

**SILVIA SZILAGYIOVA**  
York St. John University, United Kingdom

## **THE EFFECT OF PAYDAY LOANS ON FINANCIAL DISTRESS IN THE UK**

### **Abstract:**

This paper proposes a model to examine the effect of unsecured payday loans to financial distress of low-income households and aims to open a discussion within academics and government on this topic. The theoretical model is based on the evidence from the British Household Panel Survey and interviews done by Consumer Focus which show that the proportion of households in debt problems has increased since 2000 particularly among young, economically active population. The increase in financial distress among British households is in coincidence with increasing revenue of payday loans, particularly after financial crisis. The proposed model aims to investigate the effect of payday loan usage on the financial distress while taking into consideration individuals' economic austerity such as difficulty of paying mortgage, rent and utilities bills; household food insecurity; loss of job; and risk of debt spiral.

### **Keywords:**

Payday loans; Financial distress; Debt; Rollover of loans

**JEL Classification:** D11, D14, D82