

In too deep

CAB clients' experience of debt

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Executive summary

1. Since 2000, there has been a debate between the credit industry, consumer organisations and the Government as to whether the UK is facing a problem of personal indebtedness. Over the last five years, Citizens Advice Bureaux UK wide have reported a substantial increase in the number of new debt enquiries. They are now dealing with well over a million new debt enquiries per year. There has been a marked growth in the number of new enquiries about consumer credit where enquiries have risen by 47 per cent over the five years to 2002. Consumer credit debt enquiries now form nearly two-thirds of all new enquiries about debt made to Citizens Advice Bureaux. Other advice providers have also reported a rise in the number of people contacting them for help with debt problems.
2. The increase in the number of people seeking help about their debt problems could be strongly related to economic boom. For many people, low rates of unemployment, low interest rates and soaring house prices have resulted in a substantial increase in mortgage and consumer credit lending. However lenders' figures appear to show that the indebtedness problem may be limited; for example the proportion of accounts in arrears has remained the same for the last 5 years.¹
3. In order to understand more about the reasons for the increase in the number of new debt enquiries, the CAB service decided to undertake a major piece of research to find out more about the problems faced by our debt clients. In May 2001, a 10 per cent sample of bureaux UK-wide were asked to survey their new debt clients in that month. Over 900 people participated in the survey. The research found that:
 - CAB debt clients are most likely to be of working age. Only a small proportion of debt clients were over pensionable age. CAB debt clients are particularly poor, with high proportions of people in receipt of means-tested benefits and tax credits and many being tenants of social landlords. The average monthly income of debt clients was less than half of that for the UK population as a whole.
 - There has been a dramatic shift in the types of debts about which CAB debt clients are seeking advice over the last ten years. A decade ago, CABx were dealing with clients who had as many priority debts (debts where the ultimate sanction for non-payment is imprisonment, loss of home, disconnection of fuel supply or repossession of essential goods on hire purchase) as credit debts, notably mortgage arrears and community charge arrears. Now CABx are dealing with people who have considerably higher numbers of credit debts. Low income and the number of credit cards, bank and finance company loans had the most effect on the size of the clients' total debt.

¹ Statistics from Registry Trust quoted in *DTI Overindebtedness Task Force –Second Report*, January 2003

- The total household debt amongst CAB clients ranged from £132 to £111,000. A significant proportion of clients faced debts in proportion to their income which were totally unmanageable, on average nearly 14 times their monthly income. Those people living in rural areas, owner occupiers and non-householders had particularly high levels of debt relative to their income.
- The survey also found that certain debts were linked to poverty. Women, tenants of social landlords and the unwaged were most likely to have debts associated with poverty, such as catalogue debts and loans to home-collected credit providers. Interest rates associated with these types of borrowing were significantly greater than for so-called mainstream sources of credit. Few CAB debt clients had debts to the social fund, and CAB evidence often points to unfair refusals of applications to this fund and the problems that very high rates of repayment cause.
- A high proportion of clients had bank overdrafts. This is of concern because a bank can take an unfair advantage to recover debts to itself if the debtor is still using this bank account to receive wages and benefits.
- Debt problems can be exacerbated by inappropriate collection methods, including the use of administration charges. The survey found that consumer credit lenders were much less likely than priority creditors to use court action to recover debt, relying instead on the use of debt collection agencies. CAB evidence often shows that debt collection agencies use harsh and unfair methods to collect debts. Therefore effective measures are needed to tackle unacceptable debt collection techniques.
- Where court enforcement is used to recover the debt, CAB evidence shows that some types of enforcement have a harsh impact on vulnerable people in debt.
- Administration charges can make debts spiral out of control. Although it may be reasonable to add charges for the additional cost of administering an account in arrears, the charges should be proportionate to the cost. And where creditors are charging high interest rates and APRs based on assumptions about the risk of non-payment, it is arguable that consumers who incur contractual charges for recovery letters and visits are effectively being charged twice.
- Social landlords and local authority council tax departments were most likely to use court action to recover debts. CABx report that social landlords and council tax departments are taking a tougher line on the collection of rent and council tax arrears, even though poor housing and council tax benefit administration may be partly to blame for increased arrears. This indicates that action to tackle debt problems should include measures to improve collection practices for rent and council tax arrears.
- Because few creditors had taken court action to recover the debts, many of the clients were unable to access insolvency remedies, including

administration orders in England and Wales and sequestration in Scotland. Action should be taken to ensure that more people with problem debts can obtain protection from further enforcement action by their creditors and make affordable repayments to reduce their debts.

- CAB clients get into debt problems for a variety of reasons. Of these, a change in circumstances, such as job loss, ill health and relationship breakdown, and overcommitment and poor money management were the most important.
- A high proportion of clients reported a change of circumstances involving loss of income or increased expenditure as a reason for debt. However when the actual financial effects of these changes were ascertained, in a significant proportion of cases the amount of change in income expenditure was relatively small, around 10 per cent of annual income. This suggests strongly that for a proportion of CAB clients with debt problems the level of their commitments relative to their income was such that a relatively small change turned what were previously manageable payments into debt problems.
- CAB evidence also shows that payment protection insurance, which might be expected to protect people from the effects of unexpected changes in circumstances, just does not help to resolve many of the debt problems which CAB debt clients face. This is most often because the changes experienced are outside the scope of such insurance policies or the causes are specifically excluded.
- The impact of unmanageable debt on an individual's life can be overwhelming. By the time they sought advice from the CAB, nearly 40 per cent of the clients said that they felt they could not cope and were feeling in crisis. Most clients had tried at least one method of coping with their debt problems before seeking advice from the CAB. However it is worrying that over half of the debt clients were trying to cope with their financial situation by either using their existing sources of credit or taking out additional borrowing.
- Although half the debt clients had tried to negotiate reduced payments with their creditors themselves before seeking advice from the CAB, most had not received sympathetic responses from their creditors.
- It was of particular concern to find that a quarter of CAB debt clients were already seeking treatment for stress, depression and anxiety from or via their GP. Just under half of those who were receiving medical treatment for their depression felt that their symptoms were caused by their debt problems.
- In many cases, CAB debt clients reported that the impact of debt on their lives had been devastating. Relationship breakdown, feelings of isolation and the stress of living on a tight budget had affected them deeply.

4. Recent research for the Financial Services Authority suggests that as many as 6.1 million households face moderate difficulties paying their current credit and other commitments. It is therefore important that initiatives to tackle debt are effective.
5. A sustainable strategy for preventing overindebtedness and resolving debt problems when they do arise, needs to cover a wide range of issues to be fully effective. Initiatives which tackle irresponsible lending and borrowing, the level of benefits, take up of benefits and, for those in work, tax credits, lack of access to affordable credit, poor benefit administration, low pay and employment instability, as well as employer compliance with employment protection legislation, and access to advice all have a part to play in the prevention and resolution of debt problems.
6. Although there are a multitude of governmental and other initiatives, the CAB service feels that they will not be effective for the following main reasons:
 - Some initiatives are only proposals and have yet to be implemented or get close to implementation
 - Where self-regulation is relied on, this only covers those traders who subscribe to trade association codes of practice, and is only useful if there is effective monitoring of compliance
 - Important issues related to overindebtedness are not included in some key governmental or other initiatives, for example the recent reforms of bankruptcy legislation do not address the inability of many CAB debt clients on means-tested benefits to afford the deposit fee to become bankrupt
 - Some initiatives are insufficient to deal with the problem they are attempting to address, e.g. there is a gap between the funding required to provide free, independent and impartial money advice and the money available
 - External events may prevent some governmental initiatives from being put into practice, for example the EC draft directive on consumer credit may frustrate the UK government's review of the Consumer Credit Act
 - There is limited overall co-ordination of policy and action.
7. The CAB service recommends that a crosscutting governmental review should result in a full assessment of all strategies to tackle the problem of debt and develop strategies to fill any gaps, and to monitor whether further action is needed to tackle emerging trends.
8. Our other recommendations to tackle the problem of debt effectively are set out in Chapters 8 to 12.

Is there a personal debt problem in the UK today?

1.1 Imagine if you had to face situations like these:

A couple contacted a CAB in Cambridgeshire for help with £18,000 of debt. A year earlier, they had had a combined income of over £40,000 a year and could easily afford the debt repayments. However, the woman became ill and unable to work. She got depressed, partly because of her illness, but also because they could not afford the repayments to their creditors. The man then had to take time off work to look after her, as she needed a lot of personal care to cope with her illness. He subsequently became depressed. At the point of seeking help, their annual income had dropped to just over £9,000. They could no longer pay their credit debts and were falling behind with payments to priority commitments such as their rent and council tax. The couple told the CAB adviser that they found it impossible to pull themselves out of the depression they were both suffering from and to cope with the woman's long-term physical illness, their growing debts and the threat of losing their home.

A woman contacted a South London CAB money advice helpline after she had been sent home from work because she was so distressed. Her husband wanted her to sign a consolidated loan agreement secured on the matrimonial home, which was solely in her name to repay his debts of £48,000 to 12 credit card companies. It transpired he had been taking out new credit to repay existing debts and matters only came to a head when he was turned down for an unsecured loan. The client did not want to put her home at risk by agreeing to the secured loan and faced serious family tension.

A male client of a West of Scotland CAB had been given a total of £3,000 credit from three different companies although he had been on incapacity benefit for 10 years and had no means of repaying these debts. The client had mental health problems which were exacerbated by the resultant financial stress and harassment from his creditors.

- 1.2 As these cases show, unmanageable debt can have devastating consequences. CAB experience is that this can happen irrespective of the amount owed. Depression, ill-health, relationship breakdown, arguments within families, doing without essentials including food, and facing homelessness can all result from a debt problem.
- 1.3 The CAB service is well placed to comment on the issue of debt. All Citizens Advice Bureaux give free, impartial, confidential and independent advice and support on debt problems. Where people can no longer afford to pay their credit and essential commitments, CABx can help them sort out the problem by using a consistent, structured and practical approach to the clients' whole financial situation, which:
- gains the client's trust to talk about their financial situation

- establishes the extent of the debt problem
- checks whether the client is legally liable to pay all their debts
- identifies ways in which the client could increase their income, including by claiming benefits and tax credits, getting benefits claims backdated, claiming on payment protection insurances and applying for charitable grants
- helps the client draw up a budget and advising them on reducing expenditure
- identifies the debtor's most important debts - where if acceptable payment arrangements are not made, the debtor could lose their home, their liberty, fuel supply or essential household goods on hire purchase
- helps the client decide a suitable strategy for dealing with their debt problem, including bankruptcy and sequestration, individual voluntary arrangements and protected trust deeds and administration orders
- works out and negotiates fair and sustainable repayments to all the client's creditors, and if possible, arranges for the client to pay these via a payment distribution system
- advises the client on court procedures for debt recovery, and if possible represents her/him at any debt-related hearings
- where possible, empowers the client to deal with the problem her/himself.

1.4 In the rest of this chapter we consider whether there is a growing problem of personal debt in the UK.

Is there a debt problem in the UK?

1.5 In recent years there has been a debate between the credit industry, consumer organisations and Government as to whether the UK is facing a problem of personal indebtedness.

1.6 The CAB service's view is that the problem of personal indebtedness is getting worse. Over the last five years, bureaux UK-wide have reported a substantial 24 per cent increase in the number of new debt enquiries and are now dealing with well over a million new debt enquiries per year. The growth in the number of enquiries is almost purely related to consumer credit – the number of enquiries about other kinds of debt (particularly housing and utility debts) has fallen or remained static over the same period. Enquiries about consumer credit debts, such as loans and credit cards, have risen by 47 per cent over the last five years and now form nearly two-thirds of all new enquiries about debt to Citizens Advice Bureaux.

Table 1.1 New CAB debt enquiries in the UK – 1997 - 2002

Type of debt enquiries	1997/8	1998/9	1999/00	2000/01	2001/02	% increase 97/8 – 01/2
Consumer	465,194	544,961	626,984	638,568	683,677	47%
Housing	138,695	142,895	139,289	134,290	125,392	-10%
Utility	93,144	98,654	100,735	97,024	90,118	-3%
Tax	73,906	72,105	73,012	76,188	75,944	3%
Benefits²	29,132	33,392	35,539	37,124	38,442	32%
Legal³	24,896	24,147	24,372	23,438	23,537	-5%
Employment⁴	17,072	17,063	18,716	18,507	16,620	-3%
Relationship⁵	17,107	16,557	15,690	15,530	12,189	-29%
Total	862,019	952,734	1,031,377	1,038,066	1,066,509	24%

- 1.7 With the exception of London and the East where debt enquiries have remained about the same, there has been an overall increase in the number of new debt enquiries dealt with by CABx in all parts of the UK since 1997. Substantial increases in the number of new debt enquiries have been reported by bureaux in the North Region⁶ and Wales at 75 per cent and 56 per cent respectively over the past five years.
- 1.8 The CAB enquiry statistics themselves do not explain the reasons for the increase. One possible reason is that funding for dedicated debt advisers in bureaux has become available. This could have increased capacity to deal with more enquiries. Since the mid 1990s, Citizens Advice Bureaux have been successful in obtaining additional funding for specialist debt advisers, particularly from the Community Legal Service (formerly the Legal Aid Board). By 2002, 151 Citizens Advice Bureaux in England and Wales had obtained funding for a debt advice service from the Community Legal Service (CLS).
- 1.9 Although increased capacity could account for the rise in the overall number of new debt enquiries, it does not explain the particularly sharp increase in the number of consumer credit debt enquiries, as one might have expected all categories of debt enquiries to have increased, in response to greater provision of advice. Nor does it account for the increase in new debt enquiries in Northern Ireland (22 per cent) and Scotland (six per cent), where there is no Community Legal Service at present. Some CABx with a CLS debt franchise find that increased funding does not necessarily mean more enquiries can be dealt with. Often a better service can be given to existing numbers of debt clients who are eligible for help.
- 1.10 The number of enquiries to other debt advice providers has also risen. For example, the number of calls made to the Consumer Credit Counselling Service, a charity providing a free telephone helpline and payment distribution service for people in debt, has also increased sharply from 65,000 in 1999 to 100,000 in 2001. The growth in the number of private companies who offer

² Benefit debt comprises social fund debts and benefit overpayments.

³ Legal debt comprises unpaid magistrates court fines, court costs, and unpaid legal bills.

⁴ Employment debt comprises overpayment of wages and loans from employers.

⁵ Relationship debt comprises arrears of child support and other forms of maintenance.

⁶ Comprises Yorkshire, North Lincolnshire, Sunderland, Tyne & Wear, Cleveland, County Durham and Northumberland.

debt management for a fee, many of whom advertise in national and local media, may have increased awareness of debt advice.

- 1.11 The last significant increase in CAB debt enquiries took place during the early 1990s and was a direct result of a deep economic recession caused mainly by high interest rates and rising unemployment. In contrast, the current increase has taken place during a time of relatively benign economic conditions. Record numbers of people are in work and unemployment is under a million.⁷ And there have been extremely low interest rates; in February 2003 the Bank of England rate was 3.75 per cent.⁸
- 1.12 The reason for the increase in CAB debt problems could be related to the economic conditions. For many people, low rates of unemployment, low interest rates and soaring house prices have fuelled a substantial increase in mortgage and consumer credit lending. Mortgage lending totalled £219 billion in 2002, a figure which was boosted by high levels of remortgaging, which accounted for 38 per cent of all mortgage lending.⁹ In February 2003, the amount of consumer credit outstanding was £158 billion, representing about £3,400 for each adult in the UK.¹⁰
- 1.13 Lenders' statistics however suggest that there is only a limited problem of indebtedness. For example:
- The proportion of consumer credit accounts in arrears is said to have remained static at about five per cent of all accounts since November 1996;¹¹
 - There has been a 36 per cent decrease in the number of county court judgments in England and Wales entered in the Register of County Court Judgments during the period 1995 – 2001,¹² and
 - The number of mortgage repossessions has decreased by two-thirds from 32,770 in 1997 to 11,970 at the end of 2002.¹³
- 1.14 However, these figures in themselves do not show the full picture. The information held by credit reference agencies about consumer credit accounts only relates to whether the individual is up-to-date with their payments or not, and if they are in arrears, how far behind they are with payments. It does not show whether someone is over-committed relative to their income or struggling to pay all their commitments, as credit reference agencies do not hold data about income or commitments such as council tax, rent, magistrates court fines, social fund loans and student loans. As the amount of outstanding credit has increased by 83 per cent since 1996, it may be reasonable to infer

⁷ In February 2003, 935,000 people were unemployed and claiming benefit – ONS press release 19.3.03.

⁸ Bank of England Press Release 10.4.03

⁹ Council of Mortgage Lenders, Press Release 21.1.03

¹⁰ Office of National Statistics Dataset – Consumer Credit Business

¹¹ Statistics from Experian quoted in *DTI Overindebtedness Task Force –Second Report*, January 2003

¹² Statistics from Registry Trust quoted in *DTI Overindebtedness Task Force –Second Report*, January 2003

¹³ CML Press Release 29.1.03

that five per cent of accounts will represent a far greater number of credit accounts in 2001 than in 1996.

- 1.15 The decline in incidence of formal debt recovery steps, such as county court judgments and sheriffs court decrees could result from banks, finance companies and credit card companies taking the view that “informal” pressure on individuals to prioritise payment of their debt is more effective than court action. The decrease in the number of county court judgments could also be partly attributed to changes in court procedure and increases in fees. In April 1999, civil court procedure in England and Wales was overhauled as a policy initiative to ensure courts are only used to settle civil disputes as a last resort. There have been substantial increases in court fees in 1997, 1999, 2000 and 2003, particularly to issue a court claim. For example, in 1995 it cost £70 to start county court proceedings for a debt of £1,000; whereas it now costs £115. There is also a perception that enforcement of judgments is currently inefficient, hence the current review of enforcement by the Lord Chancellors Department, and that it is more cost-effective to use debt collection agencies and “informal” means rather than court action to collect debts.¹⁴
- 1.16 Mortgage possessions and arrears have clearly decreased due to low interest rates and the decrease in unemployment. Research for the Financial Services Authority suggests that most mortgage lenders are not offering high loan to value mortgages or high income multiples which could be at particular risk of negative equity should the housing market collapse.¹⁵ However, CAB experience is that the overall decrease in mortgage possessions seems to hide the growing problem of possession action by sub-prime lenders, who specialise in secured lending to people with poor credit histories.
- 1.17 In contrast, rent possession actions by social landlords such as local authorities and housing associations have increased. Recent research undertaken by the Lord Chancellors Department identified that the number of outright possession orders made to social landlords in England and Wales has doubled since 1994 from 13,499 to 30,350.¹⁶ CABx often report that some social landlords are now taking a more aggressive approach to rent arrears collection, particularly using court proceedings for possession more often.¹⁷
- 1.18 Another indicator of the growing problem of personal debt in the UK is the increase in personal insolvency procedures such as bankruptcy to deal with substantial debt problems. For the period 1997 to 2002, the number of personal insolvencies increased by 25 per cent to 30,587.¹⁸

¹⁴ *Effective Enforcement: Improved methods of recovery for civil court debt and commercial rent and a single regulatory regime for warrant enforcement agents*, published by LCD March 2003

¹⁵ *Financial Risk Outlook 2003*, published by the FSA, January 2003

¹⁶ *Just another statistic? - Roof*, September/October 2001

¹⁷ *Possession action - the last resort? CAB evidence on court action by social landlords to recover rent arrears* - Citizens Advice, February 2003

¹⁸ Statistics on Insolvency Service website: www.insolvency.gov.uk, and DTI press release 7.2.03

- 1.19 Recently the Department for Trade and Industry have published research on the extent of indebtedness in the UK.¹⁹ The research found that a substantial 1 in 4 of UK households had been in financial difficulties in the previous 12 months and 20 per cent were still in financial difficulties at the time of the survey. Research quoted in the FSA's 'Financial Risks Outlook 2003' indicates that 6.1 million households find it "moderately difficult" or "difficult" to meet their debt repayments.
- 1.20 Overall the CAB service considers that there is a significant problem to be addressed.

The CAB debt client survey

- 1.21 In order to understand more about the reasons for the increase in the number of our new debt enquiries, the CAB service has undertaken research to find out more about the problems faced by our debt clients. We are extremely grateful to the Office of Fair Trading who helped meet the costs of the research and analysed the data from the clients' questionnaires.
- 1.22 In May 2001, a 10 per cent sample of bureaux UK-wide were asked to survey their new debt clients in that month. Over 900 people participated in the survey. All the clients who took part in the survey had at least one debt or credit commitment they could no longer pay. Appendix 1 to this report provides a more detailed explanation of the methodology used in the survey.
- 1.23 Chapters 2 to 6 set out the findings from the survey, illustrated with evidence reports drawn from the 8,599 submitted by 672 CABx and outlets UK-wide over the period January 2001 to December 2002. Chapter 2 examines the profile of CAB debt clients. Chapter 3 covers the average amounts owed by CAB debt clients and the types of debt CAB debt clients had. Chapter 4 looks at issues relating to the collection and recovery of debts owed by CAB debt clients. Chapter 5 examines the reasons why CAB debt clients got into unmanageable debt, and Chapter 6 looks at the impact of unmanageable debt on the debt clients' personal lives. Chapter 7 assesses the effectiveness of government and other initiatives to tackle debt and Chapters 8 to 12 set out the agenda of the CAB service for tackling indebtedness.

¹⁹ *Household Survey on the Cause, Extent and Effects of Overindebtedness*, by Elaine Kempson, published November 2002.

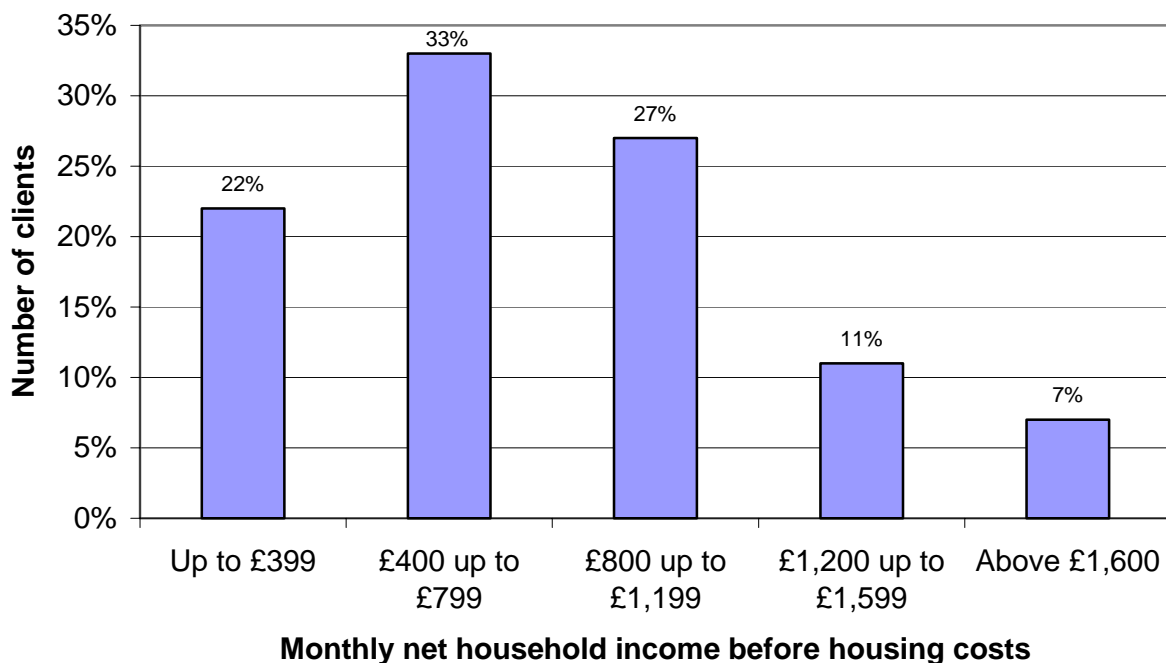
The profile of CAB debt clients

- 2.1 This chapter examines the profile of CAB debt clients, by age, gender, disability, ethnic origin, family make-up, housing tenure and income. This will establish whether CAB debt clients are representative of the UK population as a whole, or whether debt problems affect some groups more than others.

Income

- 2.2 Most of the people seeking advice from the CAB about their debt problems are poorer than the general population. At the time of seeking debt advice from the CAB, the current average net monthly household income of the debt clients in the survey was £803, less than half of the average monthly household income of the UK at that time.²⁰

Table 2.1 - Distribution of reported monthly income of CAB debt clients



Base: 924 clients

- 2.3 A further indicator of poverty was the sources of income reported by the clients. Although nearly 60 per cent were receiving wages or income from self-employment, nearly a third reported that they were claiming income support and income-related jobseekers allowance, safety-net benefits. A further 13 per cent reported that their wages were topped up by working families and disabled persons tax credits, which aim to boost the incomes of families and disabled people in low-paid work. These are far higher proportions than in the population as a whole – where nine per cent of the UK population receive income support or jobseekers allowance and 2.5 per cent

²⁰ £451 net per week - ONS Family Spending Survey 2001/2

receive tax credits.²¹ CABx find that people on low incomes or benefits struggle to budget for their needs within their limited income, and rarely have any money to repay their debts:

A lone parent client of a CAB in the West Midlands, was encouraged to seek paid work by Jobcentre staff. The client had a history of depression and could not cope with the job and left after two weeks. The client was subsequently hospitalised and her child taken into care. Her debt problem arose because she was not entitled to income support as her income exceeded her applicable amount and she was only entitled to reduced housing and council tax benefits. The client found it difficult to manage paying some rent; consequently her rent arrears built up and the landlord issued a possession summons. The bureau commented that this was not the only case they had dealt with where the Jobcentre had encouraged single parents to return to work, but they subsequently could not cope.

A lone parent client of a CAB in West Yorkshire got into debt because his childcare arrangements broke down and he was unable to continue to work. He had to find an additional £18 out of his income support entitlement of £76 per week to pay the shortfall on his mortgage installments.

- 2.4 Forty three per cent of the survey clients in England, Wales and Northern Ireland received income support, jobseekers allowance or tax credits. These people would be unlikely to be able to afford bankruptcy fees, as there is no help with the £250 deposit fee to the Insolvency Service, even for those on safety-net benefits. For example:

A CAB in Cheshire reported that a lone parent client with four children, had got into debt following a business failure and a relationship breakdown. She was now dependent on benefits and was rehoused by the local authority. The client could not afford to make offers of repayment and the debts were increasing with daily interest. Bankruptcy would be a reasonable option to resolve these debt problems. However the client had no means of paying the deposit fee to the Insolvency Service.

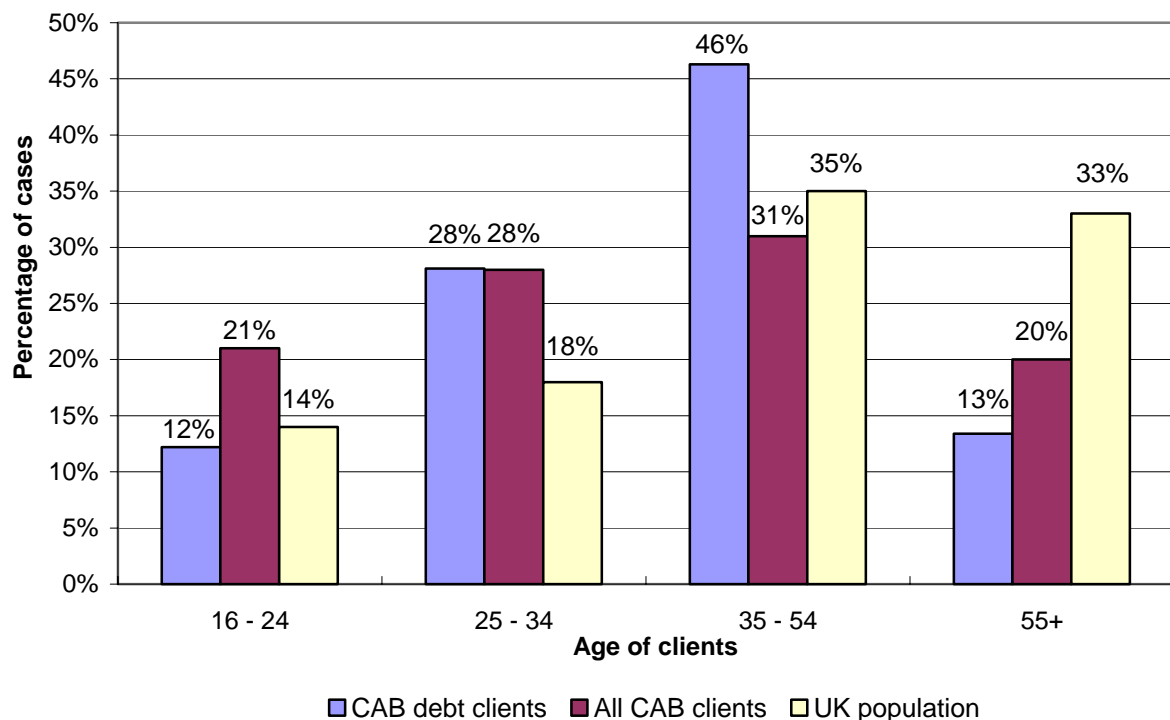
A bureau in Lancashire reported that a lone parent client in receipt of income support, owed over £12,000 to four creditors. The bureau discussed bankruptcy with the client, but she could not afford to raise £250 for the deposit fee. Although the bureau had negotiated token payments of £1 per month to her creditors, at this rate it would take her over 250 years to repay the total debt. As a consequence, the client had to deal with unpleasant calls from debt collection agencies acting for one of the creditors, a major bank, which she found most distressing.

²¹ Calculated using figures in DWP Statistical Summary December 2001, Inland Revenue Quarterly Enquiries on DPTC and WFTC in July and August 2001.

Age

- 2.5 In general CAB debt clients are most likely to be people of working age. Eighty per cent of the debt clients in this survey were aged between 25 and 59, a greater proportion than CAB clients as a whole (59 per cent), and the UK population (53 per cent). Possible reasons for the predominance of people aged between 25 and 59 include that this group may have better access to credit and a more positive attitude to using credit than older people.

Table 2.2 - Age distribution of CAB debt clients compared to all CAB clients and the UK population



Base for table 2.3: 824 debt clients for whom information about age was available; 5,064 participants in MORI People's Panel in 1999; UK population figures from 2001 Census

- 2.6 Only a small proportion of CAB debt clients were aged over 60. Evidence from CABx suggests that older people tend to have an extremely cautious attitude to obtaining credit and getting into debt. Older people with a multiple debt problem may feel particularly ashamed and embarrassed about their debt problems, as the following cases illustrate:

A CAB in Sussex reported that their client was 72 and on a low income. She told the bureau that she had got into debt because she believed claims made in unsolicited mail, and ordered items she could not afford because the companies offered the chance of prizes. When she came to the bureau, she owed £4,000 which had been used to pay for these items. The bureau reported that this was the first time she had been in debt and she felt embarrassed and ashamed of her debt problem. The shame she felt meant that she was trying to make larger offers of repayment than she could afford.

A CAB in Scotland reported that their client was a 76 year-old widow in poor health on retirement pension and attendance allowance topped up with income support. The client was being pursued for a debt incurred while nursing her husband through the final and very difficult stages of Alzheimer's before his death last year. Because of her situation, the client had not responded to the original creditor, who eventually sold the debt to a collections agency. When the client eventually contacted the CAB, she had no recollection of what the debt could be for, as she thought she had paid for all she had bought.

Family type

- 2.7 The make-up of CAB debt clients' families was also different from that of the UK population. There was a substantially higher proportion of single people seeking advice from the CAB about debt than there are single people in the UK population as a whole (57 per cent compared to 35 per cent).²²

Table 2.3 – Family type – comparison of CAB debt clients and UK data

Household structure	CAB clients seeking debt advice	All UK households
One adult:-		
One adult: Retired with no children	4%	13%
One adult: Non-retired with no children	33%	15%
One adult with one or more children	20%	6%
Couple:-		
Couple: Retired with no children	2%	10%
Couple: Non-retired with no children	12%	22%
Couple with one or more children	21%	21%
Other households ²³	9%	15%
All households	100	100

Base: 924 CAB debt clients; ONS Family Spending 2001/2

- 2.8 Nearly half of all the debt clients surveyed had children or other dependents living with them, compared to just over a quarter of UK households as a whole. A significantly higher proportion of CAB debt clients were lone parents compared to the population as a whole (20 per cent compared to six per cent). This possibly reflects the fact that many lone parents are either in receipt of means-tested benefits or in low paid work, and therefore may be more likely to encounter debt problems due to low income.

A CAB in Nottinghamshire reported that they were helping a lone parent with three children whose only income was income support. The client had a number of debts, but, despite advice from the CAB, found it difficult to keep up with her priority commitments on her income of £120 per week.

²² Family Spending 2001/2, Office for National Statistics

²³ Most frequently larger families with three or more adults.

The client's careful budget was thrown out of balance when she had to buy school uniform for her two youngest children, as the county council did not provide any assistance. As a result one of her creditors took court action, increasing the debt by £70 in court fees and costs

A bureau in the Scottish Highlands reported that a lone parent with 2 children sought advice about a multiple debt problem. Her wages were topped up with working families tax credit. One of her debts, a storecard, had been sent to a debt collection firm for recovery. A collector had visited her house and had told her that they would use summary warrant proceedings to recover the debt, a form of enforcement which is only available for credit debts. The client then agreed to pay £100 per month to clear the £500 debt. However this payment would not leave her with enough money for rent, council tax, fuel and housekeeping.

- 2.9 A minority of the debt clients (12 per cent) had non-dependents, such as adult children or elderly relatives living with them.

Gender

- 2.10 Slightly more women (50 per cent of the sample) than men (40 per cent) sought advice about debt. In a further nine per cent of cases, both members of a couple sought advice at the same time.

Disabled people

- 2.11 Eleven per cent of the respondents reported that they had a disabled person living in their households, a lower proportion than in the general population.²⁴ This could suggest that households which contain a disabled person may be less likely to seek advice from a CAB about debt problems. Disabled people face particular barriers to seeking debt advice, including lack of knowledge about debt advice, and concerns that they might lose their control and independence.²⁵
- 2.12 CABx report that people with disabilities have higher expenditure associated with their disability and that some creditors do not understand the needs of disabled people in debt:

A CAB in South Wales reported that their client, a single woman in receipt of income support and disability living allowance, approached them for help with a number of debts. One of her creditors refused to accept the offer of payment the bureau had made on her behalf because she was spending money on taxis, care costs and a phone bill. The bureau commented that creditors need to understand that disability living allowance is awarded to help with a severely disabled person's care and mobility needs.

²⁴ The 2001 census found that 18 per cent of the population say they have a long-term illness, health problem or disability which limits their daily activities or the work they could do.

²⁵ *Disability and debt – the experience of disabled people in debt*, Linda Grant, Sheffield CAB Debt Support Unit, 1995

A CAB in Staffordshire reported that they were helping a couple with two dependent children. The wife had ME and was in a wheelchair and one of the children had attention deficit disorder. Because of the wife's illness, the clients' expenditure on fuel was higher than normal at nearly £25 per week. One of their creditors, a major bank, would not accept the clients' offer of repayment because they felt they were spending too much on fuel. When the CAB explained the clients' situation to the bank, the bank still insisted that with their level of debt they ought to pay more.

Ethnic origin

- 2.13 The number of debt clients from ethnic minority backgrounds, at eight per cent of all respondents, was similar to the percentage of ethnic minorities in the UK population as a whole.²⁶ Clients from seventeen different ethnic backgrounds were represented in the survey. The largest ethnic group other than White UK was Black Caribbean at just under two per cent of all respondents. Nearly four per cent of the debt clients reported that their first language was not English.

Housing tenure

- 2.14 There was a disproportionate ratio of tenants to homeowners amongst the debt clients represented in the survey sample. Nearly 60 per cent of the people in the survey were renting their homes, while less than a third were owner occupiers. This compares with nearly 70 per cent owner occupation in the UK population.²⁷
- 2.15 An indication that CAB debt clients are particularly poor is that 40 per cent were renting their homes from social landlords such as housing associations and local authorities. In Scotland over half of the CAB debt clients were tenants of social landlords. Recent research by Joseph Rowntree Foundation shows tenants of social landlords are less likely to be employed – 69 per cent of council tenants and 67 per cent of housing association tenants are out of work, compared to 40 per cent, for all types of tenures.²⁸ In Scotland over half of the CAB debt clients were tenants of social landlords. CABx frequently find that vulnerable people on low incomes or benefits are tenants of social landlords:

A CAB in Shropshire reported that they were helping an unemployed couple, with two children. The woman had been subjected to domestic violence by her former partner, and had suffered physical and mental health problems as a result. One of her children had also suffered severe mental health problems often witnessing the violence that her mother was subjected to and was attending a school for children with special needs. As a form of escapism, she bought many goods from catalogues. She found she could not afford the repayments and had to “rob Peter to pay Paul” in order to make ends meet. This led to rent arrears and council tax arrears.

²⁶ 2001 UK Census – 9% of the population said they were from an ethnic minority group.

²⁷ Social Trends 2001; Northern Ireland Housing Statistics 1999-00, Office for National Statistics

²⁸ *UK Housing Finance Review 2002/3* Joseph Rowntree Foundation, 2002

At the time the couple sought advice, they owed £9,800 in total, and were attempting to pay debt repayments totaling £240 per week from a weekly income of £166. Their landlord, a housing association, had also applied to the court to evict them.

Conclusions

- 2.16 CAB debt clients are most likely to be of working age. Only a small proportion of debt clients were over pensionable age. CAB debt clients are particularly poor, with high proportions of people in receipt of means-tested benefits and tax credits and many being tenants of social landlords. Over 40 per cent of CAB debt clients were in receipt of means-tested benefits.
- 2.17 Chapter 3 looks at the type of debts CAB debt clients had and how much they owed altogether.

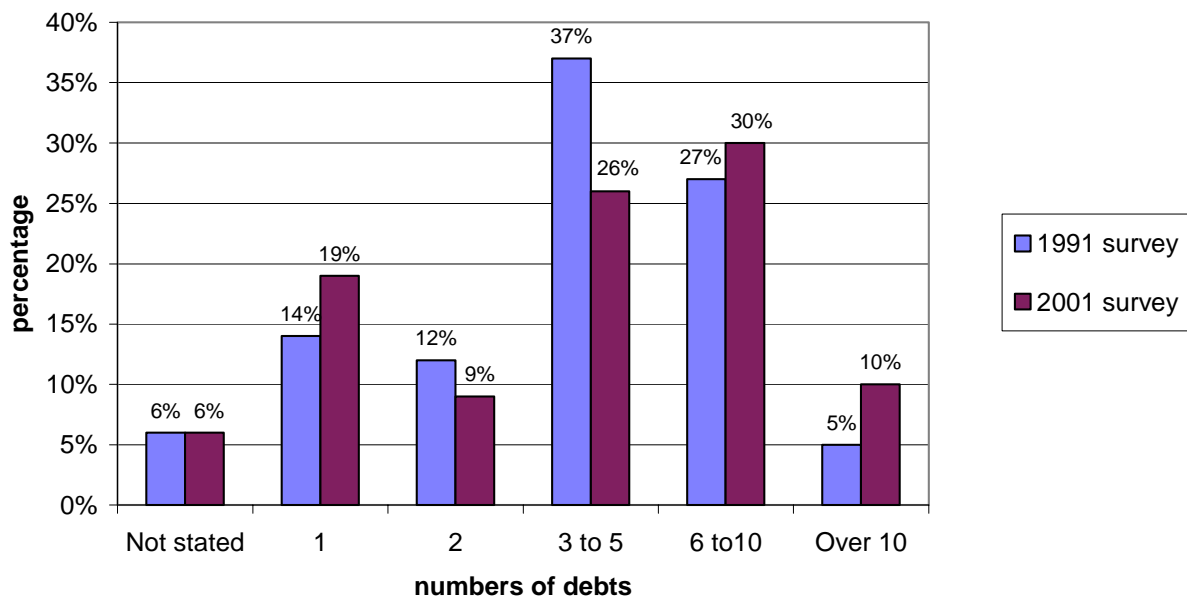
About the debts

- 3.1 In this chapter we look in detail at the number and type of debts CAB clients had and examine the average total household debt of CAB clients. We also compare our findings with those of a survey of CAB debt clients which took place in 1991. The major findings of the 1991 survey were published in the 1992 Citizens Advice report, 'The Cost of Living'.

How many debts?

- 3.2 On average, CAB debt clients in the 2001 survey had 5.5 debts each. This ranged from clients with only one debt to someone with 32 debts. Given the increase in consumer credit lending in recent years, it was not surprising to find that our clients today are more likely to have numerous debts that they did in the past. For example, 40 per cent of CAB debt clients today have six debts or more compared to 32 per cent of CAB debt clients who had six or more debts in 1991.

Table 3.1- number of debts – comparison between CAB debt clients in 1991 and 2001



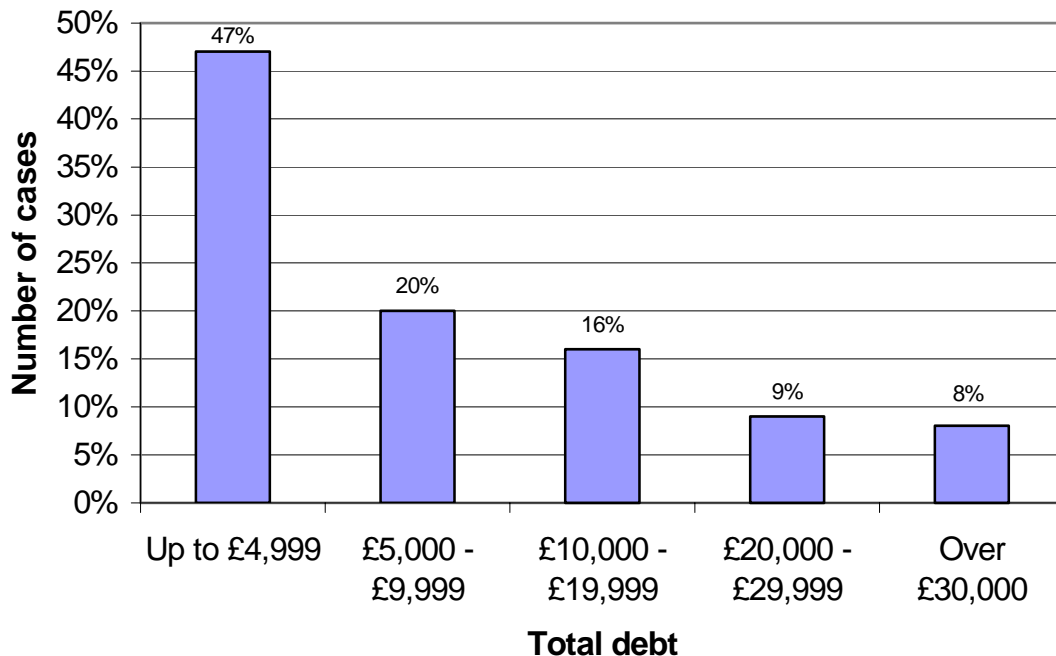
Base: 924 clients in 2001 survey; unknown base for 1991 survey

How much CAB debt clients owe

- 3.3 The average total debt per household in the survey was £10,700, and the average debt to monthly income ratio was nearly 14 times the income. The debt to income ratio can be used to identify where debt problems are particularly severe, even though the amount owed may be less than the survey average.

- 3.4 The amount individual CAB debt clients owed ranged from £132 up to £111,000. The debts included mortgage arrears, but not outstanding mortgages.

Table 3.2 – Average total debts



Base: 924 clients

- 3.5 Although a quarter of the debt clients in the sample owed more than £15,000, nearly half owed less than £5,000 in total. This could be due to the fact that CAB debt clients are particularly poor, and may therefore have more limited opportunities to get into high levels of debt, as the borrowers' level of income is relevant to the amount some creditors are prepared to lend. Nevertheless, even small debt problems can have a great impact on people's lives:

A CAB in Staffordshire reported that they were helping a married couple with one dependent and one non-dependent child. They had debts of less than £5,000. The husband's income had dropped, as he could not do more than light work following a kidney failure and needed dialysis four times a day. Although the wife had two part-time jobs, their essential expenditure needs exceeded their income by £100 per month.

A CAB in Cornwall reported seeing a lone parent client on income support who owed about £2,000 to loan and catalogue companies. She had recently had a baby and needed to buy clothes and equipment from catalogues. However her inability to pay the debts had led to her suffering from depression.

A CAB in Scotland reported that they were helping a single unemployed man in his 50s. Although he was in receipt of income support and incapacity benefit, he only received £44 a week due to deductions for a

social fund loan. Out of the £44 he had to pay £10 a week towards rent arrears, in order to keep an eviction order suspended. He was also subject to a summary warrant for council tax arrears and had a new bill for full council tax because of delays in processing council tax benefit. He offered £2 a week towards his council tax arrears, but this was not enough to allow the council to suspend the summary warrant. He also had to pay water/sewerage rates.

- 3.6 Unpublished statistical analysis by the Office of Fair Trading found that low income and the number of credit cards, bank and finance company loans had the most effect on the size of the clients' total debt.
- 3.7 This suggests that whatever had triggered the CAB debt clients' inability to pay their credit and other commitments, the size of the debt depended on the number of credit commitments they had and those on low incomes faced the greatest difficulty meeting repayments. This finding underlines the merits of preventative measures which take account of the level and extent of existing commitments and income before further borrowing is agreed.
- 3.8 We now look at the average debts of different groups in the survey.

Age

- 3.9 The average total debt generally increased according to age, with the highest levels of debt owed by people aged between 45 and 59. Those aged under 24 had the lowest average debts and also the lowest average income.

Table 3.3 - average net monthly income and debt by age of client

Age band	Number of Clients	Total debt	Monthly income £	Debt to income ratio
16 – 24	103	£4,958	£597	11.2
25 – 34	237	£10,515	£817	13.7
35 - 44	258	£10,977	£870	13.4
45 - 59	182	£14,474	£853	17.1
60 and above	63	£9,580	£702	12.7
Age not known	81	£9,858	£764	12.9
All clients	924	£10,704	£803	13.9

Base 924 clients

Gender

- 3.10 There were significant differences between the debts and income of single males, single females and couples. It was clear that the income and debts of couples in the survey had pushed up the average monthly income and household indebtedness, as both single male and female clients had considerably lower incomes and average total debts than couples.

Table 3.4 Average monthly household income and average household debt by gender and family composition

	Average monthly net household income	Average total indebtedness	Debt to income ratio
Single female clients	£605	£6,941	12.8
Single male clients	£636	£9,243	16.0
Couples ²⁹	£1,066	£14,598	13.5
All CAB debt clients	£803	£10,700	13.9

Base: 924 clients

- 3.11 Media reports often suggest that women's debt problems are primarily associated with impulse shopping for designer clothes and consumer goods. This was not true of female CAB debt clients. The single women in the CAB debt survey had a lower average total debt and income than the single men in the survey, and were more likely to have debts associated with poverty than men. For example, 15 per cent of female clients had catalogue debts, compared to four per cent of male clients. Women were also more likely to owe money to local moneylenders or home-collected credit providers than men. Male clients were more likely than female clients to have bank loans, credit card debts and finance company loans.³⁰

Disabled people and people from ethnic minority backgrounds

- 3.12 Although households with a disabled person and debt clients from an ethnic minority background were over-represented in the survey sample, their average debt and monthly net household income were not very different from the average for all the debt clients in the survey.

Table 3.5 Average household debt and monthly net income of clients with a disabled person in their household, and clients from ethnic minority backgrounds

	Average monthly net household income	Average total indebtedness	Debt to income ratio
Clients with a disabled person in their household	£806	£10,775	13.4
Non-UK white clients	£775	£10,002	12.9
All CAB debt clients	£803	£10,700	13.9

Base: 924 clients

Housing tenure

- 3.13 An analysis of debt by tenure shows that owner-occupiers had substantially higher debts and income than clients with other types of tenure. A possible reason for this is that owner-occupiers have greater borrowing opportunities than those who rent, as many credit scoring systems favour home owners.

²⁹ Including cases where the approach to the bureau was made male clients, female clients and couples.

³⁰ See Table A3.1 in Appendix 3 for further details.

Table 3.6 - average household debt and monthly net income of clients according to housing tenure

Type of tenure	Number of clients	Total debt	Monthly income	Debt to income ratio
Local authority tenant	285	£6,208	£683	10.0
Non householder	46	£10,120	£569	20.2
Owner occupier	273	£17,344	£1,104	16.2
Private tenant	155	£9,119	£710	14.2
Housing association tenant	86	£7,292	£670	10.6

Base: 845 clients

- 3.14 Analysis of the debt to income ratio shows that non-householders (most commonly adult children still living with their parents) may have more acute debt problems than tenants or home-owners. An analysis of the types of debts which non-householders had showed that nearly 20 per cent had bank loans, compared to 18 per cent of owner occupiers and 16 per cent had loans to finance companies, compared to 10 per cent of owner occupiers. It is possible that lenders target credit marketing at non-householders, as they are likely to have higher levels of disposable income, as they do not have to pay household bills.

Debt clients living in rural areas

- 3.15 People living in rural areas often face higher costs, particularly for example on transport. We have analysed the average debt and income of clients of CABx in predominantly rural areas and compared those with the survey average. This shows that although clients of rural CABx owed less than the average for all CAB debt clients, their lower average income meant that their debt to income ratio was higher than the average for all debt clients.

Table 3.7 - Average household debt and monthly net income of clients of CABx in predominantly rural areas

	Number of clients	Average total debts	Average monthly household income	Average debt to income ratio
Rural	405	£10,399	£747	14.8
Town	199	£12,016	£891	13.9
Urban	320	£10,275	£818	12.6
Survey Total	924	£10,704	£803	13.9

- 3.16 CABx report that debt clients living in rural areas are likely to be isolated and face additional expenditure, particularly on transport and food as a result of rurality, which affect their ability to repay their debts:

A CAB in Oxfordshire reported that a young man, with a partner and a dependent child sought debt advice from the bureau. He had bought a car with a bank loan in order to be able to get to work in the nearest town on time, as he would not be able to do so using public transport. Following an accident at work he had become unemployed and was unable to pay the

loan repayments, the car tax and insurance.

A CAB in Shropshire reported that a widow aged 61 living on a farm sought advice about her debt problems. During 2001 she had had to cope with her husband's death, the foot and mouth epidemic, a nephew's suicide, her daughter's marriage break-up and her father being diagnosed as terminally ill. During this period she felt unable to pay any of her commitments due to her state of mind. When she finally sought advice from the CAB, she brought with her a large carrier bag of unopened mail. The CAB reported that the client needed several interviews and advice sessions before she felt able to start coping with her debts in a practical way.

Debt problems in the constituent countries of the UK and in English regions

- 3.17 CAB debt clients in England and Wales had significantly higher average total debts than those in Scotland and Northern Ireland. The high debt to income ratio for CAB debt clients in Wales indicates that debt problems in Wales appear to be particularly severe. Two reports published in 2001 suggested that people living in Wales maybe particularly vulnerable to financial difficulties.³¹

Table 3.8 – comparison of total debt and income by country

Country	Average net monthly household income	Average household debt	Debt to income ratio
England	£831	£11,229	14.0
Northern Ireland	£852	£8,129	9.6
Scotland	£730	£8,140	11.5
Wales	£729	£11,087	16.2
All CAB debt clients	£803	£10,700	13.9

- 3.18 The lower average debt in Scotland could be explained by the higher incidence of tenants of social housing amongst Scottish debt clients – nearly 50 per cent of Scottish debt clients were tenants of social landlords, compared to 40 per cent of English clients, 38 per cent of clients from Northern Ireland and 36 per cent of Welsh clients. As we have identified earlier, tenants of social landlords are more likely to be unwaged and have a lower average debt compared to other types of tenure.
- 3.19 It was surprising to find that those people living in Northern Ireland in our survey had lower average debts and higher incomes than people living elsewhere in the UK. Average gross incomes are lower in Northern Ireland than elsewhere in the UK,³² and households in Northern Ireland derive a

³¹ *Money in the Contemporary Family*, published by Nestlé Family Monitor, July 2001 and *Borrowing and debt in Wales: a preliminary investigation*, by Camilla Edlin, Welsh Consumers Council, November 2001

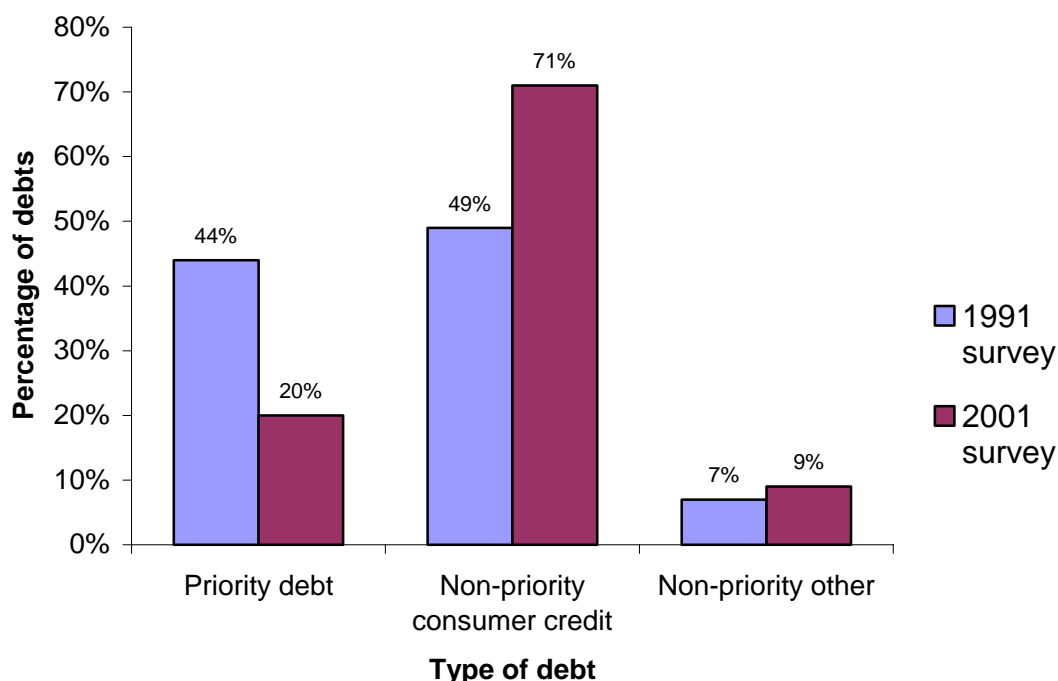
³² Northern Ireland Family Expenditure Survey 1998/9 states that average gross weekly income in Northern Ireland is £355, compared to £451 in the UK as a whole.

greater proportion of their income from social security benefits than households in Great Britain – 21 per cent compared to 12 per cent.³³

What sort of debts?

- 3.20 Altogether details of 2,155 debts were recorded, representing over 30 different types ranging from fuel debts, rent arrears, credit cards, bank loans, mortgage shortfall debts and court fines. All types of creditors were represented, including banks, building societies, credit unions, utility companies, local authorities, landlords, mortgage lenders and members of CAB debt clients' families.

Table 3.9 – Comparison of types of debt in 1991 and 2001 CAB surveys



Base: 2,155 debts from 374 clients for 2001 survey; unknown base for 1991 survey.³⁴

- 3.21 A comparison of the types of debt in the 1991 and 2001 Citizens Advice debt surveys shows a significant shift over the 10 year period in the relative proportion of priority and non-priority debts. Overall, clients today are much more likely to have non-priority debts, such as loans, than priority debts, such as utilities bills. Priority debts are those where the ultimate sanction for non-payment is loss of home, utility supplies, essential goods on hire purchase or liberty. For example, rent and mortgage arrears, council tax arrears, and fuel bills. Non-priority debts, predominantly unsecured consumer credit debts, are defined as those where the creditor's only sanction for non-payment is to sue for payment in the county or sheriff court.

³³ *Price of being poor* published by Northern Ireland General Consumer Council, 2002

³⁴ Non-priority other debts includes social fund loans, benefit overpayments, debts to family and friends

- 3.22 In the 1991 CAB survey, much higher proportions of clients' debts were mortgage arrears and community charge debts, both of which made it into the top 5 debts in that survey. By contrast in 2001 20 per cent of all the debts in the survey were credit cards, compared to 10 per cent in 1991:

Table 3.10 – Top 5 most common debts– a comparison between 1991 and 2001 CAB surveys

1991 CAB debt client survey	2001 CAB debt client survey
Bank loans (11%)	Credit cards (20%)
Community charge arrears (10%)	Bank loans (16%)
Credit cards (10%)	Catalogues (11%)
Finance company loans (10%)	Finance company loans (10%)
Mortgage arrears (8%)	Bank overdrafts (6%)

Base: 2,155 debts in 2001 survey of which 1,333 fell into one of the top 5 categories of debt.
unknown base for 1991 survey

- 3.23 Nevertheless, the 2001 survey showed that some debt clients in the survey had significant proportions of some priority debts. Over half of the clients in the survey had at least one priority debt:

- 33 per cent of the tenants of social landlords had rent arrears;
- 36 per cent of the homeowners had either mortgage or secured loan arrears;
- 29 per cent of all householders had council tax arrears, and
- 13 per cent of all householders had fuel arrears.

- 3.24 The majority (over 70 per cent) of the debts in the 2001 survey were unsecured consumer credit debts, where the sanction for non-payment is suing in the county or sheriffs court. The proportion is consistent with the proportion of debts reported in Citizens Advice and Citizens Advice Scotland's enquiry statistics at 64 per cent and 62 per cent respectively of all new debt enquiries in 2001/02. By contrast, the 1991 survey showed that just under 50 per cent of the debts being handled by CABx were non-priority consumer credit debts. Nearly half of all clients in the 2001 debt survey had at least one credit card or bank loan debt. Some had more – one client had no less than 12 credit cards and two clients had 6 bank loans each.

Links between income and types of debts

- 3.25 The survey showed that certain debts were consistently linked to poverty, whilst others were linked to those with higher incomes.³⁵ Those types of debts linked to clients on low incomes, unwaged clients and tenants of social landlords included catalogue debts, home-collected credit debts and fuel arrears. For example, unwaged clients were twice as likely to have catalogue debts or debts to home-collected credit providers than waged or self-employed clients.

³⁵ See Appendix 3 for further details.

- 3.26 Debts which tended to be linked to clients on higher incomes and home ownership included bank loans and credit cards. For example, 19 per cent of waged or self-employed clients had bank loans, compared to only 11 per cent of those who were unwaged.

Bank overdrafts

- 3.27 Bank overdrafts were fairly evenly distributed amongst people in the survey, although local authority and housing association tenants were less likely to have one than other debt clients in other housing tenures.³⁶ They were also one of the most common debts in the survey.
- 3.28 CABx report that negotiating repayments on bank overdrafts can be very difficult, particularly where wages or other income is still being paid into the account, as the bank can set off income against the overdraft and can continue to draw on the income to repay any other debts to the bank. Banks that operate in this way are at an advantage in relation to other debt collectors. This may seem a legitimate thing for a creditor to do but it can prevent the account holder from meeting essential living costs or paying any other debts. CABx often report that this practice can exacerbate debt clients problems:

A CAB in Staffordshire reported that a client who had recently graduated from university, had borrowed to finance his education. Although he had found work, he was on a low wage. He had negotiated repayments to his creditors using a self-help pack provided by the bureau. When his bank received his letter, they issued a default notice on the loan and immediately called in his overdraft. The client could not access any money to feed himself and get to work without asking the bank for permission first. However, the bank had applied higher interest charges on the overdraft and had charged fees for returned direct debits.

A man on a low wage topped up with working families tax credit contacted a CAB in Berkshire about his bank's decision to curtail his agreed overdraft facility. The bank told the client that they would use £100 per month out of his wages and all his working families tax credit to repay the debt. If they did this, the client would not be able to meet his basic expenditure needs for himself and his family, let alone pay his other debts, which included council tax arrears.

- 3.29 In light of these problems, CABx often advise debt clients to open a new basic bank account, which should not go overdrawn to receive their income, in order to manage and control their payments. However CABx also report that banks are often unwilling to allow people in debt to open accounts and branch staff are not as aware of their bank's basic account products as they should be:

A specialist CAB debt advice service in Yorkshire reported that a client on jobseekers allowance wanted to open a basic bank account so that she could deal with the £6,000 credit debt she had. She and her mother went

³⁶ See tables in Appendix 3 for further details

into a bank that provides basic bank accounts and asked for its basic account by name. The bank staff told the client that she would have to be credit scored for another account before they could offer her the basic account. The credit score indicated that the client could have a full current account. When the client reiterated that she wanted the basic account, she was told there was no point and that it was usually opened for unemployed people. When the client pointed out that she was unemployed, and insisted on having the basic account, the bank staff became cold and told her it would take time to open as it was a paper-based account. The client then felt obliged to explain why she needed a basic account. The client told the debt adviser that she found it a difficult and embarrassing experience trying to open a basic bank account.

A CAB in East London reported that they had recently seen a client with multiple debts, including an overdrawn current account and outstanding loans to the same bank. The bank was insisting on repayment of the loans at a rate which the client could not afford. Her available income, which was barely sufficient to cover their essential expenditure, was also being reduced by the imposition of bank charges and interest on the overdrafts. The CAB advised her to open a basic bank account, so that she could take control over her money. However, a local bank branch refused to let her open a basic account, even though she had been advised to ask for the basic account by name.

- 3.30 These issues are of concern as from April 2003 the normal method of paying benefits, tax credits and state pensions is by direct payments into bank accounts. As our survey has found CAB clients who are reliant on social security benefits are highly likely to have debt problems. If people in debt cannot open a basic account in order to deal with an overdraft, great stress and deprivation may be caused.

Credit for those on low incomes

- 3.31 The survey also confirmed that some debts strongly associated with people in poverty had higher interest rates. For example the APR's charged to clients with debts to moneylenders and home-collected credit providers ranged from 25 per cent to a staggering 360 per cent. This compares with the interest rates charged on the credit card debts included in the survey which ranged from 9.9 per cent to 25.4 per cent, and eight per cent - 32.9 per cent on bank loans. Overall we found that three per cent of the debts were to moneylenders and home-collected credit providers and 11 per cent of clients had such debts:

A CAB in Hampshire reported that their clients, a couple with three children, had taken out a £500 loan to repay their rent arrears which were the subject of possession proceedings. The total cost of the loan was £800 in total, with a 60 per cent flat rate of interest.

A CAB in Greater Manchester reported that their client bought a second-hand suite on hire-purchase for £1,800. The cost of the loan was £2,560.

A West of Scotland CAB reported that a client couple who have over £16,000 in debts. The couple had two recent loans from doorstep providers, both granted within two months of each other. The first loan was for £500, with a £275 interest charge. The second loan was for £100 with a £55 interest charge. These loans were being used to help meet the income shortfall on existing credit agreements.

- 3.32 These findings are consistent with the conclusions from other research about access to credit for people on low incomes. For example, recent research by Liverpool John Moore's University highlighted that people on low incomes not only found it difficult to access mainstream credit such as credit cards, bank loans and overdrafts because credit scoring excluded them, but also that they perceived that mainstream credit providers would not want them as customers.³⁷ The research also identified that there were other factors than just the interest rate which influenced the choice of credit for people on low incomes. These included whether they could easily and quickly access the credit, the fact there was no stigma attached to the credit and whether the repayments were affordable, easy to make and flexible, for example the timing of payments or increasing the amount borrowed.
- 3.33 In theory the discretionary social fund has the potential to provide interest-free loans to people on benefits pay for one-off costs for essential items, paying to meet the costs of a crisis and grants for some particularly vulnerable people. However this survey showed that many people on low incomes had taken out borrowing such as catalogues and loans from home collected credit providers which they regarded as more accessible and flexible, despite the interest and charges for credit. Although 11 per cent of all the clients in the survey had debts to home-collected credit providers and 29 per cent had debts to catalogue companies, only three per cent had debts to the social fund. Citizens Advice's recent report on the failure of the social fund to help the poorest found that budgets were insufficient to meet need, many groups of people were excluded from receiving payments, repayments on loans were often too high and the system of grants was very restricted.³⁸ The following are only a few of the cases we receive each month on the social fund:

A CAB in Surrey reported that a lone parent suffering from depression, who had been living in a reception centre for homeless families, was rehoused into an unfurnished local authority flat. She applied for a community care grant from the social fund to furnish her flat but the local social security office turned her application down as they did not consider her to meet the requirements of the social fund legislation i.e. to be facing "exceptional pressures". Although the CAB helped her challenge the decision, the client had to borrow money from family and friends to get some essential furniture in the meantime.

A CAB in Hertfordshire reported that an employed lone parent sought advice about how she could furnish her new council flat. She had been encouraged to stop claiming income support and start work. Although she

³⁷ *Access to credit on a low income*, Paul A Jones, 2001

³⁸ *Unfair and Underfunded*, Citizens Advice 2002

was now £15 per week better off in work than on benefits, she was unable to receive a social fund loan to furnish her flat.

A CAB in Merseyside reported that a severely disabled housebound client had applied for a community care grant from the social fund for an orthopaedic bed, a washer-drier, a microwave oven and a new couch. However, the social security office only awarded him money for the first two items. The client did not have any oven at all and relied on family members for cooking his meals – so a microwave oven would help ease the pressures on his children and ex-wife by allowing him to heat up some meals himself. The client's current couch no longer supported his back. The social fund officer agreed that all the items were high priority, but as the local social fund budget was overspent by 15 per cent, they were unable to give the client money for all his needs.

A CAB in North London reported that a young woman aged under 25 and suffering from asthma and anaemia was trying to survive on £11.50 per week, which was all the jobseekers allowance she had left each week after repayments on her social fund loan were deducted, and she had paid her utility and phone bills.

Conclusions

- 3.34 Over the last 10 years there has been a dramatic shift in the types of debts about which CAB debt clients are seeking advice. A decade ago, CABx were mainly dealing with clients who had as many priority debts as credit debts, notably mortgage arrears and community charge arrears. Now CABx are dealing with people who have considerably higher numbers of credit debts. The survey found that, combined with low income, numbers of particular debts, credit cards, bank loans and finance company loans had the most effect on the size of the clients' indebtedness. This demonstrates the need for better practices in the marketing of credit, and responsible borrowing and lending practices.
- 3.35 The total household indebtedness ranged from £132 to £111,000. A significant proportion of clients faced debts in proportion to their income which were totally unmanageable, on average nearly 14 times their monthly income. Those people living in Wales, rural areas, owner occupiers and non-householders had particularly high levels of debt relative to their income.
- 3.36 The survey also showed that certain types of debt were linked to poverty. Women, tenants of social landlords and the unwaged were most likely to have debts associated with poverty, such as catalogue debts and loans to home-collected credit providers. Interest rates associated with these types of borrowing were significantly higher than for so-called mainstream sources of credit. Few CAB debt clients had debts to the social fund, and CAB evidence often points to unfair refusals of applications to this fund and the problems that very high rates of repayment cause. Effective measures are therefore needed to widen the remit of the social fund and to encourage lenders to provide alternative low-cost sources of credit.

- 3.37 The high proportion of bank overdrafts in the survey is of concern because banks can take an unfair advantage to recover debts to itself if the debtor is still using the account to receive wages and benefits.
- 3.38 In Chapter 4 we examine what action creditors had taken to recover the debts, whether by taking formal action through the county or sheriffs court or by using debt collection agencies.

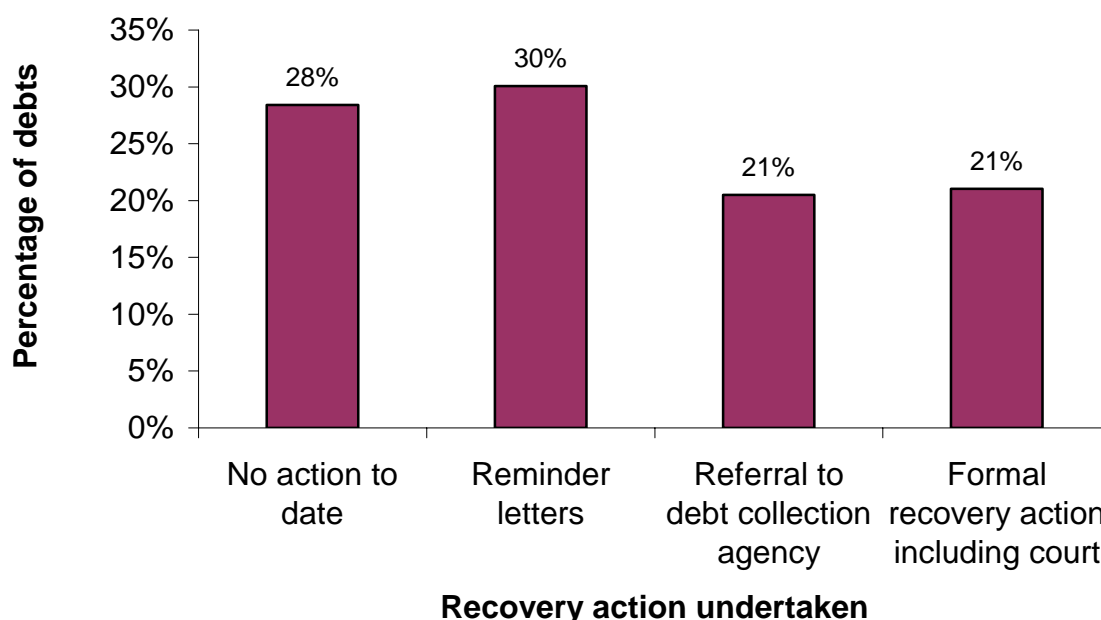
Debt collection and recovery

- 4.1 In this chapter we look at the recovery action creditors had taken to recover the debts. We examine the recovery action taken on different types of debts, and look in detail at recovery practices of social landlords and local authority council tax departments. Finally we look at how administration charges can increase debt.

What action had the creditors taken to recover the debts?

- 4.2 Just over half the clients had at least one debt where formal action had been taken for recover at the time they approached the CAB. However, most creditors had only taken informal action to recover the debts. In respect of only 21 per cent of the debts had the creditor taken formal action, including serving formal notices before court action (for example, a default notice for consumer credit debts or notice of seeking possession for rent arrears).
- 4.3 In relation to nearly a third of debts no recovery action had been taken at all. This may indicate that people had only just gone into arrears, or in some cases were completely up-to-date with contractual payments on some commitments, before seeking advice from the CABx, were but finding it difficult to make payments. Although data about the date when accounts fell into arrears was incomplete, in relation to 31 per cent of debts the account had only fallen into arrears in the few months before the client had sought advice.

Table 4.1– Last action undertaken by the creditor to recover the debt before the client sought advice from the CAB



Base: 2,155 debts

Collection action taken by type of debt

Table 4.2 – Recovery action taken for some individual debts

Type of debt	<i>Type of action taken – percentage of debts</i>			
	No action to date	Reminder letters	Referral to debt collection agency	All formal action to recover the debt
Rent arrears	17%	16%	0%	66%
Council tax arrears	13%	22%	4%	61%
Fuel arrears	21%	47%	17%	11%
Water rates	23%	25%	18%	34%
Mortgage arrears	26%	31%	16%	28%
Unsecured loans	30%	31%	21%	17%
Credit card debts	36%	34%	17%	14%

Base: Information on recovery stage reached at the time advice was sought about 1051 rent, council tax, fuel, water, mortgage, loan, and credit card debts

- 4.4 Non-priority creditors, such as banks, credit card companies and finance companies seemed to be less likely to have taken formal recovery action than priority creditors, before the client approached the CAB. These types of debt made up most of the debts in the survey. Non-priority creditors are aware that legal action may not necessarily recover the debt effectively and will therefore put considerable effort into contacting the debtor to make an arrangement to pay, including referral to debt collection agencies who may visit the debtor to discuss payment. This action can be effective in agreeing a payment arrangement with a debtor, but it sometimes results in the use of unacceptable collection tactics to induce the debtor to pay:

A CAB in Merseyside reported that an employed lone parent client had several debts, all unsecured. A debt collection agency acting on behalf of one creditor had been contacting her repeatedly for payment, up to 15 times per day, sometimes at work. The debt collector had threatened to send someone round to her house.

A CAB in South-West Wales reported that they had been helping their client negotiate repayments to her creditors for nearly two years, including a bank debt. A debt collecting company, acting on the bank's behalf, phoned the client at 7.30pm on a Friday evening. The collector asked her to pay the whole amount immediately, otherwise they would take court action, and would publicise the fact in the papers, so that all her friends and neighbours would know about her debt problems.

A client of a West of Scotland CAB owed money to three creditors. Affordable agreements were made with two of these creditors, but one debt continued to cause significant problems. The bureau wrote to the debt collection agency collecting the debt for information on the debt, so

that they could advise the client further. The debt collection company did not respond, but continued to phone the client. The client told the bureau that he frequently received threatening and abusive phone calls from collectors, in which they threatened to take him to court, to knock his door down and to remove his belongings. The collection company also pressurised the client to borrow the money to repay the debt. The client was recovering from alcohol addiction and found the situation most distressing. He told the bureau that he felt frightened whenever he heard noises in his flat, as he feared it might be the collection agency coming to smash his door down.

A CAB in Cumbria reported that their clients, who had got into debt following illness, received up to 7 – 8 phone calls per day from one credit card company insisting on repayment. The clients told the CAB that the company has called the clients at home at 9pm and on a Sunday. Both clients were suffering from stress caused by the harassment.

- 4.5 It is most welcome that there are several initiatives being taken to address such issues, including the Government review of consumer credit licensing, Office of Fair Trading guidelines on debt collection and guidance for Banking Code subscribers on how to treat people in financial difficulty “positively and sympathetically”.
- 4.6 Priority creditors, such as local authorities, mortgage lenders and fuel companies were more likely to have taken formal recovery action through the courts, than non-priority creditors such as credit card companies. Priority creditors rely on the drastic sanctions available to recover the debt such as repossession, disconnection of fuel supply and threats of imprisonment.
- 4.7 Although the survey found that a small proportion of the credit debts were the subject of court action, CAB evidence shows that debt clients may experience harsh and peremptory enforcement of court orders on credit debts. The survey also found that there are particularly high incidences of formal recovery action for rent and council tax arrears. We will now look in greater detail at survey findings and CAB evidence about the enforcement of county court judgments and sheriffs court decrees and the collection and enforcement of rent and council tax arrears.

Enforcement of court orders

- 4.8 Non-payment of county court judgments and sheriffs court decrees can be enforced in a number of ways: by selling the debtor’s goods to pay the debt, by deducting instalments from the debtor’s wages, by diverting funds from the debtor’s bank or other deposit account and by placing a charge or inhibition on the debtor’s home or other property to the value of the debt, in other words, securing the debt.
- 4.9 CAB evidence often shows that some creditors may use court action and enforcement of court orders inappropriately, and that such use of enforcement can be exacerbated by unsuitable court practice. Most of the evidence from

bureaux in England and Wales relates to charging orders, which secure the debt on the debtor's home or other property. The most recent statistics from the Lord Chancellors Department shows that applications for charging orders rose by over 35 per cent in 2001, whereas applications for other methods of enforcement had decreased.³⁹

- 4.10 Currently, in order to obtain a charging order, the debtor must have defaulted on instalments on county court judgments. In the past most courts were willing to accept relatively small offers of payment. However, increasing numbers of bureaux are reporting that more courts are now making 'forthwith' judgments which require immediate payment in full, instead of instalment orders, even where debtors have fully informed the court of their inability to pay large instalments. A forthwith judgment means that the debtor is immediately in default of the court order and the creditor is able to take enforcement action. Where the debtor has equity in their home, a charging order will ensure that the debt will be repaid when the property is sold, either by the debtor themselves or following an Order for Sale.
- 4.11 This new practice of many county courts and creditors results in very extreme consequences for relatively small debts. It also exacerbates the problems of people in debt, particularly as there is no automatic right for the debtor to have the charging order hearing transferred to the their local county court, so that they can attend and explain their circumstances to the judge:

A CAB in North-West Wales reported that a client who had got into debt due to the failure of their business contacted them for help with over twenty credit debts. One creditor failed to respond to CAB letters and issued a county court claim in July 2001. In response to the claim, the client offered £1 per month as he was reliant on means-tested benefits. A month later the client was notified that the court had ordered him to pay the full amount of £2,753 forthwith, as the creditor had objected to the client's offer. The court gave the client the wrong information to challenge the amount of the installments, and then did not inform the client of the rehearing. When the CAB phoned the court, the court staff said that the judge had considered the client's offer unreasonable.

A CAB in Bedfordshire reported that a working lone parent sought advice from them about seven credit debts and one priority debt. Most of his available income was currently being paid to his priority creditor, and so he could only afford to make £1 per month payments to his credit debts. All but one of his creditors accepted the offers. Although the remaining creditor was aware of his situation, they insisted that he make a lump sum offer. As the client was unable to do so the creditor issued a county court claim in a court over 150 miles away. They obtained a forthwith judgment, which meant they could then issue charging order proceedings.

A CAB in Derbyshire reported that one of their client's creditors issued a county court claim for the debt. The court ordered the client to repay the

³⁹ *Judicial Statistics Annual Report 2001*, Lord Chancellors Department

debt at £40 per month. Both the client and the creditor applied for a hearing for the repayments to be re-determined. The case was transferred to the client's local county court for a hearing so that the client could attend. Although the judge agreed that the clients could not afford the repayments, he accepted the creditor's arguments in favour of a forthwith judgment. The CAB commented that presumably now the creditor could enforce the judgment by means of a charging order or attachment of earnings order.

- 4.12 CABx also report problems with some judges who do not appear to take into account the relevant legislation and case law which provides some measure of protection for debtors when making a final charging order. For example:

A lone parent sought advice from a CAB in Oxfordshire about debts of £16,000, including credit debts, mortgage and council tax arrears. The client had got into financial difficulties when his partner left him and he had to give up work to look after his young son. Two of the client's non-priority creditors decided to enforce the judgments they had obtained by means of a charging order. The CAB debt adviser who accompanied the client to both hearings had prepared a financial statement showing the client's income, consisting of income support and child benefit, his expenditure and his other debts to show the judge and the creditor's solicitor. The client could only afford £1 per month to each creditor as most of his surplus income was being used to repay his priority creditors, both of whom had already taken enforcement action. At the charging order hearing for one debt, the district judge sympathised with the client's current personal and financial situation, but agreed with the creditor's solicitor that it would take an unnecessarily long time to repay the debt at £1 per month. The judge subsequently granted the creditor a final charging order, but on terms that the order should not be enforced whilst the client paid £1 per month. At the charging order hearing for the other debt, a different district judge did not want to know anything about the client's personal and financial circumstances, and expressed the opinion that the client should not be allowed to get away with non-payment. This judge granted the final charging order without any conditions.

- 4.13 Once a charging order is made, unless it is subject to terms (for example, the order not to be enforced as long as the debtor pays instalments as ordered), the creditor can apply for an order for sale at any time. There are virtually no safeguards to prevent an order for sale being made, so the debtor could face homelessness as a result. There is no guarantee that the debtor would be rehoused, as many local authorities consider that people who lose their home due to debt are intentionally homeless and therefore they have no duty to provide permanent accommodation.
- 4.14 In Scotland, there are a number of problems with types of diligence (court based enforcement measures). Much CAB evidence about enforcement of decrees or summary warrants relates to bank arrestments (where the debtor's bank account is frozen and funds diverted to the creditor to repay the debt). A 2001 report by Citizens Advice Scotland highlights the main problems

experienced by debtors whose bank accounts have been frozen.⁴⁰ These include no protection from arrestment for benefits paid into bank accounts, money arrested without warning leaving debtors without any money and no protection from arrestment for people with young children. For example:

A West of Scotland CAB reported that a client was left with 44p after £440 was arrested from her bank account for a £87 council tax debt. The sheriffs officers agreed that too much had been arrested but implied it was the bank's fault. They agreed to sort it out, but in the meantime the client was unable to honour the standing orders on her account.

A CAB in the East of Scotland reported that a client who owed £460 had been paying it off in installments to the sheriffs officers. He missed one payment but heard nothing until he got a letter from his bank telling him that the £400 funds in his bank account had been frozen. This left him with no money until he got paid and he would be unable to pay his mortgage which was due.

A CAB in the North of Scotland reported that a lone parent client on income support found that her bank account was arrested. The only money in the account was her benefit. She needed immediate assistance to get some money.

A CAB in the West of Scotland reported that a couple with three children had the funds in their joint account arrested. The sheriffs officer told the CAB that they were only willing to release £150 living expenses for the clients and their children for a whole month.

- 4.15 Problems also occur where the debtor is faced with two types of diligence for the same debt, in that a client can have an earnings arrestment (compulsory deductions from earnings) against him/her, but then be faced with a bank arrestment as well. For example:

A CAB in the East of Scotland reported that a working lone parent with three children had her bank account arrested after her wages were credited to her account. She had three years of council tax arrears outstanding, amounting to £2,500. The client also had an earnings arrestment in respect of outstanding council tax that is being collected at approximately £40 per month. The bank arrestment attached approximately £650. The sheriff officers refused to accept an offer made by the client that was to release £300 to them, with the balance being released to her. The final offer the council made was to release £100 back to her if she agreed to sign a direct debit to pay this year's council tax, the wage arrestment to stay in place and to set up an arrangement with the sheriff officers to repay the balance. Otherwise they would continue with bank arrestments at regular intervals.

⁴⁰ *Frozen Money*, Citizens Advice Scotland, 2001

Rent arrears recovery

- 4.16 The survey found that the issue of rent arrears recovery was related to social landlords taking a tough line on rent arrears collection, including the swift use of possession action. The clients who reported rent arrears were almost exclusively tenants of social landlords - only 10 per cent of tenants in rent arrears were tenants of private landlords. Unpublished figures from the Lord Chancellors Department (LCD) show that the number of outright possession orders made to social landlords in England and Wales has doubled since 1994.⁴¹
- 4.17 There are two possible reasons for the increase in the number of outright possession orders being made to social landlords. Delays in administering housing benefit application forms can lead to rent arrears. CABx often report that some social landlords take court action for possession, even though they are aware there is an outstanding housing benefit claim which would clear most or all of the rent arrears:

A CAB in County Durham reported that when their client's income support claim was suspended for a while her housing benefit claim was also stopped. Although the income support claim was eventually reinstated, there was a delay in processing the housing benefit claim. The council contacted the client to inform her that they had to take her to court for possession "to protect the council's interest due to the level of arrears". The council would not agree to withdraw the case from court when the bureau pointed out that the sole cause of the arrears was the delay in processing the housing benefit claim. Consequently the client is now paying off the very low amount of arrears under a suspended possession order.

A CAB in Kent reported that their client, an elderly woman with a heart condition, received a notice of seeking possession for rent arrears. The client's rent had not been paid by the local authority to the housing association because there was a 17-week backlog of work to be dealt with. The client was very worried by the possibility of losing her home.

- 4.18 Many social landlords appear to be taking a tougher line on the collection of rent arrears. CABx often report that social landlords have taken court proceedings for possession when rent arrears exceeded a set figure, or immediately a payment arrangement has broken without first looking at the circumstances of the case:

A woman approached an East of Scotland CAB in a very distressed state regarding rent arrears. She originally owed £900 in rent arrears to the council, but over 18 months had reduced this amount to £200 by making regular payments over and above her monthly rent. However, she missed paying both her rent and arrears payment in June 2002. She then spoke to the council eviction officer responsible for managing her case and was

⁴¹ *Just another statistic?* - Roof, September/October 2001

told that she had to pay off the total arrears by 21 June or be out of her house by July. The CAB adviser could not contact the officer concerned and when they spoke to the client the following day she had received a notice asking her to vacate the premises within 48 hours. The bureau commented that it seemed very aggressive for the council to begin the eviction process after just one missed payment in an otherwise good payment record.

A CAB in Staffordshire reported that an employed lone parent who was employed received a possession claim from the local authority. Her rent arrears were less than £300. She told the bureau that she had agreed a repayment arrangement with her housing officer, but was late making two payments due to working overtime. Although the client rang the housing office to explain the delays, she still received a possession claim.

- 4.19 Some housing associations have decided to take possession proceedings on mandatory grounds, rather than those where the court has some discretion. The use of mandatory grounds for possession prevents the judiciary from acting as an independent, objective third party in arbitrating between the tenant and the landlord. It even prevents the judge from adjourning possession proceedings where there is an outstanding claim for housing benefit which has not yet been assessed. In contrast, mortgage lenders cannot get round the discretion of the judiciary by choosing a mandatory ground for possession. The following cases illustrate the impact on tenants:

A specialist CAB debt advice service in South London reported that a client whose rent arrears had accrued due to delays in assessing housing benefit, first sought advice just before the possession hearing. The adviser tried to negotiate with the housing association representatives to ask them not to rely on ground 8 in the possession hearing because there was an outstanding housing benefit issue but to no avail. The judge was unhappy about not having any discretion to suspend or adjourn the hearing and made a 42-day possession order. After the hearing the adviser took up the issue with the housing association, who stated that their policy was only to use ground 8 where the tenant had “wilfully or negligently failed to apply for housing benefit or failed to provide information about housing benefit”. The housing association admitted that they had broken their own policy, as they were aware that the client had an outstanding claim for housing benefit before the possession hearing.

A CAB in West Yorkshire reported that their client, a lone parent on a low wage, had arranged to repay her rent arrears of £1,000 by instalments of £50 per month and had kept to this agreement. Four months later, a new housing officer at the housing association issued possession proceedings using the mandatory ground 8 and would not agree to drop ground 8 from the proceedings unless the client brought their rent arrears below £600 (8 weeks' rent).

- 4.20 The impact of social landlords' rent arrears collection policies is examined in Citizens Advice's recent report, *Possession action - the last resort?*⁴² The report argues for an improvement in housing benefit administration, legislative reform to ensure that possession action is taken only as a last resort, and for some social landlords to develop a rent arrears collection and enforcement policy which ensures that tenants are supported and can access independent advice.

Recovery of council tax arrears

- 4.21 Council tax was the most commonly reported priority debt. Nearly a third of the clients in the survey had council tax arrears. Unlike other debts in the survey which were associated either with low or high income, council tax debts were fairly evenly distributed across the income bands. This could be explained by the fact that all householders have to pay council tax, regardless of income. However, pressures on local authorities to collect council tax to fund local services and the inflexibility of the council tax recovery legislation itself may account for the frequency of problems:

A North of Scotland CAB reports that a client who was in arrears with her council tax payments had received a letter from the local authority stating that she had lost the right to pay by instalments and insisting on payment of £288 immediately. The client had only just started work and could not manage to pay the whole amount.

A bureau in South London reported that their client, a single man on a low income, moved into his current accommodation in July 2000. In March 2001 the local authority sent him a backdated bill for the financial year 2000/01. The client, whose income was too high for him to receive council tax benefit, could not afford to pay the current instalments and pay the bill in full. He tried to negotiate for the arrears to be paid over six months and for the current bill to be paid in 11 instalments rather than 10. However, the local authority would only accept payments over four months at the most and would not lengthen the term of repayment for the current bill without taking court action which would increase both bills by £51.00 (the court costs). The client finally decided to pay the debt off by credit card, as the cost of the credit card interest would be less than the court costs.

- 4.22 One of the methods of enforcement for unpaid council tax in England and Wales is an attachment of earnings order. Unlike the current legislation for enforcement of county court judgments, which allow the court to take into account the debtor's income and expenditure when fixing the amount of the earnings deduction, council tax enforcement legislation sets out fixed deductions from earnings based on a set percentage of the debtor's net wages. CABx report that the use of fixed deductions can cause hardship, especially to people with multiple debts:

⁴² *Possession Action – The Last Resort?* Citizens Advice, February 2003

A man contacted a CAB in East London for advice about five credit debts and £2,800 council tax arrears. The magistrates court had adjourned the hearing to commit him to prison for non-payment of council tax so that he could seek debt advice. The CAB calculated that he had £100 per month available income from his wages to pay all his debts, and advised him to offer £70 per month to the court to repay the debt, so that he could also make offers of payment to his other creditors. In order to help him make the offers the CAB suggested to the court that the payments could be made via a voluntary attachment of earnings. However, the court rejected the offer, and the council initiated an attachment of earnings order at the set rate, resulting in deductions of £120 per month. As a result the client would not be able to make offers to his other creditors and would have to either reduce his already basic expenditure or fall behind with other commitments.

A single woman contacted a CAB in Lincolnshire for debt advice. After being unemployed for ten years she finally got a low-paid job. As a result she had to pay full rent and council tax and found it difficult to manage on her income. The council tax was now being collected by an attachment of earnings order at the rate of £40 per week out of her £180 weekly earnings. As a result the client had fallen behind with other bills, including water rates. The client told the CAB that she felt she had been caught in the poverty trap by taking the job.

- 4.23 There are great pressures on local authorities to collect as much council tax as possible, as funding of local services depends on it. The legislation governing the recovery of council tax sets out a timetable for the service of reminder letters and notices before court action.⁴³ When court action is taken, there are limited opportunities for agreeing a payment arrangement. Applications for liability orders and summary warrants do not allow the debtor to make offers of payment or even explain the reasons for non-payment. Outstanding claims for council tax benefit also do not prevent a liability order or summary warrant being made for the full unrebated amount of council tax,⁴⁴ or for the court to use its discretion to adjourn cases.
- 4.24 Consequently, the court proceedings seem to act as a “rubber stamp” for enforcement rather than judicial proceedings in which the debtor can play an active part, or seek protection from the court if they cannot pay. CAB evidence shows the injustice caused where inappropriate cases are submitted for liability orders or summary warrants:

A CAB in Cumbria reported that their client received a liability order summons for council tax arrears of £5, plus £40 court costs. The client had been paying £5 regularly and was just slightly overdue with his final payment to clear the debt.

⁴³ Council Tax (Administration and Enforcement) Regulations 1992

⁴⁴ *R v Bristol JJ ex parte Wilson & Young* (1991) 156 JP 409 – see *Enforcement of local taxation*, Alan Murdie and Ian Wise, (LAG 2000) for further information

A CAB in Suffolk reported that their client, a lone parent in receipt of working families tax credit, had agreed a repayment arrangement for her council tax arrears but the local authority insisted on applying for a liability order summons, resulting in court costs being added to the debt.

- 4.25 In some cases, the council's policy of allocating payments to outstanding bills leads to unnecessary court action. For example:

A CAB in Tyne & Wear reported that their clients owed council tax for several years. The policy of the council tax arrears section is that any payment made to an account goes first to pay off the previous years' arrears. This means that if no payment is made for the current year's liability, the case goes automatically to court and a further £45 court cost is added to the debt.

- 4.26 There are also problems with the methods of recovery used. The possible methods of recovery of council tax include seizure of goods to sell to pay off the debt, deductions from wages and benefits and bankruptcy. Citizens Advice highlighted the issues around use of bailiffs to recover council tax debts in our May 2000 report, *Undue Distress*. However, CABx report that local authorities often choose unduly harsh methods of enforcement, particularly for multiple bills. In struggling to repay one debt, clients can become more indebted with the remaining debts:

A CAB in Merseyside reported that their client, a single pensioner, had been summoned to the magistrates court for committal to prison for one council tax debt even though she was already having deductions from her benefit for a previous year's bill. When this action was queried with the local authority their response was that as they could do it, they would.

A CAB in Leicestershire reported that their client had two attachment of earnings orders for his council tax arrears, amounting to 23 per cent of his earnings. He is finding it very difficult to manage without getting into further debt.

A CAB in North London reported that their client had two attachment of earnings orders and he had borrowed over £1,000 from his employer to pay off a third council tax debt after the bailiffs had said they would take his fridge and cooker. The local authority then obtained a fourth liability order and insisted that the client paid it off at £50 per month or they would send in the bailiffs. On top of this the client had to pay the current year's tax. The CAB calculated that the client and his wife would only have £44.80 per month to live off after all the payments for outstanding council tax bills, the deduction from his wages to repay the loan to his employer and his rent are taken into account.

- 4.27 In Scotland the enforcement process is controlled by sheriff's officers employed by the local authority. Evidence from Scottish CABx shows that some local authorities appear to have different policies concerning the pursuit of debts for different years. This can mean they employ different firms of

sheriff officers to pursue individual year's debts. Clients can find themselves being vigorously pursued by different firms for different debts even though all debts are owed to the same creditor, the local authority:

A West of Scotland CAB reported the case of a client who phoned the CAB regarding her council tax arrears. The sheriff officer intended to uplift her poinded goods unless payment was made of £190. The client's husband had already had his wages arrested in respect of debts for the current year's council tax. The client contacted the sheriff officers' firm to negotiate, however, they were adamant that they wanted payment to avoid the uplift of the goods. The client stated that the sheriff's officers would have to go ahead with the poinding, as she had no funds.

- 4.28 CABx also report that many local authorities are taking a tougher line on enforcement of council tax arrears. Some local authorities have decided not to ask for direct deductions from income support or jobseekers allowance as it would take too long a time to clear the debt, but will send in the bailiffs instead. CABx report the impact of such policies on vulnerable people:

A CAB in Devon reported that they were helping a single woman in receipt of incapacity benefit and income support with her debts. She had rent and council tax arrears, which had been partly caused by delays in assessing her claim for housing and council tax benefits. The local authority had sent the client's council tax debt to their bailiffs to collect rather than set up direct deductions from her benefit. The minimum payment the bailiff was willing to accept was £5.00 per week, compared to the £2.75 per week direct deduction from her benefit. The client suffered from depression and the stress and worry of sorting out her debts was making it worse.

A CAB in Essex reported that a lone parent with mental health problems sought advice from them about council tax arrears from her previous address. Although she was on income support, the local authority would not agree to direct deductions from her benefit, as it was their policy to send the debt to their bailiffs to collect.

A CAB in East London reported that a lone parent client on income support had accrued council tax arrears, because she had to pay a non-dependent deduction from her council tax benefit. The non-dependent concerned had no income and so was not able to make a contribution to rent or council tax. The client wanted the CAB to negotiate with the council on her behalf. When the CAB rang the council, they were told that it was now the local authority's policy not to negotiate with people in receipt of benefits and they would send the client's account to the bailiffs.

- 4.29 Local authorities have no power to remit or write off council tax in cases of hardship. Councils used to have the power to remit general rates under the General Rates Act 1967, but this was abolished when the community charge was introduced. Consequently some local authorities who wish to remit debts first have to take the extreme step of committal proceedings:

A CAB in Berkshire reported that their client, a woman aged 60 living on a low income, received a committal summons for outstanding council tax debts. When the bureau contacted the council, they were told that it was the only way the debt could be remitted. The council told the bureau that they had even had to take committal proceedings against people with motor neurone disease to get the debts remitted. The bureau commented that it was wrong for the council to have to drag people suffering extreme hardship through a process intended to commit deliberate non-payers to prison, solely in order to get their debts written off.

Debt recovery and insolvency

- 4.30 It is relevant to consider if insolvency procedures could have been used by our clients to resolve their debt problems. These are not easy options for dealing with debts but can be useful as a last resort to help clients who have no prospect of being able to repay their debts.
- 4.31 The financial barriers to bankruptcy have already been discussed in Chapter 2. Other insolvency remedies exist but, because few creditors had taken the appropriate court action to recover debts, only a tiny proportion of clients could access them. Although nearly half of the survey sample had debts of less than £5,000, only three per cent of the clients in England, Wales and Northern Ireland would have been eligible to apply for an administration order to consolidate their debts and gain protection from further enforcement action from creditors, because one of their debts was subject to a county court or high court judgment. Evidence from CABx shows the problems faced by people who would benefit from an administration order but have higher debts than the limit, or who do not have any debts subject to a county court judgment:

A CAB in Suffolk reported helping a client with £7,000 of debt. The client has mental health problems and is in and out of work, which causes problems with debt repayment schedules. The CAB felt that an administration order would be ideal for her but the court would reject her application.

A specialist CAB money advice service in South London reported that their client, a lone parent on income support, had eight debts which totalled less than £5,000. An administration order would be the best option for her but she cannot apply for one as none of the debts are subject to a county court judgment.

A CAB in Derbyshire reported that their client, a single pregnant woman in receipt of jobseekers allowance, owed £6,000 to eight separate creditors. Because she owed more than £5,000 she could not apply for an administration order which would allow her to make one payment to the court to distribute to her creditors. She could not afford bankruptcy either, as she could not afford the £250 deposit fee necessary to submit a bankruptcy petition.

A CAB in Cornwall reported that their client, a single man on income support and incapacity benefit had his application for an administration order refused because he owed more than £5,000, even though he had a county court judgment.

- 4.32 In Scotland, there is no equivalent of administration orders. 17 per cent of the Scottish clients could satisfy the conditions for “apparent insolvency”, which are that they should have debts of at least £1,500 and that a creditor has obtained a charge for payment, to apply for sequestration. Evidence from Scottish CABx shows the problems faced by clients who are excluded from the remedy of sequestration:

A CAB in Scotland reported that they were helping a single man in receipt of income support and disability living allowance with a number of small debts. As the client had no disposable income, the bureau wrote to his creditors for a moratorium on payments. However, four creditors insisted on a payment arrangement and persisted in calling at the house or writing to him demanding payment. Although they threatened legal action, none had yet taken it. The client wished they would so that he could apply for sequestration. He felt distressed by the constant pressure from his creditors.

- 4.33 It is therefore welcome that the Scottish Parliament have legislated to introduce a Debt Arrangement Scheme, which will allow debtors living in Scotland to manage their debts and be protected from further collection and enforcement action from creditors. Appendix 4 provides an explanation of the Debt Arrangement Scheme.

Administration charges

- 4.34 Administration charges, such as regular monthly charges for being overdrawn or managing an arrears account, and one-off charges such as litigation costs can make a debt problem spiral out of control. Administration charges were recorded for 12 per cent of all the debts in the survey and in nearly 30 per cent of the debts where the creditor had taken some kind of formal recovery action. Regular monthly charges formed 40 per cent of the charges recorded, and averaged £20 per transaction.

Table 4.3 - Percentage of different debts which had administration charges associated with them

Type of debt	Percentage of debt types in the survey with administration charges
Bank loan	9%
Catalogue	6%
Council tax	33%
Credit card	13%
Finance company loan	10%
Mortgage and secured loans	25%
Other	4%
Overdraft	17%
Rent	17%
Storecard	6%

Base: 2155 debts

- 4.35 The administration charges associated with priority debts such as mortgages and secured loans, rent and council tax were predominantly court-related, such as court fees, solicitors' costs, enforcement costs and fees. In some cases these added substantial amounts to the outstanding debt, and would have taken the debtor some time to pay off:

A CAB in West Yorkshire reported that their clients' mortgage arrears had increased by £427 due to the lender adding administration fees each month to their clients' mortgage arrears. Without the administration fees, their clients would only have had £150 mortgage arrears.

A CAB in East London reported that their client, a single woman on incapacity benefit owed £446 in unpaid council tax over five years. However, the bailiffs collecting the debt had added an additional £545 for their fees.

A CAB in Surrey reported that a vulnerable couple with physical and mental health problems sought advice about their landlord, a housing association, taking possession proceedings. The CAB identified that the clients were entitled to housing benefit and helped them make a claim. Although the backdated housing benefit reduced the rent arrears by nearly two-thirds, the possession hearing went ahead and the clients are now liable to pay court costs of £120, which has increased the remaining debt by a third.

A North of Scotland CAB reports that a client who had been paying her council tax regularly, on the twenty-first of each month, was told by the local authority that the council would no longer accept her payments as they were due on the first of the month. She was informed that as she had failed to pay instalments by the due date she would now receive a final notice. The bill would then increase by 10 per cent on the issue of a summary warrant. The CAB tried to negotiate with the local authority on behalf of the client but they refused to do so and said it would be against the law to vary their approach.

- 4.36 With regards to credit debts, the majority of the charges were either charges per item, for example failed direct debits, or monthly arrears fees:

An East of Scotland CAB reported that a disabled client on a low wage topped up with tax credits and housing benefit had accumulated £112 in bank charges in one month as a result of not having sufficient funds to cover one standing order and one direct debit.

A CAB in Kent reported that an elderly client in receipt of retirement pension got into rent arrears because he did not have enough money in his bank account to cover the direct debit to his landlord. Each time the direct debit was returned, the bank charged him £30 a time.

- 4.37 People in debt with credit cards with low credit limits find that the addition of administration charges can cause a debt to spin out of control:

A CAB in Lancashire reported that a client had had a credit card with a £200 limit. He then fell ill and had to stop work and claim incapacity benefit. The credit card company would not accept the offer of payment the client had made, following advice from the CAB, and continued to add interest and late payment charges. By the time the credit card company finally agreed to accept the offer and suspend all interest and late payment charges, the original £200 debt had increased by more than 150 per cent.

A CAB in East Yorkshire reported that a single male, who had been unable to work for some time due to depression, got into financial difficulties after opening a credit card account with a limit of £200. The credit card company had told him that the minimum payments would be £6 - £8 per month, which he would have been able to afford. His first statement showed he had gone over the limit by £12. As a result charges of £58 were added to his account and the minimum repayment he was asked to pay was £77 per month. As the client had gone into arrears almost immediately on opening the credit card account, the credit card company would not accept a reduced offer of payment and stop the interest and other charges accruing. As a result the client's debt was increasing by £41 per month due to default interest and late payment charges. The bureau reported that the increasing debt was greatly adding to his anxiety and ill-health.

Conclusions

- 4.38 Debt problems can be exacerbated by unduly harsh and inappropriate collection methods, including the use of administration charges. The survey found that consumer credit lenders were much less likely than priority creditors to use court action to recover debt, relying instead on the use of debt collection agencies. CAB evidence shows that debt collection agencies often use harsh and unfair methods to collect debts. Effective measures are needed to tackle unacceptable debt collection techniques.

- 4.39 Formal court based enforcement action is often being used to recover debts and this could result in loss of a person's home or present huge problems for them in being able to buy food or keep their jobs. In these circumstances it is essential that enforcement measures cannot be used irrationally, unfairly or disproportionately and that there are suitable protections for vulnerable debtors.
- 4.40 Social landlords and local authority council tax departments were most likely to use court action to recover debts. CABx often report that social landlords and council tax departments take a tough line on the collection of rent and council tax arrears, even though poor housing and council tax benefit administration may be partly to blame for increased arrears. Action to tackle debt problems should include measures to improve collection practices of rent and council tax arrears.
- 4.41 Because few creditors had taken court action to recover the debts, many of the clients were unable to access insolvency remedies, including administration orders in England and Wales and sequestration in Scotland. Action needs to be taken to ensure that more people with problem debts can get protection from further enforcement action by their creditors and make affordable repayments to reduce their debts.
- 4.42 Administration charges can make debts spiral out of control. Although it may be reasonable to add charges for the additional cost of administering an account in arrears, the charges should be proportionate to the cost. And where creditors are charging high interest rates and APRs based on assumptions about the risk of non-payment, it is arguable that consumers who also incur contractual charges for recovery letters and visits are effectively being charged twice.
- 4.43 In the next chapter we will look at the reasons CAB clients gave for their debt problems.

The reasons for debt problems

- 5.1 In this chapter we examine the reasons why CAB clients experience debt problems. We look at the reasons they give for their inability to pay their current commitments and credit, and the evidence on their income and expenditure. CAB clients experience debt problems when they are unable to pay their current credit repayments and other commitments without reducing other expenditures below normal minimum levels.
- 5.2 It has been generally accepted that there are a number of inter-related reasons why people experience debt problems. These factors include a sudden change in circumstances, the consequences of living long-term on a low income, the effect of a change in government legislation (for example, the introduction of the community charge and child support), financial overcommitment and poor money management.⁴⁵ Easy access to credit has not been considered to be a primary reason for arrears and debt. Rather it has been thought that the sudden unexpected change of circumstances has rendered a previously manageable credit commitment unmanageable as income has fallen or unavoidable costs faced by a person or the their family have arisen.
- 5.3 From 1999 onwards, some bureaux have been reporting that they are seeing an increasing number of people with high amounts of unsecured consumer credit debt who seem to have debt problems because of the ease of getting credit and become over committed. However, other bureaux continued to report that their clients have got into debt problems primarily because of changes of circumstances or low income.
- 5.4 Examining the reasons for CAB clients' debt problems helps to evaluate whether remedies such as payment protection insurance are effective in resolving debt problems or whether policies which promote responsible lending and borrowing would help people avoid unmanageable debt in the future.

Why CAB clients believe they are facing debt problems

- 5.5 Debt is a very sensitive issue. Asking someone how they got into debt must be approached carefully, particularly with those seeking advice for the first time. Many people with debt problems feel ashamed and embarrassed, and they often think that when they seek advice they will be judged. They often feel it is their fault for not being able to manage their money effectively.
- 5.6 All the clients who took part in the survey were asked to give up to three reasons why they thought they had got into problems with debt. We asked clients to use their own words rather than offer a multiple choice response. The analysis found that clients' reasons covered a range of 13 factors from

⁴⁵ See *Credit and Debt*, by Richard Berthoud and Elaine Kempson, published by PSI 1992 and *Getting and Spending – credit and debt in Britain*, by Gillian Parker, published by SPRU University of York, 1990

overcommitment to problems resulting from drug or alcohol dependency. The results are given in the following table:

Table 5.1 – Reasons for debt problems given by CAB debt clients

Reasons CAB clients gave for debts	No of times this reason was mentioned	% of responses	% of clients giving this reason
Overcommitment	235	16.5	29.7
Job loss	208	14.6	26.3
Low income	185	13.0	23.4
Illness	168	11.8	21.3
Relationship breakdown	160	11.2	20.3
Money mismanagement, budgeting problems	100	7.0	12.7
Major necessary expenses	90	6.3	11.4
Benefit problems	79	5.5	10.0
Drop in income	72	5.1	9.1
Fault of others	49	3.4	6.2
Business related problems	43	3.0	5.4
Death in the family and death expenses	21	1.5	2.7
Alcohol and drug addiction	14	1.0	1.8
All	1424	100	180.3

- 5.7 The three reasons given most frequently by clients in this survey echo the findings of survey undertaken by Citizens Advice in 1991.⁴⁶ Both surveys found that the top three reasons for CAB clients' experiencing debt problems were living long-term on a low income, overcommitment and job loss.
- 5.8 The survey also found that many people got into debt problems for a number of inter-related reasons. Nearly 60 per cent of clients who participated in the 2001 survey felt that there was more than one cause of their debt problem. CABx frequently report that clients with debt problems have experienced a range of events affecting their income and expenditure as the following cases illustrate:

An unemployed man sought advice from a CAB in Northamptonshire about his debts of £61,000. He had been dismissed from his job six months earlier and prior to the loss of his job he had suffered regular bouts of depression. The CAB ascertained that the debts, most of which were consumer credit related, had built up over a number of years whilst he was in employment. He had never been able to reduce them to an affordable level, and had taken on extra credit to repay existing loans.

A man approached a CAB in South-West Wales for help with nearly £28,000 of debt. The cause of his debt problems was being made redundant in 2001. His marriage broke up at about the same time. There was no available money from the sale of the matrimonial home to repay his creditors. After receiving a poor service from a private fee-charging

⁴⁶ See *The Cost of Living*, published by NACAB in 1992. This survey did not cover debt clients of CABx in Scotland.

debt management company, he was considering going bankrupt as the best way of coping with his debts.

A single woman contacted a CAB in West Yorkshire for help with six credit debts. The initial cause of her debt problem was the necessity of borrowing money to make ends meet whilst in higher education. She was now in casual work, which made it difficult to make regular repayments.

- 5.9 A majority, almost 60 per cent of the responses, identified a change in personal circumstances, such as job loss, onset of illness and relationship breakdown as a contributory factor to indebtedness. Nearly a quarter of responses identified overcommitment or money mismanagement as a major reason for debt problems.
- 5.10 The high proportion of people reporting a change in circumstances as a reason for debt problems suggests that payment protection insurance should help resolve debt problems for many people, particularly as over 70 per cent of clients in this survey had consumer credit or mortgage debts. To examine this more closely in the rest of this chapter we look at the CAB evidence about individual reasons for debt problems, and at the survey findings on payment protection insurance.

Payment protection insurance

- 5.11 Payment protection insurance (PPI) is normally expected to cover the payments on the loan where the borrower is unable to work because of unemployment or illness for a limited period – usually between 12 and 24 months. It has been government policy for some years to promote the take-up of mortgage payment protection insurance in particular by limiting the help available to home owners through the benefit system.
- 5.12 The CAB service has been concerned for a long time about the limitations of payment protection insurance. In 1995 Citizens Advice published *Security at risk*, which detailed the problems CAB clients were facing with payment protection insurance. This survey found there are significant limitations of PPI to resolving debt problems when they arise. Firstly, only 11 per cent of the debts in the survey had payment protection insurance associated with them. Secondly, even in cases where PPI was present, the limitations of the policy held meant that clients could only make claims for just over a quarter of these debts. The most commonly cited reason (73 per cent of those not claiming) for not claiming on the policy was that there was no ability to claim, for example because the client was in debt due to a relationship breakdown. In those cases our clients had paid for insurance that did not meet their needs. As can be seen later in this chapter, although unemployment and illness were given as a reason for debt problem by around a third of the clients in the survey debt problems arose for many other reasons. The following cases illustrate some of the problems CAB clients experience with PPI:

A CAB in Staffordshire reported that their client applied for a loan from his bank to pay off some debts his wife had run up. PPI was included with the

loan even though the client, who was over 60 years old, was not working at the time.

A CAB in Northern Ireland reported that their client who had been in receipt of incapacity benefit for 7 years had taken out storecards some of which had payment protection insurance included. When the CAB questioned one of the storecard companies why payment protection insurance had been included on her account when she did not work and would not be able to benefit from the insurance, the storecard company blamed the staff at the store concerned for just ticking all the boxes.

- 5.13 Even when a claim is made, few CAB clients surveyed were successful. Claims were not successful in 85 per cent of those cases where the credit had PPI cover and a claim was made. In relation to only 15 per cent of debts (1.7 per cent of all the debts in this survey) where PPI was present were claims successful. Reasons for insurers rejecting the claim included common exclusion clauses such as pre-existing medical conditions, mental illness and disputes over medical conditions.

A CAB in Somerset reported that their client had experienced mental health problems a year before taking out four loans, each of which was covered by PPI. At the time she was advised that the insurers would cover her payments if she were to become ill or unemployed. Two years later, she went into hospital for treatment for her mental health condition and made a claim on the insurance. Her claim was refused due to the fact that she had pre-existing medical conditions. On one of the loans the bank had received £1,200 commission. The bureau considered that because the bank had been paid commission, the client should have been entitled to a detailed explanation of the policy and its exclusions when taking out the loan.

A North of Scotland CAB reports that a married male client suffering from a stress disorder following his wife's admittance to hospital after a stroke sought advice about PPI. He had been paying PPI premiums for his credit card for 20 years. On applying to his credit card company to take advantage of the insurance after he was no longer able to work he found that the insurance company would not pay out unless a psychiatrist or consultant diagnosed his condition. His GP refused to refer him to a consultant as, in his opinion, the cause of the client's stress was the situation with his wife and there was no need for a specialist psychiatric assessment. The client could neither persuade his GP to refer him nor the insurance company to agree to honour the claim.

- 5.14 Some PPI policies are very expensive, with one-off premia of several thousand pounds on loans. For example:

A couple sought advice from a CAB in Lincolnshire about their inability to pay a £74,000 secured loan. Three years earlier they had inherited a deceased relative's house which at the time was mortgage-free, and took out a loan of £1,000 for furnishings and decoration. With the loan was

sold a payment protection premium of £500. Within a year of taking out this loan, the lender consolidated their loan no less than five times, culminating in the £74,000 secured loan. With each new loan, further payment protection insurance was sold. Of the £74,000, the clients had borrowed a staggering £44,000 for payment protection insurance. However, as both clients suffer from mental health problems, neither could claim on the insurance policies in the event of not being able to pay due to pre-existing medical conditions.

- 5.15 We now turn to consider CAB evidence and the reason why people get into debt.

Overcommitment and money mismanagement

- 5.16 A significant proportion of the CAB clients in the survey attributed their debt problems to overcommitment or poor money management. Thirty per cent of clients attributed their debt problems to overcommitment, whilst 13 per cent of clients felt that poor money management or budgeting problems were a factor in their debt problems. In some of these cases it was clear that the client had used existing sources of credit or borrowed further to cope with a change in their circumstances:

A CAB in Hampshire reported that their client ran up debts of over £70,000 when he was off work suffering from stress and depression. The client told the bureau that he was beguiled by TV advertisements which showed the advantages of borrowing money. He rang up lenders who advertise on TV and was offered credit without any questions being asked about his circumstances or ability to repay.

A CAB in Staffordshire reported that their client owed over £40,000 in credit cards and loans. He told the bureau that he had taken out a succession of cards, using each new one to pay the bills on the others.

- 5.17 Difficulties in budgeting and poor financial literacy skills can also cause or worsen a multiple debt problem:

A CAB in Hampshire reported that a client with learning disabilities and poor literacy skills got involved in a cycle of borrowing several small loans from doorstep collectors. Every time he paid one off, he was offered another. At the time of seeking advice from the CAB the client was paying £50 per week in loan repayments from his income support and disability living allowance. Finally the client's social worker managed to make him understand that he should not take out any further loans.

- 5.18 The content of some credit marketing can encourage people to borrow money without thinking whether they can afford the repayments. Questionable marketing and lending practices include providing important information about the credit product in tiny print; emphasis on the speed and ease of borrowing; encouragement to consumers to think about how much they want rather than

how much they can afford and highlighting particularly high credit limits as being available. For example:

A CAB in West London reported that following advice from the bureau a lone parent client on income support had decided that bankruptcy was the only way of dealing with the £46,000 debt she owed. The client subsequently received a letter from a bank offering her a loan. To see what would happen, the client completed the application form, giving details of her actual income. The bank subsequently phoned her and offered a £5,000 loan. The client refused the offer and expressed her anger to the CAB that someone in her position should be offered more credit.

A CAB in South Yorkshire reported that a client who was already in substantial debt received an unsolicited mailshot from a finance company. The main marketing tool used was a model cheque which encouraged the reader to imagine having this much money to spend.

A CAB in Dorset reported that their client had had long-term problems sorting out substantial mortgage arrears to a secured loan company. Although the client was only in arrears for a short time, the default interest on the loan made the debt spiral from £7,500 to £30,000. Once this had eventually been sorted out, the client began to receive unsolicited mailings from the same company offering further secured loans from £5,000. The literature was headed, "Borrowing couldn't be any simpler", and the accompanying letter states that they are a company that did not "get hung up on detail" and there was a "minimum of fuss". The bureau commented that their client's experience of dealing with this company was quite the opposite.

- 5.19 Debt problems can also result from poor lending practices, particularly creditors offering consolidation loans without checking whether the individual can afford to repay:

A CAB in Staffordshire reported that a couple on a low income who had a number of credit debts approached their bank to ask them to stop making direct debits for a loan to the bank from their already overdrawn bank account, as this practice was increasing her debt. The bank's solution to the clients' problem was to offer further loans of £20,000 to the husband and £4,000 to the wife, even though they were aware that she had no income of her own.

A CAB in Cumbria reported that a single woman dependent on income support was unable to meet the minimum payments on her £4,000 credit card debt. Although the CAB had successfully negotiated an affordable payment arrangement for her, the credit card company subsequently wrote and offered to increase her credit card limit to £7,000.

A CAB in Oxfordshire reported that one of their debt clients was sent a credit card cheque by one of his creditors inviting him to spend it and add

it to his account. The bureau commented that it was not helpful for the creditor to encourage the client to make his debt problem worse.

A CAB in Worcestershire reported that when a client suffering from a severe mental illness visited his local bank branch, he was asked if he wanted an overdraft. As the client had a basic bank account, he refused. He was then told by a bank employee at the customer service counter that he could have a credit card to buy things he wanted when he did not have the cash to do so. The client accepted the credit card with a £3,000 limit, and spent to the limit without realising the implications of having to pay the money back.

- 5.20 Data from the survey also indicates that borrowing and lending practices resulting in overcommitment seem to lead to unmanageable debt problems. Those CAB clients who answered the more detailed survey were asked to provide details of events they had experienced which had led to a decrease in income or an increase in expenditure, including how much income they had lost or additional expenditure they had to pay.⁴⁷ Although over 80 per cent of these clients reported at least one event which had led to increased expenditure or reduced income, most had experienced events which only had a relatively limited financial impact. For example, over 40 per cent of the debt clients had cumulative losses resulting from the events they reported of less than £1,000 overall – a figure equivalent to one and a quarter times the average monthly household income for the survey clients. This suggests that a substantial proportion of the clients in the survey had got into unmanageable debt because the levels of credit they were carrying were so burdensome that it took only minimal change in their circumstances, for which they had no financial reserves, to bring about a crisis.

Job loss

- 5.21 Given the current low levels of unemployment, it could be surprising to find such a high proportion of clients (26 per cent) reporting job-loss as a major factor in their debt problem.⁴⁸ However, this conceals the fact that the nature of the labour market has changed over the past 15 to 20 years. Now there is greater insecurity in employment, with higher numbers of casual and part-time jobs. Also the low unemployment figure hides individual experiences of periods in and out of employment.⁴⁹ Citizens Advice has previously described the problems CAB clients face in entering flexible working arrangements in *Flexibility Abused*.⁵⁰ People in casual work are particularly vulnerable to fluctuations in income, which can make it difficult to maintain contractual payments to their credit commitments:

⁴⁷ See Appendix 1 for the survey methodology

⁴⁸ In May 2001 the number of people out of work and claiming benefit fell below a million for the first time since 1975 to 980,900 – source - ONS

⁴⁹ For the period 1991 - 2001, temporary employment has grown by 36% - source ONS Social Trends 32, published 2002

⁵⁰ *Flexibility Abused*, a CAB evidence report on employment conditions in the labour market, published by NACAB 1997

A CAB in Hampshire reported that a married woman sought advice about debt problems. As she worked as a supply teacher, her income was not regular and she had run up debts including an overdraft.

A CAB in Derbyshire reported that a client had been experiencing debt problems ever since he lost a permanent job as a miner when the local pits closed. He had only had a number of short-term, temporary and casual jobs since then, which had not improved his financial situation.

- 5.22 Although payment protection insurance normally covers people for periods of unemployment, CAB clients often find that such insurance does not cover all reasons for joblessness:

A North of Scotland CAB reports that an unemployed male client with three children sought advice about debt. His ex-wife was an alcoholic and the Social Work Department threatened to have his three children taken into care. The client immediately came home from the city where he worked, to face a children's panel hearing. His employers gave him time off and then offered him voluntary redundancy, which he accepted. He had multiple debts, including a loan which the insurer was refusing to cover as he had taken voluntary redundancy due to a change in family circumstances.

A CAB in Hampshire reported that an army wife sought advice about a loan for £10,000 she had taken out the previous year. Her husband had just been posted overseas, but there was no job for her there. Because she had to leave her job voluntarily, the terms of the payment protection insurance would not cover her.

Low income and problems with benefits

- 5.23 The government has set impressive targets for the eradication of child poverty. Nevertheless benefit and tax credit recipients still have to be resourceful money managers to budget for all their expenditure needs. An unforeseen event, such as an unexpectedly high bill or a problem with payment of their benefits and tax credits claims can throw an already tight budget into turmoil.
- 5.24 Twenty three per cent of clients attributed their debt problems to the consequences of living on a low income. The average income and total indebtedness for clients reporting low income as a reason for debt was lower than the survey averages (£671 per month income, compared to £803, and £7,359 average household indebtedness compared to £10,700). People on low incomes are unlikely to have access to large amounts of credit:

A client of a bureau in North London, who lived alone, earned £150 per week net. He had an attachment of earnings order against him for £1,800 council tax arrears and a deduction from his wages for his rent and rent arrears. After these deductions he had £64.50 per week disposable income. The client had to pay £17 per week for the current year's council

tax and had to pay the bailiffs £10 per week for arrears. This left him with £34 per week to live on and to pay an outstanding water rates bill of £180.

A CAB in Nottinghamshire reported that a client who had been claiming incapacity benefit for seven years had multiple debts, including rent arrears, credit card, personal loan and a fuel bill. Although his partner was now working and receiving working families tax credit, they found it impossible to support themselves and their two children on their current level of income.

A CAB in Derbyshire reported that their client was widowed four years ago. She receives widowed parents allowance and a small occupational pension from her late husband's employer which makes her only just ineligible for income support. As a result the client is not entitled to passported benefits such as free school meals for her three children and help with prescriptions. Since her husband died, she has had difficulty budgeting and owes more than £6,500.

- 5.25 Problems with the benefits system such as delays in receiving payments can also cause or worsen debt problems for people on low incomes. Nine per cent of the CAB debt clients attributed their debt problems to problems with benefits. CABx frequently report that poor benefit administration, particularly for housing and council tax benefits, cause financial difficulties. Recent statistics published by the Department for Work and Pensions shows that although nationally the time taken to process new housing benefit claims has improved by around four days to an average of eight weeks, there are widespread variations across individual councils.⁵¹ Some of the worst-performing councils have taken up to 162 days (nearly six months) to assess new claims. CABx frequently report the debt problems experienced by clients as a result of delays in assessing housing benefit and council tax benefit claims:

A CAB in Oxfordshire reported that their client, a lone parent suffering from a progressive muscular disease, contacted the bureau for advice about the notice of seeking possession, the formal notice which has to be served before court action was taken, she had received from the council for rent arrears. She had applied for housing benefit four months earlier when she had had to give up work due to her illness, but her claim had not been assessed yet. When the bureau contacted the housing office, they explained that it was their policy to issue a notice of seeking possession automatically when rent arrears reached £250. Where there was a known housing benefit delay, they advised their tenants to take the notice of seeking possession to the benefits office and ask for a decision within 28 days.

A CAB in the West Midlands reported that a client applied for housing and council tax benefits in July 2002. Council tax benefit was awarded but the housing benefit claim was mislaid. Subsequently, the client received a

⁵¹ *Housing Benefit Quarterly Performance Statistics 2002/2003*, published on 29.1.03

notice to terminate his introductory tenancy, as rent arrears were beginning to accrue. In the mean time the client had submitted a new claim requesting backdating. By November this still had not been assessed, and the client was facing the loss of his home.

- 5.26 Currently, claims for housing and council tax benefit have to be renewed annually and if the renewal claim is not made or assessed on time, rent and council tax arrears can accrue:

A CAB in Kent reported that a widower over pensionable age submitted a Housing Benefit renewal form in mid-September. Six weeks later it had not been processed and his landlord, a housing association, was threatening him with possession action for rent arrears, as they felt it was the only way the housing benefit claim will be processed. Although the client knew he should not be evicted he felt stressed and could not sleep.

- 5.27 Debt problems can also occur when people on benefit start low paid work:

A CAB in North London reported that a lone parent had contacted the bureau because she was finding it difficult to manage after she had stopped claiming income support to start work. Although her wages were topped up with working families tax credit, she still had to pay £55 per week towards her childcare costs, because working families tax credit only covers a maximum 70 per cent of childcare costs. As a result the client found she was worse off and had fallen into rent and council tax arrears. The client told the bureau that she had not experienced these problems when she was on benefits and was considering resigning from work so that she could claim benefits again.

A CAB in Hampshire reported that they were helping a 17-year old woman who had just left care and had been allocated a local authority flat. She had mental health problems for which she was receiving support from the local mental health service for adolescents and a social worker. When the client started work she ended up with an overpayment of housing and council tax benefit, rent arrears and council tax arrears. When contacted by her housing officer, the client agreed to pay her current rent plus £10 per week off the arrears, although she could not afford it. The pressure of trying to make ends meet and pay her debts resulted in the client attempting to commit suicide twice in one month. Her debt problems got worse following further problems with her benefits. Soon afterwards the housing officer contacted her again about her increasing rent arrears. He told her that she "would be evicted tomorrow". As a result, the client attempted suicide again.

- 5.28 These cases show how low pay coupled with additional costs such as travel to work, and childcare can mean that some people can be a little better off in work than on benefits, perhaps contrary to their expectations. The introduction of new improved tax credits in April 2003 and some of the proposed changes to housing benefit may help alleviate some of the debt

problems experienced by those CAB clients for whom living on a low income or benefits is the main reason for their debt problems.⁵²

Illness

- 5.29 Illness and disability were a common reason for debt problems. Twenty one per cent of clients said that physical and mental illness and disability were a major cause of their debt problems. In many cases the debt problem had arisen because the client was no longer able to work due to disability or physical or mental illness and were consequently experiencing a sharp drop in income. In other cases, the client had given up work to care for an ill or disabled relative. CAB evidence illustrates that debt problems in such situations are not just caused by the drop in income, but also an increase in expenditure, for example on extra heating and special diets:

A CAB in South Yorkshire reported that their client got into debt because she was living on means tested benefits and had to support a disabled daughter who was not eligible for disability living allowance. She finds it difficult to pay for the additional expenses, without getting into financial difficulties.

A CAB in Shropshire reported that a client had experienced a mental health breakdown which eventually led to the loss of her job. At the time of seeking advice, her income was only £269 per month incapacity benefit, and she owed over £13,000. The client told the bureau that she had not dealt with any mail following her breakdown, so her debt problem had escalated as a result.

A CAB in Sussex reported that a man sought advice about repaying a bank loan after he had had to give up work to look after his wife who was terminally ill with cancer. He had asked the bank if he could defer payments whilst he was caring for his wife, who, at the time of seeking advice, had about four months to live. However the bank refused to do so and said they would refer his account to debt collectors if he defaulted on repayments.

- 5.30 As highlighted earlier, payment protection insurance often does not cover all claims arising from illness, particularly where the client is unable to work due to mental health problems, or where s/he has given up work to care for a chronically ill or disabled person:

A CAB in Warwickshire reported that a client had lost his job due to stress and depression. He was upset that his payment protection insurance policy on a personal loan excluded claims arising from mental health conditions. The client told the bureau he was getting into debt as a result and this was just making his stress and depression worse.

⁵² Proposed reforms of housing benefit were announced on 23rd October 2002. The proposals included ending the requirement to make a new housing benefit claim when starting work and ending the current requirement to reclaim at least every 12 months. The 2003 Budget introduced new income disregards for Housing Benefit.

Relationship breakdown

- 5.31 Debt problems can occur through relationship breakdown due to the drop in income resulting from one partner leaving, and additional costs such as setting up a new home and paying child support. Twenty per cent of CAB debt clients considered that relationship breakdown was a cause of their debt problems. There is often no help via payment protection insurance to resolve debt problems which result following a relationship breakdown:

A CAB in South Yorkshire reported that since she left her husband, their client was no longer able to work full-time as she has no childcare. As a result, she can no longer afford full repayments to her creditors.

A CAB in Scotland reported that their client got into debt when his wife left him, taking the children with her. Her part-time wages had paid the contractual payments to their creditors. The client told the bureau that he felt so upset and depressed about the break-up of his family, that he could not cope with dealing with his debts.

A woman contacted a CAB in Lincolnshire for help with five debts. She had recently separated from her husband, and was currently living in rented accommodation with her child, having lost the marital home. As a result of the relationship breakdown, there had been a significant reduction in her income and she was now living on income support.

Major necessary expenses

- 5.32 Eleven per cent of clients reported that having to find the funds for major necessary expenses was a key cause of their debt problems. CAB experience is that many people have no option but to take out further credit to pay for unavoidable expenses:

A man sought advice from a CAB in Hampshire about his financial situation. He had been living in a hostel following rehabilitation treatment for alcoholism and had been rehoused into a council flat in a bad state of repair with no furniture. The client successfully applied for a social fund loan to furnish and decorate the flat. At about the same time, his incapacity benefit stopped and he was put on to reduced rate income support. The social security office then reduced his income support further by deducting the social fund loan repayments at the highest rate. As a result, the client only had £37 per week to live on to pay all his bills and his food. As a result of having to live on a reduced income, the client felt he was unable to cope financially and was finding it more difficult not to start drinking again. He told the CAB that he felt he had no choice but to run up arrears on his fuel and water charges bills in order to pay for food.

A man on a low wage contacted a CAB in Cornwall for debt advice. He needed a car in order to get to work as he lived in a rural area with very poor public transport, but had no savings. The only credit he could get

was with a non-status hire purchase company at 42 per cent APR. The client was borrowing £4,800 and would have to pay back a total of £8,600.

A couple sought advice from a CAB in Staffordshire about substantial debts. They told the bureau that although they received a reasonable income, the main reason for their debt problems was the cost of paying for their three children to go to university. At one time two children were at university at the same time. This necessitated the clients finding £113 per week towards their children's accommodation costs, £40 per week for their tuition fees and additional money to live on. The clients felt that their debt problem had been compounded by poor advice from their bank, who, when consulted about the growing overdraft, persuaded them to take out a loan to pay it off. The clients noticed that the bank manager had put down on the application form as the reason for the loan "home improvements" rather than debt consolidation.

Drop in income

- 5.33 Nine per cent of clients attributed their debt problem to a drop in their income; for example, a cut in wages, a reduction in overtime, a cut in their hours at work and taking a new job at a lower salary. CABx often report that a small change in income can make previously affordable credit repayments unmanageable:

A CAB in Merseyside reported that a single woman approached them about a credit card debt of £5,500. She was unable to afford to pay the minimum monthly payment of £170 on the account because her hours of work had reduced temporarily due to her employer suffering a loss of business.

A CAB in South Yorkshire reported that the initial reason for their client's debt problems was redundancy. Although he found a part-time job, his essential expenditure needs exceeded his income by £50 per week. As a consequence, he was unable to pay his mortgage and was accruing council tax arrears. His wife was unable to work as she had multiple sclerosis.

- 5.34 Payment protection insurance does not seem to resolve debt problems such as these which result from a drop in income.

Fault of others

- 5.35 A small proportion (six per cent) of CAB debt clients attributed their cause of their debt problem to the actions of other people. This included parents who had taken out credit for their adult children and people who had borrowed money on behalf of their former partners. In many cases, the recipient of the money was not helping the borrower to repay the loan:

A CAB in Sussex reported that they had seen many clients recently whose debt problems had been caused by relationship breakdown where the ex-

partner had taken financial advantage of the client. One client had to pay debts run up by his ex-wife. The total repayments on these accounts were £250 per month, which is a lot for someone on statutory sick pay to pay. Another client's ex-husband had run off with the car and had taken £17,000 out of their bank account. He now wants another £1,500 to remove his name from the house deeds. Although the client has obtained court orders ordering him to compensate her for the car and the money in the account, he has not complied. A third client took out a £21,000 loan to repay her husband's business debts. Now that they have separated, he has made no offer to deal with this and is only offering her £4,000 out of the much larger equity in the matrimonial home to buy her out.

A CAB in Leicestershire reported that a disabled terminally ill woman sought advice about a secured loan which her son-in-law had persuaded her to take out 10 years earlier. He had now left his wife and had stopped paying. The lender was intending to seek possession of the client's home, as the client could not keep up the payments from her income support.

A CAB in Scotland was contacted by a client on behalf of her mentally disabled sister. The sister had been in residential care where she met a man with whom she set up home. He took out various loans in her name, which she had to sign for and now he had thrown her out.

- 5.36 There are no legislative remedies that would resolve those problems where the borrower is clearly liable for the debt. However, people in this situation would be helped considerably if creditors and debt collectors treated them with more respect and understanding.

Business problems

- 5.37 A small number of clients (five per cent) had debt problems because their business was failing or had failed. Several Citizens Advice Bureaux who took part in the survey were situated in areas of the country which were affected by the 2001 foot and mouth epidemic and some of their clients had to deal with falling income and debt problems caused directly or indirectly by the epidemic:

A CAB in North Yorkshire reported that a self-employed farrier sought advice from them about his mounting debts, including council tax, income tax, fuel bills and a bank overdraft. He was unable to do much work during the foot and mouth epidemic as his movements were restricted and most of his clients had stopped using horses because of restrictions and the ban on hunting.

A CAB in Devon reported that a market trader sought advice about a credit card debt. Due to the lack of visitors to the area the previous summer, the client's takings from the stall had reduced dramatically and were insufficient to tide her over the winter and consequently she had bought stock for the stall on her credit card.

A CAB in North-West Wales reported that a woman running a cheque cashing and letting business sought advice about the lack of income from her business and her increasing debt to the bank. She had not paid herself for three months in order to keep the business afloat and had to let staff go. The client said that her application for compensation from the government had been declined and she was seriously considering bankruptcy as a result.

- 5.38 In 2001, Citizens Advice set up a helpline for people facing financial problems as a result of the foot and mouth epidemic. By the end of that year, the helpline had dealt with over 2,000 enquiries.

Bereavement and related expenses

- 5.39 A small number of CAB debt clients (three per cent) reported that bereavement and related expenses caused their debt problems. The death of partner can result in a sudden drop in income, and the survivor may find that they are struggling to pay all their commitments. CABx frequently report that debt problems faced by bereaved people can be exacerbated when the lender takes inappropriate action to deal with the debt:

A 64-year old widow approached a CAB in Suffolk for advice. She found that following her husband's death a year earlier she was left to pay a bank loan for £24,000. When she approached the bank for help, they suggested that she remortgage her home for £25,000. After paying the mortgage, she would be left with £64 per month to live on and care for her father.

A CAB in Warwickshire reported that a 62 –year old woman got into debt when her husband died. She told the bureau that she had made every attempt to keep up with repayments but it all became impossible. The client's debt problems were exacerbated by one of her creditors, a major bank, who continued to add interest to the loan and insisted on higher repayments than the client could afford to make.

A 67-year old widower sought advice from a CAB in Lancashire as he was having trouble meeting the repayments on an unsecured loan for £14,000, following his wife's death. He told the bureau that his weekly income had reduced by £100 per week as a result of his bereavement. The client's debt problems and distress were exacerbated by the lender's harsh debt collection practices. The client told the bureau that they would send the bailiffs round if he did not pay. When the CAB adviser contacted the lender on the client's behalf, she was told by their customer services department that they were not interested in the client's personal circumstances and that debts should be paid regardless.

- 5.40 Debt can also arise because of having to pay the costs of a funeral. A grant for funeral costs is available from the social fund for people in receipt of certain means-tested benefits. However, CABx often report that the amount of

the social fund funeral grant is insufficient to cover the cost of a very simple funeral:

A CAB in Essex reported that their client was unable to pay the £420 shortfall between the social fund grant and the cost of her late husband's funeral. She had no savings of her own to meet the cost and she was unable to get help from family to cover the cost of the funeral bill.

A CAB in Merseyside reported that a client on benefits had to arrange her mother's funeral. The client told the funeral directors that she had no funds to pay for the funeral herself and would therefore be applying for a funeral grant from the Social Fund to pay it. The bill for a basic funeral came to £1,700, but the client was only awarded a grant of £846. The client told the bureau that she was unable to pay the difference after exploring all the avenues available to her.

Conclusions

- 5.41 CAB clients get into debt problems for a variety of reasons. Of these, a change in circumstances, such as job loss, ill health and relationship breakdown, and overcommitment and poor money management were mentioned most often by clients as a factor giving rise to their debt problems.
- 5.42 A high proportion of clients reported a change of circumstances involving loss of income or increased expenditure as a reason for debt, but when the actual financial effects of these changes were ascertained in a significant proportion of cases the amount of change was quite small, around ten per cent of annual income. This suggests strongly that, for a proportion of CAB clients with debt problems, the level of their commitments relative to their income was such that a relatively small change turned previously manageable payments into debt problems.
- 5.43 CAB evidence also shows that payment protection insurance, which might be expected to protect people from the effects of unexpected changes in circumstances, just does not help to resolve many of the debt problems CAB debt clients face. This is most often because the changes experienced are outside the scope of such insurance policies or the causes are specifically excluded.
- 5.44 A sustainable strategy for preventing overindebtedness and resolving debt problems when they do arise needs to cover a wide range of issues to be fully effective. Initiatives which tackle:
- irresponsible lending and borrowing
 - the level of benefits
 - take up of benefits and tax credits
 - lack of access to affordable credit

- poor benefit administration
- low pay and employment instability, as well as employer compliance with employment protection legislation
- access to advice,

all have a part to play in the prevention and resolution of debt problems.

5.45 In Chapter 6 we examine the impact of unmanageable debt. We look at how CAB debt clients coped with their debt problems before seeking help from the CAB, and what effect unmanageable debt has on personal lives.

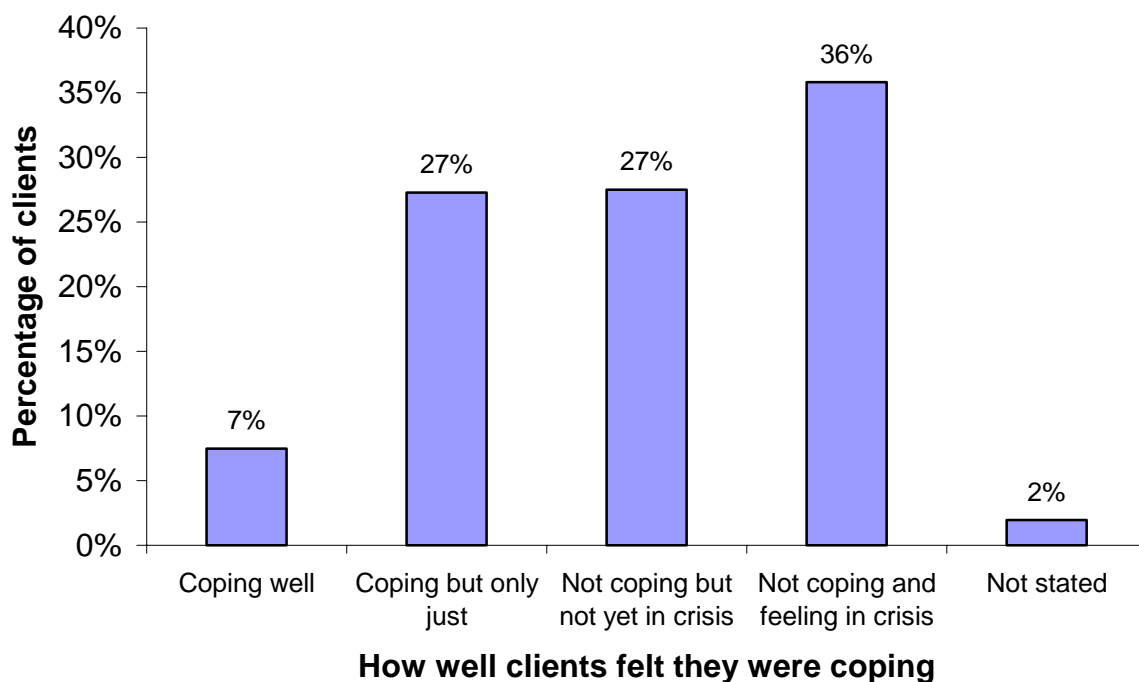
The impact of debt

- 6.1 Debt can have a devastating impact on people's lives. Dealing with debt is stressful in many ways: having to cope with spiralling debts and the constant demands for payment from creditors, whilst trying to manage household expenditure on a tight budget. Financial pressures often lead to arguments and relationship breakdown. Debt can cause mental ill-health or aggravate existing health problems.
- 6.2 This chapter examines the impact of multiple debt problems on CAB debt clients and their families. It covers how our debt clients felt they were coping; how they had coped with the debt problem before seeking advice; and how the debt problem had affected their mental health, their relationships and their wider family. These issues are important because they have implications for initiatives to promote appropriate debt collection practices, responsible lending and borrowing policies, and action to meet the needs for free debt advice.

How CAB debt clients coped with unmanageable debt problems

- 6.3 Nearly 40 per cent of the CAB debt clients in the survey said they felt unable to cope with their debt problem and were already feeling in crisis by the time they had approached the CAB for help. A further 27 per cent said they could no longer cope, although they were not feeling in crisis at the time they came to us for help. Less than 10 per cent said they felt they were coping well with their debt problem.

Table 6.1 – How CAB debt clients felt they were coping with their debt problem



Base: 924 clients

How clients attempted to cope with their debt problem before seeking advice

- 6.4 Although the majority of clients reported that they felt unable to cope with their debt problem any longer, virtually all had taken some action to cope with their debt problem before coming to the CAB. Most clients had adopted more than one coping strategy. Only a small proportion, just over 10 per cent of debt clients, reported that they had done nothing to attempt to sort out their debt problem before coming to the CAB.

Table 6.2 - Coping mechanisms for dealing with multiple debt

	Number of times this coping mechanism was mentioned	% of clients mentioning this coping mechanism
Advice seeking		
Another advice agency	26	2.9
Debt management company	51	5.6
Other advice-seeking	5	0.5
All advice seeking	82	9
Work and earnings		
Another job	49	5.4
More work	69	7.6
All work and earnings	118	13
Financial strategies		
Cutting back spending	438	48.4
Juggling finances	582	64.3
Negotiating with creditors	364	40.2
Other financial strategies	5	0.5
Further borrowing		
Further borrowing	237	26.2
Using credit	213	23.5
Help (financial) from family/relatives	12	1.3
Other further borrowing	2	0.2
Doing nothing	101	11.1
Other	17	1.8
All	2172	

Base for table 6.2: 924 clients

- 6.5 We have looked at the most significant coping strategies to evaluate them further, including seeking advice, financial strategies, and further borrowing.

Money management

- 6.6 Money management activities, such as juggling finances and cutting expenditure, were very commonly reported by clients in this survey. These are natural responses to coping on a reduced income. The group of clients that adopted this strategy had significantly lower average debt, than those who had reported taking out further borrowing or using credit to run the family budget. For example the average debt for clients who had cut back their expenditure was £7,043, compared to £10,700 for all clients in the survey.
- 6.7 However, it is clear from evidence submitted by CABx that some clients were cutting back on expenditure to extreme extents:

A CAB in South-West Wales reported that they were assisting a couple who owed almost £30,000 in unsecured bank loans and credit card debts. The clients had decided that bankruptcy was not a suitable option for them as, above all, they wished to keep their house. However they recently told the bureau that they were feeling the strain of dealing with their debts. Their creditors have told them to reduce their food bills so that they can make repayments to the debts. The clients told the CAB that they could now only afford to eat egg and chips during the week. The wife was severely depressed and told the adviser she felt she could no longer be trusted with tablets.

A CAB in West Yorkshire reported that their client, a lone parent with three children, received income support and child benefit for her family totalling £155 per week, after deductions for social fund repayments and community charge arrears. Repayments to her other creditors totalled £126 per week, leaving less than £30 per week for housekeeping and fuel bills for herself and her three children. The client told the adviser that she could only afford to buy bread, milk and chocolate spread from this limited amount of money.

Negotiating with creditors

- 6.8 It was encouraging to hear that a substantial proportion of clients, 40 per cent had attempted to contact their creditors themselves before seeking advice. This group of clients tended to have on average lower total indebtedness with a £6,906 average debt compared to £10,700 average debt for all clients in the survey.
- 6.9 CABx normally advise people to contact creditors as soon as payment problems arise and to keep in contact with them about any changes in circumstances. Several creditor codes of practice commit subscribers to treat people in financial difficulties “positively and sympathetically”. However, less than five per cent of the clients who had attempted negotiation reported that they had been able to negotiate reduced, affordable repayments to all their creditors.

- 6.10 Overwhelmingly there seems to have been a considerable difference of opinion between creditors and debt clients as to a realistic level of repayments. Over 60 per cent of clients reported that they could not afford the repayments their creditors wanted and nearly 40 per cent stated that negotiations failed because their creditors would not agree to any reduction in payments. The following cases illustrate the sort of problems CAB debt clients experience:

A CAB in Sussex reported their client, a psychiatric nurse, had had a breakdown due to stress at work. She decided to change her career and enrolled on a teacher-training course. The client lived off her savings for a while, and then contacted her creditors to ask for a moratorium on payments until she qualified as a teacher and could find a job. The client told the bureau that her creditors were not willing to agree to such an arrangement and, as a result, her psychiatric problem got worse. She found that she was unable to study and there was a real risk that she would not be able to complete the course due to the stress she was suffering from.

A CAB in Hampshire reported that their client, a married man with one young child, had recently become unemployed when his employer went into liquidation. A firm of debt collectors told him when he contacted them to discuss his situation that he should pay his debts before buying food and nappies. Another creditor told him that his house would be "cleared out" if he did not pay the debt.

A client of a Northern Ireland CAB was unable to pay the normal repayments on a loan due to sickness. She contacted the creditor to negotiate a lower repayment, and when she went back to work, she increased the repayment. When she was sick on a subsequent occasion, she contacted the bank again. However the bank insisted that she paid the normal payment plus £50 off the arrears. Although the client tried to explain that she just could not afford this figure, the bank said they would not accept anything less. The client has now received a letter demanding payment of the whole loan in full otherwise the bank would take legal action. The client told the bureau that she felt very frightened of being taken to court.

- 6.11 Those clients who did not attempt negotiation, around half of all the clients, did not do so because they did not feel confident about their ability to negotiate reduced affordable repayments with their creditors. Over 60 per cent of these clients said they felt too stressed to attempt negotiations with their creditors. It was also worrying to note that nearly 40 per cent had not attempted to negotiate because they did not expect that their creditors would give them a sympathetic response.
- 6.12 These findings have implications for initiatives to improve how creditors treat people in financial difficulties.

Taking on further borrowing and using existing sources of credit

- 6.13 Dealing with a debt problem by taking out further borrowing or using existing sources of credit may be a reasonable option where the person has a reasonable income or the financial difficulty is likely to be short-term. But where the financial problem is long-term, this can make matters worse, by increasing the overall amount owed:

A CAB in Warwickshire reported that a married man with four dependent children became unable to work following a back injury. He thought he would be able to return to work, so he used his credit cards to pay for essential items. As a result the client now owed £30,000 and found it impossible to manage. He told the bureau he felt frightened to open the door or answer the phone in case it was one of his creditors. The client considered bankruptcy might be his only option, but could not afford the £250 deposit fee.

A CAB in West Yorkshire reported that a client whose only income was an occupational pension and retirement pension topped up with housing benefit, got into debt when she took out a credit card when she was short of cash. The client told the bureau that she did not realise that interest on the amount she borrowed would mount up so quickly. Consequently she took out other cards to pay off the outstanding balance on the first card. By the time she sought help from the bureau, she had six credit card debts and a bank overdraft.

A CAB in Devon reported that a husband sought advice when he first became aware of his wife's credit card debts totalling £70,000. The credit cards had all been taken out in the two years since she had stopped work due to a potentially terminal illness. The bureau were extremely concerned that the credit card companies had not checked her lack of income and other credit commitments when allowing her further credit.

- 6.14 Over 50 per cent of the clients who participated in the survey had taken on further borrowing or used existing sources of credit as a means of dealing with their debt problem. This group tended to have higher average total debts (£14,589 compared to £10,700) and monthly incomes (£980 compared to £803) than the survey average as a whole. Analysis of those clients in the survey who continued to borrow when in financial difficulty revealed that they were most likely to be in the 25-34 (41 per cent of all clients in this age group) and 35-44 (40 per cent of all clients in this age group) age ranges, to be owner occupiers (44 per cent of all home owners, compared to only 31 per cent of all council tenants). This may reflect greater borrowing opportunities available to people of these age groups and to home owners in general.
- 6.15 However those clients who reported that they were in debt because of low income were also more likely to cope by taking out further borrowing (40 per cent of all clients reporting low income, compared to 35 per cent of the remainder of the sample). This may reflect the fact that many people on low

incomes find it difficult to make ends meet and have little choice but to take out further borrowing to pay for both ongoing expenditure and one-off costs:

A CAB in Cornwall reported that their client, a lone parent with one dependent child, owed £240 and was paying off a Social Fund loan at £9 per week. The client could not afford to pay for his son's school uniform.

A CAB in Cleveland reported that a lone parent client in receipt of income support entered into three hire purchase agreements to buy a television and aerial and a washing machine. The payment was collected at the rate of £3 per day via a coin meter on the TV set. If the client did not fill the coin meter each day, she could not use the TV and washing machine. As a consequence, she did not have enough money for other necessities.

Advice seeking

- 6.16 Relatively few clients in the survey had sought advice other than from their creditors before coming to the CAB for help with their debts. In the main survey, only nine per cent of clients said they had sought advice from another source before coming to the CAB. It is interesting to compare this figure with recent research for the Department of Trade and Industry (DTI) on the scale of household debt where only 20 per cent of households in the survey who were in arrears with their financial commitments had sought advice about debt, though the proportion increased according to the severity of the financial problems that they faced.⁵³
- 6.17 Of those CAB debt clients who had previously sought advice elsewhere over 60 per cent had approached debt management companies, for example, companies who charge for providing help with multiple debt problems. However the survey highlighted that these people had not received an appropriate service. Over 40 per cent of the clients who had previously sought advice said they had come to the CAB because they could not afford to pay the debt management company any longer. A further quarter said that the service the debt management company provided did not suit their needs. This contrasts with the response from the survey clients who had previously consulted another CAB about their debt problems (under five per cent of the sample) – nearly 90 per cent of these clients had been referred to another CAB for specialist help with their debt problems simply because the original CAB did not have a specialist adviser.
- 6.18 CABx can offer valuable help particularly to people on below average incomes. CABx provide holistic advice about a whole range of debt problems and benefits to enable people to make informed choices about how to deal with their debt and related problems. Debt management companies mainly provide a negotiation service on consumer credit debts only and a payment distribution service:

⁵³ *Over-indebtedness in Britain - A report to the Department of Trade and Industry*, by Elaine Kempson, Personal Finance Research Centre, in November 2002.

A CAB in Wiltshire reported that their client, a lone parent on income support, had previously engaged the services of a debt management company for help with debts totaling £2,700. When the client eventually contacted the CAB for advice, the adviser established that the debt management company had given no information about her liability for all the debts or the possibility of an administration order if one of the creditors were to obtain a county court judgment. The debt management company had also assessed the client to be able to pay £180 per month out of her income support entitlement towards her debts; where as the CAB calculated she could only afford £12.50 per month to her creditors.

A CAB in South-East Wales reported that their clients, an employed couple, had previously sought help from a debt management company about their debt problem. The debt management company did not identify that one of the loans was secured on the clients' home. Subsequently the loan company took possession proceedings against the clients due to increasing arrears and default interest which has arisen during the year the debts were "managed". The CAB carefully calculated that the clients could afford to pay their current loan instalment and clear the arrears over two-thirds of the remaining time left on the secured loan. The CAB was also able to represent the clients successfully at their possession hearing.

A CAB in Northern Ireland reported that a client had sought advice about the poor service she had received from a debt management company. She had been told by the company to pass all correspondence from creditors over to them unopened. However the client had just opened a letter from one of her creditors which informed her she had been charged a £25 fee for late payment.

- 6.19 Recent research for the Money Advice Trust and Money Advice Scotland found that the quality of money advice provided by CABx and other providers of free money advice is very high despite limited resources.⁵⁴ The report also established that increased levels of funding from sustainable sources helped advice agencies to offer a better and more comprehensive money advice service. The Department of Trade and Industry research published in November 2002 on the scale of household debt also expressed the view that the finding of the small proportion of those seeking advice about debt showed that the provision of free debt advice was currently inadequate to meet need.⁵⁵

Effect on the clients' mental health

- 6.20 A very high proportion of clients who participated in the extended survey reported that they were suffering from stress and anxiety. In answer to a

⁵⁴ *Quality Assured? An assessment of the quality of independent money advice*, Sharon Collard, Jane Steele and Elaine Kempson, published by the Money Advice Trust in February 2000, and *Good, bad or indifferent* – by Money Advice Scotland and the Personal Finance Research Centre, in October 2002.

⁵⁵ *Over-indebtedness in Britain - A report to the Department of Trade and Industry*, by Elaine Kempson, Personal Finance Research Centre, in November 2002.

question on the impact of the debt problem on their family lives, 62 per cent of clients mentioned that they were suffering from stress, anxiety or depression:

“I have had sleepless nights worrying how I was going to pay all my bills”.

“We felt that we were sinking. We tried to maintain all payments to our creditors but had nothing left for food, so we were forced to continue borrowing. We were constantly worried, anxious and this affected our health, my partner had pneumonia”.

“I feel under stress. I’ve lost a stone in weight and I cry both at home and at work.”

- 6.21 It was disturbing to find that 43 per cent of these people (a quarter of all the clients who participated in the extended survey) said that they had already sought treatment or counselling through their GP for these problems. Some were experiencing very severe health problems:

“My husband had to finish work because of depression, and our debt problems have made his condition worse. I am receiving treatment for depression from my GP.”

“I have been on anti-depressant tablets to enable me to function.”

“I am experiencing overwhelming feelings of stress and I can’t cope with it all. As a lone parent with little family support I am finding the pressure of my debts too much to cope with on my own. I have been taking anti-depressants.”

- 6.22 These clients seemed to be under greater financial stress than those who had not sought help from their GP – they had slightly higher average total debts (£11,636 compared to £11,354 for the remainder of the clients in the detailed survey) and lower than average monthly household incomes (£793 compared to £860 for the remainder of the clients in the detailed survey). Nearly half of those who had been to their GP for help had been receiving treatment for more than a year.

- 6.23 However, many clients’ depression was caused by other problems in their lives. Over half of these clients were already receiving treatment from their GP before the onset of their debt problems:

“My illness, depression and stress has been exacerbated by my debt problem. As a result I cannot get well enough to go back to work to earn money to pay the debts.”

“My severe depression has been caused by the break-up of my family. Compared to that my debts are unimportant.”

- 6.24 Recent research undertaken by Debt Advice Within Northumberland and the Community Psychology team of Northumberland Health Action Zone

concluded that there are clear links between debt and mental health.⁵⁶ These findings demonstrate a greater need for creditors and all those collecting debts to understand and respond appropriately to people with mental health problems.

Impact on other areas of the client's life

- 6.25 Worry about the debt problem had an impact on clients' personal relationships, particularly with partners and children. Eighteen per cent of the sample reported arguments with their partners, relationship breakdown and disputes within their wider family circle:

"I really feel let down by my husband who simply has no idea of the cost to run a home".

"My debts have put a severe strain on my new relationship. My partner and I argue and she blames me for the situation."

"My wife left me because of the debts, and the family are split on whose responsibility it is. This has caused family friction with great emotional stress to me."

"The debt problem ripped our family apart, it felt like having nails pushed into my coffin."

- 6.26 A few people reported that they had hidden their debt problem from their partner and lived in fear of the consequences should they find out:

"I cannot sleep for the worry of what my husband would say if he found out about my debts".

"I am very stressed and depressed and I am getting counselling. I am worried about letting my partner know the extent to which I am in debt as I am afraid we will split up."

"I feel that my partner will leave me if I tell her about my debts. This is a great strain on me and I daren't share it with her."

- 6.27 Parents reported feeling ashamed that they could not pay for all their children's needs, which meant their children felt excluded from participating in activities with friends. In some cases the clients reported that the debt problem had an effect on their children's mental health:

"My debt problems have had a marked impact on my son - no after school activities or uniform - very sad, very hard, although he says he understands."

⁵⁶ *Supporting people with debt and mental health problems – research with psychological therapists in Northumberland*, by Jane Sharpe and Janet Bostock, June 2002. A copy of the report can be downloaded from www.debtadvicenorthumberland.org.uk.

“My child must be really desperate before she gets new things, and gets no pocket money.”

“The possibility of eviction is having an adverse effect on all members of the family. Our children can't have the same as their friends and they are beginning to worry.”

“We are short-tempered with the children. Now our eldest is leaving home.”

- 6.28 Nearly a quarter mentioned the impact of debt on their way of life, including the stress of living on a very tight budget. Many mentioned the lack of any sort of social life led to feelings of isolation, and further stress:

“We have not got any money to do anything. We don't go out, we just stay in. When the phone rings we panic in case it is a creditor. They are so nasty and do not believe that we cannot pay so we get cross with each other and the kids.”

“We cannot afford to replace broken household goods and our children feel excluded because we cannot afford to pay for school trips.”

“I used to enjoy cooking. Now due to lack of money I tend to eat more junk food.”

“I have been living from day to day trying to pay bits but never managing to get out of the red. It has been stressful and traumatic trying to manage everything and run a home.”

- 6.29 Clients described how they felt their debt problem would affect the rest of their lives. It was a bleak picture:

“My debt problem is the first and last thing I think of. It weighs on my mind, it has stopped all plans, no holidays. I feel like I'll be tied for years; dreams of buying my home have been put on hold.”

“I have a large family who need a larger home. There is no way I can afford to buy one suitable for my wife, three daughters and two sons.”

- 6.30 On a positive note, many of the clients expressed their appreciation for the advice and support they had received from the CAB regarding their debt problems:

“Initially there was friction between my wife and myself when the full details of our debt problems emerged. We feel better since seeing the CAB, there are less arguments between me and my wife.”

“I was extremely stressed and depressed. However I have now secured full-time employment and the CAB has negotiated an acceptable repayment schedule that I am confident I can maintain”.

“I suffered serious stress and depression as a result of my financial situation and contemplated taking my own life. But now my debt problem has been brought under control by the CAB.”

Conclusions

- 6.31 The impact of unmanageable debt on an individual’s life can be overwhelming. By the time they sought advice from the CAB, nearly 40 per cent of the clients said that they felt they could not cope and were feeling in crisis. Most clients had tried at least one method of coping with their debt problems before seeking advice from the CAB. However it is worrying that over half of the debt clients were trying to cope with their financial situation by either using their existing sources of credit or taking out additional borrowing.
- 6.32 Although half the debt clients had tried to negotiate reduced payments with their creditors themselves before seeking advice from the CAB, most had not received sympathetic responses from their creditors. Of those who did not contact their creditors about their debts many said this was because they did not expect a sympathetic response.
- 6.33 It was of particular concern to find that a quarter of CAB debt clients were already seeking treatment for stress, depression and anxiety from or via their GP. Just under half of those who were receiving medical treatment for their depression felt that their symptoms were caused by their debt problems.
- 6.34 In many cases, CAB debt clients reported that the impact of debt on their lives had been devastating. Relationship breakdown, feelings of isolation, the stress of living on a tight budget had affected them deeply.
- 6.35 The findings on the impact of debt problems on individual’s lives highlight the need for:
- Creditors and debt collectors to be more aware of and respond more appropriately to people in financial difficulties, particularly those with mental health problems;
 - Initiatives which promote responsible lending and borrowing, and
 - Improved access to free, impartial, independent and confidential debt advice.
- 6.36 In Chapter 7, we examine governmental and other initiatives to tackle debt and assess whether they are effective.

What is being done about the debt problems?

- 7.1 Our 2001 survey of CAB debt clients has found that effective initiatives are needed to deal with the following objectives:
- promoting responsible lending and borrowing
 - developing alternatives to high-cost credit for the financially excluded
 - improving payment protection insurance
 - strengthening consumer protection from harsh debt collection and enforcement practices
 - removing the financial barriers to insolvency and legal mechanisms to manage debt
 - improving access to free, impartial, confidential and independent money advice.
- 7.2 In this chapter we summarise the main governmental initiatives which have the capacity to tackle, at least in part, these objectives and the wider problems of debt in the UK and examine their effectiveness.
- 7.3 Governmental initiatives to tackle debt fall into five broad areas:
- tackling overindebtedness
 - improving regulation and promoting self-regulation;
 - improving legislation
 - provision of advice
 - tackling financial exclusion and poor financial literacy

Tackling overindebtedness

- 7.4 In October 2000, the then DTI Consumer Affairs Minister called a summit of lenders, government departments and consumer groups to explore the causes and effects of overindebtedness and look at ways of achieving more responsible lending and borrowing. As a result of the summit, a Task Force was set up. The Task Force has issued two reports and has published research into the extent of overindebtedness in the UK population, with a variety of recommendations for lenders and consumers.⁵⁷

Regulation and self regulation

- 7.5 The OFT have produced new guidance for consumer credit licence holders covering problem sectors. The first set of sector-specific guidance was published in December 2001, setting out the minimum standards of service expected of debt management companies.⁵⁸ OFT guidance covering debt collection practices is expected to be in place spring 2003.

⁵⁷ *Overindebtedness in the UK*, by Elaine Kempson, DTI, November 2002

⁵⁸ The OFT debt management guidelines also cover debt advice given by CABx and other providers of free debt advice.

- 7.6 Using new powers to issue injunctions against traders who break consumer law, in 2002 the OFT issued Stop Now Orders against credit card companies whose adverts were misleading consumers about the cost of credit.
- 7.7 The OFT has new powers under the Enterprise Act 2002 to approve voluntary codes of practice. It has already published guidance on core principles of voluntary codes.⁵⁹ These include criteria that compliance with the code should be mandatory for subscribers and that codes should have independent disciplinary procedures available to deal effectively with cases of non-compliance. This initiative should result in more effective self regulatory codes of practice in the consumer credit market. This market has been identified by the OFT as a priority sector for its work on codes.
- 7.8 Three regulators, OFWAT, OFTEL and OFGEM, have produced or updated codes of practice and guidance on debt collection and debt prevention practices for fuel, telephone and water companies to follow when dealing with customers in financial difficulties.⁶⁰
- 7.9 In 2001, a Treasury review of the effectiveness of the voluntary Banking and Mortgage Codes recommended that the guidance to the Banking Code on how subscribers should treat customers in financial difficulties should be expanded. The revised guidance came into force at the end of March 2002.
- 7.10 In November 2002, the British Bankers Association and the Money Advice Trust launched the Common Financial Statement initiative which aims to increase payment offer acceptance rates, speed up the money advice process and reduce correspondence between creditors and advisers.

Legislative

- 7.11 The DTI are undertaking a review of the Consumer Credit Act 1974, the main piece of legislation governing credit agreements with a view to revising ineffective and out-of-date parts of the legislation and ensure that it can prevent unfair practices in the market.⁶¹ Key elements of this review are an examination of the licensing system, proposals for controlling extortionate credit and early settlement charges.
- 7.12 In September 2002 the European Commission published a draft Consumer Credit Directive for consultation. The Directive includes a responsible lending duty for lenders, a common cooling off period and a ban on disproportionate debt recovery measures, harassment of consumers and oppressive behaviours.

⁵⁹ *Core criteria for consumer codes of practice*, OFT June 2002

⁶⁰ *Preventing Debt and Disconnection*, published by OFGEM, September 2002; *Dealing with customers in debt – guidelines*, published by OFWAT, October 2002; *Guidance for providers of publicly available telecom services on the context and scope of a company code of practice to help customers to manage their bills and avoid disconnection*, published by OFTEL, October 2002

⁶¹ DTI press release 25th July 2001

- 7.13 The Lord Chancellor's Department (LCD) has been carrying out a review of whether enforcement of court judgments in England and Wales is effective. As part of the review, the LCD has consulted on the effectiveness of current methods of enforcement, and has commissioned independent academic research into bailiff law reform. In May 2002, the LCD published a voluntary code of practice for enforcement agents and bailiffs.
- 7.14 As part of the Enforcement Review, the LCD is understood to be looking at ways of implementing the changes in the 1990 Courts and Legal Services Act to the little-used administration order procedure which allows the debtor relief from further collection and enforcement action by creditors and to make one payment into court.
- 7.15 The Enterprise Act 2002 contains reform of personal bankruptcy law in England and Wales aimed at relieving the stigma of bankruptcy by reducing the period before discharge from 3 years to one year for most bankrupts.
- 7.16 When the Courts Bill 2003 becomes law, magistrates courts in England and Wales will be obliged to take into account the financial circumstances of offenders when setting the amount of the fine.
- 7.17 In Scotland, a private members' bill in the Scottish Parliament abolished poinding and warrant sales, a particularly harsh method of enforcing sheriff courts' decrees. The Debt Arrangement and Attachment (Scotland) Act came into force on 31st December 2002. The Act replaced poindings and warrant sales with a new procedure called exceptional attachment orders and introduces a range of statutory triggers referring debtors to advice agencies. It also establishes a debt arrangement scheme, stabilising the debts whilst preventing the creditors from taking further collection and enforcement action.
- 7.18 The Scottish Executive is also consulting on reform of enforcement methods, and intends to bring a Bill to the Scottish Parliament around 2004.

Provision of advice

- 7.19 In 2000, the Government set up the Community Legal Service (CLS) in England and Wales. One of its main aims is to bring together networks of funders, advice agencies and solicitors into partnerships to provide the widest possible access to information and advice in their local community. Several partnerships have identified needs for money advice.
- 7.20 A Cabinet Office Policy Innovation Unit report published in March 2002 on modernising government loans, recommended that there should be a crosscutting governmental review of debt advice, debt collection and recovery.⁶²
- 7.21 The Treasury granted the Money Advice Trust, a charity which works with all the major advice networks to support access to free, independent and high

⁶² *Lending Support: Modernising the Government's use of loans*, PIU March 2002

quality money advice, £1 million from its Invest to Save Fund, matched by funding from the credit industry, to test whether a national helpline can meet most of the unmet need for free money advice in the UK.⁶³

- 7.22 The Treasury has earmarked funds for Jobcentre Plus managers to improve access to debt advice services in the 2003 Budget to help lone parents move off benefit and into work.
- 7.23 In April 2002 the Scottish Executive announced funding of £3 million per year for additional money advice posts and a further half million for consultancy and training.
- 7.24 The Northern Ireland Executive published a consumer strategy for Northern Ireland in July 2002. Part of the strategy focuses on advice provision and aims to establish on a pilot basis a telephone helpline referring callers with consumer problems to the most appropriate sources of help and advice.

Financial inclusion and financial literacy

- 7.25 The Government and others, including the Financial Services Authority, have identified, and been seeking to address, low levels of consumer financial literacy. For example, in December 2000 the Adult Financial Literacy Advisory Group (AdFLAG) published a report including over 50 recommendations for action, including a call for a more co-ordinated approach to tackling financial literacy.⁶⁴ Subsequently the government has invested in the Community Finance and Learning Initiative (CFLI) and the Adult Basic Skills Strategy Unit worked to improve co-ordination of information about basic skills initiatives. A recent review of progress with the AdFlag report commissioned by the Department for Education and Skills identified that a significant amount of work was being done in this area, but nevertheless stakeholders continue to see a need for clear ownership, leadership and co-ordination if any strategy is to be effective.
- 7.26 The Government and financial service providers have also been taking action on most of the recommendations of the Social Exclusion Unit's PAT14 report on tackling financial exclusion, including access to basic bank accounts, the production of best practice guides on setting up and supporting insurance with rent schemes, and developing the capacity of credit unions.⁶⁵
- 7.27 Government action on tackling financial exclusion and poverty arguably underpins other initiatives to tackling overindebtedness for the poorest people in the UK. The enactment of the national minimum wage in 1998 has meant that many low paid people have seen their income increase substantially. Furthermore, in the April 2002 Budget the Chancellor announced an additional £2.7 billion for supporting families and tackling poverty via a new system of tax

⁶³ *Annual Review 2000/1*, by the Money Advice Trust

⁶⁴ *Adult Financial Literacy Advisory Group Report to the Secretary of State for Education and Employment*, DfEE, December 2000

⁶⁵ *Access to Financial Services*, Report of PAT14, HM Treasury, November 1999

credits from April 2003. Increasing welfare support to children should help alleviate child poverty for many low income families.

Is this enough?

- 7.28 The CAB service welcomes the many governmental and other initiatives aimed at tackling personal debt problems. However, they will not be fully effective in tackling these problems for a number of reasons.
- 7.29 Firstly some of these initiatives are only proposals and have yet to be implemented or get close to implementation. For example:
- Although proposals to reform complex bailiff law were published in Spring 2003, it will be some years before the new regulatory regime comes into force.
 - No action has been taken to reform administration order legislation.
 - Work will not start on the second Scottish debt bill until after the forthcoming Scottish parliament elections, and even then 2004 is an optimistic estimate.⁶⁶
 - Although work has commenced on other recommendations of the PAT 14 report on tackling financial exclusion, the Government have not so far implemented the recommendation on widening the remit of the Social Fund.
- 7.30 Secondly, self-regulation is seen as having a key role. The limitations of self regulation are that it can only cover those traders who subscribe to trade association codes of practice, and is only useful if there is effective monitoring of compliance with the code. For example, the LCD's recent code of guidance for enforcement agents is very laudable, if all private bailiff firms adopted the practice it recommends. But there is no apparent means of checking compliance and CAB evidence suggests that bailiffs are often not aware of the code or are ignoring it.
- 7.31 Thirdly, some important issues related to overindebtedness are not actually included in relevant governmental or other initiatives. For example, the insolvency provisions of the Enterprise Act do nothing to address the financial exclusion faced by people on low income with multiple debts who cannot afford the £250 fee (£63 in Scotland) to go bankrupt or do not meet the current conditions for applying for an administration order. While the final details of the new Scottish Debt Arrangement Scheme is not known, unless composition of debt and freezing of interest is introduced (which at the moment seems highly unlikely) it will have limited impact on low income debtors, which form the main debt client group of organisations like the Citizens Advice Bureaux.
- 7.32 Fourthly some of the initiatives seem to insufficient to deal with the problem they are attempting to address. For example although the credit industry have been generous in providing £1 million to support the Money Advice Trust's

⁶⁶ *Effective Enforcement: Improved methods of recovery for civil court debt and commercial rent and a single regulatory regime for warrant enforcement agents*, published by Lord Chancellors Department, March 2003

debt help line pilot over a year, it is a drop in the ocean compared to the need. As research by the FSA and DTI in 2002 has found, millions of households are in financial difficulties and only a small proportion obtain advice. While the £3 million funding from the Scottish Executive will assist with the advice agencies' current debt clients in Scotland, it is unlikely to be sufficient to cope with the additional numbers of debt clients who will seek advice as a result of the statutory triggers contained within the Debt Arrangement and Attachment (Scotland) Act 2002.

- 7.33 Fifthly, external events may prevent some governmental initiatives from being put into practice. At present it is possible that the draft EU consumer credit directive could frustrate ambitions for the current review of the Consumer Credit Act, as the draft directive's aim is to introduce a common regulatory scheme across the EU that in some cases will be less demanding than some current national-level provisions. For example, there is no provision in the draft Directive to allow challenges to extortionate credit agreements, something which UK legislation offers at the moment, even if it does not work very well. And there is no requirement for regulation of those undertaking debt collection.
- 7.34 Finally, there is limited overall co-ordination of policy. In a complex area of policy and regulation we think this is desirable. The DTI Overindebtedness Task Force has mainly focussed on *prevention* of overindebtedness, rather than on *initiatives to deal with people once they are in debt*. As a result, issues such as the enforcement reviews currently taking place by the LCD and the Scottish Executive, the reform of bankruptcy legislation in England and Wales, the Scottish Debt Arrangement Scheme and the funding of free debt advice have received limited attention. The Task Force has also concentrated on proposals relating to consumer credit and has not looked at possible initiatives to deal with difficulties paying other commitments, such as rent, local taxation, utility bills, or income maximisation.

The need for a joined-up approach

- 7.35 The survey findings and evidence from CABx shows that effective and swift action is needed to tackle the following issues:
- poor and misleading credit marketing
 - irresponsible lending and borrowing practices
 - a limited choice of alternatives to high-cost credit for people on low incomes
 - harsh debt collection and enforcement practices
 - ineffective payment protection insurance
 - financial exclusion from insolvency remedies such as bankruptcy, sequestration and administration orders.
- 7.36 It is clear that the numerous governmental and other initiatives need more effective overall co-ordination in order to maintain momentum for complementary and voluntary measures and ensure that they tackle effectively the problems of preventing debt, and protecting and helping those

in debt. The PIU report identifies the need for a crosscutting governmental review of debt and financial literacy advice, collection and enforcement of debts.⁶⁷ **The CAB service warmly welcomes this recommendation. We consider that such a review could result in better co-ordination and monitoring of all strategies to tackle the problem of debt, developing the strategies to fill any gaps and checking whether further action is needed to tackle emerging trends. This review should be transparent, and the government should publish a timetable for it, and consult widely.** Such an initiative should address the problem that some current initiatives to tackle debt do not go far or fast enough. A joined-up strategy is needed urgently because there could be a significant increase in personal debt problems if economic conditions decline.

7.37 In particular we see a need for further action which needs to be undertaken to:

- prevent people getting into unmanageable debt
- provide alternatives to high-cost credit
- protect people in debt
- help people get out of debt
- find sustainable funding for independent advice services that help people in debt.

Conclusions

7.38 It is presently essential that initiatives to tackle debt are effective given the scale of the problem.

7.39 Although there are a number of governmental and other initiatives aimed at aspect of the personal debt problem, the CAB service feels that they will not be fully effective for six reasons:

- Some initiatives are only proposals and have yet to be implemented or get close to implementation.
- Self-regulation only covers those traders who subscribe to trade association codes of practice, and is only useful if there is effective monitoring of compliance.
- Important issues related to overindebtedness are not included in governmental or other initiatives.
- Some initiatives are insufficient to deal with the problem they are attempting to address.
- External events may prevent some governmental initiatives from being put into practice.
- There is limited overall co-ordination of policy.

7.40 The CAB service therefore believes there is a need for a crosscutting governmental review of strategies to tackle debt.

⁶⁷ *Lending Support: Modernising the Government's use of loans*, PIU March 2002

7.41 The next chapter sets out our recommendations to prevent people from getting into unmanageable debt.

New initiatives to prevent debt

- 8.1 In this chapter we examine initiatives we consider are essential to prevent debt problems. In particular we look at recommendations to encourage responsible lending and borrowing and to improve the sales process for payment protection insurance.

Improving financial literacy and advice

- 8.2 A key part of the future strategy for preventing overindebtedness and debt problems should lie in the areas of improving consumer financial literacy and improving access to financial advice and information about financial services, particularly borrowing. Better informed and knowledgeable consumers might be more able to avoid bad credit deals, budget more effectively and handle debt problems more confidently when they arise. Yet many consumers lack the basic skills needed to deal effectively with relatively ordinary financial matters, such as working out the best value loan offer.
- 8.3 For example, a research study conducted by MORI for the Basic Skills Agency in 2001 showed that 11 per cent of people are unable to divide an annual bill of £120 into quarterly payments.⁶⁸ Of those unable to do the task 48 per cent had a life assurance policy and 46 per cent had a savings account.
- 8.4 As we have acknowledged in Chapter 7 the Government has done much to acknowledge the importance of and invest in improving basic skills. The Skills for Life project, in particular, represents a major investment on the part of the Government.
- 8.5 Over the past two years successive reports have highlighted the fact that low income consumers' needs for what might be called pre-shopping financial advice, particularly in relation to savings products, are not being met and that there is a considerable advice gap.⁶⁹ Following the Sandler Review, the Financial Services Authority is expected to commit more resources to consumer education and information in future, and this is welcome.⁷⁰ The Financial Services Authority is developing interactive diagnostic tools for consumers to use to plan their finances, possibly in conjunction with face to face advice from a trusted intermediary.
- 8.6 The CAB service has been keen to play its part in improving financial literacy skills in communities. For example over seventy CABx are currently undertaking projects aimed at improving consumer financial literacy skills and many CABx would like to develop financial literacy projects in future. Through a unique partnership with Prudential plc Citizens Advice has been able to support eight local bureaux to deliver financial education to adults in the period 2003 – 05.

⁶⁸ *Basic skills and financial exclusion*, MORI and the Basic Skills Agency, 2001

⁶⁹ *Where next for financial advice? A study for the Consumer Policy Institute*, Jane Vass, November 2001, and *CP121 Polarisation: making the market work for consumers*, Financial Services Authority, January 2002

⁷⁰ *The Sandler Review of medium and long-term retail investment*, HM Treasury, July 2002

- 8.7 However, as Citizens Advice observed in the report *Summing Up* (2001) many of the initiatives are one-offs or short-term projects. **We continue to see a need for a comprehensive national strategy for improving financial literacy over the next ten years.** Such a strategy needs clear and strong leadership and be able to engage the public, private and voluntary sectors in ensuring that consumers:
- Can easily obtain information that allows them to choose between and manage their choice of financial products;
 - Can get access to high quality impartial advice on a range of financial issues;
 - Have the skills and confidence to make informed choices, including underpinning literacy and numeracy skills (or something like this)
 - Are protected from abusive market practices.
- 8.8 Importantly for Citizens Advice the financial and money issues our clients face are not confined to private sector products and services. As is clear from the evidence in this report our clients will often rely wholly or partly on benefits and tax credits. For this reason effective preventative financial advice services for CAB clients should be competent to deal with a range of public and private sector money issues, ranging from tax credit entitlements to consolidation loans and equity release. It is extremely doubtful, however, that the market will fill this advice gap, particularly in relation to low income consumers. We would like to see Government make a commitment to finding a solution to the financial advice gap that CAB clients face.
- 8.9 The Citizens Advice report *Summing Up* made a wide range of other recommendations for improving financial literacy. These included proposals for ensuring that policy makers and service providers in the public and private sectors took account of the financial literacy skills of consumers, and committed to action to improve consumer financial literacy. **In this report we would like to highlight in particular the proposals we made in *Summing Up* for:**
- **The Government to design its delivery of financial services to take into account the level of financial literacy of intended users by financial literacy proofing new policies and services on consumer, money, welfare benefits and tax credits; and**
 - **Financial services providers to make commitments in Codes of Practice to take account of and seek to improve consumers' financial literacy skills.**

Responsible lending and borrowing

- 8.10 Initiatives to ensure that lenders lend responsibly and that consumers borrow sensibly should be at the heart of any proposals to prevent debt problems.
- 8.11 In an attempt to encourage consumer credit lenders to avoid extending loans and credit to consumers who are over committed the DTI Overindebtedness

Task Force Second Report identifies some possible indicators where people may experience problems repaying debt. These are:

- Having four or more outstanding credit commitments (seven per cent of all households in the MORI survey);
- Spending more than 25 per cent of gross income on consumer credit (five per cent of all households) or
- Spending more than 50 per cent of gross income on consumer credit and mortgages (six per cent of all households).

8.12 Furthermore, the report cites analysis of records held by credit reference agencies, which suggest that borrowers with six or more active credit accounts and a balance of £500 or more on each of them might be more likely to get into financial difficulties. It is suggested that this latter indicator could be used by lenders as a rule of thumb to assess overindebtedness where the lender has no information about the borrower's income. The report goes on to recommend that lenders should exercise particular care if their credit checking systems indicate that one or more of these indicators would be exceeded by granting further credit; and that consumers should also be made aware of the indicators with information on how to assess affordability.

8.13 The overindebtedness indicators proposed by the Task Force could be a useful tool for lenders to use to assess ability to repay an individual's additional borrowing. We welcome the Task Force's suggestion that these indicators should be incorporated in advice to consumers, alongside information on how they can assess the affordability of a potential loan. However, it is questionable whether the Task Force's proposals will be taken on board. For example, trade bodies have not been asked to incorporate the overindebtedness indicators in their codes of practice or any related guidance for subscribers, and the report proposes no ways of monitoring whether the indicators are put into practice. The only exception is arguably mortgage lending, where from October 2004, lenders and intermediaries are expected to be required by FSA rules to assess whether the mortgage is suitable and affordable.

8.14 The CAB service therefore recommends that all relevant trade bodies, particularly the British Bankers Association, the Building Societies Association and the Finance and Leasing Association should incorporate use of the DTI Overindebtedness Task Force overindebtedness indicators into the sections of their codes of practice dealing with lending criteria. We consider that the codes of practice could be further strengthened by developing associated guidance about responsible lending practice. Code subscribers should commit to incorporating guidance to consumers on overcommitment in all relevant marketing and literature.

8.15 Although use of the overindebtedness indicators could help improve lending decisions, they may not necessarily capture the issues affecting people on low incomes and benefits who borrow money or are persuaded to take out loans to consolidate their borrowing. In these situations, the overindebtedness indicators may not help because they do not take into account payment of

essential commitments, such as rent and council tax, and other essential expenditure. The Task Force emphasised that all lenders should ensure they consider all the available evidence about consumers' commitments as a whole before extending new credit facilities or increasing the limit on existing facilities.

- 8.16 The CAB service considers that lenders need to be aware that people on a low income, including those whose main or sole income is benefits or tax credits (both means-tested and other benefits), may find it difficult to afford to repay credit. It is therefore essential for lenders to assess whether the customer can afford the repayments from their income allowing for her/his essential expenditure and other borrowings. **The CAB service therefore recommends that the Banking and Finance and Leasing Association Codes should emphasise the importance of the lenders assessing borrower's income and expenditure before lending and also encouraging consumers to consider for themselves the affordability of loans.** We consider it would be necessary to assess ability to repay in this way for all debt consolidation lending, whether secured or unsecured. It may also be necessary to assess income and expenditure for loans over a certain level, say, £10,000.

Marketing and responsible lending guidelines

- 8.17 Credit marketing contains information consumers will use before concluding an agreement. In many cases, it may provide the most significant amount of information to the consumer before they actually conclude an agreement. This is particularly the case for direct mail credit card offers which include terms and conditions and an application form. CABx however report that much credit marketing provides very poor information. Examples of poor practice in credit marketing include highlighting high credit limits, encouraging borrowers to ask for the amount of credit they want rather than the amount they can afford to repay and emphasising the speed of the lender's decision on the application and the lack of questions that will be asked.
- 8.18 The DTI Task Force's proposals on marketing and responsible lending state that codes of guidance should incorporate responsible marketing practices, data sharing and checking ability to repay. However, such commitments would be largely voluntary, and it is not clear what action has so far been taken by the lending industry in response. If individual creditors do not want to implement these, there are no sanctions for non-compliance.
- 8.19 The OFT has recently begun to develop guidance for consumer credit licence-holders describing the standards of conduct they need to demonstrate, if they are to continue to hold a licence. So far, general guidance to all licence-holders and specific guidance on debt management services has been issued. The OFT has recently consulted on guidance for car dealers and debt collection. Guidelines on non-status lending issued in November 1997 are expected to be reviewed. **The CAB service recommends that the OFT develops similar guidance on credit marketing and responsible lending**

practices, as an interim measure, until responsible lending duties come into legislation.

8.20 The guidance should cover:

- **The content of credit marketing** – OFT guidance should be focussed on the need for marketing and credit application forms to provide clear key information to consumers about the costs and consequences of taking out credit. In order to help consumers borrow wisely, consumer credit providers should provide information to allow the borrower to make an informed choice and assess whether the credit is affordable. The guidelines should also specify separately the minimum requirements for the content of responsible marketing for debt consolidation lending. We consider that these should be particularly stringent, as there is greater scope for lenders to take advantage of vulnerable and ill-informed consumers.
- **Use of credit scoring** – OFT guidance should incorporate the commitments contained in the Finance and Leasing Association's Guide to Credit Scoring 2000, which oblige subscribers to be transparent about lending decisions including explaining to over committed consumers why they have been refused credit. Although most of the creditor trade associations have signed up to the Guide, there is no independent monitoring of compliance, with the exception of the 2003 edition of Banking Code, where compliance with the Guide to Credit Scoring is now included in the Code. This issue could be resolved by incorporating it into OFT guidance.
- **Checking ability to repay** – Use of the DTI Task Force overindebtedness indicators should be incorporated into OFT guidance. We also consider that the guidance should specify the additional precautions lenders should take where offering consolidation lending, including verifying the borrower's income and ensuring that the borrower can meet their essential expenditure and the repayments to the consolidation loan from their income. This will mean that those traders who do not subscribe to any trade association code of practice will be caught by the guidance.
- **Unsolicited offers of credit card cheques and increases in credit card and overdraft limits** – The CAB service considers that it is an unfair business practice for lenders to send unsolicited credit card cheques to borrowers or to increase credit card and overdraft limits without first checking the borrower's ability to repay.
- **Credit provided through a credit broker or intermediary** – In our recent reports, *Door to Door*, *Summing Up* and *Daylight Robbery*, we highlighted many of the problems faced by consumers who had been persuaded to take out expensive storecards and costly credit linked to the sale of goods. We consider there is a particular need for both the creditor and the broker providing the goods to give sufficient information to allow the borrower to make an informed choice and assess whether the credit is affordable, and

that the broker should always disclose to the prospective customer the commission that they will receive for selling the credit.

- **Information should be given on credit card and storecard statements about the length of time it would take to clear the outstanding balance** – In Citizens Advice's 2001 report on financial literacy, *Summing Up*, we highlighted a fairly recent development in the credit card sector to reduce the monthly minimum payment required, and the impact this could have on the length of time taken to repay the debt. Where the customer has a high outstanding balance, making only the minimum payments each month can mean that they are barely reducing the balance, as most of the payment will be used to pay off the interest accruing. If credit card and storecard providers were required to put on every statement sent to customers how long it would take to clear the bill and how much the customer would in pay in total assuming only the minimum payment is made and there is no change in interest rates, it could help consumers to make an informed choice on whether to clear the debt at a faster rate.

Selling of Payment Protection Insurance

- 8.21 Payment protection insurance (PPI) has always had a potential role to play in resolving debt problems when they arise by insuring the consumer against unforeseen events which may affect their ability to maintain contractual commitments. Some government policy on payment of income support, (to cover mortgage interest) assumes that such insurance is in place, and is effective. Effective and good value insurance could offer CAB clients peace of mind both before and after the event of debt problems arising.
- 8.22 However the CAB survey found that the incidence of CAB debt clients having payment protection insurance was low. Only 11 per cent of the debts in the survey were covered by PPI. And in a substantial proportion of these cases we found that our clients were unable to make a successful claim because either the event which gave rise to their debt problems or their personal circumstances were outside the scope of the policy, often because the borrower was not unemployed or sick. Premia can be very substantial, particularly one-off payment protection insurance policies the funds for the purchase of which are incorporated into the loan. These one-off, rather than pay as you go, policies can cost several thousand pounds.
- 8.23 At the moment, it seems to be unusual for consumers to arrange payment protection insurance separately from credit agreements. A payment protection policy is usually sold together with the credit, either as a monthly premium on top of the contractual payments or as a lump sum added to the amount borrowed, on which of course interest accrues daily for the life of the loan.
- 8.24 The key problems we observe with PPI are consumers taking out insurance when they are unlikely to be able to claim on it and sales staff failing to sell consumers a policy which meets their needs. Where key terms are hidden in the small print or the sales staff lack the competence to explain insurance

products or match them to the consumer's needs there is considerable scope for mis-selling.

- 8.25 The DTI Overindebtedness Task Force acknowledged that there was a problem with inappropriate sales of payment protection insurance linked to credit agreements and proposed that there should be a separate box on a credit agreement for PPI and that a second signature be required for face-to-face sales. The Task Force also recommended that those who sell PPI should seek to ensure the terms and conditions are transparent and the product is not sold to consumers who would be excluded from benefits. This proposal, whilst worthwhile, will not fully tackle the problem of inappropriate sales of payment protection insurance to those who will not be able to benefit from its cover.
- 8.26 Currently the insurance industry is self-regulated via the Association of British Insurers (ABI) and the General Insurance Standards Council (GISC) codes of practice. This provides some measure of protection for consumers, but is only voluntary. A new ABI initiative, "Consistent Interpretations" aims to ensure that those companies subscribing to the initiative take a consistent approach to point of sale material and handling claims on payment protection insurance.⁷¹ For example, companies are expected to explain to potential customers if pre-existing medical conditions are excluded, and companies must not insist that unemployed consumers can only make claims on their policies if they eventually claim job seeker's allowance. This initiative is very welcome, but entirely voluntary.
- 8.27 However from October 2004, the Financial Services Authority (FSA) will take on responsibility for statutory regulation of the insurance industry and insurance brokers. This should provide an appropriate opportunity to consider improvements to the sales process for payment protection insurance so as to build consumer confidence and value for money. **The CAB service recommends that, as a minimum, the FSA should consider the following key issues when formulating its approach to and rules for regulating payment protection insurance:**
- **Bundling of products** – The sale of payment protection insurance should be kept separate from the sale of the credit. There seems to be significantly greater scope for mis-selling where the insurance is packaged with the credit agreement. Keeping the insurance separate from the credit agreement would signal more clearly to consumers that it is optional. Separation would not prevent credit companies from offering payment protection insurance to their customers, but could be a means of helping to protect consumers from mis-selling abuses. It is welcome that the recent FSA consultation paper on insurance regulation acknowledges that there may be a need to unbundle payment protection insurance from credit products.⁷²

⁷¹ *Raising the Game*, ABI article, Advisor magazine No.97, May/June 2003

⁷² *CP160 – Insurance selling and administration: the FSA's high-level approach to regulation*, published by the FSA, December 2002

- **Improving consumer information pre-sale** – In our 2001 report on the need for action to improve financial literacy (*Summing Up*) we highlighted the need for better pre-sale information on insurance products, and proposed that insurers should be obliged to provide policy applicants with a clear and simple contra-indication list of those for whom a policy would be unsuitable. This should be set out in a clear tabular format and written in plain English. We would like this obligation to be incorporated in FSA rules governing the sale of insurance products.
- **Getting fairer terms and treatment** – All insurers should have to take a consistent approach to the use and interpretation of key terms in pre-sale information, contract terms and when handling claims. The FSA rules governing the sale of insurance products should aim at securing consistency in terms so that consumers know better before buying, what policies are likely to cover. The FSA should also take steps in its rules to ensure that people with mental health problems are not unfairly discriminated against by insurers and can benefit from payment protection insurance.

Conclusions

- 8.28 In this chapter, we examine the further initiatives the CAB service believes are necessary to prevent debt. We call for initiatives to promote responsible lending and borrowing, and improvements in the regulation of payment protection insurance.
- 8.29 In the next chapter we set out our proposals for alternatives to high cost credit.

Alternatives to high-cost credit

9.1 In this chapter we examine alternative borrowing sources for those on low incomes. We make recommendations for a wider range of products and our vision of a reformed social fund.

A wider range of products

9.2 For those on low incomes, it is possible that a wider choice of credit products could have helped avoid debt problems, caused by high-cost credit. The 2001 study undertaken by Liverpool John Moore's University on the credit choices of people on low incomes identified a number of factors which had influenced their choice. These included:

- affordability of the credit repayments was more important than the cost of the credit
- convenient sources of credit, with simple application procedures, particularly involving face-to-face contact
- easy flexible repayments to cope with a limited household budget
- a quick decision on credit without credit checks
- transparent terms and conditions of credit.

9.3 The CAB service supports the recommendations of this report on providing a wider choice of credit products for people on lower incomes. In particular, the report recommends that banks and other mainstream lenders should ensure the development of credit products which meet the needs of low income consumers. In order to achieve this, lenders need to work in partnership with trusted intermediaries such as credit unions, social landlords, The Post Office and other agencies. We particularly welcome the recommendations to financial institutions to develop simple and straightforward credit products that meet the needs of low income consumers in partnership with credit unions, social landlords, the Post Office and other agencies. The CAB service believes that this recommendation could be given further force by incorporating into relevant trade associations' codes of practice.

Improved access to the social fund

9.4 The social fund exists to enable people on benefits to meet needs that they cannot afford from their normal benefit income, such as items for a new baby, furniture when setting up home, the cost of replacing essential household items damaged in a flood or by fire and to help with the costs of a close relative's funeral. However the social fund often fails to meet the needs of people on low incomes, particularly the discretionary fund which is budget-limited, has a very limited system of grants and in the main, only those people in receipt of income support or income-based jobseekers allowance are eligible for a payment.

- 9.5 In 2002, Citizens Advice published an evidence report on the failure of the social fund to help the poorest in society.⁷³ The following of its recommendations are relevant to this report:
- 9.6 The CAB service recommends that the government should carry out extensive reform of the social fund so that it provides help for people when they need it most and so that it can effectively tackle social exclusion.** The Social Exclusion Unit's PAT 14 report on Access to Financial Services, which was published in 1999, recommended that access to the social fund should be widened to other people on low incomes. This recommendation was also supported by the House of Commons Social Security Select Committee on Social Security report on the Social Fund.⁷⁴ However at the time of writing the Government has still not decided whether to implemented this recommendation of the PAT14 report.
- 9.7 In the light of the introduction of tax credits in April 2003, we recommend that the Government should at least extend eligibility for social fund community care grants and budgeting loans to all those who receive working tax credit and for maximum child tax credit.** This could help reinforce the government's objective of supporting people into work.
- 9.8 The CAB service believes that the current criteria for grants from the social fund is too restrictive, and many applications are turned down because they do not meet the eligibility criteria. **The CAB service recommends that eligibility for community care grants should be widened to create a system of grants for particular life events and needs.**
- 9.9 The current rules for repaying budgeting loans mean that many applicants will find it difficult to manage financially after the repayments have been deducted from their benefit. **The CAB service recommends that the repayment formulae for loans be amended to allow the option of more modest repayment rates.**

Conclusions

- 9.10 The CAB service considers that creditors should develop a wider range of simple, transparent credit products which are accessible for people on low incomes. We also believe that access to the social fund needs to be improved, especially for those on low incomes.
- 9.11 In Chapter 10 we set out our recommendations to protect consumers once in debt.

⁷³ *Unfair and Underfunded – CAB evidence on what's wrong with the Social Fund*, published October 2002

⁷⁴ *Select Committee on Social Security - Third Report*, published 4th April 2001

Initiatives to protect consumers in debt

- 10.1 In this chapter we look at further initiatives we believe are essential to protect consumers in debt. In particular we examine measures which will strengthen consumer protection from harsh debt collection practices.

New guidance for Codes of Practice on dealing with people in financial difficulties

- 10.2 Protection for people in financial difficulties is provided by various voluntary codes of practice of creditor trade associations. Most of these commit their subscribers to treat people in financial difficulties “positively and sympathetically”; so in theory people with multiple debt problems should expect as a minimum, to be treated with respect if they contact their creditors to ask for help.⁷⁵
- 10.3 However, the phrase “sympathetically and positively” is not defined by most of the codes, and in practice each subscriber can have a different interpretation. Without a definition of policies and procedures which demonstrate whether compliance is achieved, the phrase on its own is effectively meaningless. There is a tension between the requirements of codes of practice and the short term commercial objectives of debt collection. Many collections staff are under pressure to collect as much money as quickly as possible, including having to meet weekly targets of payment arrangements made. Within debt collection departments, there is a clear emphasis on getting the debtor back on track with payments under the agreement as soon as possible, regardless of their other commitments. It is therefore not surprising that unhelpful, even unacceptable and harsh collection practices persist; however, as the survey results have shown, such practices can only exacerbate the debtors’ stress, depression and anxiety.
- 10.4 The 2001 Treasury report, *Cracking the Codes*, examined whether the Banking and Mortgage Codes were delivering sufficiently strong benefits to consumers. This review recommended further detailed guidance to the Banking Code was added on how subscribers should deal with customers in financial difficulties. The revised guidance came into force in March 2002. This guidance is most welcome.
- 10.5 The CAB service recommends that all creditor trade associations, including the Finance and Leasing Association, Consumer Credit Association, Consumer Credit Trade Association, Mail Order Trade Association and Credit Services Association, adopt guidance on dealing with customers in financial difficulties.** The recent expanded guidance about the Banking Code’s commitments on dealing with people in financial difficulties should form the model for this. **In particular we consider that the**

⁷⁵ Finance & Leasing Association Code; Mortgage Code; Banking Code. The Credit Services Association Code commits its members to “encourage consumers in financial difficulties to inform members of their difficulties and endeavour to respond sympathetically”.

guidance should commit subscribers to refer people in financial difficulties to sources of free independent debt advice, and should specify in what circumstances administration charges should be remitted, whether in part or in full.

10.6 For any guidance on dealing with customers in financial difficulty to be effective, individual members of trade associations need to ensure that their own policies and practices are consistent with the guidance and that their staff know what to do when a customer in financial difficulties asks for help. **The CAB service recommends that:**

- **Subscribers to all creditor and debt collection trade association codes of practice should train their staff who have contact with the customers on how to implement the code.**
- **Lenders should make appropriate arrangements to ensure that customers in financial difficulties are given information about the full range of options which could address their debt problems. This could be done by a leaflet explaining the issues.**
- **Subscribers should train their staff on awareness of mental health problems, so that they can respond appropriately to people with mental health problems who are in debt.**

10.7 **The CAB service further recommends, when asked to approve codes of trade associations in the consumer credit or financial service sectors, the OFT should expect to see appropriate guidance for subscribers on dealing with people in financial difficulties. Where the OFT are approving such codes of practice, trade associations should demonstrate that they have consulted national consumer and advice groups and have taken their views and evidence into account in preparing the code.**

10.8 Codes of guidance for social landlords and local authority council tax departments recovering rent and council tax arrears

10.9 Good practice in dealing with people in financial difficulty is not just an issue for the credit industry, but for other creditors also, such as landlords, utility companies, council tax collectors and central government. Recently three utility regulators, OFWAT, OFGEM and OFTEL have produced new guidance or revised existing guidance on how to deal with people who cannot pay their utility bills. The PIU report on modernising government loans proposes a crosscutting review on the collection and enforcement of debts to the Government, and more recently, research for the Lord Chancellors Department recommended that all types of creditor should be covered by principle-based codes of practice, supplemented by detailed guidance on

implementation.⁷⁶ This could result in a better understanding of the problems faced by people in financial difficulties by creditors.

- 10.10 However, there is no common code for housing associations and local authority landlords on the collection of rent arrears. **The CAB service therefore recommends that the Office of the Deputy Prime Minister and the Housing Corporation in England should draw up a joint statement of practice on preventing and recovering rent arrears. The Welsh Assembly, the Scottish Parliament and the Northern Ireland Executive should undertake similar exercises. Compliance with the statement of practice should be a key element in the inspection of social landlords' rent arrears management undertaken by the Audit Commission's Housing Inspectorate.**
- 10.11 Citizens Advice has set out a range of other measures to improve the rent arrears recovery practices of social landlords in the recent report, *Possession Action – the last resort?*
- 10.12 Given that the CAB survey and CAB evidence shows that the recovery of council tax is problematic, it is worrying that there is no common guidance or code of best practice on recovering council tax debts to reduce the reliance on court action and enforcement measures. **The CAB service therefore recommends that in England the Office of the Deputy Prime Minister, together with the Audit Commission should draw up a code of guidance for the collection and recovery of council tax arrears and monitor compliance with it. The Welsh Assembly and the Scottish Parliament should undertake similar exercises. We set out further recommendations to reform enforcement procedures for council tax in chapter 11.**

A reformed consumer credit licensing system

- 10.13 In theory, the consumer credit licensing system administered by the Office of Fair Trading (OFT) should protect consumers against abusive practices. Individuals and organisations must have a consumer credit licence order to lend money, collect debt or provide debt advice and management. The Consumer Credit Act 1974 states that applicants for consumer credit licences must be fit to hold a licence and the OFT can refuse a new licence or revoke an existing licence, if there are any doubts about the licence-holder's fitness.⁷⁷
- 10.14 However, in practice, the licensing system does not seem to have worked to protect consumers from abuse from some lenders and debt collectors. A report by the House of Commons Public Accounts Committee in 2000 identified that the application procedure for a licence made it difficult for the OFT to undertake even the most basic of checks on the applicant's address

⁷⁶ *Can't pay or won't pay? A review of creditor and debtor approaches to the non-payment of bills*, by Nicola Dominy and Elaine Kempson, Lord Chancellors Department, 2003

⁷⁷ Section 25 of the Consumer Credit Act 1974

and whether they had a previous criminal record.⁷⁸ Once the applicant has their consumer credit licence, it is likely that they will have it as long as they wish. Only if the OFT has received a significant number of complaints from consumers about that licence-holder, might action be taken to revoke the licence.

10.15 The CAB service believes there is a substantial financial and personal cost borne by the consumer as a result of inadequate regulation and a thorough review of consumer credit legislation is long overdue. We therefore welcome the recent consultation of the Department of Trade and Industry (DTI) on options for a revitalised licensing system.⁷⁹ We support the DTI's vision of a targeted, visible and proportionate licensing system. In particular, **the CAB service considers that a revitalised licensing system should include the following elements:**

- **There should be an improved application procedure for licences, including checks on the licence-holder's fitness and competence.**
- **Licence-holders should be required to comply with licence conditions which set out the minimum standards of service and practice for the type(s) of licence they have applied for.** This would strengthen the role of sector-specific guidance. The OFT has recently begun to produce both general and sector-specific guidelines for licence-holders, which set out the minimum standards of service expected. There are precedents in other industries, e.g. fuel suppliers, who have to comply with licence conditions set by the regulator. Like OFGEM, the OFT should have the power to impose additional licence conditions on individual licence-holders to deal with unacceptable practices.
- **There should be a wider range of remedies available to the OFT to investigate and deal with breaches of licence conditions.** Currently the OFT has no formal powers to obtain information and only has "the nuclear option" of taking away a licence. This means investigations are hampered and action is unlikely to be appropriate against a company with a very large number of customer accounts, about which there are some complaints about oppressive debt collection practices. If additional remedies were introduced, the sanction of revoking a licence could be reserved for the most serious of infringements. We would consider that in addition to stronger powers to obtain information the following additional remedies ought to be introduced:
 - o public enforceable undertakings by licence-holders, which the public could look on a public register;
 - o fines for breaches of undertakings or breaches of licence-holder conditions.

⁷⁸ *The Office of Fair Trading: Protecting the Consumer from Unfair Trading Practices*, 37th report of the Public Accounts Committee, published on 30th August 2000

⁷⁹ *A consultation document on the licensing regime under the Consumer Credit Act 1974*, DTI, January 2003

- **In order to fund a stronger scheme of regulation, there could be more realistic charges for a consumer credit licence, based on turnover, or for new entrants to the market, projected turnover.** Currently, consumer credit licences cost a maximum of £275, regardless of the size of the applicant's business. This figure seems too low to act as a proper means of financing the regulation of complex financial services. A more realistic way of charging for a licence would be to charge according to the licence-holders' size or turnover, as most creditor trade associations charge their membership fees. Some might argue that a higher fee based on projected turnover would put off new entrants, particularly in the home-collected credit market, where there are many sole traders. In this situation, there could be partial refunds where the trader does not meet the projected turnover. The increased income should be used to provide the OFT and local Trading Standards with increased staff resources to monitor compliance with the relevant licence conditions, and also tackle the activities of unlicensed moneylenders and debt collectors.

10.16 The CAB service considers that it is essential that proposals to revitalise the licensing system should also include initiatives to encourage consumers to report instances of abusive practice by licence holders. **We recommend that the OFT should be more pro-active in eliciting evidence from consumers about mal-practice by licence-holders.** A single high - profile "Consumer Credit Complaints Hotline" could log complaint details, retaining complainant contact details to enable further evidence to be obtained at a later stage should this be necessary and to make referrals to advice services to deal with any ongoing issues. This would help the OFT gather evidence and the volume and nature of the complaints would dictate the most appropriate form of action.

10.17 There should be compensation for consumers who have been affected by abusive practices. **Where the OFT has taken action against a licence-holder, the firm concerned should be required to pay complainants compensation. In setting the amount of compensation, the OFT should have regard to the level of distress individual consumers have suffered.**

Conclusions

10.18 In this chapter, we call for new guidance for credit and debt collector trade association codes of practice on how their subscribers should deal with people in financial difficulty. We also argue for similar guidance for social landlords and local authority council tax departments on the collection of rent and council tax arrears, and for further measures to reform council tax collection and enforcement. Finally we set out our vision for a reformed consumer credit licensing system which is capable of tackling harsh and unfair debt collection practices.

10.19 In the following chapter we look at further initiatives to ensure a fairer system of enforcement.

Fair enforcement practices

- 11.1 In this chapter we will look at proposals to ensure fair enforcement for non-payment of civil court orders for debt, in particular about the enforcement of council tax debts.

Enforcement of court orders

- 11.2 Reform of enforcement of civil court action for debt is very much on the political agenda in Scotland, England and Wales. In Scotland, a private members bill introduced by Tommy Sheridan MSP abolished poindings and warrant sales, a particularly harsh form of diligence or means of enforcing a court decree or summary warrant. As a result the Scottish Parliament enacted legislation to provide a fairer alternative and to provide debtors with access to a Debt Arrangement Scheme, an alternative means of getting out of debt. Appendix 5 sets out in greater detail the features of the Scottish Debt Arrangement Scheme. The Scottish Executive has also agreed to review other forms of diligence (court-based debt enforcement) and to bring reforming legislation on this subject to the Scottish Parliament by the end of 2003.
- 11.3 Both the review of diligence and the Scottish Executive's determination to enact reforming legislation relatively quickly are very welcome. Citizens Advice Scotland has had concerns for some time that other forms of diligence, particularly bank arrestments, have had a particularly harsh impact on the poor and vulnerable. **The CAB service recommends that the forthcoming Debt Bill in the Scottish Parliament should contain the following measures to protect those on low incomes and other vulnerable people from harsh and inappropriate diligence for non-payment of debt:**
- **The statutory tables which set out the amount of protected income for earnings arrestments should be updated every year.** These have remained unchanged for a number of years until very recently, and the original figures were set at unrealistically low levels.
 - **Double diligence for the same debt should be prevented.** We are concerned that the practice of double diligence circumvents the aims of debtor protection provision.
 - **The provisions of the Bank Arrestment (Scotland) Bill, a private member's bill which has yet to be accepted for debate in the Scottish Parliament, should be included in the Debt Bill.** This private member's bill aims to provide a protected minimum balance in all bank accounts which are the subject of a bank arrestment, and to allow clients immediate access to some of the funds. It would also introduce a mechanism to apply quickly to the court to allow an opportunity not only to ensure that people receive their social security benefits, but also to take into account a debtor's other debts and financial commitments.
 - **All income from social security benefits and tax credits held in bank accounts should be exempt from arrestment.** This is particularly

important now that the normal method of paying benefits and tax credits is by direct payment into a bank, building society or Post Office card account.

- 11.4 In 1998, the Lord Chancellors Department initiated a review of enforcement methods for civil debts in England and Wales. The aim of the review was to improve the efficiency of enforcement methods, whilst ensuring that vulnerable debtors were protected. After a lengthy review process, in March 2003, a White Paper was published outlining proposals to change enforcement legislation.
- 11.5 The CAB service welcomes the proposed reform of legislation relating to distress and execution, whereby private or court bailiffs can seize the debtor's goods to sell to pay the debt. *Undue Distress*, Citizens Advice's report about bailiffs published in 2000, recommended that distress should either be abolished or that radical reform was needed to deal with the inconsistencies in bailiff law and abuses of the law by private bailiffs. We particularly welcome the proposal to regulate all bailiffs.
- 11.6 However, the proposed reforms to attachment of earnings and charging orders are of more concern. For attachment of earnings orders, the Lord Chancellors Department proposes that the method of fixing deductions currently used for council tax should be applied to attachment of earnings orders for county court judgments. Instead of deciding on the amount of deduction by examining the debtor's financial circumstances, the court will simply issue the debtor's employer with a table of fixed deductions asking them to deduct a percentage of the debtor's net wages. This change is recommended on the basis of ease of administration, and a review process is envisaged to allow both debtors and creditors to apply to alter the amount of the deduction.
- 11.7 **As a matter of principle, the CAB service believes that there should be no change to the current method of fixing the amounts from attachment of earnings orders. This is because the proposed fixed deduction system is inflexible and takes no account of ability to repay by focussing on deducted amounts and does not necessarily protect a basic level of income or benefits.** The main problem with the review system is that the onus is placed on the debtor to apply for the review after the fixed deductions have been implemented. Vulnerable people, particularly those with depression or mental health problems, or those with limited English or literacy problems, may not avail themselves of this process, before falling into arrears with other commitments when the deductions are implemented. **The CAB service therefore recommends that the debtor should be given the opportunity to apply for a review before the fixed rate deductions are implemented. The court could notify the debtor of the fixed rate deductions that would apply and give 21 days for the debtor to apply for a review before they are implemented.** This notification could also inform debtors worried about the effect an attachment of earnings order would have on their employment about the opportunity to ask for a suspended attachment.

11.8 The White Paper's plan for charging orders is to allow creditors to apply even when the debtor is up to date with an instalment order. A number of reasons are given for this change:

- Creditors will not have to apply for payment of judgments forthwith;
- The Lord Chancellors Department considers there is sufficient protection for debtors in existing statute and caselaw both at the charging order and order for sale stages;
- Few creditors currently apply for orders for sale, because they wish to protect their reputations, and in any case most judges are unwilling to grant orders for sale;
- It allows creditors to have security for the debt whilst the debtors are only able to make small repayments.

11.9 The CAB service considers that charging orders are a particularly harsh method of enforcement, as there is a risk that the debtor could lose their home for non-payment of a relatively small debt, that they may not have sufficient equity to buy another and are likely to be considered ineligible for permanent housing by the local authority. The proposed change also turns charging orders from a method of enforcement into an involuntary mortgage. It may become the norm for creditors to apply for charging orders for every county court judgment against a homeowner.

11.10 As a matter of principle the CAB service believes that the present legislation concerning when a creditor may apply for a charging order against a judgment debtor should not change. If the change is to go ahead, we consider other measures are essential to ensure that vulnerable people in debt are protected. The CAB service recommends that a separate application procedure and legislation applies to charging order applications on county court judgments where the debtor is up to date with instalments.

11.11 Whether the proposal to allow applications for charging orders to be made when the debtor is up-to-date with payments goes ahead or not, the CAB service considers that there are two additional essential changes to charging order law which must be included in any legislation to reform enforcement. **The CAB service recommends that hearings to make charging orders final and for orders for sale must be heard in the debtor's home court.** It is surely a breach of natural justice for the debtor to have to make an application for such proceedings to be transferred to their local court. Compare this with the Civil Procedure Rules on possession action for mortgage or rent arrears state that the possession hearing has to take place in the court in whose jurisdiction the debtor's home is situated. It is therefore welcome that the Enforcement White Paper asks for views on the appropriate venue for charging order and order for sale applications.

11.12 The CAB service further recommends that legislation relating to charging orders and orders for sale should specifically address the protection of vulnerable people in debt and anyone else in the debtor's household who would be affected by the making of the order from

inappropriate use of this method of enforcement. CAB experience of judicial decision-making in charging order hearings is that the current protections in relevant caselaw may not be consistently applied.

- 11.13 Finally measures need to be taken to ensure that the judiciary apply legislation and case law fairly to charging order and order for sale applications, so that vulnerable people in debt are protected. **The CAB service recommends that the Lord Chancellors Department should review and closely monitor judicial decision-making on both charging order and order for sale applications, in order to consider whether any changes are necessary to judicial training and protections in the relevant legislation.**

Enforcement of council tax debts

- 11.14 Given that the CAB survey and CAB evidence shows that the recovery of council tax is problematic, it is worrying that there is no common guidance or code of best practice on recovering council tax debts to reduce the reliance on court action and enforcement measures. **The CAB service therefore recommends that the Office of the Deputy Prime Minister, together with the Audit Commission should draw up a code of guidance for the collection and recovery of council tax arrears and monitor compliance with it. The Welsh Assembly and the Scottish Parliament should undertake similar exercises.**
- 11.15 The CAB service has believed for some time that there is a strong case for the county court to take over jurisdiction for civil debts in England and Wales, such as council tax.⁸⁰ In Scotland, council tax recovery is not part of the criminal justice system. The civil court is a far more appropriate forum for these cases, with better-developed procedures for, and greater experience of, dealing with debt. These include reply forms which allow the debtor to explain their financial circumstances and make an offer of payment. CABx also report that county courts are more used to dealing with problems of repayment and are therefore more likely to be aware of the problems faced by people in debt.
- 11.16 We therefore warmly welcome the recommendation in Lord Justice Auld's Review of the Criminal Courts that preparatory work should be undertaken with a view to the removal of all civil debt enforcement from courts exercising a criminal jurisdiction.⁸¹ **The CAB service recommends that the Office of the Deputy Prime Minister should urgently review and reform council tax legislation with regard to collection and enforcement.** In Scotland, council tax collection via summary warrant procedure has also proved problematic, **and the CAB Service recommends that the Scottish Executive Justice Department undertakes similar review and reform.** The reform in England, Scotland and Wales should cover the following issues:

⁸⁰ NACAB - *Charging into the tax: Lessons from Citizens Advice Bureaux' experience of the community charge*, February 1992; NACAB - *Taxing Times*, September 1994; NACAB - *Barriers to Justice: CAB clients' experience of legal services*, September 1995; NACAB - *TV Sinners : A CAB evidence report on the BBC licence fee*, March 1998

⁸¹ *A review of the criminal courts of England and Wales*, The Right Honourable Lord Justice Auld, September 2001, LCD

- **Local authorities should be required to check that there is no outstanding claim for council tax benefit before taking action to get a liability order and before taking enforcement action.**
- **There should be an opportunity at the liability order / application for summary warrant stage to consider the debtors' means and to make payment arrangements.**
- **Debtors themselves should be able to ask the Department for Work and Pensions for deductions from income support and jobseekers allowance for council tax arrears at any time.** Currently benefit legislation only permits deductions from benefits if the local authority asks for it after a liability order or summary warrant has been made. It seems pointless for local authorities to have to take court action, thus increasing the debt with court costs before deductions can commence.
- **Local authorities and sheriffs officers should not be able to use multiple forms of enforcement simultaneously for single or multiple council tax debts. This will ensure that people with multiple debts do not end up struggling to meet all their commitments.**
- **Local authorities should be given powers to write off council tax debts wholly or in part in cases of hardship.**

Conclusions

11.17 In this chapter we call for changes to enforcement of civil debts through the county, high and sheriffs' courts to protect vulnerable debtors. We also recommend a review of enforcement of council tax.

11.18 In the final chapter we look at further measures which are needed to help people get out of debt.

Initiatives to help people get out of debt

12.1 In this chapter the CAB service sets out its recommendations to help people get out of debt. We argue for a more coherent and joined-up policy on insolvency remedies, and action to tackle the financial exclusion from these remedies faced by many CAB clients. We call for improved access to basic bank accounts for people in debt to enable them to control their income and avoid getting into further debt. We set out the further improvements we believe are necessary to make the common financial statement initiative meet the needs of CAB debt clients. Finally we argue for a sustainable strategy to develop free debt advice providers.

Insolvency

12.2 For many CAB clients with substantial debts and no available income to pay their creditors, and no prospect of being able to repay insolvency remedies, such as bankruptcy, sequestration and administration orders, can be a suitable way forward. Use of these procedures takes away the considerable stress of dealing with letters and frequent phone calls from creditors. Although there are several insolvency remedies available (administration orders, bankruptcy and individual voluntary arrangements in England, Wales and Northern Ireland, and sequestration and protected trust deeds in Scotland), many people in debt cannot use them because they cannot afford the fees or they did not satisfy the restrictive criteria for the insolvency remedy. Those who are unable to access insolvency remedies are often the poorest and most vulnerable people in debt.

12.3 The reforms to the personal insolvency regime contained in the Enterprise Act 2002 do not address the gaping chasm between the different insolvency remedies and people on low incomes or benefits with multiple debt problems. People with debts of more than £5,000 cannot use the administration order procedure for relief. Their only option may be insolvency, but the amount of the fees puts this out of reach.

12.4 There needs to be a more coherent and joined-up approach to insolvency law, so that people in debt can pay their debts, where possible and make a fresh start. **As a short-term measure in England, Wales and Northern Ireland, the CAB service recommends that the Government:**

- **introduces new Insolvency Rules to extend the exemption and remission of fees to the deposit fees for bankruptcy for those on means-tested benefits, working tax credit, maximum child tax credit and those on low incomes; and**
- **increases the administration order limit to that of the current Consumer Credit Act limit, (£25,000) and considers abolition of the requirement for the applicant to have at least one county court judgment.**

12.5 **In the longer term we consider that a more extensive approach may be needed to integrate the different insolvency remedies and create**

effective and sustainable debt settlement. This is the approach taken by some EU member states, such as Germany, where insolvency legislation allows for debt settlement before taking control of the bankrupt's affairs and liquidating her/his assets. The Scottish Executive has also introduced a Debt Arrangement Scheme which will allow people in multiple debt to make payment arrangements with their creditors without necessarily involving the court.⁸²

12.6 The CAB service recommends that the government's crosscutting indebtedness review proposed in the PIU report *Modernising Government Loans* should examine the feasibility of introducing a Debt Arrangement Scheme in England, Wales and Northern Ireland. Such a scheme should:

- **allow debtors on means-tested benefits or limited income to have a means of repaying their debts without further collection or enforcement action from their creditors;**
- **ensure that debtors will not lose their homes provided they comply with a repayment plan;**
- **allow a reasonable return for creditors whilst ensuring that the repayments are affordable for the debtor;**
- **allow for a reduction or cessation of interest and other charges where the debtor is suffering from hardship;**
- **where severe hardship would result from having to pay the debts in full give debtors who keep to repayment plans an incentive to pay by limiting the repayment period and writing off the remainder of the debt.**

12.7 The Scottish Debt Arrangement Scheme does not allow for the composition of debts or the cessation of interest and other charges.⁸³ Freezing interest and limiting the repayment term can provide a real incentive to debtors to make regular repayments. The CAB service therefore recommends that the Scottish Executive urgently introduces legislation to allow for the cessation of interest and other charges, and limiting the repayment period within a debt arrangement scheme for debtors in severe hardship.

Basic bank accounts for people in debt

12.8 Basic bank accounts have been designed with the needs of the unbanked in mind, who have not had access to mainstream financial services before. However, basic accounts are also very useful for people in debt, particularly those with income going into an overdrawn current account.

12.9 Banks may well be concerned that the primary motive for a person opening a new account whilst their current account is overdrawn is simply to avoid payment. However, people with overdrafts and other debts consisting of a

⁸² *Striking the Balance*, a report by the Working Group on a Replacement for Poinding and Warrant Sale

⁸³ In administration order legislation composition orders allow for a percentage of the debt to be written off.

high percentage of their income may have little other choice in order to get some control over the use of their income to pay all their debts and essential household expenses. Although it is possible for account holders to instruct the bank to earmark incoming funds for specific purposes (known as the right of first appropriation) before using the income to pay debts to the bank, it is often not a practical solution for long-term debt problems, either for the bank or the person in debt. And CABx find that in practice it can be very difficult to persuade banks to accept the customer's right of first appropriation.

12.10 In relation to basic bank accounts, the voluntary Banking Code commits subscribers to provide prospective customers with information on a basic account, if they offer one and if they think the customer might be interested in it. There are also commitments to: act fairly and reasonably; give information about products in plain language; help the customer understand the financial implications of products, help them choose the one that meets their needs, as well as treating people in financial difficulties positively and sympathetically. There are no commitments, either in the Code or the associated guidance, that banks ought to allow people in financial difficulties to open a basic bank account.

12.11 The CAB service therefore recommends that the guidance to the Banking Code, on assisting customers in financial difficulties, include guidance to banks on allowing those in financial difficulties to open a basic account. We suggest that it should be usual practice for banks and building societies to provide a basic account upon request from someone in financial difficulties, subject to the banks' own identity requirements for opening an account, even if the consumer already has another overdrawn account elsewhere. Banks and building societies could, if necessary, ask such applicants to provide proof of income and details of their essential expenditure and other debts, to show that they could not meet their essential expenditure needs and maintain contractual commitments to their existing bank.

Improving the process of negotiation

12.12 Initiatives to improve the way in which debt advisers and creditors communicate also help people in financial difficulty. An example of this is the British Bankers' Association (BBA) and Money Advice Trust's (MAT) joint financial statement initiative, to standardise the way debt advisers, creditors and their agents communicate with each other about repayment offers. The aims are to increase acceptance rates of offers of repayment from people in debt, to speed up the process and to reduce correspondence between creditors and advisers.

12.13 Advisers use an agreed format to set out their client's income, expenditure and offers of repayment to the creditor. If the client's expenditure on health, children, repairs and maintenance and housekeeping falls between agreed guidelines, the creditor should accept the amount offered to pay the debt based on that financial statement. If the expenditure exceeds an amount set out in the guidelines, the adviser would need to provide a written explanation

to enable the offer to be accepted. Advisers and their clients should therefore expect to have fewer offers of payment queried by BBA members. The initiative was launched in November 2002.

- 12.14 The CAB service welcomes this initiative. Speeding up the acceptance of repayment offers has the capacity to reduce the stress of debt clients. However, currently, only members of the BBA, who are major retail banks, have signed up to the scheme. For the initiative to work, members of other creditor trade associations should participate. This is because most statements will concern multiple debts and resolution is not possible unless all creditors accept the repayments amounts offered. All non-priority creditors are treated equitably in this process. However, if one creditor refuses to accept the amount offered, this could considerably delay concluding payment arrangements to all. **The CAB service therefore recommends that the Finance and Leasing Association, Consumer Credit Association, Consumer Credit Trade Association, Mail Order Trade Association and Credit Services Association should agree to participate in the Money Advice Trust/British Bankers Association common financial statement initiative. This commitment could be written into the relevant codes of practice.**
- 12.15 A key test of the success of this initiative is whether the offers of repayment, based on the financial statements, are accepted or not. This should be monitored and be subject to an independent review after, say, 18 months.
- 12.16 At the moment the principles behind the common financial statement only apply to negotiations between creditors and advisers on behalf of people in debt. They do not apply to individuals negotiating offers of repayment to creditors themselves. The survey has already highlighted the problems faced by people trying to negotiate affordable repayments with all their creditors. We would therefore urge that consideration is given to how the benefits of the common financial statement initiative can be extended to individual debtors negotiating their own repayments.
- 12.17 Although the expenditure guidelines do not reflect the additional costs faced by disabled people in debt or by people living in rural areas, we consider that the BBA/MAT common financial statement initiative presents an excellent opportunity for creditors and debt collectors about to become aware of and consistent in relation to these particular issues. **The CAB service recommends that the Money Advice Trust and the British Bankers Association should review the common financial statement initiative after a period of operation. The review should focus on the success of offers made using the statement, how the general approach could be extended to un-represented consumers and whether the higher costs of transport in rural areas and the additional costs of disability can be reflected in the expenditure guidelines.**

Developing free debt advice

- 12.18 In order to tackle their debt problems effectively, people in debt often need access to advice. However, many Citizens Advice Bureaux often report that they are facing a continuing and increasing demand for money advice, and they are finding it difficult to meet from their current sources of funding. A survey of CAB money advice needs found that, on average, each CAB needed funding for at least 1.5 full time money advice posts, 1 administration worker and 4 volunteer advisers, for a range of projects including rural money advice outreach sessions, lay advice at county, magistrates and sheriffs courts, outreach in health settings and financial literacy projects.⁸⁴
- 12.19 Other sources also indicate a gap between the level of need for debt advice and the actual supply. The Legal Services Commission recently reported that all of their eleven regions in England and Wales have noted a need for debt advice, and eight regions highlighted debt as a priority area for contracts from April 2003.⁸⁵ Recent reports on the quality of money advice highlight that demand for free money advice is greater than supply.⁸⁶ The DTI overindebtedness research identified that only 20 per cent of people in arrears with their financial commitments had sought advice about their debt problems. Should the economy take a significant downturn, CABx and other free money advice agencies are likely to need significant additional support to meet the increased demand for debt advice.
- 12.20 Most funding for free money advice services comes from local and central government. Many local authorities have funded specialist money advice services, for a variety of reasons including their anti-poverty strategy, and local strategies on the prevention of homelessness. Of the 49 bureaux in the survey that had specialist money advice posts, 53 per cent had funding from their local authority to fund specialist money advice posts, and nearly 1 in 4 of the bureaux surveyed, in England and Wales, had funding for debt advice via a general civil contract from the Legal Services Commission. Only five per cent of the bureaux in the survey received any funding from a financial services provider to help them provide a money advice service.
- 12.21 Without sustainable sources of funding for free money advice services, there is a danger that the advice gaps will not be adequately filled. Also, there are concerns that existing provision could be cut. Despite Community Legal Service Partnership action plans, some CABx have reported that local authority funding for specialist money advice posts is being reduced or cut altogether because of pressure on budgets and the perception, on the part of the local authorities, that Legal Service Commission contracts and other sources of funding ought to be able to meet the need for money advice.

⁸⁴ See Appendix 4 for details

⁸⁵ *LSC Contracting Priorities and Strategies – An Overview 2003*, Legal Services Commission

⁸⁶ *Quality Assured? – an assessment of the quality of independent money advice*, by Sharon Collard; Jane Steele; Elaine Kempson, published February 2000; and *Good, bad or indifferent? – The Quality of money advice in Scotland*, by Sharon Collard and Bob Burrows, October 2002.

- 12.22 A further constraint is that, under the terms of a Legal Services Commission contract, advice agencies are restricted to provide help only to those people who are eligible for legal aid, essentially the poorest people in our society. Where the advice agency has no other source of funding for specialist money advice services, this may result in them not being able to offer the same level of service to those who just miss out on being eligible for legal aid, thus creating a two-tier service.⁸⁷ It is possible for people who are more articulate and assertive to deal with negotiations with their creditors themselves, with the aid of self-help information on dealing with debts. But it is not necessarily the case that all those whose disposable income is above the threshold for legal aid are able to cope effectively with their debts without advice and support. In some CAB advisers' experience even the most articulate people find it difficult to manage multiple debt, especially when they are dealing with other problems in their lives. Also, self-help for debt problems can fail because many creditors will not negotiate with the debtor, or accept their offer of repayment, but instead insist they approach a debt adviser, at a CAB for example, who can look into their circumstances.
- 12.23 Furthermore, the eligibility guidelines for legal aid arguably discriminate against people on low incomes living in rural areas who face higher transport costs. Many people in rural areas have to travel long distances to work. Those on low incomes may be little better off than those on means-tested benefits once their travel costs have been taken into account, but these costs do not form part of the legal aid calculation.
- 12.24 The CAB service therefore recommends that the government should review the financial eligibility criteria for legal help with debt cases.** There is an opportunity to tackle this issue in the April 2003 review of the Community Legal Service.
- 12.25 A source of funding used by some free debt advice providers is a payment distribution system whereby the debt client makes one payment to the debt advice provider to distribute to her/his creditors. The debt advice provider asks each creditor to credit the full amount to the client's account and to return a small proportion of the payment, for example, 10 per cent, which is used to fund the debt advice service.
- 12.26 For this approach to offer a substantial funding stream, debt clients have to be able to make substantial payments to their creditors in order to generate a reasonable "return" for the advice agency. As this survey shows, many CAB debt clients are on very low incomes and substantial proportions are in receipt of means-tested benefits and tax credits. As such they are unlikely to have much if any income to distribute to their non-priority creditors. For example, an annual survey of financial statements sent out by CABx and other free money advice agencies in Oxfordshire indicated that more than 2 in 5 clients had no available income for their non-priority creditors, and a further 30 per cent had less than £50 per month that could be offered towards their debts.

⁸⁷ To be eligible for legal aid, an individual must have a gross monthly income less than £2,250, a disposable income of less than £611 per month and less than £3,000 in savings or other sources of capital.

- 12.27 The recommendation of the government's PIU report that there should be a review of money advice provision is therefore very welcome.⁸⁸ It suggests that the review should analyse the demand for face-to-face, telephone and internet debt advice. In relation to funding it should assess the advantages and disadvantages of a wide variety of different potential sources of funding for money advice, financial literacy programmes and debt advice, including user fees, central or local government funding and voluntary or compulsory industry funding.
- 12.28 The CAB service recommends that when evaluating each method of funding for money advice the government's crosscutting review of debt and money advice should in particular look at the impact of each possible method of funding on provision of money advice to lower income groups and vulnerable groups, especially those with mental health problems and those who just miss coming within the civil legal aid eligibility criteria.** User fees, and voluntary industry funding, such as contributions from payment distribution schemes, may be unlikely to generate sufficient funds to establish an adequate level of advice provision for these groups.
- 12.29 Citizens Advice is enormously appreciative of the voluntary contributions and grants which it has received from banks, building societies and other creditors to help deliver advice to people in debt. Over the past three years over a million pounds has enabled the Citizens Advice service to provide higher quality money advice to people in debt that simply would not have been otherwise available. However, the amount raised from the credit industry by the Money Advice Trust in 2001/2 for its activities, including pilot debt help lines, represents 0.00001 per cent of the consumer credit currently outstanding.⁸⁹ And only a few creditors are contributing substantial amounts to support agencies which provide free money advice.
- 12.30 The CAB service recommends that the government's cross-cutting review of debt and money advice should identify how sufficient and sustainable funding can be secured to meet the long term needs for money advice, financial advice and financial literacy work. As recommended by the PIU to do this, the review should examine a wide variety of possible funding options, including voluntary or compulsory mandatory funding, central and local government funding, and user fees.**

⁸⁸ *Lending support: Modernising the Government's use of loans*, PIU, March 2002

⁸⁹ £2.4 million – source - Money Advice Trust: Annual Review 2001/2002

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Appendix 1 – About the survey

A ten per cent sample of CABx UK-wide was asked to participate in a survey of new debt clients seen during May 2001. The sample for bureaux England and Wales was drawn from a random-sampling frame which took into account such factors as geographical location, and whether the bureau was located in an inner-city, outer-city, town or rural area. The selection of the bureaux from Scotland and Northern Ireland were made taking into account the known distribution of population in those countries. An additional 10 per cent random sample of Welsh bureaux was included to inform a joint research project on overindebtedness in Wales between Citizens Advice Cymru, the Welsh Consumers Council and Trading Standards. In the event, 63 bureaux took part in the survey, forming just under 80 per cent of the bureaux asked to participate.

Each selected bureau was asked to complete an extended questionnaire for the first 10 new debt clients during May 2001 where the bureau had sufficient information to enable them to negotiate with the client's creditors. In addition, each bureau had to complete a short questionnaire for all other new clients seeking advice about debts during May 2001. The extended questionnaire is reproduced in Appendix 2. The short questionnaire consisted of questions 1 – 6 on the extended questionnaire. The aim of this sample method was to obtain a picture of a fairly large number of CAB debt clients without putting too great a burden on the CABx in providing information for the sample as debt casework can be very time-consuming. Both questionnaires were piloted by five bureaux to ensure, as far as possible, that it was realistic to gather the information.

A steering group, composed of representatives of the Office of Fair Trading, Citizens Advice, Citizens Advice Scotland, Citizens Advice Wales, the Northern Ireland Association of Citizens Advice Bureau, and individual CAB advisers with money advice experience, directed the project. In particular the steering group advised on the content and layout of the questionnaires, choosing the bureaux for piloting the questionnaires, and assisted Citizens Advice Social Policy Department and the Office of Fair Trading in the analysis of the data obtained from the survey and in the development recommendations.

Citizens Advice Social Policy Department would like to thank the following people for their help with the survey and the production of this report:

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Data from the survey

Altogether information about 924 clients was used in the analysis. We received 690 main survey forms, but these were filtered to exclude those cases that were considered to hold inconsistent data. All the unusual data were first checked against the original forms to ensure that the correct information was entered before any decision was made to exclude or amend them. We excluded survey forms where:

- the client's total debts represented a small proportion of the client's normal monthly net income, and where it was clear from other information on the questionnaire that the client was seeking advice about their liability for the debt;
- the client had a substantial total debt which represented more than several hundred times their current monthly income.

Of the 690 main survey forms, there were 550 forms which were fully completed.

For a further 418 CAB debt clients, the bureau completed the extended questionnaire. These were also sifted to exclude cases which contained inconsistent data, or where the information was incomplete. Using the same criteria, the data set was reduced to 374 clients.

Appendix 2 – Survey questions

Main survey

All clients who participated in the survey were asked the following questions:

1. Personal information about you:
 - age;
 - gender;
 - ethnic origin;
 - whether any member of your household is disabled;
 - whether your first language is English;
 - your housing tenure.
 - For Welsh CABx clients only – whether you speak Welsh.
2. What are all your main sources of income? What is your monthly net household income?
3. The three main reasons why you think you are in debt
4. How many priority and non-priority debts do you have? How much do you owe in total?
5. How well do you think you are coping with your debt problem?
6. How have you been managing your debt problem until now?

Extended survey

As above plus:

The following three questions for each debt:

7. Details about the debt, including:
 - the name of the creditor;
 - the amount owed;
 - type of debt;
 - date agreement taken out and date agreement fell into arrears;
 - APR when agreement taken out and current APR;
 - action taken by the creditor to recover the debt;
 - whether the debt was covered by payment protection insurance.
8. Details of payment protection insurance, including:
 - whether claim made;
 - whether claim successful;
 - reason for unsuccessful claim;

- reason for not claiming.

9. About the conduct of the creditor, including:

- any features of the agreement which could be considered unfair;
- if so whether you were aware of these when taking out the agreement;
- whether any fees have been imposed for non-payment and details of these.

The following two questions for each event the client experienced which had an impact on their income or expenditure:

10. Events, including

- type of event;
- whether it affected income or expenditure;
- who experienced it.

11. The financial effect, including:

- how much income lost/expenditure increased as a result of the event;
- how long ago did the event occur.

12. Have you sought advice about your current debt problem from another source before approaching this CAB?

13. From whom did you seek advice?

14. What led you to seek advice from a CAB?

15. Have you tried to renegotiate payments with creditors before coming to the CAB?

16. What was your experience of negotiating with your creditors?

17. Why did you decide not to attempt negotiations with your creditors?

18. Are you receiving any treatment/counselling by/via your GP for anxiety, stress or depression?

19. For how long have you received this treatment/counselling?

20. Do the symptoms pre-date the onset of the debt problem?

21. What impact has your debt problem had on you and your family?

Appendix 3 – Additional statistics from the survey

Table A3.1 - Distribution of type of debt by gender

Type of debt	Female	Male
Bank loan	12.1%	22.1%
Bank overdraft	5.9%	6.6%
Catalogue	15.2%	4.3%
Credit card	17.9%	22.1%
Finance company loan	9.1%	11.0%
Fuel arrears	2.5%	2.2%
Mortgage arrears	1.5%	1.5%
Moneylender or home collected credit	3.9%	0.9%
Rent arrears	3.6%	2.2%
Store card	4.2%	2.8%
Telephone bill	3.7%	4.0%
Other	3.2%	3.5%
All	100.0%	100.0%

Table A.3.2 - Distribution of type of debt by housing tenure

Type of debt	Local authority tenant	Non householder	Owner occupier	Private tenant	Tenant of RSL
Bank loan	9.8%	19.7%	18.3%	17.9%	11.7%
Bank overdraft	4.8%	8.2%	7.1%	6.5%	4.3%
Catalogue	18.5%	7.4%	6.3%	9.4%	13.3%
Council tax arrears	6.3%	3.3%	4.3%	3.6%	6.9%
Credit card	12.9%	23.0%	24.9%	22.8%	13.8%
Finance company loan	9.2%	16.4%	10.3%	9.4%	6.9%
Fuel arrears ¹	2.7%	0.8%	2.0%	2.9%	0.5%
Moneylender or home collected credit ¹	6.5%	2.5%	0.5%	2.6%	6.9%
Rent arrears ¹	6.3%	0.8%	0.0%	1.3%	10.1%
Store card ¹	1.3%	4.1%	5.9%	5.5%	5.3%
Telephone bill	4.2%	5.7%	2.6%	2.3%	3.7%
Benefit over payment ¹	2.7%	0.0%	0.1%	0.0%	1.1%
Mortgage arrears ¹	0.2%	0.0%	3.4%	0.0%	0.0%
Other	14.4%	8.2%	14.2%	15.6%	15.4%
All	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Limited data in these categories

Table A3.3 - Distribution of type of debt by employment status

Type of debt	Unwaged Clients	Waged/self-employed
Bank loan	10.7%	18.8%
Bank overdraft	5.5%	6.4%
Catalogue	16.0%	8.0%
Council tax arrears	4.7%	4.9%
Credit card	16.2%	21.4%
Finance company loan	9.3%	10.1%
Fuel arrears	3.4%	1.6%
Moneylender or home collected credit	5.1%	2.2%
Rent arrears	3.4%	2.5%
Store card	3.6%	5.2%
Telephone bill	4.4%	3.0%
Other	17.8%	15.7%
All	100.0%	100.0%

Table A3.4 - Distribution of type of debt by monthly income

Type of debt	Clients' Monthly income				
	Up to £399	£400 up to £799	£800 up to £1199	£1200 up to £1599	£1600 and up
Bank loan	13.7%	13.8%	15.4%	20.0%	19.7%
Bank overdraft	7.5%	5.5%	5.6%	6.7%	6.4%
Catalogue	12.2%	12.9%	10.1%	11.9%	6.1%
Council tax arrears	4.7%	4.6%	5.5%	5.2%	3.4%
Credit card	14.5%	15.6%	22.3%	21.9%	23.1%
Finance company loan	9.4%	9.7%	9.7%	8.5%	12.1%
Fuel arrears ¹	4.7%	3.0%	1.7%	0.7%	1.5%
Moneylender or home collected credit ¹	3.5%	4.1%	3.2%	3.0%	1.5%
Rent arrears ¹	2.4%	3.7%	3.5%	2.2%	0.4%
Store card ¹	3.9%	4.4%	4.1%	4.4%	7.6%
Telephone bill	3.9%	5.5%	2.9%	1.5%	2.3%
Other	19.6%	17.2%	15.9%	14.1%	15.9%
All	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Limited data in these categories

Appendix 4 – analysis of December 2001 survey of additional money advice needs

In December 2001 the bureaux which were approached to take part in the survey of debt clients were asked to complete a further survey about their future resource needs to meet local unmet need for their money advice services. Sixty-nine bureaux replied.

Bureaux were asked to provide details of:

- Number of additional paid money advice posts needed
- Number of additional volunteers needed;
- Number of additional administration staff needed;
- Number of additional training places needed (for basic CAB training, basic debt courses, business debt courses and additional debt courses)
- Money advice projects the bureau would like to develop;
- Additional resources needed for future money advice needs.

Table A4.1 Average additional staff needed per bureaux

Additional specialist money advice posts	Additional volunteers to deal with money advice	Additional administration staff
1.5	4	1

Table A4.2 Average additional training places needed per bureau

Additional CAB basic training (Certificate course)	Additional basic money advice training places	Additional business debt training places	Additional places on money advice taught courses
5	3	2	3

Table A4.3 Debt-related projects the CAB would like to develop

Project	Number of requests	Percentage of requests
Advice desks at county courts and sheriffs courts	24	19%
Financial literacy	22	18%
Advice desks at magistrates court	18	14%
Rural money advice outreach services	8	6%
General outreach services	7	6%
Home visiting service to elderly and disabled	6	5%
Outreach services targeted at prisoners or those on probation	5	4%
Outreach services targeted at students or young people	4	3%
Telephone debt helpline	4	3%
Housing debt service	4	3%
Outreach service targeted at people with mental health problems	3	2%
Money advice casework service	3	2%
Bankruptcy advice service	3	2%
Others ⁹⁰	14	11%

⁹⁰ Includes: support for existing workers, business debts, outreach in GP surgeries, IT-based debt advice, self-help, work with carers groups, people facing redundancy, advice services for older people, establishment of local debt forum, advice by video conferencing

Total	125	
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Other resources needed

Predominantly CABx needed IT equipment and debt management programs, additional office space, and financial literacy materials (71 per cent of all additional resource needs).

How much additional funding would be needed for the identified needs?

For a bureau to have 1.5 money advisers, 4 volunteers and 1 administration worker, it would cost at least £56,135 per year. This figure includes salaries for the money advisers and administration worker at local authority scales 6 and 4 respectively, plus training, management, insurance, telephone and equipment costs.

Using these figures, an additional £1million per year would enable 18 out of the 600 bureaux to have the additional money advice resources detailed above.

Appendix 5 – The Debt Arrangement and Attachment (Scotland) Act 2002

The Debt Arrangement and Attachment (Scotland) Act came into force on 30th December 2002, introducing what could be radical solutions and opportunities for Scottish debtors.

The Act is essentially in two parts. The second part replaces poinding and warrant sales⁹¹ with a new system called exceptional attachment orders. While both procedures involved valuing and selling a debtor's furniture and goods (with certain exceptions), the new procedure introduces a range of protections as well as various triggers that hopefully will prompt a debtor to seek advice.

The potentially radical part of the Act is contained in the first part. For the first time, Scottish debtors will be able to access a debt arrangement scheme, designed not only to manage multiple debt but also to offer protection from harsh debt collection and enforcement practices.

Making an application

The debtor starts the process by completing an application form for a debt arrangement programme. S/he must first have obtained the advice of an approved money adviser, and the money adviser must sign the application.

The application form asks for the following information:

- details of the debts, the amount outstanding, the name of the creditor and the period for which the debt is due, all to the best of her/his knowledge and belief
- the amounts, how often, and the manner and period over which each of the debts included in the programme will be paid
- the name and address of a payment distributor who will distribute the funds to the various creditors
- details about the debtor's financial circumstances.

Benefits

The scheme is not linked to the courts, and debtors do not need to have had court action taken against them before applying.

Once a debt payment programme is in force, most creditors are prevented from taking further enforcement action.

The Act allows pilot schemes to operate for different types of debtors, debts or anything else that may be relevant.

⁹¹ Poinding and warrant sales was the system used to value and sell a debtor's furniture and goods with certain exceptions, and was outlawed by the Abolition of Poindings and Warrant Sales Act 2001

The scheme will be run nationally, so there will be less variation than currently operates in terms of administration orders in England and Wales.

It is almost certain that the limit for the scheme will be in excess of £5,000 - if indeed there is a ceiling set at all.

The client will only make a single payment, and the payment distributor will do all the work of sending the money to creditors.

The requirement for a money adviser to help the debtor complete the form hopefully means that the arrangement is more likely to work.

Problems

All the debtor's creditors need to consent to the debt payment programme at the first instance. There will be future provision that will allow a creditor's consent to be dispensed with, but as yet there is no information in terms of how that will actually work.

An employed debtor will be required to sign a mandate to allow the deductions to be made directly from their earnings to the payment distributor.

There is no provision for freezing of interest or composition of debts, as the Scottish Executive took the view that this power would breach human rights legislation.

Fuller detail yet to come

The Act sets out only the bare bones of the scheme, with much of the detail to be fleshed out in regulations which will probably appear during Spring 2003. Current issues which remain to be resolved by regulation include:

- whether secured loans and hire purchase agreements will form part of the scheme (however the Act does not prevent secured lenders and hire purchase companies from taking enforcement action)
- whether priority debts will form part of the debt payment programme
- whether or not a higher or lower limit will be set, although initial views seem to think that this may be unlikely
- whether there will be limits on the repayment period for the scheme the term of the scheme
- the Act provides for the power to realize a debtor's assets, but currently there is no detail on how this provision will work in practice
- the costs for administering the scheme and who will pay.

Appendix 6 – Citizens Advice Bureaux that participated in 2001 debt survey

EAST REGION

High Wycombe
Rickmansworth
Luton
Norwich
Wymondham,
Attleborough & District

LONDON REGION

Beckenham & Penge
City of London
Feltham
Islington
New Barnet

MIDLANDS REGION

Oadby & Wigston
Rutland
South Holland
Stratford-upon-Avon
West Lindsay
Wyre Forest

NORTHERN IRELAND

Ards
Banbridge
Londonderry

NORTH REGION

Newcastle-upon-Tyne
North Tyneside
South Tyneside
Tynedale
York

NORTH WEST REGION

Heywood
Hindley
Millom & District
Oldham
Prestwich
Upper Valley
Stretford
Walkden

SCOTLAND

Airdrie
Caithness
Clydesdale
Edinburgh Pilton
Glasgow Parkhead
Motherwell & Wishaw

SOUTH EAST REGION

Ash
Dartford
Fareham
Gosport
Hastings
Lewes

SOUTH WEST REGION

Cirencester
Kennet
Newton Abbot
Purbeck
Swindon
Tavistock
Weymouth & Portland

WALES

Bargoed
Camarthen
Machynlleth & District
Merthyr Tydfil
Montgomeryshire &
District
Neath
North Denbighshire
Pembroke Dock
Penarth
Swansea
Vale of Glamorgan
MAU

Appendix 7 – Citizens Advice Bureaux that submitted evidence on debt between January 2001 and December 2002

East	Mildenhall	Chelsea
Abbots Langley	Milton Keynes Central	CALL
Basildon	Newmarket	City of London
Beccles	Norfolk Money Advice	Croydon MAU
Bedford & District	Service	Dagenham
Billericay	North Walsham District	Dalston
Bishops Stortford	Norwich	Edmonton
Braintree	Oxhey & District	Eltham
Brandon	Peterborough	Enfield Town
Brentwood	Rayleigh	Erith
Broxbourne	Rickmansworth	Feltham
Buntingford	Rochford	Finchley
Bury St Edmunds	Southend-on-Sea	Fulham
Cambridge & District	St Albans	Graham Park
Castle Point	St Neots	Hackney (Mare Street)
Chelmsford	Stevenage	Haringey Refugee Helpline
Colchester	Sudbury	Harrow
Dereham	Tendring (Clacton-on-Sea)	Havering (Hornchurch)
Diss & District	Thetford	Havering (Romford)
Dunstable & District	Uttlesford	Hendon
Elstree & Borehamwood	Waltham Abbey	Hillingdon (Acton/Ealing)
Ely	Ware District	Hillingdon (Hayes)
Epping	Watford	Hillingdon (Ruislip)
Felixstowe	Wellingborough	Hillingdon (Uxbridge)
Fenland	Welwyn Hatfield	Holborn
Great Yarmouth	Wickford	Holloway
Harlow	Witham	Hornsey
Haverhill	Wymondham,	Hounslow
Hemel Hempstead	Attleborough & District	Islington
Hertford		Kensington
Hertsmere	London	Kentish Town
Hitchin	Addington	Kilburn
Huntingdon	Barking	Kingston-upon-Thames
Ipswich	Battersea	Lambeth
Kettering	Beckenham & Penge	Lewisham GP Surgeries
Kings Lynn	Beddington & Wallington	Lewisham MAS
Leighton - Linslade	Bermondsey	Leytonstone
Leiston	Bexleyheath	Merton MAS
Leominster & District	Brent	Mitcham
Letchworth	Brentford & Chiswick	Morden
Loughton	Bromley Specialist	New Barnet
Lowestoft	Services	Newham
Luton	Bromley Town	North Cheam
Marham & Downham	Camden HIV Unit	Orpington
Mid Suffolk	Catford	Paddington

Palmers Green	East Northants	Stratford-upon-Avon
Peckham	Eastwood & District	Tamworth
Pimlico	Erewash	Telford & Wrekin
Putney & Roehampton	Grantham & District	Tipton
Redbridge	Halesowen	Uttoxeter
Richmond	Harborough District	Walsall
Roehampton	Hereford	Warwick District
Romford	Hinckley	West Bromwich
Royal Courts of Justice	Kidsgrove	West Lindsey
Seafarers Benefits Advice	Kingstanding	Wolverhampton
Line	Leek	Worcester
Sheen	Leicester	Wychavon District
St Helier	Lichfield	Wyre Forest
Sutton	Lincoln & District	
Sydenham	Louth	Northern Ireland
Thornton Health	Low Hill	Antrim
Tooting & Balham	Lutterworth	Ballynahinch
Tottenham	Malvern Hills	Bangor
Tower Hamlets East	Mansfield	Carrickfergus
Turnpike Lane	Matlock	Central Belfast
Twickenham	Melton Mowbray	Coleraine
Walthamstow	Mid Derbyshire	Cookstown
Wandsworth MAS	Newark	Dungannon
Whitechapel	Newcastle under Lyme	East Belfast
Woolwich	North Shropshire	Glengormley
	North Warwickshire	Holywood
Midlands	Northampton	Lisburn
Ashfield	Northfield	Londonderry
Aylesbury	Nottingham	Magherfelt
Bassetlaw	Nuneaton	Newton Abbey
Bedworth & District	Oldbury	Portadown
Beeston	Ollerton & District	Rathcoole
Biddulph	Oswestry & Border	Strabane
Birmingham CAB Service	Redditch	
Boston	Rugby	North
Bridgnorth	Rugeley	Barnsley District
Bromsgrove & District	Rutland	Batley
Burntwood & District	Shirley	Berwick
Burton-on-Trent	Shrewsbury	Blyth Valley
Cannock	Sleaford District	Boothferry
Charnwood	Smethwick	Bradford
Cheadle	Solihull	Bransholme & North Hull
Chesterfield	South Derbyshire	Calderdale
Coalville & District	South Holland	Castle Morpeth
Corby	South Shropshire	Chester le Street
Coventry	South Staffordshire	Darlington
Cradley Heath	Stamford	DAWN
Daventry & District	Stoke-on-Trent	Derwentside
Derby	Stone	Doncaster
Dudley District	Stourbridge	Durham

East Yorkshire	Atherton	Millom & District
Eastern Border	Barrow-in-Furness	Morecambe & Heysham
Gateshead	Bebington	Nelson (Pendle)
Grimsby, Cleethorpes & District	Birchwood	Netherley
Hambleton	Birkenhead	North Liverpool
Harrogate	Blackley	Northwich
Hartlepool	Blackburn with Darwen	Old Swan
Holderness	Blackpool	Oldham
Hull & District	Bolton & District	Partington District
Keighley & District	Bootle	Preston & District
Leeds	Burnley	Radcliffe
Mexborough & District	Bury District	Ribble Valley
Middlesbrough	Carlisle	Rochdale
Newcastle upon Tyne	Chester	Rossendale (Bacup, Haslingden)
North East Doncaster	Chorley & District	Runcorn
North Kirklees	Colne	Sale
North Tyneside	Congleton	Salford District
Otley	Crewe & Nantwich	Southport
Pitsmoor	Crosby	Speke
Redcar & Cleveland	Cumbria Rural	St Helens
Richmondshire	Eccles	Stockport
Ripon	Eden	Stretford
Rotherham	Ellesmere Port & Neston	Tameside
Ryedale	Failsworth	The Royal Oldham Hospital
Scarborough & District	Formby	Toxteth
Scunthorpe	Garston	Ulverston & North
Sedgefield & District	Gorton	Lonsdale
Selby District	Harpurhey	Urmston
Sharrow	Hazel Grove	Walkden
Sheffield DSU	Heswall	Wallasey
Sheffield Mental Health	Heywood	Walton
Shipley	High Peak	Warrington
South-East Sheffield	Hindley	Wavertree
South Elmsall	Hope Hospital	West Kirby
South Kirklees	Hyndburn	West Lancashire
South Tyneside	Kirkham & Rural Fylde	Whitehaven
Spenn Valley	Knowsley Central	Wigan
Stainforth	Knowsley District	Winsford
Stockton	Knowsley South	Withington
Teesdale District	Lancaster	Workington
Tynedale	Leigh & District	Wyre District
Wakefield District Bureau	Liverpool Central	Wythenshawe
Wansbeck	Lytham St Annes	
Washington Tyne & Wear	Macclesfield & Wilmslow	
Wear Valley	Manchester Central	
York	Manchester District	
	Projects	
	Manchester Telephone	
	Advice	
	Marple	
North West		Scotland
Altrincham		Aberdeen
		Airdrie
		Angus
		Arbroath

Banff & Buchan	Banstead	Heathlands
Barrhead & District	Basingstoke	Henley-on-Thames
Bellshill	Bexhill & Rother	High Wycombe & District
Caithness	Bicester	Horley
Central Borders	Bishops Waltham	Horsham
Clydebank	Bletchley	Isle of Wight
Clydesdale	Bognor Regis	Kent Probation Project
Coatbridge	Bracknell	Lancing & Sompting
Cumbernauld	Brighton & Hove	Leatherhead
Dalkeith	Buckingham, Winslow &	Lewes
Denny & Dunipace	District	Littlehampton
Dundee	Burgess Hill	Lymington
East Ayrshire	Camberley	Maidenhead
East Dunbartonshire	Canterbury	Maidstone
East Kilbride	Caterham	Malling
Eastern Borders	Chichester & District	Medway
Edinburgh Central	Chiltern (Amersham &	New Milton
Edinburgh Leith	Chesham)	Oxford
Edinburgh Pilton	Cosham	Oxted
Edinburgh Portobello	Cranbrook & District	Paddock Wood
Glasgow Albion Street	Cranleigh	Petersfield
Glasgow Bridgeton	Crawley	Portsmouth
Glasgow Castlemilk	Crowborough	Reading
Glasgow Drumchapel	Dartford	Reading Welfare Rights
Glasgow Maryhill	Deal	Unit
Grangemouth & Bo'ness	Didcot	Redhill
Haddington	Dorking	Ringwood & Fordingbridge
Hamilton	Dover District	Rochester
Inverness	East Grinstead	Romsey District
Lochaber	Eastbourne	Runnymede
Moray	Eastleigh	Sevenoaks
Motherwell & Wishaw	Edenbridge & Westerham	Shoreham & Southwick
Nairn	Epsom & Ewell	Sittingbourne & Isle of
Orkney	Esher & District	Sheppey
Peebles	Fareham	Slough
Penicuik	Farnborough	Southampton
Perth	Farnham	Southern MAP
Ross & Cromarty	Faversham & District	Staines (Spelthorne)
Roxburgh	Fleet & District	Swanley
Rutherglen & Cambuslang	Godalming	Tadley
Western Isles	Gosport	Thame District
	Gravesham	Thanet District
South East	Guildford	Tonbridge
Abingdon	Guildford Mental Health	Totton & District
Aldershot	Project	Tunbridge Wells
Alton	Hailsham	Waterlooville
Andover & District	Haslemere	Waterside
Ash	Hastings & Rother	West Berkshire
Ashford	Havant District	West Malling
Banbury	Haywards Heath	Whitehill & Bordon

Winchester	South Gloucestershire	Powys
Witney District	South Hams	Prestatyn
Woking	South Somerset (Yeovil)	Radnor
Wokingham	St Austell	Rhyl
Worthing	Stroud & District	South Denbighshire
Yateley	Swindon District	Swansea
	Taunton	Torfaen
South West	Tavistock	Vale of Glamorgan
Barnstaple	Teignmouth	Wrexham
Bath District	Tiverton & Crediton	Ynys Môn
Bideford & District	Torbay (Torquay, Paignton)	
Bournemouth	West Wiltshire	
Bridport	Weymouth & Portland	
Bristol		
Bude, Holsworthy & District	Wales	
Carrick (Falmouth, Truro)	Abergavenny	
Christchurch	Aberystwyth	
Cirencester	Ammanford	
Devonport	Bargoed	
Dorchester & District	Brecon District	
East Devon	Bridgend	
East Dorset	Caernafon	
Exeter	Caerphilly	
Exmouth	Cardiff	
Forest of Dean	Cardigan	
Frome	Carmarthen	
Gloucester	Chepstow	
GLOMAS	Colwyn Bay	
Kennet	Conwy District	
Kerrier District	Cowbridge	
Kingswood & District	Cynon Valley	
Liskeard	Denbigh	
Lydney	Flintshire	
Mid Devon District	Flintshire MAU	
Mid Somerset	Gwynedd District	
Newquay	Haverfordwest	
Newton Abbot	Llanelli	
North Cornwall	Llangollen	
North Devon	Llantwit Major	
North East Somerset	Machynlleth & District	
North Wiltshire	Maesteg	
Penwith	Merthyr Tydfil	
Plymouth	Monmouth	
Poole	Montgomeryshire District	
Purbeck	Neath	
Salisbury & District	Newport	
Saltash	Penarth	
Sedgemoor	Pontypridd	
Sherborne	Port Talbot	