



dti

Evaluation of the illegal money lending pilots

February 2007

URN 07/612

Contents

Executive Summary	3
1.0 Background.....	9
2.0 Scope and focus of the evaluation	10
2.1 A strategic overview of the lessons from the pilot projects	10
2.2 The performance of the pilots against their objectives.....	10
2.2.1 Increasing awareness of the nature and impact of illegal money lending.....	11
2.2.2 The scale and impact of detection and enforcement.....	11
2.2.3 The impact of prosecution and removal of illegal money lenders.....	11
2.2.4 The social and financial inclusion effects of the removal of illegal money lenders and the promotion of alternative forms of supply.....	11
3.0 The framework structure and context within which the two pilot teams operate	12
3.1 The structure of the pilot teams	12
3.2 The operational framework within which the pilot teams work	12
3.3 The legal and procedural framework within which the pilot teams work	13
4.0 An overview of illegal money lending and its impact on victims and the communities in which they live.....	15
5.0 Detail of progress against objectives.....	21
5.1 Increasing awareness and understanding of illegal money lending	21
5.1.1 The starting point; awareness and understanding of illegal lending prior to the establishment of the illegal money lending pilot projects.....	21
5.1.2 The pilots' impact on awareness and understanding of illegal money lending	30
5.2 Relationships with key partners	33
5.2.1 The Police	34
5.2.2 Other government agencies.....	38
5.2.3 Trading Standards in other local authorities.....	39
5.2.4 Debt Advice agencies.....	40
5.2.5 Alternative sources of credit	46
5.3 The impact of enhanced enforcement	53
5.3.1 Eliciting reporting and intelligence from the community.....	53
5.3.2 Willingness of victims and the wider community to provide evidence to support prosecutions ..	55
5.4 The scale of detection and enforcement.....	57
5.4.1 Illegal money lenders identified and removed.....	57
5.4.2 Prosecutions and the outcome of formal reporting and referrals for illegal money lending.....	58
5.4.3 Sentences received by convicted illegal lenders	59
5.4.4 Proceeds of Crime Act investigations.....	59
5.5 The impact of removal and prosecution of illegal money lenders	62
5.5.1 The impact on victims and communities	62
5.5.2 Perceptions that lenders can operate with impunity	66
5.6 Overview evaluation	71
6.0 The lesson for tackling illegal money lending	76

Executive Summary

The key objectives set for the pilot teams

- Achieving an understanding of the nature and scale of the loan shark problem
- Reducing the incidence of illegal money lending
- Addressing the climate of fear that works against reporting
- Changing the perception that lenders can operate with impunity
- Supporting victims in finding viable alternative sources of credit following the removal of an illegal money lender

Increasing awareness and understanding of illegal money lending

- **At the outset increasing awareness and understanding of illegal lending was a very significant challenge for the pilots:**
 - There was little understanding of illegal lending or its impact on victims and communities, among policy makers, specialist agencies or the public
 - Illegal money lending was not on the radar of enforcement authorities
 - Historically the Police have not seen illegal lending as a criminal issue
 - Trading Standards, nominally responsible for the issue, simply lacked the resources and skills to tackle the cases that did arise
 - Enforcement response to the rare complaints that did arise was inadequate and often inappropriate
- **As a result illegal lenders have been able to operate with little fear of enforcement:**
 - Their control over their victims rested on a climate of fear which both protects revenue flow and acts against reporting
 - There is a high degree of cross-over between illegal money lending and criminal lifestyles with some victims drawn into theft, drug running, prostitution
 - **Victims have had no recourse and no confidence in the authorities**
 - Illegal lending hollows out the finances of victims, **exacerbates crime and anti-social behaviour and deepens financial and social exclusion**
- **Both pilot teams focused heavily on creating awareness** of illegal lending as a necessary first step in encouraging reporting and building support
- High profile poster, radio and TV campaigns were run to promote public awareness and boost reporting of illegal money lenders:
- Obtaining Police support was recognised early on as a key critical success factor. The major focus was thus on building relationships with enforcement agencies

- A concerted programme of networking was also undertaken across a range of specialist agencies, including debt advice, credit unions and community groups
- **Both teams have been successful in raising awareness and understanding of illegal lending in specialist agencies and the public:**
 - There has been a significant increase in media coverage of illegal lending at both local and national level
 - The focus of coverage implies that understanding of the damage done to victims and communities by illegal lenders will have increased
- **Some of the greatest changes in terms of the perception of illegal money lending have arisen among the Police**
- Awareness among Trading Standards officers, debt advice agencies and credit unions has increased
- At national level, there is an increased understanding of, and concern about, illegal lending

Building effective relationships with key partners to combat illegal money lending

- **The most effective partnerships were established with the Police** primarily because of the natural synergy with core Police business:
 - The teams are critically dependent on police capacity and powers at various key stages of the enforcement pipeline and could not operate without it
 - The removal of a loan shark is highly cost and resource intensive and has involved the input of significant Police resource and manpower
 - Embedding a Police officer in the team part way through the project greatly increased the efficiency of the Birmingham team
 - The exception to this pattern of successful joint working is the lack of intelligence from Police forces in Eastern Scotland, other than in Aberdeen.
- **The pilot teams have established working relationships with DWP and HM Revenue and Customs to address benefit fraud and tax evasion** which is frequently a feature of illegal money lending operations
- There has been **mixed success in migrating best practice to other Trading Standards teams** outside the pilot areas:

Addressing the climate of fear and giving witnesses confidence to come forward

- **The teams have had considerable success in eliciting reporting** with more than **200 lenders identified** between the two projects
- **The climate of fear clearly remains alive and well** and indeed appears barely dented in Scotland. Better progress has been made in Birmingham.
- **Victims remain reluctant to provide witness evidence, with difficulties in Scotland both much greater and more critical to effective prosecution**
- The **Glasgow team has been handicapped** in efforts to seek witness evidence **by the anonymity of Crimestoppers intelligence**
- Despite these challenges, **the pilot teams have obtained more than 100 witness statements**

- Only circa one in five victims are willing to provide statements in Scotland with very few prepared to attend court
- **Birmingham** faced fewer challenges in amassing the evidence partly because they were **in any case less dependent on witnesses**
- **The need for witnesses to attend court in Scotland has made it difficult to prosecute where witnesses are unwilling or unreliable**

The scale of detection and enforcement

- **There has been considerable progress made in enforcing legislation which has been previously unenforced:**
 - **Taken together the two units have identified some 203 lenders**, opened 111 investigations and **arrested a total of 39 lenders**
 - 30 individuals have been referred for potential prosecution with **19 cases having been brought to court or in the prosecution pipeline**
 - All three cases brought to court in Birmingham have resulted in convictions with some eight further cases now going through court process
 - **Lenders in England have also been prosecuted for offences including kidnapping, blackmail, firearms and assault.**
 - In Scotland two cases have been brought to court resulting in convictions with a further six in the prosecution pipeline
 - 9 cases, largely unlicensed lending at the benign end of the spectrum, have been dealt with by way of formal cautions or warning letters
- **Convicted lenders have received mixed sentences** ranging from relatively long prison terms (longest 3 years 9 months) to an official admonishment

Asset recovery

- **Stripping illegal lenders of assets amassed through illegal lending is as important to deterrence as the prospect of custodial sentences:**
 - Early indications are that in some cases **values recovered could be substantial and will make a significant contribution to costs**
 - Sums likely to be recovered are estimated to **be close to £2m, equivalent to the original budget for the pilots over the two year period**
 - The **potential total value of asset recovery is critically dependent on the outcomes of a few large cases**

The impact of removal and prosecution of illegal money lenders

- **Removal of the lender unequivocally has an important and positive impact on victims' finances and quality of life**
- We estimate that the removal of the lenders has **benefited around 1765 victims in total**
- The activities of the teams have **saved an expected total of £3.3m** that would otherwise have been diverted from the budgets of highly vulnerable victims
- A risk remains that some lenders may seek to collect a proportion of these funds even after their arrest

- There is some evidence that **crime and anti-social behaviour is reduced** in the wake of removal of a lender

Perceptions that illegal lenders can operate with impunity

- **The evidence on the impact of removal of lenders and the deterrent effect of enhanced enforcement is mixed:**
 - The community is not necessarily convinced that lenders will not be back or that they will not continue to operate through intermediaries or other means
 - Lenders may not have an alternative income option and victims may not have an alternative line of credit, which mitigates against deterrence
- **In some cases illegal lending continues in communities from which a lender has been removed:**
 - Some **lenders conduct business despite enforcement action** either personally or through third parties
 - Others resume business when they complete custodial sentences (which may not be for illegal money lending)
 - **The lender removed may not be the only lender operating in the community**
 - In England there has been some success in preventing lenders continuing to collect payments or intimidate witnesses through court interdicts and ASBOs.
- **In some cases arresting lenders and prison sentences in the wake of convictions does appear to have shut down lenders' operations**
- There is some evidence that **new lenders do not always fill the supply vacuum**, though it may be too early to say so with any comfort
- **Confiscation of lenders' assets may ultimately prove the most effective deterrent** while undermining perceptions of illegal lenders as "untouchable"

Supporting victims in finding viable alternative sources of credit

- **The teams have been largely unsuccessful in establishing effective partnerships within the money advice and credit union sectors:**
 - The in house Trading Standards money advice team in Birmingham were successful in prioritising victims but this was an isolated success
 - Outside the Birmingham city area the team **looked to Citizens Advice to provide debt advice on the basis of informal relationships:**
 - **Debt advice agencies were supportive of the pilots aims but too under-resourced to take on additional commitments**
 - In Scotland a **commitment to provide money advice support for victims was obtained from local authorities across Scotland:**
 - The money advice **support network set up at the outset was barely used because of minimal take-up from victims**
- Both teams made efforts to **network with their local credit unions but did not develop formal relationships or processes for referral of victims:**
- **Local credit unions did not see it as their role to proactively extend their activities to victims of illegal lenders:**

- Some of the credit unions in the areas covered by the projects did not have the capacity to offer instant loans or manage high risk borrowers
- New initiatives to reach out to higher risk borrowers, funded by the government's Growth Fund monies, were at too early a stage to benefit the pilot projects
- Growth in credit union membership in the wake of a lender's removal appears to have arisen from press coverage rather than victim referrals
- **Very few victims have made contact with advice agencies or credit unions**
- Debt advice is not seen as relevant nor are its potential benefits appreciated
- **Victims who have wanted credit in the wake of a lender removal have tended to choose familiar and accessible options** where they can (alternative illegal money lenders, home credit) **rather than credit unions**
- Some potential borrowers were deterred by the perceived requirement to save or by credit unions not having convenient opening hours. There is **some evidence of payment problems arising on credit union loans**

The lessons for tackling illegal money lending

- The emphasis in the pilots has necessarily been on enforcement. Going forward, **greater emphasis needs to be placed on other components of the wider effort to combat illegal lending**
- **A dedicated unit would seem likely to provide the most effective approach to both enforcement and social policy objectives but is high cost**
- **A highly integrated, "joined-up" multi-agency approach is likely to be required** with informal partnerships unlikely to sustain a workable solution
- Formal partnerships underpinned by specific funding, training and resource are likely to have the greatest chance of success
- **Direct access to informants** and thus the ability to build relationships with victims **is a critical success factor** in both detection and effective prosecution
- If responsibility for enforcement is to remain with Trading Standards, embedding a police officer in the team offers the best model for future development
- **The dependence on Police resource and powers and the synergy with core Police business raises the issue of where responsibility is best placed**
 - Both units have demonstrated the effectiveness of partnership working with the Police. That said, there is a case to be made that transfer of responsibility to the Police would be potentially both more efficient and more cost effective
 - There is however **significant risk that the effort to tackle loan sharks would lose out against competing Police priorities**
 - A Police-based operation may also **dilute the social policy dimensions** of the effort to combat illegal money lending
- There is a **need to discriminate between lender types and develop differing approaches** for different illegal lending models
 - It will be important to avoid the temptation to focus on lenders with potentially high value assets to recover as distinct from those with most negative impact

- **Greatest social benefit will be achieved if enforcement focuses clearly on those lenders creating gravest damage to victims and communities**
 - Those associated with wider criminal activities
 - Where modus operandi most closely resembles extortion, typically sustained by intimidation and violence.
- Efforts to tackle those operations whose modus operandi is closer to legitimate licensed lenders might most effectively focus on:
 - Putting those unlikely to be suitable candidates for a consumer credit licence out of business
 - Encouraging lenders potentially likely to be granted a licence to adapt their business model to conform with regulatory requirements.
- **Recognition of differences in victim types is also required in planning for victim support and the generation of alternative credit supply**
 - Not all victims of illegal lenders are candidates for credit union borrowing and that not all credit unions can provide a service to victims
- **Efforts to create alternative credit supply - and to combat illegal lending more generally – are most likely to be successful if community based**
- The pilot experience supports the view that **the most effective strategy in combating illegal lending is to maximise legal credit options.**
- **Enforcement and deterrence clearly have an important role to play** in sending the message that lenders can no longer act with impunity
- Given the over-riding objective of preventing illegal lending, in many ways **the pilot projects illustrate the limits of** the effectiveness of even a successful enforcement operation and **an enforcement-led strategy**
- **Alternative credit supply for those unable to access legitimate sources will be the more effective route to reducing the incidence of illegal lending**
 - This will require some extension of third sector lenders' capacity to serve high risk borrowers
 - Credit unions are not appropriate for some victims, who instead are likely to require some form of grant support, integrated with wider social inclusion efforts

The most effective strategies for tackling illegal lending will **balance enforcement with alternative credit supply but also wider efforts to tackle financial inclusion**

- Ultimately **illegal lending is a function of financial and social exclusion** and represents one of its most damaging aspects
- **Tackling illegal money lending needs to be seen as part of the financial and social inclusion agenda**
- Unless effectively addressed, **the prospect is for illegal lending to increase – with the price paid in the exacerbation and deepening of social and financial exclusion**

1.0 Background

Until recently little has been known about illegal money lenders and their activities. As part of the effort to address the cycle of disadvantage and poverty and to promote financial inclusion, however, the government made a manifesto commitment to “tackle loan sharks”. Accordingly, the Department of Trade and Industry (DTI), as an extension of various other strands of work in enhancing consumer protection, promoting affordable credit and working to minimise over-indebtedness, has moved to address illegal money lending. The early stages of this initiative have been both practical and fundamentally exploratory. On the one hand, the DTI has commissioned research to establish the scale and impact of illegal lending in the UK and to try and understand how best to address it¹. On the other, the DTI has funded two pilot enforcement projects in Birmingham and Glasgow, both areas having known concentrations of loan shark activity.

Run by specialist Trading Standards teams, these projects have set out to tackle illegal lending on the ground and to gain insight into how best to address illegal lending on a national basis. The Birmingham team covers 14 local authorities across the West Midlands while the Glasgow project covers 32 local authorities across Scotland. The pilots were due to run originally until September 2006, and were then extended until March 2007. In December 2006 the government announced a further year extension and some limited expansion of the project. There are a number of evidence-based inputs to the ongoing development of a national strategy for tackling illegal money lending strategy. These include both the research into the scale and location of illegal lending across the UK, earlier referred to, and an evaluation of the effectiveness of the pilots against the original objectives set for them. This document describes the findings of the evaluation of the pilot illegal money lending projects and an initial view on some of the key questions posed in the associated review.

¹ Policis/PFRC study for DTI “Illegal Lending in the UK: Research report”, November 2006 (web publication only, available from www.dti.gov.uk)

2.0 Scope and focus of the evaluation

2.1 A strategic overview of the lessons from the pilot projects

The evaluation of the pilots set out to take an overview of the performance and impact of the pilots and to establish in particular:

- The overall impact of the pilot projects on illegal lending in the communities in which each has operated, and the influence and impact each has had on:
 - Victims
 - The communities in which loan sharks operate
 - Agencies and service providers
 - The money lenders and their modus operandi
- The lessons that can be learned in terms of:
 - Focusing, structuring and resourcing initiatives to tackle illegal money lending
 - Arriving at the optimum balance between detection and enforcement and potential approaches such as counselling, education, and the establishment of alternative credit sources
 - How most effectively to achieve both the short and long term objectives of the drive to tackle illegal money lending in not only reducing incidence of such lending but also creating viable and sustainable alternatives for victims
- Overall, the strategic policy and best practice implications for developing an effective national model for tackling loan sharks

It should be noted that the evaluation team were not tasked with undertaking a formal cost : benefit analysis nor with undertaking an assessment of the resources or funding implications of any potential scaling up the pilot projects.

2.2 The performance of the pilots against their objectives

Specifically the evaluation set out to establish the performance of the pilot projects against the objectives originally set for them. At high level these were:

- Achieving an understanding of the nature and scale of the loan shark problem
- Reducing the incidence of illegal money lending
- Addressing the climate of fear that works against reporting
- Changing the perception that lenders can operate with impunity
- Supporting victims in finding viable alternative sources of credit following the removal of an illegal money lender

For the purposes of formal evaluation these objectives were further broken down into the following categories:

2.2.1 Increasing awareness of the nature and impact of illegal money lending

- Increased awareness of illegal money lending among victims and potential victims, front-line agencies, media, and wider public
- Increased understanding among potential users, communities, agencies and the wider public of the dangers and impacts of illegal money lending
- The degree to which increased awareness has resulted in additional support for victims and co-operative working between agencies, enforcement and otherwise

2.2.2 The scale and impact of detection and enforcement

- Increased reporting of illegal lending and in willingness to provide evidence
- The extent to which it has been possible for the specialist teams to build up an understanding of how individual money lenders operate
- The numbers of illegal money lenders identified
- The extent to which it has been possible to remove illegal money lenders and/or inhibit/curtail their activities
- The extent to which it has been possible for law enforcement agencies to build an effective case against illegal money lenders
- Increases in prosecutions brought for illegal lending and the extent to which prosecutions have been more or less successful than historically

2.2.3 The impact of prosecution and removal of illegal money lenders

- The extent to which removal of money lenders has impacted on the victims and their quality of life
- How far witnesses and victims feel able to co-operate with the authorities in working to prevent illegal money lenders and reduce their impact on communities
- How far communities have benefited from the removal of individual money lenders, in reduced anti-social behaviour, crime and social and financial exclusion
- Whether improved enforcement has created any deterrent effect
- Whether the removal of individual money lenders appears to result in a sustainable long term reduction in the incidence of illegal money lending

2.2.4 The social and financial inclusion effects of the removal of illegal money lenders and the promotion of alternative forms of supply

- How far the pilots have been successful in introducing victims to alternative and sustainable sources of credit
- How far there have been displacement effects for credit unions and other sources of money advice within communities
- The extent to which the effort to combat illegal money lending has contributed to the broader drive to combat financial exclusion in deprived communities

3.0 The framework structure and context within which the two pilot teams operate

It is important in discussing both the effectiveness and performance of the pilot project and the implications for a national strategy to bear in mind both the nature of the legal and structural frameworks within which the two pilot teams have operated and the way in which these differ in England and Scotland. There have also been differences in the local cultural and contextual environments for each team.

3.1 The structure of the pilot teams

Illegal money lending has historically been the responsibility of Trading Standards officers, the majority of whom are generalists operating in small teams, often consisting of a handful of individuals required to cover a wide range of Trading Standards issues. As such, Trading Standards teams rarely come across illegal lending – which by its nature tends not to be visible outside the small and deprived communities in which it occurs – and lack both the know-how and resources to address it in any case.

The pilot projects were set up as dedicated, specialist teams whose remit was solely to address illegal money lending, supported originally by some £2m of funding over a two year period. The pilot teams are structured to have a team manager, a senior investigator and up to six investigators. Team members come from a variety of backgrounds including Trading Standards, Police, Customs and Excise, and the financial services sector.

In terms of governance, the pilot teams have quarterly project board meetings with the DTI. They are also accountable to their respective local authorities and report back regularly on their work.

3.2 The operational framework within which the pilot teams work

Both pilot teams operate under the auspices of Trading Standards as local council employees and Trading Standards officers. In this capacity, powers of investigation and enforcement are by definition limited. The activities of both teams in many ways resemble those of Police or customs officers, in that their operations rest on investigation rather than the traditional Trading Standards “inspection” approach. As a result, they require a range of, usually covert, observation, search and evidence gathering techniques. In several cases the illegal money lending which the teams have sought to identify or monitor has been undertaken in parallel with other criminal activities, such as drug dealing, or as one strand of an intrinsically criminal lifestyle, involving a range of illegal activities. However, the remit of the pilot teams has been necessarily exclusively focused on contraventions of the Consumer Credit Act. Equally, team members do not have Police powers or resources. Neither team has direct access to Police databases, do not have the power of arrest and are not able to actively pursue illegal lenders in a variety of situations. Both teams also operate with a number of legal constraints on their ability to monitor or search suspect individuals, their homes or other premises.

The two teams took different approaches to this cross-over between aspects of their activities and Police work, which appears to have had some implications for

outcomes. Some way into the pilot a full-time Police officer was seconded to the Birmingham team, paid for out of the project budget. As a result, the Birmingham team are now in a position to instigate action more directly as the Police seconded can make arrests, effect searches etc and co-ordinate Police pursuit of other criminal activities more rapidly than is the case in Scotland. In contrast, the Scottish team's powers are limited to inspecting premises under the terms of the Consumer Credit Act, with no power to conduct searches of individuals. The team instead work closely with local Police forces, referring cases to them and relying entirely on the Police to determine whether there might be sufficient evidence to justify search or detention of individuals, to conduct searches and make arrests.

3.3 The legal and procedural framework within which the pilot teams work

There are significant differences in the legal and procedural frameworks within which the two pilot teams operate. In Scotland, as a general observation, the structural framework within which the team operates is more compartmentalised than in England, with different agencies responsible for different aspects of the process of both identifying and prosecuting illegal money lenders. This is particularly evident in the requirements relating to the gathering of evidence and decision-making on whether to take a case to court. An effective case for prosecution is in any case more difficult to build in Scotland. In contrast to the situation in England, where evidence to support a conviction can rest on either observation or witness statements, in Scotland witnesses are required to give evidence in court if a conviction is to be obtained. Given the nature of illegal lending, and the vulnerability of its victims, this is a situation witnesses may be reluctant to place themselves in. Additionally, the decision to prosecute an illegal money lender in Scotland lies not with the Police and the Crown Prosecution Service as in England, but with the Procurator Fiscal, to whose office the Police ultimately refer all cases.

Finally the Scottish pilot team appear to have been handicapped relative to their Birmingham counterparts in that they did not have direct access to members of the public who provided intelligence about illegal money lenders. In Birmingham, calls from the general public to report illegal lending were made directly to the pilot team by means of a dedicated 24/7 reporting hotline. In contrast, in Scotland referrals to the pilot team were made via Crimestoppers² and were thus not only one stage removed but also anonymous. The Scottish team therefore had no direct contact with those reporting illegal money lending and so were unable to interrogate them. As a result, the intelligence obtained in this way was of poorer quality and less timely than in Birmingham.

Both the consumer research undertaken to support the effort to map and scale illegal lending in the UK (Policis/PFRC, 2006) and the experience of the DTI project teams suggest that there may be differences in the modus operandi of illegal money lenders operating North and South of the border and in the profile of users of these lenders. It would appear that in Scotland users of illegal money lenders who live on deprived estates are more likely to have drug or alcohol problems than those in England. In England by contrast, customers of illegal money lenders are more likely simply to be poor, to be female and to be single parents. These differences in the profile of victims may also mean that victims in Scotland tend to be less reliable and more reluctant as witnesses (and likely to be viewed as such also by the courts) so that the

² Set up in 1988, Crimestoppers operates across the UK with the aim of helping to identify, prevent, solve and reduce crime. Anyone with details of criminal activities can pass the information on anonymously via the Crimestoppers national telephone helpline.

enforcement authorities in Scotland may face a more difficult task in assembling evidence to support prosecutions in any case.

Taken together, these environmental differences appear to have resulted in cases in Scotland being progressed at a slower pace than in England with convictions more difficult to obtain, despite evidence that the underlying illegal money lending problem is in fact more severe in Scotland than the Midlands (Policis/PFRC, 2006).

4.0 An overview of illegal money lending and its impact on victims and the communities in which they live

We here provide a brief overview of illegal money lending in the UK as context for discussion of the evaluation of the performance of the pilot projects. Readers seeking greater detail are referred to the Policis and PFRC research report for the DTI “Illegal lending in the UK” (Policis/PFRC 2006).

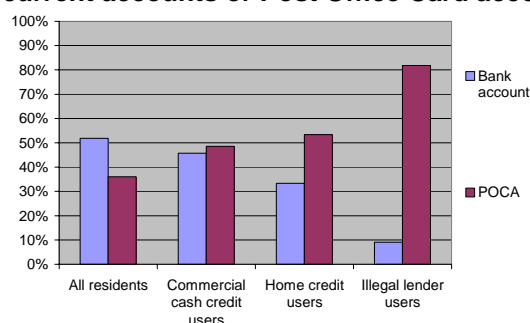
Illegal money lending is profoundly damaging to individuals and communities

Illegal money lending is defined as lending without a consumer credit licence, as required by the Office of Fair Trading under the terms of the Consumer Credit Act 2006.³ It is important to be clear however that illegal lenders are not in any sense simply unlicensed versions of the high-cost legal lenders. The activities of illegal lenders are profoundly damaging to both individual victims and the communities in which they operate. Illegal money lending locks in and reinforces financial and social exclusion, compromising the viability of household and family budgets and degrading quality of life, not least through the exacerbation of anti-social behaviour, drug use, violence and crime in areas in which these issues are already deeply problematic.

It is concentrated in deprived micro-communities with borrowers among the most marginalised and vulnerable in society

Illegal lenders tend to operate in the most deprived micro-communities, often in urban conurbations, with borrowers being the most marginalised and vulnerable individuals within such communities. Victims are among the most profoundly financially and socially excluded individuals in the UK, being less likely than other borrower types, including users of the high cost home credit lenders or credit unions, to have meaningful access to financial services, far less affordable credit.

Chart 1: % of users of illegal lenders having current accounts or Post Office Card accounts



Base: Residents of deprived estates
Source: Policis / PFRC saturation surveys 2006

³ In the UK, the legislative framework controlling the provision of most consumer credit (in the forms of loans or goods and services bought on credit) is set out in the Consumer Credit Act 1974. The Act requires lenders to be licensed by the Office of Fair Trading and trading without a consumer credit licence is a criminal offence, which can result in a fine and/or a prison sentence. The Act also sets out requirements for the form and content of individual consumer credit agreements, in particular the information that consumers should receive about costs and charges. Following an extensive review of consumer credit law, a new Consumer Credit Act was introduced in 2006, which aims (among other things) to provide greater consumer protection.

“If you are a loan shark you want your customers to be living on the margins and to be a bit isolated and vulnerable as well. Because then you can control their movements and you can control what they say to people and how they behave.”

Credit union manager on her observation of illegal money lenders operating in Birmingham

Credit from illegal lenders is three times the price of the highest cost legal credit

Unsurprisingly given the cost of illegal lending (approximately three times the cost of credit from the highest cost legal lender) and the lenders’ modus operandi of threats and intimidation, illegal lenders are clearly lenders of last resort. Consumer research undertaken by Policis for the DTI⁴ indicates that more than 8 out of 10 users of illegal lenders use an illegal lender because they had no other credit options. Lenders frequently apply arbitrary and disproportionate charges to escalate sums owed, with a view to creating an ongoing income stream for as long as it can be sustained.

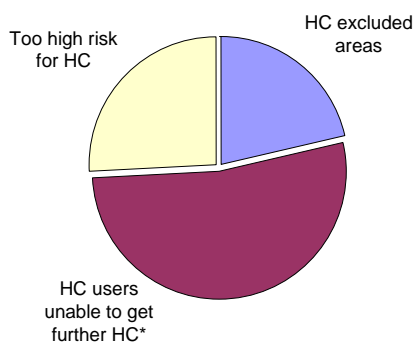
“The interest would get to such a stupid level that there was no way that you could ever pay it back...then basically you are at the mercy of these people to ask whatever they wanted. They would say ‘Give me £40 now, give me £40 next week. Basically the £40 would never clear.”

Journalist

Borrowers typically are those unable or no longer able to obtain credit from the high-cost home credit lenders

Borrowers typically either have no access to legal forms of credit or have reached the limit of, or defaulted on, a legal credit line. Users of illegal lending appear to be primarily those unable to access credit from the high-cost home credit lenders, for a variety of reasons. Around one in five users of illegal lenders live in areas not served by the home credit lenders. A little over half are home credit customers who have defaulted on or reached the limit of their credit line. Around a quarter are those who are too high-risk even for the high-cost lenders. The profile of those using illegal lenders is similar to that of home credit users in that most users are female, with families, and are aged 30–40. However there is a greater male bias and a greater tendency to disadvantage than is the case with home credit users.

Chart 2: Users of illegal lenders by access to and use of home credit



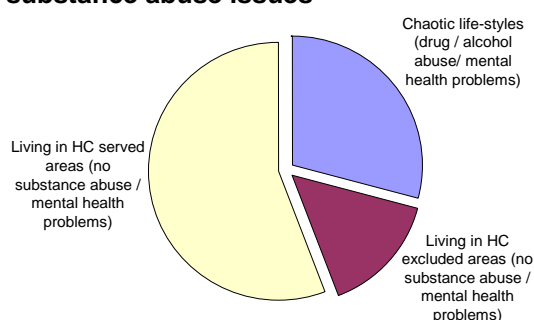
* end of HC credit line / defaulted on HC loan
Base: Illegal lender users
Source: Policis / PFRC saturation surveys 2006

⁴ See the Policis and PFRC study for DTI “Illegal Lending in the UK” 2006

A significant minority of borrowers have chaotic lifestyles and / or substance abuse problems

People who use illegal lenders have a greater tendency to chaotic lifestyles than users of high-cost credit, with some three in ten having drug, alcohol or mental health problems. Conversely, however, this implies that 7 out of 10 have no such problems. Most funds are used for much the same purposes as home credit. However a significant minority spend funds obtained from illegal lenders on drugs or alcohol, in part because some lenders also deal in drugs, tax free alcohol and/or counterfeit goods with credit being supplied at point of sale. A diagrammatic representation of illegal lender types, based on interviews with the pilot teams and the qualitative and quantitative research undertaken to support the DTI report which sought to scale illegal lending in the UK, can be found in Figure 1.

Chart 3: Illegal lender user by whether have substance abuse issues



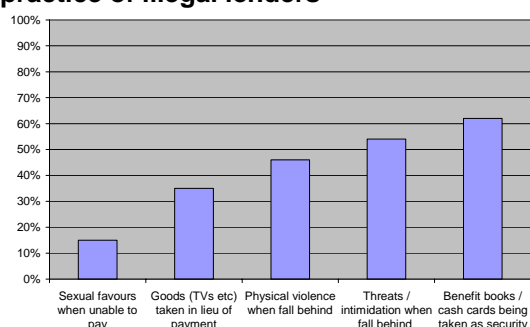
Base: Illegal lender users
Source: Policis / PFRC saturation surveys 2006

Chart 3 shows the profile of users of illegal lenders nationally. The data suggests however that users of illegal lenders in Scotland are significantly more likely to face a range of social problems, including substance abuse issues and alcoholism than is the case in England. Both the scoping research and the experience of the pilots suggest that illegal lenders in Scotland are more likely to be ultra-local, small-scale operations with victims more likely to live in the same community as lenders. In Birmingham, the pilot teams have identified both an illegal lender with a large numbers of customers and a lender offering relatively high-value, quasi-business loans.

Illegal lenders are often high profile within their community and sustain collection through a modus operandi of intimidation and violence

Illegal lending generally occurs in close-knit, closed communities and lenders are often well known, with business built up through social networking. Most relationships between illegal lenders and their customers are based on fear and intimidation with lenders seeking to control their customers with a range of coercive practices. Intimidation and violence ensure that payments to lenders are prioritised while protecting lenders from reporting. Control is further reinforced by the taking of illegal securities, particularly those which control access to victims' income, such as benefit books and cash cards. Non-payment can result in some borrowers becoming enmeshed in sexual exploitation and criminal activities, including drug dealing and prostitution.

Chart 4: Reported collection management practice of illegal lenders



Base: Illegal lender users
Source: Policis / PFRC saturation surveys 2006

Illegal lending models vary but a large proportion are embedded in a wider criminal lifestyle

There are a number of models of illegal lending. At the relatively benign end of the scale lenders may mimic some aspects of licensed lenders modus operandi or actually impersonate licensed lenders. Such operators may rely to a greater extent on pester power and mild intimidation to control their customers and cash flow. Some (often older) lenders may have long established operations and so have less need to resort to violence to control a long-standing customer base, albeit one charged very high rates. At the other end of the scale, illegal money lending is embedded in an intrinsically criminal lifestyle and may be ancillary to drug dealing or thinly veiled extortion. This type of operation is more likely to be sustained by violence and intimidation and to draw victims into criminal activity, including drug running and prostitution. The relative importance of these models is represented diagrammatically in Figure 1.

Illegal money lending is a lucrative and sustainable long term criminal business model with less perceived risk than other forms of criminal activity

“Put £100 out and you get £200 back over a short period of time. It’s an incredible return and it’s all cash.”

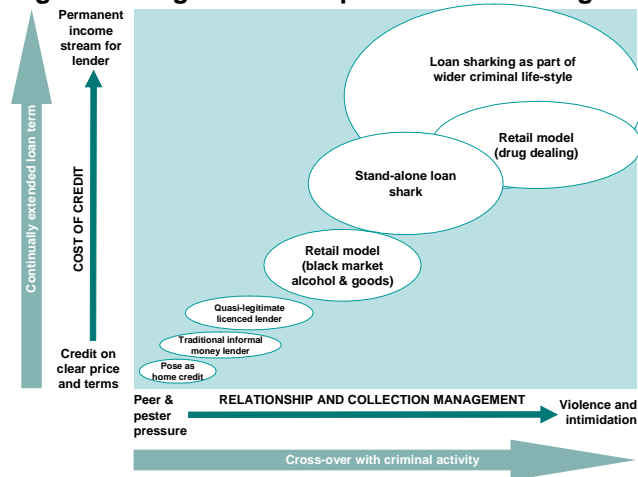
“The profits (from drug dealing) are bigger and it’s instant as well. If you sell a gram of cocaine then you’ve got cash in your hand from it. If you do money lending then you’ve got to wait for the profits to come in. Money lending is the long term. Drugs is for quick cash.”

“Money lending is more of a long term thing and it’s not perceived to have the same issues in terms of jail sentences. Over a longer period you’ll get the same amount back (as drug dealing) but it’s less risk.”

“The one we’ve got in custody here at the moment. These aren’t kids on the street dealing a bit of heroin. We are looking at 30–40 year old people. This one’s got previous for armed robbery. He’s moved away from that. It’s high risk and you get too old to go out there pointing guns at people, running away and ducking and diving. You’ve got to invest your money in another criminal way. And illegal money lending is that other way.”

Police and pilot team enforcement officers

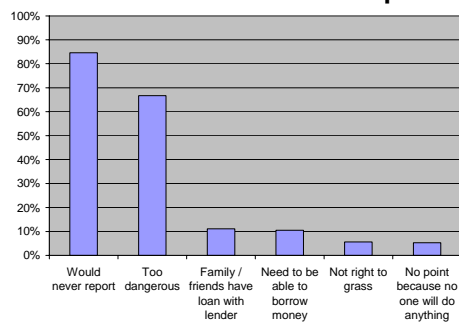
Figure 1: Diagrammatic representation of illegal lending models



The illegal lenders’ modus operandi of intimidation and violence works to limit reporting

One of the key issues for authorities seeking to enforce the law on illegal money lending is the fear with which lenders are regarded on the estates. Intimidation and an aura of potential violence is key to lenders modus operandi in that it both discourages robbery – otherwise a constant danger if individuals are operating in an area with a high degree of drug use and where lenders are known to be carrying large amounts of cash – and works against dispute over the scale of monies owed. It has the further effect, of course, of also discouraging reporting to the authorities.

Chart 5: Willingness to report illegal lenders and reasons for not reporting

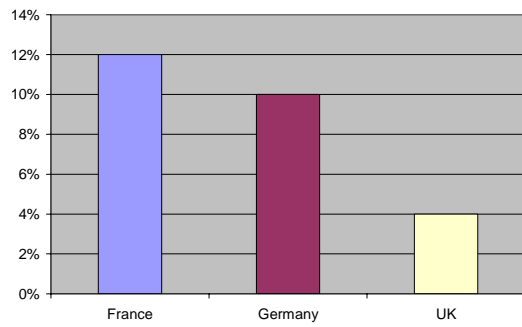


Base: Residents of deprived estate, Liverpool
 Source: Policis / PFRC saturation surveys 2006

The incidence of illegal lending is lower in the UK than in other large European economies because the regulatory framework maximises legal credit options

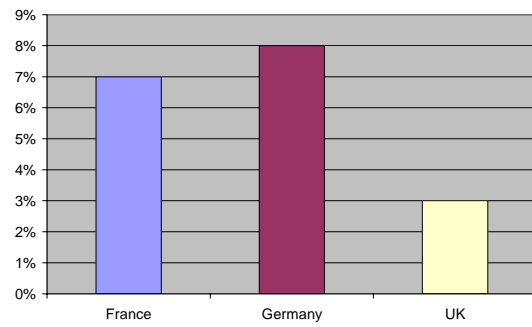
It is perhaps worth noting that Illegal money lending is small scale in the UK relative to other European countries for which data is available, largely because levels of absolute credit exclusion are also relatively low. In the UK legitimate sources of credit are available even to very high risk borrowers, albeit that credit can come at very high cost. In countries such as France and Germany where the regulatory framework precludes lenders from offering high cost credit to high risk borrowers, illegal lending is significantly more prevalent than in the UK. However, as in the UK, such lending is also concentrated in groups that are credit excluded.

Chart 6: Incidence of Illegal lending among those experiencing credit refusals



Base: Low income households who have been refused a loan by legitimate provider
Source: TNS research for Policis 2004

Chart 7: Incidence of Illegal lending among the credit impaired



Base: Credit impaired individuals France, Germany and UK (SHUFA, FICP, UK adverse credit registered)

5.0 Detail of progress against objectives

In this next section we comment on each of the pilot objectives in turn, providing both hard and soft data to support our observations.

5.1 Increasing awareness and understanding of illegal money lending

5.1.1 The starting point; awareness and understanding of illegal lending prior to the establishment of the illegal money lending pilot projects

The evidence is that at the outset increasing awareness and understanding of illegal lending was a very significant challenge for the pilots

One of the major issues for those seeking to address illegal money lending is a lack of awareness and understanding of the problem among not only among the public but also in government and specialist agencies. The evidence is that, at the outset, both pilot teams faced a significant challenge in seeking to increase awareness and understanding of the nature of illegal money lending and thus in communicating the importance of tackling loan sharks as part of the wider drive against social and financial exclusion.

A key challenge was to communicate the nature of illegal money lending and the negative impact that it has on deprived areas

One of the key goals of both teams was to promote understanding among policy makers, community and public sector agencies of the impact of loan sharking. One of the challenges for the team was to address perceptions, including those of some professionals, that illegal lending was simply unlicensed, community-based lending that was not necessarily damaging to individuals or their communities – and therefore not an appropriate target for intervention and enforcement.

“One of the reasons (for legislation on illegal money lending not having been enforced historically) is that there are mixed views in relation to illegal money lending... Some people feel that illegal money lending is part of a community process and does not necessarily lead to problems for that individual. They may be charged outrageous rates. But there is a view that it could in some cases be useful. And that is one of the difficulties.”

Senior enforcement official

“For a lot of people there’s no stigma attached to money lending. It’s part and parcel of what’s always gone on. It’s not like heroin. That’s part of why it continues and is tolerated.”

Journalist

Historically the Police have not seen illegal lending as a criminal issue

In one of the interviews undertaken to support this project, a senior Police officer described illegal money lending as “an invisible problem” prior to 2004. Historically, indeed, illegal money lending has been seen by some parties, including the Police, as a civil rather than criminal matter. The same senior officer went on to explain that,

prior to the establishment of the illegal money lending projects, individuals presenting themselves to the Police as having a problem with illegal lenders in the West Midlands would have been referred either to their solicitor or to debt advice, on the grounds that illegal lending was not a criminal issue.

“Bottom line, from a police perspective, we didn’t know what to do with it...It was a personal matter.”

“It’s the same as community policing, if you say there’s a problem in a certain area and you dedicate people to that certain problem, then something’s done about it.. It’s not until you dedicate someone to look at that specific difficulty that something is really done about it. It’s been like that with illegal lending.”

Police officers

Even agencies closely aligned with the financial inclusion and affordable credit agenda have had little awareness of illegal lending

Even among agencies specifically focused on delivering the financial inclusion and affordable credit agenda, many staff appear to have little knowledge of illegal lenders or the issues surrounding their activities. Certainly few debt advice agencies or credit unions knowingly have experience of contact with the victims of illegal lenders. A prominent and long serving debt adviser, for example, with experience of working in a number of deeply deprived areas, claimed to have come across only three reported incidents of illegal money lending in a twenty year career. The general view among debt advisers and credit unions was that people who used their services would be unlikely to mention unprompted if they had borrowed from an illegal lender – because of the fear of recriminations, but also for fear of jeopardising what might be their only line of credit.

“Prior to it (illegal money lending unit) being set up, it had the status of an urban myth. Everybody talked about loan sharking, but I don’t think we had any concrete examples of it happening, because the victims of loan sharks certainly didn’t present themselves to us needing help and it didn’t come to light.”

“I’ve never known us to find somebody that ultimately had a loan shark after them. They just didn’t seem to come to us...Also we would have been unsure ourselves how to deal with the problem as well.”

“They are completely outside the scope of normal business practice. If it is a loan shark, I mean we can hardly send them a letter saying – can we discuss this debt and will you accept reduced payment?...For all these reasons, it’s just something we (Money Advice) have never encountered.”

Money advice officers

Illegal money lending appears simply not to have been an issue on the radar of enforcement authorities prior to the establishment of the pilot teams

As with the wider public, illegal lending appears historically not to have been an issue on the radar of local authorities, specialist agencies or the Police. As a largely unreported crime, it appears not to have been the focus of any concerted regulatory or enforcement activity of any kind.

“In practical terms it has been an issue for a long, long time but nothing has been done about it until this unit has been set up. I mean literally nothing, for many years.”

"I can't even remember anyone being done. All the time I've been in the police and I can't remember anyone being done."

"There was nothing being done. Division weren't looking at money lenders."

Enforcement managers and Police officers

Local authorities and agencies on the ground had no process for capturing or acting on information on illegal lending far less for acting on it

In both Scotland and the West Midlands, reported incidences of illegal money lending appear to have been very rare. Knowledge and understanding of illegal lenders and their modus operandi appears to have been patchy at best and almost entirely anecdotal. Even where intelligence around illegal money lending did arise, agencies on the ground, whether the Police, Trading Standards or the advice agencies lacked the means to act on it, partly because no process for logging and analysing intelligence existed, nor in practical terms was there any effective body to which referrals could be made.

"If (a suspect) says to me 'The guy round the corner deals lots of drugs', that's something I'm interested in. If I asked about money lending he'd probably say something about it but if we don't ask, he wouldn't think we'd be interested. So the illegal money lending unit were probably the first people who really took an interest in it."

"There was intelligence coming in but nobody was really taking it on board. Occasionally someone would complain...But there wasn't really anyone working on money lending."

"What was happening was that there was no outlet for intelligence coming in on illegal money lenders."

"Before this happened (the pilot unit being set up) there was no process, no protocols even for logging this information."

Police officers

Trading Standards teams simply lacked the resource and skills to tackle the rare cases of illegal money lending that did arise

Trading Standards departments currently have responsibility for enforcing the legislation in relation to illegal money lending. However, it was clear both from the interviews undertaken to support this evaluation and the programme of domain expert interviews conducted to inform the earlier DTI scoping study, that historically levels of awareness of illegal lending had been very low within the Trading Standards profession generally. Unsurprisingly perhaps therefore, enforcement activity has been extremely limited.

"It may have been in the background but we weren't getting consumer complaints, if you like so we've only ever had one person come forward and say 'I'm involved with a loan shark'...In that sense loan sharks have been on the back-burner. We didn't know much about it and we wouldn't have known where to start, to be honest."

"Obviously Birmingham Trading Standards is one of the largest Trading Standards authorities in the country but even we didn't have the resource to tackle illegal money lending properly."

“To be honest we weren’t getting any complaints and our partners weren’t raising it with us as an issue either so there was no obvious intelligence to suggest there was a problem...so on that basis it was never a priority for our activities.”

“Trading Standards are incapable of dealing with it. They don’t have the skills, none of the manpower and they don’t have the time. And, being very cynical, they definitely do not have the inclination.”

Trading standard officers and local authority enforcement managers

Illegal lenders were able to operate relatively openly and with little fear of enforcement

The apparent small public footprint of illegal lending in the consciousness of both the public and agencies on the ground is perhaps surprising in some respects. Illegal lending is likely to be occurring in many deeply deprived urban communities or credit excluded groups and is often conducted in a relatively overt manner.⁵

Illegal lenders frequently hold securities in the form of benefit books (historically) or, more recently, cash cards (in the form of ATM cards or POCA cards) and PIN numbers, thus controlling the borrowers’ access to their income and ensuring that payments to the lender are prioritised in household budgets. In certain areas, illegal lenders can often be observed outside the Post Office meeting borrowers on the day that their benefits are due to be paid. Victims retrieve the benefit book or card, cash their benefits and then pay the lender from these funds, returning the (illegally held) security to the lender at the same time.

“I remember watching a loan shark coming out of his white van with the benefit books and people were waiting for him at the Post Office on a Monday morning. Anyone could go and watch it.”

Credit union manager

Alternatively some lenders are relatively visible in that they operate out of particular locations such as pubs or pub car parks, with the throughput of new loans business depending on their being reliably present at certain places and times.

Within their own communities illegal lenders were frequently highly visible

Both victims of illegal lenders and the pilot teams suggest that within the small areas in which they operate, illegal lenders are likely to be well known, often closely associated in their local communities with wider anti-social behaviour and generalised criminality.

“They are big fish. They’re not small in terms of how the community see them. The community sees them as Mr Big. All the ones that we’ve dealt with have been seen by the community as Rockefeller. The man with the money. Go to him but don’t mess with him. All that sort of stuff. He means what he says.”

“The people we are dealing with almost universally are perceived as hard men from a hard family and it’s very, very local.”

“Most of the people are criminals...they are more than enthusiastic amateurs. The Police can often identify them...Drugs are maybe involved. She (Lender name), her husband is traditionally a gangster...The guy in the Gorbals, he’s from a hard family

⁵ See Policis and PFRC study for DTI “Illegal Lending in the UK” 2006 for estimates of scale and likely geographical concentrations

involved in big things... This one? He's a chancer... hard family involved in shootings, serious violence... They're all chancers involved in a bit of this and a bit of that."

Pilot team enforcement officers

Victims and residents in communities in which loan sharks operate are often unaware that illegal money lenders' activities are illegal

The qualitative research undertaken for this project suggests that many living in communities in which illegal lenders operate, including their victims, are unaware that the unlicensed money lending is illegal or that the collection of their repayments cannot be legally enforced. This is especially true of illegal lenders operating to a model that does not involve any cross-over with other clearly criminal activity and in which the threat of violence is a less overt feature of the model. Lenders lending very small sums over very short terms (£10 to be repaid in full by payment of £15 the following week, for example, most typical of loans on the Scottish estates) are likely to fall into this category.⁶ Equally, older illegal money lenders with long established operations and a long-standing client bank with less need for intimidation to support collections may not be seen in the same way as those involved in other criminal activities (drug dealing or selling counterfeit goods for example) where the credit business is ancillary to another form of criminal commerce.

"I didn't know it was illegal. If I had, I'd probably not have gone for it."

"I didn't really think about it. I just thought 100% interest was a bit harsh."

Victims of illegal lenders

Clients presenting themselves to advice agencies or credit unions appear to have been highly unlikely to volunteer information on illegal lenders

Clients presenting themselves to credit unions would in any case often be either too frightened or too ashamed to admit to using an illegal money lender. Even in the event that clients did volunteer information, considerations of client confidentiality would tend to work against the intelligence being disseminated outside the client relationship.

"I guess it's mainly anecdotal... They're (credit union clients) very rarely going to tell you they are using an unlicensed lender themselves but they might say they know somebody who is... it's just because you're involved in that local community you get to know if there's an unlicensed lender at work."

"They're (clients) not always very truthful. They don't want to get into trouble themselves... So you're not necessarily going to be aware of it."

"Someone (client) who had mild learning difficulties. She turned out to be one of those (victims who would not tell CU that using illegal lender). She only told me when he had been safely arrested. "I used to get loans from him" – She had no idea how much she had borrowed and no idea how much she owed. Nothing was written down. They would tell her "Today you owe me this". And she would pay him."

Credit union staff

⁶ Individuals borrowing from these lenders can however quickly build up a substantial debt as the result of high compound interest if they are unable to make payments on even such small scale loans on time. Sums owed are often greatly increased by disproportionate and arbitrary penalty payments. Under these circumstances, lenders are often able to collect significant sums over an extended period even where the original capital sum extended was itself very low value.

Even where agencies were conscious of illegal lenders operating on their patch there was no means of addressing it

Alternatively, where credit union officers work in communities where loan sharks are active and are aware of their activities, they can feel helpless to address it. Historically, there would have seemed little point even in reporting it.

“It (the pilot operation) has brought loan sharks to the fore. Whereas before I think Credit Unions realised that there was all this out there but they could do nothing about it.”

“You could watch it going on. Nobody had any confidence that if they reported it that person was going to get arrested.”

Credit union staff

In some areas, particularly in Scotland, credit unions are lending to victims in parallel with illegal lenders but this is not typical of the country as a whole

Clearly there are exceptions to this pattern. The research undertaken to support the Policis and PFRC effort to estimate the scale of the illegal lending problem in the UK suggested that in parts of Scotland some credit unions operating in very deprived estates are only too aware of the activities of illegal money lenders. In these cases, the illegal lenders are reportedly lending to credit union clients in parallel with the credit union. It should be emphasised, however, that this pattern is not typical, with the generality of credit unions and illegal lenders tending to serve rather different customer bases.⁷

Illegal money lending was not on the national media agenda with references to “loan sharks” often related to the high cost but licensed home credit lenders

It is clear from a review of media coverage historically that prior to the recent initiatives to address illegal money lending, the issue was simply not on the media agenda at national level. Indeed discussion of “loan sharks” in the media and references thereto related most frequently to the operations of high cost licensed home credit lenders, with no distinction often being made between these and illegal lenders, even by otherwise well informed commentators. Media mentions of illegal lending in the national press, TV and radio in the five year period before the establishment of the pilots was minimal. Most coverage in the period preceding the pilot was indeed directly related to government pronouncements on the issue and the DTI’s initiatives on “tackling loan sharks”.

National and local coverage of the issue prior to the establishment of the pilot teams was minimal

A search of national media sources in the three years (2000–2002) prior to the establishment of, the pilot teams in 2003–2004 reveals 665 mentions.⁸ With one notable exception (see Glasgow following), the picture of coverage at local and regional level is patchy and infrequent, even in areas in which research has shown it is reasonable to assume that illegal lenders are operating. Such coverage of the issue as there has been appears to have been driven primarily by the activities and interest of individual investigative journalists who have instigated campaigns. An

⁷ For detail see Policis and PFRC study for the DTI “Illegal Lending in the UK”, Section 3.4, page 35

⁸ Articles containing the expression “loan shark”

example is that run by the Glasgow-based Daily Record, with the paper having since June 2002 run a “Shop a Shark” campaign. Over the period 2000–2002, there were a total of 31 media stories relating to illegal money lending in the local press in the Birmingham and West Midlands area and some 186 media stories in Scotland.

5.1.2 The steps taken to increase awareness of illegal lending

Both pilot teams have focused heavily on creating awareness of illegal lending as a necessary first step in encouraging reporting

Both of the pilot teams focused heavily on creating awareness of illegal money lenders as a first step in encouraging confidence among the public that authorities took illegal money lending seriously. The intention was not only to create a perception that lenders would be targeted and prosecuted and the law enforced, but specifically to elicit reporting from the community. To this end concerted publicity and networking campaigns were undertaken by both teams.

The Birmingham pilot team took a more direct approach with a dedicated high profile campaign while the Glasgow team worked in partnership with Crimestoppers

Both teams mounted poster, press, radio and TV campaigns. Overall, a more direct and rather higher profile approach seems to have been adopted in Birmingham than was the case in Scotland. The campaign in Birmingham was based around an arresting image of a shark’s head, with a campaign strap-line of “Don’t get involved with a loan shark – it will cost you an arm and a leg”, supported by a 24 hour helpline number, staffed by members of the pilot team. This image and message was repeated across a full bus livery over a 12 month period in 2004. Some 280 advertising posters on the same theme were displayed across the city in venues such as bus shelters and selected road-side advertising hoardings. The posters were supplemented by some 1000 smaller A3 and A4 size posters and 2000 postcards with contact details for the loan shark enforcement team, distributed in a variety of venues from social agencies, credit unions and community groups to MPs’ constituency offices. The Glasgow team also advertised in the press, radio and TV but did so in partnership with Crimestoppers. Their advertising specifically focused on illegal money lending but did not have the arresting imagery of the Birmingham campaign and did not have the benefit of a 24-hour dedicated helpline. In both areas, posters were distributed to local community groups, doctors’ surgeries, credit unions and debt advice centres. The Glasgow team were also supported by the Daily Record’s long-standing “Shop a Shark” campaign which on several occasions featured the pilot team’s direct telephone number, albeit that this was available only during office hours.

The units funded high profile poster, radio and TV campaigns to promote public awareness and boost reporting of illegal money lenders



Both pilot teams undertook a concerted programme of networking across a range of specialist agencies, alternative credit sources and community groups

Both pilot teams regarded it as a priority to build awareness of illegal money lending among specialist agencies and community organisations and to establish a range of partnerships and working relationships. A concerted and extensive programme of proactive networking was embarked upon by the leaders of both pilot teams. As part of this process, the Birmingham team held a total of 123 meetings and presentations with local community stakeholders, some 48 with local credit unions and advice agencies, 23 with Police force authorities across the region (including 6 with local Police intelligence units), 13 with other Trading Standards teams, 17 with local community and community safety organisations, 5 with local housing associations and 18 with other special interest groups. The pilot team in Scotland attended meetings with some 24 credit unions across Scotland, distributing posters and promotional material and seeking to educate staff members about illegal money lending. Meetings and presentations were also held with 2 police forces, 4 trading standards bodies and 4 other interested parties.

Awareness building and networking: Presentations and meetings by pilot teams 2004-2006

Chart 8: Birmingham

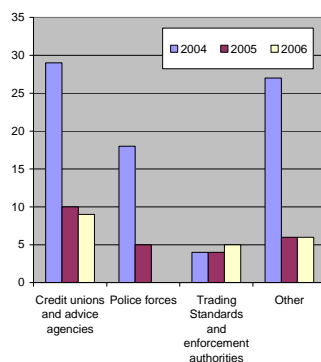


Chart 9: Scotland

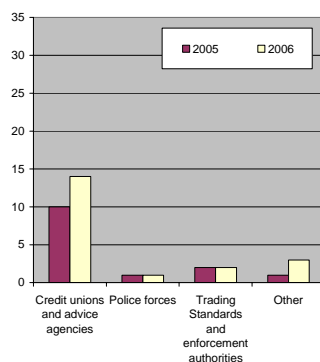
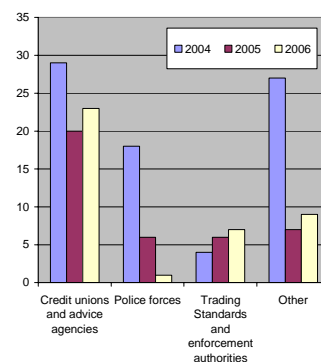


Chart 10: Both pilots



Source: Birmingham and Glasgow pilot teams

Extensive networking was supplemented by a series of high profile presentations to ministers, MPs, government departments and policy makers

Additionally, the high profile of the pilot project and the strong political support behind it created the opportunity for both teams to make presentations, jointly and separately, to senior officials from government, regulators and national agencies, including the DTI Minister (formerly Gerry Sutcliffe, now Ian McCartney), local MPs and their staffs, and representatives from OFT, DWP, HMRC, DVLA, Citizens Advice and Trading Standards. Major presentations were made also on a number of occasions, notably to the Trading Standards national conference, to MPs and other interested parties in Westminster, to the Welsh Assembly.

The major focus was on building relationships with the Police and enforcement agencies

In the absence of any previous infrastructure for enforcement, the major focus of the team in their networking was necessarily on establishing relationships with those agencies essential to effective enforcement, primarily the Police, whose active engagement was mission critical. The various presentations and networking activities made to Police intelligence units, community safety officers and Police forces across both regions were aimed not only at increasing understanding of the impact of illegal money lending but also at creating awareness within the Police of the link between illegal money lending and other criminal activities.

“The first thing we wanted to do was to get the team established as an enforcement agency and a crime fighting team and that’s what we’ve done. I think the capacity building bit (i.e. work in putting in place alternatives to illegal lending and support for victims) is the next stage really.”

Enforcement manager

Obtaining Police support and building confidence in the team was recognised early on as a key critical success factor

It is in the nature of a pilot project that relationships have to be created and awareness built up as the basis for effective working partnerships, a process that inevitably takes some time. Building awareness within the various Police forces and creating confidence in the units’ capabilities was a major focus of the first year of operation for both teams.

“We’ve had to build relationships with people like West Midlands, Staffordshire Police, Warwickshire Police and we’ve done that. As a result of building those relationships and them seeing the way we work, they’ve now got confidence in working with us and working along with us. It takes time to build those bridges and that trust.”

“We’ve had to go through the hurting stage in order to show to the Police – Look this is the evidence. This is what we can give you. This is what the team brings to you and this is what you can bring to us... We just needed to find that middle ground and that’s what happened.”

Pilot team enforcement officers

Both teams also set out to develop relationships with money advice agencies and credit unions with a view to providing support for victims

Both teams were also conscious that encouraging reporting and enforcement of the legislation needs to be coupled with support for victims and the provision of alternative source of credit in the aftermath of the removal of an illegal money lender. Both the pilot teams therefore set out to establish relationships with money advice agencies and credit unions. As noted earlier, presentations and outreach meetings were made to credit unions and money advice agencies across the West Midlands and in various centres in Scotland. The Birmingham team also nominated team members as responsible for managing relationships on an informal basis.

“We’ve gone in and introduced ourselves to people so they know the faces and each of our investigators have got a lead agency for them to be engaged with, so sort of a partnership manager as such but it’s really been about the people element.”

Enforcement manager

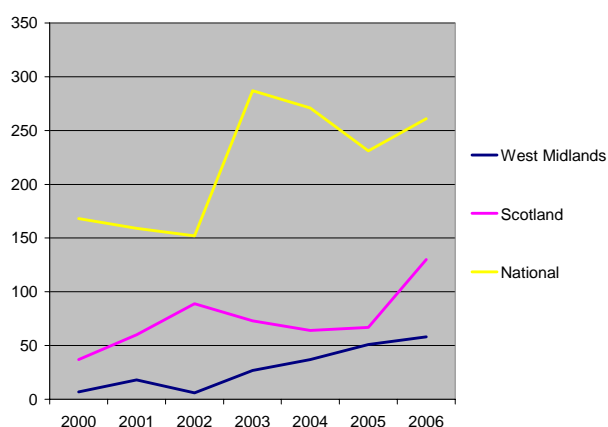
5.1.3 The pilots’ impact on awareness and understanding of illegal money lending

The evidence is that the pilots have been successful in increasing awareness and understanding of illegal money lending among policy makers and government, enforcement and specialist agencies, in the media and by extension among the wider public.

Significantly increased media coverage of illegal lending at both local and national level

A review of the media coverage of illegal money lending after 2004 and the launch of the various publicity campaigns reveals significant success in raising the profile of illegal lending as an issue for national and local media. Both the activities of the pilot projects more generally and the successful prosecutions of illegal money lenders in particular have generated significant media interest and a series of articles and programmes at both local and national level. In the period 2004–2006, national coverage consisted of 1,024 mentions, representing an increase of 54% over the number of mentions in the period 2000–2002. At local level, a similar pattern of a significant increase in media coverage is also evident, although the 370% increase in press mentions achieved in the West Midlands was on the basis of a very low starting point. The issue was already reasonably well covered in Scotland before the establishment of the pilot but even there the increase in mentions has amounted to 40%. Coverage has arisen around the establishment of the pilots, the arrests of suspects and the successful prosecution and jailing of illegal money lenders, with the initial establishment of the pilots and the successful prosecutions having been most likely to attract media interest and comment.

**Chart 11: Media coverage of illegal money lending.
Press mentions of expression "loan shark"**



Source: Newsbank

Both teams appear to have been successful in raising public awareness of illegal lending, with this effect more advanced in Birmingham than in Scotland

To the extent that media coverage is a proxy for awareness among the general public, it would seem reasonable to assume that the significant increase in media coverage will have resulted in a concomitant increase in public awareness of illegal money lending as an issue. A substantial proportion of coverage has centred on the successful prosecutions of illegal money lenders. To the extent that the arrest and prosecution pipeline is more advanced in Birmingham than Glasgow, it would seem likely that awareness similarly will have been increased to a greater extent in England than in Scotland.

Reporting of illegal money lending has been directly stimulated by media coverage

Media coverage is clearly important not only in creating awareness of illegal money lending but also in building confidence in enforcement. The pilot teams have reported that calls from the public about illegal money lending have peaked following press articles and radio and television bulletins.

"I think the stories in the press have raised awareness. I think the Minister's comments, publicity has raised awareness and every time we get that we have a burst of phone calls."

"I think people were quite wary about reporting a loan shark before because they felt that there was no-one really following it up... That is where the stories in the papers have been good."

Pilot team enforcement officers

The focus of media coverage implies that public understanding of the damage done to victims and communities will have increased

Examination of media coverage arising from the pilots' activities suggests that the teams efforts have been successful in that news media have emphasised not only the very high cost of borrowing from an illegal lender but also the collateral damage suffered by individuals and communities and the nature of illegal lenders' modus operandi as violent and exploitative. Over the period the pilots have been in

operation (2004–2006) media coverage has emphasised the very high cost of this kind of borrowing, the vulnerability of the victims of such lenders, the intimidation and violence of the lenders' modus operandi and the links with other forms of anti-social behaviour and other forms of criminal activity. It would seem reasonable to assume therefore that public understanding of the nature and seriousness of the crime will have increased, with illegal lending less likely to be viewed as a victimless crime than hitherto.

Some of the greatest changes in terms of the perception of illegal money lending have arisen among the Police

Perhaps the greatest advances in recognition of the damage arising from illegal lending have arisen among the Police, not least because of the greater appreciation of the cross-over between illegal lending and other forms of criminal activity.

"We can appreciate now, where perhaps we have not in the past, that their offences are our offences, their criminals are our criminals and their victims are our victims."

"There is a gain for us in working with the illegal money lending team because clearly we are pursuing the same targets in many cases. We are covering different aspects of the same criminal lifestyle and the damage is being felt in the same communities."

Senior police officers on synergy with the work of the illegal money lending team

"The police have said to us. 'How come we do loads of work looking for drug dealers and people with guns and everything else and never get anybody and yet your team keep tripping over them?...now there is the understanding of that link'"

Member of the illegal money lending team

The team have also succeeded in putting illegal money lending on the map as an issue for their Trading Standards colleagues nationally

The work of the pilot teams has also significantly raised awareness and understanding among Trading Standards professionals, with whom responsibility for enforcement in relation to illegal lending nationally currently lies. The pilot teams joint presentation at the 2006 annual Trading Standards conference clearly attracted a great deal of interest, subsequently leading to invitations to stage a series of 17 presentations to individual Trading Standards teams around the country. As we go on to discuss, it also led to a number of joint working initiatives involving the Birmingham pilot team and other Trading Standards departments. Based on the exposure to the issues provided by the presentations, it would seem reasonable to assume that understanding of the nature of illegal lending will have increased also, a view confirmed by our interviews with Trading Standards officers.

"Some of us were very excited at having our eyes opened; the realisation that we could actually do something about it (illegal money lending)."

"We'd been to the Trading Standards Institute conference last year...and there have been articles in the Trading Standards Review...In our heart of hearts we knew that there was probably a problem in Nottingham. You know that these scumbags are likely to be plying their trade. We have a lot of vulnerable people. We didn't know the scale of it and we didn't know where to start. So we had him along...I'm glad to say that it is my team that are going to be doing this work and we are all really up for it."

Trading Standards officers

The pilot teams have also raised awareness of illegal lending among debt advice agencies and credit unions

The evidence from interviews with third party agencies indicates networking has been effective in raising awareness of illegal lending among a range of different organisations and stakeholders, including the many debt advice and credit unions visited by both pilot teams. The research interviews suggest that all were positive and supportive of what the unit was seeking to do, though agencies have varied in the extent to which they have been proactive in their response (see section on partnerships and joint working following). However all parties interviewed were at least more aware of illegal lending as an issue and were more likely than previously to consider it in relation to their communities, the clients that they encountered and the environment in which they operated. Perhaps most importantly, all parties had registered that if they came across victims or incidences of illegal lending, they now had a specialist resource in the illegal money lending unit from which they could seek help or advice and to which they could refer clients and / or direct intelligence.

“Obviously our money advice team now are far more aware of loans sharks – the existence of them and the methods that they use to enforce the debt.”

“Beforehand it wasn’t on our radar...now they (staff) know that they (loan sharks) exist and are out there... if you get a new loan shark victim coming to you, you are aware of what they’ve gone through and can understand their problems.”

Money advice officers

At a national level, the pilot teams have contributed to an increased concern about illegal lending within the credit union and money advice sectors

At a national level, there is evidence within both the debt advice and credit union sectors of enhanced understanding of the issue of illegal lending as a direct result of the activities of the pilot teams.

5.2 Relationships with key partners

Clearly a key part of the rationale for building awareness and understanding of illegal money lending has been to create effective partnerships with local agencies, not only to enforce the law but also to provide support for victims and sustainable alternative forms of credit supply. This section describes the extent of relationships established with key partners and, where applicable, the processes and systems put in place to support the efficiency of enforcement or the provision of support to victims. The outcomes arising from these working relationships are then described and discussed in relation to money advice and credit unions, while following sections deal with the impact on enforcement.

Pilot teams appear to have had the benefit of high level relationships with partner agencies from the outset

The high profile given to the pilots and the clear government support for the effort to tackle illegal money lenders has meant that the pilot teams have been able to establish high level relationships with potential partner agencies from the outset. This appears to have been more true, however, in Birmingham than in Scotland.

5.2.1 The Police

The most effective partnerships were established with the Police primarily because of the natural synergy with core Police business

The most effective partnerships and joint working approaches appear to have been established with the Police, possibly because the Police see greater synergy with their own remit, core business and goals than appears to be the case with other agencies. Interviews with both members of the pilot teams and with representatives of the Police indicate that close and effective working relationships have been established.

“We have had exceptional access to police officers. We have very good relationships with Strathclyde. Everywhere we go we have had good access.”

“The police have been very supportive. Very supportive...“When we’ve had protocols or briefings or whatever, the right people have turned up with the right power and clout to mobilise resource.”

“We know the top level commanders of the area that we’re going into will support us and they facilitate the resource to make it happen...We always get proper Operational Command support and operational search teams. If we have to break down a door, we always get the highly trained officers and that’s because our partnership is working and in place.”

Pilot team enforcement officers

Despite acquiring some investigative skills to Police standards, the team were heavily dependent on Police support

The pilot team were responsible for identifying and collecting evidence on lenders but were critically dependent on the Police when seeking actually to remove lenders. Members of both pilot teams collected intelligence and were trained in – and themselves deployed – covert observation techniques to Police standards to validate intelligence and secure evidence. In Scotland, a significant proportion of the team in fact had a Police background. Team members were also responsible for collating and collecting various forms of evidence and witness statements and in various aspects of the preparation of cases for potential prosecution. Search and arrest required Police powers however.

The team have been critically dependent on police capacity and powers at various key stages of the enforcement pipeline

Both teams have indeed been dependent on Police support, skills and powers at a series of critical points in the enforcement pipeline. Police skills and powers were required for accessing the national Police database, for search and arrest and, in Scotland, for interviewing witnesses, preparing cases for prosecution and submitting potential cases to the Procurator Fiscal.

“The resources and the type of work that is required. It is more police work rather than Trading Standards work.”

“The problem is that they (Trading Standards officers on illegal money lending team) are only allowed to do what we call level two surveillance which is traffic surveillance.”

“The truth is you need powers of arrest... That’s the bottom line.”

“Under Scottish law the only people that can be present during a taped recorded interview and ask questions are Police officers, nobody else. We have tried to drive a hole through that. What we have said is that Police officers do not have the knowledge of the lengthy surveillance that we have, therefore we are present with the Police. We can only ask questions at their discretion and they are in charge of the interview.”

Police and pilot team enforcement officers

Not having direct access to Police intelligence and reliance on the Police for powers of arrest and search has sometimes been a frustration

For the most part working partnerships with the Police have worked well and have been effective. Nonetheless there have clearly been occasions when the teams have not been able to progress investigations or remove lenders as quickly as they would have liked. Similarly frustrations have arisen on occasion at being unable to access information or obtain support readily. Sometimes this has been the result of difficulties arising with an individual Police officer, but more frequently because the partnership arrangements have sometimes been unwieldy.

“A lot of this work can’t be done without the active involvement of the Police. If they don’t have any ownership of it, then I think there is a difficulty.”

“Normally we have to rely on the good will of another Police officer for arrest. And some are reluctant to do that. That’s why some of the people weren’t arrested because the Police would not arrest them because they didn’t feel it was their job.”

Pilot team enforcement officers

The removal of a loan shark is hugely cost and resource intensive and has involved the input of significant resource and manpower by the Police

In some cases it is clear that some operations – the arrest of a loan shark and associated searches of multiple premises for example – can require very substantial support involving large numbers of Police officers. The illegal money lending team, even with six officers is simply not large enough to carry out extensive search operations on its own. A major operation may require thirty or more officers, clearly beyond the capacity of the illegal money lending team on its own. The majority of the additional man-power has been supplied by the Police, supplemented by additional Trading Standards officers where necessary.

“The problem for them is that there are a lot of money lenders who are major criminals. And they only have six members of the team which is a problem going out to follow someone.”

“We have to get other resources in (from the Police and Birmingham Trading Standards). If you take (named lender) for example, we had twenty officers, no, we had twenty four officers out doing three addresses.”

“At least three times the number of people (as would usually have in the team), yes to do the searches). When we did (named lender) we had 30 officers out.”

Police and Pilot team enforcement officers

Embedding a Police officer in the team part way through the project greatly increased the efficiency of the Birmingham team

In Birmingham, part way through the project an increasingly close working relationship with the local Police force resulted in a West Midlands Police officer being seconded to the team, paid for from the project budget. This appears to have greatly increased the effectiveness of the team, enabling it to act swiftly, decisively and with a greater degree of flexibility than in Scotland. This enhanced performance rested reportedly on the embedded Police officer having powers of arrest and search and being able also to address criminal activity that lies outside the scope of the Consumer Credit Act. It did not however obviate the need for additional Police manpower for major operations.

“It (Police officer embedded in the team) has speeded things up...information sharing...he has developed our contacts. There are far more in-roads made quicker...The greatest thing of course is that he’s got the power of arrest. We can go in there and arrest them and deal with the issues.”

“We might go into an illegal money lender and find drugs. He (Police officer seconded to team) can deal with that. We don’t have to find a police officer we are taking off the streets to deal with the drugs issue. He will deal with the Police matters as we find them, so both the Police and ourselves are winning. We go in for illegal money lending and we find fire-arms – he deals with it.”

Pilot team enforcement officers

Joint working on shared intelligence appears to have been one of the successes of the project

Joint working on developing shared intelligence appears to have been one of the successes of the pilot project. Interviews with both the pilot teams and Police officers suggest that a number of processes and protocols have been developed to make better use of the intelligence available, to stimulate Police logging of intelligence related to illegal lending and to increase referrals to the illegal money lending team. In Scotland, for example, in the two years prior to the pilot team being set up there were 18 intelligence logs related to illegal money lending. From September 2004 (when the team was set up) to November 2006, 92 intelligence logs related to illegal lending were submitted.

“There’s been quite a wee bit of intelligence come in. There’s more and more coming since the team’s been up and running. Because, before that there was no outlet for money lending (intelligence). So now people through the offices are looking out for money lending and they know now that they can send that to them. There’s possibly in the last year been more logs sent to them than ever before. Nobody before was taking that intelligence.”

Police intelligence specialist

It is worth noting however that in Scotland, despite the efforts of the pilot team to raise awareness of illegal lending across the country, virtually all the intelligence received has been from Police forces in the West of Scotland. The East of the country, with the exception of Aberdeen, remains a virtual intelligence black hole.

Joint working on recovering assets from lenders under the Proceeds of Crime Act has also been important in increasing the impact of enforcement

One of the most effective areas of co-operation between the pilot teams and the Police has been in joint working with the Police Financial Intelligence Units (FIUs) in seeking to recover assets from convicted lenders under the Proceeds of Crime legislation. Here both teams have established close working relationships with their local units to help identify and recover assets arising from illegal money lending (for details on value of assets recovered see section 5.4.4 following). It should be noted that in Scotland preparatory work in developing a case for confiscation of assets under the Proceeds of Crime Act requires input from external Police officers because of the need for Police powers. In Birmingham at least some of this work can now be undertaken by the serving Police officer who is seconded to the pilot team. If the teams come across intelligence that indicates there might be a case for the local Financial Intelligence Unit to look at, they pass the information on so that the unit can check its systems to see whether the alleged lender has any property, a car, bank accounts etc.

“The money lending boys, they’re only a small team, they know what it’s about, they’re well-briefed, well-prepared, if they see something they’ll take a note of it and give us a ring.”

FIU officer

If the pilot team is planning an operation on someone they feel might be of interest to FIU (based on their intelligence), FIU is advised beforehand so the unit can check the financial background of the target individual and ascertain whether he or she is registered as owning any identifiable assets.

“... has he got a bank account, has he got any money in the bank, is he running around in something flashy? Anything that might give a starter for ten to say, ‘This person potentially has got money.’”

FIU officer

The Financial Investigation Unit will accompany the pilot team on major search and arrest operations, with a view to obtaining evidence relevant specifically to a Proceeds of Crime investigation. The team subsequently works with the FIU in preparing a case to be submitted for later prosecution.

“The idea is if they get someone worthwhile, we want to be there in the morning when they go and turn his house over, because we want to put someone in who knows – I mean obviously the illegal lending team are looking for documentation, they’re looking for cash, they’re looking for evidence for their case – we’re looking for bank accounts and evidence of assets.”

“Once you come out of the house what tends to happen is they detain the money lender, we’ll do a quick verification of any assets they’ve got and we will report the circumstances to the Financial Crime Unit of the Procurator Fiscal”.

FIU officer

The one exception to this overall pattern of successful joint working is the lack of intelligence from Police forces in the East of Scotland

There is however one clear exception to this broad pattern of increased Police awareness and support. With the exception of the force in Aberdeen, police forces in the East of Scotland, although reportedly broadly co-operative in principle, appear to have provided virtually nothing in the way of intelligence on illegal money lenders to

the Glasgow team. The result has been that no investigations have been pursued in the East of the country, despite the fact that there are clearly pockets of severe deprivation in the major cities such as Edinburgh and Dundee and that, in Dundee at least, there is some evidence of illegal lending occurring.

It is difficult to ascertain why this might be. The phenomenon appears to have been unanticipated both by the illegal money lending teams themselves, in Scotland in any case made up primarily of ex-police officers, and by project planners and managers, all of whom appear to be surprised by this turn of events. None were able to offer any explanation and no senior officers from the East of Scotland were interviewed to shed light on the issue.

5.2.2 Other government agencies

The pilot teams have established working relationships with DWP and HM Revenue and Customs to address benefit fraud and tax evasion

Both pilot teams appear to have established good joint working partnerships with other government agencies, notably DWP and HM Revenue and Customs, with the former gaining intelligence on benefit fraud and the latter on tax evasion. It is clear however that it took some time for these relationships and any sense of synergy to become established. Substantial benefits will only accrue from these developments over the longer term. The pilot teams both report that illegal lenders are frequently involved in benefit fraud and in tax evasion, sometimes on a significant scale, and anticipate that illegal lending investigations will with time play dividends in terms of savings from reductions in both. As yet however it is not possible in the absence of hard data to arrive at any estimation of the likely scale of such savings.

Data protection issues were initially a stumbling block but have now been resolved

A number of issues, primarily around data protection, initially acted as a barrier to effective joint working, but these appear to have been satisfactorily resolved, albeit some way into the pilot project.

“The data protection act is a tremendous vehicle to be used as an excuse not to do anything and it may be right and it may be wrong, but it’s a barrier between everybody (i.e. various enforcement agencies). That may be worth it from society’s point of view but it is difficult”

“It’s the old story if you don’t do anything, you won’t do anything wrong. There’s a danger you might release information you shouldn’t have...”

Pilot team and DWP enforcement officers

The criminal lifestyle of the illegal lenders can extend also to large scale tax evasion and benefit fraud

“We’ve just started working with DWP (towards end of pilot period). We are looking at a number of jobs together. DWP are passing information to us on loan sharks. We’ve sent them information on people who are claiming... The guy (illegal money lender) is utilising these peoples’ (victims) identities to commit benefit fraud.”

“(named Inland Revenue enforcement officer) is gob-smacked by the amount of tax evasion going on. We are getting people in legitimate arms (i.e. businesses) that are running this (unlicensed money lending) as a side issue.”

5.2.3 Trading Standards in other local authorities

Mixed success in establishing joint operations with Trading Standards teams elsewhere

Despite the media interest in the pilot teams’ presentation at the 2006 annual Trading Standards conference and other events, their efforts to establish joint working relationships with other Trading Standards teams – and thus spread the lessons learned in the pilots and best practice to their colleagues in other local authorities – appear to have had mixed success. Indeed, according to the pilot teams, some Trading Standards colleagues appear to have substantial reservations about getting involved in cases of illegal money lending. In some instances this has rested on fears for personal safety allied to concerns about inadequate expertise or resources. In other cases, Trading Standards officers appear to be uncomfortable with a mode of working that rests on an investigatory approach similar to that taken by the Police or customs officials rather than the traditional Trading Standards “inspection” approach.

“Some people just didn’t join Trading Standards to take on some really nasty bits of work.”

“It was a bit of a mixed reaction I have to say (among Trading Standards colleagues to presentation by illegal money lending team). They were ‘Oh my God, we don’t want to be doing that.’”

Pilot team enforcement officers

In cases where the pilot teams have worked with Trading Standards in other authorities, the transfer of best practice knowledge has been greatly valued

Some Trading Standards teams, particularly those already involved in door-step crime initiatives, have however responded with considerable enthusiasm. Following the joint presentation to the 2006 Trading Standards conference, the Birmingham pilot team was contacted by Trading Standards officers in several other areas (including Nottingham and Suffolk) in relation to suspected cases of illegal money lending in their local areas. In some cases, no more than remote advice was provided to local teams. In other cases, Birmingham team members became actively involved in supporting local officers in their investigations. Interviews with the local Trading Standards officers concerned indicate that this support was greatly appreciated, accelerating the local team’s learning process and greatly increasing the effectiveness with which they approached the case.

“It was immensely helpful... There are lots of practical bits and pieces that if you actually understand how they work, the whole thing becomes so much easier.”

“Having someone who had done this before...it gave them (local team) a lot more confidence in what to do. Whereas beforehand there wouldn’t have been the same organisational confidence that we could do it.”

“I think having (named team member’s) team on tap on the phone and then getting somebody down made a big difference to us.”

“It’s really serious work that we’re doing (tackling an illegal lender in another local authority) and it’s vital that we don’t make any cock-ups. So to have somebody experienced there – to learn from their mistakes, to see what works and what doesn’t...I can’t overestimate how important it’s been to have the support of that team in Birmingham...we’d have been floundering.”

Trading Standards officers

Overall relatively substantial support was provided to four other local Trading Standards teams in England by the Birmingham team. No cases have yet resulted in prosecution or conviction but a number of investigations are ongoing. In Glasgow the issue of support to other Trading Standards teams did not arise, since the team were responsible for enforcement of the illegal lending legislation throughout Scotland.

In some authorities where cases of illegal money lending were identified, local officers were unwilling to act and were resistant to suggestion

The pilot teams have, however, experienced some frustration in their attempts to pass on cases to other Trading Standards departments to progress. The Birmingham pilot team has, through its helpline, received high quality intelligence about illegal lenders operating outside the West Midlands. This information has subsequently been passed to Trading Standards colleagues within the relevant local authority. To the best of the team’s knowledge, these cases have not been progressed, due to either a lack of willingness and/or inadequate resources within the local team concerned. Offers of support and assistance from the Birmingham pilot team have not been taken up.

5.2.4 Debt Advice agencies

The Birmingham pilot team has had the benefit of an in-house debt advice team which has prioritised and fast tracked victims referred to them

Birmingham Trading Standards is one of the few Trading Standards departments in England to offer a debt advice service. The pilot team was therefore well placed to develop close working relationships with the debt advice team, effectively almost an in-house facility. Victims living within the Birmingham city area who wanted this type of help and support were offered a prioritised, fast-track debt advice service.

This partnership with the in-house team was exceptionally effective in part because the money advice team was involved at a very early stage

This working partnership was clearly the most effective of all those with the debt advice agencies. It appears to have been successful for a number of reasons. Clearly having a history of joint working and being housed within the same authority and infrastructure was conducive to close working relationships. Perhaps more importantly, however, the Trading Standards debt advice team were involved very early on in the planning stages of the project.

“We were involved at an early stage... We recognised that there was something to be gained from the synergy between the debt advice service and the loan shark team. That we could benefit each other.”

“I was at the launch of the Birmingham pilot in 2004 and I had a picture in my mind of how it was going to work, this joint co-operation and it has worked just as I envisaged.”

Birmingham Trading Standards debt advice team

From the outset the Trading Standards debt advice team made a clear commitment to supporting and prioritising victims

Perhaps most important of all was that the debt advice team made a clear commitment to action and to prioritising victims of illegal money lenders at the outset. Although other debt advice agencies were broadly supportive of the aims of the illegal money lending project, no other agency made the same kind of upfront commitment.

“We tried to be as flexible as possible with the loan shark team and we’ve given them almost a better level of service than any one else... We’ve always said right from the outset that any loan shark victims we would not turn them away. However busy we are we would take them. We’ve never turned away a loan shark victim even when we were officially closed.”

“It was very easy to speak to each other and the debt team would always go the extra mile if they could to support this project.”

Birmingham Trading Standards debt advice team

Frequent ongoing communication between the two teams created a flow of referrals which did not arise with partnerships with other advice agencies

Another reason for success was that as the project developed there was frequent ongoing communication between the two teams so that their debt advice partners were plugged into developments within the illegal money lending team. Despite there being no formal protocol or processes for making referrals or for logging or monitoring their outcomes, this constant informal communication created a close and effective working relationship and a natural flow of referrals from the illegal money lending team to money advice.

“There was a good flow of information between the two teams. They all found it very easy to pick the phone up and still do... I had a call from one of the loan shark team and they were taking a witness statement from a victim... who had serious debt problems. We made an appointment then and there for a money advice officer to come and see him.”

“The loan shark team would phone the debt team and say, next week we are going to do a raid on a loan shark and there may be a number of victims, there may not... And after a raid they would let us know how many victims.”

Birmingham Trading Standards debt advice team

Loan shark victims represented 15% of the Birmingham Trading Standards debt advice team’s caseload in year one

In the first year of the illegal money lending team’s operations, during which a major lender operating within Birmingham was removed, the debt advice team provided a service to some 40 clients who had previously been borrowing from the illegal lender concerned. This represented circa 15% of the unit’s total workload in that year. Although no tracking statistics were recorded, there was no indication that those

referred from the illegal money lending unit differed significantly from the generality of debt advice clients.

Referrals fell off sharply when the pilot team switched their focus outside the Birmingham area where the Trading Standards debt advice team had no remit to serve

After this first year, however, the illegal money lending unit switched the focus of operations to outside the Birmingham City limits and thus beyond the remit of the debt advice team, which was able to provide a service only to those paying council tax within Birmingham itself. The initial stream of referrals therefore subsequently dwindled to around half a dozen in the second year of operation.

Outside the Birmingham city area the team looked to Citizens Advice to provide debt advice

The Birmingham pilot team unsuccessfully sought funding for a debt advisor to be attached to the team, to cover those parts of the West Midlands not served by the Birmingham Trading Standards debt advice team. As a result, outside the Birmingham area, the pilot team looked to citizens advice bureaux (CABx) to provide debt advice. As detailed in section 5.1.2 on the team's efforts to raise awareness, the pilot team embarked on a networking campaign with a view not only to raising awareness but also to engaging money advice agencies.

CABx workers clearly welcomed the establishment of the pilot project

CABx clearly welcomed the establishment of the pilot team on the grounds that debt advice workers were now able to refer any cases that they might come across in the course of their own work to the illegal money lending team.

"By having that specific team set up, on an anonymous basis, and their expertise which is investigative rather than perhaps the normal trading standards approach, by having that there is some chance that if money advisers do pick up quite by accident that loan sharks are operating there is something they can go with that now. Because it's always a little bit unsatisfactory telling money advisers 'Tell your local Trading Standards department'. It does need something specific like this."

CAB debt adviser

However no protocols for making or monitoring referrals were put in place nor were formal partnerships established

Both teams clearly put some considerable effort into developing relationships with debt advice agencies. However, the relationships that developed with CABx were understandably less close than with their Trading Standards colleagues. Although local agencies were supportive of the pilot team's work, no processes for referrals of victims of illegal money lenders were made nor were specific commitments to action made by any of the local CABx. In practice it is clear that no close working relationship developed on the ground.

"We haven't written loads of protocols though we have got protocols with the police and with other local authorities. It's been about agreeing a single point of contact into that organisation. It's been about what works for us and for them, so it's all been negotiated really as to what suits that agency."

Birmingham enforcement team

Despite the teams' efforts to engage debt advice agencies on the ground, most were simply too under-resourced to want to take on additional commitments

The informal relationships that the Birmingham pilot team had with the CABx, unlike that with their Trading Standards debt advice colleagues, were not sufficient to engage or galvanise local agencies. Nor were CABx set up or sufficiently resourced to extend their activities. CABx did not necessarily see it as their role to provide support for victims of illegal lending, not least because to do so would compromise the service to other clients. This would appear to be a matter of the sheer pressure of demand for debt advice services.

"The difficulty is that they (debt advice agencies) are all under resourced. You are going along and trying to sell them something which is going to create more work for them. Their reaction is 'We've got enough work; I don't need to take on your work'. If they give your work priority, other people miss out. It's catch-22."

Birmingham pilot team

Local CABx were forewarned in advance of operations and victims provided with details of their local advice agency

Local debt advice agencies were forewarned in advance of operations where illegal lenders were likely to be removed from the community. Identified victims of the lender were subsequently provided with details of their local CAB along with those of local credit unions.

Debt advice agencies did not make specific arrangements for identifying or prioritising victims or for tracking outcomes

None of the debt advice agencies interviewed in the Birmingham team's catchment area appear to have put any practical processes in place to provide specific support to victims. Equally, none of the CABx interviewed local to the areas of the Birmingham pilot team were able to identify either any increase in new clients or changes in their new client profile arising as a result of the illegal money lending team's operation.

Agencies were unable to identify increases in demand and none were aware of clients who had been victims of illegal lenders

Clearly there are issues around client confidentiality and victims may be reluctant to admit to having used a loan shark. With no system for monitoring referrals from the illegal money lending team, it is therefore impossible to be certain whether victims of lenders removed by the pilots have in fact presented themselves to the advice agencies. That said, however, none of the agencies were aware of any clients with a history of having been involved with an illegal lender.

The interviews with debt advice agencies in the Midlands indicates that there is little sense of an ongoing relationship with the pilot team

In the interviews undertaken with advice agencies in the Midlands – some eighteen months after much of the initial networking was undertaken – recall of the illegal money lending team and their activities was poor, with little real sense of an ongoing relationship.

In Scotland a concerted effort was made to build coherent debt advice support for victims in local authorities across Scotland

In Scotland the situation was different again. A concerted approach was taken to set up a system and process for referring victims of identified loan sharks to local authority debt advice units throughout Scotland. Debt advice was seen by the project management in the local authority as a key building block in supporting victims in taking control of their finances and preventing them having to resort to money lenders again. As with the Birmingham Trading Standards team, the Glasgow debt advice services were involved from the outset.

“It’s a necessity to have that element there (money advice). You cannot walk into people’s lives and walk away with just the bit you want and leave them with existing problems.”

“Right at the start, I set up an agreement with various local authorities and informed them of the work of the Illegal money lending unit...”

Glasgow debt advice unit

Commitment to prioritising debt advice for victims of illegal money lending was obtained from local authorities throughout Scotland

The debt advice unit attached to Glasgow social work department liaised with debt advice units throughout Scotland to obtain a commitment from each to offer a service to victims referred from the Glasgow illegal money lending team. As with Birmingham this did not depend on formal protocols so much as engagement and commitment.

“They all (local authorities in Scotland) were very helpful and wanting to be helpful to the illegal money lending unit... We got a letter of comfort from the local authorities’ money advice that they would be available for referrals when it came to any clients.”

“I developed a relaxed protocol... We have standard protocols across the board but they are very time consuming and complex.”

Glasgow debt advice unit

In Scotland the debt advice support network set up at the outset was barely used because of minimal take-up from victims

All victims identified by the illegal money lending team in Scotland were routinely provided with contact details for their local debt advice unit. However, the referral network and the infrastructure established to provide support for victims appears to have been barely used in the event. Only three referrals came through to the Glasgow Social Work debt advice unit, which was intended to co-ordinate referrals for the whole of Scotland. Of these only two required advice with one caller simply wishing to understand their rights rather than requiring any more active intervention. In this case, the effort to provide debt advice support to victims appears to have failed for different reasons to those in Birmingham. The various agencies party to the referral arrangement relied on victims to self-refer and very few had chosen to do so.

“It was believed, and quite rightly so, that in advice work you cannot insist that someone goes and sees an adviser but you should be able to give them the appropriate information for them to access the service and to help them deal with the problems.”

“I think it’s because of the nature of the individuals. They don’t necessarily want anyone else to know their business...”

“They may be on benefits or have substance withdrawal problems. But in any case they just don’t want to access the local authority advice services.”

Debt advice workers in Scotland

Victims appear unlikely to self-refer because they do not necessarily see the relevance of money advice to their situation

Interviews with victims indicate that the lack of self-referral may largely be because individuals neither feel a need for advice nor see advice as relevant to their situation. Particularly if they do not have debts with other lenders, victims may feel that their major problem, the illegal money lender, has been removed and that they are better off than previously. They do not therefore necessarily see any role for advice. This attitude would appear to be borne out also by the quantitative research with victims of illegal lending undertaken for our earlier scoping study,⁹ which indicated that loan shark users saw little role for money advice in tackling illegal lenders.

Once advice agency support had been set up there was little ongoing communication which may have worked against perceptions of synergy

The pilot team and advice services in Scotland appear to have been less proactive on cross referrals than the team in Birmingham (particularly where the Birmingham team was making referrals to their Trading Standards debt advice colleagues). One of the key success factors for Birmingham in creating a stream of referrals between the illegal money lending team and the Trading Standards debt advice team was that the two teams kept up an ongoing two-way communication. In this way each team was aware of and valued developments in the other. This informal communication does not appear to have developed in Scotland in the same way. Having engaged the debt advice community across Scotland and obtained a commitment from the various local authorities to provide support for victims, there was not the same follow-through of information or communication on an ongoing basis. This lack of interaction will perhaps have worked against perceptions of synergy between the work of the pilot team and advice agencies and the relevance of the work done in each to the broader issues faced by both. The net effect appears to have been that once the publicity and communication surrounding the initial launch had receded, illegal money lending seems rather to have faded as an issue for the advice community in Scotland.

“When I was called in it was at the beginning...my role was to set up some form of safety net so that we could refer to appropriate organisations...When that was set up we were then able to take appropriate referrals...but in practice we’ve not had many referrals...and then I didn’t have any further role. I don’t know how many folk they’ve been involved with. I was out of the loop.”

“(sense is the need is to) give advice agencies a lot more information on the Illegal Money Lending unit...All the advice agencies should have posters on the walls stating these matters...quite a few of the agencies said that they had not had any information on it (illegal money lending unit) to hand out.”

⁹ See Policis and PFRC study for DTI “Illegal Lending in the UK” 2006

“It would be interesting to know how they’ve been going on. At the point it was launched it was high profile but you know how these things are. It fades. Maybe you have to just keep tacking it back on the wall again so everyone can see.”

Debt advice workers in Scotland

Pilot team enforcement officers can see debt advice as beyond their remit and may also have concerns also about compromising relationships with witnesses

It is worth noting that pilot team enforcement officers can see it as outside their core remit to promote money advice or alternative sources of credit supply. They may also take the view that adopting too proactive a stance can actually undermine their relationship with victims, on whom they are reliant for witness evidence.

“Remember what we’ve got to do is to maintain a rapport and keep their problem important. People don’t want a social worker. They want someone who is going to stop their problem.”

Pilot team enforcement officers

5.2.5 Alternative sources of credit

In the discussion that follows it is perhaps worth bearing in mind that credit unions vary significantly in their size, approach to lending and in their technical and management sophistication. Relative to Scotland, in Birmingham credit unions are often small and operating with a high proportion of volunteer staff.

Both pilot teams made efforts to network with their local credit unions but did not develop formal relationships or processes for referral of victims

As with the advice agencies, both teams made efforts not only to build awareness of illegal money lenders but also to engage local credit unions across their respective regions (for details see section 5.1.2). Relationships established were again informal and were not supported by formal partnerships or established processes or protocols for referrals.

“To be honest, we kept it really simple. We just had relationships. We just went in and said ‘We are doing X, Y and Z. Introduced ourselves and said ‘Have you got literature we can give to victims? Can you make sure you fast track them or whatever.’”

Pilot team enforcement manager

Local credit unions were supportive of the pilot teams but did not see it as their role to pro-actively extend their activities to victims of illegal lenders

The evidence is that while local credit unions were broadly supportive of the work of the illegal money lending teams, they did not necessarily see it as part of their remit to proactively extend their activities as an alternative source of credit for those previously borrowing from illegal lenders. In part this was because, as discussed in section 5.1.1 earlier, the work of the illegal money lending teams was not seen as directly relevant to the mainstream work of credit unions. The credit unions had little evidence of their members having used an illegal lender and felt that, for good reasons, members were in any case unlikely to volunteer that they were involved with a loan shark.

Concerns centred around moving beyond the segment of borrower types that credit unions have experience of serving

The credit unions appeared also to have more fundamental concerns. These centred around their capacity to serve a segment of borrowers that they had neither the experience nor the funding to support.

“One of the problems for credit unions is that they couldn’t be all things to all people...there is a whole section of society that was missing out on getting support because credit unions have felt that they can only do so much.”

“What they (pilot teams) were doing was fantastic but there was a danger that credit unions were going to be asked to do everything.”

Credit union managers

Credit unions could be reluctant to take on victims of illegal lenders because of concerns that such borrowers are high risk

There were concerns among credit unions about taking on new borrowers who might find it difficult to manage repayments. Here the anxiety was that this would imply a requirement for greater emphasis on credit control, an aspect of customer management which was felt to sit ill with the volunteer culture of some credit unions.

“They need the credit control for a higher risk borrower. It’s somebody who can spend all day making sure that loan’s been paid. Nobody comes into the credit union movement as a volunteer to do credit control. Why would you?”

“Because they (victims) are in a situation of crisis, they are more likely to struggle and they do need someone monitoring them more closely.”

Credit unions felt that they needed both additional funding and a cautious approach to development if they are to support higher risk borrowers

Credit unions feel that if they were to develop the capacity to serve much higher risk borrowers (such as victims of illegal lenders), this would require additional dedicated funding to support such lending. It would be important also to develop that capacity only slowly so as to gain experience of such lending without de-stabilising other credit union lending or diverting effort from other planned developments. Others raised the issue also of needing to develop expertise and skills that were unlikely to be found within a volunteer skill base.

“It’s a risky business. What is needed is for us to have guaranteed funds to back up those loans.”

“It’s the instant loans because that member is more uncertain – no savings so you haven’t got any records of their ability to repay...you can get burned...we’ll do a few to begin with and see how it goes from there.”

“You do need that (sense is additional) funding because there is no getting away from the fact that if you are going to do labour intensive work, then someone’s got to be paid to do it. You can’t expect a volunteer to do that kind of work because that is not what they’ve come to be a volunteer for. They’ve come to get something out of their volunteering, not to be put upon.”

Credit union managers

Some of the credit unions in the areas covered by the illegal money lending teams did not have the capacity to offer instant loans in any case

It is far from clear in any case that credit unions in the areas where the illegal money lending teams were operating were actually in a position to provide loans to individuals whose finances would have been hollowed out by their relationship with an illegal lender. Victims would be unlikely, for example, to meet the conditions for a new loan where credit unions required new members to save for a considerable period before advancing new funds. Some of the credit unions interviewed had not made any move towards capability based lending while others were only just beginning to develop "Instant Access" loans or to move towards taking on new borrowers. These initiatives had been made possible by advances from the government's Growth Fund, but were clearly at an early stage. Growth Fund monies would not have been available in the early stages of the pilot projects' operation when the majority of networking took place.

"It was likely that they (victims) were going to be in a state of some debt and usual credit union membership was not going to be the answer for them at that point. They were more likely to need proper debt advice and support to get them back on an even keel."

"There's a fundamental issue though in that some of these people don't have bank accounts and can't get bank accounts." (from a credit union unable to offer current account facilities)

Credit union managers

Even where new initiatives to reach out to higher risk borrowers were in place these developments were at an early stage

"We are changing now...we are starting to do instant lending to higher risk borrowers..."

"We're just starting to do those (instant loans) and we're just about all systems go (at point when teams coming to end of 2 year pilot project)...instead of having to say 'Sorry we can't help you'...we are going to be able to say, you might qualify for an instant loan."

"We're taking it slowly...10 or maybe 15 (instant) loans a month until we see how we go with it."

Credit union managers

Some fears also among credit unions about becoming involved with victims on the grounds that lenders might target union premises or staff for retaliation

Indeed the credit union management was a little reluctant to become too closely involved with supporting victims in any case. This was in part because they feared that this might invite retaliation from the lenders and thus pose a threat to staff safety.

"There was a slight concern about the vulnerability of the premises as well. If we became known as a place where loan shark activity was being reported in quite an overt manner, we were a bit concerned about the safety of our staff, also of people coming in and using the premises."

“We were concerned about what it might mean for ourselves. We didn’t really want anyone being attacked with a baseball bat. And we were aware that the stakes are quite high because there is so much money involved in that kind of crime.”

“We had a joint meeting here. That was a while ago now...It was right at the beginning when we were looking at what we could do together...and what emerged was what we couldn’t do together because of this issue about security.”

Credit union managers

Credit unions appear however to have been an effective source of information about illegal lenders and the work of the pilot teams

The illegal money lending teams provided credit unions with information, posters, leaflets and cards with contact details for the team. Strenuous efforts appear to have been made also to distribute these to various community centres and other centres where potential borrowers may congregate. Take up of the pilot teams’ promotional material by credit union users appears to have been higher than anticipated.

“A lot of people took the information away. There was a big poster and there were the little cards with contact numbers and it was amazing how many people picked those up.”

“I only know that the cards went out of here after that incident (lender arrest) We had to get another stock of them. That tells me that people knew and wanted to contact the DTI about it and didn’t want to contact anyone else because they’d just take the card.”

Credit union staff

The pilot teams were clearly systematic in providing victims with information on debt advice services and credit unions

Both pilot teams provided credit union and debt advice literature and contact details to the victims they encountered. The team in Scotland limited this activity to the provision of information and contact details, while the Birmingham team appeared to have been more proactive.

“We get all their leaflets and we go out and pass them out as we take our statements. It’s the only thing that we do.”

“It’s not my place to tell them (victims) anything (sense is to go to Money Advice). We do ask them if they want assistance.”

Pilot team enforcement officers in Scotland

In Birmingham the pilot team went further, actively encouraging victims to consult local agencies and engaging in some basic financial literacy work

In Birmingham, the team appears to have actively explained the advantages and lower costs of borrowing from a credit union. The team also worked with some victims on the basics of financial literacy. It is worth noting that these efforts by the Birmingham team members were well recalled by almost all of the victims interviewed in the course of the research.

“We use their literature when we go out, if we’re going into an area we find out who the local credit unions are and we take their literature with us and when we’re interviewing victims we hand out the literature. If there is a, sort of, a Community

area or whatever that is obviously visited by people, we will drop off the literature while we're there."

"Education is too strong a word for it but a walk through, you know, 'Did you know that if you borrowed this and this it would only cost you this... We've got a very small basic financial literacy training tool that we use around the place."

"In terms of the credit unions, we've just done something as simple as put them in touch...and tell them that they're much better value than you realise."

Pilot team enforcement officers in Birmingham

Interviews with victims suggest that despite the efforts of the pilot teams very few have made contact with either advice agencies or credit unions

Interviews with victims tend to suggest that most victims had registered the team's recommendation of credit unions. Very few victims had made any contact with credit unions subsequent to the removal of the lender however. In part this was due to inertia and a reluctance to borrow further. However credit unions are not always necessarily convenient and accessible, while some victims may also have been put off by the perceived requirement to save.

"I was full of it...yeah. I was going to go but I never went in the end. It never seemed to be open when I had money."

"I really wish I'd gone (to credit union)...they did recommend it and it seemed like a good idea."

"Wish I had done (gone to the credit union) but I've got used to the extra money in my pocket so I haven't got it to save."

Former victims of illegal money lenders

Victims whose income may have been significantly increased by removal of the lender may no longer feel a need for credit or want to borrow again

The explanation in some cases at least was that when victims were relieved of the burden of making payments to the lender, they no longer had an immediate need for credit. Others felt that the experience of borrowing from an illegal lender had put them off borrowing altogether.

"It learned me a big lesson...I don't lend...my money is my money."

"I'll just live with what I've got."

"If I don't have the money, I go without."

Victims of illegal money lenders

These attitudes are typical of many of those on low incomes who have struggled to pay off high cost loans, including loans to legitimate lenders. The evidence¹⁰ is however that most low income borrowers ultimately return to the market despite their best hopes and intentions, either as a result of cash flow pressures or because they are unable to fund a purchase by other means.

¹⁰ Source: Competition Commission Home Credit Inquiry 2006, Policis data for NCC Affordable Credit, 2005, Policis data 2004 Low income credit users

Those victims who wanted to use credit followed a variety of routes including alternative illegal money lenders, home credit, credit cards and a credit union

Other victims had felt a need for credit subsequent to the removal of an illegal lender. The indications are however that they did not necessarily see a credit union as the obvious or most accessible solution, with a variety of outcomes arising.

The problems encountered, including the impact of credit exclusion, escalating debt and payment problems on credit union loans are indicative of the issues raised

The following examples, taken together, are perhaps illustrative of both some of the likely paths such individuals seeking new credit options are most likely to pursue and the problems that are likely to arise. An alcoholic who found himself with no alternative source of credit following the removal of the illegal lender he used was struggling to manage without credit. Another person was using an alternative unlicensed lender, and also borrowing informally from a family friend. A couple, on the other hand, had seen an improvement in their financial situation. Both these individuals had each taken out credit cards. They were keeping up payments on cards, both of which were now at their limit. They had however since also borrowed from a home credit company and from their family. Yet another individual had joined a credit union, managed to save £200 and had borrowed £400. He had however missed the last four repayments on this loan.

Credit unions appear to have had no means of identifying former victims but were unaware of new clients with a history of illegal money lending

None of the credit unions contacted had any means of identifying individual clients who might have presented as a result of referrals from the illegal money lending teams. The same issues of client confidentiality and of a lack of hard data on referrals arise therefore for credit unions as was the case with the debt advice agencies. For these reasons it is not possible to say whether victims have presented themselves to their local credit union as a result of referrals from the illegal money lending teams, or to estimate how many may have done so. Again, however, none of the credit unions contacted were aware of any new clients having a history of problems with illegal lenders, though most suggested that few clients would in any case volunteer such information.

“It was informal. We said that if they wanted to refer anybody to us they could...But mainly it was if they came across people they would give them information about credit unions or other support agencies.”

“That (source of referrals) wasn’t a statistic we set out to collect and maybe, looking back, it might have been helpful. Even if we had had a mechanism in place, I suspect that the same thing would have happened. If we had said to people ‘Were you referred by the loan shark team?’ they would have said ‘I don’t know what you mean’. It’s very sensitive.”

Credit union managers

Growth in credit union membership in the wake of a lender’s removal appears to have arisen from press coverage rather than victim referrals

That said, it would appear that there is some evidence of growth in credit union membership as a result of the work of the illegal money lending teams. It appears however that this has arisen less as a consequence of referrals of victims than of a

wider increase in awareness of credit unions as a result of publicity associated with the pilot teams' activities. When arrests and convictions resulted in media coverage of illegal money lending, the Birmingham team took pains to point up in interviews and press releases the advantages of borrowing from a credit union. They also provided contact details for credit unions local to the area from which the lender had been removed.

In one instance, publicity associated with the first arrest of a major lender generated a 25% increase in membership for the local credit union

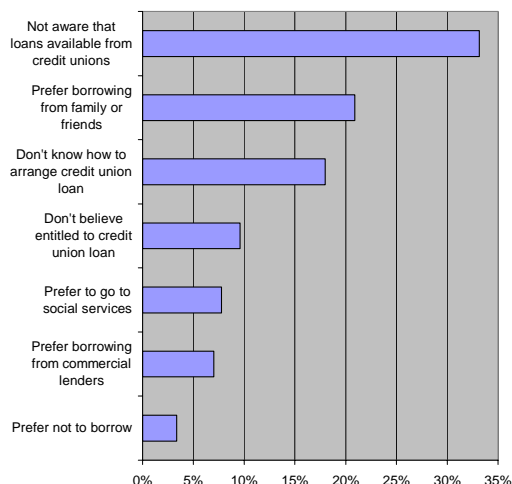
The most successful outcome of these communications appears to have arisen with the credit union local to the first of the major lenders removed in Birmingham. In the wake of the lender's conviction, it is estimated by the credit union that membership increased by some 25%. However the credit union attributed this rise not to direct referrals from victims of the illegal lender but rather to the wider publicity for the credit union engendered by the media coverage of the lender's conviction. Specifically it appears to have rested on the pilot team's provision of the credit union contact details in press releases and their mention of the credit union in media interviews. The credit union had no means of identifying or tracking new clients who may have come to the union as the result of referrals from the pilot team. That said, the management had had no indication that any of the new members had been victims of the illegal lender.

"I think that it was more to do with that (increased awareness of CU arising from publicity). The credit union has increased in membership...but it was because we got some good publicity. It's not often we get into the Evening Mail and we were on Midlands Today and Five Live. Programmes which wouldn't normally have covered credit unions included us as part and parcel of their reporting on the loan shark arrest."

Credit union concerned

This would appear to accord with the pattern revealed in some earlier research,¹¹ which suggests that lack of awareness is the biggest single barrier to credit union take up among potential low income borrowers.

Chart 12: Reason for not having credit union loan



Source: TNS research for Policis 2004

¹¹ See Policis and PFRC study for DTI "Illegal Lending in the UK" 2006

The impetus from the publicity surrounding the arrest does not appear to have resulted in sustained joint working

The impetus associated with the arrest of this first lender and the sense of partnership between the credit union and the Birmingham pilot that arose at this time does not appear to have been sustained however.

“The one that happened last year that was very high profile and very exciting. It would be nice to have a second arrest just because it would build on the belief that it was actually going to be seriously tackled.”

“Initially when it (joint working) was being proposed and the team was going to be set up we had a couple of meetings with the team. Then the last time we had a lot of contact with them was when that high profile arrest took place and we were asked to be involved in the publicity about that.”

Credit union concerned

For most credit unions and advice agencies contacted in the initial networking phase, the illegal money lending teams have rather fallen off the radar

For most of the credit unions interviewed for the evaluation, the illegal money lending teams and the issue of support for victims of the lenders has rather fallen off their radar. The initial networking had mostly taken place when the teams were established in 2004. Recall of the illegal money lending teams was poor by late 2006 and there was little or no sense of an ongoing working relationship with either team. In the absence of an immediate focus for joint working and with both parties having pressing and important priorities elsewhere, communication had simply lapsed.

“It wasn’t until you asked about the partnership working that I realised that it was quite a long time since we had spoken to the pilots. Is it coming to the end of its pilot period?”

“It would be nice just to meet up with them at some stage I think. I had kind of forgotten that there was that aspect of it (i.e. that it was a pilot project). It would be nice to have a follow up meeting with them.”

Credit union managers

5.3 The impact of enhanced enforcement

5.3.1 Eliciting reporting and intelligence from the community

Eliciting reporting and addressing the climate of fear that acts as a barrier to obtaining intelligence and evidence was a key goal for the project

A key objective in building increased awareness of illegal money lending and of the work of the pilot teams was to elicit greater reporting of illegal lending from the community. Achieving this objective rests of course not only on creating awareness of the teams but depends critically also on addressing the climate of fear that surrounds the lenders. Indeed the consumer research undertaken for the DTI scoping study¹² indicated that more than 8 out of 10 of those who regard illegal

¹² See Policis and PFRC study for DTI “Illegal Lending in the UK” 2006

lenders as a problem on their estate say they would never report a lender to the authorities, primarily because it is seen as too dangerous to do so.

Reports of illegal lending prior to the establishment of the pilots was rare with little or no effective action in response to those complaints that did arise

The research with all the various enforcement and other agencies interviewed indicated that any reporting of illegal money lending was rare prior to the establishments of the pilot projects. Moreover, where victims did report incidents associated with illegal lending, it appears that the Police have tended to address related offences, such as assault, without tackling the illegal money lending.

“We have found cases where the police have investigated assaults of victims of illegal money lending, but then just dealt with the assault and left the illegal money lending alone.”

“There was one (victim) in (named lender’s) case, where he punched her in the face and when she called the police they said that it was a civil matter. ‘You’ll have to speak to your solicitor’.”

“In one case, I think it was (named lender), the police had come round and told her (victim complaining of assault) to keep paying.”

Pilot team enforcement officers

“To be honest I was at my wit’s end. I don’t know what I would have done. Even the police had the cheek to say to me ‘Why don’t you move?’”

Victim of illegal lender

Clear indicators that communities regard illegal money lending as damaging and would welcome facility to report – although most would prefer anonymity

Despite the fear of coming forward, there is some evidence that there is considerable appetite for “shopping a shark”, with 8 out of 10 residents in communities where loan sharks are operating believing that “loan sharks exploit people and damage the community”.¹³ The same research suggested that an anonymised telephone line for reporting illegal lenders’ activities was regarded as the single initiative most likely to be effective in tackling loan sharks. This picture would seem to be borne out by the experience of The Daily Record. The paper ran a campaign to “Shop a Shark” both prior to the establishment of the pilots and thereafter, which asked readers to come forward. This apparently elicited around 25 calls a day over the period in which the campaign ran. Reporters estimated that circa 100 lenders have been identified in this way – though very few callers were prepared to go on record.

The pilot teams have had considerable success in eliciting reporting with more than 200 lenders identified between them

Against this background both teams have had some considerable success in identifying alleged lenders and stimulating reporting from the public. In Birmingham some 335 members of the public have contacted the pilot team. Of these, 312 individuals called the direct 24/7 hotline requesting assistance from the team, though some of these calls were related to matters other than reporting a loan shark. A further 36 emails were sent to the “stoploansharks” email address. A texting facility has been less well used, with only 5 text messages having been received.

¹³ See Policis and PFRC study for DTI “Illegal Lending in the UK” 2006

The Glasgow Team does not operate a separate helpline. All calls are received via the national “Crimestoppers” facility, and in line with broader Crimestoppers practice, leads are anonymised. There is no count of the number of such callers available. However, as a result of specific publicity generated by the team’s activity, such as arrests etc, some 15 calls have been received direct to their office, which is open only during office hours. Between these two sources a total of 114 individuals have been reported to the Scottish pilot team as allegedly carrying out illegal money lending.

5.3.2 Willingness of victims and the wider community to provide evidence to support prosecutions

If lenders are to be removed it is necessary for victims to feel sufficiently confident to provide evidence to support a prosecution

Identifying the lenders is of course only the first step towards their removal. In order for an effective prosecution case to be built up, witnesses are required to come forward and provide evidence for the courts. This is particularly important in Scotland where witnesses must agree to appear personally in court if their evidence is to be considered. In England and Wales, by contrast, evidence is admissible on the basis of sworn witness statements and courts are prepared also to make judgements based on evidence provided by professionals (such as the Police or illegal money lending enforcement officers).

Victims remain reluctant to provide witness evidence, with difficulties in Scotland both much greater and more critical to effective prosecution

The experience of the pilots suggest that willingness to identify lenders does not necessarily translate into willingness to provide evidence to support their prosecution. Both teams have encountered problems with persuading witnesses to provide sufficient evidence to support a prosecution but these have been much more severe in Glasgow than in Birmingham.

The Glasgow pilot team has been handicapped in efforts to seek direct witness evidence by the anonymity of intelligence provided through Crimestoppers

These differences between the two teams have arisen in part from differences in the sources of their intelligence. Intelligence in Birmingham, obtained through direct contact between informants and the pilot team, has generally been of much higher quality and more timely than in Scotland. Critically, it has enabled the Birmingham team to approach victims for witness statements. In Glasgow where intelligence has been sourced from the anonymous Crimestoppers helpline, the pilot team has not had the opportunity to speak directly to members of the public who have reported incidences of illegal lending.

Even where victims can be identified from lender records, they may be reluctant to co-operate with the enforcement authorities

The teams have faced considerable challenges in making contact with witnesses. Victims are in any case difficult to identify and contact in order to obtain witness statements, not least because the records of the lender are likely to be unavailable or incomplete. Borrowers may be listed with first names only, contact details are likely to consist of mobile phone numbers and may well be out of date. Victims that can be

identified have been contacted by both teams with phone messages or notes through doors. However both teams report that in most cases victims are unlikely to phone back.

Despite these challenges, the pilot teams have obtained more than 100 witness statements

Nonetheless, at the time when the earlier scoping study was carried out by Policis and PFRC, the teams had obtained around 113 witness statements, relating to seven illegal lenders. The majority of these witness statements (around 7 in 10) had been collected by the Birmingham pilot team in relation to three illegal lenders.

Only circa 1 in 5 victims are willing to provide statements in Scotland with far fewer prepared to attend court

The Scottish team estimate that only about 20% of victims are prepared to give witness statements, but with far fewer prepared to go to court. Birmingham have encountered fewer problems in obtaining witness statements but nonetheless estimate that, to date, around a third of witnesses contacted and approached for a statement have refused to give one, with the team having received some 62 refusals.

Birmingham faced fewer challenges in amassing the evidence to support a prosecution, partly because they were less dependent on witnesses

Overall indeed, the Birmingham team faced fewer challenges in preparing a case for prosecution than in Glasgow. This was not only because they had better and more immediate access to witnesses, with whom they were able to build relationships, but also because they were less dependent on witnesses in making a case for prosecution in any case. For the Birmingham team, witness statements were not only easier to obtain from direct contact with victims but they were also admissible as evidence. Moreover on the basis of better intelligence, it is easier to provide evidence of illegal money lending activity through covert observation of the lender. It is thus possible to prosecute cases through the courts even without recourse to witnesses.¹⁴

“We’ve got to the stage where we can show that he was doing illegal money lending without witnesses... Surveillance, observation, books, paperwork. We can show what is going on. It is pulling those resources in over time.”

Birmingham pilot team

The need for witnesses to attend court in Scotland has made it difficult to prosecute where witnesses are unwilling or potentially perceived as unreliable

The burden of proof for a lender to be convicted is higher in Scotland than in England, with it being critical to bring witnesses to court. It has however sometimes proved impossible to do so, with witnesses unwilling to attend court and citing medical and psychiatric problems to support their refusal. The latter claim would in any case raise questions in court as to their reliability as witnesses.

“Now some of the witnesses will give me statements but trying to get them to turn up at court is extremely difficult...and the only thing that matters is what they say in court.”

¹⁴ At the time of this evaluation, three cases of illegal lending had been brought to court following investigations by the Birmingham pilot team. None of these cases went to trial, as the defendants pleaded guilty. Consequently, the witnesses who agreed to testify were not required to give evidence.

“The witnesses are not always the most reliable, so the Procurator Fiscal...may decide to take a plea bargain that they would not otherwise take because they know that the witnesses won’t stand up.”

“The witnesses immediately phone and say ‘I’m a loony. I’ve got two doctors to say so and I’m not coming to court’ or ‘I’m an alcoholic and I’m not coming to court.’”

Pilot team enforcement officers

Overall therefore it would seem that the teams have been relatively successful in generating intelligence from the community about illegal lenders, although in Scotland the Crimestoppers route has resulted in poorer quality intelligence. The evidence is, however, that the pilot teams have had less success in addressing the climate of fear that surrounds the lenders. In Birmingham, where more cases have been brought to court and more lenders removed and where the team have had greater direct access to those volunteering information, greater progress has been made in persuading victims to come forward and give evidence – though it is clear nonetheless that the climate of fear that surrounds the lenders is alive and well. In Scotland the climate of fear would appear barely dented, to the point where it may prove difficult to prosecute some illegal lenders effectively north of the border.

5.4 The scale of detection and enforcement

5.4.1 Illegal money lenders identified and removed

Taken together the two units have identified some 203 lenders, opened 111 investigations and arrested a total of 39 lenders

Some 89 cases of illegal money lending have been investigated by the Birmingham team – to a greater or lesser extent. The extent of these investigations has varied from simple background checks to a full investigation leading to prosecution and conviction. These investigations have led to some 20 individuals having been reported and prosecuted for illegal money lending, with some of these prosecutions relating to a single investigation.

30 individuals have been referred for potential prosecution

A total of 114 individuals have been reported to the Scottish pilot team as carrying out illegal money lending. Some 22 investigations have been carried out thus far, resulting in 19 arrests. Slightly less than half (45%) of investigations have led to reports to the Procurator Fiscal in relation to breaches of the Consumer Credit Act, while 2 were reported to the appropriate Police Force on the basis of evidence that other crimes were being committed. A total of 10 cases have been referred to the Procurator Fiscal.

Some 30 cases have been closed because complaints could not be substantiated while others remain open pending the availability of further evidence

10 cases in Birmingham have been closed with no further action expected, with the balance remaining open but not yet being actively developed pending the appearance of further evidence or because other cases have been deemed a priority. Some 20 complaints made to the Glasgow team have not been able to be

substantiated while 4 related to individuals who have turned out to be licensed lenders.

5.4.2 Prosecutions and the outcome of formal reporting and referrals for illegal money lending

All three cases brought to court in Birmingham have resulted in convictions with some eight further cases now going through court process

At the time of writing (December 2006) of the 17 cases referred for potential prosecution in Birmingham, three prosecutions have been brought to court and convictions have been successfully obtained in all cases. Six cases have resulted in a simple formal caution. A further eight cases are currently going through the court process, of which seven have had a first hearing.

Lenders in England have been prosecuted not for illegal money lending alone but for a variety of offences including kidnapping, blackmail, firearms and assault

The nature of illegal money lending as often tied in with a wider criminal lifestyle is evidenced by the range of additional offences with which the lenders were ultimately charged in England. In Birmingham where the investigating team found evidence that the lenders were involved in crime either during the course of searches or in the course of pursuing their investigations subsequent to arrest, lenders were subsequently re-arrested by Police for a range of additional offences, including possession of firearms, kidnapping, blackmail and assault. Clearly the teams' remit has been limited to Consumer Credit Act offences. However, where illegal money lending appears to have been only one facet of a lender's wider criminal lifestyle, the team have sought to increase the impact of the removal and prosecution of the lender by referring other criminal activity to the Police. Here the thinking has been that if the lender were to be prosecuted for the Consumer Credit Act offences in isolation, the courts would be more likely to take a lenient view of illegal money lending and lenders would be better placed to present their activities as a technical offence. It should be noted that the legislative framework in Scotland does not allow for such an approach.

"We realised from a very early stage in the life-cycle of this pilot that if we just prosecuted them for illegal money lending, then they'd have been able to mitigate it away as a technical offence...If we find illegal money lending going on and then we find other serious offences, we will put those in. The kidnapping charge, for example, we did that because it (kidnapping and threats to kidnap) is intrinsically linked to the way he was operating his illegal money lending business."

"Take (named lender). He was prosecuted for illegal money lending, blackmail, deception and proceeds of crime. What that does (prosecuting the lender for crimes other than illegal money lending) is it allows the proceeds of crime enquiry to continue... You need to have certain offences in there and contraventions of the Consumer Credit Act is not one of them... They can't say none of that is criminal property because they've been convicted of a money laundering offence."

Pilot team enforcement officers, Birmingham

In Scotland two cases have been brought to court resulting in convictions with a further six in the prosecution pipeline

In Scotland, of the ten cases referred to the Procurator Fiscal two cases have thus far been brought to court, both of which have resulted in convictions.. A further two were dealt with by way of Procurator Fiscal disposal.¹⁵ The remaining six cases reported to the Procurator Fiscal are progressing to full trial with one defendant having pled guilty. One case involving a Post Office employee was dealt with by way of internal Royal Mail disciplinary procedures.

5.4.3 Sentences received by convicted illegal lenders

Convicted lenders have received mixed sentences ranging from relatively long prison terms to an official admonishment

In Birmingham, one lender – with by far the largest operation of those thus far convicted and the first to be prosecuted – received a prison sentence of three years and nine months. This sentence was a result of convictions for offences under the Consumer Credit Act 1974, blackmail and obtaining money by deception. A second lender, convicted of unlicensed lending, received a 150 hour community service order. A third lender, convicted of unlicensed money lending and blackmail was given a two year prison sentence, with his wife, who was charged with him and convicted of illegal lending, receiving a twelve month community rehabilitation order.

In Scotland the Procurator Fiscal determines what type of court cases are heard in, and the severity of the sentence that can be passed varies by the type of court. Sentences at a jury trial with a Sheriff sitting on the bench can be up to three years. At a summary trial, the maximum sentence is now 12 months. Of the two cases progressing to court in Scotland, one was heard in the Sheriffs court, where the illegal money lender received a ten month prison sentence. A second illegal money lender, convicted in the Summary court, was subject to an official admonishment.

5.4.4 Proceeds of Crime Act investigations

Stripping lenders of assets amassed through running an illegal money lending operation is as important to deterrence as the prospect of custodial sentences

One of the key attractions of illegal money lending is that it is a highly lucrative business with, historically at least, little risk of identification or prosecution by the authorities. The evidence is that many lenders have operated for a considerable time, particularly in Scotland, where some lenders have been running an illegal loan book for decades. The most effective deterrent will rest not only on the enhanced likelihood of apprehension, conviction and punishment but also on denying convicted lenders the value of assets they have built up from their illegal lending activities.

To this end, both illegal money lending teams have worked closely with the Police Financial Investigation units from the outset of their operations. Where appropriate (i.e. in cases where an illegal lender can be shown to have assets) lenders are charged not only with contraventions of the Consumer Credit Act but also with acquiring criminal property (namely cash interest on money loaned through an unlicensed money lending business) contrary to the Proceeds of Crime Act 2002. Conviction on the illegal money

¹⁵ When a case is dealt with by way of Procurator Fiscal disposal, the accused is sent a warning letter requiring the individual concerned to desist from a particular activity, in this case lending without a licence under the Consumer Credit Act 2006.

lending charges will then lead to conviction under the Proceeds of Crime Act to enable the authorities to commence asset recovery proceedings.

“It’s actually been fairly easy because obviously we can show that there is an illegal money lending business being conducted, which then allows for a Proceeds of Crime offence. If they are convicted of one, they will be convicted of the other. Regardless of whether they have hidden the assets well enough, they are going to have to pay them back.”

“He has made nearly a million pounds in the ghost economy. He’s made a half a million pounds, whatever it is, in terms of interest on the loans...and he’s not paid any of that to the state. And this is where HMRC and the investigation unit comes in. They’ve realised he (lender) has been skanking everybody so we draw people (i.e. other authorities) in with us. It’s seeing it as it really is. If we had just done him for illegal money lending, what does that tell the community?”

Pilot team enforcement officers

Efforts to recover convicted lenders’ assets have had mixed success but early indications are that in some cases values recovered will be substantial

The results of individual recovery investigations have been mixed, primarily because of differences between the lenders in the assets actually available to recover. At least one of those convicted appeared to have gambled most of the proceeds of his business away leaving little of value for investigators to recover while another had only one significant asset in the form of a residential property. This property was repossessed by the mortgage company when mortgage arrears built up following his arrest. Early indications are, however, that where lenders have been sufficiently astute to amass significant assets, the value of recoveries can be substantial.

Assets restrained thus far are in excess of £1m with further large sums potentially arising from the prosecution pipeline

The Financial Investigations under the Proceeds of Crime Act have already recovered significant sums, with a total of £1.05m thus far having been restrained from the cases in which lenders have already been convicted by the courts (being £800,000 arising from the operation in Birmingham and £250,000 from that in Scotland). Further significant sums seem likely to be recovered. At least one of the cases currently going through court process involve a loan book in excess of £1m in value.

Two of the Birmingham lenders ran illegal loan books which together totalled close to £2m; most illegal lenders removed ran much smaller operations

The loan book value for convicted lenders is £1.99m in Birmingham and £0.25m in Scotland. However the Birmingham figure is heavily skewed by the activities of two lenders, who together represent around 90% of the total. The values of loan books for the various lenders removed by the Birmingham team varies from £7,000 to more than £1m. The qualitative and quantitative research with residents of communities in which the lenders operate and with victims indicates that these two lenders with very large books may be atypical in a number of respects. One lender with a loan book valued at more than £1m had some 140 customers, indicating an average loan size of £7,000, with many of his loans being large quasi-business loans (for purchase of a taxi for example), albeit made to an individual. The other lender with a large loan book had a larger customer base than is typical, having over 700 customers, with an average loan value of a little over £1,000. More typically, the pilot teams (and various

journalists) estimate that lenders are likely to have less than 100 customers, with smaller lenders having 25-30 customers at any time.

Sums ultimately recovered for the Crown over the period of the pilot projects may be in the region of £2m, representing a significant contribution to costs

Should the cases pending also result in conviction, on the basis of the average value of the assets restrained from the cases that have thus far reached court, the cases currently in the pipeline could potentially yield a further £0.8m¹⁶ of assets for the Crown with the reservation that asset recovery in some cases will be extremely complex and the outcome uncertain. Clearly the degree of success achieved in recovering the assets of the largest lenders will have a substantial impact on this value. If the £0.8m estimate proves a reasonable approximation of the eventual outcome from these cases and the assets thus far restrained from cases where the lender has been convicted prove recoverable, this would imply a likely total recovery value from the activities of both teams over the pilot period of a little under £2m. Sums of this order would of course represent a not inconsiderable contribution to the cost of enforcement.

Significant seizures have been made in relation to criminal activities other than illegal lending including drugs, firearms and counterfeit goods

The synergy with core police business is emphasised by the significant seizures that have been made by the teams in relation to criminal activities other than illegal lending. Such seizures have included drugs, firearms and other weapons and counterfeit goods. Specifically these have been:

- Recovered counterfeit goods to the value of £100,000
- Seized 34,850 smuggled cigarettes
- Recovered 12 firearms, CS gas and significant amounts of ammunition
- Cannabis and amphetamines, 4 defendants charged with possession to supply
- Cash seized £29,170

The teams have begun to enforce legislation that has historically not been enforced, sending a message that illegal lending is now taken more seriously

In summary therefore, while the lag between identification of the lenders and their removal from the community and prosecution through the courts has been slower in Scotland than in Birmingham, both teams have begun to enforce legislation that has clearly not been enforced in recent history. Identification of the lenders has moreover been based largely on intelligence from residents of communities in which lenders are active and from victims themselves. Prior to the establishment of the pilots there was no outlet for such intelligence, with the few that did seek help finding little practical support forthcoming. While the bulk of the cases in the pipeline have yet to come to a conclusion, the publicity surrounding those convictions that have been achieved will have sent a clear message to the lenders in the areas in which the pilots operated that their activities, previously ignored by enforcement agencies, will

¹⁶ On the basis of the detailed information provided by the Birmingham team and extrapolated from current convictions in Scotland we now estimate the likely recovery value of the pipeline cases to be £0.8 m. This is based on the assumption that convictions will be secured in all cases and that 50% of the value of the loan books concerned will be recovered. Clearly, given that a single case represents more than £1m of a total pipeline value of £1.49m, greater or lesser success in recovering assets from this single case will significantly affect the outcome.

now be taken seriously by the authorities. This message and any deterrent effect will be further reinforced if actions taken under the Proceeds of Crime legislation ultimately deliver the significant sums which appear to be in prospect. In depriving illegal money lenders of the gains from their illegal activities, the project teams will also have made a considerable contribution to the costs of their operation.

“The bottom line is that we have addressed the problem and we’ve addressed a problem that has not been addressed for a long, long time. Better than the Fraud Squad and we’ve done more cases in two years than they did in ten. By looking under the stones we’ve found stuff.”

“The successes are all on the enforcement side. We have enforced a legislation which has not been enforced for the best part of fifteen years and we have set in place procedures which allow somebody (i.e. another entity post the pilot project) to carry that on if they (policy makers) wish and we have recovered some very considerable sums of money.”

Pilot team enforcement officers

5.5 The impact of removal and prosecution of illegal money lenders

5.5.1 The impact on victims and communities

The teams placed great emphasis on relationship building with victims in an effort to gain their confidence and stimulate willingness to provide evidence

The illegal money lending team reported that they had put considerable efforts into building rapport and relationships with victims. This was seen as an important component of success, giving victims the confidence that their problem was important to the team and would be addressed. As importantly, it supported the effort to elicit sufficient witness evidence to prosecute the lenders. Clearly relationship building was much easier to do in Birmingham, where the team had direct access to individuals who had volunteered information. In Scotland, where the team had to identify and find – often highly reluctant – witnesses, and then persuade them not only to provide a statement but to attend court, building rapport and confidence was a much more significant challenge.

Victims interviewed in Birmingham appeared appreciative of the efforts of the team and comfortable with the experience of providing witness statements

Research with those victims willing to talk to the research team about their experience of dealing with the pilot project¹⁷ suggests that they are for the most part appreciative of the efforts of the teams. The evidence from Birmingham¹⁸ suggests that not only were victims made to feel comfortable and empowered in providing evidence but that they also did not feel pressured to provide statements.

¹⁷ It should be noted that the victims interviewed were nominated by the pilot teams and were thus not a random samples. Other things being equal, one would expect a sample nominated by the subjects of any evaluation to have a positive bias.

¹⁸ The pilot team in Scotland nominated only one witness willing to talk to the research team

“They were great really. They helped me and told me all the right information and I was really pleased with what they did for me. I haven’t got a bad thing to say about it.”

“They were marvellous... They made you feel so at ease. They got it out of me so they must have been doing something right... If you haven’t got a team like that you’ll never get it out of people to prosecute somebody”

“The guy was friendly and explained everything... got loads of leaflets... they did their job... at no point did I feel intimidated to give a statement... I knew I had a choice.”

Victims of illegal money lenders

The team gave victims the confidence to stop paying the lenders

Interviews with victims suggest however that the team went further than giving victims sufficient confidence to provide evidence. As importantly, victims were empowered to stand up to the lenders and refuse to make further payments. The research indicated that some victims had at first continued to make payments to the lenders even after their initial arrest.

“If it wasn’t for them, I probably would have carried on paying him... They just made me feel confident that I didn’t have to put up with it.”

“Yeah, It’s like a friend, somebody who helps you, you know. He (named enforcement officer) helped me because if it hadn’t been for him, it (paying the lender a significant proportion of weekly income) would still be going on. There’d been threats of violence.”

Victims of illegal money lenders

Prior to removal of the lender victims had often felt trapped in the relationship with the lender, with some facing constantly escalating debt

The victim interviews suggest that removal of an illegal money lender has an important and positive impact on the quality of life of his or her victims. The most immediate impact is that victims are relieved of the significant burden of payments to the lender. Payments to lenders in many cases represent a high proportion of available domestic funds, often hollowing out victims’ household budgets and undermining their ability to provide the essentials of life for themselves and their families.

“If you are paying (lender nick-name) £50 a week and you get £74 a week, now you’ve got £74 a week.” (i.e. following lender removal)

In the event that they have missed payments or fallen behind, victims may have been facing debts that escalated unpredictably and alarmingly, leaving victims feeling trapped in their relationship with the lender. This was true of those who had taken out both small and large loans.

“It went up from £10 to £200 and £350... it was doing my head in.”

“I said to him, how could it jump from £1,300 to £1,900 there? It’s (outstanding balance claimed by illegal lender) more than doubled.”

Victims of illegal money lenders

In some cases, the finances of the household are so depleted that individuals have little option but to resort to crime, itself a significant source of stress.

“You can’t live on £20 a week. You’ve got to do something. Street crime. Robbery. They were that frightened of him.”

Illegal money lending enforcement team

Victims are spared the anxiety of living with constant intimidation

Victims are not only spared the anxiety of having to find funds that they can ill spare. Many have also faced significant pressure in various forms of threat and intimidation. Victims may have been worried not only about the impact on their own well being and safety but also about that of family members, particularly where threats have been made to children. Some victims reported¹⁹ a life constrained by the constant effort to avoid running into the lender. The associated stress will undoubtedly have exacerbated the not inconsiderable pressures of living in poverty in any case. Relief from constant worry will have brought a significant benefit in itself, with positive implications for mental health, quality of life and well-being.

Victims reported intimidation ranging from threats to kidnap children and pets through harassment at work or at home to serious violence

“There’s been threats of violence. She’d steal kids from people. What’s necessary to do when it comes to violence. She’ll not get to one person, she’ll get to your ma.”

“It was £5 or £10 (per week) but I missed two weeks and that’s when (named lender) assaulted me and took the dog.”

“It (lender phoning place of work) played a big part in losing my job. The persistent pressure...phoned three times in five minutes once. The company boss pulled me in and says about that.”

“Kept the keys so he couldn’t get through the door – You can’t have your keys back until I get my money.”

“One of them did attempt to cut my throat one night in the back of a pub...it’s part of the whole thing...running away from them (lenders), avoiding them in the pub, taking corners to avoid them, certain routes to avoid them, all that kind of thing.”

Victims of illegal money lenders

Removal of the lender unequivocally has an important and positive impact on victims’ finances and quality of life

“They (community) were happy and delighted (that lender arrested...There’s no pressure any more and they can now feed their families.”

“Everything has been fine since then. (arrest of lender)”

“It’s a great thing for the community. Before every time you met somebody it was (named lender) this, (named lender) that...She took my money (benefit funds just cashed) and she took their money (benefit funds from friend) – £60. She took all my

¹⁹ Both in the interviews undertaken to support this evaluation and those undertaken to support our earlier scoping study

money off me and she threatened me at the Post Office. My head was going nuts. Now all of a sudden, you never hear her name. Gone. (Named enforcement officer) and his crew done a great job when they lifted her. I was really delighted that day.”

“You can move on. You can stop worrying, because it does get to you.”

“It (removal of lender) takes a lot of pressure off because he’s (lender) up first thing in the morning, running about all day after people who owe money...”

Victims of illegal money lenders

We estimate that the removal of the lenders has benefited a total of some 1765 victims

We would estimate that the impact of removal of the various illegal lenders achieved by the two pilot teams in combination is likely to have impacted a total of some 1765 victims.²⁰

The activities of the teams have saved an expected total of £3.3m that would otherwise have been diverted from the budgets of highly vulnerable victims

Taken together, on the basis of the loan book values for the illegal lenders concerned, the arrest of the lenders will have relieved their victims of an estimated total of circa £3.3m in payments that would otherwise have been made to the lenders.²¹ This includes the two very large loan books (together totalling close to £2m) unearthed in Birmingham. The consumer research²² with users of illegal lenders suggests these large operations are unlikely to be typical however. If the average loan values had been closer to the average repayment amount value suggested by the DTI scoping study into the scale of illegal lending, estimated value would be significantly lower.²³ On that basis the estimated debt relief value would be around £0.7m.²⁴ Funds thus saved can now be devoted to essentials rather being diverted to the illegal money lenders. Victims and their families will be substantially better able to cope financially than when their budgets and financial stability were being undermined by payments to the lenders.

There is some evidence that crime and anti-social behaviour is reduced in the wake of removal of a lender

There is some evidence that crime and anti-social behaviour may diminish in the wake of removal of a lender, though the evidence for this is ambiguous. One senior Police officer has claimed publicly²⁵ that following the removal of one of the first lenders to be prosecuted, crime in the community in which the lender operated fell by a third. Other Police officers however have told the research team that removal of individual lenders has had no discernible impact on criminal activity. In the victim

²⁰ Based on the estimate of the average number of clients per lender derived from the consumer research conducted for the Policis and PFRC study for DTI: “Illegal Lending in the UK” 2006

²¹ The estimate is based on the assumption that following the arrest of the lender no further payments will be made on these illegal loans. It does not therefore allow for the possibility that some lenders or their representatives may seek to collect further repayments subsequent to their arrest, with their being some, largely anecdotal and intelligence based, evidence that this does occur in some cases. It is believed that no further collections have been attempted on the two very large loan books in Birmingham which make up a substantial proportion of the total.

²² Policis / PFRC consumer research for DTI Illegal Lending Scoping study 2006.

²³ See Policis and PFRC study for DTI “Illegal Lending in the UK” 2006

²⁴ Number of lenders removed (39) x average number of clients per lender (25) x value of debt repayments (£730)

²⁵ Chief Superintendent Peter Goodman, West Midlands Police

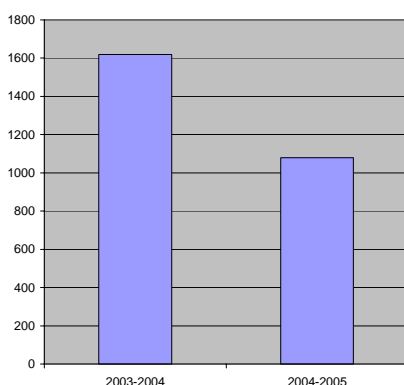
interviews, however, individuals pointed to a decrease in noise and nuisance when a lender had been removed.

“It’s quiet. It’s great now (following removal of lender)...she was a nightmare as well. Music through the night...brought the kids in smoking hash and that.”

“The kind of people she used to get close to... they are drug addicts most of them. So when they get clothes (shoplifted and sold on credit by money lender) they were selling them on again. They needed to sell on again. So they might buy hundreds of pounds’ worth, just to get the money for drugs...so there’s all that carry on going on around what she’s doing.”

Victims of illegal money lenders

Chart 13: Crimes reported in community where major lender operated



Source: West Midlands Police

5.5.2 Perceptions that lenders can operate with impunity

Addressing perceptions that illegal money lenders are able to act with impunity was one of the key objectives in setting the pilot projects

Addressing the perception that illegal money lenders are able to operate with impunity was one of the key objectives in setting up the illegal money lending pilot projects. As discussed in section 5.3.2 earlier, the evidence is that while substantially more individuals have come forward to report illegals than have done so historically, it is clear also that the generalised climate of fear generated by the lenders is alive and well. Even though individual lenders have been removed and their victims’ finances and quality of life have been greatly improved (see preceding section), the barriers to persuading witnesses to come forward remain substantial.

Addressing the view that the lenders are “untouchable” depends on both the experience of communities on the ground and on media coverage of events

The illegal money lenders’ ability to operate depends critically on their capacity to control victims and maintain the climate of fear. This in turn rests on the perception that lenders are beyond the effective reach of the law – “untouchable” – in the words of the Birmingham pilot team. On one level, addressing this perception rests on the enforcement authorities’ ability to ensure that lenders – or their associates – are genuinely prevented from carrying out their business following their arrest or removal and that their victims are not subject to harassment or retaliation. On another, it will depend on community perceptions that convicted lenders are likely to be removed

from their area of operation for sufficient time to enable the community itself to move on. Time away from the community is required for the lender's power base (reputation, assets, infrastructure, market presence, network of associates etc) to become undermined sufficiently to break the spell of control or the perception that the lender can operate without fear of the law. In part this will depend on the experience of specific individuals and communities on the ground and in part on media coverage of the lenders' conviction and sentencing.

One of the key factors in undermining the lenders' control over their victims is giving the community the breathing space to move on

"What happens is that people move on. You've told them it is an illegal debt and they don't have to pay it back. You give them that breathing space. When he comes out, in the majority of cases, they'll just say – get stuffed."

Pilot team enforcement officer

"All of a sudden (following removal of lender) you've gone from having £24 a week to £74 a week. It's amazing how much better you can live when you've got all of your money. You realise. Actually I can cope. I can deal with it, put a bit away."

Victim of illegal money lender

In England there has been some success in preventing lenders from collecting payments or intimidating witnesses through court interdicts and ASBOs

The arrest of the lender does not always remove the individual from the community and is not of itself always successful in preventing the lender – or their associates – from seeking to collect on loans outstanding (see section 6 following). One of the difficulties also is that illegal money lending appears to be a family business in some cases and is often associated with families known for having a track record of violence. Removal of the principal lender may not therefore address the wider fear of the family. The Birmingham team has had some success in preventing lenders awaiting trial from operating on their preferred patch or approaching their victims through the use of ASBOs and, following conviction, CRASBOs. In extreme cases, the team has provision for "witness protection" type arrangements, a facility likely to be used only with great reluctance, not least because witnesses are often unlikely to want to move away from their own communities.

The community is not necessarily convinced that lenders will not be back or that they will not continue to operate through intermediaries or other means

While there is clear evidence that the community and many victims are significantly relieved by the removal of a lender (see section 5.5.1 preceding), it is not necessarily the case that victims yet see the arrest and removal of a lender as likely to signal the end of their activities or influence.

"A couple of (named illegal money lender's) friends came round the house and tried to cut us in and take out more pressure." (i.e. to make further payments in relation to loans from illegal lender money lender removed from community)

"(named illegal money lender) is not afraid of anything. The only thing in her life is money and greed. That's what she breathes air for...she'll still be wheeling and dealing. She will be."

“(named illegal money lender) will definitely be operating... There’s no question about that.”

Victims of illegal lenders

In some cases illegal lending continues in communities from which a lender has been removed; in others there is no evidence new lenders fill the vacuum

The evidence on the longer term impact of arrest and imprisonment of lenders on the incidence of illegal money lending is mixed and is both incomplete and derived largely from intelligence data and covert observation. In some instances, it would appear that illegal lenders removed from the community have continued to operate their businesses either in person or through family members and associates. It would appear also that in some cases other lenders still operate in the community in which the lender has been removed.

“One of them was in prison last year and somebody else was doing the collections for them. That’s the way they have gone on unhindered. They just got someone else to run it for them.”

“I don’t think we have diverted very many victims away from illegal money lenders and I probably have some doubts that we have diverted many illegal lenders away from the illegal money lending.”

“Of the others (i.e. 3 lenders arrested but not in jail), two we have intelligence that they are still doing it, and one we have anecdotal evidence that he is still doing it.”

“(Named lender) has not been in court yet and we have intelligence he’s still doing it and the same with (named lender). (Named lender) has been in court and he’s pleaded guilty and we have anecdotal evidence that he’s still doing it.”

Illegal money lending enforcement officers

In some cases prison sentences do shut down lenders’ operations and there is some evidence that new lenders do not necessarily fill the supply vacuum

In other cases, it would appear that the lender has been definitively prevented both from collecting repayments on existing loans and from keeping their business going in their absence through the use of third parties. There is also some evidence from the victim interviews that where a lender has dominated a community and been removed, other lenders do not necessarily move in to fill the supply vacuum.

“The one who is in jail, we have diverted him totally, he is finished.”

Illegal money lending enforcement officers

“A certain drinking establishment. These three guys. They did it in shifts...As far as I’m aware, that’s stopped now.”

Victim of illegal money lender

Historically it is clear that the illegal money lending legislation did not amount to any kind of meaningful deterrent

It is important to be clear that prior to the establishment of the pilots, the anti-money lending legislation was simply not being enforced and had not been for many years. Given the returns available to illegal lenders and the low risk of being apprehended and convicted of illegal money lending, the legislation would appear to have had no effective deterrent value historically.

To the extent that the law is now being enforced, albeit on a small scale and thus far in Birmingham and Scotland only, there clearly has been progress in terms of creating a perception that illegal money lending is viewed seriously by the authorities. The widespread coverage of the establishment of the illegal money lending units and of the resulting prosecutions and sentences handed down will have gone some way to creating a deterrent effect, or at least sending a message to the lenders that they cannot necessarily act with the impunity with which they have historically.

It is too early to judge whether enhanced enforcement is sufficient deterrent to combat the attraction of illegal lending as a lucrative business

Whether the impact of enhanced enforcement and the convictions that have been obtained thus far are sufficient to act as a wider deterrent, thereby reducing illegal lending further than would be implied by a simple count of lenders removed or convicted is a more moot point. Illegal money lending is a lucrative activity and one which scales rapidly and those who engage in it do not necessarily have many other avenues open to them.

(Question is why have – named lenders – not been deterred?) “I think for the lender it’s a source of income and for the victim it’s probably their only source of money, or at least their only source of easy money.”

“It’s too easy to make money and these guys can’t walk away from that. And they don’t have that many other options.”

Some media coverage of court cases will send message that illegal lending will be taken seriously

The evidence of the impact of high profile court cases on public perceptions of lenders’ ability to operate with impunity is also ambiguous, perhaps reflecting the mix of sentences that have been handed down. The extent to which media coverage reflects or leads public opinion is always a matter for debate. That said, it is not unreasonable to take the focus of media coverage as an indicator of likely public attitudes. Some media coverage of court cases would tend to send a clear message that illegal lenders can be removed and that the courts will take a serious view of such offences, particularly where aggravated by other crimes.

Media coverage of the outcomes of prosecutions is not universally favourable, particularly where lighter sentences have been handed down

Alternatively, a reading of other coverage, particularly that surrounding the relatively lenient sentences arising in Scotland, would rather reinforce the view that the penalties for illegal lending will be no deterrent to it, not least because lenders removed from the community are likely to return to it within a fairly short period. The tone of the media coverage of the significant sentence given to the first lender convicted in Birmingham – who received 3 years and 9 months – is markedly different to that in Scotland where the two convicted lenders received a 10 month sentence in one case and an admonishment in another (see newspaper headlines following).

There is a risk that in Scotland some media coverage will reinforce the view that lenders can act with impunity

To some extent the media coverage of the relatively light sentences handed down to illegal money lenders by the Scottish courts has not been helpful. Lenders – and indeed their victims and potential witnesses – are more likely to deduce both from the headline content and from the tone of the coverage that lenders continue to have little to fear from enforcement. There is indeed a risk that the net outcome of the pursuit and conviction of these lenders in Scotland is that it will have reinforced a perception of the loan sharks as beyond the reach of the law. Journalists who had been close to the illegal money lending issue appear to have had a fairly negative take on any potential deterrent effect.

“We put quite a big story in the paper about that because he was the first one...It was kind of paltry (the sentence)...when you consider that he had been doing it for twenty five years. Making a lot of money.”

“I think if we continue...another few of them and we see sentences like that (i.e. those following recent convictions in Scotland), there is no doubt about it, there would be some sort of public opinion backlash.”

“Newspapers can sometimes drive public opinion and obviously sometimes they reflect it...people would email and call us...but if we have to editorialise on it and say ‘what a rubbish sentence’ then it does tend to build up a bit of a momentum, so that’s possibly something that would happen.”

Journalists in Scotland

Recovering lenders’ assets in the wake of conviction may enhance deterrence while undermining public perceptions of illegal lenders as “untouchable”

The new Proceeds of Crime Act has significantly increased the financial impact of conviction for criminal activity more generally and would seem particularly effectively and appropriately deployed in relation to illegal money lending. Confiscation of lenders’ assets would seem likely go some considerable way to enhancing the deterrent effect of convictions. In the process it may also address the community view of the lenders as “untouchable”.

“That is an amazing tool that is so effective. That is something that is much more important than other legislation. If you can take him with the money and put the onus on them to prove that it is theirs and that it is legit. It has made it very difficult for them...”

“It really is sorting out the baddies. It is hitting them in their pocket because there is no way they can justify having this stuff.”

Journalists on the deterrent effect of POCA legislation

“The community see him as well, the loan shark, they are all living in big houses, they all drive posh cars and they’ve always got cash on them. And they seem them as this untouchable. If he goes to court and he’s fined £250, that concretes that perception. If he goes to court and he gets sent down and then all his assets are taken away and he starts from scratch, they think. ‘Finally, he isn’t untouchable’.”

Pilot team enforcement officer

5.6 Overview evaluation

Pilots have greatly increased understanding of the challenges posed by illegal lending and its role in exacerbating social and financial exclusion

At the point when the pilot projects were established policy makers knew very little about illegal lending, far less how to combat it. One of the key objectives in setting up the pilots was therefore to understand more about illegal lending and the challenges facing policy makers in developing strategies to address it. In this respect, the pilot projects have clearly been successful. Policy makers' understanding of how lenders operate and the scale and impact of their operation has greatly increased. Equally important, however, there is also greater understanding of the way in which illegal lending exacerbates social and financial inclusion, undermining quality of life in deprived neighbourhoods and aggravating crime and anti social behaviour. Beyond this, both pilots have made a key contribution in developing knowledge and best practice around how most effectively to "tackle loan sharks".

Awareness has also increased among public and specialist agencies and at both local and national level

Significant progress has been made also in increasing awareness of illegal lending as an issue and communicating the damage done by illegal lenders. In no small measure due to the networking and communications efforts of the pilot teams, illegal money lending is now on the radar as an issue within government and for the leadership of a number of key organisations responsible for enforcement or promoting or delivering the financial inclusion and consumer protection agenda. Examples would include Citizen's Advice, Advice UK, ABCUL, the National Consumer Council, Trading Standards and the Police. As importantly, the pilot projects have succeeded in putting illegal money lending on the agenda of national media, thereby increasing public awareness of the issue. The latter is of course an essential first step in creating public confidence that the issue is taken seriously by the authorities and that the law will be enforced.

The pilot teams have begun to enforce the law on illegal money lending and have made some progress in reducing incidence in their areas of operation

Against a background of a near total lack of enforcement historically, significant progress has indeed been made in enforcing the law and in reducing the incidence of illegal lending. Nearly 40 loan sharks have been put out of business and removed from the community in the areas covered by the pilot projects. In the process nearly a 1000 victims have benefited from improved quality of life, not least because removal of the lenders has effectively put £2.3m that would otherwise have been diverted to illegal money lenders back into the depleted finances of their victims. Between the two sites, the pilot projects have identified more than 200 illegal lenders, pursued some 114 investigations and brought some 5 cases to court, with a further 14 in the prosecution pipeline. All prosecutions brought thus far have concluded in convictions. In the process more than £1m in assets belonging to convicted lenders have been restrained under the Proceeds of Crime Act, with an estimated further £0.8m potentially arising from those cases still to come to court.

In so doing they have begun to address the perception that the lenders are untouchable

These activities have started to address the perception in the communities in which illegal money lenders operate that the loan sharks are “untouchable”. Indeed addressing the widely held perception that the lenders are able to act with impunity was itself one of the five high level objectives of the pilots. To the extent that the establishment of the pilot projects and the arrest and conviction of the lenders has been extensively covered in the media, the pilots have also been successful in meeting this objective.

The deterrent message may be less effective in Scotland where sentences have been lighter thus far and media coverage less helpful as a result

On this issue, however, it would have to be said that this success has been qualified, in Scotland at least, by negative coverage of sentences handed down by the courts. In England significant prison sentences allied to the confiscation of lenders’ assets will have sent a clear deterrent message. It is less clear that this will be the case thus far in Scotland, where in the two cases that have reached the courts, one convicted lender received a sentence of less than a year while a second was subject only to formal admonishment. There is a risk – as evidenced by the tone of media coverage of these sentences – that the message reaching the lenders in Scotland may be the reverse of that which the government might wish to send.

The climate of fear remains alive and well, particularly in Scotland where some cases may be effectively impossible to prosecute without witness evidence

The evidence from the pilots makes quite clear that tackling illegal lending effectively depends on addressing the fear that surrounds their activities. Addressing this climate of fear so that informants will report lenders’ activities and witnesses will come forward to give evidence against them was thus a third key objective in setting up the pilot projects. This is particularly important in Scotland where, in the absence of reliable witnesses, some cases would appear effectively impossible to prosecute. Again it would have to be said that the pilot projects have only had partial success in meeting this objective. Some progress has clearly been made in eliciting reporting from the community in that some 200 lenders have been identified as a result of intelligence from the public. It is less clear however that the pilots have made real headway in addressing the climate of fear, which is evidently alive and well. Indeed, especially in Scotland, it would appear barely affected by the activities of the pilot projects.

There is not yet sufficient public confidence that witnesses can be protected from retaliation

There is clearly not yet sufficient public confidence that those giving evidence can be protected from retaliation by the lenders. Willingness to report lenders has yet to translate into willingness to provide evidence against them. This is most true in Scotland where it has proved formidably difficult, and often impossible, even to obtain witness statements, far less persuade victims to testify in court. While this has been less of a problem in the Midlands, where more people have been prepared to give witness statements and the team are in any case less reliant on witness evidence in bringing cases to court, it remains true that most victims are deeply reluctant to come forward. The experience of both pilots suggest that direct access to witnesses, in

order to facilitate confidence and relationship building – which has not been possible in Scotland – is immensely helpful in this regard.

Evidence on addressing the perception that lenders can operate with impunity is mixed, with the community likely to be being sent mixed signals also

Evidence is mixed and fragmented on progress on the fourth objective, that of changing perceptions that lenders can operate with impunity. It is clear that illegal lending continues to be widespread in deprived communities, including those in areas in which the pilots operate. There is also anecdotal, qualitative and intelligence evidence that some of those lenders who have been arrested or removed have continued to operate, either in person or by other means. Conversely others, particularly those subject to jail sentences, have definitively been removed and their operations brought to a close. Although again, there appears to be evidence – particularly where illegal lending businesses are family affairs – that even a jail term does not necessarily imply either that payments cease to be collected on illegal loans or that victims are not intimidated. To this extent therefore the community is being sent mixed signals, particularly where lending operations have been long-standing and lenders return relatively quickly to take up their lives in the community.

As a pilot with the lag between identification and conviction, the deterrent effect has yet to have a critical mass of successful prosecutions behind it

In part however, the deterrent effect is one of critical mass. It is in the nature of a pilot operation that there has been a considerable lag between establishing the pilots and seeing the results of their efforts in terms of prosecutions and convictions. Only a small minority of those cases in the prosecution pipeline have yet to complete the court process so that the deterrent effect has yet to build. Beyond this, a large part of the deterrent effect for lenders may lie less in the imposition of custodial sentences than in the loss of their assets.

Recovery of lenders' assets has yet to work through into deterrence or perceptions of lender power but may ultimately have a significant effect

This latter effect is for the most part yet to kick in, in that the majority of assets in the recovery pipeline have yet to be seized, albeit that £1m has already been restrained. It is perhaps only when convicted illegal lenders are routinely stripped of their criminal gains that the perceived risk attached to this form of criminal activity will increase. At this point the community may then take the view that the lenders are not beyond the reach of the law and come forward in greater numbers.

The teams have been largely unsuccessful in directing victims to debt advice services or to credit unions

The fifth key objective in setting up the pilot projects was to address the vacuum that would arise in the wake of removal of illegal lenders by supporting victims to find alternative, legal and affordable sources of credit. Clearly the teams focused – necessarily – on enforcement in the first instance and in establishing relationships to facilitate this, with the focus on advice and the provision of alternative sources of credit secondary in the wider scheme of things. Both teams undoubtedly made significant effort to network with the advice community and credit unions. Equally clearly, however, the informal relationships that were established with external agencies were insufficient to support the project objectives. As a result, with the

notable exception of Trading Standards Money Advice in Birmingham, the project largely fell down in terms of providing victims with money advice and alternative sources of credit.

The explanation lies largely with factors beyond the immediate control of the pilot teams

To a large extent this was outside the control of either team and indeed differences between the Birmingham and Glasgow teams in their degree of commitment to promoting this side of the units' activities appears to have made little difference to the outcome. With the notable exception of the money advice functions actually under the control of the local authorities in Birmingham and Glasgow, none of the credit unions or advice agencies saw it as their role to proactively extend their activities to take in victims of illegal lending.

Third party agencies largely lacked both the will and capacity to take on victims of illegal lenders

The credit unions in Birmingham in particular appeared to have a number of reservations both about taking on higher risk borrowers and about putting themselves in the front-line of action against loan sharks. Indeed most unions had yet to develop – or were only in the early stages of developing – the capacity based lending and instant access loans likely to be necessary to serve victims of loans sharks in any case.

Victims would require more comprehensive support than could be provided within the pilot infrastructure if they are to move to alternative credit sources

Equally, despite the best efforts of the pilot teams to provide contact details for advice agencies and credit unions to the victims they encountered, it is clear that victims would require a far more proactive and multi-dimension approach than could have been considered within the framework of the this pilot. If victims are to be empowered to approach either credit unions or advice agencies they will need considerably more support to do so. It may well be that many victims are simply not suitable subjects for credit union lending, even in the event that credit unions further develop their capacity to service high risk borrowers. To that extent therefore, both pilots made considerable efforts in pursuing an objective – i.e. supporting victims in accessing alternative sources of credit – that there was little chance of achieving in the circumstances with which they were faced.

Important progress has been made and lessons learned with victims and deprived communities benefiting significantly

Overall therefore, the projects have made significant progress primarily in building awareness and understanding of illegal money lending and how most effectively to address it. The teams have also had important successes in beginning to enforce the illegal money lending legislation and recovering assets arising from criminal activity. In the process victims have been afforded significant relief, both in term of their household finances and quality of life. Communities have also seen some reduction in nuisance, anti social behaviour and crime.

Progress has been greater in Birmingham in part because the underlying task has been less challenging but also because of intelligence advantages

Progress on enforcement has been faster and the impact of the unit has been greater in Birmingham than in Scotland. In part this reflects a less challenging environment, in England both in terms of the legislative framework and the depth and scale of the underlying problem. On a practical level, however, Birmingham has been able to make greater progress because they had direct and timely access not only to intelligence but to victims.

The pilot projects have also highlighted the limits of enforcement, both per se and in isolation

The pilot projects have also however shown up the limitations inherent in enforcement per se and, as importantly, of enforcement in isolation. Definitively addressing the climate of fear, of creating alternative sources of credit supply and preventing lenders from miring deeply vulnerable individuals and communities deeper in financial and social exclusion almost certainly requires that policy makers build on the lessons from the pilot projects with a more integrated and joined up approach to combating illegal money lending. (A detailed discussion of both the operational lessons and the implications for development of a national strategy for illegal money lending follows in section 6.0)

6.0 The lesson for tackling illegal money lending

One of the most striking features of the evaluation is the clear performance differences between Birmingham and Scotland

One of the most striking features of the evaluation lies in the performance differences between the Glasgow and Birmingham teams. The Birmingham team has clearly brought more cases to court and done so more quickly than has been the case in Glasgow, with criminal assets recovered or potentially recovered from illegal lenders also significantly more valuable in Birmingham than in Scotland.

To a large extent these differences rest in contextual differences in the legislative framework, which have worked to increase lead times to conviction

To a large extent these differences are a function of differences in the contextual environment. The legislative framework in Scotland poses greater challenges for successful prosecution than in England, requiring both a higher standard of proof and prohibiting the simultaneous prosecution of common law crimes alongside Consumer Credit Act offences. Moreover, it would appear that the responsibility for the various components of the prosecution pipe-line – and for decision making associated with it – is more compartmentalised in Scotland than in England. Taken together, these factors have worked to increase lead times to conviction in Scotland relative to England.

The Glasgow team faced a significantly greater challenge in bringing cases to court and in securing convictions

The requirement under Scottish law that witnesses give evidence in person in court represents in itself a significant hurdle to effective prosecution that does not arise in England. Witness evidence may in any case be more difficult to come by in Scotland. While it is difficult to take a definitive view, it would appear that illegal lending operations in Scotland tend to be smaller scale and to be embedded in very local communities to a greater extent than in England, reinforcing the difficulties of persuading witnesses to come forward. These difficulties are themselves exacerbated by a higher incidence of alcoholism and substance abuse among the victims of the Scottish illegal lenders. It would be fair to say therefore that, even though illegal lending appears both more widespread and more visible in Glasgow than in Birmingham, the team in Scotland in fact faced considerably greater challenges than their colleagues in England.

A major part of the greater success in Birmingham rests on a more direct approach to eliciting intelligence

These structural differences provide only part of the explanation however. A large part of the differences in performance appears to rest not on any intrinsic contextual factors but rather on differences in operational approaches on the ground, specifically in relation to intelligence gathering. It is quite clear that the intelligence received by the Birmingham team from direct communication with the public was of higher quality and more timely than that received from anonymised sources in Scotland via the national Crimestoppers campaign.

Direct access to informants and the ability to build relationships with victims is a critical success factor in both detection and effective prosecution

The evidence indicates that direct access to informants – and similarly direct contact with victims – is a critical success factor in effectively combating illegal lenders. The importance of direct contact would appear key not just to identifying and removing lenders but also to their effective prosecution. In Birmingham, where high profile publicity elicited direct contact from the public, the team were able to question victims, thus making the task of detection much easier. Critically, however, direct contact with victims enabled the team to build relationships and thus create the confidence that is the necessary first step in persuading victims to come forward to provide evidence against the lenders. The Scottish team, on the basis of anonymised intelligence, appear to have been no less successful than the Birmingham project in identifying lenders. However they have been notably less successful in persuading witnesses to come forward to support prosecutions. This is both because victims have been more difficult to identify but crucially, because the Scottish team did not have the same opportunity to establish relationships with anonymous informants.

If responsibility for enforcement is to continue to rest with Trading Standards, the engagement and active support of local Police forces is critical

It is clear that the pilot teams are critically dependent on Police support at all stages of the enforcement pipeline, with removal of illegal lenders requiring the deployment of considerable additional police resource. Both teams appear to have built good relationships with local Police forces and to have received effective support from these forces. Equally, however, it is clear that where Police forces are not engaged and intelligence and support is not forthcoming, as in the East of Scotland, enforcement is not possible, with the Trading Standards teams effectively unable to undertake operations.

Embedding a police officer in the team would appear to offer an effective model for future development

The process of detection and enforcement requires that the pilot teams deploy many police skills but, critically, also that they have access to police powers. Members of both teams already had, or acquired, some of the police skills necessary to undertake covert operations. However the lack of police powers caused difficulties at various times for both teams. This issue was resolved in Birmingham part way through the project, by embedding a Police officer in the team, seconded from the local force, but paid for by project budget. This move appears to have been successful and would appear to offer a model for future development.

The dependence on Police resource and powers and the synergy with core Police business raises the issue of where responsibility is best placed

The degree of dependence on the police raises the issue of whether enforcement of the illegal lending legislation is in fact best placed with Trading Standards. There is clear synergy between the effort to combat illegal money lending and core Police business and crime more generally. Compartmentalising illegal lending under the aegis of Trading Standards may not be the most efficient approach, particularly given that tackling illegal lenders requires Police intelligence, skills, capacity and powers.

An argument to be made that transfer of responsibility to the Police would be both more efficient and potentially more cost effective

Giving responsibility for illegal lending to the Police could result in a more coherent and effective approach to the problem, and one better integrated with approaches to other forms of both criminal activity and community policing. Such a move would also address any lack of ownership of the issue among the Police, though this may or may not be the explanation for the lack of support from Police in the East of Scotland.

The counter case is that addressing illegal lending requires a dedicated unit, with tackling loan sharks likely to lose out against competing Police priorities

The counter case is that a large part of explanation for the successes of the illegal money lending teams is that the effort to combat illegal lending has been undertaken within the context of a focused and dedicated operation, with ring-fenced funds. Combating illegal lending is resource intensive, requiring concerted effort over a relatively long period and needs considerable time and sensitivity in building relationships with and supporting victims. Against this background and given the strength of competing police priorities, it is likely that illegal lending would simply slip down the Police priorities to the point where it was not addressed – effectively reverting to the position prior to the establishment of the pilot projects.

Police view that additional funding, resource and specific targets required if issue not to slip down police priorities and needs of victims to be met

There were mixed views on this issue, among members of the pilot teams themselves, and among senior Police officers and local authority executives responsible for enforcement and regulation. Overall, the Police view was that illegal lending would indeed tend to lose out to competing priorities. and would certainly do so unless both specific targets were set in relation to it and additional new funding and resource provided to support these being met. That said, there was also recognition that illegal lending stimulates anti-social behaviour and crime in deprived communities and thus of the role of the effort to combat it within wider community safety and policing.

A Police-based operation would offer synergies with core police business and may be more cost effective but risks dilution of the social dimensions

A Police-based operation would have the advantage of greater synergies with core police business and to that extent may be more cost-effective, though this would require further detailed investigation. The risk is perhaps rather of some loss of focus and impetus and perhaps also of some dilution of the social dimensions of the drive to tackle illegal lending.

In the interviews undertaken with various stakeholders, some concerns arose around both this issue and that the Police might lack the sensitivity or resource to deal effectively with victims. The latter is perhaps of less concern than the former in that the sensitivities of victims could be addressed with an approach similar to that increasingly used for victims of domestic violence. Maintaining a focus on the social exclusion dimensions of the effort to tackle loan sharks may be more challenging within a Police context than with another agency.

Some aspects of tackling illegal lending fit with wider efforts to address serious crime while others sit naturally with community policing initiatives

A police based response would perhaps require in any case some discrimination between illegal lender types. The more benign (i.e. less violent and intimidatory) end of the lender spectrum would perhaps be best aligned with community policing and efforts around anti social behaviour while operations with a more violent modus operandi or associated with other forms of criminal activity fit more naturally with efforts to combat more serious crime, not least because the same criminal individuals are frequently involved.

A dedicated unit would seem likely to provide the most effective approach to both enforcement and social policy objectives but is high cost

Policy makers will want to weigh carefully the balance of issues and concerns in deciding where responsibility for the enforcement of illegal lending is best placed within the context of a national strategy. It would seem however that, whichever department and agency ultimately assumes responsibility for the issue, there is consensus among stakeholders and those close to the issues that a dedicated unit is the approach most likely to deliver to both enforcement and social policy objectives. Such an approach clearly involves significant cost however.

One of the key lessons rests on the need to discriminate between lender and victim types and develop differing solutions for different circumstances

One of the key lessons from the pilot experience rests on the need for discrimination between – and segmentation of – both lender and victim types. The most efficient strategy – in terms of maximising the social benefit of investment in tackling illegal lending – may be to develop different approaches and solutions for lenders posing different degrees of threat to their victims and the community. Similarly in planning support for victims, it is clear that victims are not a homogenous group and will require differing degrees and types of support.

Temptation to focus on lenders with potentially high value assets to recover as distinct from those whose modus operandi has most negative impact

It has become clear from the pilot experience, and indeed from the research with victims and communities undertaken for the DTI²⁶, that there is considerable variation in illegal lending models (see Figure 1 on page 20). The pilots enforcement efforts have naturally tended to focus on those operations where either there is better quality evidence to support a prosecution or, in Birmingham particularly, those larger operations where assets recoverable from lenders are likely to be substantial. There is some danger that if undue emphasis is placed on the value of assets recoverable, the illegal money lending units may not focus on those cases where lenders are causing the greatest damage.

Greatest social benefit achieved if units focus clearly on those lenders creating gravest damage to victims and communities

While illegal lending is evidently socially undesirable per se, there is also clearly a spectrum of more or less damaging illegal lending operations. There is an argument

²⁶ Policis / PFRF Illegal Lending in the UK for the DTI, 2006

to be made that approaches to enforcement of the illegal lending legislation should reflect these differences also. Given the harm to individual victims and communities arising from the more exploitative illegal lending models, the greatest social benefit would be achieved if enforcement was to focus clearly on these most damaging operations. These will be those primarily, but not necessarily, those associated with wider criminal activities, and those whose modus operandi most closely resembles extortion, for the most part sustained by intimidation and violence. At the other end of the spectrum, efforts to tackle those operations whose modus operandi is closer to those of the legitimate licensed lenders might most effectively focus on putting those unlikely to be suitable candidates for a consumer credit licence out of business while encouraging lenders potentially likely to be granted a licence to adapt their business model and customer management to conform with regulatory requirements. Such a segmentation may also provide some cues for some division of enforcement responsibility between Trading Standards and the Police.

Discrimination between victim types is also required in planning for victim support and the generation of alternative credit supply

The same logic applies also to planning for support for victims and tackling the credit vacuum left in the wake of removal of a lender. A significant minority of victims have complex problems across multiple dimensions, with some three in ten having issues with drug or alcohol abuse or long term mental health problems. A different approach will surely be required for this client group compared to the majority of victims who have no such problems. Equally however, victims who have borrowed outside the context of drug and alcohol problems, are themselves not a homogenous group. While most are poor and suffering a high degree of financial and social exclusion, some simply live in areas not served by the high cost lenders. Other however will not be served by legitimate lenders on the grounds that they represent an unacceptable commercial risk. Approaches to alternative credit supply would need to take into account the different circumstances of these different victim types, as would the effort to provide money advice. Victims will not only have been differently impacted by the activities of different lender types but may also have very different needs in relation to financial services and credit provision and financial advice and education.

Efforts to provide support for victims have foundered because of a poor fit between victims' needs and supplier capacity and focus

One of the areas of greatest weakness for the pilot projects has indeed been the effort to provide victims with access to money advice and alternative forms of credit supply. With one or two notable exceptions, the significant effort expended by both pilot teams on networking with credit unions and advice agencies and in informing victims about these services appears to have been largely unsuccessful. The explanation for this failure has been three-fold. On the one hand the relationships established between the pilots and third party agencies were not sufficiently strong to create the impetus required to reach out to victims. Beyond this, many of the advice organisations and credit unions targeted did not have the capacity, or indeed the will, to provide an appropriate service to victims. Finally, victims themselves were not motivated or necessarily equipped to make effective use of advice or credit union services.

A highly integrated, joined-up multi-agency approach is likely to be required with informal partnerships unlikely to sustain a workable solution

The evidence is that if illegal lending is to be addressed and victims supported a highly “joined-up”, multi-agency approach will be required. The pilot experience makes clear however that providing victims with access to money and advice and some form of alternative supply credit cannot be achieved through ad hoc relationships. Indeed a further key lesson from the pilots is not only that agencies will need to work closely together to address a multi-faceted and inter-linked set of challenges but that informal partnerships are unlikely to be adequate to the task. A dedicated, integrated specialist unit may be the most effective approach, possibly under the auspices of DWP, as the agency having contact in any case with a high proportion of victims.

Dedicated unit with formal partnerships underpinned by specific funding, training and resource likely to have greatest chance of success

Such a unit would then need to identify suitable organisations for formal partnership. Many of the third sector and voluntary organisations approached by the pilot teams were clearly already over-stretched and facing competing priorities. Most did not in any case have the capacity to offer meaningful support to victims. Formal partnership initiatives would need therefore to be underpinned by education and training and by additional funding and resource specifically focused on those relatively few third sector organisations with the potential to develop services for victims.

Important to recognise that not all victims are candidates for credit unions borrowing and that not all credit unions can provide a service to victims

In planning for development of services for victims, it is important to be realistic not only about the likely future capacity and potential of specific local credit unions and advice providers but also about the ability of different victim types to take effective advantage of services they offer. Some victims may be able to use a range of credit union and advice services, building up savings in advance of borrowing and managing more affordable repayments effectively. The evidence is however that most victims will need the capacity-based approaches and instant access loans, likely to be offered only by the minority of third sector lenders now developing services for higher risk borrowers. Moreover victims would seem likely to require both greater and more proactive support and a greater degree of tolerance than most current credit union borrowers, including those higher risk borrowers now being targeted by some unions. Beyond this however, it is important to recognise that some of those using illegal lenders currently are so high risk that they simply cannot be served on any kind of legitimate commercial basis, whether by credit unions or other lenders.

Some segmentation is required of both victim needs in relation to credit and money advice and how far different credit unions have the capacity to deliver

Further work is here required to establish a segmentation of victims’ needs as borrowers – and their ability to manage repayments. A similar exercise is required in relation to credit unions’ capacity to serve victims per se, and within this, different victim types. A view needs to be taken also of the extent to which money advice is in fact relevant to different types of victims, many of whom are highly unlikely to volunteer for it. In this respect, money advice may be most positively deployed for the benefit of victims if specifically and closely linked to efforts aimed at financial inclusion.

Mechanism required for capturing and disseminating best practice but national unit likely to have limited success as require strong local input & relationships

In discussions with both the pilot teams and other stakeholders, the issue frequently arose of whether illegal lending could be tackled on a national basis through the establishment of a mobile, specialist team. The pilot teams have both acquired a significant expertise around how best to tackle illegal lenders. This knowledge was much valued, where it was taken up, by Trading Standards teams undertaking enforcement operations in other regions. There is a case to be made therefore for developing and communicating a body of best practice approaches and even for the creation of a national team able to offer advice and practical support to local enforcement officers, as and when required. There was broad consensus among interviewees however that the effectiveness of any national unit is likely to have limitations. These will rest primarily on the ultra local nature of both lending and intelligence relationships and on the time and resource intensive nature of the effort to gather evidence.

Ongoing media communications will be important in creating public confidence and building a credible deterrent effect

There is a significant risk that illegal lenders will feel able to operate with little fear of apprehension as long as the climate of fear prevents witnesses from coming forward. In this regard it will be important in both instilling confidence in the public and creating some deterrent effect to continue – and to build on – communications efforts designed to build awareness of both illegal money lending and the potentially serious consequences of conviction. Greater public awareness of the damaging nature of illegal money lending and the impact that it has on borrowers and the communities in which they live will work against the tendency for both the public and the courts to regard illegal lending as a technical offence. Consistent coverage of both anti money lending activity and the potential for prison sentences and the loss of illicitly gained assets will go some way to creating a sense within criminal circles that there is substantial down-side attached to an activity historically regarded as low-risk.

In many ways the pilot projects point up the limits of enforcement and of an enforcement-led strategy

Clearly the pilot experience provides evidence that enforcement of illegal lending legislation is both difficult and highly resource and cost intensive. The experience in Scotland suggests indeed that unless the climate of fear that surrounds the lenders is successfully addressed, some cases may prove effectively impossible to prosecute. In many ways therefore the pilot projects have highlighted not only the limits of enforcement per se but also the weakness of pursuing an enforcement-led strategy.

The pilot experience reinforces the view that the most effective strategy in combating illegal lending is one which seeks to maximise legal credit options

Indeed the evaluation of the impact of the pilot illegal money lending projects and their performance against the objectives set for them reinforces the central conclusions of our earlier scoping study for the DTI²⁷. The most effective strategy for combating illegal lending would appear to be a regulatory environment which maximises legal, regulated credit options while seeking to provide alternative credit solutions for those unlikely to have access to legitimate credit.

²⁷ Policis / PFRRC Illegal Lending in the UK for the DTI, 2006

Enforcement and deterrence clearly have an important role to play and there is an argument to be made for treating illegal lending as a more serious crime

This is not to suggest that enforcement is any way unimportant in the effort to combat illegal lending. Effective enforcement and court sentences on conviction that reflect the damage done to victims and the community are critical in sending a message to illegal lenders that their activities will not be tolerated. In this respect confiscation of lender assets is likely to make a significant contribution to deterrence. There is indeed an argument to be made for treating illegal money lending as a more serious crime as part of the wider effort to ensure that Police and the courts do indeed take illegal money lending more seriously than has been the case historically. Indeed, given the attractions of illegal money lending as a lucrative and relatively low risk criminal activity, there is a danger that sentences which are not perceived by media and the public as appropriate to the nature of the crime – such as those handed down in recent court cases in Scotland – may signal to the lenders that they can indeed operate with impunity.

Alternative credit supply for those unable to access legitimate sources will be the more effective route to reducing the incidence of illegal lending

However, the key policy driver in the effort to “tackle loan sharks” is less simply to enforce the law than to address the socially undesirable impacts of illegal lending on deprived communities. Given the sheer difficulty and cost inherent in enforcement, the more effective route to reducing the incidence of illegal lending will lie with stimulating effective alternative supply. Going forward therefore, we would argue that a national strategy for combating illegal lending will need to strike a greater balance between enforcement and the provision of alternative forms of credit, and indeed, victim support more generally.

This will require some extension of third sector lenders’ capacity to serve high risk borrowers

The effort to create alternative supply is itself likely to be a significant challenge. The experience of the last few years has demonstrated that building scale and capacity in alternative forms of social credit is also both difficult and slow, even against the background of the significant support third sector lending has received in recent years. The lesson from the pilots is moreover that most credit unions and advice agencies are not yet in a position to service victims of illegal lenders and thus to act as an alternative form of supply. Adapting the credit union model further to reach out to new and more vulnerable groups of credit users will itself be a challenging task and is likely also to take considerable time.

Efforts to create alternative supply – and to combat illegal lending more generally – most likely to be successful if community based

Whatever approach is ultimately taken to the creation of alternative sources of credit, and indeed the effort to combat illegal lending more generally, it is clear that these stand the greatest chance of success if rooted in the support of the local community. Interviewees made the point repeatedly that intelligence and confidence need to be created at local community level and that, longer term, efforts to combat illegal lending and to create alternative forms of supply are more likely to be successful if developed within and by local communities themselves.

Some victims clearly not suitable as credit union members requiring rather some form of grant support, integrated with wider social inclusion efforts

It is important to be clear however that many of the victims of illegal lenders will ultimately be unsuitable candidates for credit union borrowing, requiring rather support in some form, potentially from the Social Fund. Financial support is most likely to be effective in combating illegal lending if integrated with other forms of support designed to enhance the broader social inclusion of this highly challenging client group.

Ultimately illegal lending is a function of financial and social exclusion and one of its most damaging aspects and needs to be addressed within that context

It is quite clear from both the experience of the pilot illegal money lending teams and from the scoping research undertaken for the DTI²⁸ that victims of illegal lenders are among the most deeply deprived and certainly among the most intractably financially and socially excluded members of society. Indeed illegal lending is in a very real sense both a symptom and a product of financial and social exclusion and one of its most deeply damaging aspects. Initiatives to tackle illegal lending need to be seen therefore as part of the wider effort to combat financial and social exclusion and planned for and prioritised in that context.

Tackling illegal money lending needs to be seen as part of the financial and social inclusion agenda

We would argue that tackling illegal money lending is less about tackling criminal activity than about addressing one of the most extreme manifestations of financial and social exclusion. As such, whichever department ultimately takes responsibility for enforcement, addressing illegal money lending needs to be viewed as part of the Financial and Social Exclusion agenda, with the issue taken up by the Financial and Social Exclusion Task Forces.

Unless effectively addressed, the prospect is for illegal lending to increase – with the price likely to be paid in the exacerbation and deepening of exclusion

Even with enhanced enforcement, illegal money lending is likely to increase and potentially fairly rapidly. Historically the UK has been more successful than our European neighbours such as France and Germany²⁹ in creating a regulatory environment that minimises the incidence of illegal lending. This is largely because the regulatory framework has allowed licensed high cost lenders servicing high risk borrowers to operate. These lenders are however now withdrawing from the highest risk groups and those deprived areas most at risk to illegal lenders, for commercial reasons. The prospect is therefore for a likely increase in illegal lending as this process plays out, with illegal lenders potentially moving in to fill the vacuum left by the accelerating withdrawal of the licensed high cost lenders. There is therefore a degree of urgency and something of a limited window of opportunity for developing initiatives designed to address illegal money lending.

End

²⁸ Policis / PFRC Illegal Lending in the UK for the DTI, 2006

²⁹ Policis / PFRC Illegal Lending in the UK for the DTI, 2006, Policis Economic and Social Risks of Credit Market Regulation 2006, Babeau 2004.