"Looking beyond the financial impact of debt…"

THE BORROWERS

Jo Salter

DEMOS

Demos is Britain's leading cross-party think tank. We produce original research, publish innovative thinkers and host thought-provoking events. We have spent 20 years at the centre of the policy debate, with an overarching mission to bring politics closer to people.

Demos is now exploring some of the most persistent frictions within modern politics, especially in those areas where there is a significant gap between the intuitions of the ordinary voter and political leaders. Can a liberal politics also be a popular politics? How can policy address widespread anxieties over social issues such as welfare, diversity and family life? How can a dynamic and open economy also produce good jobs, empower consumers and connect companies to the communities in which they operate?

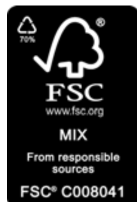
Our worldview is reflected in the methods we employ: we recognise that the public often have insights that the experts do not. We pride ourselves in working together with the people who are the focus of our research. Alongside quantitative research, Demos pioneers new forms of deliberative work, from citizens' juries and ethnography to social media analysis.

Demos is an independent, educational charity. In keeping with our mission, all our work is available to download for free under an open access licence and all our funders are listed in our yearly accounts. Find out more at www.demos.co.uk

First published in 2014
© Demos. Some rights reserved
Magdalen House, 136 Tooley Street,
London, SE1 2TU, UK

ISBN 978 1 909037 58 8
Series design by modernactivity
Typeset by Chat Noir Design, Charente
Printed by Lecturis, Eindhoven

Set in Gotham Rounded
and Baskerville 10
Cover paper: Flora Gardenia
Text paper: Munken Premium White



THE BORROWERS

Jo Salter

DEMOS

Open access. Some rights reserved.

As the publisher of this work, Demos wants to encourage the circulation of our work as widely as possible while retaining the copyright. We therefore have an open access policy which enables anyone to access our content online without charge.

Anyone can download, save, perform or distribute this work in any format, including translation, without written permission. This is subject to the terms of the Demos licence found at the back of this publication. Its main conditions are:

- Demos and the author(s) are credited
- This summary and the address *www.demos.co.uk* are displayed
- The text is not altered and is used in full
- The work is not resold
- A copy of the work or link to its use online is sent to Demos

You are welcome to ask for permission to use this work for purposes other than those covered by the licence. Demos gratefully acknowledges the work of Creative Commons in inspiring our approach to copyright. To find out more go to *www.creativecommons.org*

Contents

Acknowledgements 7

Executive summary 9

Introduction 15

1 Debt from above 19

2 Debt from below 31

3 Supporting people out of debt 59

4 Filling the gaps in debt support 75

5 Recommendations 97

Appendix 1 101

Notes 103

References 111

Acknowledgements

We would first and foremost like to thank the Barrow Cadbury Trust for generously funding this piece of research, and particularly our grants manager Clare Payne for her thoughtful feedback on early drafts of the report.

Thanks are also owed to those who helped to arrange focus groups and interviews for this research at the North London Credit Union, Talking Money (formerly the Bristol Debt Advice Centre) and Advice Portsmouth. More than anybody else, we would like to thank all of the service users whom we spoke to in the course of our research, and who shared with us their first-hand experience of debt. This report aims to reflect their struggles and experiences – and it is with them in mind that we have produced the recommendations presented here.

Thanks also to staff at the Newhaven Community Development Association in Newhaven and Riverside Money Advice in Birmingham, whom we visited to learn more about their innovative work to support people who have debt issues. Finally, we are grateful to all those who attended the practitioner workshops held early in this project, whose comments helped to shape our list of debt impact indicators.

At Demos, thanks go to Ally Paget and Ian Wybron for help with fieldwork, and our interns Josie Torrice and Sarah Stopforth for additional research support. Ralph Scott, Rob Macpherson, Sophie Duder and Alice Meaning guided the report smoothly through the publication and launch process.

All errors or omissions remain the sole responsibility of the author.

Jo Salter
March 2014

Executive summary

Debt has been a central issue in political debates for a number of years, but recently spiralling household debt has become more politicised, seen as a symptom of the Government's inability to tackle high unemployment, stagnating wages and 'the cost of living crisis'.

But the political narrative around debt has fallen into a trap – one which sees this as a financial issue, which can be tackled by regulating credit products and tackling the structure of the industry to make debt more 'affordable' to those who use it. Particular products are singled out as a result – high-cost and 'easy' credit offered by pay day lenders has dominated discussion in recent months.

This 'top down' view of the debt phenomenon entirely overlooks how different debts impact the lives of those experiencing them in different ways. We do not know if some debts are more or less likely than others to affect someone's financial wellbeing or quality of life, or how age, emotional resilience or cultural factors affect how much of an effect debt has on people's lives. By focusing on the big, macro causes of rising personal debt (the cost of living crisis, for example, or irresponsible lenders) a more systematic evaluation of the *consequences* of debt tends to be lost.

Shifting our perspective to look at debt from the bottom up, rather than the top down, allows us to appreciate that not everybody's experience of debt is the same. Size of debt, type of debt, whether a loan is secured or unsecured, or the profile of the debtor (age, income, employment status) are all useful things to know, but none of them can determine how a certain person will react to their debt situation, or how they can best be helped. Understanding these variations better can improve both policy

and practice when dealing with debt from the perspective of the individual experiencing it.

In this report, we begin to shine a light on the UK's personal debt phenomenon from the bottom up, by considering what types of impacts debt has on those experiencing it first hand, how they are distributed across different types of debt, and why some people experience some more than others.

In doing this, we cannot solve this country's personal debt problem. But we believe our analysis – summarised in a 'harm index' of different debt types identifying their holistic impact on people and the recommendations that flow from this analysis – can improve how debt is understood and tackled with greater granularity at the debt advice level, among local and national commissioners, and within the Office for Fair Trading (OFT) and Financial Conduct Authority (FCA).

For this research, we spoke to debt practitioners in two stakeholder engagement workshops and distilled a list of ten indicators that debt can have, which form our 'harm index'. We then spoke to debt advice service users in three groups across the country (in London, Bristol and Portsmouth) to explore how the index could be used to describe their individual debt situations – and what were the key 'flash points' in their debt experience, where support could be better targeted. We visited two services where staff are delivering debt advice in ways that go beyond the standard, financially and legally focused offer. Finally, we commissioned polling with 2,000 members of the public to explore the wider experience of debt and its impacts across the national population.

The findings in this report have implications for policy and practice, particularly regarding the gaps that need to be filled in the support on offer for people in debt. This ought to be reinforced from above with a policy narrative which recognises that debt is a far more emotive and irrational part of people's lives than the legalistic and financial way it is currently viewed.

Our overarching objective is to ensure problem debt is reframed by policy makers as a socio-emotional phenomenon, rather than a financial or legalistic one. While credit might be a financial product, treated dispassionately by the majority of

consumers who use it, for many facing problem debt the phenomenon is a mental health or social crisis. These are our recommendations:

1 *The official measure of debt needs to be changed, to include not just consumer credit, but also arrears on housing and utilities*. Arrears of one kind or another are a very prevalent form of debt and have a very significant impact on people's lives. Omitting arrears from the national statistics creates an incomplete picture of this national problem.

2 *Steps need to be taken to mitigate the impact of some forms of debt*:

- The Government should give borrowers a *legal right* to negotiate directly with their creditors. Where a person has experienced an unexpected drop in income (due to unemployment, illness, etc) this right to negotiate should be extended before any arrears or missed payments have been experienced, to encourage people to tackle problems for themselves, before they reach crisis point.
- The FCA and OFT should recommend a '*three strikes*' approach as good practice in dealing with arrears. For the first missed payment, a reminder letter containing information about sources of help and advice should be issued. For the second, debtors would be obliged to have a conversation with their creditor about repayment options, and would be referred to debt advice. Only after the third missed payment would creditors have debt recovery proceedings open to them. Many energy companies already have a similar process, which should be followed more widely.
- The FCA should impose a greater standard of *transparency* and simplification of the information provided to consumers. Key facts documents used by mortgage providers ought to be mandated for all consumer lenders, explaining early and late repayment processes, providing illustrations in cash terms rather than percentages, and signposting to advice organisations. This should be implemented alongside a *traffic light rating* system on all debt adverts and product descriptions –

similar to the ones shown on food packaging. This information could include, for example, the proportion of borrowers who default on or roll over their original loan, the average amount repaid per £100 borrowed and the risks of not repaying.
- The FCA should adopt a '*polluter pays*' model to calculating its levy. Lenders should pay according to the harm they cause – either using a multiple indicator set as we have done, or one or two key performance indicators (KPIs) such as the number of borrowers defaulting on or extending their initial loan, and/or customer satisfaction levels.[1]
- We urge national government to work with local authorities, debt advice services and the wider voluntary sector to encourage people to seek help with debt problems earlier. Funding for debt advice (from a Financial Services Authority levy) should be targeted more directly at boosting the sector's ability to offer early intervention and outreach (for example by trusted community members), to encourage people to recognise and act on debt problems earlier.

3 *Public awareness campaigns for the Money Advice Service and financial capability should specifically target the stigma associated with being in debt* and seeking help for debt advice. This includes changing the focus of public messaging to adopt a mental health 'Time to Talk' approach, as well as making use of trusted community members (outlined below) to destigmatise debt support.

4 *Debt advice organisations need to draw on the good practice found in their sector and adopt a personalised approach to support provision as standard*. The best advice services we spoke to:

- saw each person differently and tailored advice accordingly, recognising that age, cultural background, emotional resilience and perceptions of financial capability affect how each client responds to a debt crisis and their ability and willingness to follow advice
- saw the whole person and ensured support was provided across the full range of impacts of debt, paying particular

attention to social and emotional support, which seems to be most often lacking

- balanced professional knowledge with client concerns, so that seemingly 'non-priority' issues were treated as valid causes of mental distress alongside difficult legal situations
- made this possible through working with specialist and generalist partners locally to deliver different aspects of support and pool resources, and seeking funding from a wider range of sources such as clinical commissioning groups

Introduction

Debt has been a central issue in political debates for a number of years. As access to easy credit played a central role in the economic downturn of 2008, so greater scrutiny was placed on what role the behaviour of lenders played in the crisis. But in recent years, spiralling household debt has become more politicised, and seen as a symptom of the Government's inability to tackle high unemployment, stagnating wages and 'the cost of living crisis'.

But the political narrative around debt has fallen into a trap – one which sees this as a financial issue, which can be tackled by regulating credit products and tackling the structure of the industry to make debt more 'affordable' to those who use debt products. Particular products are singled out as a result – high-cost and 'easy' credit offered by pay day lenders has dominated discussion in recent months.

This 'top down' view of the debt phenomenon entirely overlooks how different debts impact the lives of those experiencing them in different ways. We do not know if some debts are more or less likely than others to affect someone's financial wellbeing or quality of life, or how age, emotional resilience or cultural factors affect how much of an effect debt has on people's lives. By focusing on the big, macro causes of rising personal debt (the cost of living crisis, for example, or irresponsible lenders) a more systematic evaluation of the *consequences* of debt tends to be lost.

Shifting our perspective to look at debt from the bottom up, rather than the top down, allows us to appreciate that not everybody's experience of debt is the same. Size of debt, type of debt, whether a loan is secured or unsecured, or the profile of the debtor (age, income, employment status) are all useful things to know, but none of them can determine how a certain person will

react to their debt situation, or how they can best be helped. People's reactions to debt – their perception of their situation, the stigma they might feel, their emotional resilience and so on – make a significant difference to the way in which people manage their situation and how it impacts on their mental and physical health, relationships and wider wellbeing. It also affects whether people seek help earlier, or later, or indeed at all – which, in turn, may mean debt can be a temporary difficulty, or a life-changing crisis.

Understanding these variations better can improve both policy and practice when dealing with debt from the perspective of the individual experiencing it.

In this report, we begin to shine a light on the UK's personal debt phenomenon from the bottom up. We look beyond politicised debates of responsible lending, beyond the definitions of unsecured and secured credit or 'priority' and 'non-priority' debts to consider what types of impacts debt has on those experiencing it first hand, how they are distributed across different types of debt, and why some people experience some more than others.

In doing this, we cannot solve this country's personal debt problem. But we believe our analysis – summarised in a 'harm index' of different debt types identifying their holistic impact on people and the recommendations that flow from this analysis – can improve how debt is understood and tackled with greater granularity at the debt advice level, among local and national commissioners, and within the OFT and FCA.

Working upwards, we also hope to change the narrative around debt and develop a more nuanced picture of the phenomenon, which is currently too often obscured by generalisations or ideological battles. Current economic trends – which may well see personal debt levels increase in the UK, and pressure building to tackle poverty (of which indebtedness is a central part) in the run-up to the general election in 2015 – make this work all the more important and timely.

Methodology

This project borrows from the methodology of Demos' 2012 report *Poverty in Perspective*, which used a set of indicators to explore 'poverties' rather than 'poverty'. For that piece of work, we identified a list of 19 indicators in addition to low income with which to segment the in-poverty population into distinct 'types' of poverty (indicators included physical and mental health, housing, education and support from family and neighbours). The report identified 15 poverty types, each categorised by a distinct combination of the 19 indicators. Although we have not gone as far as creating 'debt types' in this report, we were interested in identifying the factors that make experiences of debt different, rather than similar, for different people.

In order to establish a list of indicators for assessing the impacts of debt, we invited people working in the field of debt support to attend one of two workshops held in late October and early November 2013. Attendees included representatives from local government, local and national poverty and money advice charities, housing associations, regulators and accountancy firms, all of whom spend their working lives helping people to deal with the consequences of debt. Each group was tasked with producing a set of indicators that they felt captured the impact of debt, and could be used to rank a list of debts as 'better' or 'worse' for the people experiencing them.

We then held three focus groups in different parts of the country (London, Portsmouth and Bristol), with people who had current or past experience of debt problems. We asked them to rank their experience of different forms of debt according to the list of indicators we identified in the workshops, and then drew out in the discussion how and why they have been affected differently by different debts, and on different dimensions of impact (mental wellbeing, as opposed to lack of flexibility, for example).

To scope the prevalence of debt and difficulties with debt among the general population, we also commissioned a survey of 2,035 ordinary members of the public. We asked people about some of the circumstances behind their debt, and their reasons for turning (or not turning) to a debt advice service. Finally, we identified two case study projects – in Birmingham and West

Sussex – that are working to tackle the impacts of debt in innovative 'bottom up' ways. We visited each site, interviewed staff, and drew out key lessons for other services.

1 Debt from above

Debt in numbers

Outstanding personal debt in the UK currently stands at around £1.4 trillion – with each household owing £54,197 on average (including mortgages), double what it was a decade ago.[2] Since 1993, unsecured consumer debt (the bulk of which is credit cards and personal loans) has almost tripled, to £158 billion.

Our own polling, commissioned for this report, reveals that debt of one form or another is ubiquitous – almost 9 in 10 people (88 per cent) have experienced debt at some point in their lives. Unsurprisingly, the most common forms of debt are sources of credit that people use routinely (so-called 'normative' debts[3]) – credit cards (65 per cent of people polled had, or had previously had, a credit card[4]), mortgages (42 per cent) and current account overdrafts (39 per cent). Store cards and bank loans were also common (both 30 per cent). Most people who responded had experienced multiple debts, with the average number of types of debt per person being 3.24.[5]

These figures suggest that nearly all debt consists of people borrowing from sources that are not typically viewed as problematic in and of themselves, being widely used for decades and mainstream; the debt becomes problematic only when payments are missed. The kinds of debt that frequently make the headlines – payday loans, doorstep loans, borrowing from illegal loan sharks – are all much less common. Only 6 per cent of people responding to our survey had ever used a payday loan, and only 1 per cent had borrowed from a loan shark.

Another important source of lending is informal loans from family and friends (and potentially employers), and this is not usually included in official figures. In our polling, 21 per cent of people said they had, at some point, borrowed money from friends or family – more than had taken out a student loan.

Several factors affect the particular form of credit that people opt for, including preference and the availability of different types of loan (eg based on credit history) – something that we explored in detail in focus groups with people who were experiencing, or had in the past experienced, problem debt. People made various choices about accessing one form of credit over another – having borrowed from a lender previously made a big difference to an applicant's confidence in being accepted for a loan again, and they were in any case frequently harassed to take out repeat loans after they had borrowed once. Many people commented on how easy it was to access credit – particularly from payday lenders, but also from banks and credit card companies. Some people had actively chosen to avoid certain kinds of debt – most people were very wary of payday lenders, and many also felt uncomfortable borrowing from family – one person said 'I'd feel I'd let them down' if she had to admit to her parents that she was struggling with money. Others did not want to risk jeopardising personal relationships.

Although the most common sources of debt are loans of one kind or another, the other side of debt is arrears – falling behind on payments owed, including loan repayments. About 1 in 10 people had experience of council tax, utility bill or rent arrears; 7 per cent had to repay benefits that had been overpaid; and 1 per cent had fallen behind on child maintenance payments. While this was not a widely reported form of debt in our polling (from the top down), focus groups with those experiencing debt and professionals on the front line of debt support felt strongly that arrears were highly problematic (from the bottom up) and had significant impacts on people's wellbeing – something we return to in later chapters.

We asked people about the total size of all of their current debts. One-third of people (31 per cent) had debts of less than £500, but almost 1 in 5 (19 per cent) had debts of £10,000 or above. Typically, people with smaller levels of debt were people who had (or had had in the past) a store card, a credit card or a mortgage, or who had purchased from a catalogue (were dipping into credit and then out again). People with higher levels of debt

were those who had taken out a student loan, a payday loan, a bank loan or an overdraft.[6]

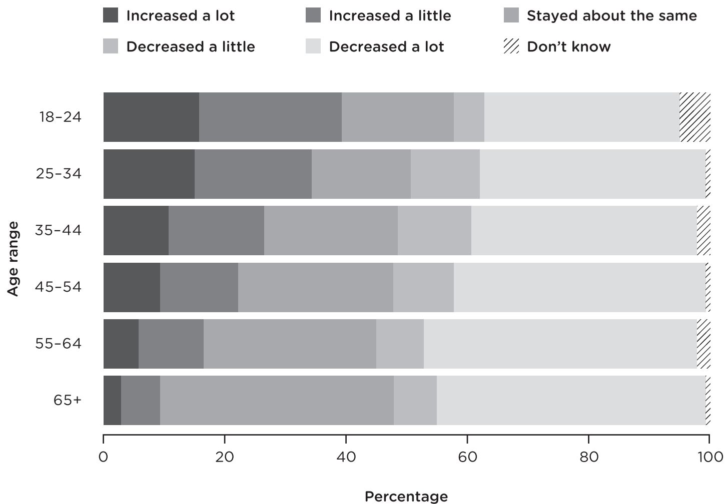
It is not possible to deduce cause and effect from this, but it is likely that there are two cohorts within this higher debt group – one whose higher debt is simply the result of having bigger loans (student loans and bank loans), and those people who have exhausted other forms of credit (potentially racking up huge overdrafts in the process), accounting for their high levels of existing debt. This second group is now reliant on payday lending just to make ends meet. The latter cohort gives us significantly more cause for concern than the former, showing that quantity and quality are not the same thing when it comes to debt.

Across the whole sample, there had been no overall increase in debt over the past five years (figure 1). Roughly a third of respondents felt that their debts had increased, a third thought they had decreased, and a third considered they had stayed about the same over this period. However, when comparing different age groups, it becomes clear that the brunt of rising debt is not being borne evenly: 55 per cent of 18–24-year-olds and 48 per cent of 25–34-year-olds said their debt had increased since 2008. Only 13 per cent of people aged 65 and over reported that their debts had increased.

However, there are no simple winners and losers in the generation game – the proportion of people reporting that the size of their debts had decreased remained fairly constant across all age groups, except that increasing numbers of older people said that their debts had remained constant over time (54 per cent of over-65s). Debt is not falling among older people – it is not just not getting any higher.

Although it is not possible to distinguish current from past debt among those in our survey sample, we can see that the people facing rising debt are most likely to be those who have experience of certain forms of 'crisis' debt – including unpaid fines, payday loans, crisis loans, doorstep loans and arrears on various bills, including rent. These are all forms of debt that are predominantly incurred by lower income groups, and reinforce the view that the current economic crisis is being felt most keenly among those who are already struggling financially. This is

Figure 1 **The proportion of people who report that their debts had decreased in the last five years, by age group**



backed up by figures from Citizens Advice, which show that 87 per cent of Citizens Advice debt clients have annual incomes of less than £18,000.[7]

When considering how debt is experienced it is important to understand the reason why a person requests a loan or falls into arrears. This makes a big difference, as it is linked to a person’s wider circumstances and their approach to managing their money more generally. For example, debt in the form of credit is a way of borrowing against your future ability to repay, either through earnings or the sale of assets. It is inherently aspirational, in assuming that the future will be better and more prosperous than the present.

The most common reasons for people going into debt in the polling were to fund a one-off purchase (36 per cent) or to cover an unexpected expense (34 per cent). Others included to

cover a drop in income (19 per cent) and to afford a better quality of life (18 per cent). These categories do not relate to specific purchases – for example, depending on circumstances, buying a fridge could count as either a one-off purchase (if planned, as a 'luxury' purchase) or an unexpected expense (if an old one breaks down). Therefore these reasons for going into debt relate to whether people go into debt to achieve a specific end (in the same way that somebody might save up to buy a new fridge), or because they lack a savings buffer against financial shocks. The fact that coping with an unexpected expense is so common (over a third of people had gone into debt for this reason) suggests that financial resilience is currently fairly low across the population.

Worryingly, it was extremely common for people to report that they were going into debt to afford the basic costs of everyday living (such as food, heating and clothing) – around a quarter (23 per cent) of people said this was a reason why they had used debt in the past. A fifth (18 per cent) said they had taken out debt to pay back another debt. Around 1 in 10 people had got into debt to pay their rent, and a recent Shelter survey found this number to be even higher – 1 in 5 people borrowed money to cover housing costs, including mortgage payments.[8] Another 7 per cent of people in our survey said they had used debt to cover the additional costs of living with an illness or disability.

These figures reinforce what we heard anecdotally throughout our research from debt advisers, who also reported that the uses of debt had changed over time. Five years ago they had served large numbers of people who had accumulated multiple store card debts, which were forcing them to declare bankruptcy. In these cases, debt was being used to pay for one-off expensive purchases of luxury items and to maintain a lifestyle 'beyond people's means'. However, the people we spoke to said this kind of problem debt was in decline, and now people were increasingly going into debt to pay for essentials, often with smaller sums and over shorter terms (which could nonetheless accumulate and become problematic).

Changes to the debt market

Alongside rising debt levels, there has been an explosion in the number of debt products available in the past few years – particularly at the high-interest, short-term lending end of the market. The value of the payday loan industry has increased from £900 million in 2008/9 to £2.2 billion in 2011/12, according to the Office of Fair Trading – more than doubling in size in just three years. There are now 240 lenders operating in the market[9] – with three companies holding 70 per cent of the market share, based on the number of new loans.[10]

The changes in the uses of debt described above play a part in influencing demand for credit, which is now increasingly used to meet day-to-day living costs. Rather than borrowing a large chunk of money for a particular purpose (eg to start a business, buy a house, or study for a degree), with the money effectively ringfenced, people are now more likely to borrow small amounts of cash – the perfect conditions for payday and other high-interest lending to flourish.

A Competition Commission investigation into the payday lending industry found that although the median income of payday loan customers is similar to that of the general population, people going to high street lenders have substantially lower incomes than those applying online.[11] People on lower incomes are also more likely to have poor credit histories and be unable to apply for loans elsewhere. Combined with increasing costs of living, people turning to borrowing from these sorts of lenders tend more and more to be those with some of the lowest financial assets, who may have no other means of securing credit. In these situations, the impact of debt – and the likelihood of it becoming problematic – is significantly increased.

Debt in policy

There are two strands to the Government's approach to tackling problem debt: changing the sources of credit that people use, rather than reducing the amount of debt overall, and improving financial literacy and financial skills across the population.

Changing the sources of credit that people use

In its social justice strategy, published in March 2012, the Government set out plans to tackle financial exclusion and problem debt, as part of a number of measures aimed at addressing multiple disadvantage among those on the lowest incomes.[12]

The strategy aims to increase access to affordable credit by expanding the credit union system, offering basic financial services to around a million more people – and in June 2012 it was announced that the Department for Work and Pensions (DWP) would invest an extra £38 million to help the industry grow. In 2011/12, the DWP funded a crackdown on illegal lenders, and has been carrying out work to review the regulation of the payday lending industry and root out some of the most damaging practices.

From April 2014, responsibility for regulating the payday loan industry will shift from the OFT to the FCA. The FCA has set out a robust approach to regulating the industry, which is described in the box below. In November 2013, Chancellor George Osborne announced additional regulation in the form of plans to cap the overall costs of payday loans (including fees and charges as well as interest rates).[13]

Box 1

The powers the FCA will have to regulate consumer credit

From 1 April 2014, the FCA will be responsible for regulating the consumer credit industry, including payday lenders, hire purchase, credit card issuers, pawnbrokers, debt management and collections firms, and the debt advice sector.

To be authorised by the FCA, consumer credit firms will need to meet certain threshold conditions. A new two-tier system for authorisation will ensure that more rigorous conditions are applied to firms deemed to be higher-risk, including enhanced checks on business models and structures.

Consumer credit firms will be expected to abide by the same high-level standards that currently apply to other financial services, as set out in the FCA's Handbook (eg standards for status disclosures, systems and controls).

In addition, the FCA has set out the specific measures it will use to regulate high-cost short-term lending, including:

- *mandatory affordability checks on borrowers*
- *limiting the number of times a loan can be rolled over to two*
- *requiring lenders to provide information about where to go for free debt advice before a loan is rolled over*
- *limiting the number of times a continuous payment authority can be used unsuccessfully to recover payments from an individual's bank account to two*
- *requiring that all adverts for high-cost short-term loans must carry a risk warning and information about where to go for free debt advice*[14]

The FCA currently issues two separate levies on financial services providers that it regulates – a money advice levy, which funds the work of Money Advice Service (MAS) on financial capability, and a debt advice levy, which is distributed via MAS to services providing face-to-face debt advice. In 2012/13, the debt advice levy raised £34.6 million.

Once they are fully authorised by the FCA (expected to be by the end of 2015), payday loan companies will need to pay the money advice levy, but not the debt advice levy, which is currently only paid by 'deposit acceptors' and 'home finance providers and administrators'. The FCA plans to consult in March 2014 on whether to change this arrangement.[15] *Other voices (including representatives from the Low Commission on the Future of Advice and Legal Support*[16]*) have called for the FCA to impose an additional levy on payday loan companies to fund debt advice services.*

Improving financial literacy and financial skills across the population

The second strand of the Government's approach to debt involves improving the population's financial literacy and financial skills. To this end, the Government set up the MAS in 2011 to provide free, impartial advice to help people make

better financial decisions. The service aims to improve people's knowledge of financial products, provide tools and techniques for budgeting and money management, and offer financial advice on different life events, such as having a baby, buying a house or retiring.[17] The service is funded by a levy issued on the financial services industry. It has allocated £30 million of funding to free debt advice providers across the UK – including £23 million to Citizens Advice. The MAS has also been tasked with developing a new UK strategy for financial capability.[18] The strategy will ultimately present a set of guiding principles for money and debt advice providers, which will increase people's ability to manage their money.

These policies are in line with the Government's commitment to focus on early intervention and prevention of social problems before they emerge – by equipping people with the financial skills to manage their debts, and tackling some of the harmful practices associated with certain debt products, so the risks of debts becoming unmanageable are reduced.

Gaps in the policy response

Unfortunately, neither of these strategies alone will eliminate problem debt. Better financial management can help to buffer people against external events (by helping them to build up savings, for example), but in many cases the causes of debt are outside people's control. At a time of high living costs, an insecure job market characterised by part-time and casual work, and welfare reforms that have led to the size of the safety net shrinking, households with little or no savings have a high risk of getting into debt, regardless of their financial capability. In other words – what do we do when early intervention (or prevention) stops being possible?

The regulatory focus is overwhelmingly on one particular type of debt – payday loans or high-cost credit. There is no doubt that payday lending can cause significant harm, and there is widespread bad practice in the industry, but it is clearly not responsible for all problem debt. As our polling shows, payday lending accounts for only 6 per cent of the debt experienced by

respondents in our survey – and though not all of the remaining 94 per cent is problematic, people evidently fall into difficulties with a wide range of loans and payments. The three most common forms of debt that debt advice recipients in the focus groups we carried out for this project struggled with were council tax arrears, utility bill arrears and unarranged overdrafts. Practitioners who attended our initial workshops acknowledged that payday loans were a problem, but also reported on the damage done by arrears, store card debt and hire purchase schemes.

This overly narrow focus is partly due to the Government's adherence to a narrow set of measures to assess what constitutes problem debt. These measures cover factors like affordability, advertising practices and transparency of terms and conditions. We do not dispute that unaffordable and misleading lending can cause serious harm, but once somebody is struggling with debt, the impact on their lives is dictated by factors that go beyond the simple structure of the debt itself. To truly tackle problem debt, the Government cannot become caught up in the furore over one type of lending to the exclusion of all else but must recognise that all debt can be problematic. The first step, therefore, is to better understand the effect that different forms of debt have on people's mental, physical, financial and social wellbeing, and why.

What makes debt bad?

We know from previous research that the experience of debt is associated with a number of negative outcomes for people, though it can be difficult to tell in each case whether this is a cause or an effect of the debt. Researchers have highlighted links between debt and poor physical and mental health, debt and relationship difficulties and debt and employment difficulties:

- *Poor physical and mental health* – More than 9 in 10 (91 per cent) of people interviewed by the Legal Services Research Centre (LSRC) reported that their health had suffered because of their debt problems – and around 3 in 5 people were receiving medical treatment as a result.[19] Another academic study found that

people were 33 per cent more likely to develop a mental health condition if they were struggling with debt, even if they had no previous history of poor mental health.[20]

- *Relationship difficulties* – According to Christians Against Poverty, in 2012, three-quarters of debt advice clients who were in a relationship said this had been negatively affected by their debt problems, including a quarter of people who said that their relationship had ended as a result of their debt.[21]
- *Employment difficulties* – The same LSRC research as referred to above found that 1 in 5 people had taken time off work as a result of financial problems, 12 per cent had given up work, 9 per cent had lost their job, and 19 per cent felt that having debt problems had hindered their ability to find a new job. Around 15 per cent of people had increased their hours to help ease their financial situation.[22]

People may only begin to describe their debt as 'bad' when it begins to impact on one of these areas of their life – when trying to pay it back is stressing them out, making them ill, causing them to lose friends, argue with their partner or underperform at work. This suggests that until that point, debt is not a problem, and many people never experience this.

Debt practitioners who attended our workshops said that the key variable that makes some debt 'non-problematic' is the ability to pay it off. Some people may take out a loan with the full knowledge that they will be able to repay it, and experience no adverse consequences, so what counts as 'non-problem' debt is different for different people and may not always be linked to a person's financial status.

A good example of a debt that causes very few problems for the huge majority of borrowers is student loans. Student loans are borrowed in advance to fund the costs of studying for a degree, and repaid after graduation. There are several features of student loans that make them unproblematic. Repayments are linked to income (affordability), and only begin once a graduate's income exceeds a certain threshold, after which 9 per cent of any income above this threshold is repaid in monthly instalments. These are automatically deducted from monthly

salaries in the same way as tax and national insurance. It is possible to repay a loan early – either in part or in full – without incurring any additional charges. Interest is only charged on the loan once repayments begin, and any outstanding balance that remains after 25 years is written off. Loans can also be written off for people who have been declared permanently unfit for work.[23] All of these conditions mean that student loans are intrinsically affordable, long-term loans. Repayments are ringfenced in an individual's salary every month, making it impossible to miss a repayment. There is also no stigma attached to having a student loan – it is an established method by which people access higher education and invest in their future earning potential.

The features of a 'non-problem' debt such as this suggests that affordability, a gradual repayment structure and social acceptability are important in making debts manageable. In the next chapter, we explore these factors and others, and how we can use them systematically to explore the impact that debt has on people's lives.

2 Debt from below

We have explained in the previous chapter that the question 'what makes debt bad for people?' clearly cannot be answered by looking at certain credit products or the size of debt alone. We needed to devise a set of measures on which different debts can be 'better' or worse – an index of the harm that debt can cause people.

The debt 'harm index'

We held two stakeholder workshops in October and November 2013 to discuss the factors underlying problem debt – what is it that makes some debt problematic? What makes the difference between problem and non-problem debt? Which measures should we use to assess the impact that debt is having on someone's life?

From the answers to these questions, we created a list of ten indicators that describe the ways in which debt affects people's lives and formed a 'harm index' of the damage that debts can cause. We then road-tested this list at a series of three focus groups with people who had ongoing or previous debt problems, to check whether the indicators resonated with their experience of struggling with debt, and to identify any impacts we had missed. Table 1 lists and describes the indicators.

The list given in table 1 contains a mixture of the 'impacts *of*' debt and debt's 'impacts *on*' (table 2). The first are primarily characteristics of the debt itself, while the second are primarily characteristics of the person experiencing the debt, and their particular situation. How somebody ranks each measure is completely subjective, reflecting a person's perception of their debt situation, rather than necessarily the reality of it (particularly on measures like urgency and affordability).

Table 1 **Indicators describing the ways in which debt impacts on people's lives**

Indicator	Description
Legal consequences	The legal implications of not repaying a debt, including having your home repossessed, being evicted, having gas or electricity disconnected, or criminal charges
Affordability	The overall cost of taking out a loan or going into arrears, such as costs imposed by fines, interest rates, charges, etc, and the cost of the loan relative to income, and whether affordability checks are carried out on borrowers
Social consequences	The impact on relationships with other people – including family, friends and children, as well as feelings of shame or stigma attached to being in debt
Impact on mental wellbeing	The level of stress or anxiety caused by the debt; how the debt affects self-esteem and self-confidence
Ability to cope with debt	The extent to which people feel able to take control of their debt, by taking small, practical steps to alleviate it – such as picking up the phone to call a creditor, or keeping track of income and outgoings; somebody's 'debt capability' is therefore a combination of personal assets, including intelligence, personality, organisational skills and the ability to self-advocate, as well as their emotional state; in some cases, this feeling of control is also linked to the complexity of the debt product itself
Flexibility of repayment	How possible it is to negotiate with the creditor to arrange a more flexible repayment plan
Debt collection	What methods the creditor uses to get their money back (eg repeat phone calls or letters, bailiffs); these can have a significant impact when they are very intimidating or aggressive
Having someone to rely on for support	Whether or not somebody feels alone in coping with their debts, or has a source of emotional and practical support in their life – a partner, friend, family member or support worker or adviser
Urgency of repaying	How quickly the debt needs to be repaid (whether perceived or actual)
Risk of accumulating multiple debts	How likely it is that the person will need to take out another loan (or roll over an existing loan, or fall behind on another payment), in order to be able to repay the first loan

Table 2 **Debt characteristics and the impacts of debt on the person in debt**

Debt characteristics	Characteristics of the person in debt
Legal consequences	Social consequences
Affordability	Mental wellbeing
Flexibility	Ability to cope
Debt collection methods	Having someone to rely on for support
Urgency	Risk of multiple debt

We asked survey respondents to give each debt they had experienced a ranking out of 10 on each measure of impact, to assess the particular ways in which debt affects people. This exercise provided us with mean rankings assigned to different debts by people whose experience of them had not necessarily been problematic (eg a mortgage, as opposed to mortgage arrears), and whose experience can be assumed to be typical of debt across the population as a whole. We draw on these data for the graphs in the figures below.

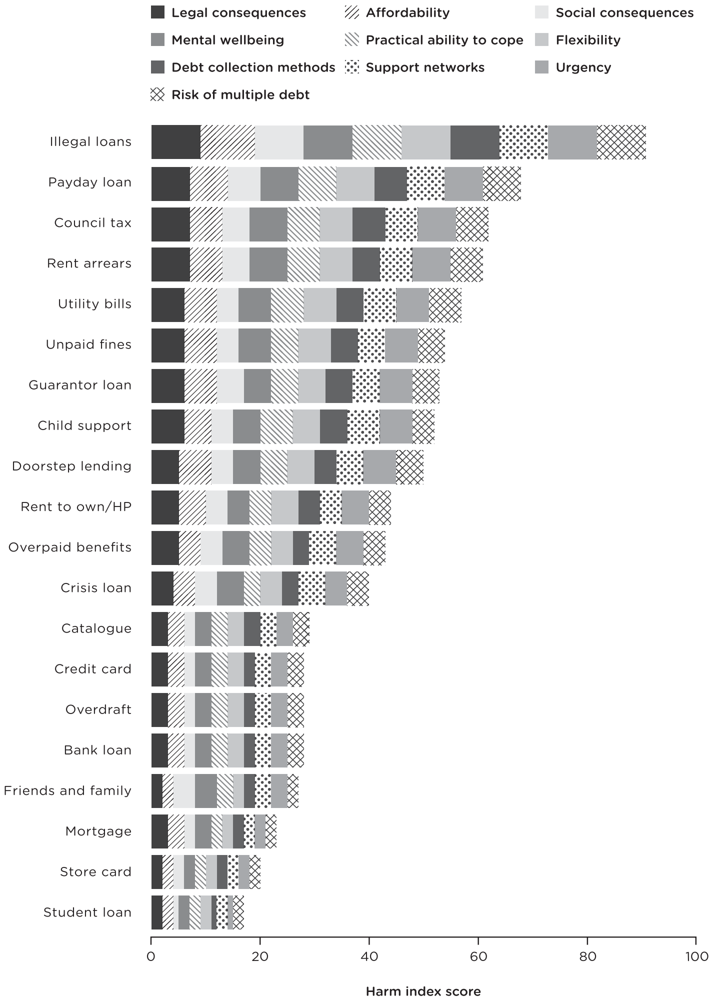
We then set the same task at our focus groups with debt advice clients, who were in the process of seeking help with debts that were causing them problems. The two sets of impressions about debt differ markedly, and highlight the differences between general debt and problem debt specifically.

Debt: the average experience

Types of debt

From the survey data, we know the mean 'score' given to each indicator – a measure of how much somebody had been affected by that particular dimension – for the 20 different debts we asked about. By adding together the scores for each indicator, we can compare how different debts rank against each other, and see

Figure 2 **Responses to the survey question, 'On a scale of 1 to 10, how problematic were each of these debts to you on each of the following dimensions?'**



Source: Demos survey

which debts affected people the most. Each debt was ranked from 1 to 10 across 10 different indicators, giving a maximum score of 100 (figure 2).

Illegal loans emerged as the debt with the highest negative impact (though this finding is based on a very small sample size of only ten people who had experienced this type of debt, so has limited significance). Adding together all the mean rankings for this type of debt, illegal lending scored 91 on the harm index. Below this were payday loans (which scored 68), council tax arrears (62), rent arrears (61) and utility bill arrears (57). Mortgages (23), store cards (20) and student loans (17) were the three types of debt with the lowest impact.

In general, arrears have a higher impact than credit – with certain types of high-interest lending being the exception to this rule. Credit extended by banks, loans companies and retailers posed far less of a problem. This makes sense, as people who fall into arrears are liable to be struggling financially already, making it much less likely that the debt will be easy to repay. People who fall into arrears are generally not doing so out of choice, whereas people regularly choose to use a credit card, or take out a loan from the bank.

Lack of choice and dire financial need also characterise crisis loans (which have ceased to exist, being replaced by various local schemes for emergency assistance) – and yet crisis loans score considerably lower than arrears. Looking at what makes crisis loans less problematic, two impacts stand out as with particularly low scores (only 3 out of 10) – debt collection methods and ability to cope.

Before April 2013, crisis loans existed to provide financial support to people in an emergency. This explicit support aim changed the way in which the loan was administered. Crisis loans were repayable, but no interest was charged, and an affordable repayment plan was worked out with the borrower in advance, on a case-by-case basis, with the help of a welfare officer or Jobcentre adviser.[24] This kind of personal support, affordability check and clear guidance around repaying all serve to lessen the impact of crisis loans, and – like the features which characterise student debt – could potentially be used when dealing with

higher impact debts to help minimise their effect – a subject that we will return to in the next chapter.

Ranking debts in this way across multiple measures shows that although payday loans are often considered to be the archetypal problem debt, people are actually affected very similarly by payday loans, and rent, council tax and utility bill arrears. All are debts that need to be paid back very quickly before they become unaffordable, cause people a significant amount of worry, and increase the risk of them falling further into debt in the future, by taking out further loans to cover the cost of the original debt.

Nonetheless, these debts would be treated very differently by the standard system for prioritising debts used by debt advice agencies, which tends to use the lens of legal consequences only (see box below). Arrears have concrete legal consequences, and so would be classed as priority debts, while payday loans have financial consequences but no legal consequences, and so would be non-priority debts. In policy circles, these two types of debt are also treated differently – with payday loans seen as the archetypal 'bad' form of credit, needing to be regulated and capped, while arrears rarely if ever feature in policy debates about unmanageable debt (indeed, they are not included in standard debt statistics, an issue we investigate below). It is clear that neither the practitioner approach nor policy attention has captured people's 'bottom up' experience of these debts.

Box 2 **Priority and non-priority debts**

Some debts are known as priority debts because the legal consequences of not repaying them are more serious. Priority debts include:

- *mortgage and rent arrears*
- *gas and electricity bill arrears*
- *council tax arrears*
- *court fines*
- *child maintenance arrears*

- *income tax or VAT arrears*
- *TV licence arrears*

These are debts where a court can take legal action against you if do not pay, a supplier can disconnect you, or you can lose your home. There may be reason to treat other debts as priority as well as these, but this should only be done with good reason – showing undue favouritism to one creditor over another can lead to other creditors refusing to negotiate, or taking further action to recover a debt.

Non-priority debts include:

- *benefits overpayments*
- *credit debts (overdrafts, loans, hire purchase, credit card accounts and catalogue debts)*
- *water bill arrears*
- *student loans*
- *informal loans from friends or family*
- *parking penalties*

Source: Citizens Advice's Adviceguide website[25]

The distinction used by debt advice services between legal and other consequences is not clear in people's minds when they are dealing with debt – the average ranking assigned to the legal consequences of payday loans by survey respondents is 7 out of 10. Illegal loans – which are legally unenforceable as the lender is committing a crime and so has no recourse to legal measures to recover the debt – scored highest for legal consequences, with an average ranking of 9 out of 10.

Understandably, then, the courses of action debt advisers might suggest, and the seriousness with which they treat someone's situation, may diverge significantly from that person's experience and opinion. A client may have a range of 'non-priority' debts, which are causing them significant stress and shame over the potential consequences of not repaying on time. Threatening letters might be piling up, people might be

knocking on the door. And yet a support service whose staff think in a 'top down' or professionalised (rather than personalised) way might simply advise that client to put these on the back burner and repay their TV licence bill first – advice which is at best likely to fall on deaf ears, or at worst cause distress or discourage that person from seeking help in future. It is clear that the most effective debt support services need to treat a person's situation holistically – take into account cultural factors, mental health issues, the wider family situation – and tailor advice accordingly. This might start with reassurance that the threatening letters are groundless, perhaps illegal, or taking steps to prevent harassment: forms of support that fall outside the scope of traditional debt advice services.

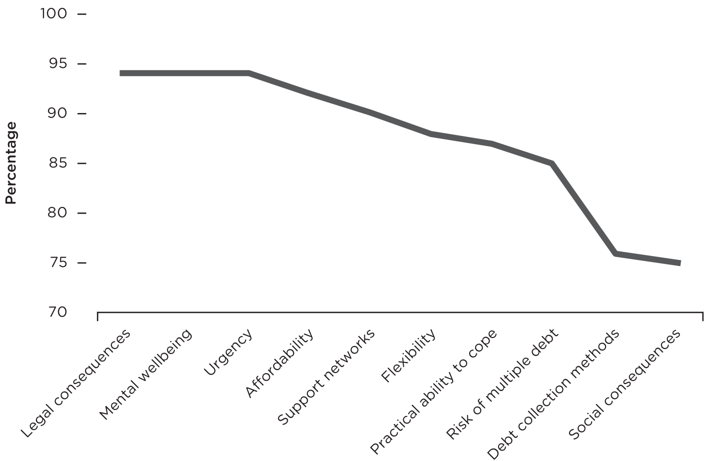
As mentioned above, debts in the form of arrears are currently not included in national debt statistics, which measure consumer debt only, yet arrears are not only highly problematic for people, but also on the rise. The Money Advice Trust has warned that rent arrears are now the fastest growing debt problem in the UK, based on calls to their national debtline concerning rent arrears, which have risen 146 per cent since 2007, and 13 per cent in just the past 12 months.[26] In London alone, £642 million is currently owed in council tax – an average of £188 per household.[27] Using 'debt' as a catch-all term for credit and arrears masks the differences between these two very different forms of debt – and risks ignoring a significant portion of very high-impact debt altogether, in national conversations about dealing with problem debt.

Types of impact

Respondents to our survey identified the legal consequences of not repaying debt, the effect of debt on mental wellbeing, and the perceived urgency of repaying a debt as the most problematic impacts of all types of debt. People were least worried about the social consequences of debt, and debt collection methods employed by the creditor.

Figure 3 shows the sum of the mean scores given to each debt on a particular indicator (eg impact on mental wellbeing),

Figure 3 **Sum of mean scores given to the impact of debt on different indicators by respondents in the Demos survey**



to produce a number for the total impact that this indicator has across all debts. Each indicator was scored from 1 to 10 for 20 different types of debt, giving a theoretical maximum score of 200.

The lower scores attributed to debt collection methods and impact on wider social relationships reflect the fact that debts were not necessarily problematic for the people responding to our survey. The majority of debts reported by survey respondents were more widespread and 'socially acceptable' debts, such as mortgages, credit cards and overdrafts. There is (usually) no shame attached to having these kinds of debt – and for many people they are an ordinary part of everyday life, and cause no disruption to social relationships. Aggressive debt collection methods (eg threatening letters and bailiffs) that typified the experience of focus group participants are also unlikely to occur with this sort of debt.

Debt: the sharp end

In contrast to those people responding to our survey, those in our focus groups had debts that had become unmanageable, and the impacts they described were significant. Almost everybody in the groups had from two to eleven different debts. The spread of debts across the three groups – held in London, Bristol and Portsmouth – is shown in table 3.

In each group, we asked participants to fill out a 'grid' similar to the one shown in table 4, ranking each debt they had experienced on each of our measures of impact. In the same way as in the survey, impacts for each debt were given a ranking on a scale of 0 to 10, with 0 representing no impact at all and 10 representing the highest impact. We then asked people to comment on why certain impacts had scored particularly high or low.

The mean rankings assigned to each debt by participants in three focus groups are shown in figure 4.

Focus group participants deemed store card debt to have the highest impact. Other debts that had a high impact included unpaid fines, utility bill arrears, doorstep lending and the repaying of benefit overpayments. The least harmful forms of debt were credit union loans, car loans and income tax arrears. (Loan sharks also scored very low, though only one person owed money to loan sharks, and his experience is unlikely to be typical.)

The relative impact of some debts was ranked higher in the focus groups than in the survey (figure 2), while others were ranked lower (figure 5).

As might be expected, debts ranked higher up the scale in the focus groups included all of the debts which can be either 'normative' or problematic (except for payday loans) – credit cards, overdrafts, store cards, catalogue shopping, personal loans and mortgages. Store cards, in particular, were ranked much higher up the scale by those in focus groups (store cards were ranked the second least harmful form of debt by survey respondents). This suggests the level of impact can go from very low if you are paying the balance every month without problems (likely to be the experience of survey participants), to very high if you miss payments (as our focus group members found). This

Table 3 **The type and number of debts of participants, by focus group**

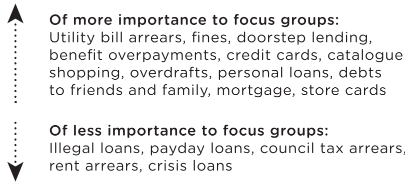
Debt type	Total	London	Bristol	Portsmouth
Coucil tax	12	2	5	5
Utilities	10	0	5	5
Overdraft	10	3	5	2
Credit card debt	10	3	1	6
Rent arrears	9	1	4	4
Personal loan	8	2	1	5
Friends and family	7	0	4	3
Credit union	7	7	0	0
Mortgage	5	2	3	0
Store card	5	0	3	2
Payday loan	5	3	1	1
Benefits overpaid	4	0	2	2
Crisis loan	3	0	1	2
Fines	3	0	1	2
Catalogue debts	3	0	0	3
Car loan	3	3	0	0
Guarantor loan	1	0	1	0
Loan shark	1	0	1	0
Income tax owed	1	1	0	0
Doorstep lending	1	0	0	1

Table 4 **The scores on a scale of 0 to 10 respondents to the Demos survey gave for different indicators when asked 'How does debt affect you?'**

Debt	Legal conse-quences	Afford-ability	Social conse-quences	Mental well-being	Ability to cope	Flexibility
Mortgage arrears	10	8	9	8	8	7
Credit card debt	3	8	4	6	8	9

Figure 4 **The mean rankings assigned to different types of debt by participants in three Demos focus groups**

Figure 5 **Types of debt that were of more and of less importance to participants in focus groups**



is perhaps where most consumer education is needed, to allow people to anticipate the financial (and other) risks involved.

Council tax, rent and utility bill arrears, which were all deemed to have a very high impact among those surveyed, moved in opposite directions. Council tax and rent arrears were both deemed to be relatively less harmful by those who were caught up in dealing with them, while utility bill arrears were considered relatively more harmful.

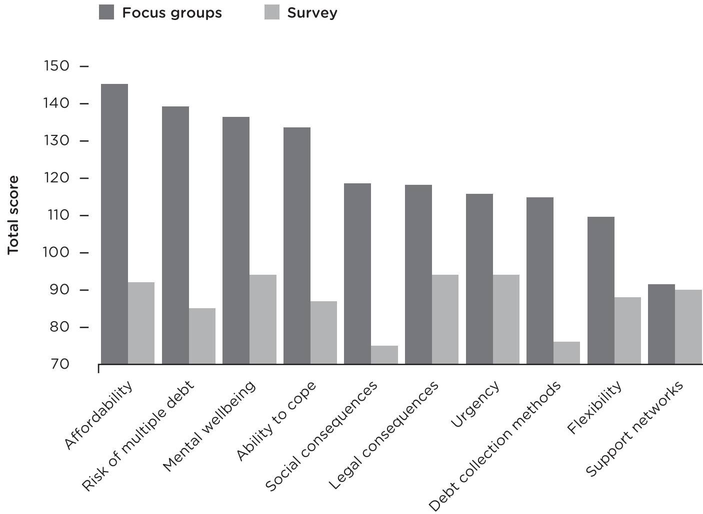
Payday loans were perceived as less problematic by focus group participants than by people polled. One man in the London group acknowledged that payday loans were 'not all bad' – as long as you were prepared to make certain trade-offs:

[All scored high] Apart from flexibility to negotiate, because you can change your payment dates if you want – I mean, they charge you more for that, but you can be sort of flexible.

The weightings given to different measures of impact were also radically different for people with firsthand experience of ongoing problem debt compared with survey respondents, whose debt may not have been problematic in the first place. Figure 6 shows the mean score for each indicator added together across different debts to form a total score. The totals from the focus groups are displayed alongside the survey totals from figure 3.

As would be expected, the impact of all debts was reported as worse for those seeking debt advice than for people in the survey. This was true across all indicators except for support

Figure 6 **How all debts combined affected people in the focus groups, by indicator**



networks, where the reported impact was very similar (we will consider the possible reasons for this in the next section).

Affordability, and the risk of spiralling into further debt, were the biggest concerns among focus group participants – followed by mental wellbeing, ability to cope and social consequences. These were deemed to have a higher impact than things like legal consequences, urgency of repayment, negotiability of the terms of repayment, and even debt collection methods, which were highlighted by workshop participants as a potentially very harmful practice – particularly when bailiffs are involved.

It is telling that all of these highest ranked impacts are those we described in figure 2 as 'impact on' rather than 'impact of' characteristics. In other words, they are more to do with that individual's personal circumstances (mental resilience, ability to cope, sense of stigma) than the debt's features (flexibility,

repayment methods). The exception to this is the high ranking of 'affordability' – nonetheless, research suggests that 'affordable' can be a subjective rather than objective concept, depending on how people prioritise their spending.[28] Certainly in the group discussions, affordability was mostly expressed as people's ability to repay the amount owed from a limited income with competing priorities, and was related to the size of their debt increasing as interest and charges racked up.

For some people, underlying mental health issues were a problem (one woman suffered from panic attacks, which were made worse by her debt problems), but more commonly, people described feeling stressed and overwhelmed by their situation – people reported not sleeping or taking care of themselves, and losing control of other areas of their life (eg having to stop working). One woman said:

It just got to the point where I completely broke down. I could not do anything, you know, couldn't look after the place… just general things, just coping with everything… It was to the point where I just phoned my mum up and said, 'You've got to help me, 'cos I can't hardly get out the house.' My mind was just completely shot down.

As with many other people, it was this woman's mental state that prompted her to seek help for her debts, rather than her financial situation per se. This suggests that what people themselves perceive to be the 'problems' in 'problem debt' are not aligned with the prevailing view of those discussing debt in policy circles. For many we spoke to, debt was not primarily a financial issue. Although cash may be the root cause of illness or unhappiness, and helping people to begin to repay their debt affordably will go a long way towards alleviating these symptoms, the impact on health, wellbeing and social networks – the symptoms rather than the cause – were the biggest problems that drove many to seek help. Thus without addressing people's wider emotional needs directly, debt advice services are at best failing to support the whole person, and at worst risk leaving people vulnerable to more debt or other problems further down the line.

Often people's experiences with debt had made them very debt-averse. People were so desperate to be free of debt that the idea of taking on more debts was horrifying to them. Several people we spoke to in Bristol said that the risk of them using another loan to pay back the original debt was very low – only 2 or 3 out of 10 – because they had learned their lesson the hard way. One woman commented: 'I would not be stupid enough to do it [borrow] again.'

However, these people were the exception rather than the rule, and most of those we spoke to accepted that the risk of further borrowing remained high.

What factors increase or decrease the impact of debt?

The mean rankings in the figures above obviously mask considerable variation between different people's experiences of different debts. One person's council tax arrears scored 10 out of 10 – the highest possible impact – for every indicator. The indicators for some other people were as low as 1 or 2, particularly for social consequences and lack of support networks. What makes the difference between these two situations?

Knowing *how* people see their debts as affecting them on different indicators, we can now turn to look at *why* different debts affect people the way that they do. People in the focus groups identified various factors that played a part in exacerbating or mitigating the impact that debt had on their lives. This provides us with some clues about the areas where debt support can be improved.

Acting too late

A significant number of our list of impact indicators are exacerbated by – or even symptomatic of – leaving it too late to seek expert help once in debt. People recognised that not only could waiting longer make repaying their debt less affordable and more urgent, give them fewer options for repaying flexibly,

and make legal consequences more difficult to avoid, but that feelings of stress and hopelessness could build up and make them less able to take action to help themselves. For some, this could go on for a very long time and have serious long-term consequences. One woman told us, 'It ground me down over ten years.' She had eventually been forced to declare bankruptcy, her marriage had collapsed, and she was suffering from panic attacks and depression.

Encouraging people to access help at an earlier stage, or enabling them to take proactive steps on their own, could significantly reduce the financial and legal impacts of problematic debt, and the emotional strains too.

Multiple debts

Having more than one debt bumped up certain measures of impact across the board – particularly affordability, but also ability to cope and mental wellbeing. One woman was only £600 in arrears on her mortgage, but said that because she had other debts to pay as well, and her only income was from a pension, this was as unaffordable to her as a debt of £6,000 or £60,000 would have been. Having multiple debts made it much more difficult for people to think about any of them in isolation or to prioritise them in a way that protected them from legal consequences (linked to the point about regarding perceived and actual consequences of priority and non-priority debt).

Limited support networks

The low impact deriving from lack of support among focus group participants (it ranked similarly to the public survey) can partly be explained by the fact that all of the people whom we spoke to were in contact with debt advice services. Feeling adequately supported could help to reduce the effect of otherwise quite high-impact debts – this was true of benefits overpayments, council tax arrears and rent arrears, which scored much lower on average on the support networks indicator than they did on others.

The link between accessing support and lower impact was made explicitly by many people. Our Bristol visit coincided with a drop-in session – one woman, while filling in the grid we gave her, commented: 'That's a 0 [for lack of support], because she has helped me with that [debt] today, and I think that is going to get sorted now.'

Another woman in the London group said that feeling like you had somebody to help you with your problem, rather than struggling on alone, had made a big difference to her: 'It was the help here, support mostly, that you got, to keep you going.'

We found that debt advice services play an important role in helping people, not only financially, but also by giving them confidence and reassurance that there is somebody there to help them. This should not be underestimated. However, given the financial pressure on advice services and their lack of capacity, it may not be possible for advisers to expand this aspect of their role, but there are others who can fulfil this function. Family and friends were an additional source of support for several people. Personality made a big difference – one man in the Bristol group said that he was quite relaxed about discussing money with his friends, and so could always turn to them for help and advice. This was unusual though – we found most people's natural tendency was to keep their troubles to themselves:

I just felt it was too low to go. I'd sooner go to a [payday loan] shop. I wouldn't approach my family at all.

Others did not have anybody to turn to for support, even if they wanted to. From our focus groups, we heard that people who are generally isolated – such as single parents, older people and people with disabilities – are also at risk of worse mental health as a result of debt, because they do not have anyone to talk to about their money worries. Partners can be an important source of support, as can parents, siblings and friends. The impact of debt can be a lot higher for people without these supportive relationships. There may be a role for debt support providers to link people up with more informal sources of support – for example by encouraging more peer support,

mentoring or befriending – where they feel that somebody is suffering in silence.

The ability to negotiate with creditors

There were some cases where people had been able to talk to their creditors, explain that they were struggling to pay, and work out a more affordable payment level without help from a debt adviser. Where this had occurred, it had made people feel more positively towards their creditors, and more inclined to view the situation as manageable. Utility companies (gas, electricity and water) and social landlords were mentioned as easy to approach to discuss different payment options, for arrears on domestic bills and rent.

This kind of experience was far from universal though, and depended very much on people taking proactive steps to contact the people they owed money to as soon as they found themselves struggling. Most utility companies emphasise that customers need to contact them as soon as possible for them to be able to help.[29] Others in the groups, who had asked for help at a later stage, had found the same companies to be very inflexible, and sometimes aggressive in their attempts to recover payment. One man in the Portsmouth group was receiving three or four calls a day from his water company, and a solicitor's letter every two or three days.

More worryingly, we heard that some types of creditor were refusing to engage with their customers, even at an early stage. One woman had called her mortgage company to let them know that she was struggling to keep up her repayments, and was told that no help was available until she defaulted. By this stage, any help they might have provided was too late, and she was forced to declare bankruptcy. According to one adviser in Portsmouth, creditors refusing to engage with clients is a big problem:

They're really pushing the client, but as soon as we get involved, they're the ones that will accept the £1 a month offer... They totally change the way they are as soon as we get involved, and it's not good because they should be able to negotiate with clients directly.

People themselves were keen for this to happen, and participants in the Portsmouth group identified better communication with creditors as the one thing that would change the debt support system for the better, by increasing people's ability to help themselves. One person said:

If the actual companies had a sympathetic ear, [it] would be an ideal thing to happen, then we wouldn't have to go to other places… If they had someone there that could deal with it personally, with you, then that would make things a lot easier.

There are obvious drawbacks to creditors relying on debt advice services as 'gatekeepers' for negotiation – as we explained above, many only turned to advice services once debt had started affecting their physical or mental health or personal relationships. Therefore creditors might only engage in negotiation once debts had escalated to crisis level, or may simply not have the opportunity to negotiate with their clients at all, if they do not seek debt advice. Systems clearly need to be in place for people to engage directly with their creditors, preferably early on but also at crisis point. Where these systems are already in place and are highly appreciated (such as is the case for many utility companies), people need to be made aware of them upfront, so that they can take early steps to alleviate problems with staged payments.

Understanding of debt products

The impact of their debt when it finally hit was higher for people who had had not realised what they would need to pay. One woman in the Enfield group had pawned some of her jewellery to help pay for Christmas, but without knowing that the pawnshop would charge a high rate of interest on the loan. Another woman had not realised that she would be charged income tax on her self-employed earnings, and had failed to budget the correct amount to pay, even though she was earning (in her words) 'good money'.

There was a feeling that information about interest rates should be made clear to people at the outset, to help them plan their budget accordingly:

They don't tell you that, you know, when you take it in – the payment you're paying on it, you're paying twice as much.

People could also experience a higher impact of debt because they were mistaken about the implications of non-repayment. This is particularly true around legal consequences – though also applies to flexibility. It was reasonably common in the groups for people to assign extremely high legal consequences to debts that actually had none – particularly illegal lending, but also payday loans, credit card debt and even debts to family and friends.

What emerged was a clear need to ensure that people are fully aware of, and accept, the terms and conditions of their debts before they commit to them. This would include letting people know their responsibilities, but also their rights – the things that can and cannot happen if you fall behind on repayments. (This also links back to the previous point about creditors making people aware of procedures to follow if they are struggling to repay.)

Yet this does not explain why some people were so worried about the supposed legal consequences of borrowing informally from family and friends. Looking at how people assigned scores across the full spectrum of indicators and debts can help shed light on this, as we explain below.

Holistic debt situations

People who tended to give an erroneously high score to the legal consequences of informal borrowing tended to give high scores on every dimension, without differentiating between different indicators. Somebody who ranked the legal consequences of informal borrowing as 9 out of 10 tended to rank every other indicator as 9 out of 10 as well. In doing so, they were clearly

ranking their general situation rather than the particular characteristics of each type of debt.

All of the factors that make debt more or less harmful described in this section (eg how long their debts have been accumulating, how many they are dealing with in total, and who they can turn to for support) seem to call for a 'whole situation' approach rather than one related to individual debts. This suggests there is a need to look at holistic 'debt situations', rather than focusing on specific types of debt.

This is certainly how people we consulted tended to view things. Conflating different debts and different indicators was extremely prevalent among focus group participants, with four groups emerging typified by the way they perceived their situation:

- 'the big picture'
- 'the way I am'
- 'good and bad debts'
- 'the way debt is'

'The big picture'

Those in this group gave all debts and all indicators the same score (table 5).

People with this approach assessed their overall situation, rather than specific debts, or specific features of debts (their whole situation was being scored as a highly stressful 9 out of 10). They considered all debts to be equally difficult to deal with.

'The way I am'

Those in this group believed that all debts have an equal impact on certain indicators (eg the impact on mental wellbeing is *always* 10 out of 10) while other indicators are ranked differently for different debts (table 6).

People using this approach were assessing *certain aspects* of their situation in the round, while recognising that not all debts were the same. The indicators that people tended

Table 5 **Scores 'the big picture' group gave for indicators for different types of debt**

Debt	Legal consequences	Affordability	Social consequences	Mental well-being	Ability to cope	Flexibility
Mortgage arrears	9	9	9	9	9	9
Credit card debt	9	9	9	9	9	9
Doorstep lending	9	9	9	9	9	9
Debts to friends and family	9	9	9	9	9	9

Table 6 **Scores 'the way I am' group gave for indicators for different types of debt**

Debt	Legal consequences	Affordability	Social consequences	Mental well-being	Ability to cope	Flexibility
Mortgage arrears	9	10	8	10	8	8
Credit card debt	3	10	6	10	7	7
Doorstep lending	4	10	7	10	10	5
Debts to friends and family	1	10	10	10	3	1

to rank equally (irrespective of the type of debt it applied to) were:

- support networks
- affordability
- urgency
- mental wellbeing
- social consequences
- ability to cope

These features are largely to do with personal characteristics, and personal responses to a situation, and say more about someone's emotional state than their financial situation. Somebody who feels that they are unable to cope with having debt will feel this way regardless of whether the debt relates to a credit card or a payday loan. Other features which tended to be awarded equal scores by this group – like affordability and urgency – relate to the sum of all debts together. Thus someone with multiple debts reaching crisis point will not be able to afford any of them, and will see them all as equally urgent. These are also the factors where debt support services can have the biggest impact; by targeting interventions in these areas, they can help with multiple debts at the same time.

'Good and bad debts'

Those in this group ranked all indicators equally on certain debts (eg overdraft debt is ranked 10 out of 10 on every indicator) (table 7).

People who used this approach singled out the debts that were affecting them the most and then used the 'big picture' approach described above to make a general assessment of that debt without discerning any distinction between different characteristics (mortgage arrears were being scored as 10 out of 10). This suggests that while the people in this group might experience multiple debts, one or more of the debts was much more significant to them than others, causing them distress and

Table 7 **Scores the 'good and bad debts' group gave for indicators for different types of debt**

Debt	Legal conse-quences	Afford-ability	Social conse-quences	Mental well-being	Ability to cope	Flexibility
Mortgage arrears	10	10	10	10	10	10
Credit card debt	9	9	9	9	9	9
Doorstep lending	4	7	7	6	6	5
Debts to friends and family	1	4	9	6	3	1

often motivating them to seek debt advice. These might, or might not, be those identified as priority debts by the debt advisers.

'The way debt is'

Those in this group ranked all debts differently on all indicators (table 8).

People using this approach systematically differentiated between different debts, and the varying consequences of those debts. This is perhaps the most rational approach to debt – as we discuss further below – and one the research team expected to see for most, if not all, responses to this exercise. The fact this was not the most common response confirms the overarching message from this research – that people's experience of a holistic 'debt situation' is influenced by their ability to cope and other personal factors, which affects their outlook regarding all debt. This certainly has implications for how debt advice might help people effectively, as we explore in chapter 3.

Table 8 **Scores 'the way debt is' group gave for indicators for different types of debt**

Debt	Legal consequences	Affordability	Social consequences	Mental well-being	Ability to cope	Flexibility
Mortgage arrears	9	10	8	10	8	8
Credit card debt	3	8	6	10	7	7
Doorstep lending	4	7	7	8	10	5
Debts to friends and family	1	4	10	6	3	1

How common is each approach?

Accounting for the fact that some people were using a combination of 'the way I am' and 'good and bad debts' ('some debts are worse than others, but some things affect me the same way whatever the debt'), we concluded that:

- two people in the groups used 'the big picture' approach
- eight used 'the way I am' approach
- eight used the 'good and bad debts' approach
- five used 'the way debt is' approach

The remaining grids which did not obviously fall into these four categories were not fully completed, but nonetheless it was most common for people to use 'the way I am' approach as a rule of thumb when assessing the impacts of their debt.

What do the different approaches to debt tell us?

Distinguishing between approaches in this way helps us to further understand people's reasons for ranking debts in certain ways. A lot of the explanation for the various approaches

described here comes down to the difference between rational and emotional thinking. The only one of the four approaches where people are thinking rationally about their debts and how each one affects them on each indicator is 'the way debt is'. People in the three other categories were thinking about their debts emotionally – which explains why some people were giving very high scores on measures where they knew there could not possibly be any consequences (legal consequences of borrowing from family, for example). Either one specific debt that was causing them trouble – or their debt situation more generally – translated into a general panic, clouding their judgement about which debts were better or worse than others, and in which ways.

This emotional overload, combined with low awareness about the conditions attached to certain debt products discussed above, explains why some of the rankings from the focus groups appear wildly inaccurate to the trained eye. This does not mean that people's assessment of their situation is invalid, but being able to weigh up the pros and cons of different debts and prioritise them is an essential part of being able to deal with them. If people are not able to do this – because of either lack information or their mental state, or likely a combination of both – then this should be an issue of concern to debt advisers, who should look at ways to address this.

Conclusion

For many people, debt is more of an emotional and social crisis than a financial one, with impacts on mental wellbeing and relationships, for example, dominating people's experience and cutting across specific types of debt. This can pose difficulties for debt advisers, whose role is traditionally to manage the financial and legal side of a person's debt situation. But without paying attention to the 'softer' measures of impact, there is a risk of failing to address the very thing that makes debt problematic for many people.

Using our debt harm index to assess the impact of debt using a broad range of measures allows us not only to compare

debts, and look at where the problems are occurring, but also to recognise that people tend to respond to 'debt situations' holistically, and that this in turn is deeply linked to their personal ability to cope. Although some debts are generally agreed to have a high or low impact (payday loans and arrears feature heavily as high-impact debts, while credit union loans and student loans are very low impact), the effect of different debts is not fixed. It varies between individuals, and is affected by a number of factors – including having the opportunity to negotiate with creditors, how aware people are of the steps they can take and of the terms and conditions of their debts, how well supported they are and how many debts they are dealing with – all of which influence how able people are to self-help.

Another big factor in this variation is people's emotional resilience. The debt problems of many people we spoke to had left their emotional wellbeing in tatters, leaving them badly equipped to make decisions and take control of their debt situation. This is something that will not necessarily be solved by reducing the financial burden of debt. It can also lead to debt advisers being placed in a position of paternalism, whereby debt advisers are relied on to 'fix' people's financial problems for them, and in doing so also improve their overall health and wellbeing. Creditors seem to be complicit in this, as many will not deal with clients directly but rather seek to negotiate with debt advisers.

When they are at crisis point, it is understandable that many people may be overwhelmed and look for someone to 'take over', but this does nothing to foster long-term financial capability, and can create dependency on advice services. By turning this approach around, and improving emotional wellbeing and confidence first, debt support can better help people to help themselves. The next chapter looks at how debt support might use the evidence and insights of this chapter to develop such approaches.

3 Supporting people out of debt

The previous chapters demonstrate how problematic debt is often a personal, social and emotional experience rather than a financial or legal one. These negative social and emotional impacts prompt people to seek help, and also often lead to people experiencing their 'debt situation' holistically – with many unable to differentiate between different types of debt or different impacts when facing multiple debt. This has implications for policy and practice.

Gaps in debt support

To understand what elements are part of the debt support that is currently offered, and whether this covers the full range of impacts described in the previous chapter, we examined the range of debt tools provided by seven national debt advice organisations (selected from the top results generated by an internet search for 'debt advice provider'):

- StepChange
- National Debtline
- Citizens Advice
- Debt Advice Foundation
- Payplan
- Debt Support Trust
- Christians Against Poverty

Information about the menu of support options available was sourced from each organisation's website,[30] and is set out in table 9.

In our survey we asked respondents where – if anywhere – they had turned to for help. Of those who had sought help,

Table 9 **Types of support offered by national debt advice organisations**

	StepChange	National Debtline	Citizens Advice	Debt Advice Foundation	Payplan	Debt Support Trust	Christians Against Poverty
Legal consequences	Individual voluntary arrangements (IVAs)			Consolidation loans IVAs	IVAs	IVAs	
Affordability	Debt management plans (DMPs) Bankruptcy IVAs Debt relief orders (DROs) Equity release Debt remedy tool	Self-help pack Personal budget sheet	Budgeting tool	Consolidation loans IVAs DMPs Bankruptcy DROs Debt and budgeting tools	DMPs Full and final settlement Bankruptcy IVAs	Refinancing Remortgaging DMPs Bankruptcy IVAs	DMPs
Social consequences							Befrienders
Mental wellbeing							Befrienders
Ability to cope	Debt remedy tool	Self-help pack	Fact sheets	Debt and budgeting tools			

Flexibility of debt	DMPs IVAs Debt advice Debt remedy tool	Self-help pack Sample letters	Sample letters	IVAs DMPs	Full and final settlement IVAs DMPs	DMPs IVAs	DMPs
Debt collection methods	Bankruptcy IVAs DROs Debt advice Debt remedy tool	Self-help pack Sample letters	Sample letters	IVAs Bankruptcy DROs	Full and final settlement IVAs Bankruptcy	IVAs Bankruptcy	
Support networks							Befrienders
Urgency	DMPs Bankruptcy IVAs DROs Debt remedy tool	Self-help pack		Consolidation loans IVAs DMPs Bankruptcy DROs	Full and final settlement IVAs DMPs Bankruptcy	DMPs IVAs Bankruptcy	DMPs
Risk of multiple debt (eg rollovers)	Bankruptcy	Self-help pack	Budgeting tool	Bankruptcy Debt and budgeting tools	Full and final settlement Bankruptcy	Bankruptcy	

63 per cent had gone to a debt advice charity, and 6 per cent specifically named Citizens Advice. The types of support most people receive are likely to be similar to those described in table 9. All seven organisations offered online, telephone and face-to-face advice.

Box 3 **Definition of terms used in table 9**

Bankruptcy (or sequestration in Scotland) – *a legal procedure in which a person's unaffordable unsecured debts are written off after one year, on the condition that the person repays as much as they can. Bankruptcy may involve the sale of valuable assets, and monthly payments for up to three years. Once agreed, bankruptcy protects against further action from lenders. A total of £700 in costs has to be paid to file for personal bankruptcy. Bankruptcy is a form of personal insolvency, along with DROs and IVAs. Bankruptcy and DROs are administered by the Government's Insolvency Service.*

Consolidation loan – *a loan taken out at a low interest rate to pay off an existing loan or loans. This can be useful to bring down monthly payments, to reduce interest rates on existing debt or just to reduce the number of companies debt is owed to. Consolidation loans can be either secured or unsecured.*

Debt management plan (DMP) – *an agreement between a debtor and creditors when usual contractual payments cannot be made because of financial difficulties. It provides a structured arrangement to pay off all unsecured debts and runs over a longer time period than originally agreed, with one payment per month that the debtor can afford.*

Debt relief order (DRO) – *a form of bankruptcy, but cheaper than going bankrupt, costing only £90. The debtor must have debts of less than £15,000 and a low income. A DRO usually lasts for a year; during that time creditors are*

unable to take action against the debtor. At the end of the year, all the debts in the order are cleared. The debtor cannot apply for a DRO if they own things of value, have savings of over £300, or own a vehicle worth more than £1,000. To apply for a DRO, the debtor must contact an authorised adviser who applies for the order on their behalf.

Full and final settlement – *paying a creditor a lump sum of money in settlement of a debt. Creditors may accept a part-repayment of the debt and in return agree to write off the remaining balance. This is relatively rare and usually a creditor only accepts a final payment if the debtor is unlikely ever to be able to repay the full debt.*

Individual voluntary arrangement (IVA) – *an agreement between a debtor and her or his creditors to pay all or part of their debts. The debtor makes regular payments to an 'insolvency practitioner', who divides this money between creditors. The insolvency practitioner works out what the debtor can afford to repay and how long the IVA lasts. There is a set-up fee and a handling fee for each payment made.*

Refinancing and remortgaging – *a process that replaces an existing mortgage loan with a new loan from a different lender. The new lender repays the existing mortgage debt to the original loan provider. The borrower is then left with just one mortgage loan, repayable to the new lender. Refinancing and remortgaging differ as the latter involves accepting a loan from a new lender whereas the former can be provided by the existing lender or a new mortgage provider.*

Reviewing the full range of services on offer from these seven organisations, it's clear there are many tools available to help people to deal with the legal and financial aspects of debt, but there are gaps around the social and emotional support offered – even though we have seen the mental health impact of debt is very high.

The only example we found of support being offered to help people cope with some of the emotional effects of debt was a befriending scheme run by the debt advice charity Christians Against Poverty.

Case study: Christians Against Poverty's befriending scheme

Christians Against Poverty has been operating debt advice centres out of churches across the UK since 1996. As part of its support, the charity runs a befriending scheme. Befrienders are volunteers, who visit people in their homes, along with a debt coach, who provides financial advice. The role of befrienders is to provide a 'friendly ear' and a wide range of practical support, from accompanying clients to the bank to set up a new account, to helping them do their grocery shopping.

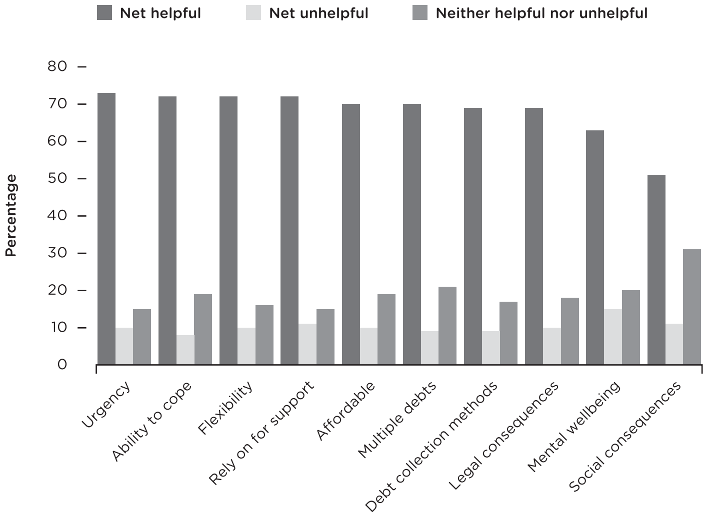
Befrienders are volunteers recruited by churches from the local community, and trained at local training day events run by head office staff. Home visits and befriending have always been key to the Christians Against Poverty model, as a method of counteracting the isolation debt can often cause people to feel. The Christians Against Poverty vision is one of offering a friendly, holistic service to people in need, so the emotional and social experience of debt also falls within the remit of the service.

Source: Demos interview with staff at Christians Against Poverty

The gaps identified in table 9 were reflected somewhat in the responses to our survey – those who had sought advice were asked whether the assistance they received was helpful across a range of factors. Overall, the majority of people in the survey who had sought advice had found it useful (figure 7).

Respondents to the survey found support most helpful when it had structural consequences – eg made debt less urgent (73 per cent said support had been 'very' or 'quite' helpful) or gave them greater flexibility in repaying (72 per cent). Respondents also rated highly advisers who made them feel they

Figure 7 **The extent to which survey respondents found support given by debt agencies helpful or unhelpful**



could cope with their debt (72 per cent) and having somebody to rely on for support (72 per cent). This was possibly because people felt well supported by their debt adviser, as described in the previous chapter, and they recognised that a subjective sense of feeling able to cope may in part come from finally having someone to rely on. However, support aimed at tackling the social consequences of debt (51 per cent) and its impact on mental wellbeing (63 per cent) were reported as being less helpful.

These findings resonate with a study by the University of Warwick for the Friends Provident Foundation, which tracked the long-term impact of debt advice, highlighting areas where this had been highest.[31] In this study the three things that people surveyed found most helpful three years after first seeking advice were having someone to talk to, being given information and options for dealing with their debts, and being better equipped to deal with creditors. By this stage, most people in the research sample were no longer engaged with an advice provider, though

many were still in the process of paying off their debts, and still faced constant or occasional struggles to keep up with payments.

Two of the three factors identified in this study relate to people's self-sufficiency – their ability to do things to help themselves – while the third relates to the moral support that people draw from their debt adviser, which we have touched on already. The benefit of this support was apparent to people, even though their financial problems had not been entirely solved. The research found that people responded to their situation more positively and coped better with the ongoing financial impact of debt than before they had received debt advice. This suggests that giving people the tools and encouragement to improve their situation can have a very significant effect and that short-term emotional support (to overcome the immediate crisis) can help people with the longer term financial process of tackling debts.

Other challenges to debt support services

In tackling the impacts of debt, advice services are faced with a number of challenges, including service capacity and financial pressures, the risk of clients becoming dependent on debt services, and not being able to intervene earlier to stop a financial situation from deteriorating to crisis point. In each case, targeted solutions aimed at tackling specific debt impacts could help services to function more effectively and help more people.

Low and late take-up

Take-up of debt support among people with debt problems is very low. According to Demos polling, 82 per cent of people who have ever faced debt problems have never asked for help with them. The most common reason given for this (72 per cent of those polled) was that people did not feel they needed help to handle their debt, followed distantly by 'I did not want to admit that I was experiencing money troubles' (10 per cent). Only 9 per cent of people claimed that they did not ask for help because they did not know where to look, suggesting that lack of

awareness of the existence of debt support services is not as big a problem as the psychological and social barriers.

Overcoming this reluctance to ask for help appears to be key to maximising the impact of debt advice providers. The MAS report *Indebted Lives* showed that although only 17 per cent of people currently accessed some form of debt support, a combined total of 61 per cent of people said they were either planning or thinking about getting advice, or might consider it in the future – particularly if their situation got worse.[32]

People's reasons for not asking for help are complex, as revealed in our focus groups. For some, the reasons are cultural. One man, who was Sudanese, said that self-sufficiency was essential to his concept of masculinity, and that he would have felt like a 'coward' if he had turned to someone else for help straight away. Other people were held back by their pride: 'I doubt if my pride would have allowed me to come [to the debt advice service] sooner.'

Some waited until they could see that their debt was affecting their mental and/or physical health – and turned to debt support primarily as a way of dealing with these further problems. Still others did not know what to expect from debt advice, and did not really trust that it would be helpful to them.

Perhaps as a result of these factors, people who do seek help tend to have waited a long time before doing so. According to StepChange, 41 per cent of people wait a year or more from the time they first got into debt before seeking help,[33] though this may not be evidence of 'debt denial'. Not asking for help externally does not mean that people are not trying to deal with their debt in other ways, which we found from our research occurs frequently. For example, around 1 in 10 people (8 per cent) in our survey said they had turned to their bank or building society for help when they got into trouble with debt. Most people we spoke to in our focus groups had also taken steps to manage their debt before seeking debt advice. One woman in the Bristol group had attempted to sell her house to pay off her debts, and another woman had taken in lodgers to boost her income from her pension: 'I tried to sort it out myself, but I didn't have no joy, that's why I came here.'

Almost everybody in the focus groups had borrowed money from family or friends in the first instance to try and pay off other debts. Many had attempted to engage with their creditors at an early stage, but had not been able to negotiate with them, as discussed in the previous chapter.

The decision to seek formal debt advice only once problems had escalated was not always driven by people's own reluctance. In some cases it was down to creditors (as we explained in chapter 2, the experience of some we spoke to was that mortgage providers would not take steps until their customer had defaulted), but, importantly, it could also be down to over-stretched debt support organisations. Triage systems in debt advice services could screen out those with low-level debts – indeed, one man we spoke to in Bristol had been to visit the debt advice centre several weeks previously, and had been told to come back on the day of our visit, because there were people with more urgent problems who needed to be prioritised.

Service capacity and funding for debt advice

As noted above, debt advice services have limited capacity. The use of triage and prioritisation is necessary because the funding of many debt advice charities is being significantly reduced. Following the economic downturn, there was a surge in demand for advice services – the number of people contacting StepChange for advice increased by 11 per cent between 2011 and 2012[34] – but at the same time, their capacity to meet this demand is shrinking. Citizens Advice says that it provided face-to-face support to 4 per cent less people between June and September 2013 than in the same period in the previous year. For debt advice, this drop was even sharper – debt advice delivered in bureaux fell by 20 per cent.[35] Part of this is due to the shift to online services – there was a 60 per cent increase in the number of visitors to the Citizens Advice website, including a 102 per cent increase in page views of content relating to debt, between June and September 2013.[36]

However, a major development has been that, as of April 2013, advice services are no longer able to access public funding

through legal aid to provide free debt advice (and advice on a number of other welfare issues, such as benefits, housing and employment disputes). This has led to a shortfall in the finances of many advice charities – in February 2013, housing charity Shelter announced that cuts to legal aid would result in a 50 per cent reduction in their funding, and put ten of their centres at risk of closure.[37] In a survey by the National Council for Voluntary Organisations (NCVO) in 2013, half of charity leaders said they planned to reduce spending in the next 12 months, and a third said they planned to make redundancies in the next quarter.[38]

The result is that debt advice charities are being asked to do considerably more with considerably fewer resources. In this context, prioritising more urgent cases is understandable, but decisions about who needs urgent help are based on the judgement of debt advisers, guided by the legal and financial severity of each client's debt situation – the size of the debt and whether it is a priority debt. However, our research demonstrates that people can experience severe distress and become overwhelmed by 'non-priority' situations.

Dependency

One worrying feature that marked some people's experience of debt advice is their reliance on the debt adviser to 'take over'. This was well illustrated in our focus groups by participants' frequent references to debt advisers dealing with communications from creditors (letters and phone calls) on their behalf:

The phone calls are all taken off you, they sort everything out.

I didn't even have to get in touch with the creditors, it was all done for me.

Often this was viewed positively by those in debt, and was what they wanted at the time. Because of the difficulties described in the previous chapter – emotional overload and people becoming unable to manage, combined with people only

turning to debt support at crisis point – many decisions and actions can be taken out of people's hands. But this runs counter to the idea of building resilience and encouraging people to do things for themselves.

This leaves debt advice service providers with a tricky line to tread – on the one hand, they cannot withhold support, but on the other, given the resource constraints outlined above, such services cannot sustainably act as a crutch indefinitely.

Taking people's priorities into account

The findings from our research suggest that the list of 'priority' debts used by debt advisers does not necessarily chime with people's own priorities and concerns. In the workshops held at the beginning of this process, debt practitioners were very aware of this friction.

The practitioners we consulted distinguished between a 'prescriptive' and a 'personal' approach to prioritising different debts. In a prescriptive approach, debt advisers tell people the order in which they need to deal with their debts; in a personal approach, they adapt the order for dealing with debts to reflect people's own concerns, preferences and behaviours.

In reality, a blend of the two approaches is needed. Adopting a fully personal approach (letting clients decide how to deal with their debt) could be irresponsible, since – as we have explained above – clients often do not grasp the full legal implications of different debts nor the technicalities under which creditors operate. For example, to be approved for a DRO you must not have shown preferential treatment to any of your creditors in any payments within the last two years. If this condition is not fulfilled, your application may not be approved, giving you fewer options for dealing with your debts.[39] However, while a prescriptive (professional-led) approach might seem the most rational (and indeed many practitioners acknowledged this was still widely used), they also admitted that imposing a course of action on someone often led to it being rejected and not followed through on and, indeed, could cause more distress.

What was needed was a process of negotiation between debt adviser and their client, where advisers explain legal consequences, guide people through the debt system, and help them prioritise in a way that protected not just their home or electricity supply, but also their mental health and sense of wellbeing. Practitioners felt that there had been a shift in some debt advice services recently towards looking at debt from the individual's perspective, to try and understand why they are in debt, what their priorities are, and what the consequences of different courses of action will be for the individual – though this more personalised approach is not the norm. In general, the practitioners we spoke to admitted that their sector on the whole remained too narrowly focused on saving people from the legal implications of debt, and tended to reflect service priorities rather than client priorities.

Conclusion

In this chapter, we have taken a broad overview of how mainstream debt support services are currently addressing a range of the impacts of debt, and in so doing have identified some potential gaps in the sorts of support required, as highlighted in previous chapters. These gaps have been confirmed by our polling and consultation with practitioners, suggesting that many debt support services have traditionally focused on a narrow slice of the spectrum of impact, dealing with financial and legal issues while neglecting the important emotional or social effects of debt.

In addition to the possible gap in the content of debt delivery, we have outlined some additional problems faced by the sector in trying to meet people's needs, including resource constraints, a tendency among people in debt to either avoid seeking help or delaying seeking it until the point of crisis (exacerbated by the approaches of some creditors), the risk of dependency among people in debt, and the tensions in marrying a personal and prescriptive approach. These problems reinforce each other – for example, resource constraints potentially working against an early intervention approach, while clients in

crisis are more likely to be dependent and less capable of helping themselves. Gaps in the type of support are also symptomatic of a prescriptive (rather than personalised) approach, and resource constraints may mitigate against services expanding into social and emotional support.

Borrowing from family and friends, looking for ways to maximise income, reducing spending and talking to creditors directly were among the strategies some people in our study used to tackle their debt situation on their own. But this sort of approach is only feasible when those in debt have friends and family with good financial capability, and have good relationships with them, and confidence and a sense of objectivity – which can all be hampered by the stigma and stress people felt as a result of debt. Failing to recognise these elements of the debt experience is, in effect, stripping away people's abilities to deal with debts by themselves.

This is not just an issue on the front line of debt support. Discussions in policy and political circles reinforce practice by framing debt as a financial and legal phenomenon, rather than viewing it as central to poverty, social isolation, mental health and quality of life. It is no coincidence that funding for debt advice comes from the FCA via a levy on financial providers and (until the recent cuts) from legal aid. But the fact that the Newhaven Community Development Association (NCDA), mentioned in the next chapter, is now seeking funding from clinical commissioning groups, housing providers and employers suggests that a shift to a wider understanding of debt is under way (at least among some practitioners).

The key is to encourage this thinking at national policy level. Yet government policy to delineate 'problem' debt by the type of product (at the moment payday lenders are a major focus of concern, but at the start of the downturn there was much focus on hamper schemes and catalogue lending) runs counter to this entire approach. Moreover, the government strategy of building financial resilience to prevent people from falling into debt fails to address the needs of people once they are in debt. We saw that financial resilience was undermined by a loss of confidence, a sense of being overwhelmed, and withdrawal

from or disruption to support networks once money worries set in. We conclude that financial resilience needs to be built alongside emotional resilience for it to be sustained in the face of financial shocks.

In the next chapter, we consider how limitations of policy and practice might be addressed. We draw on some examples of emerging good practice we have seen during the course of this project.

4 Filling the gaps in debt support

In this chapter we draw from some of the developments in the debt advice sector we were alerted to by practitioners and other experts. We visited two services that demonstrate new thinking: Riverside Money Advice and Lewes District Advice Partnership.

Box 4

Riverside Money Advice, Riverside Church, Birmingham

Riverside Money Advice is a project of Riverside Church in south Birmingham, which offers budgeting and debt guidance and support to members of the congregation and the local community. The service has been running since 2012, when it sought funding to formalise work that had already been taking place 'behind the scenes' to help one or two people within the congregation to get their financial affairs sorted out.

The service is managed through a staff member of the church, but otherwise run entirely by volunteers, and is very small – in its first year, it helped 33 people, half of whom were from outside the church. Most referrals come through word of mouth or other services. Riverside's mission is motivated by its Christian faith, which allows it to go further than most other debt advice services (eg paying off small amounts of debt, buying supermarket vouchers for debt clients to buy food, or inviting them round for dinner). Donations to help run the service come from supporters within the congregation, and practical help is freely given. In this way, the whole church is involved in supporting people who are facing debt problems.

Box 5

Lewes District Advice Partnership (and the Newhaven Community Development Association), East Sussex

The Lewes District Advice Partnership (LDAP) builds on a model of holistic advice-giving developed by the NCDA through

its Havens Information Hub. The NCDA is a local regeneration charity, which exists to build community resilience in a string of towns along the south coast, to the east of Brighton.

In 2012, the NCDA led a bid for Advice Services Transition Fund money from the Cabinet Office and Big Lottery Fund, to set up the LDAP, which is currently in its very early stages. The partnership has 11 members – two of whom provide the specialist advisers for the service: Citizens Advice and Brighton Housing Trust.

Specialist advisers work alongside a team of volunteers who are trained to offer general advice. Following the 'hub' model used in the previous incarnation of the service – but serving a wider geographical area – financial advice is provided alongside other advice, as part of a holistic wellbeing service, rather than a distinct service in itself, and the LDAP does not identify itself as a debt advice service.

We refer to these and other examples throughout this chapter as we consider some of the ways in which those providing debt support might apply the findings we have identified in the first three chapters.

More personalised support

Our research has shown that the lived experience of debt is highly personal, distinct for each person. Rather than treating debt as a one-size-fits-all financial or legal phenomenon, varying only by type (eg loan, arrears, credit card), providers should recognise that the experience of debt depends on a person's emotional resilience, perceptions of debt and support networks, to name a few. This depends on a wide variety of factors – age, cultural background, socio-economic status, life experiences and so on. Therefore, in understanding and addressing the different impacts of debt, providers also need an appreciation of the whole person – eg how they perceive indebtedness and the prospect of relying on others, and how well they are at coping with a crisis.

This would allow more targeted outreach (recognising that certain barriers may exist for some people preventing them from seeking advice), but also more personalised support for particular types of people.

Truly personalised debt advice could take an asset-based approach to advice – looking at what clients might contribute which could help their situation. For example, clients with strong social networks might be shown how to use these to greater effect, while those with a particularly strong sense of self-sufficiency might be tasked with a particular plan of action that more suits their desire to make a contribution. Our research provides some insight into some of the differences in attitudes we identified that ought to guide different approaches to debt support, though generalisations about particular social groups could prove unhelpful when taking a personalised approach.

We know, for example, that age is an important factor in differentiating people's debt experience. In our polling, we found that younger people (in their late teens, 20s and early 30s) are experiencing rising levels of debt, but that older people (aged over 65) are the least willing of any age group to seek outside help to deal with their debts (only 8 per cent had done so), and most likely to say that they did not feel they needed help. This might be because of the greater stigma associated with debt among this age group, or because they feel old enough to cope alone. It is perhaps no coincidence that older people are more likely to underclaim benefits than any other group – Age UK figures show that only 22 per cent of pensioner households claim their full benefit entitlement, with £5.4 billion going unclaimed each year.[40]

Older people with more limited means (from lower social grades) were particularly unlikely to seek help, but at the same time clearly have lower financial resilience and are possibly at greater risk of debt than their peers. This group could potentially benefit from targeted efforts to encourage them to seek advice (examples of which we consider in the following sections).

In contrast, younger people in debt may not reach out for help because they still rely on their parents. In place of formal support, more than a third (41 per cent) turned to family. The

risk of younger people becoming 'desensitised' to debt because of the high prevalence of student debt was raised in one of our practitioner workshops. The concern was that younger people are starting their lives in debt, and so are less concerned about getting into further debt. This may be true for some, though our findings actually suggest that young people distinguish between the impact of student debt and other forms of debt. People realised that student debt was exceptionally low impact compared with most other debts, and so it does not follow that they would be equally happy to have £10,000 of student debt versus £10,000 of credit card debt, for example.

Nonetheless, this younger group – which includes many young people who are working, living independently, and maybe starting a family for the first time – has had little time to build a savings habit, and the alarming increase in debt among this group suggests that younger groups are at risk of developing a 'debt habit' as they attempt to make ends meet. The specialists we consulted during this project pointed out that younger people are also less likely to have had a chance to build up a credit history, and so are restricted in the sources of credit they have access to – making them particularly vulnerable to high-cost lenders. The challenge when addressing the needs of this group is to raise awareness of more specialist sources of support (particularly online advice) and instil a greater awareness of when young people might need to turn to specialist advice.

The Government's Child Trust Fund traditionally offered a vehicle for children to start saving from birth and create a savings habit. Although this is now closed to new accounts, providers and local commissioners attempting to encourage financial skills in young people could learn from the example of Glasgow City Council – in 2013, the local authority started depositing £10 in a community credit union account for every new secondary school student in the city.[41] This initiative tackles the priorities for debt support aimed at young people identified above – encouraging them to start saving early – while also making them aware of the debt and money advice on offer through credit unions, in case of future financial difficulties.

Another important factor affecting how people experience

debt is cultural background. For example, the debt advice centre we visited in Bristol is located in an area with a high population of first-generation Somali immigrants, many of whom struggled with spoken and written English. There was a strong tendency for the Somali community to stick together, and a range of faith and community groups exist to offer help. Language barriers and in-group loyalty can make some communities more vulnerable to debt, particularly when certain repayment conditions (or conditions attached to receipt of benefits) are not understood, and therefore not met.

A few people had borrowed from local money lenders, who were perceived to be trustworthy because they were from the same community, but were actually charging extortionate rates of interest. Language could also make it very difficult for debtors to negotiate effectively with their creditors. The social consequences and impact on mental wellbeing for several Somali members of the Bristol group was exacerbated by the fact that they already felt ostracised by the British welfare system, and their relationship with state services was hostile or characterised by a lack of trust. A participant in our focus group was Sudanese, and – as noted above – he found it difficult to seek help for financial problems because his concept of self-sufficiency was closely linked to his community's concept of manhood.

Socio-economic status is also important. Higher socio-economic-status groups are less likely to report that they had sought help – which suggests that stigma around problem debt is higher for those with higher incomes. Certainly those in our focus groups who reported having 'good jobs' or being on 'good money' admitted they had been ashamed to tell family or friends about their financial problems and some had kept their attendance at advice centres a secret. Interestingly, lower socio-economic-status older people were less likely to seek help than higher socio-economic-status older people – bucking the general trend.

From our focus groups we saw how people who are generally isolated – such as single parents, older people or people with disabilities – are at greater risk of experiencing the negative impacts of debt (including mental health outcomes). Partners, parents, siblings and friends can be an important

source of support. The impact of debt can be a lot higher for those without these supportive relationships (though some may not use these networks even if they have them, for cultural reasons or a sense of self-sufficiency).

Finally, our focus groups pointed to certain differences between genders, although our polling did not show significant trends. The women in our focus groups reported less stigma associated with seeking advice (if not with having money worries per se) and were more comfortable with asking for help – they were also more likely to have spoken to friends before seeking professional help. Some of the men spoke about their embarrassment at telling their partners about financial worries, or borrowing money. This perhaps suggests that men have a stronger sense of self-sufficiency than women, as our Sudanese participant demonstrated.

Tackling the impact of debt on mental health

Chapter 2 described how many people in debt identified its negative impact on mental health as central to the debt experience, yet in chapter 3 we saw how debt advice services didn't always provide support in this area. In fact, a lot of good partnership working between debt and mental health services exists at the national level – StepChange has partnered with the Mental Health Foundation and the Samaritans to support their work in helping people who have been affected mentally and emotionally by debt, and their website refers visitors to both services, and gives other mental health information.[42] There is significant crossover between financial and mental health advice provision elsewhere online (eg mental health charity Mind's website has a section on debt and mental health,[43] as does the Royal College of Psychiatrists[44]).

Yet this same level of integration is not so evident at the local level, or with face-to-face advice. People in our focus groups felt that their emotional wellbeing was being acknowledged intuitively with the relationship between the client and the adviser. One person said: 'I think a lot of the time they can see how you're coping and how you feel, just by talking to you.'

Yet there is no systematic front line training to identify and support the emotional or mental health impacts of indebtedness. Staff at the LDAP felt that often too much emphasis was placed on diagnosed (and diagnosable) mental illness, and its overlap with debt, and allocated funding accordingly. In their experience, it was lower-level mental health needs – such as anxiety, stress and mild depression – that could produce the most suffering, by causing people to make irrational decisions and react to situations in a way that is out of character, or be in denial of the realities of their situation – exacerbating the financial and legal sides of debt.

Box 6 **Debt as a component of mental wellbeing**

The LDAP has a strong focus on mental wellbeing (rather than diagnosable mental health needs), having developed its debt advice capacity out of and alongside its original wellbeing services over a period of 15 years.

It builds on the idea of a holistic wellbeing service, with debt advice as a part of this, rather than a distinct offer in itself. The wellbeing offer includes counselling and other therapies, as well as relaxation, health and skills courses (eg healthy eating). Locating debt advice within this wider offer – as part of the same range of services, and physically co-locating within the same building – positions debt advice and dealing with debts as one way among many for people to improve their overall wellbeing, and live a healthier life. In this way, the NCDA is aligning itself with the way that people respond to their debt situations – tackling debt as a means to improve their general health and happiness.

Source: Demos interview with chief executive and senior development worker at the NCDA

Encouraging people to seek help earlier

As outlined above, our survey suggests there are high levels of awareness of debt services, suggesting this is not a barrier to take-up of advice. However, people either do not feel they need

to, or feel ashamed at the prospect of, seeking help with debt. This leads to not only low take-up of debt advice services, but also late take-up – people wait until crisis point before seeking help. By this time solutions are often more complicated, radical and resource intensive than if the problems had been addressed earlier, and may well involve the need for mental health or emotional support. They are also less likely to be achieved by people taking control of their situation (and therefore encouraging dependence on debt advisers).

Reducing stigma around debt could encourage more people to seek advice earlier, and help reduce the stress associated with debt, which in some cases is driven by a sense of shame or embarrassment. At national level, there are good examples of publicising social issues, including the Mind and Rethink Mental Illness 'Time to Talk' campaign,[45] where celebrities such as Stephen Fry and Ruby Wax spoke publicly about their experiences of mental ill health, national advertising campaigns and supportive debates in parliament with MPs open about having mental health issues. These have all helped to break down many of the taboos around mental health. A similar campaign could help encourage more open conversation about debt and money problems, recognising that anyone can get into debt, and reflecting this in the political debate – debt should not be seen as an issue affecting the 'most vulnerable', but be part of the wider living standards debate.

There is a fine line between normalising the process of seeking advice for debt and normalising debt itself. Easy access to credit is viewed as one of the problems that drove the 2008 financial crash, and some may feel a campaign claiming debt 'can happen to anyone' would be tantamount to encouraging irresponsible spending and credit reliance. What needs to be made socially acceptable is the process of asking for help – in the same way, for example, that the Talk To Frank campaign encouraged those with drug problems to come forward for help, without condoning drug use per se.

One example we saw of local awareness raising was the community messengers scheme organised by the LDAP, where trusted community members (housing officers, youth workers,

religious leaders) were co-opted to the cause of raising awareness about managing debt proactively and signposting to the LDAP.

Box 7

De-stigmatising debt

The LDAP aims to make accessing advice – on debt and for other issues – a positive choice, and bring it more within the realm of people's everyday lives, rather than something that people only consider when they are in dire need, and attach feelings of shame and failure to. The LDAP uses a 'positive psychology' approach, which is more akin to life coaching than counselling, encouraging people to view accessing debt or money support as taking a positive step to change their lives for the better.

One of the ways in which the LDAP does this is by training a team of 'community messengers' to spread the word in their local communities. These people include both professionals and non-professionals (local people who have received some training). All are well respected within their local community, enabling them to help promote the idea of healthy money management and dealing with debt, and break down some of the taboos around talking about debt and money concerns. Part of their role is to educate people about when they need to access specialist debt advice rather than just obtain information, and to encourage them to seek advice sooner rather than later. In this way, debt support is timely and can be effective in tackling some of the impacts we have identified.

A lot of attention is paid to the environment in which support takes place to make it as domesticated and un-clinical a setting as possible, and not one that stands out as being solely about debt or money problems. Therefore debt advice is physically located in the same building as other wellbeing services, so people receiving debt advice are not visibly singled out as 'debt clients'.

Source: Demos interview with chief executive and senior development worker at the NCDA

Debt advice providers we consulted during this project thought that it would be useful to encourage those likely to observe people with debt problems early (housing providers, local authority staff, GPs, staff in schools and children's centres, and so on) to be aware of the signs of someone experiencing this so they could direct them to advice services and suggest that they seek help before they hit crisis point. Nonetheless, it was also acknowledged that simple signposting among those able to spot a debt problem unfolding (even if they are trusted and respected) would not necessarily tackle the prevailing attitude among many people in debt – that they do not need help. This is acknowledged by the NCDA's community messengers – who try to teach people to spot when they need specialist help.

Of course, many people do not require help, and manage a temporary period of indebtedness perfectly well on their own, without any long-term ill effects. For these people, the Government's investment in improving the general financial capability and financial resilience of the population will be adequate. In a time of straightened resources, it is vital to be able to distinguish between people who can manage indebtedness, and those who think they will be able to cope but then are likely to spiral into crisis if they are not given effective help. At the moment, targeting is effective as only a self-selecting group of problem debt clients – mostly those facing significant crisis – comes forward to access help, but the result is that they often need highly cost-intensive support. Striking a middle way – expanding earlier provision of debt support for those who need it without creating dead-weight costs for those who don't – is likely to come about from exploring opportunities for self-help, peer and social support, and making strategic use of generalists. We describe these in more detail in this chapter before distilling our findings into recommendations for policy and practice in chapter 5.

Building support networks

As outlined in chapter 3, the area where people in our survey felt least supported by debt advice services was the social

consequences of being in debt – ranging from loss of friendships and relationship difficulties to social withdrawal and isolation. Providing social support may well boost people's confidence, encourage them to help themselves, and relieve some of the stigma associated with debt and feelings of distress.

One way of overcoming some of the social consequences of debt is to make the most of the informal conversations that people already have about money with trusted contacts. More than one-quarter (27 per cent) of our survey respondents had asked a friend or family member for help, and this proportion was higher among younger people (41 per cent of 18–24-year-olds), who are perhaps more reliant on their parents, and people in social grades AB (41 per cent), who may feel charities such as Citizens Advice are targeted at those on lower incomes.

Yet it should not be taken for granted that everyone has support networks to fall back on – or that they would be willing to do so. Sometimes those who responded to our survey had a sense of 'what was expected of them' by certain people in their lives, and their role as daughter or son, sibling, parent or partner. One man in the London group said he would be too embarrassed to ask his girlfriend to lend him money, and a woman said she would feel she had disappointed her family if she turned to them to admit that she was struggling:

My family [see] me as someone who is really responsible, I always work hard, I've got a good job. The idea of me having any debt would be like 'are you ridiculous? Look at how much you earn!'… I don't want them to know… I would feel like I've let them down as well.

In such cases, debt advice services need to think about linking people with supplementary networks of support through organised peer support groups or a shared bond, as provided by Riverside Money Advice.

Box 8 **Riverside Money Advice – a community of faith**

Riverside Money Advice is run by a local church in south Birmingham, and helps people struggling with debt within the

congregation and the local community. The service is not restricted to practising Christians, but the Christian faith of those delivering the service – and the support of the church as a whole – inspires those running Riverside Money Advice to reach out to people experiencing debt on a more personal level.

Help is provided in different ways. For example, members of the congregation donate money or food to people who are struggling financially, invite people round for dinner, pay for them to travel to a job interview, support them through prayer, or are simply a friend when needed. Through these actions debt clients feel they have the support of the whole church behind them. People sharing this faith can draw on it as a source of strength.

Source: Demos interview with operations manager at Riverside Church

Box 9

Debtors Anonymous – another form of peer support

Debtors Anonymous, like the better known Alcoholics Anonymous, is a 'fellowship' organisation, which arranges meetings for people who are 'compulsive debtors' – getting into debt frequently, perhaps through an urge to overspend. The organisation follows a 12 step programme delivered in frequent meetings, and is anonymous, like AA. It also facilitates telephone and email contact so members of Debtors Anonymous can contact each other frequently to provide peer support. More experienced members (who have been debt free for 90 days or more) help arrange meetings for others, thereby creating a sustainable model of voluntary-based peer support groups across the country.

Source: the Debtors Anonymous website[46]

While Debtors Anonymous is only for those who find it hard to avoid the temptation of getting into unsecured debt, the concept of facilitated peer support for those in a debt crisis (rather than with a compulsion per se), spanning secured and

unsecured debt, and married with specialist advice (see below) could be replicated by advice agencies.

Marrying generalist and specialist advice

Debt practitioners in our workshops felt strongly that there was a value and appropriateness of providing generalist and specialist advice and support at different times. Generalist advice includes signposting and giving social and emotional reassurance, while specialist advice requires proper training and accreditation (for example, to help people initiate insolvency proceedings), and can only be carried out by qualified individuals. Referrals between specialists and generalists needed to be seamless, and occur in both directions, in order to make best use of specialist time and expert knowledge, and the good relationships that people have with others in their lives.

Importantly, much of the gap-filling we have identified so far in this report – around social and emotional support and de-stigmatising outreach – could be delivered by generalists rather than specialists. Generalists currently include volunteers at debt advice services, social workers and housing officers, but there is no reason why this group could not be expanded to include friends, relatives and other members of the community. The feeling of belonging generated by those benefitting from the Riverside Money Advice Service could be replicated in other contexts where people share a common bond – such as sports clubs, community centres, local pubs, unions and working men's clubs.

Although it may be neither possible nor appropriate for these kinds of places to provide specialist debt advice directly, a generalist system for referrals, encouraging people to seek specialist help and provide longer term welfare support through the communities that build up around these institutions, could give people the confidence they need to take action and feel less overwhelmed. It could also act as an important triage system to differentiate between those who with early generalist help can tackle a debt problem themselves, and those who have lost control of the situation and need specialist help (but who, our

research shows, may wait weeks or months before approaching an advice agency).

To achieve this, generalists need to be appropriately trained to provide support in a way that complements the work of specialist debt advisers. The aforementioned system of community messengers used by the NCDA points to one way of doing this – by up-skilling members of the community who people naturally turn to for support. Exactly who this 'trusted generalist' might be will be different for different people, but could well include housing, education, health or care staff, and religious, youth or community leaders. There is also the potential for individuals to identify their 'money buddy' from within their circle of friends or family. If they agreed, this person would then be involved in the debt support process for an individual – including being present at meetings with a debt adviser where possible, being offered training and guidance on how to help their 'buddy' to stick to a debt management plan, or explaining how to manage a budget to stay out of debt in the future.

This would not only give the people who offer the best emotional and social support a more formal role in the debt advice process, but would also create a 'ripple effect' – disseminating knowledge about good financial management and coping with debt into wider social networks.

Working with the grain of people's behaviour and encouraging self-help

As we described in the previous chapter, those providing debt support need to tread a fine line between helping people in crisis, and ensuring clients do not become dependent, discouraging them from learning how to help themselves in the future. Many debt advice service providers recognise this and part of their overall aim is to improve financial resilience by offering the skills and knowledge required for people to tackle debt problems on their own, or avoid them recurring in future. They need to go beyond their immediate remit of addressing debt and look more at changing personal money habits. Nonetheless, many of the people in debt we spoke to had sought

help at a point of crisis, and felt they were in no fit state to take charge of their situation. They described the 'relief' of having 'someone else take over'. Clearly, there is a vicious circle at play – people in debt do not seek help because they feel they do not need it. They then wait until a crisis point before accepting the need for help, at which point they may be unable to help themselves and seek instead someone to 'take over'. Thus the process does not give them an opportunity to build their skills in tackling any future debt problems themselves.

Debt advice service providers may find it difficult to fulfil their remit of building financial resilience and capability when they are faced with clients in distress and crisis – perhaps instead 'taking over' at first to tackle the crisis, before teaching their clients longer term financial planning. But there is a need for 'tough love' – resisting the urge to take over and instead encouraging clients to take control of their crisis. This is important for a number of reasons:

- Helping debt clients to take back control of a situation that has overwhelmed them builds self-esteem and reduces the fear and panic associated with debt crisis.
- A paternalistic approach (where a debt adviser 'takes over') is resource intensive, and while follow up support may be in place post-crisis (eg to help a person with budgeting skills) to help reduce the risk of getting into debt in the future, it may do little to help people in a crisis, if and when things spiral out of control.
- Most importantly, our research has shown that what is most crucial to people in a debt crisis varies from person to person and often differs from action considered crucial by professionals. Those in debt must be encouraged to articulate their priority concerns, and be helped to tackle them – something likely to be overlooked if well-meaning advisers 'take over'.

Behavioural science teaches us that people are more likely to accept advice, and follow through on actions, if they have been involved in the development of those actions. The LDAP is an example of a service that uses 'co-production' to ensure its clients buy in to the action plan they are set. It also points to the

asset-based approach suggested as an effective element of personalised support, outlined above.

Box 10 **The Lewes District Advice Partnership – co-producing support**

The LDAP ensures the process of identifying and solving debt problems is carried out holistically. People tend to come in with one presenting issue (which could be debt or something else, with debt as an underlying issue) – but are encouraged to discuss wider issues, which can then be prioritised and acted on – 'nothing is left off the table'. In this way the root causes of a problem can be tackled. The solution is likely to involve a mixture of things, including specialist advice and referral to dedicated social and other support groups.

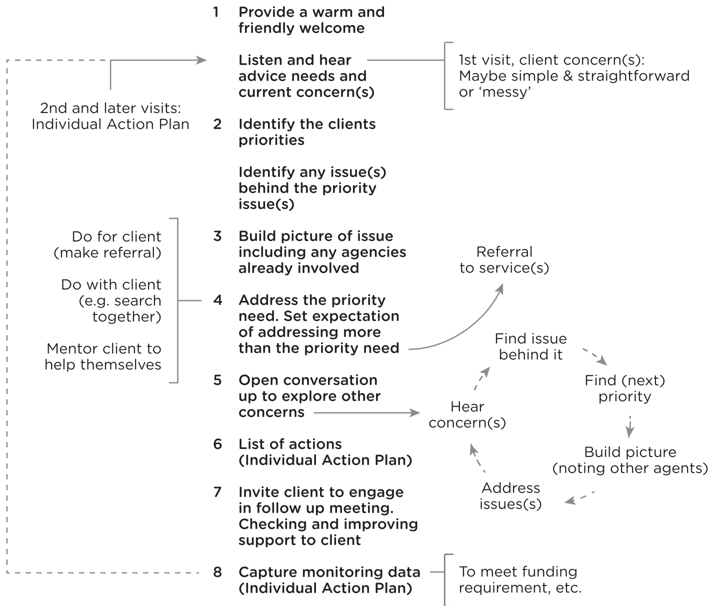
This advisory process (figure 8) deals with the social and emotional elements of debt by listening to and identifying people's concerns and priorities. It offers a way of expanding on these priorities sensitively to agree on a set of actions that addresses client priorities in the round, in partnership with the client. There is a clear objective of balancing 'do for' with 'do with'.

Throughout the advisory process, the adviser is tasked with assessing how much decision-making capacity the person has, and encouraging him or her to shape their support plan as much as they are able. The LDAP says it has a responsibility to engage people in the support process, as it is not looking to infantilise them or build dependency.

Because this process is carried out by volunteers rather than specialist debt advisers – though they can direct people to debt advisers if this is needed – it does not entirely get around the problem of differing priorities. However, is ensures that all dimensions of debt that are of concern from the individual's perspective are explored and addressed early on, through a package of support, while giving people a sense of ownership of the process and the resulting individual action plan.

Source: Demos interview with chief executive and senior development worker at the NCDA

Figure 8 **The advisory process of the LDAP**



Doing more with less

The limited resources available for debt advice, exacerbated by recent cuts to legal aid, has made it difficult for the debt advice sector to meet the increase in demand for debt support services. Focusing on mental wellbeing, social support, early intervention and other issues raised in this report may seem a stretch to front line services struggling to keep up with their caseloads. Nonetheless, a strategic use of generalists to supplement specialist help, driving a shift to targeted earlier intervention, and expansion of a self-help or asset-based approach, clearly all help to make scarce resources go further.

Debt providers are beginning to secure alternative sources of funding. Staff from the NCDA (described earlier in this chapter) told us they were approaching a much wider range of

potential funders than they had in the past, including housing providers, clinical commissioning groups and employers, and were building up their evidence base to enable them to demonstrate their impact across a wider range of outcomes relevant to these partners. Evidence of the effect of debt on people's health, and their ability to cope with the demands of work and family life, lends itself to such a broader funding model and could be a fruitful avenue for all advice providers to explore. Our 'harm matrix' approach could be one way of achieving this.

Another interesting approach is for a range of local advice providers to work closely together to fill the gaps in local need. This makes best possible use of their pooled resources, and creates more effective holistic support, with more seamless referrals to health and mental health support or other underlying drivers of debt.

Box 11

The Lewes District Advice Partnership – a partnership approach

The LDAP has 11 partners, including the local authority, housing providers, charities and local groups for carers, disabled people and the elderly. Brighton Housing Trust and Citizens Advice provides the specialist advisers for the service.

The LDAP's partnership model enables it to engage with emerging needs in the local community by bringing in new partners, and to collaborate to support people's needs, rather than competing for funding. The NCDA (which leads the partnership) established links with a wide range of local partners during previous incarnations of the service. This partnership approach, and multi-faceted programme of support, gives people a range of entry points to accessing debt support (rather than debt itself being the way in). One of the ways that the LDAP calculates the success of its partnership approach is by measuring the quality of cross-referrals between different partners.

Source: Demos interview with chief executive and senior development worker at the NCDA

As debt advice services have to provide more with less through innovation, there have been growing calls for more funding for debt advice to be sourced from an additional levy on the payday lending industry (see box in chapter 1, 'What powers will the FCA have to regulate consumer credit?'). Labour MP Paul Blomfield, who in June 2013 introduced a private members' bill to strengthen regulation of the payday loans industry, recently called for the levy on payday loan companies to be proportionate to the detrimental effects they cause.[47] In their response to the FCA's consultation on the fees and levies issued by the regulator, StepChange proposed that contributions by firms should be based on complaints to the Financial Ombudsman Service, default rates and the caseloads of debt advice providers.[48]

This kind of 'polluter pays' approach would involve basing the levy charged to lenders on their estimated harm to consumers – so those who cause the most damage pay most towards repairing that damage, through debt advice and support. This might incentivise lenders to lend responsibly, and show forbearance to borrowers struggling to repay, in order to reduce the damage they cause, and so the size of the levy they pay. While straightforward to implement, basing contributions to debt service providers on the number of complaints to the Ombudsman about payday loans providers is unlikely to capture the true level of harm caused by different debts, and may only identify unscrupulous practice. Again, a form of 'harm index' approach, covering a range of indicators, could help ensure that levies charged were fairly and accurately calculated, and do not focus on one type of high profile debt (eg doorstep lending).

Reducing the impact of debt

Finally, in addition to changing the way that debt support services operate, and upping the support available to help people cope with certain impacts of debt, the harm index we have developed makes it possible to identify specific characteristics of certain debts that make them have less effect than others. By identifying these features, we can consider how

they might be applied to reduce the harm caused by other, higher impact forms of debt.

The lowest impact debt in our polling – student loans – illustrates this point. This debt is linked to income, is repaid automatically over a long period of time, can be repaid early without incurring any extra charges, and charges low interest rates; there are no legal consequences of non-repayment (in fact, the balance is written off after 25 years in England, Wales and Northern Ireland[49]).

Focus group participants identified credit union loans as the lowest impact form of debt, with flexibility and affordability features that reduce the negative effects of stress or stigma. People in the London focus group (all of whom were members of a local credit union) praised their credit union for being 'non-judgemental' about debt. Because of their dual role as lenders and advice providers, credit unions were well placed to change people's habits and behaviour towards money and saving, including sometimes making repaying certain debts a condition of lending more money.

Participants also thought that credit unions were good at giving people leeway when they fell behind on their debts. One man told us:

I missed a payment because I was in between jobs and I explained to them and they said 'yeah, that's fine, we'll just add an extra month on and… you get another month's interest added on… They were quite flexible in that sense… They said if you miss three payments, that's when they start getting quite annoyed.

Credit unions only lend to their members, and may place restrictions on the amount that can be borrowed. For example, the North London Credit Union, which helped facilitate one of the focus groups for this research, has four different types of loan – the biggest loan, of up to £10,000, is only available to people who are saving with the credit union through their employer, or have been saving for a year or more. People who do not have a regular income (from a salary or pension) are only able to borrow up to £750, so those with an unstable income or claiming

benefits would not be eligible.[50] Credit unions are therefore not appropriate for everyone – including potentially some of the most financially excluded, such as casual workers and disabled people. As the credit union movement expands, there may be ways in which they can serve a wider group of people, given that their current membership rates them so highly.

In summary, our research suggests several ways in which the impact of debt can be reduced, five of which can be found in student loans and (to a slightly lesser extent) credit unions:

- Repayment of the loan is linked to income (student loans), ensuring that repayments are *affordable*. If income drops below a certain threshold, repayments stop.
- *Support* is available to help you repay your loan if you are having difficulties (in credit unions this includes free budgeting and money advice).
- There are various options to repay *flexibly*, including no charges for early repayment.
- The overall *cost* of the loan – interest rates and additional charges and fees (of which there are none) – is low.
- Repayments are *automatically deducted* at an affordable rate from the borrower's salary. Certain employers whose employees have the option to save through a local credit union offer a payroll deduction scheme, where repayments are automatically made from people's monthly salaries. Student loans operate in the same way. Thus people's repayment commitments are met before their other living costs.

In addition to the factors specific to these two particular debts, people in debt also identified two further ways of reducing the impact of debt:

- *Terms and conditions* of debts (repayment regimes, penalties, fees etc) are made clear and are easy to understand before the loan is taken out.
- Creditors are open and *willing to engage directly* with borrowers who fall into difficulties, to negotiate a more affordable

repayment plan, ideally early on when their customer first experiences (or predicts) difficulties in repayment.

Not many lenders can adhere to all of these conditions (mortgage lenders could not waive the legal consequences of not repaying a mortgage, nor could they allow people to repay early without compensating the mortgage lender for its loss of income), but nonetheless, these seven suggestions for reducing the effect of debt are important when considering how the lending sector might be reformed to reduce the impact of debt. We return to this in the following chapter.

The OFT's review of payday lending found that most people in the sector found affordability assessments on new customers inadequate – and those who did take the time and effort to conduct checks lost out on business to those who did not.[51] But payday lenders are not the only guilty culprits – in the course of our research, we heard that banks and credit card companies were effectively forcing credit (including overdraft extensions and personal loans) on existing customers without prior checks. We should also not forget that arrears (council tax and utilities) are ranked as high impact – and cannot have the same levels or types of regulation imposed on them as credit products per se.

5 Recommendations

In the preceding chapters we explored how the lived experience of debt is holistic, and financial, social, emotional and health considerations all play a part. Looking through the lens of this 'lived experience' prompts us to define debt not by its size or type, but by the way it affects people's lives.

This has implications for policy and practice, particularly regarding the gaps that ought to be filled in the support on offer for people in debt and how this ought to be reinforced from above by policies that recognise that debt is a far more emotive and irrational part of people's lives than the legalistic and financial way it is currently viewed.

In chapter 4 we listed a variety of ways in which debt support might meet people's needs better than it does at present. In this shorter chapter, we make recommendations for policy and practice. Our overarching objective is to ensure problem debt is reframed by policy makers as a socio-emotional phenomenon, rather than a financial or legalistic one. While credit might be a financial product, treated dispassionately by the majority of consumers who use it, for many facing problem debt the phenomenon is a mental health or social crisis.

These are our recommendations:

1 *The official measure of debt needs to be changed, to include not just consumer credit, but also arrears on housing and utilities*. Arrears of one kind or another are a very prevalent form of debt and have a very significant impact on people's lives. Omitting arrears from the national statistics creates an incomplete picture of this national problem.

2 *Steps need to be taken to mitigate the impact of some forms of debt*:

- The Government should give borrowers a *legal right* to negotiate directly with their creditors. Where a person has

experienced an unexpected drop in income (due to unemployment, illness, etc) this right to negotiate should be extended before any arrears or missed payments have been experienced, to encourage people to tackle problems for themselves, before they reach crisis point.

- The FCA and OFT should recommend a '*three strikes*' approach as good practice in dealing with arrears. For the first missed payment, a reminder letter containing information about sources of help and advice should be issued. For the second, debtors would be obliged to have a conversation with their creditor about repayment options, and would be referred to debt advice. Only after the third missed payment would creditors have debt recovery proceedings open to them. Many energy companies already have a similar process, which should be followed more widely.
- The FCA should impose a greater standard of *transparency* and simplification of the information provided to consumers. Key facts documents used by mortgage providers ought to be mandated for all consumer lenders, explaining early and late repayment processes, providing illustrations in cash terms rather than percentages, and signposting to advice organisations. This should be implemented alongside a *traffic light rating* system on all debt adverts and product descriptions – similar to the ones shown on food packaging. This information could include, for example, the proportion of borrowers who default on or roll over their original loan, the average amount repaid per £100 borrowed and the risks of not repaying.
- The FCA should adopt a '*polluter pays*' model to calculating its levy. Lenders should pay according to the harm they cause – either using a multiple indicator set as we have done, or one or two key performance indicators (KPIs) such as the number of borrowers defaulting on or extending their initial loan, and/or customer satisfaction levels.[52]
- We urge national government to work with local authorities, debt advice services and the wider voluntary sector to encourage people to seek help with debt problems earlier. Funding for debt advice (from a Financial Services Authority

levy) should be targeted more directly at boosting the sector's ability to offer early intervention and outreach (for example by trusted community members), to encourage people to recognise and act on debt problems earlier.

3 *Public awareness campaigns for the MAS and financial capability should specifically target the stigma associated with being in debt* and seeking help for debt advice. This includes changing the focus of public messaging to adopt a mental health 'Time to Talk' approach, as well as making use of trusted community members (outlined above) to destigmatise debt support.

4 *Debt advice organisations need to draw on the good practice found in their sector and adopt a personalised approach to support provision as standard*. The best advice services we spoke to:

- saw each person differently and tailored advice accordingly, recognising that age, cultural background, emotional resilience and perceptions of financial capability affect how each client responds to a debt crisis and their ability and willingness to follow advice
- saw the whole person and ensured support was provided across the full range of impacts of debt, paying particular attention to social and emotional support, which seems to be most often lacking
- balanced professional knowledge with client concerns, so that seemingly 'non-priority' issues were treated as valid causes of mental distress alongside difficult legal situations
- made this possible through working with specialist and generalist partners locally to deliver different aspects of support and pool resources, and seeking funding from a wider range of sources such as clinical commissioning groups

Appendix 1 Attendees at the practitioner workshops

Paul Anders, Senior Policy Officer, DrugScope
David Blocksidge, Head of Debt Management Team, Consumer Credit Group, OFT
Arlene Boreland, Welfare Benefits Advisor, East Thames
Daniel Breslin, Policy and Research Officer, Centrepoint
Andy Cheng, Senior Development Worker, Advice Services Impact and Evaluation, NCDA
Liz Dunscombe, Head of Adult and Industry Programmes, Credit Action
Becky Harpley, Senior Research Officer, Strategic Commissioning and Partnership Development, Newham Council
Sue Jones, Advice Worker, Gingerbread
Lisa McCrink, Marketing and Business Development Senior Manager, Grant Thornton LLP
Karen Michael, Service Development Team Leader (Revenues and Benefits), Southwark Council
Jemima Olchawski, Public Policy Manager, Newham Council
Sam Royston, Poverty and Early Years Advisor, The Children's Society
Robbie de Santos, Senior Public Policy Advocate, StepChange
Katherine Trebeck, Research and Policy Advisor, Oxfam

Notes

1. Judging financial institutions on their customer service record is something that Demos proposed recently in our report *Putting Customers First* (A Freeman and H Cooper, *Putting Customers First*, Demos, 2014, www.demos.co.uk/publications/puttingcustomersfirst (accessed 1 Mar 2014). See Demos, 'Demos: judge financial institutions on how they treat their customers', press release, 29 Jan 2014, www.demos.co.uk/press_releases/demosjudgefinancialinstitutionsonhowtheytreattheircustomers (accessed 1 Mar 2014).

2. RecommendationsMoney Advice Charity, 'Debt statistics November 2013', http://themoneycharity.org.uk/debt-statistics/ (accessed 20 Jan 2014).

3. For a description of debts that are repaid and managed without difficulties, see C Fitch et al, *Debt and Mental Health: What do we know? What should we do?*, Royal College of Psychiatrists, 2009, www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20(lit%20review%20-%2009_10_18).pdf (accessed 25 Feb 2014).

4. In the survey, people were asked whether or not they had ever had different debt products (eg a credit card, an overdraft, a hire-purchase arrangement), and so it does not distinguish between people who were able to meet their repayments every month, and those who were not able to do so.

5. This figure is based on 2,035 survey respondents out of 6,593 total responses – 3.24 debts per person.

6. Additionally, the fact that it was common for people who had had a mortgage to have smaller levels of debt suggests that most people in our sample had paid off their mortgage.

7 Citizens Advice, 'National debt issue statistics 2012–13', reported in CSJ Working Group, *Maxed Out: Serious personal debt in Britain*, London: Centre for Social Justice, 2013.

8 Shelter, '"Silent strugglers" turn to risky borrowing to pay rent', 15 Jan 2014, http://england.shelter.org.uk/news/january_2014/silent_strugglers_turn_to_risky_borrowing_to_pay_rent (accessed 25 Feb 2014).

9 OFT, *Payday Lending: Compliance review final report*, Office for Fair Trading, 2013, www.oft.gov.uk/shared_oft/Credit/oft1481.pdf (accessed 25 Feb 2014).

10 Competition Commission, 'Payday lending market investigation: annotated issues statement', Jan 2014, www.competition-commission.org.uk/assets/competitioncommission/docs/2013/payday-lending/140131_annotated_issues_statement___.pdf (accessed 25 Feb 2014).

11 Ibid.

12 HM Government, *Social Justice: Transforming lives*, Dept for Work and Pensions, 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49515/social-justice-transforming-lives.pdf (accessed 25 Feb 2014).

13 A Sharman and G Parker, 'George Osborne moves to impose cap on payday loans', *Financial Times*, 25 Nov 2013, www.ft.com/cms/s/0/3c3bab76-55a4-11e3-96f5-00144feabdc0.html#axzz2rDyD4sOE (accessed 25 Feb 2014).

14 FCA, *Detailed Proposals for the FCA Regime for Consumer Credit*, consultation paper, Financial Conduct Authority, Oct 2013, www.fca.org.uk/static/documents/consultation-papers/cp13-10.pdf (accessed 25 February 2014).

15 Citizens Advice, 'Funding for debt advice through the FCA levy', briefing, 21 Jan 2014, www.citizensadvice.org.uk/citizens_advice_briefing_on_funding_for_debt_advice_through_the_fca_levy_21_january_2014.pdf (accessed 25 Feb 2014).

16 Low Commission, *Tackling the Advice Deficit: A strategy for access to advice and legal support on social welfare law in England and Wales*, report of the Low Commission on the Future of Advice and Legal Support, Legal Action Group, 2014, www.lowcommission.org.uk/dyn/1389221772932/Low-Commission-Report-FINAL-VERSION.pdf (accessed 25 Feb 2014).

17 See Money Advice Service, 'What is the Money Advice Service?', nd, https://www.moneyadviceservice.org.uk/ (accessed 25 Feb 2014).

18 Money Advice Service, 'UK strategy for financial capability: a call for evidence', Jul 2013, https://www.moneyadviceservice.org.uk/en/static/financial-capability-call-for-evidence (accessed 25 Feb 2014).

19 P Pleasence et al, *A Helping Hand: The impact of debt advice on people's lives*, Legal Services Research Centre, 2007, www.justice.gov.uk/downloads/publications/research-and-analysis/lsrc/2007/Impact.pdf (accessed 25 Feb 2014).

20 P Skapinakis et al, 'Socio-economic position and common mental disorders: longitudinal study in the general population in the UK', *British Journal of Psychiatry* 189, 2006, 109–17.

21 Christians Against Poverty, 'For richer for poorer – how money stress wrecks marriages', press release, 17 Oct 2013, https://capuk.org/downloads/press/marriageweek2013.pdf (accessed 5 Mar 2014).

22 Pleasence et al, *A Helping Hand*.

23 See Student Loan Repayment website, www.studentloanrepayment.co.uk/ (accessed 25 Feb 2014).

24 See NI Direct Government Services, 'Crisis loans', 2013, www.nidirect.gov.uk/crisis-loans (accessed 25 Feb 2014).

25 Citizens Advice, 'Dealing with urgent debts', nd, www.adviceguide.org.uk/england/debt_e/debt_help_with_debt_e/dealing_with_urgent_debts.htm (accessed 25 Feb 2014).

26 Money Advice Trust, 'Rent arrears the fastest growing UK debt problem', 2013, www.moneyadvicetrust.org/media/news/Pages/Rent-arrears-the-fastest-growing-UK-debt-problem.aspx (accessed 25 Feb 2014).

27 N Cecil, 'London council tax: £642m arrears "could cut bills by £188 for every family"', *Evening Standard*, 13 Jan 2014, www.standard.co.uk/news/politics/london-council-tax-642m-arrears-could-cut-bills-by-188-for-every-family-9055663.html (accessed 25 Feb 2014).

28 E Kempson, S McKay and S Collard, *Incentives to Save: Encouraging saving among low-income households*, final report on the Saving Gateway pilot project, University of Bristol, 2005, www.ggy.bris.ac.uk/pfrc/publications/Reports/SG_Incentives_to_save_final.pdf (accessed 6 Mar 2014).

29 See for example, Thames Water, 'Help paying your bill', 15 May 2013, www.thameswater.co.uk/your-account/583.htm?ql (accessed 1 Mar 2014), and EDF Energy, 'Debt advice', nd, www.edfenergy.com/products-services/for-your-home/personalised-support-service/debt-advice.shtml (accessed 1 Mar 2014). Most utility companies have customer assistance funds to write off some customer debts outstanding.

30 See StepChange (www.stepchange.org/); National Debtline (www.nationaldebtline.co.uk/); Citizens Advice (www.citizensadvice.org.uk/); Debt Advice Foundation (www.debtadvicefoundation.org/); Payplan (www.payplan.com/); Debt Support Trust (www.debtsupporttrust.org.uk); Christians Against Poverty (https://www.capuk.org/).

31 Friends Provident Foundation, 'The long-term impact of debt advice on low-income households: three years on', Friends Provident Foundation, 2013, www.friendsprovidentfoundation.org/wp-content/uploads/2013/03/University_of_Warwick_-_Long-term_Impact_-_3_year_Summary.pdf (accessed 25 Feb 2014).

32 Money Advice Service, *Indebted Lives: The complexities of life in debt*, 2013, https://www.moneyadviceservice.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt (accessed 25 Feb 2014).

33 Figure from StepChange; see Brothers of Charity Services, 'Debt Awareness Week 2014', 2014, www.brothersofcharity.org.uk/Debt-Awareness-2014.aspx (accessed 25 Feb 2014).

34 StepChange Debt Charity, *Statistical Yearbook 2012*, Foundation for Credit Counselling, 2013, www.stepchange.org/Portals/0/Documents/media/reports/statisticsyearbooks/Statistical_Yearbook_2012.pdf (accessed 25 Feb 2014).

35 Citizens Advice, 'Advice trends 2013/14 Q2 (July–September 2013)', London: Citizens Advice, 2013.

36 Ibid.

37 C Robb, 'Legal aid cuts threaten Shelter's advice services', *Guardian*, 5 Feb 2013, www.theguardian.com/society/2013/feb/05/legal-aid-cuts-threaten-shelter (accessed 25 Feb 2014).

38 D Lombard, 'Half of charity leaders plan to cut spending in 2013, NCVO quarterly survey finds', *Third Sector*, 25 Jan 2013, www.thirdsector.co.uk/Finance/article/1168186/half-charity-leaders-plan-cut-spending-2013-ncvo-quarterly-survey-finds/ (accessed 25 Feb 2014).

39 Insolvency Service, *Guide to Debt Relief Orders: When – where – how – who – what*, The Insolvency Service, 2011, www.insolvency.gov.uk/pdfs/guidanceleafletspdf/droguide.pdf (accessed 25 Feb 2014).

40 C-A Taylor, 'Older people struggling with rising cost of living', *Guardian*, 14 Apr 2011, www.theguardian.com/money/2011/apr/14/older-people-struggling-rising-cost-of-living (accessed 25 Feb 2014).

41 See Glasgow City Council, 'Credit union account for every young Glaswegian to combat rise of payday loans', Jun 2013, https://www.glasgow.gov.uk/index.aspx?articleid=10084 (accessed 25 Feb 2014).

42 StepChange, 'Debt in mind: debt and mental health are linked', nd, www.stepchange.org/debtinmind.aspx (accessed 25 Feb 2014).

43 Mind, 'Debt and mental health', nd, www.mind.org.uk/information-support/guides-to-support-and-services/debt-and-mental-health/ (accessed 25 Feb 2014).

44 Royal College of Psychiatrists, 'Debt and mental health', leaflet, Dec 2012, www.rcpsych.ac.uk/healthadvice/problemsdisorders/debtandmentalhealth.aspx (accessed 25 Feb 2014).

45 See Time to Change website: www.time-to-change.org.uk/ (accessed 25 Feb 2014).

46 See http://debtorsanonymous.org.uk/how-it-works (accessed 5 Mar 2014).

47 S Cordon, 'MP says payday lenders should cough up more for FCA levy', Mortgage Solutions, 22 Jan 2014, www.mortgagesolutions.co.uk/mortgage-solutions/news/2324415/mp-says-payday-lenders-should-cough-up-more-for-fca-levy (accessed 25 Feb 2014).

48 StepChange Debt Charity, 'Financial Conduct Authority consultation: regulatory fees and levies: policy proposals 2014/15, Jan 2014, www.stepchange.org/Portals/0/StepChange%20response%20FCA%20fees%20and%20levies%20consultation%20-%20Jan%202014.pdf (accessed 25 Feb 2014).

49 Student Loan Repayment, 'Frequently asked questions', nd, www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678571&_dad=portal&_schema=PORTAL (accessed 4 Mar 2014).

50 See North London Credit Union, 'Personal loans', nd, www.northlondoncommunityfinance.org/index.php/22/personal-loans/ (accessed 25 Feb 2014).

51 OFT, *Payday Lending*.

52 Judging financial institutions on their customer service record is something that Demos proposed recently in Freeman and Cooper, *Putting Customers First*. See Demos, 'Demos: judge financial institutions on how they treat their customers'.

References

Brothers of Charity Services, 'Debt Awareness Week 2014', 2014, www.brothersofcharity.org.uk/Debt-Awareness-2014.aspx (accessed 25 Feb 2014).

Cecil N, 'London council tax: £642m arrears "could cut bills by £188 for every family"', *Evening Standard*, 13 Jan 2014, www.standard.co.uk/news/politics/london-council-tax-642m-arrears-could-cut-bills-by-188-for-every-family-9055663.html (accessed 25 Feb 2014).

Citizens Advice, 'Advice trends 2013/14 Q2 (July–September 2013)', London: Citizens Advice, 2013.

Citizens Advice, 'Dealing with urgent debts', nd, www.adviceguide.org.uk/england/debt_e/debt_help_with_debt_e/dealing_with_urgent_debts.htm (accessed 25 Feb 2014).

Citizens Advice, 'Funding for debt advice through the FCA levy', briefing, 21 Jan 2014, www.citizensadvice.org.uk/citizens_advice_briefing_on_funding_for_debt_advice_through_the_fca_levy_21_january_2014.pdf (accessed 25 Feb 2014).

Citizens Advice, 'National debt issue statistics 2012–13'.

Competition Commission, 'Payday lending market investigation: annotated issues statement', Jan 2014, www.competition-commission.org.uk/assets/competitioncommission/docs/2013/payday-lending/140131_annotated_issues_statement___.pdf (accessed 25 Feb 2014).

Cordon S, 'MP says payday lenders should cough up more for FCA levy', Mortgage Solutions, 22 Jan 2014, www.mortgagesolutions.co.uk/mortgage-solutions/news/2324415/mp-says-payday-lenders-should-cough-up-more-for-fca-levy (accessed 25 Feb 2014).

Demos, 'Demos: judge financial institutions on how they treat their customers', press release, 29 Jan 2014, www.demos.co.uk/press_releases/demosjudgefinancialinstitutionsonhowtheytreattheircustomers (accessed 1 Mar 2014).

EDF Energy, 'Debt advice', nd, www.edfenergy.com/products-services/for-your-home/personalised-support-service/debt-advice.shtml (accessed 1 Mar 2014).

FCA, *Detailed Proposals for the FCA Regime for Consumer Credit*, consultation paper, Financial Conduct Authority, Oct 2013, www.fca.org.uk/static/documents/consultation-papers/cp13-10.pdf (accessed 25 February 2014).

Fitch C et al., *Debt and Mental Health: What do we know? what should we do?*, Royal College of Psychiatrists, 2009, www.rcpsych.ac.uk/pdf/Debt%20and%20mental%20health%20(lit%20review%20-%2009_10_18).pdf (accessed 25 Feb 2014).

Freeman A and Cooper H, *Putting Customers First*, Demos, 2014, www.demos.co.uk/publications/puttingcustomersfirst (accessed 1 Mar 2014).

Friends Provident Foundation, 'The long-term impact of debt advice on low-income households: three years on', Friends Provident Foundation, 2013, www.friendsprovidentfoundation.org/wp-content/uploads/2013/03/University_of_Warwick_-_Long-term_Impact_-_3_year_Summary.pdf (accessed 25 Feb 2014).

Glasgow City Council, 'Credit union account for every young Glaswegian to combat rise of payday loans', Jun 2013, https://www.glasgow.gov.uk/index.aspx?articleid=10084 (accessed 25 Feb 2014).

HM Government, *Social Justice: Transforming lives*, Dept for Work and Pensions, 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49515/social-justice-transforming-lives.pdf (accessed 25 Feb 2014).

Insolvency Service, *Guide to Debt Relief Orders: When – where – how – who – what*, The Insolvency Service, 2011, www.insolvency.gov.uk/pdfs/guidanceleafletspdf/droguide.pdf (accessed 25 Feb 2014).

Kempson E, McKay S and Collard S, *Incentives to Save: Encouraging saving among low-income households*, final report on the Saving Gateway pilot project, University of Bristol, 2005, www.ggy.bris.ac.uk/pfrc/publications/Reports/SG_Incentives_to_save_final.pdf (accessed 6 Mar 2014).

Lombard D, 'Half of charity leaders plan to cut spending in 2013, NCVO quarterly survey finds', *Third Sector*, 25 Jan 2013, www.thirdsector.co.uk/Finance/article/1168186/half-charity-leaders-plan-cut-spending-2013-ncvo-quarterly-survey-finds/ (accessed 25 Feb 2014).

Low Commission, *Tackling the Advice Deficit: A strategy for access to advice and legal support on social welfare law in England and Wales*, report of the Low Commission on the Future of Advice and Legal Support, Legal Action Group, 2014, www.lowcommission.org.uk/dyn/1389221772932/Low-Commission-Report-FINAL-VERSION.pdf (accessed 25 Feb 2014).

Mind, 'Debt and mental health', nd, www.mind.org.uk/information-support/guides-to-support-and-services/debt-and-mental-health/ (accessed 25 Feb 2014).

Money Advice Charity, 'Debt statistics November 2013', http://themoneycharity.org.uk/debt-statistics/ (accessed 20 Jan 2014).

Money Advice Service, 'UK strategy for financial capability: a call for evidence', Jul 2013, https://www.moneyadviceservice.org.uk/en/static/financial-capability-call-for-evidence (accessed 25 Feb 2014).

Money Advice Service, 'What is the Money Advice Service?', nd, https://www.moneyadviceservice.org.uk/ (accessed 25 Feb 2014).

Money Advice Service, *Indebted Lives: The complexities of life in debt*, 2013, https://www.moneyadviceservice.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt (accessed 25 Feb 2014).

Money Advice Trust, 'Rent arrears the fastest growing UK debt problem', 2013, www.moneyadvicetrust.org/media/news/Pages/Rent-arrears-the-fastest-growing-UK-debt-problem.aspx (accessed 25 Feb 2014).

NI Direct Government Services, 'Crisis loans', 2013, www.nidirect.gov.uk/crisis-loans (accessed 25 Feb 2014).

North London Credit Union, 'Personal loans', nd, www.northlondoncommunityfinance.org/index.php/22/personal-loans/ (accessed 25 Feb 2014).

OFT, *Payday Lending: Compliance review final report*, Office for Fair Trading, 2013, www.oft.gov.uk/shared_oft/Credit/oft1481.pdf (accessed 25 Feb 2014).

Pleasence P et al, *A Helping Hand: The impact of debt advice on people's lives*, Legal Services Research Centre, 2007, www.justice.gov.uk/downloads/publications/research-and-analysis/lsrc/2007/Impact.pdf (accessed 25 Feb 2014).

Robb C, 'Legal aid cuts threaten Shelter's advice services', *Guardian*, 5 Feb 2013, www.theguardian.com/society/2013/feb/05/legal-aid-cuts-threaten-shelter (accessed 25 Feb 2014).

Royal College of Psychiatrists, 'Debt and mental health', leaflet, Dec 2012, www.rcpsych.ac.uk/healthadvice/problemsdisorders/debtandmentalhealth.aspx (accessed 25 Feb 2014).

Sharman A and Parker G, 'George Osborne moves to impose cap on payday loans', *Financial Times*, 25 Nov 2013, www.ft.com/cms/s/0/3c3bab76-55a4-11e3-96f5-00144feabdc0.html #axzz2rDyD4sOE (accessed 25 Feb 2014).

Shelter, '"Silent strugglers" turn to risky borrowing to pay rent', 15 Jan 2014, http://england.shelter.org.uk/news/january_2014/silent_strugglers_turn_to_risky_borrowing_to_pay_rent (accessed 25 Feb 2014).

Skapinakis P et al, 'Socio-economic position and common mental disorders: longitudinal study in the general population in the UK', *British Journal of Psychiatry* 189, 2006, 109–17.

StepChange, 'Debt in mind: debt and mental health are linked', nd, www.stepchange.org/debtinmind.aspx (accessed 25 Feb 2014).

StepChange, 'Financial Conduct Authority consultation: regulatory fees and levies: policy proposals 2014/15, Jan 2014, www.stepchange.org/Portals/0/StepChange%20response%20FCA%20fees%20and%20levies%20consultation%20-%20Jan%202014.pdf (accessed 25 Feb 2014).

StepChange, *Statistical Yearbook 2012*, Foundation for Credit Counselling, 2013, www.stepchange.org/Portals/0/Documents/media/reports/statisticsyearbooks/Statistical_Yearbook_2012.pdf (accessed 25 Feb 2014).

Student Loan Repayment, ‘Frequently asked questions’, nd, www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678571&_dad=portal&_schema=PORTAL (accessed 4 Mar 2014).

Taylor C-A, ‘Older people struggling with rising cost of living’, *Guardian*, 14 Apr 2011, www.theguardian.com/money/2011/apr/14/older-people-struggling-rising-cost-of-living (accessed 25 Feb 2014).

Thames Water, ‘Help paying your bill’, 15 May 2013, www.thameswater.co.uk/your-account/583.htm?ql (accessed 1 Mar 2014).

Demos – Licence to Publish

The work (as defined below) is provided under the terms of this licence ('licence'). The work is protected by copyright and/or other applicable law. Any use of the work other than as authorised under this licence is prohibited. By exercising any rights to the work provided here, you accept and agree to be bound by the terms of this licence. Demos grants you the rights contained here in consideration of your acceptance of such terms and conditions.

1 Definitions

A **'Collective Work'** means a work, such as a periodical issue, anthology or encyclopedia, in which the Work in its entirety in unmodified form, along with a number of other contributions, constituting separate and independent works in themselves, are assembled into a collective whole. A work that constitutes a Collective Work will not be considered a Derivative Work (as defined below) for the purposes of this Licence.

B **'Derivative Work'** means a work based upon the Work or upon the Work and other pre-existing works, such as a musical arrangement, dramatisation, fictionalisation, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which the Work may be recast, transformed, or adapted, except that a work that constitutes a Collective Work or a translation from English into another language will not be considered a Derivative Work for the purpose of this Licence.

C **'Licensor'** means the individual or entity that offers the Work under the terms of this Licence.

D **'Original Author'** means the individual or entity who created the Work.

E **'Work'** means the copyrightable work of authorship offered under the terms of this Licence.

F **'You'** means an individual or entity exercising rights under this Licence who has not previously violated the terms of this Licence with respect to the Work, or who has received express permission from Demos to exercise rights under this Licence despite a previous violation.

2 Fair Use Rights

Nothing in this licence is intended to reduce, limit, or restrict any rights arising from fair use, first sale or other limitations on the exclusive rights of the copyright owner under copyright law or other applicable laws.

3 Licence Grant

Subject to the terms and conditions of this Licence, Licensor hereby grants You a worldwide, royalty-free, non-exclusive, perpetual (for the duration of the applicable copyright) licence to exercise the rights in the Work as stated below:

A to reproduce the Work, to incorporate the Work into one or more Collective Works, and to reproduce the Work as incorporated in the Collective Works;

B to distribute copies or phonorecords of, display publicly, perform publicly, and perform publicly by means of a digital audio transmission the Work including as incorporated in Collective Works; The above rights may be exercised in all media and formats whether now known or hereafter devised. The above rights include the right to make such modifications as are technically necessary to exercise the rights in other media and formats. All rights not expressly granted by Licensor are hereby reserved.

4 Restrictions

The licence granted in Section 3 above is expressly made subject to and limited by the following restrictions:

A You may distribute, publicly display, publicly perform, or publicly digitally perform the Work only under the terms of this Licence, and You must include a copy of, or the Uniform Resource Identifier for, this Licence with every copy or phonorecord of the Work You distribute, publicly display, publicly perform, or publicly digitally perform. You may not offer or impose any terms on the Work that alter or restrict the terms of this Licence or the recipients' exercise of the rights granted here under. You may not sublicence the Work. You must keep intact all notices that refer to this Licence and to the disclaimer of warranties. You may not distribute, publicly display, publicly perform, or publicly digitally perform the Work with any technological measures that control access or use of the Work in a manner inconsistent with the terms of this Licence Agreement. The above applies to the Work as incorporated in a Collective Work, but this does not require the Collective Work apart from the Work itself to be made subject to the terms of this Licence. If You create a Collective Work, upon notice from any Licensor You must, to the extent practicable, remove from the Collective Work any reference to such Licensor or the Original Author, as requested.

B You may not exercise any of the rights granted to You in Section 3 above in any manner that is primarily intended for or directed towards commercial advantage or private monetary

compensation. The exchange of the Work for other copyrighted works by means of digital filesharing or otherwise shall not be considered to be intended for or directed towards commercial advantage or private monetary compensation, provided there is no payment of any monetary compensation in connection with the exchange of copyrighted works.

C If you distribute, publicly display, publicly perform, or publicly digitally perform the Work or any Collective Works, You must keep intact all copyright notices for the Work and give the Original Author credit reasonable to the medium or means You are utilising by conveying the name (or pseudonym if applicable) of the Original Author if supplied; the title of the Work if supplied. Such credit may be implemented in any reasonable manner; provided, however, that in the case of a Collective Work, at a minimum such credit will appear where any other comparable authorship credit appears and in a manner at least as prominent as such other comparable authorship credit.

5 Representations, Warranties and Disclaimer

A By offering the Work for public release under this Licence, Licensor represents and warrants that, to the best of Licensor's knowledge after reasonable inquiry:

i Licensor has secured all rights in the Work necessary to grant the licence rights hereunder and to permit the lawful exercise of the rights granted hereunder without You having any obligation to pay any royalties, compulsory licence fees, residuals or any other payments;

ii The Work does not infringe the copyright, trademark, publicity rights, common law rights or any other right of any third party or constitute defamation, invasion of privacy or other tortious injury to any third party.

B except as expressly stated in this licence or otherwise agreed in writing or required by applicable law, the work is licenced on an 'as is' basis, without warranties of any kind, either express or implied including, without limitation, any warranties regarding the contents or accuracy of the work.

6 Limitation on Liability

Except to the extent required by applicable law, and except for damages arising from liability to a third party resulting from breach of the warranties in section 5, in no event will Licensor be liable to you on any legal theory for any special, incidental, consequential, punitive or exemplary damages arising out of this licence or the use of the work, even if Licensor has been advised of the possibility of such damages.

7 Termination

A This Licence and the rights granted hereunder will terminate automatically upon any breach by You of the terms of this Licence. Individuals or entities who have received Collective Works from You under this Licence, however, will not have their licences terminated provided such individuals or entities remain in full compliance with those licences. Sections 1, 2, 5, 6, 7, and 8 will survive any termination of this Licence.

B Subject to the above terms and conditions, the licence granted here is perpetual (for the duration of the applicable copyright in the Work). Notwithstanding the above, Licensor reserves the right to release the Work under different licence terms or to stop distributing the Work at any time; provided, however that any such election will not serve to withdraw this Licence (or any other licence that has been, or is required to be, granted under the terms of this Licence), and this Licence will continue in full force and effect unless terminated as stated above.

8 Miscellaneous

A Each time You distribute or publicly digitally perform the Work or a Collective Work, Demos offers to the recipient a licence to the Work on the same terms and conditions as the licence granted to You under this Licence.

B If any provision of this Licence is invalid or unenforceable under applicable law, it shall not affect the validity or enforceability of the remainder of the terms of this Licence, and without further action by the parties to this agreement, such provision shall be reformed to the minimum extent necessary to make such provision valid and enforceable.

C No term or provision of this Licence shall be deemed waived and no breach consented to unless such waiver or consent shall be in writing and signed by the party to be charged with such waiver or consent.

D This Licence constitutes the entire agreement between the parties with respect to the Work licenced here. There are no understandings, agreements or representations with respect to the Work not specified here. Licensor shall not be bound by any additional provisions that may appear in any communication from You. This Licence may not be modified without the mutual written agreement of Demos and You.

This project was supported by:

BARROW CADBURY TRUST

Britain is often described as being in a 'debt crisis' – with outstanding personal debt currently standing at £1.4 trillion, and household debt double what it was ten years ago. And yet this number does nothing to describe what makes debt difficult (or not) for individuals. The political narrative around debt has fallen into the trap of seeing it purely as a financial issue, which can be fixed through structural changes to the lending industry to make debt more 'affordable'. This top-down view of the debt phenomenon entirely overlooks how different debts impact the lives of those experiencing them in different ways – financially, but also mentally, emotionally and socially.

This report aims to shine a light on debt from the bottom up, and in so doing reveals that there are many different experiences of debt. Based on original surveys, focus groups and expert workshops, *The Borrowers* compiles a 'harm index' of different debt types, assessing their impact across a range of indicators – including mental wellbeing and social consequences – to develop a holistic picture of the harm they cause.

The analysis not only provides a more granular understanding of problematic debt but also has lessons for how best to tackle it. As the Financial Conduct Authority takes charge of regulating consumer credit, the report recommends a 'polluter pays' model to calculating its levy, where lenders pay according to the harm they cause. It also recommends a legal right for borrowers to negotiate directly with creditors. These and other measures would help to fill the existing gaps in support for people in debt, and build towards a policy narrative which recognises the more emotional aspects of debt.

Jo Salter is a Researcher at Demos, working on the Public Services and Welfare Programme.

ISBN 978-1-909037-58-8 £10
© Demos 2014