

My research proposal

Chapter 1: Introduction

1.1 Setting the Scene:

Payday loans are a new way to borrow money when people are not able to make ends meet. Wonga, Quick quid and others offer these loans with fast approval which seems very convenient. According to the Daily Mail (Oxlade, 2012) a man borrowed £250 and had to repay £90000 he was unable to pay his mortgage and also tried to commit suicide since he found it hard to repay the loan. Thus, payday loans have become a controversial issue which raises an important question, are payday loans a good way of getting people out of debt?

1.2 Research objective and problem:

My Research objective is: Are payday lenders purposely turning their customers into debt slaves in order to make a profit?

The main research problem is: With the ever increasing popularity of the payday loan are people aware of the risks of this type of loan?

1.3 The purpose of my research:

The main purpose of my research is to investigate the risks of payday loans and to find out if the public are aware of these risks. I will also look at the different views towards payday loans and what drives the public to take out these loans. My research will determine whether payday loans can help people come out of debt. The research will focus on raising awareness to the implications of taking out payday loans amongst the public, so that they can then assess themselves the risks involved and can determine if they want to take out this type of loan.

Chapter 2: Literature Review

2.1 How do payday loans work?

There are two ways payday loans work. Firstly, "the borrower writes an undated check to the payday lender, the lender then holds this check before receiving their cash payment from the borrower usually on their payday" (Greenbaum, 2007). The second method is where "no check is written but the borrower has given authorisation to the payday lender to debit their account on a future date of the amount plus any financial charges" (Greenbaum, 2007).

2.2 What types of customers purchase payday loans?

According to Juster and Shay's (1984) model there are two types of borrowers, rationed and unrationed borrowers (Lawrence and Elliehausen, 2008). Ration borrowers are borrowers that have a low or moderate income, who belong to a younger age range and have problems paying their bills (Lawrence and Elliehausen, 2008). Unrationed borrowers are borrowers who belong to the middle aged age range, have a high income and have high savings and are sensitive towards APR (Lawrence and Elliehausen, 2008). Thus, age range and levels of income are both the main characteristics of

borrowers who take out payday loans. This will help my research as I can use this information to help locate potential and existing borrowers to question them on their views about these loans.

2.3 Risks of Pay day loans

The Office of Fair Trading (OFA) found problems with the way payday lenders attract and treat customers they also face scrutiny from the Financial conduct Authority (FCA) (Sky news, 2013b). Kyriakou (2013) states the FCA will be taking over the responsibility of 500000 Payday lender's licences. A survey conducted by the OFA has found that "60% that 1.2 million people have struggled to payback payday loans due to hidden fees and high penalty charges applied on late payment" (Evans, 2012). This strongly indicates that as well as high interests rate imposing a risk, additional charges are applied that consumers are unaware about. My research will look at whether consumers would consider taking out this type of loan if they would have known about their implications. This ultimately would enable me to find out if people are becoming debt slaves when taking out a payday loan.

Borrowers find it difficult to repay their loans within the two week period (Schafter, Wong and Castleberry, 2009). Therefore their loan rolls over meaning that they take out more loans in order to payback their previous loan (Schafter, Wong and Castleberry, 2009). A survey conducted by the centre for responsible lending (2005) found 90% of payday borrowers took out five payday loans in order to pay their initial payday loan which totalled to 91% of the payday lender's profits (Schafter, Wong and Castleberry, 2009). Skiba (2012) also states that regulation for payday loans have actually changed within the United States from the 1990s. It is noticed that rollover caused 19 states to ban these loans since people were not able to repay them and in the best of their people's interest payday loans should not be used (Skiba, 2012). This clearly answers my research objective as the results of this survey indicates that payday lenders are turning their customers into debts slaves by changing high interest rates, forcing clients to take out more loans. These articles does answer my research question, but is based within United States. Therefore, I can use this information to find out what are the public's perspectives in the UK.

In the States, low income consumers are purposely targeted by payday lenders (Schafter, Wong and Castleberry, 2009). Payday lenders have also strategically set up stores in low income areas in order to gain more customers (Schafter, Wong and Castleberry, 2009). This explains that lenders are using the disadvantages of low income consumers in order to create a profit. Pyper (2007) explains, a survey found "families with a university degree who have payday loans are 1.3 percent compared to the three percent who have only have a high school graduation." This is due to the differences in income as people with a university degree earn more than people who only have a high school diploma (Pyper, 2007). Thus, targeting a low income earner can help lenders gain more profit as they would end up taking out more payday loans. The temptation of taking out a payday loan is high and the consequences leads consumer's turns to a vicious cycle where they are taking out more payday loans in order to repay the first one. I will to find out whether payday loans do turn their clients low income clients in the UK to find out if they feel targeted by payday lenders.

Another risk when taking out payday loans are that banks reject people who have payday loans if they are applying for mortgages. This is because mortgage lenders feel that payday loans show a sign of financial distress since customers only take this type of loan out to meet their monthly bills (Womack, 2012). This indicates that payday borrowers can also be rejected form gaining long term

loans payday loans as they leave 'a wrong foot print on your credit report' (Womack, 2012). My research gap will help me find out whether potential consumers are actually aware of these risks and whether they would actually want to take out a payday loan on the basis that they would be rejected when applying for mortgages.

2.4 Attitudes towards payday loans

Ed Miliband told stories of people that had faced 'bullying' as they could not repay their loans (Sky news, 2013a). The Owner of Wonga has then informed the press of twelve success stories in their defence (Sky news, 2013b). Wonga has provided a biased view by only realising success stories and nothing on any failures they many have faced (Sky news, 2013b). A company would want to protect their image to gain more customers. Therefore, it is assumed Wonga deliberately covered up any negative stories. Only a small sample has provided by both Wonga and Ed Miliband, both could have provided more statistics in order to backup their arguments. Therefore it is concluded that more research needs to be found in order to show the effects of payday loans from a customer's perspective, this is what my research will investigate and find.

Ellis (2004) suggests that the public are advised not to take these types of loans; surely this means that people are aware of payday loans? Well the answer is Yes and No. The research is not based within the United Kingdom so it is justified that this research although is valid in showing customer awareness of payday loans, it is only valid to an extent as it does not show whether customers within the United kingdom know about the effects of payday loans. The journal is also limited in terms of its results as payday loans are legal and known in 37 states, the other 14 states haven't legalised payday loans (Ellis, 2004). This research paper's title is Beware: Payday loans, it explains that it will be biased only showing the negative aspects of payday loans in the United States (Ellis, 2004). I will ensure my research will look at all aspects, positive and negative to assess awareness of risk of payday loans as payday loans are advertised across the UK.

2.5 Conclusion:

To conclude, with all the research that I have found will be used in order to help create my methodology. This is because this research will help contribute towards helping me achieve my objectives and help find a solution to my research problem.

Chapter 3: Methodology

3.1 Research Philosophy

There are two research philosophies and I belong to both. I am an interpretivist as will be using the information that I have found from my literature review and interpret this information to find out the people's attitudes towards payday loans (Cibangu, 2010). I am also a positivist as I will be looking at quantitative data which will provide hard facts to help fulfil the purpose of my research (Cibangu, 2010).

3.2 Research Approach

I have identified the best way to conduct my research would be through primary research, in particular using questionnaires. This is because I would be able to ask the public about their views to

assess the awareness they have on payday loans. Saunders (2009) explains that questionnaires can help gain two types of research; descriptive and explanatory research. Descriptive research can help get in-depth views and attitudes from the public Saunders (2009). This helps understand how people feel about payday loans and how much knowledge people have about their risks and if they can help them get out of heavy debts. Explanatory research would aid in examine relationship between variables Saunders (2009). This is vital for me to do in my research so I can evaluate the relationship between how many people know about the risks of payback loans and whether they would consider taking out a payback loan knowing of these risks. Therefore, questionnaires are vital towards collecting my data to find views of the public to make my research stronger.

3.3 Sample range:

I have selected male and female candidates within the age range 20-50 as my sample range. This age is ideal since I believe that I would be in search for loans and would have some knowledge about them. I will be aiming to collect thirty or more questionnaires to gain larger findings in order to come to a conclusion about the attitude towards payday loans. Saunder's (2009) also explains that thirty is a good rule of thumb when collecting data in order to gain sufficient findings to analyse. The participants would be recent graduates, people who are working and students at university. I want to find out people's understanding of what payday loans are and their risks, therefore I chose both university students and people who are working to find out if they know about the risks of payday loans and their views on whether this type of loan could help them get out of debt. I will also target participants to make a comparison between rationed and unrationed consumers as shown by Lawrence and Elliehausen (2008).

3.4 Limitations

Questionnaires have several limitations which can hinder my research results, one being that they are very time consuming. It would be difficult to post and email questionnaires as some people would not reply and also may not send them by the set deadline. This would affect the amount of responses i would get and also takes long to receive responses. The best solution would be personally handing out questionnaires which again can take a long time. Budget is another problem, as an unemployed university student I would not be able to send a lot of questionnaires by post and participants would not be willing to pay for postage them. Posting questionnaires on websites such as survey monkey also charge money if you have more than ten questions. The integrity of the participants can also be challenged. This can significantly affect my results since candidates may not truthfully express their options which can damage and manipulate the outcomes of my research. Therefore I would not be able sure that I have been able to accomplish my research objectives effectively.

3.5 Feasibility

The research that I would need to collect will be feasible. This is because I would have access to data, I will be able to ask students at university as well as asking and networking with people that I know in my social circle to help fill out my questionnaires. To reach a wider audience I will be posting questionnaires online social media. This is because it is a most successful way of communicating with people across the UK as social media sites such as Facebook are very popular. Based on my limitations I have decided that posting questionnaires would not be sufficient for me to do since I

wouldn't have the funding needed for it. However, I can still email and personally deliver questionnaires in order to get them filled out to generate a large amount of responses. Building and posting questionnaires online are free which would be very beneficial as a student to use. I will have the sufficient amount of time to collect my questionnaires as I will be collect them till February 2014 giving me enough time to deliver and collect a large amount of questionnaires for my research.

Chapter 4: Outcomes

The Gantt chart below explains when various tasks are to be completed. The main outcomes that I am hoping to achieve are that I will be able to answer my research question and objective to help people understand the implications of payday loans.

	September	October	November	December	January	February	March
Design how to collect secondary and primary research							
Researching and collect Secondary research							
Design questionnaires and distribute them							
Collect questionnaires							
Analyse the results							
Create Draft chapters for Dissertation							
Make modifications needed and proof read work							
Print hard copy and Submit online copy							