

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

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Project Working Paper 2:

The Year 1 Report -

Executive Summary*

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*Please note: this is a three year project and the findings in this working paper will develop through to publication of the final report in 2010. The full working paper is available at - www2.warwick.ac.uk/fac/soc/ier/research/current/debt.

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Executive summary

This working paper presents findings from Year 1 of a longitudinal study of the impact of debt advice on low income households, based on in-depth interviews with 59 people who have received debt advice.

This working paper covers four key themes:

- the causes and experience of debt;
- dealing with debt and seeking advice;
- the experience and impact of debt advice; and
- issues for year 2 of the project (including the Year 2 draft topic guide).

However, it will be seen there that are number of issues that run through the working paper, including:

- the relationship between low income and debt;
- the effect of debt on people's well-being, especially expressed in terms of 'worry';
- the behaviour of creditors;
- barriers to seeking advice; and
- the extent, and limitations, of the impact of debt advice.

Chapter 1 - Introduction: the research and the policy context

At the time of writing, it is difficult to exaggerate the level of concern regarding debt. The Government's action plan for tackling indebtedness includes a wide range of points, but the key policy response to debt remains the provision of debt advice (debt advice in this project refers to the free provision of advice for people with debts, by not for profit organisations).

The impact of debt advice has been the subject of remarkably little previous research, although recent work by the Legal Services Research Centre is of particular interest.

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

Interviewees were involved via six not-for-profit advice providers: two Citizens Advice Bureaux, a national telephone helpline and three community-based independent advice providers.

Compiling the sampling frame was complex due to: capacity issues faced by advice providers; the dynamics around factors such as income level; and the reality of the experience of debt as an on-going not necessarily short-lived, discrete issue. This is a very difficult population to research.

The sample, even though consisting of only 59 people, is marked by very considerable diversity in relation to demographic and socio-economic characteristics, and level and type of debt.

Chapter 2 – The causes of debt

Two particular points are emphasised: low income (which includes a change of circumstances leading to low income); and a broad heading of 'credit' which includes the behaviour of both interviewees and creditors.

One group of interviewees ascribed their financial difficulties to mental health problems.

It is important to be aware both of the range of causes covered within these broad headings and that they are not mutually exclusive; the inter-connectedness of causes was critical for many interviewees.

The research suggests that debt, certainly in relation to seeking advice, is best understood not as a quantifiable set of financial circumstances but as a point where a person recognises their financial position is unsustainable and they can no longer manage.

In explaining how credit use became a problem of indebtedness (beyond low income/change of circumstances), interviewees cited: credit as a means of meeting basic needs; their own behaviour; and the behaviour of creditors.

Chapter 3 - The experience of debt

There was evidence of repayments taking very high proportions of household income; cutting back on spending and going without items was a major theme for interviewees.

Identifying the specific impact of debt, as opposed to low income generally, is difficult; debt is perhaps best understood as adding another dimension to the struggle to make ends meet.

It is difficult to convey the strength of the impact of debt on people's well-being; how it became overwhelming for people, completely dominating their lives. In particular, interviewees talked in terms of 'worry', which was a spectrum that ran from 'losing sleep' through to depression and even talk of suicide.

Interviewees identified a strong theme as being about the behaviour 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'.

Chapter 4 - Dealing with debt

People should not be categorised as responding to debt in one specific way: rather, there are a range of available options and people use different approaches, and combinations of approaches, at different times.

All the interviewees had at some point contacted their creditors but it was the willingness of creditors to accept offers that was critical; contacting creditors did not necessarily help resolve the situation.

Additional borrowing was a strategy pursued by many interviewees, and was a response to indebtedness suggested by many creditors.

Support by family and friends can be very significant.

A wide range of other strategies were employed by interviewees, from using assets to 'juggling payments', but did not provide an answer to indebtedness.

Some interviewees described themselves as having ignored problems or 'buried their head in the sand': however, 'doing nothing' should not be seen as a category of interviewees but rather a situation arrived at when other strategies had failed.

Chapter 5 - Seeking advice

The only interviewees who sought advice as an initial or early option were people who had previously sought advice.

There was a distinct group of interviewees who solely wanted specific information while others recognised their financial position was unsustainable either because of a specific trigger e.g. creditor action, or the more general impact debt was having on them.

The real issue was how long it was before people sought advice; some did so before there was an absolute crisis but other interviewees talked in terms of having reached a point of 'desperation' and 'hopelessness', and for them it was the intervention of a third party that was often critical.

The reasons why people did not seek advice sooner included: ignorance of available services; nervousness about approaching an advice provider when people had little idea what to expect; and debt advice being a last resort.

Seeking advice can be difficult when it is seen as representing failure, meaning the person could no longer manage their own finances and was unable to cope.

For the majority of interviewees, identifying an advice provider was not done on the basis of informed choice, and there was a strong sense of randomness.

Chapter 6 – The experience of debt advice

The overwhelming majority of interviewees were very positive about their experience of debt advice; fears about seeking advice proved unfounded, and interviewees were surprised and impressed by the service provided.

There were a very wide range of aspects of advice that people found helpful but three particular elements were found most helpful: having someone to talk to (with this including advisers being understanding, non-judgemental and sympathetic); being given information and the importance of options being explained (this was very important in meaning that people who approached an advice provider with a specific course of action in mind, often decided to pursue a different option); and being better able to deal with creditors (whether through practical tips and a sense of empowerment, or representation relieving the pressure of having to deal directly with creditors).

Interviewees were positive about service delivery other than there was a strong theme of difficulty of access in relation to face to face services.

The dominant view of interviewees was that improvements would best be achieved by greater promotion and awareness of the existence of service provision, and by services being more widely available.

Chapter 7 – The impact of debt advice

There were examples of debt advice having some very immediate impacts relating to dealing with crises, avoiding recovery action, improving well-being, and advice meaning interviewees did not have to follow a course of action they thought was undesirable but inevitable.

A strong theme expressed by interviewees can be described as debt advice leading to a person's financial position being made manageable or, in a phrase used by several interviewees, 'under control'.

Continuing financial difficulties meant worry remained an issue, even if a lesser one, and there are also issues as to the long-term impact of debt upon well-being even when the financial side of the problem has been dealt with.

Many interviewees said their approach to money management had changed, but there was a distinction between those who said this was directly attributable to the advice received, and those who said it was something they had done themselves.

A strong theme was of people seeing financial confidence/capability as irrelevant to their circumstances and the far greater theme was of debt as having severely affected interviewees' financial confidence, leading to a strong sense of financial conservatism. Eschewing credit completely was a strong theme.

In reflecting on what would have happened if they had not sought advice, the key theme for interviewees was of advice as changing the trajectory in which the person was headed.

There were only a small number of interviewees who said advice had not had any impact. Low income was an issue in that advice could not alleviate low income as a cause of debt, and there was ambiguity in relation to low income interviewees who wanted to maintain access to doorstep lenders who were critical in meeting needs. Other limitations included: debt as part of a broader set of (non-financial) circumstances and breakdown in communication between the interviewee and advice provider.

Chapter 8 – Year 2 of the project

Some interviewees identified specific changes they are likely to experience in the next year e.g. changes in household composition; some did not consider their circumstances were likely to change at all over the next year, or feared that their situation may worsen. Beyond this, interviewees had a wide range of individual plans.

In identifying what would help their financial position most over the next 12 months: some interviewees simply wanted stability; others said that only a significant increase in income would change their situation; others raised issues about the behaviour of creditors.

The over-riding aim of the year 2 topic guide will be to capture the dynamics of change, and the role of advice within those dynamics. The year 2 topic guide is included in chapter 8 of the full working paper.

The full working paper is available at:
www2.warwick.ac.uk/fac/soc/ier/research/current/debt.