

THE LONG-TERM IMPACT OF DEBT ADVICE ON LOW INCOME HOUSEHOLDS

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The Year 3 Report

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Context

Over-indebtedness is an increasing problem - total consumer credit lending to individuals stands at £221 billion and Citizen Advice Bureaux alone deal with 9,500 new debt problems every day.

It has been estimated that **the average cost per debt problem to the public is over £1,000, with more serious problems involving costs of many times this amount.**

This report presents findings from year 3 of a six year study of the impact of debt advice on low income households, based on in-depth interviews with 53 people who received debt advice in 2007 and have since been followed-up annually.

Key findings

- **Interviewees reported major difficulties accessing advice services**, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision.
- **Since receiving advice there is an overall positive picture of declining total indebtedness** - only a very small minority of interviewees reported increasing indebtedness, although for a significant minority the position remains unclear.
- **There has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments** - although still largely marked by either constant or occasional struggle to do so.
- **Interviewees' own assessment of change included strong emphasis on income and ability to make ends meet, and well-being.**
- **Three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees.**
- **Advice led to positive change for a large majority of interviewees.**
- **Even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration.**
- **A large majority of interviewees said advice had on-going positive impact, including lessons learned about financial management and ability to act for themselves.**
- **The positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves – but some people do need on-going support.**

- **Interviewees reported many very negative experiences of dealing with creditors.**
- **Interviewees were largely negative about financial education as a separate activity to debt advice:** in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice.
- **There is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness** – insufficient income meant there remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.
- The research includes people who sought telephone and face to face advice but is concerned with the overall impact of advice and does not compare impact by different providers or different services – but it is evident from the research that **advice seekers have very different needs and capabilities and there is no ‘one size fits all’ solution.**

Policy implications

- *The provision of debt advice services* - the overall positive finding regarding the long-term impact of debt advice is important in relation to decisions about the provision and funding of services; but the impact of advice needs to be evaluated on more than a simple measure of indebtedness e.g. account needs to be taken of impact in relation to health issues and enabling people to cope better and avoid problems deteriorating.
- *Advice providers* - there are issues for providers e.g. the importance of the ‘someone to talk to’ element of advice, and continuity of provision – but also that some people have a negative experience of advice.
- *Creditors* - interviewees cannot be seen in terms of ‘can’t payers versus won’t payers’ and the willingness of creditors to accept affordable offers is critical; otherwise people can see contact with a creditor as pointless.
- *Preventing over-indebtedness: financial capability and credit use* - in developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the ‘5 a day’ message of healthy eating campaigns.
- *Preventing over-indebtedness: low income* - low income is rooted in benefit rates and wage levels; without change it is inevitable that over-indebtedness will persist.
- *Understanding over-indebtedness* - there is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.
- *A Big Society approach* - tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government; advice services play a critical role in ‘oiling the wheels’ of a positive Big Society approach.

Executive Summary

Chapter 1 - Introduction: the research and the policy context

This report presents findings from Year 3 of a six year study of the impact of debt advice on low income households, based on in-depth interviews with 53 people who received debt advice in 2007 and have since been followed-up annually.

Issues relating to credit and debt are of immense contemporary importance, with credit and debt firmly established as integral elements of the socio-economic structure of the UK, and part of everyday life for the vast majority of citizens.

Over-indebtedness is an increasing problem - total consumer credit lending to individuals stands at £221 billion and Citizen Advice Bureaux alone deal with 9,500 new debt problems every day.

Media attention often focuses on so-called 'middle class debt', but the concern of this report is with the more long-standing problem of debt among low income households; over the last thirty years the UK has seen fundamental changes in levels of poverty and income inequality.

The onset of recession in 2008/09 has included rapid rises in unemployment and has intensified problems.

The causes of debt for the interviewees in this research are:

- low income (which includes both long-term experience of low income, and a change of circumstances leading to low income); and
- a broad heading of 'credit' which includes the behaviour of both interviewees and creditors – some interviewees talked in terms of using credit to 'live beyond their means' or 'going mad' with store cards, but at the same time were critical of creditors for 'throwing money' at them, increasing credit card limits and offering additional lending which interviewees had little likelihood of ever repaying.

One group of interviewees ascribed their financial difficulties to mental health problems, and the inter-connectedness of causes was critical for many interviewees.

Indebtedness can have profound impacts on individuals but it has been estimated that the average cost per debt problem to the public, and in lost economic output, is over £1,000, with more serious problems involving costs of many times this amount.

From 2004 to 2007 the Government published an annual report on tackling indebtedness, which included a wide range of policy measures.

A more generic policy response has been the 'financial capability' agenda and related Financial Inclusion initiative.

A key response to debt problems is the provision of advice services.

However, the evidence base regarding the impact of debt advice is small, and ambiguous.

This project is original in taking a longitudinal approach over a six year period, and placing emphasis on the experience of low income households.

In Year 1 of the research interviewees reported major difficulties accessing advice services, with advice for a large majority of interviewees having been a last resort - problems included limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision.

The research includes people who sought telephone and face to face advice but is concerned with the overall impact of advice and does not compare impact by different providers or different services – but it is evident from the research that advice seekers have very different needs and capabilities and there is no ‘one size fits all’ solution.

Chapter 2: Change in interviewees’ financial position since seeking advice

There is an overall positive picture of declining total indebtedness – only a minority of interviewees were by Year 3 debt free, but the single largest group are those for whom debts are reducing through payment arrangements.

Only a very small minority of interviewees reported increasing indebtedness, but for a significant minority the position remained unclear.

There has been a very significant shift from people having real financial difficulties/fallen behind with some commitments, to being able to keep up with payments - although still largely marked by either constant or occasional struggle to do so.

A significant minority of interviewees continue to categorise themselves as having real financial difficulties/fallen behind with some commitments.

Only a very small minority of interviewees report being able to keep up with all bills and commitments without any difficulty.

Interviewees’ own assessment of change followed the overall finding of largely positive change, although with some neutrality and negativity, but was more multi-dimensional including a strong emphasis on themes of income and ability to make ends meet, and well-being.

Chapter 3: The long-term impact of debt advice

Three years after seeking advice, advice was still seen as having been helpful by a large majority of interviewees.

Only a small minority of interviewees saw advice as having been unhelpful, and the main issue was service provision rather than the content of advice.

Three elements of advice were found most helpful: having someone to talk to; being given information and options; and being better able to deal with creditors.

Advice led to positive change for a large majority of interviewees.

Even where indebtedness remained unresolved, interviewees reported advice enabling them to cope better and preventing further deterioration.

A large majority of interviewees saw advice as having on-going impact – including lessons learned about financial management and ability to act for themselves - but there are limits to what advice can achieve.

Chapter 4 – Further themes: advice seeking behaviour; creditors; and financial capability and life on a low income

There is evidence of a positive shift in attitudes to advice seeking.

The positive impact of advice meant that the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves.

Other themes applied only to small numbers of interviewees but included: a need for on-going, long-term advice and support; interviewees having a less positive experience when returning to a provider for further advice; and continuing problems with access to services.

Negative experiences of creditors, ranging from a sense of creditors as unhelpful and difficult to deal with, through to descriptions of creditors as ‘aggressive’, ‘nasty’ and even ‘bullying’, remained evident.

Creditors asking for payment arrangements to be increased gave interviewees an on-going sense of being under pressure.

Difficulties in negotiating a payment arrangement led some interviewees to decide that trying to deal with a creditor was pointless.

The majority of interviewees reported feeling financially confident, and across the sample as a whole there was positive change since Year 1.

Interviewees were largely negative about financial education as a separate activity to debt advice: in talking about financial capability, themes of careful budgeting and rejecting credit use dominated – but lessons had clearly been learnt from seeking debt advice.

There is a depressingly familiar finding of low income holding back people’s ability to move beyond indebtedness – even when people had rejected credit use and were committed to careful budgeting, insufficient income meant they still faced a dilemma of how to meet basic and specific needs. There remained no examples of interviewees having savings, and over half the sample had borrowed money between Years 2 and 3 of the research.

Chapter 5 – Conclusions and policy implications

The provision of debt advice services - the overall positive finding regarding the long-term impact of debt advice is important in relation to decisions about the provision and funding of services; but the impact of advice needs to be evaluated on more than a simple measure of indebtedness e.g. account needs to be taken of impact in relation to health issues and enabling people to cope better and avoid problems deteriorating.

Advice providers - there are issues for providers e.g. the importance of the ‘someone to talk to’ element of advice, and continuity of provision – but also that some people have a negative experience of advice.

Creditors - interviewees cannot be seen in terms of ‘can’t payers versus won’t payers’ and the willingness of creditors to accept affordable offers is critical; otherwise people can see contact with a creditor as pointless.

Preventing over-indebtedness: financial capability and credit use - in developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the ‘5 a day’ message of healthy eating campaigns.

Preventing over-indebtedness: low income - low income is rooted in benefit rates and wage levels; without change it is inevitable that over-indebtedness will persist.

Understanding over-indebtedness - there is a need for a much more sophisticated understanding of debt and how it affects and is experienced by different groups.

A Big Society approach – tackling problems of over-indebtedness requires action by a range of actors including creditors, individuals, the third sector and Government; advice services play a critical role in ‘oiling the wheels’ of a positive Big Society approach.

The full Year 3 Report is available at: www2.warwick.ac.uk/fac/soc/ier/research/current/debt.