

# Who is declined credit, why, what is the impact, and how can we help them?

February 2023



Money &  
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## Who is declined credit, why, what is the impact, and how can we help them?

Being declined for credit can have negative impacts on a person's financial, emotional, and practical well-being. Certain demographics are more likely to be declined, such as 25-44-year-olds, renters, and those with non-White ethnicities. People are declined for financial reasons like poor credit history, but also believe non-financial factors play a role. Clarity, compassion, and help finding a way forward are the key things people want when declined for credit.

### Context:

There has been an increase in the number of individuals being declined for credit, with studies suggesting between 7-10% of UK adults having been declined credit.<sup>1</sup>

Credit is a valuable and essential tool in managing finances for many. Being declined credit can impact a person in a number of ways. Practically, it might mean an individual loses access to both essentials and non-essentials, and it might have an impact on an individual's perceptions on the financial services industry as a whole.

This review brings together evidence on the topic of individuals who have been declined credit, looking at: 1) who might be declined; 2) why people are declined; 3) the impact of being declined; and 4) how individuals want to be treated **once declined**.

### Who is most likely to be declined?

Evidence shows that certain demographic segments of people are more likely to be declined credit. Ethnicity, age and housing tenure are all factors which are linked to a higher rate of being declined.

- **Age:** 25–44-year-olds are more likely to be declined (10%) than adults aged over 55+ (2%).<sup>2</sup>
  - Although this could be explained by younger adults applying for products which have higher refusal rates, for example mortgages and credit.
  - The increase of BNPL by younger people (MaPS data shows 64% of BNPL users are under forty) could also be a factor driving higher decline rates amongst the younger age groups as BNPL tends to have a higher decline rates.<sup>3</sup>
- **Housing tenure:** renters are over twice as likely to be declined (14%) than adults with a mortgage (5%).<sup>4</sup>
- **Ethnicity:** those with an ethnicity described as 'other' are more likely to be declined (16%) than other ethnicities – White (6%); Asian (5%), Black and Black British (9%).<sup>5</sup>

### Why are people declined?

People can be declined credit for several reasons, typically these are financial ones such as poor credit history and existing debts. However, evidence also shows that people believe non-financial factors such as their age, health or ethnicity are factors as to why they have been declined credit.<sup>6</sup>

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<sup>1</sup> Coventry University and The Money and Pensions Service, 'Helping those who use credit to make ends meet' July 2022 <https://www.fincap.org.uk/en/reviews/helping-those-who-use-credit-to-make-ends-meet> page 4.

<sup>2</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021 <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 121.

<sup>3</sup> The Money and Pensions Service, 'Buy Now Pay Later – the customers and MaPS' Concerns' June 2022 <https://moneyandpensionsservice.org.uk/2022/06/21/buy-now-pay-later-the-customers-and-maps-concerns/>

<sup>4</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021 <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 121.

<sup>5</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021 <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 121.

<sup>6</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021

Interestingly, according to survey data, only ethnic minority individuals believe their ethnicity is a factor to them being declined credit. Similar sentiment is present in other evidence. For example, data shows that some ethnic minority individuals believe they get worse products or services because of their race or ethnicity,<sup>7</sup> and other research points out that some ethnic minorities believe they are perceived as less positive than their white counterparts when using new services.<sup>8</sup>

## What is the impact of being declined?

When a person is declined credit, it can have negative financial, emotional, and practical impacts on their day-to-day lives. It could also have long-term effects on their mindset and behaviour.

After being declined, many people (57%) are able to find an alternative source of credit, while others may have to accept different terms and conditions (14%) or pay extra (9%).<sup>9</sup> However, many others still struggle in some way, cutting back on spending, using savings, borrowing from friends or family, seeking loans from trusted providers, resorting to loans from unlicensed money lenders, or going without entirely.<sup>10</sup>

A significant proportion of people who are declined (88%) end up in arrears or take a 'holiday' on some essential bill.<sup>11</sup> For some, being declined prompts them to seek debt advice, indicating they may be experiencing financial difficulty or at risk of doing so.

Being declined for credit can significantly impact an individual in multiple ways.

- **Emotionally:** people feel worried; feel as if they have let others down; and feel isolated from the world.
  - The feeling of isolation is higher amongst ethnic minority respondents.<sup>12</sup>
- **Practically:** people seek non-financial help from friends or family (e.g. accepting food or childcare); work overtime or get an additional job; or seek advice or guidance from charities, banks or employers.
- **Long-term/behaviourally:** being declined may have long-term effects on an individual's attitudes and behaviours. Some themes include:
  - **Cynicism & lack of trust:** individuals are more cynical about financial institutions and believe banks try to trick people out of their money.<sup>13</sup>
  - **Feeling let down & out of control:** people feel let down by the financial system and out of control of their situation.<sup>14</sup>

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<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 122.

<sup>7</sup> Social Market Foundation, 'Squeezed out or opting out? Understanding ethnic differences in use of financial products and services' February 2023

<https://www.smf.co.uk/wp-content/uploads/2023/01/Squeezed-out-or-opting-out-February-2023.pdf> page 24.

<sup>8</sup> The Money and Pensions Service, The University of Southampton and the University of Bristol, 'The intersecting impacts of mental ill-health and money problems on the financial wellbeing of people from ethnic minority communities' January 2023

<https://maps.org.uk/wp-content/uploads/2023/01/MaPS-Intersecting-mental-health-and-ethnicity-in-financial-wellbeing-.pdf> page 15.

<sup>9</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021

<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 124.

<sup>10</sup> <sup>10</sup> Financial Conduct Authority, 'Financial Lives 2020 survey: the impact of coronavirus' February 2021

<https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> page 124.

<sup>11</sup> Coventry University and The Money and Pensions Service, 'Helping those who use credit to make ends meet' July 2022

<https://www.fincap.org.uk/en/reviews/helping-those-who-use-credit-to-make-ends-meet> page 27.

<sup>12</sup> Coventry University and The Money and Pensions Service, 'Helping those who use credit to make ends meet' July 2022

<https://www.fincap.org.uk/en/reviews/helping-those-who-use-credit-to-make-ends-meet> page 34.

<sup>13</sup> YouGov, 'Which Britons have been refused credit?' February 2022 <https://yougov.co.uk/topics/economy/articles-reports/2021/02/22/which-britons-have-been-refused-credit>

<sup>14</sup> Coventry University and The Money and Pensions Service, 'Helping those who use credit to make ends meet' July 2022

<https://www.fincap.org.uk/en/reviews/helping-those-who-use-credit-to-make-ends-meet> page 5.

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- **Less confident & more confused:** individuals feel less confident in their ability to manage their finances and are more confused by financial matters than those who haven't been declined.<sup>15</sup>
- **Adverse mental health effects:** as being declined often leads to various methods of informal borrowing, this can lead to feelings of 'strings attached' borrowing, having their belongings taken, and being coerced into illegal activities.<sup>16</sup>

## How do individuals want to be treated in the moment of being declined?

Recent evidence shows three key elements that individuals want from providers: 1) clarity; 2) compassion, and 3) help finding a way forward.<sup>17</sup>

- **Clarity:** better explanations from providers for their reasons for declining.
- **Compassion:** more sympathetic and a non-judgemental response from providers.
- **Help finding a way forward:** individuals want providers to offer advice on improving their financial situation, referrals to debt advice agencies, and alternative credit providers.

## What next?

Did you find this review helpful? We would like to know what you think. Please contact us at [whatworks@fincap.org.uk](mailto:whatworks@fincap.org.uk) with your feedback, and any suggestions for further research or evaluation that should be included in future updates.

## Acknowledgements

Elements of this thematic review were produced in collaboration with the Centre for Business in Society at Coventry University.

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<sup>17</sup> Coventry University and The Money and Pensions Service, 'Helping those who use credit to make ends meet' July 2022 <https://www.fincap.org.uk/en/reviews/helping-those-who-use-credit-to-make-ends-meet> page 26.