DEMOS

GOOD CREDIT INDEX 2020

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JULY 2020

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As always, any errors and omissions remain our own.

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EXECUTIVE SUMMARY

Access to credit that is affordable, transparent and fair is a geographic issue. Differences in credit need, and in the options available on the high street, create vast inequalities between regions, towns and even streets. Credit options are unevenly spread across the country, with payday lenders disproportionately clustered in deprived areas. For those living in places with high concentrations of bad credit options, it becomes more difficult to make choices that secure financial resilience, and people who are already financially unstable or indebted can slide into a downward spiral.

Demos' annual Good Credit Index measures access to affordable credit across the country to understand these geographical discrepancies at a granular level, and inspire place-based approaches to tackle them.

Even before the Covid-19 crisis caused a dramatic increase in household debt, the average UK adult had £4,264 of unsecured debt. A growing number of people rely on credit not because they overspend, but simply because they cannot meet their basic financial obligations; they have more money going out than coming in each month. Those whose incomes are consistently too low, or whose household costs are too high, might be permanently in the red just to get by.

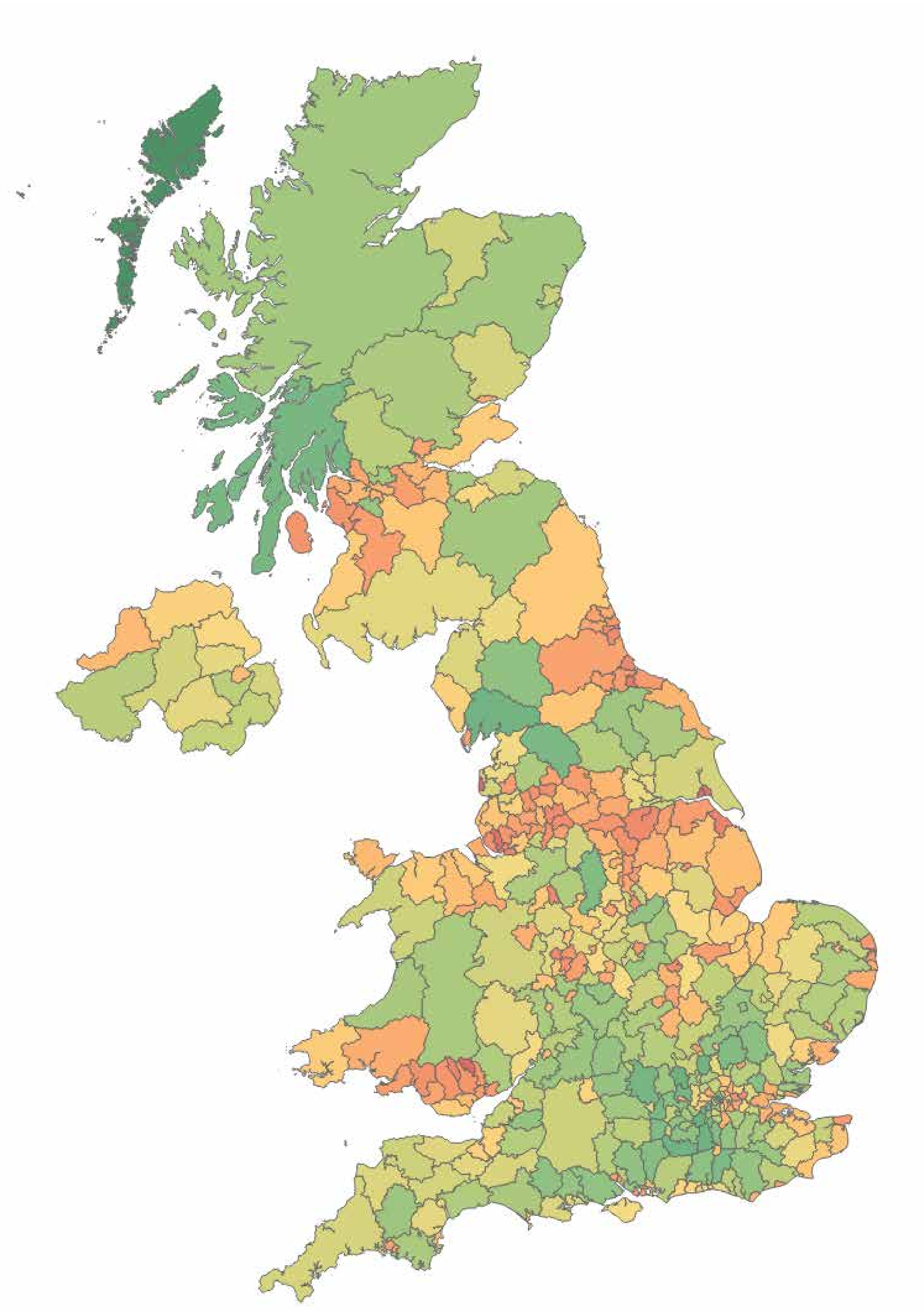
Sadly, the impacts of Covid-19 are likely to increase levels of personal debt and may force more people towards High-Cost Short-Term Credit such as payday lenders or rent-to-own shops, which only increase their financial troubles.

Our Good Credit Index 2020 finds that physical credit environments are improving, with many bad credit options disappearing from the high street. However, the need for credit has grown and is likely to soar in 2020, so the lack of affordable credit options in many places remains a cause for concern.

The pattern we identified in 2019 persists: small and medium-sized industrial towns often suffer from a combination of low credit scores, high deprivation and credit need, and a physical environment that offers too few sustainable lending options and many tempting unsustainable ones. New analysis this year finds that some cities have a high proportion of 'credit invisibles' (people with no credit score due to a thin or non-existent credit report) even where those cities otherwise score well on the Good Credit Index.

Alongside this year's Good Credit Index, we have published a toolkit (**www.goodcreditindex.co.uk/toolkit**) to share the learning from our Good Credit Project in South Yorkshire, a place-based financial inclusion initiative in the Sheffield City Region. It sets out practical tips to address financial exclusion, supported by case studies from people we worked with including the city region mayor and the public, private and voluntary sectors.

The toolkit will support leaders across the UK, including local authorities and metro mayors, to tackle financial exclusion and boost resilience among residents, as part of rebuilding local economies and strengthening communities in the wake of Covid-19.



Map 1
AVERAGE INDEX 2020: a heat map of the UK where the local authority areas in deepest green score highest in the Good Credit Index 2020, and those in deepest red score lowest in the Good Credit Index 2020.

INTRODUCTION

In January 2020, before the Covid-19 crisis caused a dramatic increase in household debt,[1] the average UK adult already had £4,264 of unsecured debt, a significant increase from January 2019.[2] A growing number of people rely on credit not because they overspend, but simply because they cannot meet their basic financial obligations; they have more money going out than coming in each month.[3] Those whose incomes are consistently too low, or whose household costs are too high, might be permanently in the red just to get by.

Not all debts are created equal: the most affluent borrow only a fraction of their assets, while the poorest households borrow three times what they own.[4] Moreover, the type of unsecured credit that these groups can access is quite different. While more affluent households might rely on credit cards or bank loans with low interest rates, poorer households might be forced to turn to High-Cost Short-Term credit (HCSTC) such as payday lenders or rent-to-own shops which often increase their financial troubles.[5]

In 2019, the inaugural Good Credit Index showed that access to affordable credit is a geographic issue. Differences in credit need, and in the options available on the high street, create vast inequalities between regions, towns and even streets. Credit providers often consider where a person lives when they assess risk, meaning someone might pay more for the same loan because they live in a more deprived area. Credit options are unevenly spread across the country, with payday lenders disproportionately clustered in deprived areas.[6] For those living in areas with high concentrations of bad credit options, it becomes more difficult to make choices that secure financial resilience, and people who are already financially unstable or indebted can slide into a downward spiral. The annual Good Credit Index measures access to affordable credit across the country to understand these geographical discrepancies at a more granular and comprehensive level than ever before.

In the Good Credit Index, access to good credit is divided into three different strands:

1) **Credit need**. Are people in need of credit? It includes indicators such as the percentage of households struggling to keep up with bills, the percentage of people on low incomes and the volume of credit searches.
2) **Credit scores**. Do people have sufficiently high credit scores to access credit options with lower interest rates?
3) **Credit environment**. What type of credit does the local high street offer? This strand classes bank branches, free cash points and credit unions as positive factors and payday lenders as negative factors.

By repeating the Good Credit Index each year, we can increase our understanding of complex issues of geographical financial exclusion. This year, we bring in a new comparison with the Index of Multiple Deprivation and show that the credit environment is directly correlated to health deprivation and living environment deprivation. This suggests that people living in a particular area can experience entrenched geographical disadvantages expressed through a lack of good health options, bad housing quality and a bad credit environment, which is independent of poverty levels locally.

We also include new geographical analysis of data on 'credit invisibles,' people with no credit score due to a thin or non-existent credit report.[7] This is the first time that data on this group has been mapped by location. We find that some cities have a high proportion of credit invisibles, even where those cities otherwise score well on the Good Credit Index. This hidden group is unlikely to have

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3. Matin, J. and Lane, J. Negative Budgets, A new perspective on poverty and household finances. Citizens Advice, 2020. Available at https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Negative%20budgets%20report%20-%20phase%201%20(1).pdf
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7. Data provided by Experian

access to good credit options their city offers. More research is needed to fully understand the particular circumstances of these borrowers.

Our index this year reflects continued improvement in the physical credit environment, with many bad credit options disappearing from the high street. Credit need has increased across the UK, although it varies by region and there are notable improvements in some post-industrial towns in South Wales and parts of Scotland, while London's need increases. Relatively high levels of over-indebtedness and claimant count have persisted in English post-industrial towns. As a consequence, they continue to suffer from relatively high credit need, roughly maintaining their position in the upper third of local authorities' credit need results.

However, with the need for credit growing, and likely to soar in 2020, the lack of affordable credit options on the high street remains a cause for concern. The pattern we identified in the Good Credit Index 2019, persists: small and medium-sized industrial towns often suffer from a combination of low credit scores, high deprivation and credit need, and a physical environment that offers too few sustainable lending options and many tempting unsustainable ones.

Place-based approaches, addressing entrenched deprivation and credit need rather than treating symptoms, and expanding the affordable credit market should be a priority for policymakers, particularly as the Covid-19 crisis causes unprecedented financial issues. In the final section we make recommendations for policy and practice, including the toolkit to share the learning from our South Yorkshire Good Credit Project. The toolkit is aimed at local authority leaders and metro mayors across the UK, who can play a key role in bringing sectors together to tackle exclusion and build resilience among residents.

CHAPTER 1 POLICY DEVELOPMENTS 2019/2020

The inaugural Good Credit Index included a comprehensive discussion of how policy developments have affected access to good credit from the government, the free market and social lenders.[8] This section reviews policy developments since the first index was published in summer 2019.

NO INTEREST LOAN SCHEME

In Good Credit Index 2019 we noted the announcement in the 2018 Autumn Budget of a 'no interest loan scheme', modelled after the Good Shepherd scheme in Australia. This has yet to be launched. StepChange has called for its expedited implementation amidst the Covid-19 crisis.[9] The Treasury published a feasibility study earlier this year which found the scheme to be feasible, recommending that the target group be "lower-income consumers who would benefit from short-term credit to meet unexpected costs, but who cannot afford to repay interest even from social and community lenders that provide more affordable credit."[10] The study also considers, supported by behavioural economics, the use of the application process to influence how borrowers spend NILS loans by asking them to write down a commitment to using a loan for a particular purpose.

BREATHING SPACE SCHEME

In June 2019, the government announced a Breathing Space Scheme to be implemented in early 2021. It will create a 60-day period where people in problem debt can freeze interest and charges and pause enforcement action, if they seek professional debt advice during this period. Following consultation with the debt advice sector, an amendment was made so that people receiving treatment for a mental health crisis do not have to seek debt advice in order to enter the Breathing Space.[11/12]

MONEY AND PENSIONS SERVICE

The Money and Pensions Service, established in 2019, combines three existing public money and pensions guidance services into one offering free guidance and support on all personal financial matters. It is further tasked with developing and coordinating a national strategy on financial capability. The Money and Pensions Service estimated that only a fraction of those who are over indebted access free debt advice each year. The Breathing Space scheme described above is in part designed to address this.[13]

FCA'S HIGH-COST CREDIT REGULATIONS

The Financial Conduct Authority (FCA) introduced new rules for payday lenders in 2017, which restricted interest rates as well as total repayment rates. The retreat of payday lenders from the high street has been remarkable, with the Consumer Finance Association (CFA) consistently noting quarterly falls in complaints.[14]

In 2019, the FCA conducted a wide-ranging review of high-cost credit and introduced several measures as a result. The review found that consumers who use rent-to-own stores such as Brighthouse are

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13. www.theyworkforyou.com/debates/?id=2019-06-19a.245.3
14. Consumer Finance Association. CFA welcomes another fall in quarterly 'payday' complaints but warns this may only be a temporary respite for short-term lenders. 2020. Available at cfa-uk.co.uk/cfa-welcomes-another-fall-in-quarterly-payday-complaints-but-warns-this-may-only-be-a-temporary-respite-for-short-term-lenders/ [accessed 25/5/2020]

among the most vulnerable to debt: only one third of them are in employment and many have low incomes.[15] In response, the FCA introduced a price cap and price transparency requirements on rent-to-own firms to protect vulnerable consumers from high costs. This year the FCA introduced new legislation on overdrafts, which aims to specifically protect those living in deprived areas, as they suffer disproportionately from high overdraft charges. The measures stop firms from charging more for unarranged than arranged overdrafts; abolish fixed overdraft fees; and introduce a 'simple, single annual interest rate - no fixed daily or monthly.'

Other measures resulting from the review included targeting home-collected credit, catalogue credit, store cards and buy now pay later offers.[16] The FCA also expressed its intention to ensure banks identify and support those who show signs of financial difficulty, though no regulation has yet been introduced.[17]

FAIR4ALL FINANCE

Fair4All Finance was established in 2019 with support from the Department for Digital, Culture, Media and Sport and the Inclusive Economy Partnership, funded by £55 million of dormant assets money. It aims to increase access to fair, affordable and appropriate financial products and services, initially by providing support and funding to the affordable credit market. Each year, responsible lenders such as credit unions and CDFIs originate just £250m of loans, while over the same period, high-cost short-term credit providers originate £3bn – more than ten times as much. Fair4All Finance's Affordable Credit Scale-up Programme aims to scale the affordable credit sector to meet existing demand. The programme is designed to support sustainable growth of community finance organisations through a combination of investments, grants and capacity and capability development.

COVID-19

The Covid-19 crisis led the Bank of England to give the government a quick injection of cash to support the swift introduction of a wide variety of credit products and credit support.[18]

Next to its various business loan schemes, the Treasury committed £150 million to loan support for charities and social enterprises, and vulnerable individuals. This included £41 million to Fair4All Finance to support affordable credit providers through a Covid-19 emergency fund and an expansion of its Affordable Credit Scale-up Programme to ensure sustainability of the sector.

The government introduced mortgage holidays and banned landlords from evicting tenants during Covid-19 until August 2020.[19] Both measures are welcome, although there is concern that some people are building up very large rent or mortgage arrears which they may struggle to repay in the future.

The Bank of England cut its interest rate to 0.1%, and is offering banks and building societies long-term funding at that same interest rate in order to reduce what they charge, and increase lending in general. The Bank has also extended the amount of capital that banks and building societies need to balance their lending, allowing the expansion of lending by banks.[20] However, users of HCSTC are often driven to those options because they are unable to access credit from a bank on better terms.

Government support for charities and social enterprises supporting people at risk of debt and HCSTC is very welcome, especially the investment in scaling up affordable lenders. Payment holidays and eviction bans have given much needed relief to many, but it is short term. There are concerns about crucial gaps in people's financial knowledge, including a lack of understanding of the terms of payment holidays,[21] and mass unemployment is expected once the government's furlough scheme wraps up in October. The impacts of Covid-19 will have a significant impact on personal debt and use of credit. The final chapter of this report makes policy and practice recommendations to ensure everyone who needs it has access to affordable credit and impartial advice, both now and in the future.

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21. Experian. Six in ten Brits have increased their financial awareness during lockdown, 2020. Available at https://www.experianplc.com/media/news/2020/six-in-ten-brits-have-increased-their-financial-awareness-during-lockdown/ [Accessed 26/06/20].

CHAPTER 2
METHODOLOGY

The annual Good Credit Index is intended to offer a geographic look at access to good credit around the UK, utilising both private and public sector administrative and geospatial data. The Good Credit Index is based on three sub-indices measuring different aspects of credit which were found to be important based on focus groups and a literature review.

These three strands are: the credit environment (the physical availability of good and bad credit on the high street); credit scores (the likelihood that citizens would be approved for credit); and credit need (the likely demand for credit, particularly short-term credit).

The overall Good Credit Index was created by summing these three sub-indices, with an equal weighting given to each.

LEVEL OF ANALYSIS

The index is calculated at the local authority district level, which, given the available data, was the most granular level to feasibly examine. We chose to exclude Isles of Scilly, the Orkney and Shetland Islands, the Outer Hebrides and the City of London, for which the index was unreliable due to their small populations. These areas are included in the analysis on credit invisibles, as these are on a constituency basis.

DATA

We used a variety of data sources to produce our indicators for the Good Credit Index.

These include publicly available national statistics, publicly published data from financial inclusion charities, geospatial data scraped from Open Street Map and credit provider websites, and private data kindly provided to us by credit reference agency Experian, credit union trade organisation ABCUL, and the cash machine network LINK. In every instance we used the most recent available data. The datasets we received were aggregated to the local authority level. None of the data sets offered information about individuals.

Due to time lags in publishing national statistics, some data are from 2019, whereas

others are from 2018. For a full list of data sources, see Appendix B. Some of the indicators used in the index are directly linked to access to good credit. For example, when people's credit scores are high, they will be able to access a wider variety of credit sources. Other indicators are used as proxies. Gross Disposable Household Income is one of the proxies for credit need, as those on low incomes will more often require credit to meet their financial obligations or weather unexpected storms. In other cases, the proxy intends to capture something which is otherwise difficult to measure. In the credit environment, we include financial services such as free cash points. This is not meant to suggest that in the absence of free cash points, people opt for bad loans, but rather to capture a general measure of geographical financial inclusion.

WEIGHTING

For each of the sub-indices, the sources used to calculate the index were weighted based on our assessment of their relative importance, utilising findings from 2019 polling to weight the credit environment and using regressions against suitable proxies for the credit scores and credit need. The table below outlines what the various strands were weighted against.

STRAND	WEIGHTED AGAINST
Credit Need [22]	2019 volume of credit broker searches by local authority [23]
Credit Scores	(weighting not necessary)
Credit Environment	2019 Demos polling on the relative benefit or harm of having a particular financial service on the high street

UPDATES TO THE DATA SOURCES

In 2020, new and more comprehensive data became available, that has led to some changes in the data sources[24] and methodology used for calculating the sub-indices[25]. To ensure that comparison between the Good Credit Index in 2019 and 2020 was possible, and reflected real change in the credit situation of local authorities, this report uses a revised version of the 2019 Good Credit Index.

In December 2019, the Office for National Statistics made various changes to local authority codes and boundaries. Since the 2020 Good Credit Index uses various data sources from before December 2019, it describes the data using the 2018 local authority codes and boundaries.

LIMITATIONS

The intention of the Good Credit Index is to give a sense of the overall financial health of an area, so we advise against reading too much into a local authority being placed 133rd versus 134th, and instead focus on the broad patterns and trends that appear in geographic distribution and the similarities and differences across overall higher and lower scoring local authorities.

The average credit scores for the 2019 and 2020 Good Credit Index were provided by credit reference agency Experian, and represent the average credit scores of those who check their score with Experian. This might not capture all credit scores in a local authority, but provides a useful thinking tool for patterns across time and across the UK.

There are also elements of access to good credit which were not included because of a lack of available data at a local authority level. This includes levels of fraud (which severely affect credit scores), the use of illegal money lenders (which is an indication of serious credit need) and access to credit options online. For a more detailed methodology, see Appendix B. For more detailed results, see the digital index which can be found online at **https://demos.co.uk/project/the-good-credit-index-2020/**

22. A low credit need score means there is a higher need for credit in that area. Low scores on each of the sub-indices indicate a more precarious credit situation.
23. Using a multivariate regression analysis, we determined the extent to which the different variables (gross disposable household income, claimant count, level of overindebtedness, proportion of the population earning under £10k) predicted the frequency with which people in a certain area would do a credit broker search. The outcome of this analysis determined the weightings, which were used for the 2019 and 2020 Good Credit Index.
24. Data on the number of bank branches and on the number of credit unions
25. In particular, the methodology for the credit environment was changed: One variable was taken out of the calculation, and the weightings and formula of the total environment index were changed in order to account for this. This method was used for the revised 2019 and 2020 Good Credit Index.

CHAPTER 3 INSIGHTS FROM THE GOOD CREDIT INDEX

In this section we discuss the results of the Good Credit Index 2020, analysing the differences with the Good Credit Index 2019, the highest and lowest scoring areas on each of the sub-indices and identifying the patterns that emerge across the country. We first discuss the Index of Multiple Deprivation, which provides additional insight, then consider the scores for each of the sub-indices (credit need, credit scores and credit environment) and discuss credit deserts: places where credit need is high and credit scores are poor. Lastly, we discuss the existence of credit invisibles across the country, based on a new dataset provided by Experian on the number of people per constituency who find it hard to access credit due to thin or non-existent credit files.

4.1 Index of Multiple Deprivation (IMD)

The Index of Multiple Deprivation (IMD) is the official measure of relative deprivation for neighbourhoods in England. Published by the Ministry of Housing, Communities and Local Government, it ranks 32,844 areas of the country from most deprived to least deprived.[26] The most recent English Indices of Deprivation[27] are broadly correlated with the aggregate Good Credit Index for English local authorities[28] in that, if a local authority is deprived, it is likely that it has a low score on the Good Credit Index and vice versa. Each sub-index is also correlated with the IMD. However, if we look at the individual domains of deprivation within the IMD, relationships with the Good Credit Index become more complicated: income deprivation is an accurate predictor of credit need, but not of the credit environment. Credit environment is correlated with health deprivation and living environment deprivation, which implies people living in an area can experience entrenched geographical disadvantages. Education deprivation is a predictor only of credit scores. Based on these relationships, the IMD and its sub-indices give us valuable information about the situation people encounter as a result of living in particular localities. The following analysis uses data from the IMD to support and deepen our understanding of the circumstances people encounter living in different areas.

4.2 Credit need

Credit need predicts the likelihood that households will be unable to meet financial commitments and thus be in need of short-term consumer credit. An increasing number of households have ‘negative budgets’ whereby their income simply cannot meet their financial commitments without some form of financial support.[29] A household’s inability to meet their financial commitments can be the consequence of a number of factors, particularly low or no income potentially resulting from unemployment, high household costs, or a combination of low savings and economic shocks.[30]

As we reported in the 2019 Good Credit Index, it is important to mention that credit need does not necessarily translate into credit use. Equifax data shows that the areas with the most uptake of unsecured consumer borrowing are also the more affluent areas with the lowest credit need, often

26. Office of National Statistics. English indices of deprivation 2019, gov.uk, 2019. Available at https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019 [accessed 21/5/2020]
27. The Welsh, Scottish and Northern Ireland indices of deprivation are referred to throughout the report. However, the multivariate regression analysis has only been performed on English local authorities as the English Indices of Multiple Deprivation are available at local authority level.
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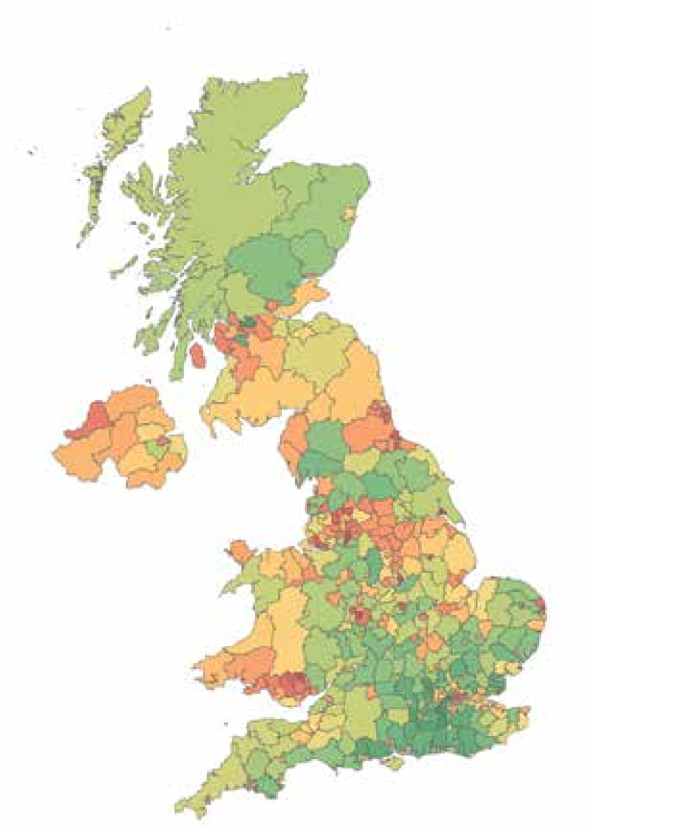
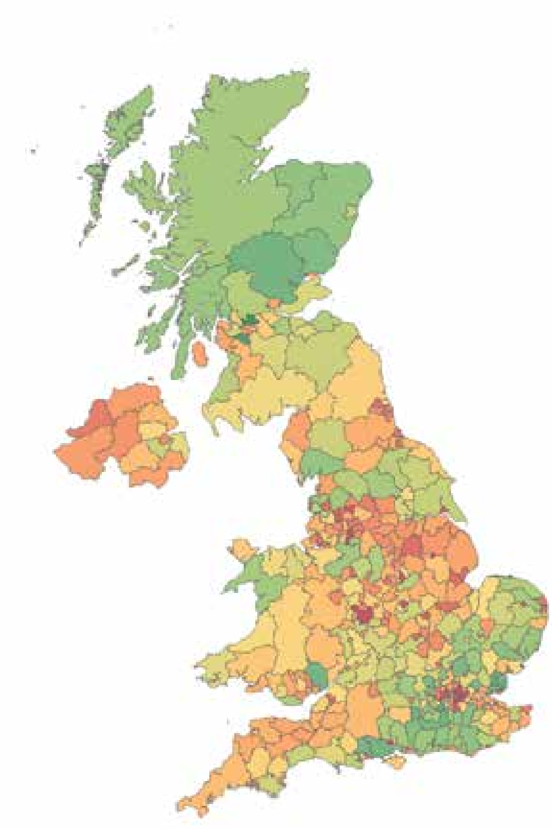
29. Matin, J. and Lane, J. Negative Budgets: A New Perspective on Poverty and Household Finances. Citizens Advice, 2020, p2. Available at: https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Negative%20budgets%20report%20-%20phase%201%20(1).pdf
30. Gutierrez-Nieto B, Serrano-Cinca C and de la Cuesta M. A Multivariate Study of Over-Indebtedness’ Causes and Consequences. International IJC, 2016. Available at: https://www.researchgate.net/publication/310539957_A_multivariate_study_of_over-indebtedness’_causes_and_consequences



Map 2
NEED INDEX REVISED 2019: a heat map of the UK where local authority areas in red have the highest credit need and those in green the lowest, according to the 2019 credit need index



Map 3
NEED INDEX 2020: a heat map of the UK where local authority areas in red have the highest credit need and those in green the lowest, according to the 2020 credit need index

around the outskirts of London and in the South East in 'stockbroker belt' areas.[31] Most of the credit use present in these areas is in the form of prime credit products, such as 0% rate credit cards taken out by individuals with higher credit scores.[32]

Using data on over-indebtedness, Gross Domestic Household Income (GDHI) and claimant count, our findings this year show that between 2019 and 2020, the need for credit across the UK increased by an average of 0.42%.

The changes vary between regions. We see notable improvements in need in some post-industrial towns in South Wales and parts of Scotland, while London's need increases. Relatively high levels of over-indebtedness[33] and claimant count have persisted in English post-industrial towns. As a consequence they continue to suffer from relatively high credit need, roughly maintaining their position in the upper third of local authorities' credit need results.

INCREASING CREDIT NEED

The most notable finding of our analysis of the credit need data this year is the dramatic increase in credit need in London. As shown in the table below, all of the ten biggest increases in credit need across all local authorities were in London. This trend of credit need scores within London results from an increase in over-indebtedness within the capital. The finding is consistent across London, including boroughs with some of the highest average incomes in the country.

Combined with the data on GDHI showing significant increases in average income across London boroughs, the rising overindebtedness figures paint a stark picture of nested deprivation: while some wealthy individuals within a borough have seen an increase in income, others in the same boroughs are increasingly struggling to pay the bills.

31. ONS. Economic Statistics Transformation Programme: enhanced financial accounts (UK flow of funds) - using Equifax data to visualise patterns of borrowing across the UK (Figure 14). ONS, 2020. Available at: https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicstatisticstransformationprogramme/enhancedfinancialaccountsukflowoffundsusingequifaxdatatovisualisepatternsofborrowingacrosstheuk#annex-a-maps-of-the-geographical-breakdown-of-equifax-data
32. FCA. Who's driving consumer credit growth? FCA, 2016. Available at: https://www.fca.org.uk/insight/whos-driving-consumer-credit-growth
33. The Money Advice Service, whose over-indebtedness data is used in this analysis, defines over-indebted individuals as those who find keeping up with financial bills a heavy burden, or have missed payments on at least 3 of the last 6 months (Money Advice Service. Overindebtedness model 2018: Technical Report. The Money Advice Service, 2019, p8. Available at: https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness-in-the-uk)

CHANGES IN CREDIT NEED RESULTS 2019-2020			
TOP 10 BIGGEST DECLINES		TOP 10 BIGGEST IMPROVEMENTS	
Tower Hamlets	-2.70%	Blaenau Gwent	1.59%
Hammersmith & Fulham	-2.46%	Caerphilly	1.29%
Camden	-2.26%	Neath Port Talbot	1.13%
Hackney	-2.21%	West Dunbartonshire	1.11%
Westminster	-2.20%	Rhondda Cynon Taf	1.08%
Lambeth	-2.14%	Merthyr Tydfil	1.07%
Southwark	-2.03%	North Lanarkshire	0.92%
Kensington & Chelsea	-2.05%	Bridgend	0.83%
Islington	-2.02%	Renfrewshire	0.77%
Haringey	-1.88%	Glasgow City	0.67%

Table 1: The table shows increasing credit need in London, but decreasing credit need elsewhere, particularly in localities across Wales (lower scores reflect higher need).

Housing pressures in London may contribute to the capital's high levels of overindebtedness. The percentage of housing which is either privately or socially rented is far higher in London than anywhere else in the country[34], and those in any type of rented accommodation are generally more likely to be overindebted than those who own homes.[35]

At 1.2%, the rate of rise in rental prices in London is roughly in line with the rest of England and significantly higher than the other UK nations over the last year.[36] The proportion of housing tenure which is private rented property in London is 25%[37] - significantly higher than any other region - meaning that proportionately more people in London are likely to have been impacted by a rise in rental prices than elsewhere in the UK.

This is likely to have a disproportionate impact on ethnic minorities in London, who, on average, are more likely to rent, and have lower average incomes, therefore spending a bigger portion of their income on rents and finding it harder to keep up with monthly bills.[38/39] Some of the areas with the biggest increases in credit need are also those with some of the highest ethnic minority populations, including Tower Hamlets, Hackney and Newham.[40]

Self-employment in London may also be a factor for high overindebtedness. Rates of self-employment in London are the highest in any region in the UK at over 17% and have been increasing for the last two decades.[41] The lack of guaranteed income and the irregular cash flow means that the self-employed are more likely to need short term credit.[42]

DECREASING OVERINDEBTEDNESS

Post-industrial towns in Wales and Scotland show some of the most significant decreases in credit need compared with last year's index. Wales and Scotland saw an average decrease of 0.6% and 0.4% respectively per local authority, countering the national direction of increasing credit need or stagnation. Of the largest 30 decreases in credit need, only one was from outside Scotland and Wales.

Areas like Methyr Tydfil and Rhondda Cynon Taf previously had some of the highest need across

34. London Datastore. Housing tenure by Borough. ONS, 2018. Available at: https://data.london.gov.uk/dataset/housing-tenure-borough
35. The Money Advice Service. A Picture of Overindebtedness. The Money Advice Service, 2016, p8. Available at: https://masassets.blob.core.windows.net/cms/files/000/000/347/original/MAS_Report_A_picture_of_overindebtedness.pdf
36. ONS. Index of Private Housing Rental Prices. ONS, 2020. https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/march2020
37. ONS. Housing tenure by Borough. London Datastore, 2018. Available at: https://data.london.gov.uk/dataset/housing-tenure-borough
38. GOV.UK. Renting from a private landlord, 2020. GOV.UK, 2020. Available at: https://www.ethnicity-facts-figures.service.gov.uk/housing/owning-and-renting/renting-from-a-private-landlord/latest#by-ethnicity-and-area
39. GOV.UK. Household income, 2020. GOV.UK, 2020. Available at: https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/pay-and-income/household-income/latest#main-facts-and-figures
40. GOV.UK. Regional ethnicity figures. GOV.UK, 2020. Available at: https://www.ethnicity-facts-figures.service.gov.uk/uk-population-by-ethnicity/national-and-regional-populations/regional-ethnic-diversity/latest#ethnic-groups-by-type-of-location-urban-or-rural
41. ONS. Trends in Self Employment. ONS, 2018. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2018-02-07
42. Money Advice Service. Overindebtedness model 2018: Technical Report. The Money Advice Service, 2019, p8. Available at: https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness-in-the-uk

2019				2020			
LOWEST SCORES		HIGHEST SCORES		LOWEST SCORES		HIGHEST SCORES	
Kingston-upon-Hull (Kingston-upon-Hull)	669	Chiltern (Buckinghamshire)	859	Kingston-upon-Hull (Kingston-upon-Hull)	679	Wokingham (Berkshire)	864
Blaenau Gwent (Blaenau Gwent)	671	Wokingham (Berkshire)	858	Blaenau Gwent (Blaenau Gwent)	681	Chiltern (Buckinghamshire)	862
Merthyr Tydfil (Merthyr Tydfil)	685	Elmbridge (Surrey)	853	Blackpool (Lancashire)	693	Richmond-upon-Thames (London)	860
Blackpool (Lancashire)	686	St Albans (Hertfordshire)	853	Merthyr Tydfil (Merthyr Tydfil)	696	Elmbridge (Surrey)	859
North East Lincolnshire (Lincolnshire)	689	Waverley (Surrey)	851	Middlesbrough (Middlesbrough)	699	Waverley (Surrey)	859
Knowsley (Merseyside)	689	Richmond-upon-Thames (London)	850	Knowsley (Merseyside)	701	St Albans (Hertfordshire)	858
Rhondda Cynon Taf (Rhondda Cynon Taf)	700	Rushcliffe (Nottinghamshire)	850	North East Lincolnshire (Lincolnshire)	702	Hart (Hampshire)	857
Neath Port Talbot (Neath Port Talbot)	703	Hart (Hampshire	847	Neath Port Talbot (Neath Port Talbot)	707	Rushcliffe (Nottinghamshire)	856
Hartlepool (Durham)	705	South Bucks (Buckinghamshire)	846	Rhondda Cynon Taf (Rhondda Cynon Taf)	711	Mole Valley (Surrey)	855
Wolverhampton (Wolverhampton)	707	Mole Valley (Surrey))	844	Hartlepool (Durham)	711	South Bucks (Buckinghamshire)	854

Table 2. Average credit scores per local authority showing the least and highest scoring ten places in 2019-2020

UK local authorities, but now rank roughly in the middle of UK local authorities for credit need, having improved ahead of some local authorities in London. These advances are the result of decreases in levels of overindebtedness which the data suggest results from a reduction in unemployment levels across Wales, particularly in the South.[43] Methyr Tydfil, the town with the sixth biggest decrease in credit need, is now achieving employment rates above the Welsh national average as it reaps the benefits of broader economic growth and an increasing number of businesses in the area.[44/45]

4.3 Credit scores

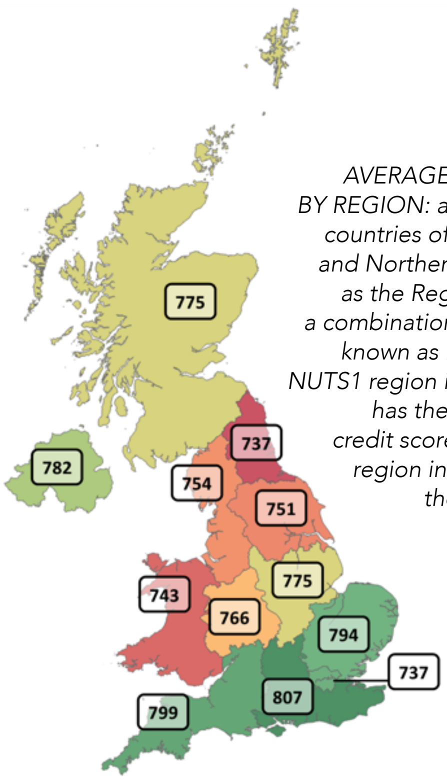
A credit score is a tool to determine whether someone qualifies for a particular credit service such as a loan, mortgage or credit card. In general, credit scores are determined by looking at length of credit history, overall capacity and recent activities. Each credit agency has its own mathematical formula to assess credit scores. Data for the Index was provided by Experian, and represents the average credit scores of those who checked their score with the company, so may not capture all credit scores in a local authority. The Index is therefore more suited to identifying broad movements than granular changes.

Seventeen local authorities have an average score categorised as "poor" by Experian.[46] Just as in 2019, the majority of the local authorities with a poor credit score are small post-industrial or coastal towns. The relation between credit scores and the local economy becomes more visible when looking at the IMD 2019, which is an accurate predictor of credit scores. All local authorities with low credit

43. StatsWales. Employment Rate by Welsh Local Area and Year. StatsWales, 2018. Available at: https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Employment/Persons-Employed/employmentrate-by-welshlocalarea-year
44. ibid
45. ONS. Business Demography, UK. ONS, 2019. Available at: https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyreferencetable
46. The local authorities with "poor" score are Halton, Sunderland, Liverpool, Caerphilly, Burnley, Stoke-on-Trent, Wolverhampton, Hartlepool, Rhondda Cynon Taf, Neath Port Talbot, North East Lincolnshire, Knowsley, Middlesbrough, Merthyr Tydfil, Blackpool, Blaenau Gwent and City of Kingston upon Hull.

scores suffer from high levels of deprivation both in 2019 and 2020. Kingston upon Hull, for instance, had low credit scores both in 2019 and 2020 and is one of the local authorities with the highest proportion of neighbourhoods in the most deprived 10% of neighbourhoods nationally on the IMD 2019.[47]

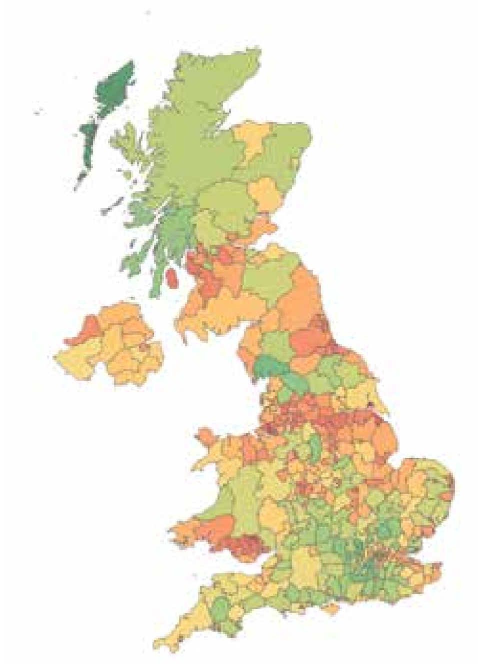
Table 2 shows Middlesbrough is added to the lowest scoring local authorities in 2020, which is further discussed on page 20. The absence of major changes in the table demonstrates the deep rooted nature of the relationship between deprivation levels and credit scores. All the local authorities with high credit scores also have stable local economies and low rates of deprivation.



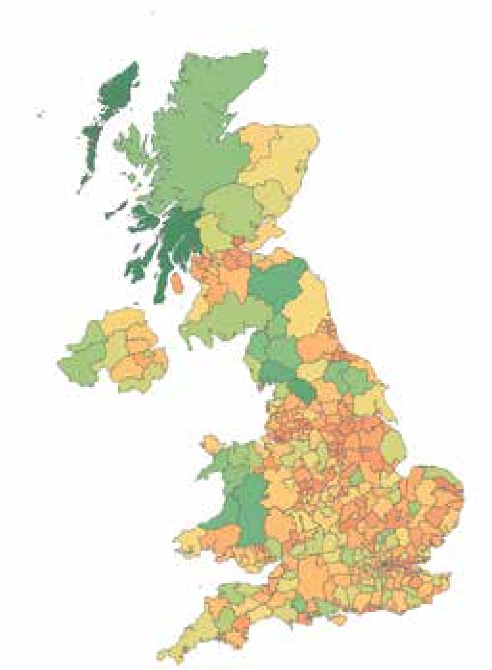
Map 4
AVERAGE CREDIT SCORE BY REGION: a heat map of the countries of Wales, Scotland and Northern Ireland, as well as the Regions of England, a combination of geographies known as NUTS1. Here the NUTS1 region in deepest green has the highest average credit score and the NUTS1 region in deepest red has the lowest average credit score.

4.4 Credit environment

The 'credit environment' strand of the Good Credit Index considers the credit options that are available to people living in a particular local authority. It includes an assessment of the quality of those options, based on a representative poll of UK adults (see Appendix B for more information on the poll). Good options are bank branches, credit unions and free ATMs and bad options are payday lenders, pawn shops and rent-to-own shops (Brighthouse). The credit environment maps below show local authorities with healthy credit environments (many good options and few bad ones) in green and those with unhealthy credit environments (many bad options and/or few good ones) in red. Overall we can see that the average physical credit environment across the UK has improved since 2019.



Map 5
AVAILABILITY INDEX REVISED 2019



Map 6
AVAILABILITY INDEX NEW 2020

47. Welsh Government. 2019. Welsh Index of Multiple Deprivation 2019. Available at: https://gov.wales/sites/default/files/statistics-and-research/2019-11/welsh-index-multiple-deprivation-2019-results-report-024.pdf [Accessed 5 June 2020]

This is due in large part to the decrease in payday lenders. The Good Credit Index 2019 already noted a remarkable decrease in the number of payday lenders on the high street following substantial regulatory changes in 2015. The fall has been dramatic in some towns and cities: Glasgow went from 40 high street payday lenders in 2014, to 8 in 2019 and, according to our data, has none left in 2020.[48] This change in the credit market came about largely as a result of the FCA payday lender regulations discussed in Chapter 2.

Some payday lenders have left the high street but continue their business online. In 2019, the Cheque Centre and Speedy Cash relaunched as online-only, followed by Oakam in 2020. Others, for example the Money Shop, have gone into administration. Potential borrowers might also go online instead, but there is evidence that low-income borrowers are less likely to use online payday lenders than physical branches.[49] People who have taken out payday loans also report persuasive techniques on the part of lenders.[50] The disappearance of payday lenders from the high street may save financially vulnerable customers from spiralling debt, but it is difficult to access without better data on the use of online sources of HCSTC as an alternative.

In response to these changes in the credit environment, and the impact of Covid-19, borrowing from online sources is likely to be on the rise. Understanding the role of online access to HCSTC will be a focus for the Good Credit Index 2021.

Credit remains an important resource for many people struggling to pay their bills and as we saw in chapter 2.1, average credit need scores have declined since 2019, meaning people are more likely to need credit. Unaffordable options such as payday lenders and pawnshops are often the only options customers feel are available to them if their credit score is too low to get a bank loan, and if the need for credit is urgent. When payday lenders disappear, it is likely that either another unaffordable credit option, or an empty building, will replace them. This means that those in need have fewer credit options overall, good or bad. The decline over the past years of the high street has been well documented.[51] What's more, almost one in five closed Money Shop branches have been sold to a pawnbroker, and more than one in seven to Cash Converters, a payday lender. An emerging trend is the closure of free ATMs across the country after a major change in how the network is funded, and the rate of closure is faster in poor areas than in affluent ones. Given that people in deprived areas often rely on cash, this is a concerning development.[52]

We can see this effect clearly in the table below, showing the 10 local authorities with the lowest

LOCAL AUTHORITY (county)	CREDIT ENVIRONMENT SCORE 2020	DIFFERENCE WITH 2019	RANK OF AVERAGE ENGLISH IMD SCORE [53]
Oldham (Greater Manchester)	99.60	-0.84%	19
Knowsley (Merseyside)	99.87	1.14%	2
Broadland (Norfolk)	100.01	-0.54%	264
Clackmannanshire (Clackmannanshire)	100.14	-0.77%	-
South Staffordshire (Staffordshire)	100.15	0.29%	239
Thurrock (Essex)	100.18	-0.37%	128
Halton (Essex)	100.19	0.73%	23
Blaenau Gwent (Blaenau Gwent)	100.22	0.84%	-
North East Derbyshire (Derbyshire)	100.26	-0.07%	170
Blackpool (Lancashire)	100.29	0.63%	1

Table 3. Lowest credit environment scores

48. The data reflects branches of the high street lenders but may miss the establishment of new small payday lenders.
49. Consumer Finance Association. A Modern Credit Revolution: an Analysis of the Short-Term Credit Market, 2016. Available at cfa-uk.co.uk/wp-content/uploads/2016/11/SMF-Report-AKT10796.pdf
50. Hilhorst, S. and Jones, E. Good Credit Index. Demos, 2019, pp10-12. Available at demos.co.uk/wp-content/uploads/2019/07/Good-Credit-Index-2019-final-.pdf
51. Holder, J. High street crisis deepens: 1 in 12 shops closed in five years. The Guardian, 2019. Available at www.theguardian.com/cities/ng-interactive/2019/jan/30/high-street-crisis-town-centres-lose-8-of-shops-in-five-years
52. Little, S. Free cash machines are disappearing fastest in poorer areas. Moneywise, 2019. Available atwww.moneywise.co.uk/news/2019-09-18%E2%80%8C%E2%80%8C/free-cash-machines-are-disappearing-fastest-poorer-areas
53. The average score of all LSOAs in a local authority, ranked from highest to lowes. 1 is the most deprived local authority in England, and 317 the least deprived in England.

credit environment scores. Two types of local authorities appear multiple times in the table with the lowest credit environment scores: deprived, often post-industrial towns with a number of bad credit options and few good credit options; and rural areas that have very little credit infrastructure overall: no bad credit options and few good ones.

In rural areas there is often less deprivation and credit need so that their low environment scores might be viewed as less of a concern. For example, Broadland, a collection of small villages, has no wards that fall in the most deprived 10%. It has high average credit scores (826), a credit need score of 96.17 and has no bad credit options. In contrast, Blaenau Gwent, a post-industrial town with high levels of deprivation, has a number of pawnshops and Brighthouse branches (a chain of rent-to-own shops), and lost 7 free ATMs since 2019, giving it a very low credit environment score.[54] However, it is also the local authority with the 6th highest improvement on its aggregate index score: improving significantly on each of the sub-indices including the credit environment, so it is moving in the right direction.

It is also important to note that a low credit environment score is not necessarily related to low incomes. While there is a direct correlation between credit environment scores and the IMD, there is no correlation between credit environment and the IMD sub-index of income deprivation. Credit environment is directly correlated to health deprivation and living environment deprivation, which implies people living in an area can experience entrenched geographical disadvantages expressed through a lack of good health options, bad housing quality and a bad credit environment, even if incomes or employment rates rise.[55]

Credit environment scores improved significantly around the UK, compared to 2019.[56] The table below shows the local authorities that have improved the most.

As the table shows, three out of ten local authorities whose credit environment has improved the most are located in Northern Ireland. The province has on average ten credit unions per local authority compared to 0.7 per local authority in the rest of the UK. The Financial Times reports that the effect of their growth over the past years has lead to loan

LOCAL AUTHORITY (county)	COUNTRY	CREDIT ENVIRONMENT SCORE	DIFFERENCE WITH 2019 [57]
Denbighshire (Denbighshire)	Wales	105.8686	2.04%
Great Yarmouth (Norfolk)	England	102.8148	2.18%
Newry, Mourne and Down (Amargh, Down)	Northern Ireland	104.9137	2.45%
Corby (Northamptonshire)	England	101.9804	2.46%
Stroud (Gloucestershire)	England	104.4571	2.50%
Copeland (Cumbria)	England	105.3186	2.73%
Norwich (County)	England	105.3859	2.88%
Allerdale (Cumbria)	England	107.5128	2.90%
Derry City and Strabane (Londonderry, Tyrone)	Northern Ireland	105.9864	2.92%
Westminster (Greater London)	England	120.8516	2.92%
Belfast (Antrim, Down)	Northern Ireland	105.3701	3.17%

Table 4. Most improved environment scores since 2019

54. It has the highest percentage of areas in the most deprived 50% in Wales. Welsh government and Statistics for Wales. Welsh Index of Multiple Deprivation (WIMD) 2019. Results report. gov.wales, 2019. Available at gov.wales/sites/default/files/statistics-and-research/2019-11/welsh-index-multiple-deprivation-2019-results-report-024.pdf
55. Measured by the Index of Multiple Deprivation through housing quality, air quality and road traffic accidents
56. This comparison was made with revised 2019 scores. See Methodological Appendix for further explanation of the revised scores.
57. This comparison was made with revised 2019 scores. See Methodological Appendix for further explanation of the revised scores.

sharks losing ground, and it seems like they are also close to eradicating payday lenders from the credit market: both Newry, Mourne and Down and Derry City and Strabane lost all their high street payday lenders in the last year.[58] Belfast only has one left, and has opened several new credit unions in the past year. These three local authorities are part of the 10 authorities that improved the most on their aggregate index score.

The FCA has already expressed its desire to apply the same methods in the rest of the UK. It is important to note that a culture of using credit unions is much more deeply embedded in communities in Northern Ireland than in other UK countries which may impact the ability to replicate methods.

4.5 Credit havens and credit deserts

The Good Credit Index reveals 10 'credit deserts' - places where high need for credit coincides with low credit scores. These are local authorities with an average credit score Experian defines as 'poor',[59] and that fall in the lowest 20th percentile of credit need scores. Credit havens are places where the need is low and credit scores are high.

Many places we identified as credit deserts in 2019 have lost that status as a result of increasing overall

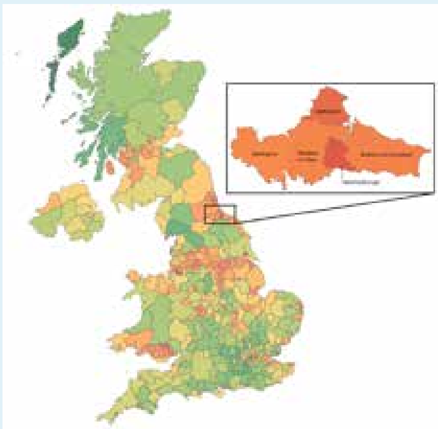
CASE STUDY: MIDDLESBROUGH

Middlesbrough is a post-industrial town in North Yorkshire with a population of 138,400. The town used to play a significant role in steel and iron production, with the decline of this industry leading to high levels of unemployment, standing at 7.2% in 2019.[60]

Middlesbrough has one of the highest proportions (49%) of neighbourhoods among the most deprived in England.[61] The town is also the most income-deprived area in the country, with a quarter of its population living in income-deprived areas.[62]

Looking at the credit environment of Middlesbrough, we find high credit need, bad credit infrastructure and low credit scores. Our Index score of Middlesbrough is 98 which decreased by 1.1% since 2019. This means that there are very few good credit options in Middlesbrough and people may struggle in accessing these options more than anywhere else. The average credit score in Middlesbrough decreased drastically from 726 in 2019 to 699 in 2020. Further research is needed to understand the stark decrease in the credit scores in Middlesbrough.

Middlesbrough has a relatively high level of credit need - it ranks as the local authority with the 45th highest need in the country. Since 2019, levels of over-indebtedness have decreased from 19.7% of the adult population to 18.5%, which leaves Middlesborough's credit need in a healthier position than last year. Nevertheless, there are many in need of credit, who will not encounter a great credit environment: it has five pawnshops, a payday lender and a Brighthouse branch, and it has few free ATMs and bank branches. However, there are also 3 credit unions, significantly more than most English local authorities.

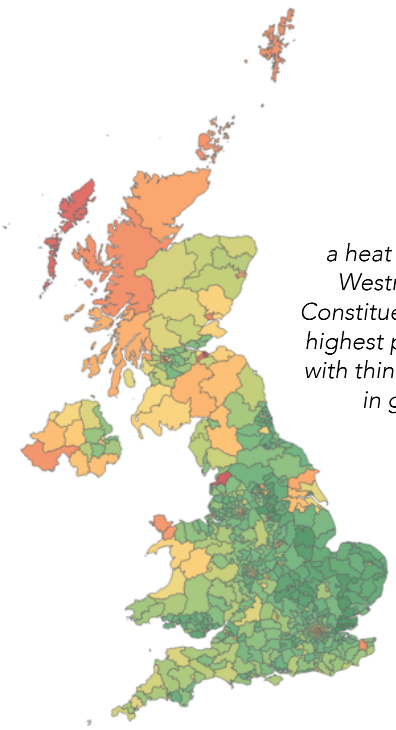


58. Megaw, N. How credit unions squeezed out loan sharks in Northern Ireland. Ft.com, 2018. Available at https://www.ft.com/content/baadc5e4-7ecf-11e8-bc55-50daf11b720d?accessToken=zwAAAXKj_ghQkdO6rcXkfs8R6NO8VVDa8RtyDQ.MEYCIQD6WAGiOxuJGVQs2VvjLtk8_jdtUZU8HRzABVsQ-RUvWAIhAIyaX81ajN2iL1PHL_KsWPcb-ZI_SETDe0VKnE0d8ODG&sharetype=gift?token=22c13d4a-186c-4d59-aa21-e366a4551d42
59. Experian. Your Experian Free Credit Score. 2019. Available at https://www.experian.co.uk/consumer/experian-credit-score.html
60. Gov. Uk. 2020. Regional labour market statistics in the UK: September 2019. Available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/september2019#:~:text=For%20the%20period%20April%202018%20to%20March%202019%2C%20the%20local,Birmingham%2C%20both%20at%207.2%25. [Accessed 1 June 2020]
61. Ministry of Housing, Communities and Local Government. 2019. English Indices of Deprivation 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/IoD2019_Statistical_Release.pdf [Accessed 1 June 2020]
62. Ministry of Housing, Communities and Local Government. 2019. English Indices of Deprivation 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/IoD2019_Statistical_Release.pdf [Accessed 1 June 2020]

	Credit scores: High	Credit scores: Low
Credit Need: Low	Credit haven	Credit-free economy
Credit Need: High	Market-based solutions	Credit desert

credit scores and a changing credit environment. Hartlepool, Halton, Blackpool, Kingston upon Hull, Stoke-on-Trent, Knowsley, Liverpool, Sunderland, and Wolverhampton remain with one new addition: Middlesbrough, discussed further on page 20. They are primarily post-industrial towns and cities, with a credit need score far below the average and most ranking high on the IMD.

Most of these localities, in particular Blackpool, Knowsley and Middlesbrough, also have a credit environment similar to that of other post-industrial towns, with various bad credit options and few good ones. From last year's credit deserts there are a few notable improvements. As we saw in chapter 4.1, credit need has improved significantly in certain Welsh towns, lifting Rhondda Cynon Taf, Neath Port Talbot, Caerphilly and Merthyr Tydfil out of credit desert status.



Map 7
THIN FILE %: a heat map of the UK where Westminster Parliamentary Constituencies in red have the highest percentage of people with thin credit files and those in green have the lowest percentage.

4.6 Credit invisibles

'Credit invisibles' are people about whom credit bureaus do not have enough financial information.[63] This group is also known as having a 'thin file' or 'no credit file'. A credit file holds information such as credit or payment history and other information collected by credit bureaus. Anyone who is new to the lending industry and who has used few credit products might have a thin file. While higher credit scores lower the risk for lenders, the thinner the file gets, the more difficult it is to get credit. Research by Big Issue Invest found that one large bank turned away over 90% of applicants who had thin or empty credit files.[64] Credit invisibles often reside in cities, in more deprived areas, and thus some likely need credit, but lack access to many of the resources a city offers.[65]

According to Experian, over 5.8 million people in the UK were 'invisible' to the financial system in 2018.[66] Some of these people pay their rent every month, work and pay taxes, but are excluded from many financial services. Our analysis shows that contrary to low credit environment scores in many post-industrial towns and cities, credit invisibles often live in cities where they will likely be surrounded by many good credit options but lack the means to access affordable financial services.

The five main groups composing the 'Invisible Population' in the UK are; young people, older people, the financially excluded, recent migrants and financially struggling.[67]

i. Young people, mainly aged 18 to 25, who have no credit record can have difficulties in accessing the credit for the first time.

ii. Older people who do not have recent credit history can have thin files. Even if they had loans, credit or mortgages in the past, when the credit files don't have recent activities, they become credit invisibles.

iii. People without a bank account. Over 1.5 million adults in the UK are 'unbanked'.[68] A third of the unbanked in the UK had a bank account before but got into trouble with an overdraft and do not want to use banking services anymore.[69]

63. Experian. Are you invisible to the credit system? Available at: https://www.experian.co.uk/consumer/help-discover/discover/guides/the-invisibles.html#:~:text=If%20you%20are%20invisible%20to,never%20used%20it%20at%20all. [Accessed 17 June 2020]
64. Credit Ladder. The Problem with a thin credit file. 2020. Available at: https://www.creditladder.co.uk/blog/the-problem-with-a-thin-credit-file [Accessed 15 June 2020]
65. Brevoort,K. Clarkberg, J. Kambara, M. and Litwin, B. Data Point: The Geography of Credit Invisibility. The Bureau of Consumer Financial Protection's Office of Research. Available at: https://files.consumerfinance.gov/f/documents/bcfp_data-point_the-geography-of-credit-invisibility.pdf [Accessed 15 June 2020]
66. Experian, 2018. Making the Invisible Visible Exploring the power of new data sources. Available at: https://www.experian.co.uk/assets/consumer-credit-risk/making-the-invisible-visible.pdf [Accessed 15 June 2020]
67. Experian, 2018. Making the Invisible Visible Exploring the power of new data sources. Available at: https://www.experian.co.uk/assets/consumer-credit-risk/making-the-invisible-visible.pdf [Accessed 15 June 2020]
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iv. Recent migrants who have little or no credit history are also credit invisibles and struggle accessing good credit services.

v. People who are only just managing financially and rely mainly on cash-based transactions.

Looking closely at the rate of thin files per constituency,[70] we see a concentration of credit invisibility in cities. Deprived and affluent neighbourhoods can easily co-exist in a city, making the needs more difficult to understand. Factors such as high numbers of students, urban deprivation or international migration impact the levels of credit invisibility in a place. And some of these factors are interrelated, for instance some of the newly arrived migrants are more likely to live in deprived neighbourhoods.

The City of Edinburgh has one of the highest rates of thin files per population, at 13%. The reasons behind high rates of credit invisibility in Edinburgh and cities around Scotland are complex and require further investigation. However, we know that young people, aged under 25, and recent migrants are likely to have thin files.[71] Edinburgh's six universities might explain why it has a high level of credit invisibility, alongside Oxford which has a figure of 9%.

Pull factors such as job opportunities, education services and community networks attract migrants to cities. Recent migrants usually face complications even accessing basic financial services such as a bank account. According to the FCA, migrant workers, refugees and asylum seekers experience difficulties in proving their identity or address in opening a bank account.[72] Indeed, even if they do have an account, many recent migrants lack sufficient information in their credit files. High numbers of migrants and international students may help to explain high levels of credit invisibility in big cities such as Edinburgh (13%), Manchester (10%) and Sheffield (8%).

We know that credit invisibility is significantly higher in low income households,[73] which explains why economically developed areas of South England such as Essex have fewer credit invisibles. The constituency of Basildon and Billericay has the lowest rate of thin files (4%). Places with high levels of deprivation such as Fleetwood (14%) have high levels of credit invisibles.[74]

The literature on credit invisibles is relatively recent. Our study points to a heavy concentration of thin files in Scotland. Reasons for this can only be speculated for now. It is possible that factors we have discussed, such as levels of deprivation, a young population or international migration might explain relatively high rates of credit invisibility in Scotland. However, further research is essential to understand this feature of the credit market.

Recent developments have enabled credit reference agencies to take additional forms of data into account where applicants have a thin file, such as rent and council tax payments or HMRC data. Fair4All Finance is working to better understand the risks and benefits associated with additional data sharing in the affordable credit market, including the impact that bringing in new data sources will have on financial inclusion and wellbeing of this group.

70. Since the thin credit file data is per constituency, it cannot be compared directly to the Good Credit Index, which is at local authority level. However, interesting patterns across the country can still be seen and analysed.
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CASE STUDY:
BRISTOL

Bristol is the 11th largest city in the UK with a population of 463,400.[75] Originally built on trade, in recent decades the city has become a prosperous centre for business, higher education, the arts and other services. Bristol enjoys one of the highest growths in economy per person among the Core Cities.[76]

Contrary to post-industrial small towns such as Middlesbrough where we see a more homogenous credit environment, we observe a mixed credit environment in Bristol. The City has an average Index score of 103 and scores 94 in credit need which decreased slightly since last year. It's credit score increased ten points from 777 in 2019 to 787 in 2020.

With an environment score of 102, Bristol scores below average. It has many banks and ATMs but also various bad credit options. In addition, Bristol West is one of the places we observe a fast reduction of free cash machines in 2019 which would worsen the credit environment.[77]

Bristol has a high level of credit invisibility (9%). The constituency of Bristol West has a higher level of credit invisibility (13%) than the rest of the city. A relatively large proportion of the adult population (41%) rents their accommodation, which is likely to reflect the large student population.

High levels of credit invisibility might be related to high levels of deprivation in some neighbourhoods. Looking at the IMD 2019, we see that the city has 41 areas in the most deprived 10% in England.[78] Moreover, local areas Hartcliffe & Withywood, Filwood and Lawrence Hill are found to be in the most deprived 1%.[79] Some of the most deprived areas in the city are adjacent to some of the most affluent areas.[80] The credit invisibles who live there will likely have little access to any of these options and, based on the city's credit need score, might need credit.

As a large, prosperous and diverse city, Bristol does not have particularly low credit need or environment scores. However, the high number of credit invisibles indicates that people in need of credit might not be able to access the good options available in the city. Although students are unlikely to need credit because of student financing, there is also a large population of migrants and ethnic minority groups who may be excluded as credit invisibles. This inequality in credit access has been hidden in large cities such as Bristol, and we recommend further research to understand the issues further.

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POLICY AND PRACTICE RECOMMENDATIONS

Credit need, credit scores and credit environment

Following publication of the inaugural Good Credit Index, Demos launched the South Yorkshire Good Credit project, a place-based financial inclusion initiative in the Sheffield City Region. South Yorkshire highlights many of the credit challenges faced by people in the UK: Barnsley and Doncaster count as 'credit deserts', where poor credit provision meets high credit need; Rotherham and Sheffield perform slightly better, but still face a combination of poverty, thin credit files and high insolvency rates. We worked with the city region mayor and other local stakeholders from the public, private and voluntary sectors to co-design tailored initiatives to improve the credit environment.

Alongside this year's Good Credit Index, we've published a toolkit (**www.goodcreditindex.co.uk/toolkit**) to share the learning from our Good Credit Project, setting out practical tips to address financial exclusion, supported by case studies from people and organisations we worked with. The toolkit is aimed at local authority leaders and metro mayors across the UK, who can play a key role in bringing sectors together to tackle exclusion and build resilience among residents.

As part of the project, we also produced targeted guidance for employers, housing associations and local authorities with recommendations for their part in reducing credit need, raising credit scores, and improving the credit environment. These are available at **www.goodcreditindex.co.uk/guides**

Credit invisibles

Further research is needed into the experiences of 'credit invisibles', people who have very thin credit files and may therefore struggle to access good credit. Migrants, the unbanked and people who rely on cash-based transactions may be particularly affected when they need access to credit.

Covid-19

Financial resilience and access to credit that is transparent, affordable and fair will be increasingly vital in our new post-Covid reality.

We support the debt advice sector's call for the Government to speed up implementation of a No Interest Loan Scheme in response to the crisis. The beneficiary group - lower-income consumers who would benefit from short-term credit to meet unexpected costs, but who cannot afford to repay interest even from social and community lenders that provide more affordable credit - are likely to be hard hit by the impacts of the pandemic.

With new applications for Universal Credit increasing, we also urge the Government to review the five week wait and deductions policies to ensure that the social security system can be the intended safety net for households struggling to pay for essentials as a result of Covid-19.

CHAPTER 4 CONCLUSION

The Good Credit Index maps the vast inequalities in access to good credit. Credit environment is directly correlated to health deprivation and living environment deprivation, which implies people living in an area can experience entrenched geographical disadvantages expressed through a lack of good health options, bad housing quality and a bad credit environment, which is independent of poverty levels in that area.[81]

Still, physical credit environments are improving, with many bad credit options disappearing. However, with the need for credit growing, and likely to soar in 2020, the lack of affordable credit options on the high street remains a cause for concern. The pattern we identified in the Good Credit Index 2019, persists: small and medium-sized industrial towns often suffer from a combination of low credit scores, high deprivation and credit need, and a physical environment that offers too few sustainable lending options and many tempting unsustainable ones. Place-based approaches, addressing entrenched deprivation and credit need rather than treating symptoms, and expanding the affordable credit market ought to be a priority for policymakers, particularly as the Covid-19 crisis causes unprecedented financial issues.

In the Good Credit Index 2020, a second pattern emerges. Cities, with their large concentrations of students, young people, and migrants, rarely score lowest on the Index. However, they have high proportions of credit invisibles, who do not have a credit file and are thus shut off from many of these cities' credit environment, while their need might be high. More research is urgently needed to better understand this group and promote true financial inclusion.

81. Measured by the Index of Multiple Deprivation through housing quality, air quality and road traffic accidents

APPENDICES

APPENDIX A: FULL INDEX

The full index can be found at **https://demos.co.uk/project/the-good-credit-index-2020/**

For any questions or queries, email the authors at **tessa.vanrens@demos.co.uk**

APPENDIX B: METHODOLOGICAL APPENDIX

The Good Credit Index is designed to offer insight into access to credit across the UK. It is constructed through creating three sub-indices to measure different, key aspects of credit:

- **the credit environment**: availability of physical sources of good and bad credit (such as banks or loan shops on the high street)
- **credit scores**: the likelihood that citizens would be approved for credit
- **credit need**: the likely demand for credit, particularly short-term credit

These three sub-indices are brought together to form the total Index, all with equal weighting.

Level of Granularity

The Index is calculated at the local authority district level. Given the available data and the ways in which individuals access financial services, this is the most granular level to feasibly examine. Lower level data such as postcode districts would not reflect the fact that when accessing physical services, customers will often travel to their local high street and so regularly access services outside their postcode of residence.

The index includes all local authorities across the four nations of the UK, excluding those with a population below 25,000. This means the index excludes the Isles of Scilly, the Orkney and Shetland Islands, the Outer Hebrides and the City of London. As a consequence of their small populations and unique situations (as island chains and world financial centre respectively), these locations have too high a variance and are not comparable with the rest of the UK.

In December 2019, the Office for National Statistics (ONS) made various changes to local authority codes and boundaries. Because the change is so recent, the majority of our data is in the previous coding structure. Had we tried to convert the Index 2020 to the new codes, we would have been forced to omit more local authorities from the Index, and comparison with the 2019 Index would have been more difficult. We have therefore analysed the data using the Local Authority codes from December 2018.[82]

Data Sources

The Good Credit Index uses a variety of datasets to calculate the sub-indices of credit scores, credit need and credit environment. These include publicly available national statistics, publicly published data from financial inclusion charities, geospatial data scraped from Open Street Map and credit provider websites, and private data kindly provided to us by credit reference agency Experian, the Association of British Credit Unions Limited (ABCUL) and the cash machine network LINK. For the geospatial data, we used the "find your local branch" section of the websites of different credit options, a few specific brands, such as the Brighthouse website, and industry associations, such as ABCUL. We developed our own script designed to 'scrape' the maps on these websites to obtain a list of locations on that map.

Some data sources are longitudinal and cover an entire year, whereas others are static, showing a snapshot of a particular moment.

82. Available at http://geoportal.statistics.gov.uk/datasets/local-authority-districts-december-2018-names-and-codes-in-the-united-kingdom

CREDIT SCORES			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Average credit score by local authority	Experian	Static, Dec 2019	https://www.experian.co.uk/consumer/credit-score-map-uk/ *Provided by Experian*
Credit invisibles by constituency	Experian	Static, Dec 2019	*Provided by Experian*

CREDIT NEED			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Gross disposable household income	ONS	Longitudinal, 2017	https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/datasets/regionalgrossdisposablehouseholdincomebylocalauthoritiesbynuts1region
Claimant count	ONS	Longitudinal, 2019	https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental/current
Level of overindebtedness	Money Advice Service	Longitudinal, 2018	https://www.moneyadviceservice.org.uk/en/corporate/a-picture-of-over-indebtedness-in-the-uk
People earning under 10k	Money Advice Service	Longitudinal, 2017	http://overindebtednessmap.org/
Population	ONS	Mid-2019	https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland

CREDIT ENVIRONMENT			
INDICATOR	SOURCE	TIMEFRAME	HOW WE ACCESSED THE DATA
Number of pawn shops	National Pawnbrokers Association	February 2020	https://www.thenpa.com /Find-A-Pawnbroker.aspx
Payday lenders: Cash Generator	OpenStreetMap	February 2020	https://www.openstreetmap.org/
Payday lenders: Everyday Loans	Everyday Loans	February 2020	https://www.everyday-loans.co.uk/ find-your-local-branch/ and https:// www.everyday-loans.co.uk/selfy-loan/find-your-local-branch/
Payday lenders: The Money Shop	The Money Shop	February 2020	https://www.themoneyshop.com/ ListOfStores
Rent-to-own: BrightHouse	Brighthouse	February 2020	https://www.brighthouse.co.uk/ store-finder?
Free cash points	LINK	February 2020	*Provided by LINK and from* www.openstreetmap.org/
Bank branches	OpenStreetMap and LINK	February 2020	*Provided by LINK*
Population data	ONS	Mid-2019	https://www.ons.gov.uk/people populationandcommunity/ populationandmigration/ populationestimates/datasets/ populationestimatesforukengland andwalesscotlandandnorthernireland
Credit union branches	Association of British Credit Unions, Ulster Federation of Credit Unions, Irish League of Credit Unions	February 2020	*Data for England, Scotland and Wales provided by ABCUL. Data for Northern Ireland available at:* http://www.ufcu.co.uk/credit-unions.html and https:// www.creditunion.ie/credit-union-locator/.

WEIGHTING

Credit score index

The credit need index and credit environment scores all have average scores close to 100 and a similar range of scores. Therefore, credit scores per local authority were divided by 7, in order to create credit score sub-index scores with an average close to 100, and a similar range. It is important for all three sub-indices to have a similar range and approach the same number, so when they are combined to form the aggregate index, they all have an equal impact on the results.

Credit need index

To allow direct comparison of the credit need index in 2019 and 2020, we have used the same weightings as last year. This used multivariate regression to weight the different variables of the credit need index. The dependent variable was the percentage of the local adult population whose credit file was checked by a credit broker, and the indicators were the independent variables. This allowed us to assess the relative importance of each indicator in predicting local credit need compared to the other factors. The regression coefficient for each indicator was then used as that indicator's weighting.

Credit environment index

We adapted the calculation of the credit environment index from our 2019 model. Some of our data points were significantly bigger as a result of obtaining more comprehensive data on bank branches and credit unions. Upon reflection of its influence, one variable was taken out of the calculation, and consequently the calculation of the sub-index was slightly amended. These changes have made the credit environment index more comprehensive and robust. To allow for direct comparison between data from the two points in time, we calculated revised 2019 environment scores, using this new calculation. Each physical credit source (pawnbroker, payday lender, rent-to-own shops, free ATMs, bank branches and credit unions), within each local authority,was given a quality score. This was based on the findings of a nationally representative sample of 2008 British adults conducted by Opinium on behalf of Demos in 2019. Respondents were asked to assign scores between 0 and 10 for each of the physical credit sources, scoring the extent to which they:

- Trust that credit source
- Think their terms and conditions are fair
- Think that source is accessible

For each question, and for each source of credit, we calculated the average score, and accounted for the variation among different demographics. The weighting given to each credit source was the average of these average scores minus five, so that physical credit sources with a score below five were given a negative weighting. This means that areas with access to significant amounts of detrimental credit are placed below areas with no access to any form of physical credit. The number of a that type of credit source per 10,000 inhabitants, was multiplied by these weightings, and all these numbers for the different credit sources in one local authority were added together.

Overall Good Credit Index

The overall Good Credit Index was created by combining data from the three sub-indexes, giving an equal weight to each. We chose to aggregate the sub-indexes with equal weighting because the Good Credit Index is intended to give a sense of the overall financial health of an area, with the sub-indexes addressing more granular topics.

ADDITIONAL ANALYSIS

Index of Multiple Deprivation

The Index of Multiple Deprivation (IMD) 2015 is the official measure of relative deprivation for neighbourhoods in England. Published by the Ministry of Housing, Communities and Local Government, it ranks 32,844 areas of the country from most deprived to least deprived.[83]

The relationships between the 2019 English Indices of Multiple Deprivation[84] (IMD), the dimensions of deprivation, the total Good Credit Index, and the three sub-indices, were calculated by performing multiple multivariate analyses. The IMD, or one of its dimensions, was always the independent variable, and the Good Credit Index, or one of the sub-indices, were always the dependent variables. In this way we were able to assess the extent to which the IMD and its dimensions in a local

83. Office of National Statistics. English indices of deprivation 2019, gov.uk, 2019. Available at https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019 [accessed 21/5/2020]
84. The Welsh, Scottish and Northern Ireland indices of deprivation are referred to throughout the report. However, the multivariate regression analysis has only been performed on English local authorities as the English Indices of Multiple Deprivation data is published at local authority level.

authority accurately predict the Good Credit Index and the sub-indices in that location.

Credit Invisibles

The data on credit invisibles, provided by Experian, is at the constituency level. It is therefore not directly comparable with the Good Credit Index which is at the local authority level. However, we were able to use the constituency level data to identify broad trends in the proportion of credit invisibles in certain areas.

Limitations

The Good Credit Index is a unique tool that allows us to understand how geography impacts someone's ability to access affordable credit. The broad patterns we see across the UK in the sub-indices, the aggregate Index, and the analyses using other datasets such as the IMD, provide insight into the geographical dimensions of financial exclusion, and can therefore be used to inform place-based solutions. Comparison with previous indices also offers useful insights into the changes in the credit environment and development of particular local authorities. However, as any analytical tool the Index does have some limitations.

The intention of the Good Credit Index is to give a sense of the overall financial health of an area, so we advise against reading too much into a local authority being placed 133rd versus 134th and instead focus on the broad patterns and trends that appear in geographic distribution, and the similarities and differences across overall higher and lower scoring local authorities.

Average credit scores for the 2019 and 2020 Good Credit Index were provided by credit reference agency Experian, and represent the average credit scores of those who check their score with Experian. This is unlikely to capture all credit scores in a local authority, but provides a useful tool for identifying patterns across the UK.

Some elements of access to good credit are not available at a local authority level and therefore could not be included in the Index. These include levels of fraud (which severely affect credit scores), and the use of illegal money lenders (which is an indication of serious credit need).

There is very little data available at a local authority level showing how people use the internet to obtain credit. The physical credit environment is still an important source of credit options for people, especially those who do not have access to the internet, and a useful indicator to understand a particular place's relationship with credit. We intend to focus on the role of the internet in the availability and accessibility of credit in the Good Credit Index 2021.

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