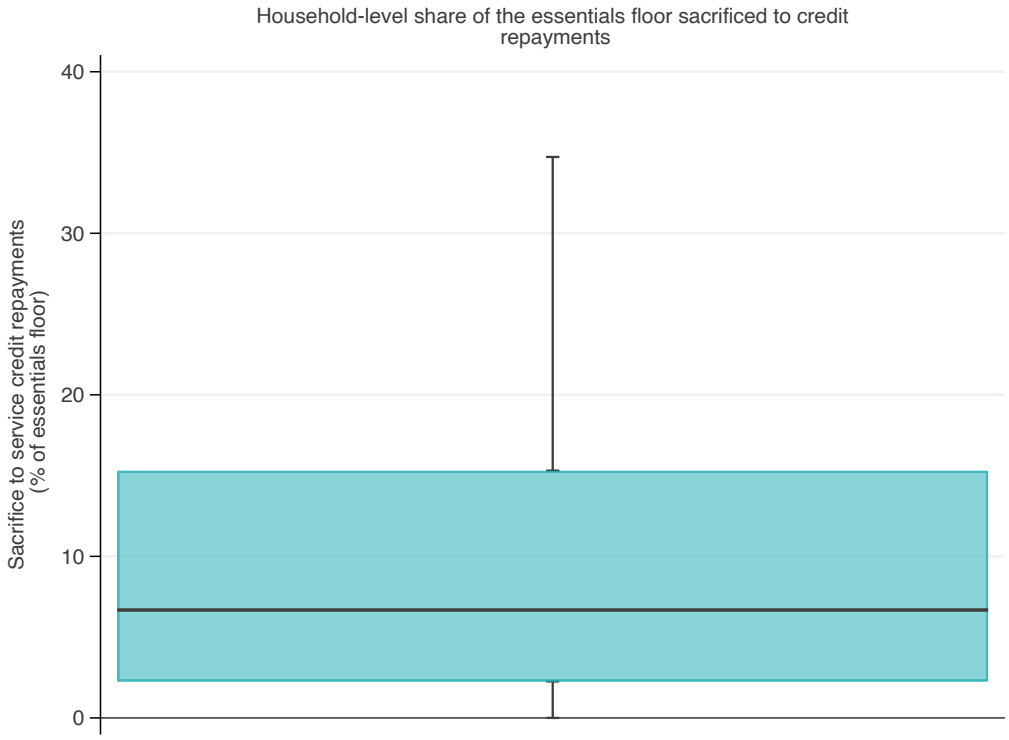
For most households with persistent budget shortfalls, credit repayments are a secondary contributor to their difficulties. These mainly arise because incomes don't cover the cost of essentials to begin with.

Before any credit repayments are considered, the typical (median) credit-holding household with a persistent budget shortfall has £6,338 per year (£528 per month) less than it needs to cover essential costs. However, this varies considerably across the group: a quarter of households already have a shortfall of more than £11,900 before credit repayments are accounted for, while for a further quarter, income before credit repayments is just enough to cover essentials, or very close to it. At the upper end of the distribution, one in ten of these households has a surplus at this stage.

Once credit repayments are included, the position worsens: the median budget shortfall deepens to £8,320 a year (£693 per month), although the pattern remains wide-ranging — from £14,706 or more for a quarter of households, to £4,355 or less for another quarter.

This indicates the sacrifice that households are making to service credit commitments. Calculated at the household level, rather than as the simple difference between the two medians above, the typical household's sacrifice is £1,584 a year (£132 per month), equivalent to around 7% of their required essentials budget — though again the range is wide (figure 5, below): a quarter of households sacrifice £3,600 or more (15.3% of essentials or more) to their credit repayments, while for another quarter the sacrifice is under £550 (2.3% of essentials or less).

Figure 5: The sacrifice households make to service credit repayments



After accounting for the added burden of credit repayments, our analysis suggests that, of the 2.6 million households with persistent budget shortfalls, more than half are sacrificing at least 5% of their essentials budget (absent any allowances for Council Tax and water payments etc.) to credit repayments. **Nationally, on the above assumptions, we therefore conservatively estimate that 1.5 million LMI households are both persistently unable to meet basic living costs and are making ongoing and considerable sacrifices to service their credit commitments.** Households in this position carry a substantial consumer credit debt burden: in total, we estimate that their outstanding balances are around £7 billion.[29]

Who is persistently in shortfall?

We compared credit-holding households with persistent budget shortfalls to those without a shortfall across two consecutive waves. These two groups are considerably different: households with persistent shortfalls are markedly more likely to rent (74% vs 27%); nearly half have children (vs 11%) and they are also considerably more likely to be unemployed, self-employed, or out of work due to illness or disability (29% vs 7% — around four times the rate).

Households with persistent budget shortfalls also tend to hold a wider spread of credit product types, even though the typical household in either group holds the same number. The median number of product types held is 1 in both groups — but this masks a real difference at the margin: nearly a quarter (22.4%) of persistent shortfall households hold three or more product types, against fewer than one in six (14.6%) of the comparison group, and a small tail of households with persistent budget shortfalls (1.4%) holds as many as six.

This picture is not consistent with exclusion from credit on affordability grounds. The depth of persistent budget shortfalls and its association with a heavier tail of product-type use instead points toward widespread irresponsible lending.

[29] Among the 2.6 million households persistently without disposable income, the typical (median) household owes £800, though the average (mean) is considerably higher at £3,553, reflecting a small number of households with much larger balances. In aggregate, we estimate these households collectively hold approximately £9 billion in consumer credit debt (95% confidence interval: £7.07 billion to £11.27 billion). Among the 1.5 million households also making a considerable sacrifice to service this debt, balances are higher still — a median of £1,640 and a mean of £4,730 — with an aggregate debt burden of approximately £6.92 billion. However, the bootstrap results indicate a high level of uncertainty (95% confidence interval: £5.45 billion to £8.51 billion). Debt figures are based on total consumer credit owed at the wave following the one at which the household's shortfall was first observed, matching the point at which persistence and sacrifice are confirmed, and exclude student loan balances. Balance data at the following wave was available for 592 of the 670 households originally identified as being in a persistent shortfall.

Alternative measure: persistent shortfalls among those who have ever held credit

The measures used in this chapter do not take account of the fact that households move in and out of holding consumer credit: a household with no credit products at one wave may have taken out a loan twelve months earlier or may do so twelve months later. A point-in-time classification of whether they hold credit will always understate how many households have engaged with consumer credit markets at some point, and by extension will overstate how many are genuinely outside them.

To test this, we constructed a panel-level measure of whether a household held any consumer credit product at any of the (up to five) waves at which it was observed. After correcting for survey retention, we find that 71% (around 9.97 million households)[30] have held consumer credit at some point across the past two and a half years; considerably more than the roughly 55% who hold it at any single point in time.

Measured over time rather than at a single snapshot, access to consumer credit among LMI households is clearly not scarce.

Among this population, the same pattern of persistent hardship recurs. Applying the same methodology used earlier in this chapter, we find more than a third (36.6%) of ever-credit-holding households are in budget shortfall at a given wave, and of these, seven in ten (71%) remain in shortfall six months later — a persistence rate of 26%.

Nationally, this equates to around 2.6 million households (18.4% of all LMI households)[31] who have, at some point, held consumer credit and are both currently and persistently unable to meet their credit repayments alongside essential living costs, against 7.38 million (52.2%)[32] who are not.

This is a different, and complementary, estimate to the point-in-time persistence figure earlier in this chapter, which describes what happens to households already holding credit at a given wave (around 3.5 million, of whom 2.6 million remain in shortfall six months later). Read together, the two measures confirm that persistent debt hardship is not confined to a narrow group of chronic borrowers observed at a single moment: it extends across a substantial share of the far larger population of households who have engaged with consumer credit markets at any point over the past two and a half years.

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[30] 95% CI: 9.64 million to 10.24 million (bootstrapped, 500 replicates, household-clustered, panel-eligibility model re-estimated within each replicate).

[31] 95% CI: 2.29 million to 2.83 million.

[32] 95% CI: 7.06 million to 7.73 million.

Irresponsible Lending

Although millions of LMI households can't afford their consumer credit commitments, this does not provide unequivocal evidence of irresponsible lending. Households with currently severe debt burdens could have taken their credit out in better times and subsequently have seen their disposable income reduce, for a wide variety of reasons. To test this, we looked at whether households persistently struggling to meet their essential costs have nonetheless been able to take on increasing amounts of debt.

Our analysis here concerns two sub-groups of households with persistent budget shortfalls. The first concerns those who initially did not report any credit use in the survey, but who subsequently obtained it. The second concerns those already using credit, whose debts increased.

Households newly acquiring credit

Among households with a persistent budget shortfall who initially held no consumer credit at all, around a fifth (22%) went on to be extended credit — nationally, around 317,000 households.[33] These are households who, at the point credit was extended, had already demonstrated a sustained inability to meet their essential costs.

The extent of budget shortfalls prior to taking out credit was substantial: typically, around £7,400 a year, more than a quarter (28.3%) of their essentials budget. Although the credit extended was modest in scale for most: a median balance of £278, the average (mean) was considerably higher at £1,893, reflecting the fact that some households took on much larger amounts.

Households already using credit

A greater share of households with persistent budget shortfalls were already using credit when they entered the survey and around a third of these (32.3%) took on further debt. This extrapolates to 826,460 households nationally. Again, these are households who, at the point this additional credit was extended, had

[33] This estimate is based on 480 households with persistent budget shortfalls who were not using consumer credit at their first survey observation, from an estimation sample of 4,337. Sensitivity tests produced rates from 21.6% (excluding the household with the largest correction factor) to 26.7% (uncapped), with 99th-percentile capping alone giving 24.9%. We therefore exclude the largest correction factor and cap the remainder at the 99th percentile, giving the reported 22%. A 500-replicate bootstrap gives a median of 22% (95% CI: 16.6%–28.4%), equivalent to 317,235 households nationally (95% CI: 237,462–404,092). In an out-of-sample test, training on the first three wave-to-wave transitions and predicting the fourth-to-fifth transition (N=1,079; 116 households with a shortfall, 81 persisting), the model's retention-corrected forecast (11.2%) fell substantially below the transition's own uncorrected rate (19.8%). This is a wide enough gap that the reported rate for this population should be treated with more caution than the report's other modelled estimates, though the held-out group here is also small (81 households), so a single test cannot establish whether this reflects a genuine limitation of the model or the instability of testing on a small sample.

already demonstrated a sustained inability to meet the cost of essentials and existing repayments.[34]

These households were already facing a shortfall of around £2,700 a year, equivalent to 11.4% of their essentials budget, before any of this further borrowing is considered. Their balances rose substantially over the following six months — from a median of £1,500 to £3,500— with the typical household's individual balance growing by 63.6%. This was often accompanied by a change in product mix: close to two thirds (61.9%) of these households changed the products they held over the same period, with Buy Now, Pay Later the most gained (15%), followed by personal loans (12%), credit cards and overdrafts (both 7%).

Some of this apparent debt growth could reflect interest accruing on existing balances, rather than genuine new borrowing. However, this does not appear to explain the pattern: even among the minority of households who grew their balance without taking on any new type of credit product, the median increase was 50%: substantially higher than sub-prime credit card or overdraft rates over a six-month period. Among households who also took on a new product over the same period, the median increase was higher still, at 78.6%.

This further borrowing took place alongside a wider deterioration in these households' circumstances: their budget shortfall deepened by a median of around £960 a year over the same period, driven predominantly by movements in income and essential costs. These were households whose financial difficulties were typically getting worse at the time they took on additional debt.

Cause and effect?

The wider deterioration of household circumstances alongside increasing debt balances is suggestive of irresponsible lending but it does not prove it conclusively. It could still be possible for household financial positions to have changed significantly between the survey waves, such that they were able to afford their new credit at the time of application and then to have suffered a major income or expenditure shock prior to retaking the survey. We would be better able to determine cause and effect using multi-period analysis, but the sample size for households with persistent budget shortfalls appearing in the survey over three or more consecutive waves is too thin for us to perform this analysis.

With a full causal test unavailable, we instead built a comparison group: 250 households who also had a persistent budget shortfall across the same two waves, but who did not go on to grow their balance, set against 126 growers. The logic is straightforward: if growers' additional borrowing were mainly explained by them independently suffering worse shocks than other similarly-placed households, we would expect their financial position to have deteriorated by more than that of

[34] This figure does not rely on a separate model of its own — it uses the same retention-corrected persistence model described above, with balance growth applied as an additional condition once persistence is established. Out-of-sample, the model predicted 28.5% of the held-out group would also grow their balance, against an actual outcome of 30%.

the comparison group, over the same period — after discounting any effects due to the new credit itself. We therefore measured 'financial position' here as gross income minus essential costs, before deducting any credit repayments.

The findings support the view that most of the additional lending that took place was irresponsibly provided. At the median, both of our groups showed stable financial positions across the two waves in which they are observed. The comparison group's pre-credit shortfall widened by a median of only around £270 a year (60% of this group saw their position worsen); and the growers' pre-credit shortfall was even more stable — a median deterioration of around £115 a year (52% worsened). This typically small fluctuation across the two waves implies that there was no rollercoaster of boom and bust between them during which the additional lending would have plausibly been responsible.

We also checked whether the households who did see a genuine improvement in their pre-credit position went on to borrow proportionately more than those whose position was stable or worsened — since these are the households a lender would be more likely to view as able to take on new borrowing. It doesn't materially change the picture. Just under half of growers (48.5%) saw their pre-credit position improve, typically by around £2,380 a year, but this group's balances did not grow by any more than the rest: if anything, their balances grew by a smaller share (a median of 56.5%, against 72% for growers whose position had not improved). Whether a household's underlying finances got better between waves does not explain who went on to borrow the most. On the evidence available, we therefore consider it likely that most of the lending discussed in this section was, at the point it was extended, irresponsible.

Total, potential irresponsible lending

Nationally, we estimate that **approximately 1.15 million households have potentially been irresponsibly lent to over the past two and a half years** — either by taking on further debt while already unable to meet their essential costs, or by being extended credit for the first time when they were in that position. We estimate these households have taken on at least £1.97 billion in new debt as a result. Collectively, we estimate they hold at least £4.34 billion in consumer credit debt.[35]

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[35] These figures combine two populations; each tested with a 500-replicate bootstrap. For households already holding consumer credit who took on further debt while in persistent shortfall, the population estimate is reasonably precise (95% CI: 0.67 million to 1 million), so we report the central estimate of 0.83 million. The debt-value figures carry substantially more uncertainty, reflecting the relatively small number of households on which the balance figures are based: additional debt (95% CI: £1.72 billion to £3.71 billion) and total debt held (95% CI: £4.10 billion to £8.93 billion). We therefore report the lower bounds of the confidence intervals. Following a sensitivity check, the underlying weights were capped at the 99th percentile of the correction factor to limit the influence of a small number of extreme individual weights; this narrowed both ranges slightly, particularly at the upper end. For households extended credit for the first time while already in persistent shortfall, we also excluded the household with the single largest correction factor before capping the remainder at the 99th percentile. This gives a population estimate of 317,235 (95% CI: 237,462 to 404,092) and a debt-value estimate of £0.61 billion (95% CI: £0.24 billion to £1.15 billion). Given the width of uncertainty in both debt-value estimates, the figures in the text above use the lower bound of each range as a conservative "at least" estimate, rather than the central estimate: £1.72 billion plus £0.24 billion for new debt (£1.97 billion), and £4.10 billion plus £0.24 billion for total debt held (£4.34 billion). The combined population estimate (1.15 million) uses the central estimate for each component.

Products

We explored how different levels of disposable income and financial strain affect the holding rates of different credit products. Table 2, below, sets out these results for three groups. The first of these are households with positive disposable income (prior to taking account of any credit repayments). The second are those with a pre-credit shortfall. Both groups are drawn from cross-sectional data, pooling percentages across all survey waves. The final group are households with persistent budget shortfalls, after factoring in credit repayments, drawn from the panel data.

For most products, holding rates step up consistently as households move from more comfortable circumstances into difficulty. Overdraft use nearly doubles across the three groups, from 18% to 27% to 34%, and store card use rises even faster, from 7% to 11% to 17%. Financial stress is associated with increased use of these products.

Credit cards do not fit this pattern when considered as a whole: overall card-holding falls from 80% among households with positive disposable income to 59% among those without, before partially recovering to 65% among households with a persistent shortfall. However, splitting card holders into transactors, who repay their balance in full each month, and revolvers, who carry a balance and pay interest, reveals an important trend. Transactor use falls steadily and substantially across the three groups, from 55% of households with positive disposable income, to 30% of those without, to just 26% of those with a persistent shortfall. Revolver use moves in the opposite direction, rising from 29%, to 32%, to 42%. In other words, as households' circumstances deteriorate, they shift from paying off their balance in full each month to carrying and servicing one.

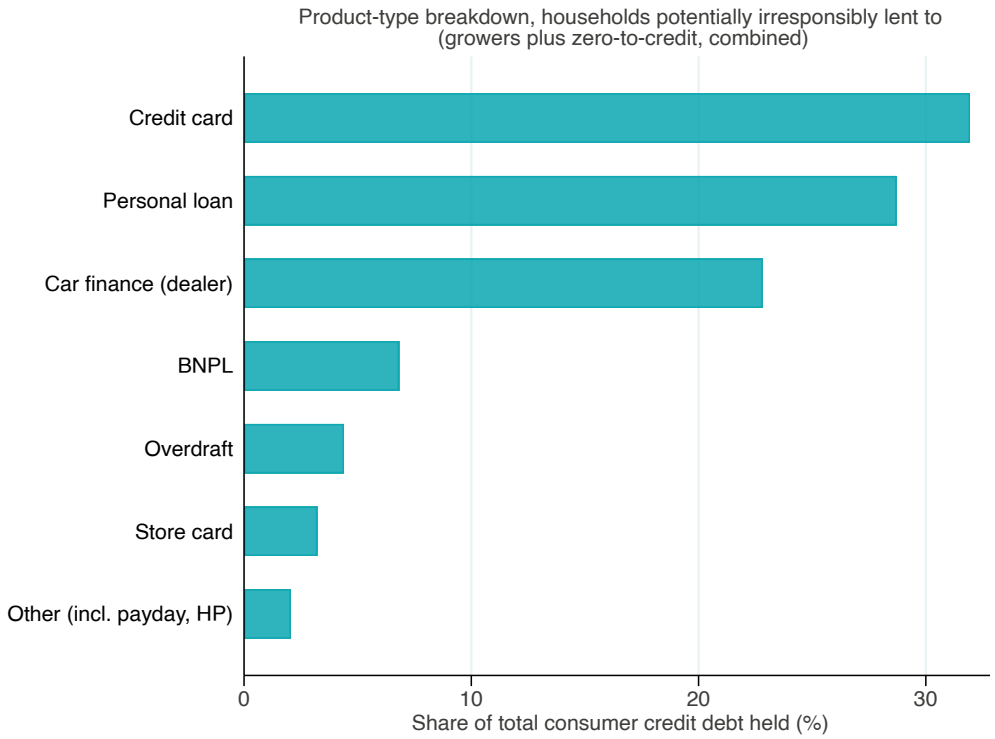
Table 2: Product type holding, by level of financial strain

Product	Households with positive disposable income (pre-credit), %	Households with zero or negative disposable income (pre-credit), %	Households with persistent budget shortfalls (panel data), %
Credit card (any)	80	59	65
Credit card (revolver)	29	32	42
Overdraft	18	27	34
Credit card (transactor)	55	30	26
BNPL	17	26	23
Personal loan	17	20	19
Store card	7	11	17
Car finance (dealer)	16	16	16
HP	2	4	5
Payday	2	4	3

Households showing greater signs of financial strain are also more likely to use BNPL (26% vs 17% for those with some disposable income). While this is a substantial increase in use, we might have expected its holding rate to increase further amongst households with persistent budget shortfalls, as BNPL lenders were not required to conduct affordability assessments over the period under study. However, its overall holding rate is well below those of overdrafts and revolving credit cards amongst households with persistent shortfalls, and its use does not grow at any considerably greater rate than for these other products as household circumstances deteriorate.

Most of the potentially irresponsible lending that has taken place over the past two and a half years is therefore likely to have been conducted via fully regulated products, raising questions about the effectiveness of affordability assessment rules and the Consumer Duty over the period. This is also confirmed by our decomposition of the total outstanding balances reported by households that are likely to have been irresponsibly lent to over the period (figure 6, below).

Figure 6: What kind of debt is behind potentially irresponsible lending?



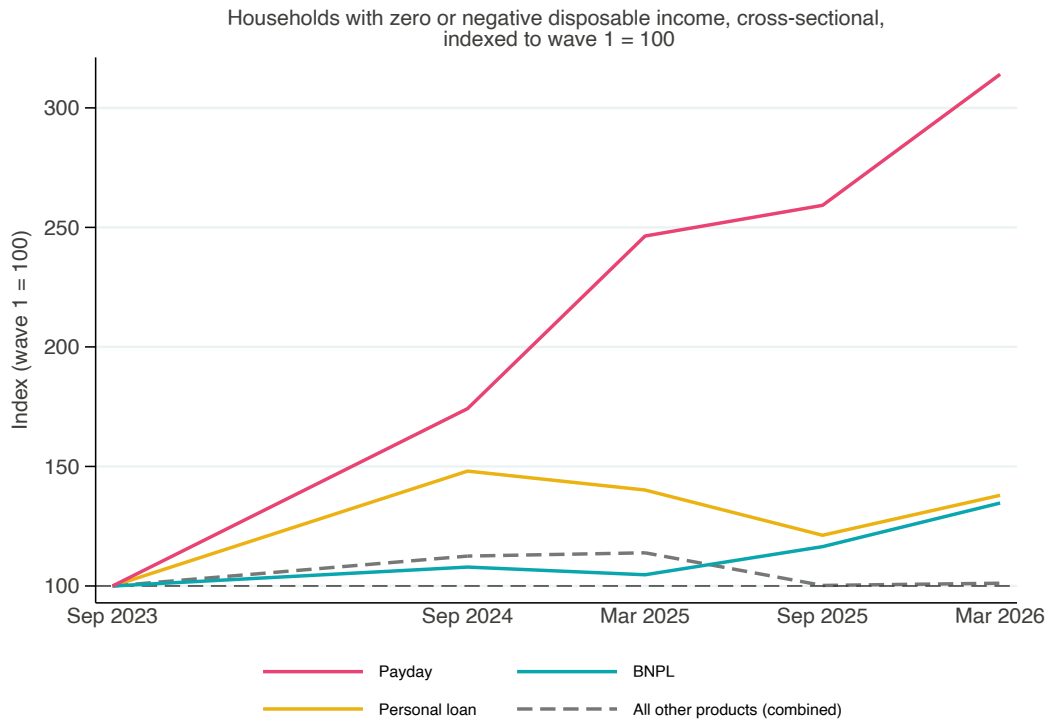
Growth in personal loan, BNPL and payday loan holding among financially distressed households

The pooled wave totals reported above tell us about credit product holding over the entire two and a half period, but this has also changed from survey to survey. Looking at changes in holding rates amongst households with zero or negative disposable incomes across individual survey waves (figure 7, below) reveals

significant growth in the use of personal loans, BNPL and, particularly payday loans; although in the case of the latter this growth starts from a very low base (just 1.9% of these households held a payday loan in September 2023, compared to 23.2% for BNPL, while 15.1% had personal loans).

It is notable that BNPL holding among financially distressed households has increased since March 2025. Government published its final consultation response regarding BNPL regulation and officially laid the draft Statutory Instrument legislation before Parliament in May that year. The growth in BNPL holding among financially distressed households since then suggests that BNPL firms may have been 'making the most' of the period prior to regulation coming into force. In contrast, all other products combined show a fairly flat trajectory over the period (figure 7, below).

Figure 7: Growth in product holding among financially distressed households



Persistent credit card debt

As noted above, LMI households with persistent budget shortfalls were much more likely to revolve credit-card balances. We examined this further by tracking households that held a credit card when their budget shortfall was first confirmed as persistent (N=248) through to the next survey wave. At that point, close to three-fifths (58.3%) self-reported as revolvers, while more than a third (37.8%) were 'transactors': expecting to clear their balance in full each month. The remaining

4% reported both behaviours, holding multiple cards and carrying a balance on at least one while clearing another each month.[36]

Is a self-reported 'transactor' status a reliable guide to a household's true financial position once persistent difficulty has set in? Tracking these households forward to the following survey wave suggests not. One in five (20.2%, 95% CI: 12.7%–29.5%) of those who began as transactors were, six to twelve months later, carrying a revolving balance instead.[37]

Credit card debt also appears to be persistent for the vast majority. Only around a quarter (23.4%, 95% CI: 16.8%–31.8%) of households with persistent budget shortfalls had cleared their credit card debt entirely by the time they were next observed.[38] What distinguished this quarter from the rest? Not an improving financial position — both groups' income gap widened further over the period, and the households who cleared their card debt started from only a somewhat shallower shortfall than those who did not.[39] What set them apart was the scale of what they owed: households who went on to clear their card debt held a smaller balance to begin with — a median of £500 in total consumer credit debt, against £1,260 for those who did not — and their overall borrowing fell alongside their card debt, to a median of nil, rather than being replaced by debt elsewhere. For the majority who did not clear their card debt, the opposite was true: typical card exposure rose from £1,200 to £1,500 over the same period, and total consumer credit balance from £1,260 to £2,000.

Beyond the scale of what they owed, the survey does not allow us to say with confidence what distinguishes households who clear their card debt from those

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[36] One observation per household (its earliest qualifying wave-to-wave transition, to avoid double-counting a household persisting across more than one transition). Revolver and transactor status are drawn from survey question qbe15a, which asks respondents whether they currently owe money on any of a list of loan or credit types, instructing them to "select all that apply." Two of the list options are "Credit card balances you do not expect to repay in full before or on the next payment date" (revolver) and "Credit card balances you expect to repay in full before or on the next payment date" (transactor) — both are available to be selected simultaneously, which is what the "both" category captures: a household reporting at least one card balance it does not expect to clear alongside at least one it does.

[37] Among the 127 households identifying as transactors at the first point of observation. A 500-replicate bootstrap, refitting the retention-bias correction described earlier in this chapter on each replicate, gives a median flip rate of 20.1% (95% CI: 12.7%–29.5%).

[38] 65 of 248 households, determined from whether either a revolving or a transactor-type balance was reported at the following wave. A household with a known starting balance, still present in the survey, reporting no balance on either a revolving or transactor type of card use at the following wave, is treated as having cleared its debt. A 500-replicate bootstrap gives a median of 24.6% (95% CI: 16.8%–31.8%).

[39] Cleared households (N=65): median disposable income before credit repayments of -£3,252 at the first wave and -£3,701 at the second; median total consumer credit balance of £500 at the first wave and £0 at the second. Households who did not clear their card debt (N=183): median disposable income before credit repayments of -£4,606 at the first wave and -£4,977 at the second; median credit card exposure of £1,200 at the first wave and £1,500 at the second; median total consumer credit balance of £1,260 at the first wave and £2,000 at the second. All figures are 500-replicate bootstrap medians, refitting the retention-bias correction on each replicate. Of these five comparisons, only the cleared group's total consumer credit balance shows confidence intervals that do not overlap between waves (95% CI: £300–£1,500 at the first wave, £0–£200 at the second); the other movements, while consistent in direction across replicates, fall within the range of ordinary sampling variation and should be read with caution.

who do not. Only 65 households cleared their card debt over the period, too few to test reliably whether factors such as disposable income or savings play a part. Understanding this better — including whether households are able to draw on savings, reduce other spending, or benefit from a change in circumstances to clear their card debt — would benefit from further research, ideally using data that tracks households and their credit card balances more frequently and over a longer period than this survey allows.

4 Deconstructing Exclusion

Headline findings

In this section we focus on households without mortgages. Around **3.4 million low-to-middle income households without mortgages have held no consumer credit at any point during the past two and a half years.** However, sustained non-use should not be treated as evidence of financial exclusion.

Of these households, **41% are persistently financially cushioned.** They are typically older; have comfortable disposable incomes, substantial savings and low housing costs, and appear to have limited need for consumer credit rather than being unable to access it.

A further **23.7% are persistently unable to afford commercial credit.** Their incomes already fall substantially short of essential living costs, by more than **£6,000 a year at the median.** Lending to these households would deepen hardship rather than constitute meaningful financial inclusion.

Affordability does not, by itself, explain who uses credit and who does not. The disposable-income distribution of households that never hold credit and are persistently unable to afford it falls entirely within the wider distribution for credit-holding households with persistent budget shortfalls. Severely constrained households can therefore be found on both sides of the credit market.

The group potentially excluded from credit they might be able to afford is considerably smaller. Around 35.3% of non-mortgagors that never hold credit, equivalent to approximately 1.21 million LMI households, fall into an "in-between" group: neither persistently cushioned nor persistently unable to afford repayments. Their financial circumstances vary considerably.

Of this group, between 262,000 and 626,000 would fail a reasonable affordability assessment, depending on the product offered and the assessment threshold applied. **Exclusion on affordability grounds is influenced by product design.** Smaller, interest-free loans with longer repayment periods produce substantially higher pass rates than larger, shorter-term commitments.

The previous chapter focused on households holding credit. In this chapter, we look at those who do not and explore whether these are 'financially excluded'.

Households holding no consumer credit at all appear to be common among the LMI population: 43.7% of households in the bottom half of the income distribution held no consumer credit whatsoever at the first survey wave. Before considering whether any of this group might be excluded from safe, affordable and responsibly provided credit, it is worth understanding who they are.

Demographically, this population skews markedly older than LMI households as a whole: 31% are aged 65 or over, and 40% own their home outright, with no mortgage. Just 16% have any children. Taken together, this points to a substantial share of non-credit-holders being retired or approaching retirement, with lower ongoing housing costs than the wider population — a profile consistent with limited need for consumer credit, rather than an inability to access it.

At the same time, this is not a uniform group. Disposable income is only modestly positive at the median (£3,151 per year) — considerably lower than the wider comfortable segment this population's demographics might suggest — and the distribution is wide: a quarter of non-credit-holders have considerably negative disposable incomes (with an annual budget shortfall of more than £5,500) against a top quarter with more than £10,000 a year to spare. Savings show a similarly wide split — a median of £5,500, but with a bottom quarter holding £250 or less, against a top quarter with £35,000 or more in reserve.

This population therefore combines three very different groups: a substantial comfortably-placed segment with little evident need for credit; a similarly substantial minority who are in extremely difficult financial circumstances, despite holding no consumer credit whatsoever, and a group somewhere in-between. It is that final group who are most likely to be excluded from credit that they could potentially afford by making short-term sacrifices to their essential spending.

Cross-sectional data only gets us so far, and not holding credit when surveyed at a specific point in time could be masking the true level of consumer credit use. It is possible, for example, that a household surveyed in September 2023 and again in March 2026 could have reported no credit use at either of these points, but it could nevertheless use credit between them. We explored this further using the panel data.

To do so, we restricted the analysis to non-mortgagors. Households with mortgages have already passed the most demanding credit assessment in the market, but holding a mortgage does not, on its own, guarantee continued access to consumer credit, so we tested the restriction directly.[40] Mortgagors are no more or less likely than other LMI households to go without consumer credit: 28% of mortgagor households held none at any observed wave, against 30% of non-mortgagors, a difference that is not statistically significant. Those who do go without it, however, are far better placed to afford it. Their median disposable income is around £8,700 a year, three times that of non-mortgagor households without credit (£2,900), and fewer than a quarter (24%) are unable to meet their essential costs, against nearly two in five (38%) of non-mortgagors. Excluding

[40] Mortgagors are defined as households observed with a mortgage at any survey wave. Defining them instead by tenure at the first observed wave changes the non-mortgagor population by around 40,000 households (0.3%) and the never-holds-credit share by 0.3 percentage points. Never-holds-credit shares are panel-level and corrected for panel-eligibility bias: ever-mortgagors 28.2% (95% CI: 22.2%–34.8%), never-mortgagors 29.7% (27.2%–32.4%), difference -1.4 percentage points (-8.7 to +5.5); 500 household-level bootstrap replicates. Affordability positions are pooled across survey waves for panel-eligible households that never held consumer credit (111 mortgagor and 663 non-mortgagor households). Disposable income is measured before credit repayments, with mortgage and rent payments both treated as essential costs. Mortgagors who never hold credit hold median savings of £8,000, against £5,800 for non-mortgagors.

mortgagors does not conceal a population excluded on affordability grounds. We constructed an inverse-probability weight, in the same manner as for the earlier persistent debt analysis[41] and we used this model to construct a retention-corrected weight for each household.[42] Within this retention-corrected, panel-eligible, non-mortgagor sample, we find that around three in ten (29.9%) of households hold no consumer credit at any wave at which they are observed. Scaling this to the national population of non-mortgagor LMI households (an estimated 11.5 million, or 81.4% of all LMI households), **we estimate that approximately 3.4 million LMI households have held no consumer credit whatsoever in the past two and a half years.**

To explore this group further, we defined three subsets of interest based on their disposable income and savings.

- Cushioned: where disposable income covers essential costs in full, with a surplus left over equivalent to at least a further month's essential costs, and savings held are £5,000 or more.
- Unable to afford credit: households where disposable income fails to cover essential costs; and
- In-between: everyone else.

Because a household's income and savings position can change from one survey wave to the next, we built persistence into the first two groups: these relate to the share of all never-holds-credit households who are cushioned, or unable to afford credit, at a given point in time and remain so six months later.[43] The in-between group captures both those who are neither cushioned nor unable to afford credit at a given point, and those who move between states over time.

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[41] We modelled whether a non-mortgagor household, observed at a first wave, went on to be observed at a second wave, as a function of its baseline age, housing tenure, number of children, employment status, and whether it held consumer credit at that first wave (N=6,910). Age was again the dominant predictor: the odds of remaining in the panel rose steeply and consistently with age, from roughly four times higher for 25–34-year-olds relative to an 18–24 baseline, up to almost nineteen times higher for those aged 65 and over. Renters — both local authority and private — were significantly less likely to remain in the panel than outright owners (odds ratios of 0.73 and 0.75 respectively, both $p<0.001$), and households with two or more children were also somewhat less likely to remain (odds ratio 0.73, $p=0.022$). Baseline credit-holding status was not, in this instance, a significant independent predictor of panel retention. Out-of-sample, a forecast trained on the first four waves alone (30.7%) came within 0.8 percentage points of the rate subsequently observed using the complete five-wave data (29.9%).

[42] We tested the robustness of this correction directly. The top 1% of correction factors accounted for 11.3% of the total weighted sample and the single largest correction factor was 48.9. Capping the most extreme corrections at their 99th percentile shifted the estimate by 0.4 percentage points (from 30.3% to 29.9%) — a small but non-trivial effect, so we adopted this cap for the headline estimate reported.

[43] Persistence is estimated using the same retention-bias-corrected, wave-pair transition approach used for the equivalent credit-holding-chapter measure: for each state, we combine the weighted share of the population currently in that state with the retention-corrected probability of remaining in it six months later (87.5% for cushioned, 72.6% for unable to afford credit), pooled across the three available six-month gaps in the panel. This is based on 737 six-month household-wave pairs.

On this basis, **41% of never-holds-credit households are persistently cushioned, 23.7% are persistently unable to afford credit, and the remaining 35.3% are in-between** — either consistently so or moving between the three groups over time.[44]

Persistently cushioned

The largest of the three groups is also the most financially secure and demographically distinct. Households confirmed to be cushioned at two consecutive survey waves have a median disposable income of around £12,700 a year, alongside substantial savings — a median of £50,000, with even the bottom decile holding at least £10,000 in reserve.

This is overwhelmingly an older, pensioner, population. Nearly two-thirds (63%) are aged 65 or over, and the large majority (88%) own their home outright. Almost none have dependent children (98% have none), and most (65%) are retired — though a meaningful minority are younger and in paid work, with 16% in full-time employment and a further 13% part-time.

Taken together, this is a population with limited need for consumer credit and the financial means to avoid it: low or no housing costs, comfortable disposable income, and substantial savings to draw on. Their absence from the credit market looks like a straightforward reflection of not needing it, rather than any form of exclusion.

Persistently unable to afford credit

In contrast to the persistently cushioned, non-retired households make up more than two-thirds (71%) of this group. They also overwhelmingly rent; over half (55%) from a local authority and just under a third (31%) privately. The remainder own their homes outright. Their gross household income is a median of £14,500 a year (ranging from £10,250 at the 25th percentile to £19,000 at the 75th), yet their disposable income — after essential costs — is deeply negative: a median shortfall of more than £6,200 a year, worsening to more than £10,000 for the worst-off quarter, and £15,000 or more for the worst-off tenth. Savings offer them little protection: the median household holds just £500, and at the 25th percentile there is nothing set aside. Their employment circumstances point to real constraint rather than choice: 27% are out of work due to long-term illness or disability, around one in ten are unemployed and seeking work, and a further 23% are in part-time work, which may itself reflect constrained rather than chosen hours.

Retired households make up the remaining 29%. They are considerably more likely to own their home outright (32%), though a clear majority still rent (45% from a local authority, 23% privately). Their gross income is lower than the non-retired group's — a median of £12,500 a year — but their shortfall is marginally shallower, a median of around £6,000 a year. The worst-off tenth face a shortfall of more than £12,500. However, unlike the non-retired group, some of this group still has a

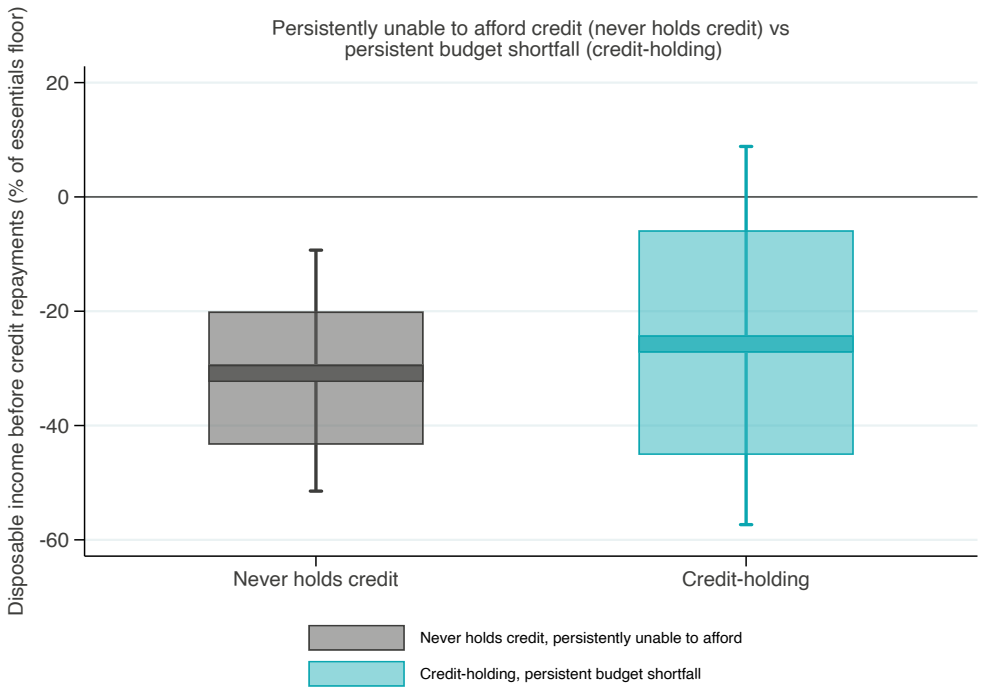
[44] 500-replicate bootstrap 95% confidence intervals: persistently cushioned, 37% to 45.3%; persistently unable to afford credit, 20.3% to 27.2%; in-between, 31.3% to 39.4%.

meaningful savings buffer to draw on: a median of £9,000, and even the bottom quarter holds £1,000.

Should either of these groups apply for credit, they would likely fail any reasonable affordability assessment. But this is not the whole story. As the previous chapter illustrated, households who are persistently in budget shortfalls do have access to credit.

If affordability were the binding constraint on access, we would expect the never-holds credit, can't afford it group to be significantly worse off than those using credit but with persistent budget shortfalls. This is not the case. Figure 8, below, compares the distributions of disposable incomes (prior to accounting for any credit payments) as a percentage of essential living costs for the two groups. While the distribution for the credit-holding group is more dispersed, the entirety of the distribution for the never-holding credit group fits within it. Affordability does not explain why one group uses credit, and the other does not. We further compare these two groups when looking at the prevalence of household bill arrears and credit applications in the following chapter.

Figure 8: Comparison of disposable income distributions as % of essential living costs



Box = 25th–75th percentile; band = median; whiskers = 10th–90th percentile.

In-between group

This group also divides between non-retired and retired households (54% non-retired), but their circumstances are more comfortable than those persistently unable to afford credit.

- **Non-retired** households in this group are considerably more likely to own their home than their counterparts in the persistently unable to afford credit group: 39% own outright, against 30% renting privately and 31% renting from a local authority. Their typical gross household income is £27,000 a year, and their disposable income is positive at the median: around £4,000 a year, though the bottom decile still faces a shortfall of around £4,500. Savings are modest but real: a median of £3,000, although the bottom quarter holds just £250. Half are in full-time work, though a meaningful minority face constrained circumstances: with 12% out of work due to illness or disability.

- **Retired** households in this group are overwhelmingly outright owners (79%). They typically have lower gross incomes than the non-retired group (£21,000) and have a little more than half the disposable income of the non-retired group (median: £2,314). Unlike the non-retired group, a meaningful share sits close to breakeven rather than comfortably positive: the 25th percentile has a small shortfall (<£50). Their savings buffer is, however, considerably larger than the working-age group's: a median of £5,000, rising to £25,000 for the top quarter, reflecting a lifetime of accumulated savings.

Across the group, the median household in this population has a disposable income of £3,775 a year, but with a wide spread: the bottom decile faces a shortfall of nearly £4,000, while the top quarter has more than £11,000 to spare. Savings show a similar spread: a median of £4,000, but with the bottom quarter holding just £350 and the top quarter £11,250 or more.

Rejected on affordability grounds?

While it is plausible that some of this group are relatively cushioned and don't require credit, others nevertheless have both limited disposable incomes and low savings levels. Those households could be rejected for credit on affordability grounds if, as required by the FCA's rules, lenders factored the impact of credit repayments into those assessments. To test this, we modelled how many households in the group would fail a strict affordability assessment — any shortfall against essential costs once repayments are factored in — for a range of loan repayment amounts over different durations. We modelled the impact of repaying £250, £750 and £1,000. These should be understood as total repayment amounts (including any interest or fees) rather than loan sizes. We calculated repayment rates for these amounts over three and six months. Households would fail our strict affordability assessment if they had any budget shortfall after factoring in the repayments. We also conducted a more relaxed assessment, allowing households to sacrifice 5% of their essential spending to make the payments.

At the strictest test — a £1,000 amount repaid over three months — only slightly more than half of this group would fail an affordability assessment, and this reduces to around a third at the relaxed test if payments were spread over six months. Affordability pass rates for the lowest repayment amount (£250) range between two-thirds and slightly more than three-quarters, depending on the

threshold applied. A useful reference point is the £750 repayment amount, where more than half would pass an affordability assessment on either threshold if this was spread over three months, and this rises to between 60% and 70% on repayment terms of six months. This indicates that *product design* choices have a significant influence on affordability assessment pass rates. Credit with no, or low, interest and which is spread over longer periods is, logically, more affordable than high cost, shorter term loans. Exclusion from credit on affordability grounds is influenced by lender business models.

National estimates

Scaling our findings to the national population, we estimate that 1.21 million LMI households are in the 'in-between' group.[45] **Applying our affordability tests, we estimate that between approximately 262,000 and 626,000 of these households would fail an assessment**, depending on the total repayment amount, duration and the affordability threshold applied. At the most lenient end of the range we tested — a £250 amount repaid over six months, assessed on the relaxed threshold — approximately 262,000 households would fail. At the strictest end — a £1,000 sum repaid over three months, assessed on the strict threshold — approximately 626,000 households would fail.[46] The other repayment amounts, terms, and thresholds we tested all produce national estimates that fall within this range.

Excluded on creditworthiness grounds?

Households can also be excluded from credit for reasons unrelated to affordability. A household that misses payments or defaults will have its credit record impaired, affecting levels of access. This is exclusion on creditworthiness grounds. It is real, but it is a distinct question from the one examined in this chapter, and the estimates most often cited to describe its scale do not measure it.

The most influential is L.E.K. Consulting's estimate that 16 to 17 million UK adults have 'non-standard' credit needs, with around £2 billion of "unmet but potentially commercially viable" demand.[47] This has since been adopted by Fair4All Finance, ClearScore and EY, and the Centre for Social Justice as evidence of a '£2 billion credit gap' for lower-income consumers.[48] Yet L.E.K.'s population combines three groups:

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[45] National non-mortgagor LMI population (11.5 million) × the panel-eligibility-corrected never-holds-credit rate (29.9%) × in-between share of that population (35.3%).

[46] 500-replicate bootstrap 95% confidence intervals: £250/6-month, relaxed, 188,000 to 326,000; £1,000/3-month, strict, 484,000 to 734,000. We bootstrapped these two scenarios specifically because they sit at the extremes of the full grid — the smallest and largest monthly repayments tested — so their confidence intervals bracket the range of uncertainty for every scenario in between.

[47] 'Improving Access to Lending for the Financially Vulnerable', L.E.K. Consulting Executive Insights, 07/11/2023, https://www.lek.com/insights/fin/eu/ei/improving-access-lending-financially-vulnerable

[48] See 'Access to credit and illegal lending', Fair4All Finance, May 2024, https://fair4allfinance.

those with thin credit files; those with impaired records; and the "highly indebted" — "individuals who have taken on too much debt and cannot afford to repay".

L.E.K. does seek to exclude those who could not afford further borrowing. But it does so by setting aside the unmet need of an undefined 'severely credit challenged' group as a whole, rather than by assessing affordability, and without showing its calculations.

The £2 billion gap is, moreover, a measure of commercial viability to lenders, not of affordability to borrowers.[49] It is a creditworthiness measure presented as an inclusion one. Commercially viable lending is precisely what our evidence shows is already reaching households who cannot afford it: at least £1.97 billion of new debt has been extended to LMI households whose budget shortfalls predated the borrowing (Chapter three). Closing the 'gap' on the same commercial terms would compound that harm.

As Chapter five proceeds to show, the route from inclusion to creditworthiness-based exclusion also appears considerably narrower than these figures imply.

org.uk/wp-content/uploads/2024/10/Access-to-Credit_Fair4AllFinance_May2024.pdf; 'Building a non-prime lending market that delivers for UK consumers', ClearScore and EY, 2024, https://assets.clearscore.com/m/12e47616dae107f/original/ClearScore-EY-whitepaper.pdf; and 'Beyond the Tipping Point: Where after High Cost Credit?', Centre for Social Justice, February 2025, https://www.centreforsocialjustice.org.uk/wp-content/uploads/2025/02/CSJ-Beyond_the_Tipping_Point.pdf, which refers to "a growing credit vacuum of about £2 billion". ClearScore's estimates rest in part on data from its own users; as a credit broker, it has a commercial interest in expanded non-prime lending — the conflict of interest we raise in Chapter six.

[49] The derivation of the £2 billion figure is not published in a form that allows scrutiny. L.E.K. puts the non-standard population at 16.3 million adults, combining its own 2023 consumer survey with ONS, FCA Financial Lives, Bank of England/NMG, County Court Judgment and insolvency data, but does not explain how these sources were combined. The survey's sample size, fieldwork dates, questions and weighting are not disclosed, nor are confidence intervals or any commissioning party. "Based on our consumer survey", L.E.K. estimates the population's credit need at c.£19–20 billion "in balance", of which c.£13 billion is met by existing providers (broadly consistent with its estimate, from Companies House filings and annual reports, of c.£12.3 billion of outstanding non-standard lending), leaving c.£7 billion unmet. Its Figure 2 then divides total demand between a 'severely credit challenged' group (£9.7 billion, of which £4.9 billion is already met) and 'other non-standard' borrowers (£9.9 billion, of which £7.9 billion is met). The £4.8 billion of unmet need in the first group is classed as "further commercial lending not viable"; the £2 billion is the unmet need of the second. Neither group is defined and no calculations are shown. L.E.K. acknowledges that "it is not appropriate that all these households should be able to take out further borrowing … although they would like to have the money, means other than further borrowing are needed". But its adjustment is a judgement about commercial viability made for whole groups, not an assessment of affordability against essential living costs, and it is not possible to tell whether households unable to afford further credit remain within the £2 billion. On L.E.K.'s own figures, £4.9 billion has already been lent to the group for whom it considers further lending unviable. Four further shortcomings follow. 'Need' appears to reflect what respondents say they need to borrow, not what they could afford to repay. The figure is also a stock of balances, not an annual flow of lending foregone. Finally, L.E.K.'s accompanying assessment of credit supply, which it puts as growing by c.2% a year since 2017, excludes Buy Now, Pay Later, which was expanding rapidly over the period, and its claim that regulation has made lenders more conservative is not supported by evidence in the note.

5 Outcomes

Headline findings

Most financially stressed households are not excluded from credit. They are already using it. After discounting mortgagors (see Chapter four), nearly three-quarters of LMI households with persistent budget shortfalls use consumer credit, compared to just over one quarter who do not. Nationally, around 2.2 million non-mortgagor households are using credit despite being unable to cover their essential living costs.

Four-fifths of these non-mortgagor households experiencing persistent hardship nevertheless continue to keep up with their credit repayments.

Credit use is associated with substantially worse outcomes than non-use, even among households with similar incomes and savings. After controlling for disposable income and savings, **credit-holders have around 1.7 times the odds of household-bill arrears and more than twice the odds of rent arrears.**

Credit users are far more likely to seek it. Credit-holders have more than six times the odds of having applied for unsecured credit than otherwise similar non-credit-holders, suggesting that some are trapped in cycles of repeat borrowing.

The previous chapters identified two groups of LMI households with persistent budget shortfalls: those who use credit, and those who don't. Restricting these to non-mortgagors, households with persistent budget shortfalls comprise more than a quarter (26%). Of these, nearly three quarters (73%) use credit and just over one quarter (27%) do not. This is not a picture of widespread credit exclusion. Nationally, around 2.2 million LMI households without mortgages are using credit to paper over the cracks in structural budget deficits.

While credit use for essentials can help meet immediate needs, making the repayments has obvious knock-on effects. A parent needs to buy school shoes for their growing child but cannot afford to do so. This doesn't stop the need to obtain the shoes. As a responsible parent, they may use credit to do so. If they then also act as a 'responsible borrower' they ensure the subsequent repayments are made on time and in full.

But under the constraints of persistently inadequate incomes, this invariably means they cannot afford some other essential. There is a longstanding research literature[50] covering the coping strategies that are adopted in these instances: parents skip their meals, the heating is turned down in winter, and many fall behind on Council Tax, rent and utility payments.

[50] For a review see Hartfree, Y., & Collard, S. (2014). 'Poverty, Debt and Credit: An Expert-Led Review'. University of Bristol.

Responsible borrowers?

Among credit-holding non-mortgagor households, fewer than one in five (18%) have missed two or more consecutive repayments in the past 12 months. The remaining four-fifths are the epitome of responsible borrowers. But, by definition, there is no financial slack in this population. If we accept the logic of borrower responsibility, many of these have likely become 'irresponsible' taxpayers, tenants, energy and water users instead.

Financial distress does increase the prevalence of missed credit payments. Households using credit, and without any persistent affordability problems, show an arrears rate of 10% — just over half that of those with persistent budget shortfalls.[51] However, the level of arrears among even the most stretched households remains surprisingly low given the depth of the budget shortfalls that many clearly have.

Despite considerable financial pressures, most households avoid missing their credit repayments; indicating non-observable factors are influencing their behaviours. The NMG survey cannot help us here, but, as we reported earlier this year[52], it is likely to be explained by the 'disciplinary effect' that is embedded into modern consumer credit systems. Missing payments impact credit scores, which impact future access. Knowing this, and often desperate for cash, a third of LMI borrowers — 6.4 million adults in Great Britain — are cutting back on essentials specifically to preserve their credit scores. This does not make these households responsible borrowers, it only indicates that, given their wider financial difficulties, they are prepared to prioritise credit repayments over other obligations.

Wider financial difficulties and credit application rates

The Bank/NMG survey helps us to understand how the disciplinary effect generates arrears on rent and other household bills. It also provides important information about the share of households who have applied for credit (although not the number of their applications), which informs how far we can consider credit exclusion to be a real problem.

We explored these aspects by looking at the pooled cross-sectional data across the five waves, restricted to non-mortgagors. Credit-holders report every one of these difficulties at a markedly higher rate than non-holders: 14.5% of credit-holders report bill or utility arrears, against 8.3% of non-holders; and 21.2% of credit-holding renters report rent arrears, against 9.7% of non-credit holding renters. Loan applications are also primarily reported by households already using credit:

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[51] The persistent group's figure carries considerable uncertainty (95% CI: 12% to 25%), reflecting the relatively small number of households underlying this estimate; the bootstrap mean is 18.3%. The safe group's figure is far more precise (95% CI: 8.7% to 11.5%; bootstrap mean 10.1%).

[52] Gibbons, D., & Pena, A.R. (2026). 'Good Score, Empty Cupboard: The credit score trap forcing households to cut spending on essentials', Centre for Responsible Credit. https://www.responsible-credit.org.uk/reports/good-score-empty-cupboard

5% had applied for a loan or other unsecured credit in the prior 12 months, against just 0.9% of non-holders. It does not appear that non-credit holders are applying for credit and being rejected in any great numbers.

This is not simply a feature of the pooled sample: the gap between credit-holders and non-holders is present in every one of the five survey waves for both outcomes, as Figures 9 and 10 (below) illustrate. Bill and utility arrears among credit-holders ranged from 12.9% to 16.3% across the five waves, drifting upward over the period, while the rate among non-holders moved in a narrower 6.6% to 9.2% band. Rent arrears followed a similar pattern: credit-holding renters reported arrears of between 18.4% and 23.9% across the five waves, against a stable 8.7% to 10.2% among non-credit-holding renters.

Figure 9: Household bill arrears – not including rent

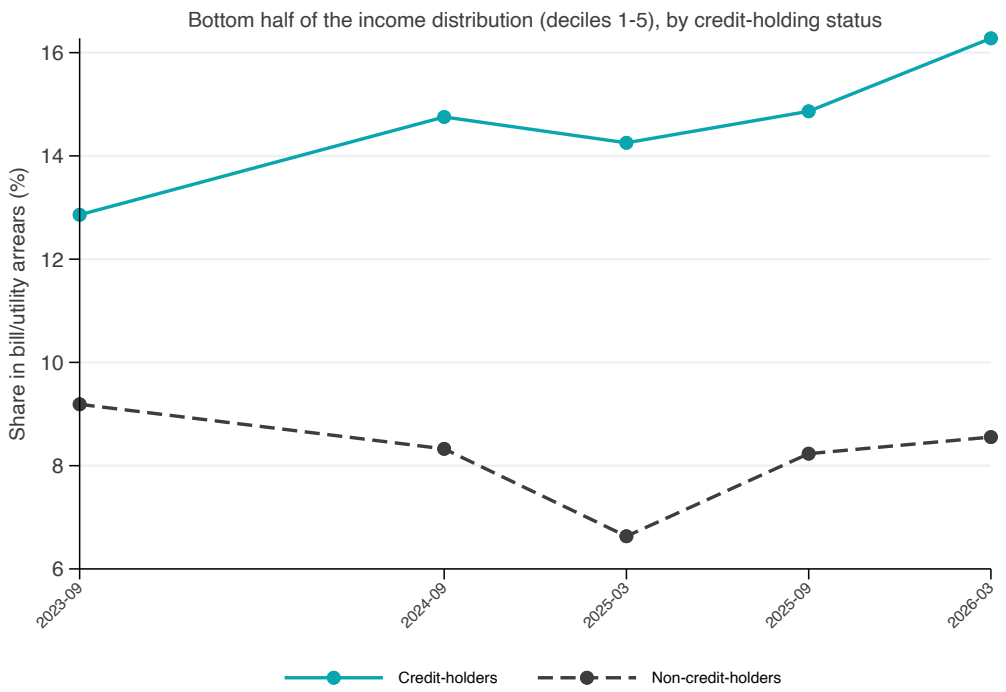
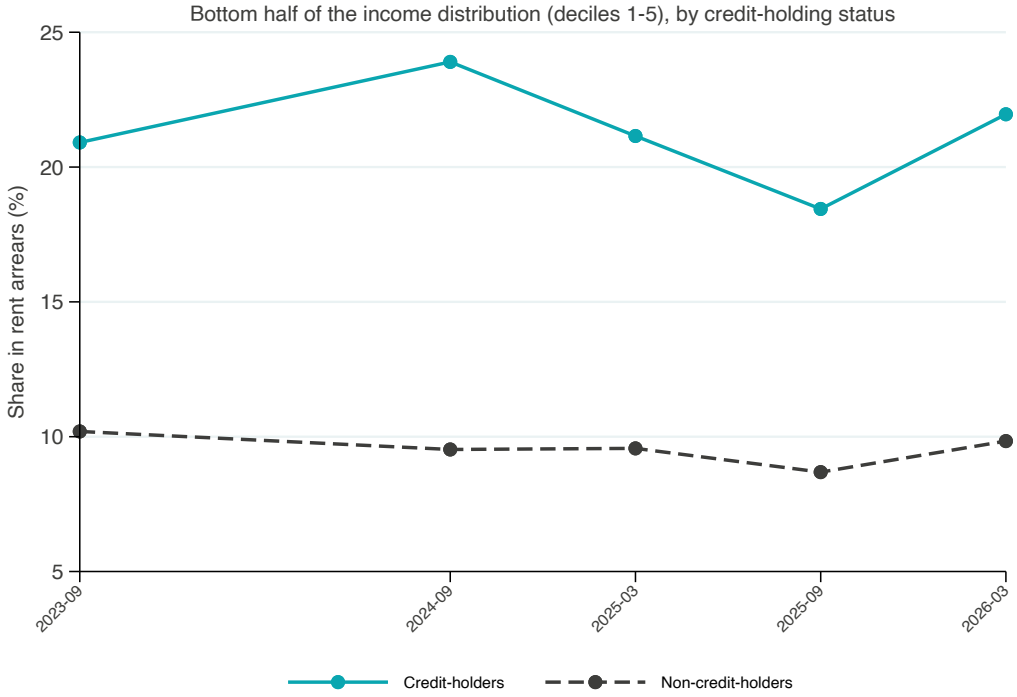


Figure 10: Rent arrears



Scaled to the national LMI non-mortgagor population, around 1 million credit-holding households are in bill or utility arrears, compared to around 441,000 non-credit-holding households. Among households who rent, an estimated 816,000 credit-holders are behind with payments to their landlords, compared with around 245,000 non-credit-holders.

A natural question is whether the difference in these outcomes simply reflects credit-holders being, on average, worse off financially. We tested this by modelling each outcome as a function of a household's disposable income and savings, alongside whether they held consumer credit, with an interaction between credit-holding and both financial variables.

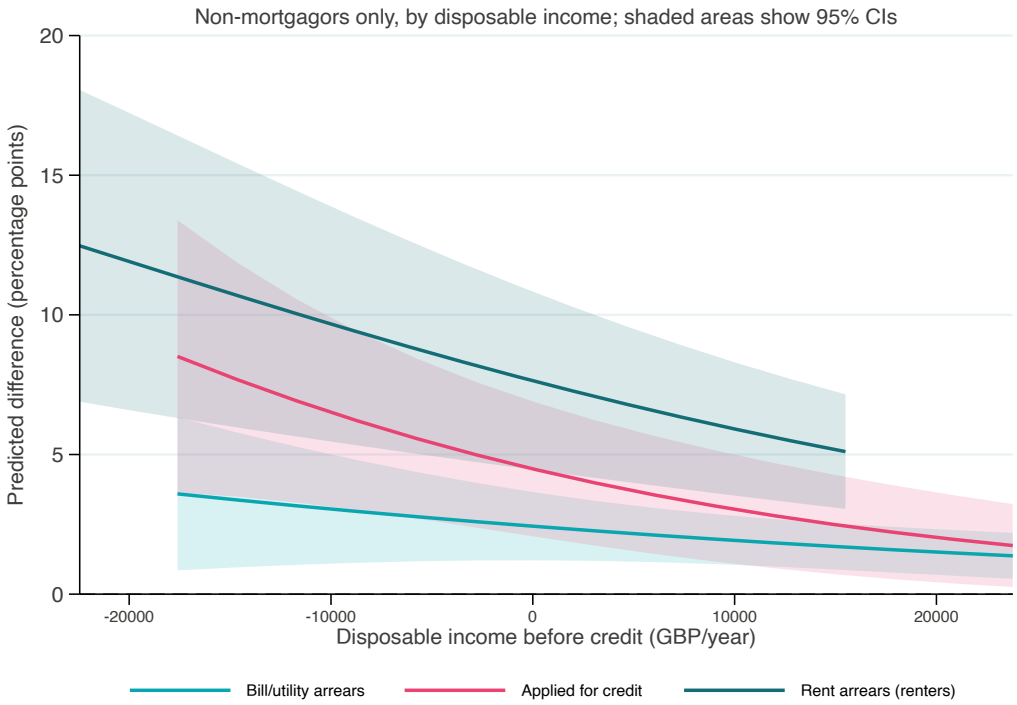
Credit-holders show significantly higher odds of worse outcomes than non-holders, even after accounting for their disposable income and savings position.

The gap is most pronounced for credit applications — credit-holders have more than six times the odds of having applied for a loan or other unsecured credit, compared to non-holders with the same income and savings. Loan rejections do not appear to be the primary reason why non-credit holders don't use it.

The gap is also substantial for bill and utility arrears (1.7 times the odds) and rent arrears among renters (2.24 times the odds). Non-credit holding households are far less likely to fall into these arrears, indicating that they may have better access to, or prefer to use, other coping mechanisms (e.g., borrowing from friends and family) that credit holding households do not.

The gaps narrow, but do not close, as disposable income rises. Figure 11, below, shows the predicted difference between credit-holders and non-holders across the range of disposable income observed in the data, for each of the three outcomes. On all three measures and across the entire disposable income range credit holders experience worse outcomes. Holding credit is associated with a persistently higher risk of arrears and of seeking further credit, regardless of how comfortable or constrained a household's income position is.

Figure 11: Marginal effects of credit holding on arrears and credit applications



Two of the three models show a further, more specific pattern.

- **For credit applications**, the income interaction is significant: the gap between credit-holders and non-holders narrows more sharply as income rises than the main effects alone would suggest, meaning the elevated application rate among credit-holders is most pronounced at the lowest incomes.

- **For rent arrears**, the protective effect of savings is significantly weaker for credit-holders than for non-holders — a given level of savings goes less far in preventing rent arrears if a household also holds credit. The effect is subtle in size, but consistent with the possibility that credit-holding itself — through the discipline of repayment commitments — narrows the room a household's income or savings would otherwise give it to avoid arrears elsewhere.

Lender responsibility

Using commercial credit when experiencing a budget shortfall is associated with a higher risk of arrears on rent and household bills, after controlling for disposable income and savings. It also appears to drive demand for further credit, indicating that many of these households could be caught in a cycle of repeat borrowing.[53] Expanding access to commercial credit is not a solution to the problems that households with structural budget deficits face.

Borrowing may offer a temporary fix, but using credit to pay for essentials ultimately worsens a household's structural conditions over time by locking up their future income and leads to significant cutbacks in other spheres. The recent growth in Council Tax[54] and energy debt[55] is likely explained, at least in part, by households prioritising credit repayments. Lenders have shifted their risks and costs onto these other institutions.

Does this make these households responsible borrowers or irresponsible taxpayers and energy users? In our view, neither. It merely reflects the extraordinarily difficult trade-offs that LMI households are currently having to make. The concept of consumer responsibility in an affordability crisis is nonsensical. A low-income household facing stagnant wages, rising housing costs, and with an inadequate social security safety net to fall back on is driven to make difficult and sometimes harmful choices. The locus of responsibility must be placed with lenders, who have commercial incentives to exploit borrowers and where the greater power over outcomes lies.

What could help?

The reliance of millions of households on credit to pay for essentials is a symptom of a deep affordability crisis and the erosion of household financial resilience. Addressing this will require action on multiple fronts, including with respect to social security systems, and in labour, energy and housing markets.

This is not to say that credit cannot help at all. Our prior work demonstrates that

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[53] Recent evidence from credit applications submitted to short-term high-cost lenders via a major UK online lead generator also points in this direction. Mason, G., N, & Vik, P (2026) '**What Determines the Demand for Online High-Cost Credit? Evidence from Loan Applications from Digital Credit Intermediaries**', find that "more than four in ten applicants engage in repeat applications to cover recurring household costs, half have outstanding consumer credit, and half of those with high debt servicing costs submit multiple applications to cover recurring household costs, which includes credit payments."

[54] Council Tax arrears have increased from £5.9 billion in 2023/24 to £7.4 billion in 2025/26. See Table 7 in 'Collection rates for Council Tax and non-domestic rates in England, 2025 to 2026', Ministry of Housing, Communities and Local Government at **https://www.gov.uk/government/statistics/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2025-to-2026/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2025-to-2026#arrears**

[55] Total energy debt (gas and electricity amounts in arrears for more than 91 days) increased from £2.17 billion in 2023 Q1 to £4.79 billion in 2026 Q1 – see OFGEM Debt and arrears indicators at **https://www.ofgem.gov.uk/data/debt-and-arrears-indicators**

positive outcomes are possible where responsibility is embedded into product design. The key question is not simply whether credit is available, but whether it is designed around the realities of household finances or around the extraction of value from financial difficulty. Credit systems should help households improve their circumstances over time, rather than deepen financial vulnerability. This shifts the focus from borrower responsibility towards lender responsibility, because lenders determine the terms on which credit is offered, and how debt is collected and enforced.

The pre-requisites for helpful lending to LMI households are straightforward. Credit must be genuinely low-cost and preferably interest-free. It should carry no late fees or default charges. Repayments should be adaptable and capable of responding to fluctuations in household circumstances. Collection practices should recognise that missed payments frequently arise from events outside a borrower's control, including insecure employment, benefit administration failures, ill health, and unexpected expenditure shocks. Evidence from our evaluation of Fair for You's Food Club demonstrates why this matters. Even where repayments were set at just £10 per week and no late-payment charges applied, many customers still experienced periods of repayment difficulty because of wider structural pressures.

The Food Club evaluation also illustrated that the way in which credit is used makes a real difference to borrower outcomes. Customers used the facility to purchase food and household essentials in larger quantities, enabling many to reduce their living costs. The scheme was associated with reduced use of food banks, lower use of interest-bearing credit, improved diets and improved wellbeing outcomes. In this respect, the credit provided more than temporary cash-flow support; for many households it improved longer-term financial resilience. This included transitioning customers away from commercial credit altogether. Following access to the Food Club nearly a third of customers (29%) stopped using interest-bearing credit sources, and there were also sharp reductions in the numbers using high-cost lenders, including a 74% reduction in the number using illegal 'loan sharks.'

This points towards **the importance of subsidised, purpose-driven lending for LMI households.** In the case of Food Club, costs are subsidised by Iceland Foods, which benefits from increased sales. Other possible subsidy models should be explored.[56] Credit that enables households to reduce ongoing living costs strengthens affordability. Bulk purchasing of essentials is one example. Enabling investments in energy-efficient homes and appliances, and lower-cost transport, are others. It is here that financial inclusion programmes need to be focused. Affordability assessments typically focus on current income and expenditure alone and rarely consider the savings that may arise from the intended use of the credit itself. Our previous work has highlighted the need to take these dynamics more seriously.

The contrast with many mainstream consumer credit products is striking. Throughout the history of consumer lending, products have often been designed with inflexible repayment structures to extract revenues from borrowers in financial distress.

- Payday lending initially depended upon extremely short repayment periods and generated substantial revenues when borrowers could not clear balances on time (offering 'rollovers' that compounded interest). Regulatory intervention forced significant changes to that market.

- BNPL products have been marketed as interest-free; yet operate with fixed repayment schedules and impose costs instead of offering genuine flexibility.

Credit card lenders take the opposite tack: offering 'extreme flexibility' by accepting very low minimum repayments, which extends repayment durations significantly and extracts high overall levels of interest. The model nevertheless profits from customers being unable to clear their balances within a reasonable

[56] The common feature of viable subsidy models is that the subsidiser has a self-interested reason to pay, rather than relying on pure philanthropy — this is what makes a model scalable rather than a one-off. Utility and water companies could subsidise credit on the same logic Iceland Foods applies to sales: arrears, disconnections and collections activity are costly, so financing a customer through a difficult period, or funding an efficiency measure that lowers their bill, can cost a supplier less than the alternative. Housing associations and landlords could apply the same reasoning and provide greater rent payment flexibility: proactive offers of flexibility reduce collection costs and benefit the landlord directly. Employers have a comparable interest in salary-linked lending, given the established relationship between financial stress and reduced productivity and retention. There is also a preventive-spend case for NHS or Integrated Care Board investment in affordable credit facilitation, on the same logic that underpins social prescribing. A further model, and one with the strongest track record for scaling, is statutory reinvestment. The US Community Reinvestment Act (1977) requires regulators to assess whether banks are meeting the credit needs of the communities in which they take deposits, including low- and moderate-income areas, and has been credited with directing substantial capital — an estimated $271 billion in 2020 alone — into underserved communities, often through partnerships with credit unions and community development financial institutions. The logic here differs from the cross-subsidy models above: it does not depend on identifying a business case for each lender but recognises that banks extract value from the communities in which they operate, through deposits, fees and interest, without any corresponding obligation to reinvest in them. A UK equivalent — a Fair Banking Act, of the kind we have proposed together with ABCUL, the Finance Innovation Lab, Responsible Finance and others — would require banks to report on and be rated against their performance in serving financially excluded households, and to either lend to them directly or provide capital, risk-sharing arrangements or grants to purpose-driven providers such as credit unions and CDFIs. This would put subsidy relationships of the kind described above on a statutory footing, rather than leaving them dependent on individual retailers', employers' or suppliers' voluntary recognition of their own commercial interest.

period. Recent evidence from StepChange indicates that the FCA's 'persistent credit card debt rules' have not been effective in addressing this.[57]

In all these cases, profitability is closely linked to what happens when households experience financial stress. Most products contain features designed to extract revenues from customers who are struggling to repay, making recovery more difficult. Expanding access to a highly extractive commercial market is not 'financial inclusion' in any genuine sense.

Alternatives to credit use

Although very low or no interest credit can clearly be helpful for some LMI households, it is not suitable for everyone. Financial inclusion programmes need to do more than pay lip service to this fact: they need to both specify and quantify who their target audiences are, and who they are not. They also need to provide warm handovers to alternative services where credit is declined. These include grant-making bodies, such as local authorities administering discretionary funds and not-for-profit organisations capable of supporting applications to these, maximising welfare benefit take-up and identifying further charitable funds. We therefore welcome the work that Fair4All Finance has supported with respect to credit application and decline journeys, including the incorporation of benefit calculators into these.[58] However, identifying entitlement to a potential grant or benefit for a low-income household is not the same as securing it for them, and we are not aware of research assessing the actual outcomes being delivered by these services.

Similarly, there has been a lack of robust social impact evaluation with respect to the outcomes being achieved by some high-cost Community Development Finance Institutions (CDFIs) that Fair4All Finance has funded in recent years, with some of these charging near payday-level rates of interest and fees.

Finally, further research is also needed into the potential for landlords, local authorities, and utility companies to offer greater bill payment flexibility as an alternative to credit use for households experiencing temporary income shocks. Initial insights from our FlexMyRent trial, conducted with HACT and Southern Housing, are informative here, with an independent evaluation finding that small-sum (typically around £300), fee-free, flexibility with rent payments had a positive impact on tenants' financial management and satisfaction levels. Importantly, offering flexibility with bill payments also encouraged tenants to self-disclose financial difficulties, with this information of key importance to the accurate risk assessment of payment proposals and to the routing of tenants to appropriate sources of further support.[59]

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[57] See 'Credit cards, financial difficulty and persistent debt', StepChange (2026) available at https://www.stepchange.org/policy-and-research/credit-card-persistent-debt.aspx?

[58] See, for example, https://fair4allfinance.org.uk/helping-people-access-the-support-theyre-entitled-to/

[59] Pena, A.R., & Gibbons, D. (2025). 'Trust and default risk: lessons from the FlexMyRent project'. Centre for Responsible Credit, available at https://www.responsible-credit.org.uk/reports/trust-and-default-risk-lessons-from-flexmyrent

6 Conclusions and Recommendations

The Government's Financial Inclusion Strategy sets out a clear and commendable ambition: for households to be able to access "safe, affordable and responsible credit". We support this goal. When credit is well-designed, low-cost, and flexible, it helps households manage cash-flow volatility. However, when combined with persistent budget shortfalls, repayments can deepen these, creating ongoing financial difficulty and harm. Access to credit is not appropriate in all circumstances and can be unsafe, unaffordable and irresponsible. To date, there has been an absence of robust, longitudinal evidence to inform how far Government's ambition is being met. This report set out to close that gap, testing five specific questions about the current state of the credit market (as experienced by LMI households) against five waves of Bank of England/NMG survey data.

Table 3, on the following page, brings together the full picture that emerges from this evidence across the 14.13 million LMI households in Great Britain.

The debate that motivated this report — whether affordability rules risk an 'unfair exclusion' of 'responsible borrowers' — starts from a mistaken premise. It assumes that access to credit is the scarce resource, and that consumer protection is what threatens it. Our evidence points in the opposite direction. Credit access is not scarce, with just over 70% of LMI households having used it at some point over the past two and a half years.

While most of these households do not have persistent budget shortfalls, around one in five of all LMI households have used credit at some point over the past two and a half years and are persistently in budget shortfall; equivalent to 2.6 million households. If we look only at households using credit in the latest survey wave, nearly half of them (44%) could not afford to meet both their essential living costs and credit repayments, equivalent to approximately 3.5 million households.

For most credit holders with budget shortfalls, this is not a temporary difficulty but an entrenched one: nearly three-quarters remain in shortfall six months later. Government's ambition is a strong one; the evidence in this report shows current practice in the LMI credit market is falling well short of it.

The clearest evidence of this gap is what we describe as potential irresponsible lending. We find approximately 1.15 million households were extended new credit, or took on more of it, while already demonstrably unable to meet their own essential costs — not through a sudden shock after credit was granted, but with the shortfall already established beforehand. Contrary to a common assumption that irresponsible lending is confined to unregulated or high-cost short-term credit, most of this activity runs through mainstream, fully regulated products: credit cards, overdrafts, and personal loans, rather than payday loans, whose overall footprint among LMI households remains comparatively small. This points to the FCA's affordability rules, and the Consumer Duty — a reasonably protective

framework on paper — leaving too much discretion to lenders and not being enforced with sufficient rigour.

Table 3: LMI households, by credit-holding status and financial circumstances[60]

Population	Households (approx.)	% of all LMI households
All LMI households (deciles 1-5, GB)	**14.13 million**	**100**
Hold consumer credit (ever, across the panel)	**9.97 million**	**70.6**
Not persistently in budget shortfall	7.38 million	52.2
Persistently in budget shortfall	2.6 million	18.4
of which, potentially irresponsibly lent to	1.15 million	8.1
Never holds credit — non-mortgagors only (panel-level: no credit at any observed wave)		
Never hold consumer credit	**3.44 million**	**24.3**
Persistently cushioned	1.41 million	10.0
Persistently unable to afford credit	0.81 million	5.8
'In-between'	1.21 million	8.6
of which, potentially excluded on affordability grounds	262,000–626,000	1.9 – 4.4

Genuine credit exclusion on affordability grounds is a real phenomenon in our data — but a considerably smaller and more specific one than current financial inclusion framing implies. Of the 3.4 million non-mortgagor LMI households who have held no consumer credit at any observed survey wave over the past two and a half years, the great majority are either comfortably placed with little need for it or are in circumstances so constrained that lending to them would deepen hardship rather than relieve it — not exclusion in any meaningful sense.

Only a genuinely intermediate group, an estimated 1.2 million households, sits close enough to the borderline that product design decisions — loan size, term, and cost — determine whether they would pass or fail an affordability test. Even within this group, most would still pass a test for a well-designed, low-cost, flexible product. Importantly, this group's financial circumstances overlap almost entirely with those of households who are using credit despite persistent shortfalls: affordability, on its own, explains remarkably little about who ends up on which side of the credit market. The two may be separated by characteristics the Bank/

[60] National estimates for LMI households (deciles 1–5), with all percentages expressed against the same total of 14.13 million. The two halves of the table use different populations. The upper half covers all LMI households, including mortgagors, that held consumer credit at any observed survey wave (see The Reality of Credit Use chapter, including 'Irresponsible Lending'); the lower half covers only non-mortgagors that held no consumer credit at any observed wave (see the Deconstructing Exclusion chapter). Mortgagors that have never held consumer credit fall into neither, so the rows do not sum to 100%. Figures are rounded.

NMG survey does not capture (e.g., thin credit files, or previous impairments) but there is no evidence that affordability rules are the driving force.

We find no case for weakening consumer protections to increase access: those holding credit experience worse outcomes than those who do not. Among non-mortgagor LMI households, credit-holders are considerably more likely than otherwise similar non-holders to fall into arrears on rent and household bills, and far more likely to seek out further borrowing — a pattern consistent with a slow-moving cycle of deepening debt rather than a bridge back to financial stability. This hardship is largely invisible to individual lenders, who have traditionally used creditworthiness assessments (whether repayments are being kept up) to underpin their decisions, rather than genuine affordability.

Four in five credit-holding non-mortgagor households in persistent shortfall have not missed two or more consecutive credit repayments in the past 12 months, but this is consistent with repayments being prioritised over other essential commitments and the resulting hardship being transferred onto landlords, energy and water companies, and local authorities collecting Council Tax. A low missed-payment rate on credit products is not, in this population, evidence that credit is working. It is evidence that the repayment discipline built into modern credit scoring systems is benefitting lenders at the expense of others.

Taken together, these findings point to a market that is significantly out of balance, but not in the direction that the debate preceding this report assumed. Consumer protection is not choking off access that LMI households need; it is failing to prevent harm from the access that, in large part, they already have. Extending further commercial credit to a population whose fundamental problem is inadequate income will not resolve that problem — it will, at best, defer it, and at worst, deepen it while shifting its visible symptoms elsewhere, onto other creditors and public services (including, for example, health) who are ill-equipped to absorb them.

The task facing regulators, lenders, and the wider financial inclusion agenda is therefore not to open the credit market further, but to make the credit already flowing through it safer. For the substantial minority of LMI households for whom no responsibly-designed commercial credit product will ever be the right answer, we need to build a genuine set of alternatives, designed around the realities of constrained household budgets, and delivered at sufficient scale. Efforts must be made to transition those with persistent budget shortfalls, and who are using commercial credit, to low cost, and preferably interest-free alternatives. The use of Dormant Assets and other public funds currently supporting inclusion initiatives needs to have a significantly greater focus on that purpose. To rescue underwater households will likely also require debt write-offs and better routing to alternatives such as grants and flexible bill payment schemes.

Even this will be insufficient. While the financial difficulties of households with persistent budget shortfalls may be ameliorated by transitioning away from commercial credit, this will not resolve their problems entirely. To do so requires Government to take bold action to address the underlying adequacy of household incomes.

Recommendations

The evidence in this report points toward a specific, actionable set of reforms. The data shows a market in which credit is not scarce, and where many LMI households are unable to support repayments without considerable sacrifices. After controlling for incomes and savings, LMI households using credit have higher levels of rent and household bill arrears than those who do not, indicating a shift in risk and costs from the credit sector to others including the public sector and local authorities.

For the FCA

This report's clearest single finding — that approximately 1.15 million households were extended new or additional credit, largely through mainstream regulated products, while already demonstrably unable to meet their essential costs — shows that current practice is not catching repeat or expansion lending to households in this position. We recommend the FCA require lenders' affordability assessments to explicitly test for an established pattern of financial difficulty before extending credit to an applicant. Greater clarity should also be provided to lenders regarding the "basic quality of life" baseline that they are required to consider as part of their assessments. In effect, we are calling for the regulator to draw a clear line around the market. Those within the market would be assured that the credit being provided to them is safe and affordable. Those outside it need access to non-commercial alternatives.

Too often, lenders design products in ways that extract revenues from borrowers in genuine financial difficulty. The FCA should use the Consumer Duty to require lenders to publish how they have designed their products to avoid this. Lenders' collection practices — reinforced by disciplinary effects of credit-scoring — also mean that the cost of maintaining credit repayments during periods of hardship is substantially borne elsewhere: in rent and other household bill arrears, including Council Tax debt. Our evidence shows this is a real and substantial transfer, not a marginal one.

Given the low level of missed payments even amongst those with persistent budget shortfalls, communications regarding potential forbearance and the availability of debt advice should not be limited to those in arrears. The FCA should instead require routine communications from lenders to borrowers to clearly state that repaying consumer credit debts should not come at the expense of paying for essentials. These communications should set out the full range of potential forbearance measures lenders can adopt, including freezing repayments and interest, and proactively seek contact about these from borrowers.

Finally, we recommend the FCA undertake targeted post-implementation monitoring of BNPL affordability assessments. The evidence of a marked increase in BNPL holding among financially distressed households in the run-up to regulation coming into force suggests firms may have sought to maximise lending ahead of the new rules; monitoring is needed to establish whether the regime is changing outcomes for this group in practice, rather than only on paper.

For the Credit Information Governance Body, credit reference agencies and score providers

The highly disciplinary effect at the heart of modern credit reporting needs to be addressed. We recommend that the Credit Information Governance Body (CIGB) and credit reference agencies prioritise work to identify financially distressed borrowers in the data and route these to debt advice services.

Credit reference agencies and score providers, when acting as brokers, also have a financial incentive to encourage further borrowing by already distressed borrowers. The CIGB and these agencies, in consultation with the FCA, consumer agencies and lenders, should develop a code of practice to prevent financially distressed borrowers from being targeted by members of their lending panels for further credit.

For Fair4All Finance & the wider financial inclusion sector

Financial inclusion funding, including Dormant Assets funding channelled through Fair4All Finance should focus on providing low-cost, and preferably interest-free, alternatives to the commercial-credit market for households with budget shortfalls. Funding should be used to scale credit unions and low-cost CDFIs, and research should be undertaken to develop subsidy models capable of supporting this.

Financial inclusion initiatives should also clearly specify and quantify their target population, identifying not only who is being targeted for low-cost credit, but also who is unable to afford this and will therefore need to be routed to non-credit alternatives.

We also recommend that Fair4All Finance commission independent, robust social-impact evaluation for all bodies receiving its funding. The methodological framework for a consistent social impact evaluation should be agreed with the sector. This should be focused on borrower outcomes and should explicitly explore whether there are any negative, as well as positive, impacts from the lending that is being funded.

Finally, we recommend that landlords, utility companies and local authorities seek to reduce the need for credit use amongst LMI households by offering greater bill payment flexibility. The FlexMyRent evaluation found that small-sum, fee-free flexibility with rent payments improved both financial management and tenant satisfaction. It also encouraged earlier self-disclosure of difficulty, improving the accuracy of risk assessment and the routing of tenants to further support. Financial inclusion funding should be used to encourage an expansion of this approach across the social housing, local authority and utility sectors.

For Government

This report shows that progress toward Government's overall ambition of securing access to "safe, affordable and responsible credit" can be measured. The Financial Inclusion Strategy should therefore be refreshed to include a baseline of how many are using credit safely and how many are not, and targets should be included to reduce the scale of unaffordable credit use. A new, dedicated, longitudinal survey should be commissioned to track progress, with the dataset made available to independent researchers.

As above, we believe that improving lender conduct, refocusing financial inclusion funding and encouraging more flexible bill payment options are the key measures needed to achieve the Strategy's ambitions. However, they will not, on their own, resolve the budget shortfalls of households at the centre of this report, many of whom are unable to service their debts without this causing considerable harm.

We therefore call for the urgent completion of Government's Insolvency Review, and for legislation to be brought forward to provide easier access to debt write-downs and write-offs for households carrying unsustainable debt burdens relative to their income — the 1.5 million households in this report who are both persistently unable to meet essential living costs and making considerable sacrifices to service around £7 billion in consumer credit debt.

A new insolvency framework is needed which replaces the current fragmented system of Bankruptcy, Debt Relief Orders and IVAs with a single, streamlined procedure; removes upfront fees for debtors, while allowing administrative costs to be recovered where appropriate; sets eligibility and repayment-capacity thresholds against living standards benchmarks that are publicly debated and updated annually; better protects the homes of debtors, so that people are no longer deterred from seeking relief, or driven into lengthy debt management plans or high-cost IVAs, purely to avoid losing them; and reduces the length of time insolvency information is retained on credit files, so that the 'fresh start' the system promises is not undermined for years after discharge.

More fundamentally, however, this report's evidence shows that credit is substituting for an underlying shortfall in household income relative to the cost of essentials, not filling a genuine gap in access to well-designed products. We recommend Government treat this as a mandate for action on the underlying drivers of that shortfall — social security adequacy, housing and energy costs, and wage levels — since even a reformed and better-regulated credit market cannot, by itself, close a structural gap between what millions of households are receiving in income and what they need to spend on basic living costs.

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