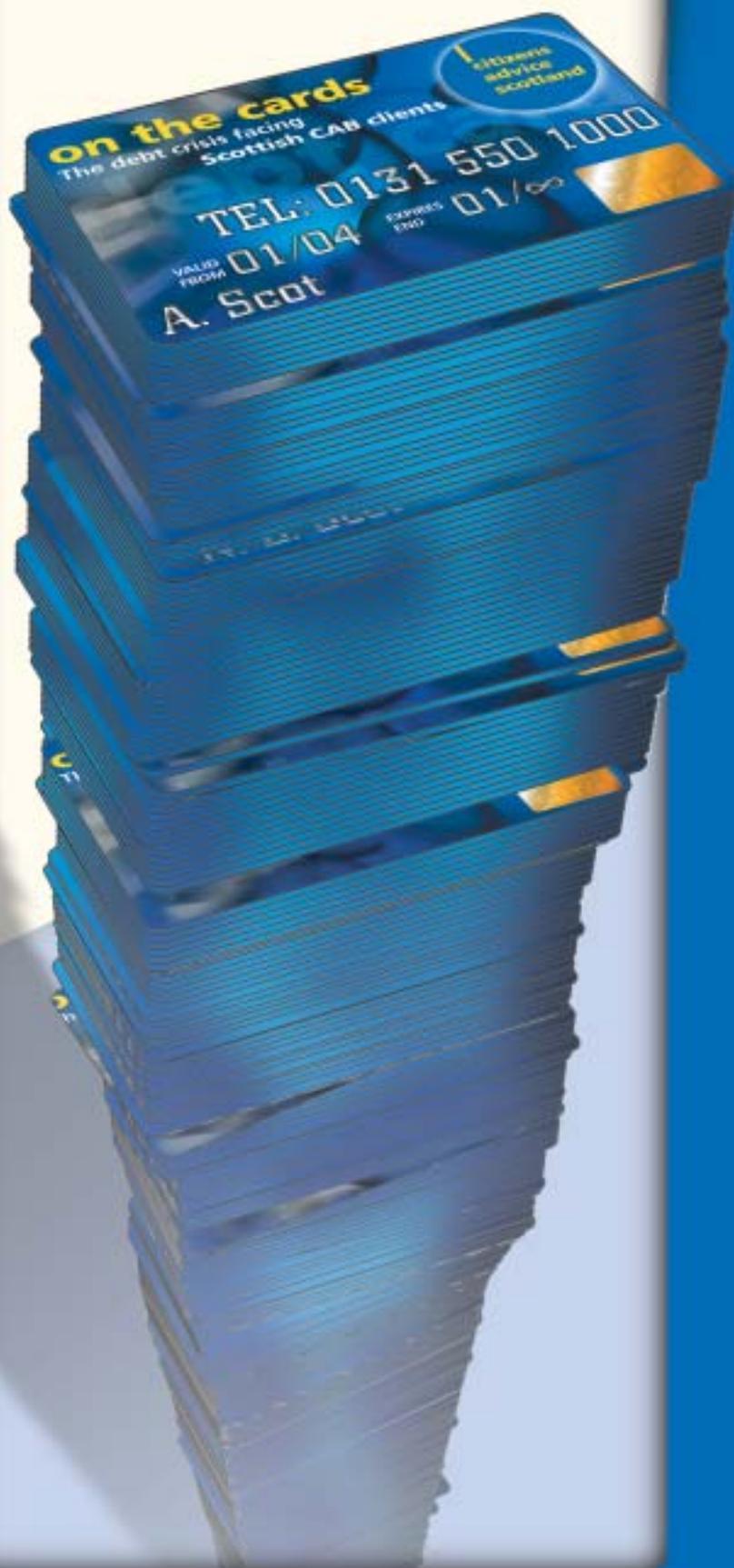


**citizens
advice
scotland**



on the cards

The debt crisis facing
Scottish CAB clients

Cathy Sharp

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux



On the cards

The debt crisis facing Scottish CAB clients

By Cathy Sharp

Citizens Advice Scotland and its 70 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 192 service points throughout Scotland, from the islands to city centres.

The CAB Service aims:

to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities, or of the services available to them, or through an inability to express their need effectively

and equally

to exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB Service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

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Glossary

Apparent Insolvency

A debtor petitioning for their own sequestration is required to demonstrate that they are apparently insolvent under the terms of the Bankruptcy (Scotland) Act 1985. This can be done, for instance, where a creditor has taken formal steps to pursue diligence for a debt owed by the debtor.

Attachment Order

A form of diligence that replaced poindings and warrant sales under the Debt Arrangement and Attachment (Scotland) Act 2002. An Attachment Order involves valuing the moveable goods held by a debtor *outside* their home and ultimately selling them. Note the differences between this and an Exceptional Attachment Order.

Bank Arrestment

A form of diligence that freezes a debtor's bank account, prior to either debtor agreement to pay the creditor or, failing that, a court order requiring the bank to pay money to the creditor. Bank details are not necessary to do a bank arrestment. A Sheriff Officer can present the name and address of the debtor to a bank and the bank is responsible, at its own cost, for establishing whether an account is held with them.

Benefit Debt

Debts relating to the payment of social security benefits are classified as benefit debts by CAB advisers. The main categories of benefit debt are loans from the discretionary social fund and overpayments of social security benefits.

Consumer Debt

Various forms of consumer credit or loans now in arrears whether or not the original credit or loan was directly linked to the purchase of consumer goods. Consumer debt includes personal or unsecured loans, cash loans, secured loans, hire purchase agreements, consolidation loans, overdrafts, credit cards, store cards and catalogue debts.

Credit Card

A credit card can be used to access a wide variety of credit facilities including purchasing goods on credit. Unlike store cards, their use is not limited to a particular retailer or group of retailers.

Debt Management

Organising repayment of multiple debts owed to creditors on orderly and regular terms agreed by all parties - often with the assistance of an adviser and usually by facilitating a plan for repayment by instalments which is calculated according to the debtor's means and the relative priority of the debts.

Debt Arrangement Scheme

A statutory scheme put in place by the Debt Arrangement and Attachment (Scotland) Act 2002 by which a debt repayment plan compiled during debt management may be formally approved and diligence prohibited while it is operating. Note that this is not yet in operation but is expected to be in force later in 2004.

Diligence

The legal procedures by which orders of the civil courts are enforced. In the case of debt, the procedures are available to a creditor awarded a decree for payment of a sum of money or to a local authority in pursuant of a summary warrant. Different forms of diligence apply to different types of property.

Earnings Arrestment

A form of diligence against a debtor's earnings, which allows a fixed proportion of the debtor's salary to be paid by the employer directly to the creditor in payment of the debt.

Employment Debt

A debt would be classified by a CAB adviser as an employment debt where it related to the client's employment. A typical example would be an overpayment of wages by the client's employer.

Exceptional Attachment Order

A form of diligence which replaced poindings and warrant sales under the Debt Arrangement and Attachment (Scotland) Act 2002. An Exceptional Attachment Order

involves valuing a debtor's non-essential¹ moveable goods from *within* a dwelling and ultimately selling them. Note the difference between this and an Attachment Order.

Housing Debt

Rent arrears, mortgage arrears and mortgage shortfall debts are classified as housing debt by CAB advisers.

Legal Debt

A debt is classified by a CAB adviser as a legal debt where it relates to the legal process. Typical examples would be Legal Aid debt or court-imposed fines.

Money Advice

A series of tools and professional strategies used by advisers to counter the problems encountered by clients in debt, which includes:

- a commitment to independent, impartial and high quality advice with financial problems
- a problem solving approach which recognises the respective rights and obligations of the parties to transactions which the client has entered into
- a holistic or 'whole person' attitude to the problems of the individual which takes into account factors such as health, housing conditions etc.
- a participative approach involving the individual in solving their problems and learning from the experience
- a professional attitude towards those credit companies and agencies, with whom advisers require to negotiate, which recognises the need for consistency and endeavours to build mutual respect.

This service achieves greater effectiveness when it is sensitive to, aware of, and can advise and assist with a range of other issues like employment, housing, relationship problems, disability, ill-health or substance abuse, which may contribute to - or be the root cause of - a debt problem itself.

¹ 'Non-essential assets' are defined in Schedule 2 to the Debt Arrangement and Attachment (Scotland) Act 2002.

Non-status Lenders

Non-status or sub-prime lenders lend to those who may find it difficult to get credit from mainstream sources, such as people in casual work, non-home owners and those with impaired credit ratings. They include doorstep lenders (lenders which operate a home collection service) and other licensed money-lending companies. Non-status lenders generally charge high interest rates. The term mainstream is used to apply to other lenders.

Ordinary Creditors

Term used to differentiate between local authority creditors and other creditors.

Payment Protection Insurance

Insurance taken out in relation to a credit agreement which is intended to provide continued payment of the contractual instalments for a limited period of time should the debtor lose their job or be unable to work through sickness or disability.

Poining (pronounced 'pinding')

A process conducted by a court officer by which moveable property was valued with a view to the sale of the property at public auction (warrant sale) to recover debt or transfer ownership of the property to the creditor. This procedure has now been abolished.

Priority Debts

Category used by CAB advisers. Usually council tax, rent and mortgage arrears and utility debts where non-payment risks loss of the home, disconnection of fuel supplies or repossession of essential goods.

Protected Trust Deed

Protected trust deeds were introduced by the Bankruptcy (Scotland) Act 1985. Debtors with surplus income can grant a protected trust deed in favour of a trustee, who will administer their assets for the duration of the deed. After successful completion, the debtor's liability for any remaining debts is discharged.

Sequestration

The process of bankruptcy in which control of a person's assets is transferred to a trustee who sells the property and distributes the proceeds amongst creditors.

Sheriff Officer

An officer of court appointed to carry out all warrants issued by the Sheriff Court, including warrants to do diligence. The officer is authorised to do so within a geographical area in which the court is located.

Storecard

A storecard provides access to credit with a particular retailer or group of retailers. Storecard agreements are usually entered into at the point of sale and generally have higher interest rates than credit cards.

Summary Warrant

A warrant issued by the sheriff court, in respect of payment assessed as liable by central and local government, which authorises specified forms of diligence.

Tax Debt

A debt is classified by CAB advisers as a tax debt if it relates to government tax matters. Where the term tax debt appears in the report, it mainly indicates council tax debt.

Utility Debt

A debt is classified by CAB advisers as a utility debt if it relates to gas, electricity or water supply or the use of telephone services, including mobile phones.

Warrant Sale

A process of removal of a debtor's goods (following a poinding) and sale of poinded articles authorised by a warrant of sale. This procedure has now been abolished.

Executive summary

Personal debt is at record levels in the UK. Consumer debt is consistently the biggest single issue that clients in Scotland bring to their local CAB and there has been a steep rise in consumer debt enquiries in the last two years. Government concern about this rising debt is reflected at UK level in recent proposals for new regulation of consumer credit. In Scotland, the abolition of poinding and warrant sales, changes to the legal processes by which debt can be enforced and forthcoming debtor protection in the form of a statutory Debt Arrangement Scheme make this research particularly important. It builds on previous research undertaken in 2001, which examined the extent and type of debts amongst CAB clients across the UK². The scale of debt, high debt to income ratios and the prevalence of multiple debts all have implications for the operation of the Debt Arrangement Scheme and other policy developments at both the UK and Scottish level.

Key findings

- Scottish CAB clients are in substantially greater debt than in 2001. Debt clients owe an average of £13,380, a 64% increase in the average level of client debt in Scotland since 2001. Over one in five clients have debts of more than £20,000.
- Consumer debt is almost universal amongst CAB debt clients in Scotland³. Over eight out of ten debts are consumer debts and nine out of ten clients have some form of consumer debt. Over half of all clients have at least one credit card debt and a similar number have a personal or unsecured loan. One in four clients has at least one storecard debt.
- The average number of debts is just over five. Only a fifth of clients have just one debt and over a fifth have more than eight debts.
- Council tax debt, rent and mortgage arrears and utility debts are still significant and impact on clients' ability to service all their debts and the way they prioritise debts. Nearly nine out of ten debts are owed to mainstream creditors.

² *In too deep, CAB clients' experience of debt.* Citizens Advice and Citizens Advice Scotland, May 2003

³ Consumer debt includes personal or unsecured loans, cash loan, secured loans, hire purchase agreements, consolidation loans, overdrafts, credit cards, store cards and catalogue debts.

- Credit card debt dominates and is spread across all social groups amongst CAB clients. The extent of consumer debt may reflect the use of credit and loans to pay off other debts, including priority debts such as rent or mortgage arrears and utility bills. Credit card debt is as much a debt of poverty as a tool of financial management.
- Average incomes amongst clients in debt have risen slightly since 2001 and there is now a greater spread of income amongst debt clients. While debt is not just an issue for the poorest, over half of CAB debt clients have monthly incomes of less than £800, and almost one quarter have incomes under £400. CAB debt clients are considerably poorer than the population of Scotland as a whole. Over half of CAB debt clients have no income other than pensions or benefits. Nearly half are social housing tenants, and clients are more likely to be unemployed, sick or disabled than the population as a whole.
- Debt stress has increased significantly since 2001. The average debt to income ratio is now 21.9 compared to 11.5 in 2001. This means that for every £1 of monthly income clients owe nearly £22. The median debt to income ratio is now 12.1 compared with 6.8 in 2001⁴. This means that half of all clients have debts of up to twelve times their monthly income and half greater than that.
- Many people do blame themselves for their debts, but for others the situation is connected to low income, a drop in income, job loss and illness or disabilities. A drop in income and a low income have become more common reasons for debt than in 2001. These factors reflect both lower Scottish incomes than the UK as a whole and debtors' exposure to unanticipated changes in circumstances.
- Lenders must also share the responsibility. Easy access to credit, irresponsible lending and high credit charges also contribute to the situation. Over a third of clients mention easy access to credit as a reason for debt and over one in seven say that high interest rates or credit charges are a cause of debt. More than half of clients face regular charges for being in arrears, which exacerbate the problem. In addition, arrangement fees for repayment plans penalise those who are trying to deal with their debt responsibly.

⁴ This gives a more accurate picture of the relationship between debts and income than the average.

- Creditors are more likely to be taking some action to recover debt by the time the client seeks advice than in 2001, and this is particularly true in cases of priority debts. However, over a fifth of creditors had taken no steps to recover the debt at the time the client sought advice.
- One in four clients reported that they had experienced behaviour or language that sought to pressurise them and one in six had been threatened with formal debt recovery action without court authority. Clients are also frequently under pressure to take on further borrowing. These kind of actions can be very distressing for clients.
- There were few examples of the use of bank arrestments and earnings arrestments, suggesting that most creditors prefer informal recovery methods. There is some case evidence that Sheriff Officers, in particular, are using the threat of attachment to elicit payment in the same way that they used the threat of poindings and warrant sales, relying on debtors' ignorance of the new protections.
- The Scottish Executive's Debt Pack is not yet reaching its target group; fewer than one in five of debt clients that should have seen the Debt Pack had done so.
- Debt is a stressful experience. Whilst CAB clients want to repay what they owe, it is evident that some clients will not be able to repay their debts due to their sheer scale and number. More older people now have debt than previously and either age or the lack of a prospect of an improvement in financial circumstances means that some people will never be able to repay in full.
- Given the scale and complexity of debt in Scotland and the debtor protection provisions of the Debt Arrangement Scheme, existing pressures on advice services are likely to continue.

Recommendations

The scale of debt, high debt to income ratios and the prevalence of multiple debts have widespread implications for policy at UK and Scottish level and for the operation of the

Debt Arrangement Scheme (DAS). On the basis of this evidence, a number of recommendations are made as follows:

- There is clearly a need for greater consumer protection, particularly for low income clients. We hope that the proposals developed following the recent White Paper on the consumer credit market will address these issues. Creditors should consider all the available evidence about existing commitments as a whole, before extending new credit or increasing the limits on existing facilities. It is important that debt is treated holistically in situations where multiple debt is a common situation.
- We welcome guidance issued by the OFT on debt collection and expect it to be stringently enforced and regularly reviewed.
- The Scottish Executive should review the arrangements for the statutory Debt Arrangement Scheme which will be inaccessible to low income debtors as they are unlikely to have sufficient surplus income to make repayments. They should introduce pilots, as permitted by the legislation, to address the issues raised in this report.
- The Scottish Executive should clarify the circumstances in which creditors are required to distribute the Debt Pack and keep this under review to ensure those facing a debt crisis have access to the information they need.
- The proposal that applicants to the Debt Arrangement Scheme should have access to free money advice to negotiate and prepare applications will stretch existing resources. The Scottish Executive should ensure that there is sufficient provision of high quality money advice, keep this under review and guarantee that resources are made available to cope with the increased demand.
- There is a need for the development of alternatives to high-cost credit. Financial institutions should develop simple and straightforward credit products which meet the needs of low income consumers. This could be in partnership with Credit Unions, social landlords and other agencies.
- Extensive reform of the Social Fund is needed to improve access to the fund and to ensure that it provides help for people when they need it most. Eligibility

should be extended for community care grants and budgeting loans to enable them to better meet the needs that arise at particular life events, with repayment permitted at modest rates.

- Some form of social lending is needed as in other European countries, and as suggested by previous research⁵. This could provide credit to people who would otherwise tend to use extortionate credit. Both the Social Fund and Credit Unions have the potential to give low income households access to cheap credit.
- In drafting relevant new legislation, both Parliaments should look for opportunities to encourage and signpost people to seek advice at the earliest opportunity.
- Both the UK government and Scottish Executive should publicise the debtor protection measures. This should include reference to OFT guidance and the debt protection element of the Debt Arrangement and Attachment (Scotland) Act 2002. There should also be on-going publicity about the need to seek advice at the earliest opportunity particularly where circumstances change.

About the research

This research for Citizens Advice Scotland explores the scale and nature of debt amongst Citizens Advice Bureaux (CABx) clients. It is based on a survey (see Appendix 2) of debt clients during September-October 2003 in a sample of 13 CABx across Scotland and supplemented by case evidence that demonstrates the impact of debt on clients.

⁵ *Extortionate Credit in the UK - A report to the Department of Trade and Industry*, Elaine Kempson and Claire Whyley - June 1999, available at: <http://www.dti.gov.uk/ccp/topics1/extortionate.htm>

Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 70 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout the country. This report is based on the findings of recent research by CAS which explores the scale and nature of debt amongst CAB clients in Scotland and examines client experiences of debt recovery in the new environment created by the Debt Arrangement and Attachment (Scotland) Act 2002.
2. It is based on a survey of debt clients in Scotland during September-October 2003. In addition, evidence is drawn from CABx social policy statistics and anonymised case evidence submitted to the CAS social policy team, based on local cases that indicate wider concerns and problems. Full details of participating CABx and the methodology are in Appendix 1.

Background to the research

The scale of debt

3. Personal debt is at record levels in the UK. Consumer credit outstanding to individuals rose from £52.3 billion in October 1993 to £168.1 billion ten years later. Of this, credit card debts rose from £9.9 billion in October 1993 to £52.4 billion in October 2003⁶.
4. These amounts do not include sums outstanding in unpaid council tax, rent and mortgage arrears, utility bills and other debts. Whilst comprehensive information is not available for all of these outstanding debts, there are some indicators of the difficulties that exist. Recent research by the Scottish Executive addresses the lack of information on mortgage arrears and repossessions in Scotland⁷. This produced an estimate of about 3,800-4,000 repossession cases in 1999 and suggests that a Council of Mortgage Lenders figure of a 70% increase in repossessions between 1994-1999 may be a reasonably reliable estimate. The research also notes that low income borrowers are particularly at risk of repossession.
5. Council tenants' rent arrears have also continued to rise. There was a 10% increase from the £37.4 million outstanding in 1999/00 to £42 million at the end of 2000/01⁸. Audit Scotland reported that in 2001/02, £29 million⁹ in rent was in arrears at the end of that year¹⁰. Figures for housing association arrears suggest that at least £29.3 million was outstanding at March 2003, although again this figure is not based on comprehensive data¹¹. Some indication of difficulties in paying for utility services can be gleaned from figures that show there has been a twenty-fold increase in electricity and gas disconnections for debt in Scotland, from 40 disconnections in 2001 to 735 in the first nine months of 2003¹².

⁶ Bank of England figures, net unsecured lending to individuals <http://213.225.140.30/statistics.htm>

⁷ *Mortgage Arrears and Repossessions in Scotland*, Social Research Scottish Executive, 2002. Available at: <http://www.scotland.gov.uk/library5/social/mars.pdf>

⁸ Accounts Commission 2002, see page 12, <http://www.audit-scotland.gov.uk/publications/pdf/2003/publist.pdf>

⁹ note this figure excludes Glasgow City Council.

¹⁰ see <http://www.audit-scotland.gov.uk/news/Press%20releases/rentarrears03.pdf>

¹¹ see <http://www.communitiesscotland.gov.uk/communities36/Web/Site/Whatwedo/StatisticalInformation.asp>

¹² Energywatch, press release, 3 December 2003 see

http://www.energywatch.org.uk/news_room/release.asp?article_id=526&article_type_id=3

6. Recent figures published by the Accounts Commission show that over £554m council tax remains outstanding for the period 1996-2003¹³. As at 30 June 2003, there is also £443m of uncollected community charge¹⁴, which local authorities are not permitted to write off.

Debt in Scotland – existing information

7. Analysis of the CAB Service's social policy statistics (which records the nature of every enquiry made to a CAB in Scotland) shows that in 2001/02, 14.7% or one in seven of all enquiries related to debt, a figure which has been increasing over the previous years. Figures for the first two quarters of 2003/04 show that this has now risen slightly to 15.7%. Consumer debt is consistently the biggest single issue that clients in Scotland bring to their local CAB¹⁵. In 2001/02, consumer debt accounted for 62.1% of all debt enquiries. The following year, this had risen to 67.1% and, by the first two quarters of 2003, consumer debt made up 68.6% of all debt enquiries, demonstrating a steep rise in consumer debt enquiries in the last two years.
8. The increase in debt enquiries may partly reflect the greater capacity of CAB to deal with such enquiries as particular funding becomes available for specialist money advisers. In 2002, £0.824 million was made available for money advice in 46 CABx in 20 local authority areas across Scotland¹⁶. There is mixed provision of money advice across the country. Debt enquiries are dealt with by CAB advisers and in some places there are dedicated money advisers.
9. Figure 1 shows the breakdown of different types of debt enquiries made to CABx in 2002/03, the last full year for which figures are available.

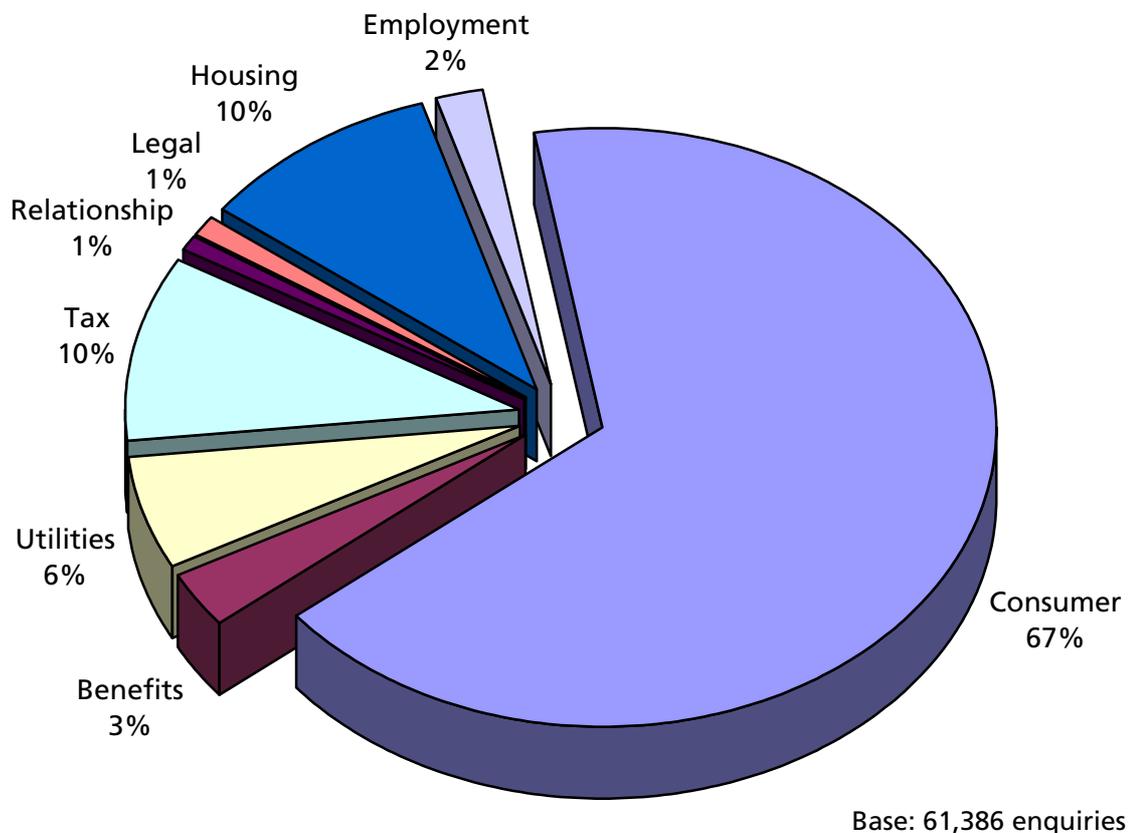
¹³ *Corporate management Performance Indicators 2002/03 Comparing the performance of Scottish councils*, Audit Scotland, 2004 available at: <http://www.audit-scotland.gov.uk/publications/index.htm>

¹⁴ Source: Local Government Finance Statistics, Scottish Executive, personal communication 19.01.04

¹⁵ *What's at issue?* A breakdown of the enquiries that people brought to Scotland's Citizens Advice Bureaux in 2001/02, CAS.

¹⁶ See Appendix 3: Additional resources for local money advice provision, in *Enforcement of Civil Obligations in Scotland – a response from Citizens Advice Scotland*, Susan McPhee, CAS, July 2002.

Figure 1: Types of debt 2002-03 – all CABx



10. In 2002/03, consumer debt accounted for over two thirds of all debt enquiries. Housing and tax debts (largely council tax), accounted for one in ten debt enquiries each. Utility, benefit, relationship, legal, and employment debts each represent a very small proportion of total debt enquiries. The nature of the credit industry and the wide range of different types of consumer debt mean that it is important to explore the distinctions and differences contained within the broad category of consumer debts. This encompasses both mainstream and non-status lenders and a wide range of credit products including secured and unsecured loans, cash loans from doorstep lenders, overdrafts, credit cards, catalogues, storecards, consolidation loans and hire purchase agreements.

The UK policy response

11. Concern about this rising debt is reflected at Government level through a number of policy initiatives over recent years. The Department of Trade and Industry (DTI) Task Force on Overindebtedness was set up in October 2000 to address concerns about

consumer debt in the UK by considering ways of achieving more responsible lending and borrowing.

12. The first report of the Task Force in July 2001 noted “a cultural change in society in recent generations from a *‘save first, spend later’* approach to one of *‘borrow now and repay later’*”. The report identified a lack of recent research into the extent and nature of consumer debt and overindebtedness¹⁷. Subsequently the DTI has commissioned research into the causes, extent and effect of overindebtedness¹⁸. Compared with a similar survey in 1989, this found that more households had credit facilities but the proportion actually using those facilities to borrow was about the same. Most households used credit modestly and as a tool to facilitate budgeting. However, the research found that the amounts owed by credit users were significantly higher. Whilst high levels of borrowing are problematic for only a small number of people, a far greater number than previously would be at risk of debt in an economic downturn, or if there are sustained increases in interest rates.
13. A second report of the Task Force was issued in January 2003¹⁹. This reported the findings of the working groups set up in response to recommendations in the first report and the findings of qualitative research undertaken for the working groups. This report highlighted the need for lenders to ensure that they consider all the available evidence about consumers’ commitments as a whole before extending new credit facilities or increasing the limits on existing facilities. Consumers are also encouraged to assess how their income and commitments weigh up in the light of the likely risks increased by the extent of existing credit commitments and the proportion of income already spent on servicing consumer credit.
14. However, concerns about lending practices and financial difficulties caused by overcommitments have to be seen in the broader economic context in which credit-fuelled spending is key to the state of the economy. This was well expressed recently in an Independent on Sunday article:

¹⁷ *Report by the Task Force on Tackling Overindebtedness*, Consumer Affairs Directorate, July 2001. Available at: <http://www.dti.gov.uk/ccp/consultpdf/review.pdf>

¹⁸ *Household Survey on the Cause, Extent and Effects of Overindebtedness*. MORI and the University of Bristol, November 2002, available at: <http://www.dti.gov.uk/ccp/topics1/overindebtedness.htm>

¹⁹ *Second Report of the Task Force on Tackling Overindebtedness*, Consumer and Competition Policy Directorate, Department of Trade and Industry, January 2003 available at: <http://www.dti.gov.uk/ccp/topics1/pdf1/2ndreport.pdf>

*“Consumer credit helped keep the UK out of the latest recession which swept across most of the developed world, and if all those loans were suddenly called in, the high streets and shopping centres would turn into ghost towns”.*²⁰

15. Whilst the use of credit is universal, the growth in demand for credit has been a factor in the development of the non-status credit market. The DTI commissioned research to determine whether extortionate credit is a significant problem for consumers in the UK, which consumers are most vulnerable to it and what steps could be taken to alleviate the problem. This found that extortionate credit was not the preserve of non-status lenders;

*“Only a relatively small number of people have loans whose costs terms and conditions would be considered extortionate, these are, however, the most vulnerable people in society who are prey to unscrupulous lenders. In addition, however, several million more people have loans with specific terms and conditions that could be considered extortionate, even though they are dealing with reputable companies”*²¹.

16. The DTI research also highlighted the deficiencies of the existing legal framework and found inadequacies at all levels of the enforcement process, with both trading standards departments and the Office of Fair Trading (OFT) unable to collect the level of proof required to revoke a licence or to prosecute unlicensed lenders:

“On the whole, the Consumer Credit Act 1974 has proved inadequate to deal with many of the current extortionate practices. Few cases are brought to court, because the onus rests with borrowers to initiate proceedings. The wording of the Act is too imprecise and the judicial decisions have been based on a restrictive interpretation of its provisions. The penalties of the Act are inadequate for dealing with extortionate bargains, with persistent offenders or with unlicensed lenders”.

17. Coinciding with the first Task Force report, the DTI announced a major package of proposals. This included a review of the Consumer Credit Act (1974) and proposals for extra powers for the OFT and the courts to clamp down on loan sharks that prey on

²⁰ Andy McSmith, Independent on Sunday 7 December 2003

²¹ *Extortionate Credit in the UK - A report to the Department of Trade and Industry*, Elaine Kempson and Claire Whyley - June 1999, available at: <http://www.dti.gov.uk/ccp/topics1/extortionate.htm>

vulnerable consumers²². CAS welcomed these proposals and provided evidence on the need for changes in the licensing regime, extortionate credit, responsible lending, marketing, consolidation loans, early settlement regulations and other areas for reform²³.

18. Citizens Advice Scotland later produced an evidence report on creditor behaviour that examined the problems which CABx clients face when creditors try and recoup debts informally, rather than going through formal court processes. This highlighted problems of harassment and threats of legal action that could not happen because of a lack of court authority as well as threatened action in the English courts²⁴. CAS has also responded both to the OFT consultation on guidance for consumer credit licence holders and applicants²⁵ and the DTI consultation on the licensing regime of the Consumer Credit Act²⁶.
19. The overall response to the consultation on reform of the Consumer Credit Act demonstrated strong support for the extension of consumer protection and, since that time, there have been a number of further consultation papers issued on detailed proposals, culminating in the publication of the recent White Paper²⁷. This proposes new regulation of consumer credit to strengthen the provisions governing credit licences, putting debt management companies and rogue moneylenders under closer scrutiny. The OFT will have the power to fine moneylenders and conduct surprise raids on debt companies. Lenders will have to provide comparable information on interest rates and penalties and there will be a single method for calculating the annual percentage rate.
20. There is also a further consultation process on the draft regulations detailing the changes proposed for consumer credit advertising, the form and content of credit agreements, the early settlement of credit agreements and facilitating the conclusion of credit agreements over the internet. This is due to complete in March 2004.

²² *Tackling loan sharks - and more...* Consultation Document on Modernising The Consumer Credit Act 1974, Department of Trade and Industry, July 2001

²³ *Tackling loans sharks and more.* A response from Citizens Advice Scotland, Susan McPhee, CAS, September 2001

²⁴ *Would you credit it? – creditor behaviour in Scotland:* a report by Citizens Advice Scotland, CAS, December 2001

²⁵ *Debt Collection Guidance for Consumer Credit Licence Holders and Applicants:* a consultation paper response by Citizens Advice Scotland, CAS, February 2003

²⁶ *Review of the Consumer Credit Act 1974: Consumer Credit Licensing – the evidence of Citizens Advice Bureaux clients in Scotland.* CAS, May 2003

²⁷ *Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century,* Department of Trade and Industry, Cm 6040, December 2003

The Scottish policy and legislative context

21. In the midst of these UK wide policy developments there have also been recent policy developments and legislative changes in Scotland that make this research particularly timely.
22. A Member's Bill to abolish the diligence of poinding and warrant sale was brought forward early in the Scottish Parliament. Diligence is the legal process by which orders of the civil courts in relation to debt are enforced. The procedures are available to a creditor awarded a decree for payment of a sum of money. The Scottish Executive established a broad-based working group, on which CAS was represented, to look at alternative forms of diligence. The group's remit was:

*"To identify a workable and humane replacement diligence against moveable property to that of poinding and warrant sale and to make recommendations for implementing legislation to be brought forward during the Parliamentary session 2001/02."*²⁸
23. The working group reported in July 2001, with CAS recording its opposition to some of the proposals in the report, particularly the introduction of Exceptional Attachment Orders.²⁹ The Debt Arrangement and Attachment (Scotland) Bill, issued in May 2002, implemented the main recommendations of the working group in order to provide an alternative to poindings and warrant sales³⁰. The Scottish Executive also issued a consultation document on the law of diligence in Scotland in April 2002 which set out proposals for reform of court-based debt recovery procedures and organisation of the enforcement system³¹. This includes details of the proposed statutory Debt Arrangement Scheme, reform options for bank arrestments and recognition of the need for advice and information as a way of combating debt problems.
24. The Debt Arrangement and Attachment (Scotland) Act 2002 has changed the legal processes by which debt can be enforced in Scotland, by abolishing poindings and warrant sales and introducing two new forms of enforcement –Attachment Orders (AOs) and

²⁸ *Striking the Balance: a new approach to debt management*, Scottish Executive July 2001, available at: <http://www.scotland.gov.uk/library3/justice/stbf-03.asp>

²⁹ Op cit.

³⁰ See SPICE briefing 02/60, 23 May 2002 for a full explanation of the existing law and proposed reforms. Available at: http://www.scottish.parliament.uk/S1/whats_happening/research/pdf_res_brief/sb02-60.pdf

³¹ *Enforcement of Civil Obligations in Scotland — a consultation document*, Scottish Executive, April 2002 available at: <http://www.scotland.gov.uk/consultations/justice/CivOb.pdf>

Exceptional Attachment Orders (EAOs). The legislation also introduced various forms of debtor protection designed to encourage debtors to seek advice and to prevent EAOs being used against those who cannot afford to pay their debts.

25. The Act introduced an outline framework for a debt arrangement scheme, developed through consultation on draft regulations. CAS has been an advocate of debt arrangement schemes for some time and submitted a proposal for creating one to the Scottish Executive in 2001³². The statutory Debt Arrangement Scheme will be the last part of the 2002 reforms to come into place. The *Enforcement of Civil Obligations in Scotland* consultation sought views on the proposed structure of a debt arrangement scheme and an initial analysis of responses was published in November 2002³³. A secondary consultation on the draft regulations that will govern the scheme was completed in October 2003, as the present research was underway. It is intended that the Debt Arrangement Scheme will allow debtors with multiple debts to repay them, and provide a bargaining tool to ensure that creditors co-operate. However, CAS has highlighted a number of concerns, not least that the main scheme will not be accessible to those on very low incomes³⁴. The Debt Arrangement Scheme is not yet in operation, and this research gives an indication of whether it may be expected to assist CAB clients in debt.
26. There are a number of details in the way that the new legislation works that may change wider debt enforcement practice, and this research examines whether and how these provisions are being deployed by creditors to recover debt. One of the protections introduced in the EAO process is that creditors should have tried to obtain a bank or earnings arrestment before moving to an EAO. Earnings arrestments are a form of diligence against a debtors earnings. The practical effect of a bank arrestment is to freeze a debtor's bank or building society account, prior to either debtor agreement to pay the creditor or, failing that, a court order requiring the bank to pay money to the creditor. Other developments may also influence the use of bank arrestments. Increasingly social security benefits are paid directly into bank accounts and the Department for Work and Pensions intends that all benefits will be paid directly into bank accounts by 2005. Tax

³² *Enforcement of Civil Obligations in Scotland – a response from Citizens Advice Scotland*, Appendix 2, Susan McPhee, CAS, July 2002

³³ *Enforcement of Civil Obligations in Scotland: Analysis of Consultation Responses*, Scottish Executive Social Research 2002 available at: <http://www.scotland.gov.uk/library5/justice/ecos.pdf>

³⁴ http://www.cas.org.uk/Change/CAS_comments/Debt_Arrangement_Scheme/debt_arrangement_scheme.html

credits are also paid directly into bank accounts. Given that the administrative burden of effecting a bank arrestment falls on the bank rather than the creditor, these factors may increase the use of bank arrestments.

27. Although earnings arrestments can be an effective way of recovering money from debtors, they require a creditor to be in possession of current employment details, which is not always the case. In addition, other creditors can apply for a share of money recovered through an earnings arrestment, in what is called a ‘conjoined arrestment’. At present, bank and earnings arrestments are generally used by local authority creditors and it seems likely that this pattern will continue, unless they see either a threat of or actual sequestration as a better option to recover debts. Indeed, despite the perceived stigma, sequestration may be a better option for a debtor, especially if they have no assets and are not home owners. Given that local authorities are required to pursue debts as far as possible before writing them off, it may be that there will be more sequestration actions, or that at least the threat of them will be used increasingly.
28. Attachment Orders can be used by any creditor to seize goods *outwith* the dwelling, such as cars (where permitted by legislation) and garden furniture, which are then sold to recover the debts. At present, these are generally used by local authority creditors and CABx experience suggests that they are of limited use due to the fact that many people do not have such goods. Exceptional Attachment Orders relate to the attachment of articles *within* a dwelling and are only meant to be used in exceptional circumstances. The EAO procedures involve the courts to a greater degree than poindings and warrant sales and are intended to catch debtors who are wilfully not paying, rather than those that cannot pay. Because of the greater number of procedural steps involved in an EAO, they may not be used very often and this may influence creditors’ willingness to negotiate with debtors before moving to enforcement action.
29. One of the key recommendations of the working party that advised the Scottish Executive on the Debt Arrangement and Attachment (Scotland) Bill was that debt advice and information should be made freely available to debtors at the earliest opportunity. The Scottish Executive has published a debt advice and information pack (entitled ‘Dealing with Debt’) which is referred to as the Debt Pack, designed to meet this aim³⁵. This signposts debtors to free money advice services and encourages the debtor to seek

³⁵ see <http://www.scotland.gov.uk/library5/justice/dwdl-00.asp>

help and advice and to communicate with their creditors with a view to avoiding court action where possible. It is intended that creditors should distribute the pack when seeking to take formal action to recover debt. It was issued in December 2002 and is the subject of an on-line discussion forum until June 2004³⁶. This research examines the initial reach of the Debt Pack amongst the target group. The Scottish Executive proposes to undertake an evaluation of the Debt Arrangement and Attachment (Scotland) Act 2002 and the Debt Arrangement Scheme during 2004.

30. Most recently, proposals for new legislation to modernise and improve the bankruptcy system in Scotland have been published for consultation³⁷. These proposals aim to reduce the stigma of bankruptcy and 'encourage responsible risk-taking', whilst providing protection from fraud. They also encourage people to seek debt advice early to avoid the serious consequences of bankruptcy. Additionally, it is likely that there will be reform of bank arrestments to be brought before the Scottish Parliament in the current legislative term.

A profile of Scottish debtors in 2001

31. In 2001, CAS took part in joint research on debt with the Office of Fair Trading, the National Association of Citizens Advice Bureaux (now known as Citizens Advice) and the Northern Ireland Association of Citizens Advice Bureaux³⁸. Sixty-two CABx across the UK took part in a survey of new debt clients during May 2001, including six CABx in Scotland. The survey aimed to examine the extent and types of debts owed by clients in response to reported substantial increases in the number of debt enquiries across the UK. This previous research is referred to many times in the present research, for comparative purposes. It is always referred to by the title of the final report, *In too deep*.
32. *In too deep* showed that there had been a dramatic shift in the type of debts that clients sought advice about over the previous ten years. A decade before, CABx were typically dealing with clients who had as many priority debts as credit debts. Non-payment of priority debts risks loss of the home, disconnection of fuel supplies or repossession of essential goods. But the research found that by 2001, CABx were dealing with people

³⁶ see <http://www.scotland.gov.uk/library4/JD/AJDEC-Dilig/00017647.aspx>

³⁷ *Personal bankruptcy reform in Scotland: a modern approach*, Scottish Executive 2003, available at: <http://www.scotland.gov.uk/library5/justice/pbrs-05.asp>

³⁸ *In too deep, CAB clients' experience of debt*. Citizens Advice and Citizens Advice Scotland, May 2003

who had considerably higher numbers of credit debts, including mortgage arrears, council tax arrears, credit card debts and personal loans.

33. *In too deep* also provided an insight into the distinctive circumstances of Scottish debtors. The average total debt of the sample of Scottish clients was lower and Scottish clients had slightly fewer debts. Scottish incomes were also lower than in the UK as a whole, although a similar proportion was unwaged. Debt to income ratios were also lower in Scotland than in the UK as a whole, reflecting both lower incomes and fewer debts.
34. At that time, more Scottish clients in debt were council tenants and fewer were homeowners, which may affect access to mainstream credit. Scottish CAB clients were particularly more likely to attribute their debts to low income, job loss and a drop in income than elsewhere. Despite this, Scottish clients were more likely to have taken on further borrowing or made greater use of existing credit to manage their budgets. The use of further credit, particularly extortionate credit, may be an indicator of poverty. Some people on low incomes may use small loans to tide them over, whilst others may be looking to consolidate their debts. Such strategies have been called '*necessitous borrowing for the management of poverty rather than the facilitation of affluence*'³⁹.
35. For those on low incomes there are few sources of credit that might avoid debt problems becoming unmanageable. Most credit products are not specifically designed with the needs of low income consumers in mind. The failure of the Social Fund to help the poorest in society has been demonstrated⁴⁰. The House of Commons Social Security Select Committee examined the role of the Social Fund in tackling financial exclusion and expressed concern at the extent to which poor people are trapped in the alternative credit market, effectively kept in poverty by high levels of debt. The Committee concluded that the Social Fund needed '*urgent overhaul and an injection of funds*'⁴¹. The recommendations of the Social Exclusion Unit PAT14 report on access to financial services that access to the Social Fund should be widened were also supported by the committee.⁴².

³⁹ OFT, 1991 quoted in *Extortionate Credit in the UK - A report to the Department of Trade and Industry by Elaine Kempson and Claire Whyley* - June 1999. Available at: <http://www.dti.gov.uk/ccp/topics1/extortionate.htm>

⁴⁰ *Unfair and Underfunded – CAB evidence on what's wrong with the Social Fund*, Citizens Advice, October 2002.

⁴¹ *Select Committee on Social Security – Third Report*, 27th March 2001. Available at: <http://www.parliament.the-stationery-office.co.uk/pa/cm200001/cmsselect/cmsocsec/232/23202.htm>

⁴² Op. cit.

36. As well as the continued increase in the number of debt enquiries, the incidence and changing nature of debt is worth further investigation and suggests that it is timely to build on existing research and evidence to provide a more detailed profile of debt amongst CABx clients in Scotland. This update of the nature of debt and the circumstances of debtors in Scotland will be valuable in assessing the initial impact of the recent legislative changes and the likely impact of the introduction of the debt arrangement scheme and other policy developments at both the UK and Scottish level.

Research findings

The profile of CAB debt clients in 2003

37. This section examines the profile of Scottish CAB debt clients, by age, gender, disabilities, household type, housing tenure and income⁴³. This allows comparisons between CAB clients and the population as a whole, to see whether debt problems affect some groups more than others⁴⁴. Where possible the findings will also be compared with those of the *In too deep* survey of debt clients undertaken across the UK in May 2001⁴⁵.
38. Service-wide CABx statistics show that the profile of CAB clients⁴⁶ closely resembles that of the Scottish population, reflecting that there are more women in the adult population in Scotland than men. However, Table 1 shows that men and women sought advice about debt in equal proportions, which suggests that men are more likely to have debt than women.

Table 1: Gender distribution of CAB debt clients compared to all CAB clients and the Scottish population

Gender	CAB debt clients 2003 %	General CAB client profile %	SHS 2001/02 %
Male	50	45	44
Female	50	55	56

39. Table 2 shows that, in terms of age, debt clients also differ both from all CAB clients and from the population of Scotland as a whole. Debt clients were slightly more likely to be of working age or aged between 16-24 years old than all CAB clients and considerably more likely to be in these age groups than the population as a whole.

Table 2: Age distribution of CAB debt clients compared to all CAB clients and the Scottish population

Age	CAB debt clients 2003 %	General CAB client profile %	SHS 2001/02 %
16-24	13	11	11
25-59	73	71	59
60+	14	18	29

⁴³ In over 75% of cases the person making the inquiry at the CAB is the one with legal liability for the debts in question. In 20% of cases, the debts are the joint liability of the client and their spouse or partner or the sole liability of that partner. In around 3% of cases, the debt is that of a former spouse or partner or another person.

⁴⁴ Based on the Scottish Household Survey 2001/02

⁴⁵ *In too deep, CAB clients' experience of debt*. Citizens Advice and Citizens Advice Scotland, May 2003

⁴⁶ Figures for general CAB client profiles (ie all CAB clients, as opposed to the debt clients interviewed in this research) are taken from the CAB Service client profile 2000/01

40. It is likely that those of working age will have higher incomes, more ready access to credit and a greater willingness to use it than both younger and older people. The *In too deep* research reported that four out of five debt clients were of working age. Although older people in the present survey appear to be under-represented amongst those in debt compared to their numbers in the population, a comparison with the 2001 survey suggests that of those in debt now, more are older people than previously. The 2001 survey found that only a small proportion of CAB debt clients were over 60 years old and reported that 13% were aged 55 or over; this compares with 14% aged 60 years or more in this survey.
41. Table 3 shows the household composition of CAB debt clients. This shows that the largest group of clients was single adults which comprised 43% of all debt clients, although they make up 31% of the population. There are more male single households than female and correspondingly more female single parents. Thirty seven percent of households in debt had children. This is a higher proportion than the number of households with children in the Scottish population as a whole, which is 27%.

Table 3: Household composition of CAB debt clients

Household composition	CAB debt clients 2003 %
Single adult	43
Couple no children	15
Single adult with children	20
Couple with children	17
Other households	6

42. Table 4 shows that CAB debt clients differ quite starkly from the population of Scotland as a whole in terms of their housing tenure and, in some respects, differ from the general CAB client profile. They are less likely to be owner occupiers and significantly less likely to own their home outright than the population as a whole. Nearly half of debt clients are social housing tenants, renting from a local authority or housing association. This is a similar proportion to that in the 2001 *In too deep* research, which found that in Scotland over half of debt clients were tenants of social landlords. However, in this latest survey, debt clients are particularly more likely to be renting from a housing association and less likely to be council tenants than all CAB clients, reflecting changes in the provision of social housing. A large minority of debt clients are living in other circumstances, mostly with parents, family or other temporary arrangements. This may reflect their personal and financial situation, perhaps involving a change of circumstances, of which debt is a part.

Table 4: Tenure distribution of CAB debt clients compared to all CAB clients and the Scottish population

Tenure	CAB debt clients 2003 %	General CAB client profile %	SHS 2001/02 %
Owned outright	5		26
Own – with mortgage	25	32 ^a	38
Rent – local authority	36	48	23
Rent – housing association	13	3	6
Rent – private rented sector	6	8	6
Other	16	8	2

^a note this includes all owners

43. Thirty-five per cent of CAB debt clients said that someone in their household had a long term limiting illness, health problem or disability, a higher proportion than both the 24% of all CAB clients and 31% of the population of Scotland as a whole.
44. A similar proportion of debt clients are in work compared with the population as a whole, at around half. Debt clients are more likely to be in work than all CAB clients, of which 43% are in work. However, Table 5 shows that debt clients are less likely to be retired than the population as a whole and far more likely to be unemployed or sick or disabled. Of those in work, over 80% are in permanent employment.

Table 5: Employment status of person liable for debt compared to the Scottish population

Employment status	CABx debt clients 2003 %	SHS 2001/02 %
Employed or self-employed	50	52
Unemployed	14	3
Retired	10	26
Looking after family/home	5	8
Sick/disabled	19	6
Other including students	2	5

Incomes of households in debt

45. The average monthly net household income for CAB debt clients was £801, around half of the average monthly household income in Scotland⁴⁷. *In too deep* reported a Scottish average income of £730, so these findings suggest a 9.7% increase since 2001. Table 6 illustrates some key differences⁴⁸; men have higher incomes than women, average rural incomes are slightly higher than urban incomes, single adults and the youngest age groups have the lowest incomes. Homeowners have the highest incomes and those living in other tenures are the poorest tenure group. Average incomes are significantly lower in areas of deprivation.

Table 6: Average net monthly incomes by key social groups

All households	£801	16-24 yrs	£509
Urban	£774	25-59 yrs	£866
Rural	£845	60 yrs +	£714
Men	£842	Owner occupiers	£1,087
Women	£760	Social renters	£699
Single adult	£581	Private renters	£754
		Other tenures	£589

Base: 255

46. The current survey shows that as well as a rise in average incomes, there are also more higher income debtors than two years ago. This is reflected in the greater spread of income amongst debt clients, with more in the higher income bands. This is shown in Table 7 and Figure 2. However, just under a quarter of debt clients have less than £400 a month and over half less than £800 a month.

Table 7: Distribution of reported monthly net income of CABx debt clients: comparisons with 2001

Monthly net income	CABx debt clients 2003 %	In too deep 2001 %
Up to £399	24	22
£400-£799	30	33
£800-£1199	19	27
£1200-£1599	15	11
£1600+	12	7

Base: 255

⁴⁷ £393 per week (£1703 per month) ONS Family Spending Survey 2001-02 (revised September 2003)

⁴⁸ Note income figures may be an underestimation due to the likely under-enumeration of housing benefit as a form of income.

Figure 2: Monthly net household income of CAB debt clients 2003

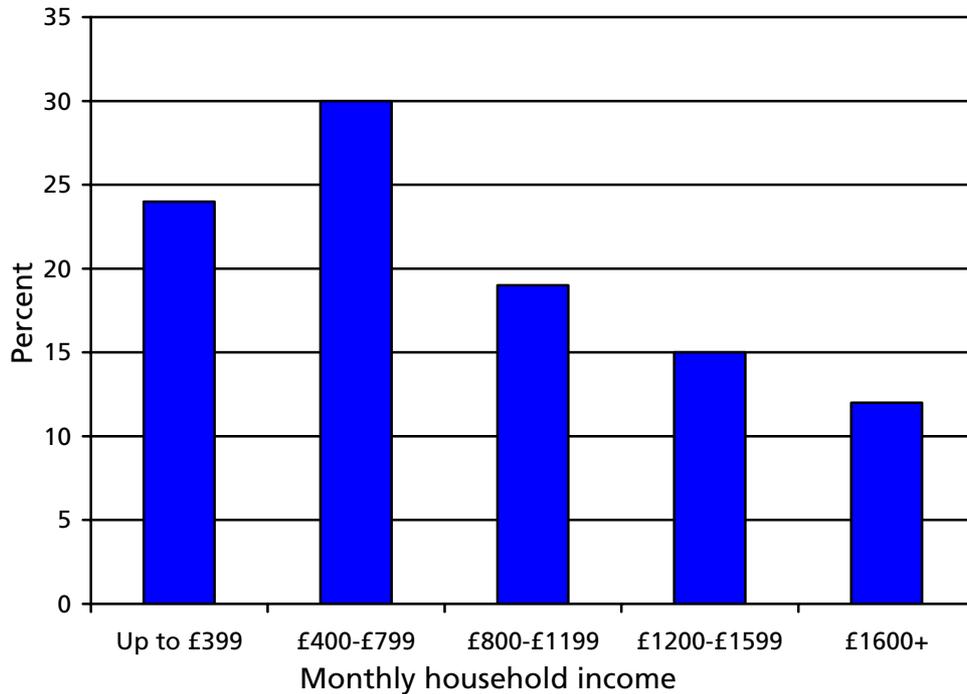


Table 8: Annual income – CAB debt clients compared with population of Scotland⁴⁹

Annual income (net)	CAB debt clients 2003 %	SHS 2001/02 %
Up to £6000	34	10
£6001-£10000	26	21
£10001-£15000	20	21
£15001-£20000	15	15
£20000+	5	33

47. Table 8 shows that CAB debt clients are considerably poorer than the population of Scotland as a whole, using the latest available income statistics as a broad indication. Sixty per cent of debt clients have annual incomes of below £10,000 and only 5% have incomes above £20,000. The average annual household income in Scotland is just over £18,800⁵⁰.
48. Nearly half of clients have some form of household income from work. This means that slightly more than half of debtors have no income other than pensions or benefits. Of all

⁴⁹ Scottish Household Survey 2001/02

⁵⁰ ONS Family Spending Survey 2001-02 (revised September 2003)

clients, those in work are more likely to have both higher average incomes and higher debts.

Table 9: CAB debt clients sources of income

Source of income	No of cases	% of clients
Income from work	132	49
Child benefit	67	25
Income support	54	20
Incapacity benefit	44	16
Council tax benefit	37	14
Child tax credit	35	13
Disability living allowance/Attendance allowance	33	12
Working tax credit	31	12
Housing benefit	29	11
Jobseeker's allowance	26	10
Retirement pension	26	10
Occupational pension	21	8
Other	11	4
Child maintenance	9	3
Pension credit/minimum income guarantee	7	3
Other disability benefits	2	1
Student loan	4	1

Base: 268

The number of debts

49. The average number of debts is 5.06. This is a small increase since the *In too deep* report, which found that the average number of debts in Scotland was 4.5.

Table 10: Number of debts per client

Number of debts	%
One	18
Two to four	32
Five to seven	29
Eight or more	22

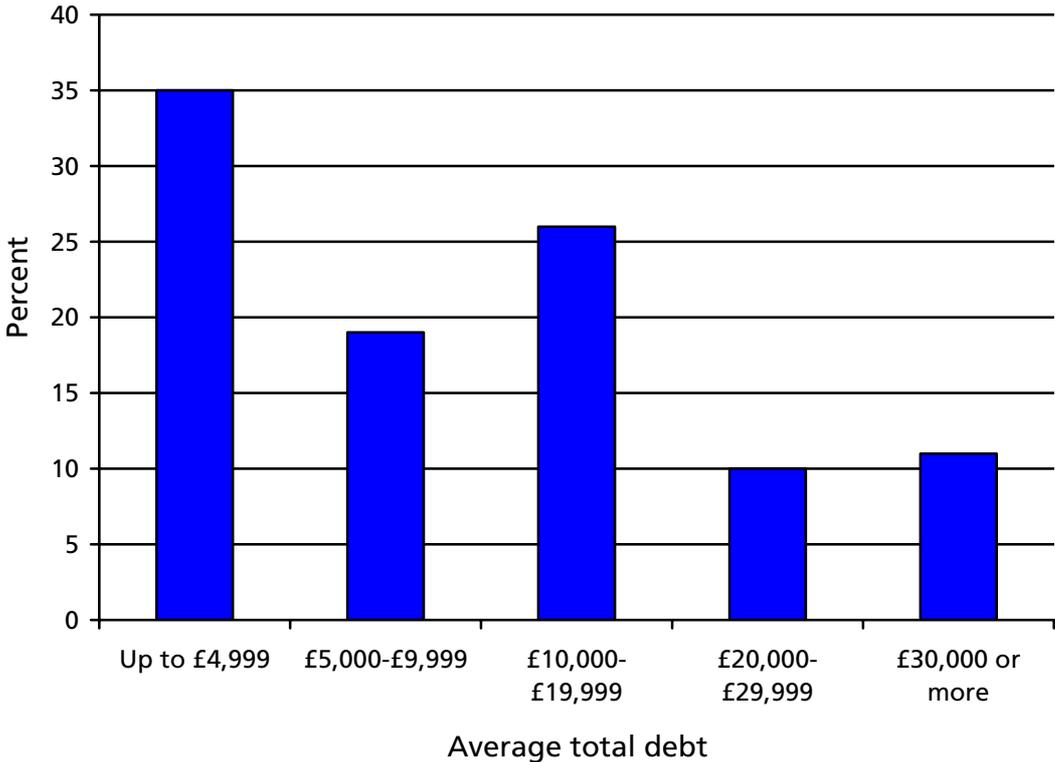
50. Slightly under a fifth of clients are enquiring about a single debt. Single debtors are more likely to be women or in the youngest age group. However, table 10 shows that over a fifth have more than eight debts with the greatest number recorded being 18. Non-householders, owner-occupiers with a mortgage and private tenants are slightly more likely to have a higher than average number of debts than other tenure groups. Also in this position are those aged between 35-54 years old, people in full time employment or self employment, students, couples and single parents with children over aged 16.

The amount of debt

51. Clients owe an average of £13,380⁵¹. The 2001 *In too deep* research found that the average debt in Scotland at that time was £8,140, so this recent figure suggests that there has been a 64% increase in the average debt. The amount individual debt clients owe ranges from £145 to £94,601. Single debtors owe an average of just over £4,000, whilst multiple debtors owe over £15,000. These figures include mortgage arrears but not outstanding mortgages.

52. Figure 3 shows the distribution of average debts. Over a third of clients have debts of less than £5,000 and a quarter have debts of between £10,000 and £20,000, but over one in five have debts of more than £20,000.

Figure 3: CAB debt clients distribution of average debts 2003



⁵¹ In this sample of 268 clients, this amounts to a total of over £3.5million

Debt to income ratios

53. Debt to income ratios are an indicator of 'debt stress' and, to some extent, reflect the immediate crisis situation at the time of seeking advice. In some cases credit has been taken out when incomes were higher and so the ratio reflects a change in circumstances and sudden drop in income, as well as a high level of indebtedness⁵². The average debt to monthly income ratio is 21.9. This ratio is considerably higher than that of 11.5 recorded in the 2001 *In too deep* research in Scotland. The median debt to income ratio gives a more accurate picture of the relationship between debts and income, as the calculation of the average figure is highly skewed by inclusion of a few very high debts coupled with low incomes. The median debt to income ratio is now 12.1 which compares with 6.8 in 2001⁵³. These figures indicate that median debt to income ratios have risen by more than 78% in the last two years. The much higher increase in average debt to income ratios indicates the existence of a smaller number of extreme cases where debts are very high in relation to income.
54. Debt to income ratios vary across different groups. Table 11 below shows that the highest median debt to income ratios are amongst private renters, those living in 'other' tenures⁵⁴, single adults and those of working age. Men in the survey have slightly higher debt to income ratios than women. The lowest debt to income ratios are amongst the youngest age group, couples with children, women and social renters. These findings suggest that the belief that women are more likely to have higher debts is mistaken, and they support recent research by the Consumer Credit Counselling Service, which found that single men of all ages have both higher average debt levels and debt to income ratios than single women⁵⁵.

⁵² see Appendix 1 for details of how debt to income ratios were calculated.

⁵³ Median figure for Scotland in 2001 provided by the OFT.

⁵⁴ for example, living with friends or family which is often a result of a change of circumstances or relationship breakdown.

⁵⁵ Single Men in Debt Danger, CCCS Debt Dashboard Q1 2003
<http://www.ccssecure.co.uk/ew/media/2003/03may07.htm>

Table 11: A profile of debts, household income and debt to income ratios across key social groups

Social group	Average debt	Average net monthly household income	Debt to income ratio average	Debt to income ratio median
Overall	£13,380	£801	21.9	12.1
Single debtors	£4,386	£612	14.6	4.3
Multiple debtors	£15,343	£840	23.4	13.9
Owner	£17,760	£1,087	25.0	12.1
Social renter	£9,737	£699	15.9	11.5
Private renter	£14,099	£754	21.1	16.3
Other tenure	£16,333	£589	36.1	14.9
Men	£14,501	£842	23.9	14.0
Women	£12,459	£760	19.9	11.2
Single adult	£11,765	£581	24.2	14.3
Single parent	£11,469	£877	14.2	11.4
Couple & children	£17,790	£1,217	18.9	10.3
16-24 yrs	£4,928	£509	19.5	7.7
25-59 yrs	£14,673	£866	22.2	13.7
60 yrs+	£14,205	£714	22.0	12.2

55. Although the average number of debts is similar to the level discovered in the *In too deep* research two years ago, table 12 shows that now clients are more likely to owe larger amounts. Nearly half of current debtors owe over £10,000 compared to a third two years ago. Correspondingly, fewer owe smaller amounts. Debt to income ratios vary widely, with those that owe the least having the lowest debt to income ratios. This group is most likely to be in the social rented sector.

Table 12: Distribution of total debts and debt to income ratios

Average total debt (banded)	CAB debt clients 2003 %	<i>In too deep</i> clients 2001%	Debt to income ratios 2003 average	Debt to income ratios 2003 medians
Up to £4,999	35	47	5.8	3.9
£5,000-£9,999	19	20	15.7	11.5
£10,000-£19,999	26	16	23.9	15.1
£20,000-£29,999	10	9	40.0	23.6
£30,000 or more	11	8	62.0	43.2

Base: 265

Reasons for debts

56. The most common reasons clients gave for being in debt were money mismanagement or budgeting problems and reasons connected to low income such as a drop in income, job loss and illness or disabilities. Table 13 shows the client's initial responses and a further set of reasons given when prompted to suggest any further causes from a list. In answer to this second question, similar responses were given, but clients were more likely to mention easy access to credit and high interest rates or credit charges as being significant. Amongst other reasons that featured more prominently after prompting were institutional factors such as the failure of mortgage indemnity insurance or payment protection insurance, delays in getting benefit payments or tax credit payments or problems caused by the use of cheque cashing facilities⁵⁶. Personal difficulties or changes, such as drug or alcohol addiction and taking on a first home or tenancy, were also more likely to be mentioned when prompted.
57. Initially, around one in six clients blamed money mismanagement or budgeting problems for their debts, suggesting that they feel that the debt is their fault for not being able to manage properly. However, overall two in five mention a drop in income and a similar proportion mention low income as being reasons for debt problems. In the 2001 *In too deep* survey, 30% of Scottish debtors gave low income as a reason for being in debt, the highest proportion in the UK, and one in ten referred to a drop in income as a cause. These new findings suggest that a drop in income has become a far more common reason for debt than two years ago, and that low incomes are also more frequently cited than previously. Job loss is mentioned by a little over a quarter of clients, a similar proportion to 2001. The reasons given are likely to be inter-related; illness or disability is given by about a third of clients and relationship breakdown by over a fifth. These changes in circumstances are all factors likely to be associated with a drop in income. Over a third of clients mention easy access to credit as a reason for debt and over one in seven say that high interest rates or credit charges are a cause of debt.

⁵⁶ There has been a proliferation of cheque cashing facilities in recent years, which are used by people without bank or building society accounts. Cheques are cleared straightaway for a commission and administration fee. Note that, according to the 2001/02 Scottish Household Survey, 13% of Scottish households have no access to a bank account.

Table 13: Reasons for debt – prompted and unprompted responses given

Reason	No. of times unprompted	% of responses unprompted	No of times prompted	% of responses prompted	% of clients mentioning this reason – most common reasons only
Most common reasons					
Money mismanagement/ budgeting problems	95	17	37	8	46
Low income	56	10	54	12	40
Drop in income	46	8	65	14	40
Easy access to credit	47	8	47	10	34
Illness/disabilities	61	11	28	6	33
Job loss	56	10	24	5	27
Relationship breakdown	35	6	22	5	21
High interest rates/credit charges	10	2	33	7	16
Other reasons					
Other	37	7	16	4	
Fault of others in household/family	27	5	16	4	
Having children	18	3	17	4	
Business related problems	15	3	3	<1	
Unexpected major necessary expenses	12	2	13	3	
Death/death-related expenses	8	1	4	1	
Taken on first home/tenancy	7	1	11	2	
Creditor maladministration	7	1			
Delay in paying benefits	5	1	8	2	
Alcohol and drug addiction	5	1	11	2	
Misunderstanding of repayment terms	4	1	9	2	
Delays in payment of Tax Credit	3	<1	7	2	
Failure of payment protection insurance	2	<1	12	3	
Retirement	2	<1	9	2	
Use of cheque cashing facility			6	1	
Failure of Mortgage Indemnity Insurance			5	1	
Total	558	100%	457	100%	

A West of Scotland CAB reports of a young man who had been a taxi driver, but had given up work due to ill health. He is now unemployed and living on jobseeker's allowance. He has five debts and owes nearly £30,000. Two are unsecured loans and three are credit card debts, all with mainstream lenders. When he was working, his income varied quite a bit, but he was able to manage by borrowing more money and has sought advice before. He attributes his debts to the loss of his job and consequent drop in income, over borrowing, money mismanagement and easy access to credit. He is unable to service any of his debts and now also has mortgage arrears. The bank has issued default notices for both loans and the credit card companies are sending him reminder letters. He faces regular charges and fees for debt recovery and is prioritising the bank loans as at present the bank is putting most pressure on him and he feels under pressure to take out a consolidation loan. His most likely course of action is to give up his house and move in with his partner. He is also considering sequestration as a way of dealing with his debts as he has no way to service them in the foreseeable future and is unlikely to be able to work in the next few years due to ill health.

A West of Scotland CAB is assisting a single woman in her forties who has split up from her husband. She has nine different debts, although some of them are also the responsibility of her ex-husband. She is not working as she is sick and now lives with friends. She receives just over £350 a month from incapacity benefit and income support. She says her debts are due to many factors. After her husband left and she became ill, she could not continue to work. Her benefit payments were delayed and she hasn't been able to manage her money. She had payment protection insurance and mortgage indemnity insurance, but neither have proved to be of assistance in her circumstances. She has borrowed from family and friends, taken on more loans and tried to negotiate with creditors. The debts total over £80,000. The largest single debt is a secured loan on the former family home, on which there are also outstanding mortgage arrears. She has a consolidation loan, overdraft, council tax arrears, hire purchase debt and three different utility debts. All her debts are to mainstream creditors or the local authority.

How people deal with debt

58. The most common ways of dealing with debt are to try to manage money better through juggling finances, negotiating with creditors or going without essentials. Table 14 also shows that over half of clients have undertaken some form of further borrowing, either from family or friends, by taking on further loans or using more credit; more people are borrowing from family or friends than in the 2001 survey. Forty-one percent of clients have previously sought advice from a CAB or other agency, but 13% say they have done nothing to address the problem.

Table 14: Coping mechanisms for dealing with debt

Coping mechanism	% of clients saying they have done this	% of clients – in groups
Advice seeking		41
Previously sought advice from CAB/other	41	
Used debt management companies	3	
Work and earnings		13
Taken on more work/overtime	10	
Taken another job	5	
Financial strategies		69
Juggled finances	48	
Tried to negotiate with creditors	35	
Gone without essentials	32	
Used cheque cashing facilities	3	
Further borrowing		52
Borrowing from family/friends	29	
Further loans/borrowing	24	
Used credit	26	
Other		5
Done something else/other	5	
Done nothing		13
Done nothing to address problem	13	

Base: 264

59. Those most likely to have done nothing are those with lower incomes and lower debts than others. Those with higher incomes have more options open to them and are more likely to take on a new or additional job or work overtime, adopt other financial strategies or borrow more. Those with a higher than average number of debts are more likely to have taken some form of action.
60. Part time workers and the self-employed are more likely to have tried to negotiate with creditors, whilst those who are retired, sick or disabled are less likely to do this. Those who are working or self-employed are particularly more likely to have borrowed more to deal with debts. The unemployed are also slightly more likely to do this, whilst those who are retired, sick or disabled, students or carers are less likely to borrow further. Women are also more likely to borrow more to get out of debt than men. Those in the youngest and oldest age groups are less likely to borrow further.

Types of debt

61. The 2001 *In too deep* Survey found that the three most common debts were credit cards (20%), bank loans (16%), and catalogue debts (11%). Table 15 shows that in Scotland in 2003, credit card debts were more significant than two years before and accounted for over one in four of all debts, with over half of all clients having at least one such debt.
62. Personal or unsecured loans accounted for nearly one in five debts and again, over half of clients have this debt. Storecards account for over one in ten debts, but a quarter of clients have at least one storecard debt⁵⁷. Similarly, one in four clients have an overdraft and the same number have a council tax debt. Nearly one in five have a catalogue debt.

Table 15: Types of debts – detail of individual debts

Type of debt	No of cases	% of all debts	% of clients with one or more of these debts
Credit card	353	26	55
Personal/unsecured loan	259	19	53
Storecard	141	11	25
Catalogue	100	7	19
Cash loan	88	7	17
Overdraft	80	6	25
Council tax	71	5	25
Utilities	62	5	16
Hire purchase agreement	33	2	10
Rent arrears	28	2	9
Other – including employment and legal debts	28	2	8
Other consumer debt	21	2	7
Mortgage arrears	15	1	6
Consolidation loan	15	1	5
Secured loan	14	1	5
Repayments of overpaid benefits	7	1	3
Social Fund	6	<1	2
Income tax/National insurance contributions	4	<1	2
Student debt	4	<1	2
Repayments of overpaid tax credits	2	<1	1
Child maintenance including Child Support Agency debts	2	<1	1
Credit Union	1	<1	<1

Base: 1,334 debts

⁵⁷ Note that the OFT has launched an informal fact finding review into storecards which is expected to report in early 2003.

63. It is clear that consumer debt is now an almost universal phenomenon amongst CAB debt clients in Scotland. This is such that, whilst other kinds of debt are still significant, the sheer scale of various forms of consumer debt now swamps them.
64. Over 80% of all debts are consumer debts. Table 16 shows that nearly nine out of ten clients had some form of consumer debt. However, over a quarter of clients have tax debts (principally council tax), and utility and housing debts still affect a significant minority of clients. These latter debts are treated by CAB advisers as debts which have to be repaid as a priority, since failure to pay can lead to loss of a home or essential services. It is worth noting that, although consolidation loans are classified as a form of consumer debt, such loans and other forms of consumer debt, like credit cards and overdrafts, could be used to pay off all kinds of other debts, including priority debts such as rent or mortgage arrears. Citizens Advice Scotland has previously highlighted concerns about the use of consolidation loans, particularly where high street banks pressurise clients to take out loans which they cannot afford to service and which are therefore not necessarily in their best interests⁵⁸.

An East of Scotland CAB reports of a female client aged 31 years, single and unemployed. She is in receipt of council tax benefit, housing benefit and jobseeker's allowance. She has a bank loan and is currently seeking full time employment. In the meantime, she has a priority debt of council tax arrears and no funds with which to make any offer of repayment for her bank debts. The CAB prepared a financial statement for the client showing a shortfall of £1.35 in her weekly expenditure. This was sent to the bank together with a letter outlining the client's circumstances and requesting that they defer any action on the account for a period of three months initially. The bank replied stating that they could not accept this proposal and suggested that the client take out a consolidation loan. The minimum monthly repayments acceptable were £300. They also gave reasons as to how this would benefit the client, which were that she could continue to use standard banking facilities, the account would be returned to branch control and there would be a reduced risk of referral to a credit reference agency. Their letter also stated that they had contacted the client directly in this regard. The CAB has responded, expressing concern at a consolidation loan being suggested as a suitable option for someone on benefit who can clearly not afford the repayments.

⁵⁸ *Consolidation Loans*, Citizens Advice Scotland, August 2003

65. Credit card debt dominates and is spread across all social groups. There are no gender differences in the number of credit card debts. Of all those clients with a credit card debt, 45% have one such debt and 14% have five or more, with a maximum number of 13 different credit card debts.
66. There is an interesting pattern to such debts; social and private tenants, those aged 16-24 years old, those who are unemployed and those who are sick or disabled are more likely to have a single credit card debt. Such people are generally on the lowest incomes and in more disadvantaged social and economic circumstances. Here credit card debt may be seen as a debt of poverty as people on low incomes use it in their financial struggles to get by. However, there are also a small number of very low-income clients with multiple credit card debts. This may reflect the ease with which people can get credit despite their circumstances, or a change in circumstances causing a drop in income after debts have been incurred. Overall, those with the greatest number of credit card debts are more likely to be living in 'other' tenures or be homeowners, aged 60 or over, retired or living in households of couples with a number of children. Those in the 'middle income' group are more likely to have two such debts and slightly more likely to have five or more such debts than the average⁵⁹. As such, it is not the highest income group that has the most such debts. The highest income group is more likely than average to have two or three such debts. It is the 'middle income' groups that are more likely to have five or more such debts, suggesting that people on modest incomes of around £700 a month are using credit cards to juggle their finances. Debt profiles by income bands are discussed in more detail below.
67. Other case evidence demonstrates easy access to credit. Even where relatively small sums are involved, debts can quickly escalate due as the result of penalty charges being imposed.

An East of Scotland CAB reports of a single female client with a disability who is in receipt of jobseeker's allowance. She had successfully applied for a credit card with a credit limit of £200. In January 2002 her transactions took her over her limit and she missed a payment. This resulted in a demand for charges for £36 that she could not pay. Between January 2002 and July 2003, her balance has steadily increased as overlimit charges were imposed each month. In addition, she has attracted various late payment charges

because she paid erratically as she was demoralised by her rising balance. Since she went over her credit limit in January 2002 (although she has had no transactions and has repaid £161) her balance has risen from £229.28 to £749.92 with interest and other charges. The client is horrified that she can be charged an overlimit charge repeatedly when she only went over her limit once due to her own actions. The CAB sent a letter on her behalf requesting consideration to writing off all or part of the debt due to the client's health and lack of financial knowledge.

Table 16: Types of debt – main categories

Type of debt	No of individual debts	% of all debts	2002/03 CAB clients - % of all debts	% of clients with this debt
Consumer	1,109	83	67	89
Tax	75	6	10	28
Utility	62	5	6	17
Housing	43	3	10	14
Benefit	15	1	3	8
Other	28	2	3	7
Relationship	2	<1	1	3

Base: 1,334 debts

68. Clearly consumer debt is a universal phenomenon, but in a significant minority of cases it is coupled with other debts which should be treated as a more pressing priority for repayment because of the consequences for the client. Clients' priorities are explored below.

A West of Scotland CAB reports of a young family with two children. The husband works in the electronics field and has had a string of short-term contracts and lay-offs. As a result they have fallen behind with their consumer credit commitments and have run up rent arrears. They have received a summons in relation to eviction proceedings. The couple had attended another money advice agency in relation to their debt problems. However, they were unable to maintain the repayments arranged by this agency. The local authority is using the fact that they have had a repayment arrangement that has been broken as grounds for proceeding with the eviction.

A West of Scotland CAB reports of a client who has one child. She suffers from depression and sciatica, and her daughter also has

⁵⁹ See Table 17 below for details of income bandings.

health problems. She has rent arrears, council tax arrears and other consumer debts. Her rent arrears are due in part to poor administration of her Housing Benefit claim. She has been served an eviction notice by the local authority in relation to the arrears. On contacting her council, the only advice she received was that she should speak to a homelessness officer. The bureau was able to assist the client in negotiating a reasonable repayment schedule, which has since been accepted by the local authority.

69. Sixteen percent of clients have at least one utility debt. Of those with utility debts, two thirds have a single debt, with the remainder having up to four different utility debts.
70. Clients may find it difficult to provide accurate figures for utility debts due to the way that arrears payments can be rolled up with payments for current consumption⁶⁰. While prepayment meters can be valued by those on low incomes because they enable them to budget for their fuel costs, the tariff is higher than for other payment methods and therefore provides less value for money. Recalibration of prepayment meters to recover utility arrears may mean that debtors cannot afford the full cost of their fuel needs, resulting in 'self-disconnection'. In some cases, utility companies insist on the installation of a prepayment meter in order to agree to supply services, as a way of collecting debts or as an alternative to disconnection.

An East of Scotland CAB reports of a female client in receipt of income support as her only income. She had debt problems, including electricity arrears of approximately £400. The utility supplier involved was only prepared to continue to supply power if a prepayment meter was installed, and the client agreed to the recovery of arrears at the rate of £9 per week plus current usage. The bureau adviser notes that, if the client was able to access Fuel Direct (which enables arrears payments to be deducted directly from social security benefits), she would only be expected to pay £2.70 per week towards the arrears. However, the bureau was unable to persuade Department for Work and Pensions staff to let the client access the Fuel Direct scheme until she had tried a prepayment meter.

⁶⁰ For example, if a client has a powercard each time they make a payment, part goes to current consumption and part to arrears, so a client may think they use £20 of electricity per week, but in fact they may use £13 and £7 goes to arrears. The levels at which arrears are recovered vary considerably between power companies.

71. Of all clients in debt, 28% have prepayment meters for at least one of their fuel supplies. This is higher than the national average of 20% of Scottish customers⁶¹. A higher proportion (33%) of clients with a utility debt have at least one prepayment meter. Of all clients who say they have been threatened with disconnection of services, nearly half have a prepayment meter, usually for electricity.

A West of Scotland CAB reports of a female lone parent client on income support, with three children. The client had moved to a new address in May 2002. She had a powercard meter at her old address. Since then, the power company told the client she owes them £700 in arrears. She tried contacting them and got nowhere. The matter has since been handed to a debt collection agency, who are now threatening legal action. The client doesn't know what to do, and is warned she will have to pay them £700, which she can't afford. The case was referred to energywatch.

72. There are a small number of clients with student debts. None of these clients have a single debt, but have between three and eight separate debts. All of them also have a personal or unsecured loan, half of them have council tax debt and half have utility debts. Typical other debts are rent arrears, cash loans, overdrafts, hire purchase debts, credit card or overpaid benefit debts.

A West of Scotland CAB reports of a male client who received a graduate loan from his bank while he was a student. He understood he would have two years after he graduated to repay the loan. After one year, the bank has changed his graduate loan to a bank loan to be repaid over five years. The client came to the CAB in order to dispute this. He brought in paperwork with proof of suggested preferential rates for graduate loans compared with 22.6% APR with the new bank loan.

A South of Scotland CAB reports of a 24 year old single male client who is in receipt of jobseeker's allowance. He is currently unemployed, but has various debts to banks dating from his time as a student, as well as a student loan. He has been trying to get work but has also been suffering from depression. He visited the CAB for advice when the bank tried to pressure him into taking a

⁶¹ OFGEM figures for Scotland in 2003 show that 478,773 electricity customers (20% of all customers) and 161,205 gas customer (10% of all customers) have a prepayment meter. Customer may have both a gas and an electricity meter but figures are not available on a household basis and so, rather than combining these percentages, it has been convention to use the lower figure (20%) as an indicator.

consolidation loan. The client had realised that the interest on the longest term loan he could take would be greater than the interest on an overdraft. His income is £42.70 per week, and he was not in any position to take on a loan. In trying to sort out this client's situation, the CAB has been trying to negotiate with the banks on the client's behalf, which has been extremely difficult. His creditors are not doing anything to assist him – their solution is to pressurise and persuade him into taking on more debt for a longer period. Bank staff give conflicting information and persist in contacting the client directly even when they have been advised the CAB is negotiating on the client's behalf. All this merely serves to confuse and worry the client. The CAB comments that this client's problems are not insurmountable – his debts are relatively small and he will be in a position to recover the situation quickly as soon as he finds employment.

Debt profiles by social groups

73. Types of debt do vary across different groups. The youngest debtors, aged between 16-24 years old, are less likely to have rent or mortgage arrears, utility or council tax debts, but are more likely to have a personal or unsecured loan or a cash loan. Fifty eight percent of the youngest age group have a personal or unsecured loan, compared with 41% of those aged sixty or more. Twenty one percent of 16-24 year olds have a cash loan compared with 14% of the oldest group. Young people are also more likely to have an overdraft or catalogue debts than any other age group, but less likely to have a credit card or storecard debt. Those aged between 25-59 years old are most likely to have credit card debts and those in the oldest age group are more likely to have storecards. Whilst less than one fifth of the youngest group and a quarter of the working age group have a storecard, more than a third of the oldest age group have such a debt. Storecards are frequently offered in order to obtain a discount on a purchase and so may have seemed to be a prudent option at the time.
74. Debtors aged 60 years or over are split evenly between men and women. They are more likely to have someone in the household with a long term limiting illness or sickness. Twenty two percent have a single debt only, but over a third have more than five debts, which means that a slightly lower proportion are multiple debtors than all debt clients as a whole. Over four out of five older debtors have some form of consumer debt, a slightly lower proportion than debtors as a whole. Older debtors are more likely to have benefit and relationship debts and less likely to have housing debts.

A West of Scotland CAB reports of an elderly female client, who lives with her daughter. She is partially deaf and has a retirement pension, occupational pension, pension credit and disability living allowance. She has used up all her savings and now lives on an income of around £450 a month. She attributes her debts to retirement, illness/disability and a drop in income. She has managed until now by borrowing from family and friends, taking on further loans, using credit, juggling finances and going without essentials. She has 15 debts in total – all of which are consumer debt. She has 13 different credit card debts and 2 storecard debts. All of these debts are to mainstream creditors. Her debts now total over £65,000, which she has little chance of ever paying off. Eight of the creditors have taken no action to date. Six have issued reminder letters and one has issued a default notice. As yet, no formal actions have been

taken by any of the creditors. However, her creditors are looking for payments from the client. She has felt pressurised by their behaviour – one storecard issuer constantly phones up and refuses to listen to her situation stating that she must pay the minimum each month. She is prioritising this storecard over her other debts. She feels she has had misinformation from creditors and is also subject to fees for being in arrears. As well as this, her deafness makes it difficult to discuss her situation clearly with creditors. The CAB has successfully assisted the client to maximise her income. However, this has not really given her any further options as additional benefits have not increased her income enough to look at a trust deed and do not make much impact on the amount of time repayments would take given her age. She has decided to apply for sequestration as repayment would take too long and she has no assets which would be affected by this action.

75. Female debt clients are less likely to have mortgage arrears or personal or unsecured loans than men and more likely to have cash loan debts, catalogue debts and council tax debts. Less than 2% of women have mortgage arrears, compared to 10% of men. Forty eight per cent of women have a personal or unsecured loan, compared with 57% of men. In contrast, 21% of women have a cash loan, compared with 13% of men. Thirty percent of women have a catalogue debt compared with 9% of men, and 27% of women owe council tax compared with 21% of men.
76. There are also distinct patterns across tenure groups. Over 80% of private renters have a personal or unsecured loan compared with 46% of social renters. Social renters are more likely to have a cash loan and catalogue debts, and less likely to have a consolidation loan than other tenure groups. Whilst overall a quarter of all debtors have an overdraft, a third of private renters are in this position. Home owners are more likely to have credit card debts than other groups, whilst those living in 'other' tenures are most likely to have storecard debts. One in four debtors have council tax debts, but this rises to almost a third of home owners. Private tenants and owners are more likely to have utility debts than any other group.
77. Most debtors who are not tenants or home owners tend to live with parents or other family, live rent free or in some other situation. This group has high debt to income ratios. They are more likely to be single or living in 'other' households. Both their living arrangements and their high debt to income ratios may be a reflection of a change of

circumstances. Non-householders are predominantly younger people, although there are a small number who are over 60 years old. They are more likely to be male than female, more likely to be unemployed or retired, and less likely to be sick or disabled or live in a household where someone has a long term limiting illness or disability. A fifth have a single debt and slightly under a third have more than five debts. Again, this means that a slightly lower proportion are multiple debtors than all debt clients as a whole.

78. Single parents are most likely to have rent arrears, cash loans and catalogue debt and least likely to have personal or unsecured loans. However, two thirds of single parents have credit card debts, compared with less than half of single adults. This suggests that credit cards are a debt of poverty as low income households with children may be using them to get by on a daily basis and manage their budgets.
79. Single adults are more likely to have consolidation loans. Couples with children and single adults are more likely to have overdrafts. Other households and couples without children are particularly likely to have storecard debts and utility debts. Couples with children are most likely to have council tax debt. Single parents and other households are more likely to have other debts including employment and legal debts.
80. Types of debts also vary by income group. Table 17 is based on analysis of three equal sized groups of clients 'banded' according to their income. The average income within each group is given and it can be seen that, in the higher income group, the average income is £1,397 a month, still less than the average income in Scotland as a whole. Note that this reflects the current income profile, rather than a previous income level that may have dropped due to a change in circumstances making debts more difficult to manage.
81. Those with the lowest incomes are more likely to have rent arrears as they are more likely to be tenants than any other group. However, there are interesting distinctions in the types of consumer debt amongst those with the lowest incomes. They are more likely to have secured loans than any other group. This may relate to a former home, or it may signify borrowing on equity from a council house purchased under the 'Right to Buy' scheme. They are more likely to have a hire purchase agreement than any other group and along with the highest income group are more likely to have a cash loan debt. The middle income group is more likely to have mortgage arrears, credit card, storecard or catalogue debts, suggesting juggling of finances on modest and marginal incomes. The higher income group is more likely to have consumer debts based on personal or

unsecured loans or cash loans, overdrafts or storecards. They are also more likely to have consolidation loans reflecting their continuing access to credit, despite their debts. This group is also likely to have utility debts and council tax debts.

Table 17: Debt profiles by income banding

Relative income banding	Net monthly income	Average income within Group	Most likely type of debt
Lowest income	Up to £480	£291	Rent arrears Cash loan Secured loan Hire purchase agreement Utility debt Social Fund debt
Middle income	£481-£940	£715	Mortgage arrears Credit card debt Storecard Catalogue debt
Higher income	£941 or more	£1397	Personal/unsecured loan Cash loan Consolidation loan Overdraft Storecard Council tax debt Utility debt

Base: 255

82. Debtors in receipt of Working Tax Credit (WTC) or Child Tax Credit (CTC) are more likely to have rent arrears, cash loans, hire purchase agreement debts, credit card and council tax debts than debtors as a whole. These are also debts of poverty despite clients being in work. Delays in payment of WTC can also be a cause of debt.

A West of Scotland CAB reports of a client living with partner, with three children and in full time employment. They have a mortgage, personal loan and other debts and were managing to make essential payments and had applied for the new tax credit. They had heard nothing, in spite of attempts to contact the Inland Revenue by telephone. Their last mortgage payment could not be made due to insufficient funds, resulting in a bank charge of £30. In addition, other standing orders caused their agreed overdraft level of £100 to be exceeded, resulting in further bank charges.

A West of Scotland CAB reports of a female lone parent client aged 33 with two children aged 14 and 15 in full time employment. She was receiving Working Families Tax Credit until April when it changed to WTC and CTC. Because of the mix up and delay in processing of the

tax credits, the client lapsed into arrears with some of her creditors. She thought she'd managed to cover them by fully using her overdraft facility, but missed one by £3.00 and was charged £30 for not having enough funds in her account to cover a direct debit. The client is most distraught as she feels that this was not her fault and she cannot afford a charge of this size when she is on benefits. The CAB is trying to negotiate with the bank in this regard.

Types of creditor

83. Table 18 shows that most debts are owed to mainstream creditors. Local authorities are also significant as creditors in council tax and rent arrears cases⁶². Non-status or sub-prime lenders lend to those who may find it difficult to get credit from mainstream sources, such as people in casual work, non-home owners and those with impaired credit ratings⁶³. They include doorstep lenders and licensed money-lending companies, which may charge high interest rates.

Table 18: Main types of creditor

Type of creditor	No of times mentioned	% of debt clients mentioning this
Local authority	113	31
Mainstream	1,095	89
Non-status	117	17
Don't know	26	7

Base: 1,351

84. Table 19 shows the pattern of lending across the different consumer debts. Mainstream creditors are the dominant creditors in all the main categories of debts, except for cash loans. Non-status creditors make around two thirds of cash loans, but otherwise account for a small proportion of total debts, although they are also significant creditors amongst those with secured loans, catalogue debts and hire purchase agreements.

Table 19: Creditors by consumer debts

Type of consumer debt	Mainstream creditor	Non-status creditor
Credit card	97%	3%
Personal/unsecured loan	96%	4%
Storecard	95%	5%
Catalogue	79%	21%
Cash loan	35%	65%
Overdraft	100%	-
Hire purchase agreement	83%	16%
Other consumer debt	100%	-
Consolidation loans	100%	-
Secured loans	77%	23%

⁶² Note that rent arrears are classified as mainstream debts.

⁶³ See *Tackling Loan Sharks and more*, Susan McPhee, CAS, September 2001

Actions to recover debts

85. Actions taken by creditors to recover debts can be informal, such as sending reminder letters, or the agreement of repayment plans, or negotiation with the client and the CAB. Less positive forms of conduct are also used and these are discussed more fully in paragraph 90 below. Actions also involve more formal enforcement steps, such as referrals to a debt collection agency or court action and the use of diligence to recover debts. Clients in the survey were asked to provide information on the last action taken by creditors at the time of seeking advice. Information was also collected on the type of formal recovery action, if any, taken by that point.
86. Table 20 shows the type of action taken by creditors at the time the client sought advice from the CAB and includes both informal and formal actions. Overall, a little over a fifth (22%) of creditors had taken no action at all. However, utility companies, local authorities and housing debt creditors were all more likely to have taken some action than ordinary consumer creditors. A comparison with the 2001 *In too deep* research shows that then some 28% of creditors had taken no action and, across different debts, there had been no action in around a fifth to a third of cases. For specific debts where there is comparable data from 2001, it is clear that, overall, creditors are more likely to be taking some action across all forms of debt and that this is particularly true in cases of the priority debts.
87. Overall, about a quarter of clients had received reminder letters before they sought advice from the CAB. Creditors had taken formal action in a minority of cases, suggesting that most creditors would prefer to use informal recovery methods than risk the expense of formal court action. In particular, creditors in cases of personal or unsecured loans and credit card debts are less likely to have taken any action at all by the time the client sought advice.

Table 20: Last action undertaken by creditor at the time client sought advice

Type of last action	No of cases	% of all debts	Rent Arrears %	Mortgage Arrears %	Council tax arrears %	Utility debts %	Personal/ Unsecured loans %	Credit Card debt %	Storecard debt %
No action to date	283	22	13	7	6	3	27	26	13
Actions									
Reminder letters	313	24	21	20	20	30	22	28	19
Referral to debt collection agency	197	15	-	-	4	16	15	18	17
Default notice issued	146	11	13	-	3	8	16	11	17
Repayment plan agreed	134	10	4	-	4	8	9	11	20
In negotiation with CAB	88	7	13	7	4	10	6	4	11
Court action initiated/decreed obtained	53	4	29	40	3	13	3	1	2
Don't know/other	43	3	8	27	3	10	2	1	2
Referral to Sheriff Officers	24	2	-	-	25	2	<1	1	-
Summary warrant obtained	24	2	-	-	28	-	-	-	-

Note: Based on recovery stage reached at the time advice was sought

88. Although taking no action is now less common than it was in the 2001 *In too deep* research, the pattern of recovery actions across different creditors is similar to that found in 2001. Consumer creditors are more likely to have taken no action than other creditors and far less likely to take any formal action to recover the debt. Although recent references to a ‘*culture of complacency*’ have been targeted at clients who do not address their financial difficulties until late in the day⁶⁴, it might also be said to apply to particular consumer creditors who are, apparently, doing very little. Some are not even taking informal action. This may be because they are prepared to let debt pile up and wait for clients’ circumstances to change.
89. Informal action may be the preferred strategy for creditors, in comparison to pursuing the client through court, which is expensive and might give the debtor access to bankruptcy. Creditors may be reluctant to pursue formal court action in situations where it is not clear whether the debtor has assets or income to make this worthwhile. This situation may give clients a respite but that could be short-lived now that interest rates have started to rise. However, there is case evidence that, where they do take informal actions, this can be distressing for clients. There are also implications for other creditors where there is multiple debt, as they are effectively in competition with each other to ensure that the debtor prioritises their debt over others.
90. Table 21 shows that, at the time of the enquiry, in two out of five cases, creditors are negotiating repayment terms with the CAB. Other forms of creditor conduct are less positive. With a quarter of clients reporting that they had experienced behaviour or language that seeks to pressurise them. One in six clients had been threatened with debt recovery without court action and a similar number felt under pressure to refinance, take out further borrowing or take out a consolidation loan. One in six had also had a financial statement or offer rejected. One in ten reported a threat of repossession and a similar proportion were under threat of disconnection of services. Repossession proceedings had been completed or were underway in a number of cases at the time advice was sought. A small number of creditors have refused to negotiate with the CAB.

⁶⁴ see *Time to Tackle the Culture of Complacency*, CCCS, 5 November 2003, <http://www.ccssecure.co.uk/ew/media/2003/03nov05.htm>

Table 21: Other forms of creditor conduct: Informal and other actions

Nature of conduct	Number of times mentioned	% of clients mentioning this
Negotiating agreed repayment terms with CAB	106	41
Fees/charges for non-payment including court fees	80	31
Behaviour/language that seeks to pressurise the debtor	62	24
Threat of debt recovery without court action	43	17
Rejection of client financial statement/offer	41	16
Pressure to refinance/ take out further borrowing	39	15
Pressure to take out consolidation loan	34	13
Misinformation to debtor	28	11
Threat of repossession	25	10
Threat of or disconnection of services	25	10
Repossession proceedings commenced/completed	21	8
Other conduct	14	5
Use of different firms of Sheriff Officers to pursue different years' council tax arrears	10	4
Allocation of payments to previous years' council tax arrears	10	4
Refusal to negotiate with CAB	4	2
None of the above	41	16

Base: 258. Note: excludes formal court action

91. One form of ‘informal action’ that is used to intimidate debtors is the threat of legal action that is inappropriate. There is case evidence that shows deliberate use of client’s lack of awareness of the abolition of poindings and warrant sales to pressurise clients.

An East of Scotland CAB reports of a female client in her forties who is a lone parent with a 17 year old child. She is on long term sick leave, and is unable to return to her job. She contacted the CAB in great distress as her bank had passed one of their debts to debt collectors. Their demand letter indicated that “your possessions will be seized”. No information was given on the debtor protections introduced by the Debt Arrangement and Attachment (Scotland) Act, and the client perceived this phrase as a threat. The CAB was able to advise the client on the new Act and provide her with advice and information on her options.

A West of Scotland CAB reports of a female lone parent client in her thirties with one child. She is in receipt of Working Tax Credit. She is £24,000 in debt. She had a debt with a credit card company who sold the debt on. The debt collection agency that bought the debt started phoning the client numerous times a day at work and at home. Her boss told them to stop phoning her at work but they still did this constantly. They told her they were going to sell her home, arrest her wages and sell goods from her home. She has been paying £20 per

month to the credit card company and has never missed a payment, but they are wanting more. The CAB phoned both the debt company and the credit card company and told them they would be reporting them to the OFT.

Forms of diligence

92. Different creditors have different diligence options open to them to recover debt and these will affect the patterns of enforcement action. Council tax collection is based on statutory provisions that allow payment in instalments through a variety of methods. Where instalments are missed, clients will be sent a reminder but can lose their right to pay by instalments. Further reminders may be sent, but at this point the local authority can take formal recovery action through the power to apply to the Sheriff Court for a summary warrant. Before a local authority applies for a summary warrant, they must issue a final demand. However, unlike other forms of court-based debt recovery action, the procedure does not require that any further notice be served on debtors to notify them of impending court action. Twenty eight percent of council tax debts had a summary warrant obtained. Technically, this demonstrates that the court has accepted that the debtor is liable for the debt. However, since the debtor is not given an opportunity to appear in court to dispute any facts, it is possible that the debtor is not liable for the debt in question or is liable only in part. Where a local authority is granted a summary warrant a surcharge of 10% of the amount owed is added to the account. A further quarter of council tax debts had been referred to the Sheriff Officers for enforcement or recovery.
93. Granting of a summary warrant opens up further diligence options for the local authority, including arrestment of earnings and bank arrestments. Bank details are not necessary to do a bank arrestment. The procedure is that a Sheriff Officer presents the name and address of the debtor to a bank and the bank is responsible, at its own cost, for establishing whether an account is held with them. Citizens Advice Scotland has already published a report and briefing which illustrate the hardship that this can cause clients, not least where clients are dependent on social security benefits paid directly into their bank account⁶⁵.
94. Table 22 shows that whilst there are a small number of such actions amongst debt clients in the survey, bank arrestments and earnings arrestments are largely used by local authorities for recovery of council tax arrears.

⁶⁵ Citizens Advice Scotland, Briefing on Bank Arrestments and Social Security Benefits, January 2003 and Frozen Money – bank arrestments, CAS, June 2001

Table 22: Type of formal recovery action taken by creditor at the time client sought advice

Type of formal recovery action	No of cases	% of all debts	Rent arrears %	Mortgage arrears %	Council tax arrears %	Utility debts %	Personal/ Unsecured loans %	Credit Card debt %	Storecard debt %
No formal action taken	1,080	87	54	55	35	71	95	96	86
Actions									
Summary warrant obtained	38	3	-	-	34	-	-	-	-
Repossession action or other forms of legal action	34	3	25	27	-	-	1	1	12
Other	19	2	8	-	3	14	1	1	1
Sequestration proceedings initiated	12	1	-	-	3	2	-	<1	1
Charge for payment obtained	10	1	-	-	1	-	1	-	1
Bank arrestment	8	1	-	-	7	2	-	<1	-
Earnings arrestment	8	1	-	-	10	2	-	-	-
Threat of attachment order or EAO	8	1	-	-	1	2	1	1	-
Notice of attachment order	8	1	-	-	1	-	-	1	-
Threat of repossession	8	1	11	9	-	-	-	-	-
Threat of sequestration	7	1	4	-	1	6	1	-	-
Notice of earnings arrestment	3	<1	-	-	1	-	-	-	-
Repossession complete	2	<1	-	9	-	-	-	-	-

Base: 1,245 cases. Note: % may not add to 100 due to rounding.

95. Case evidence shows that people in receipt of tax credits are particularly vulnerable to losing access to all of their income should they be the subject of debt enforcement action in relation to council tax arrears. In any event, it is unclear in law whether tax credits should be subject to bank arrestment.

A West of Scotland CAB reports of a female lone parent with four young children in part time employment. She has been told by letter that her bank account is being arrested for council tax arrears. Her tax credits and wages are being paid into this account and this will leave her no money to pay her rent or any other bills.

A West of Scotland CAB reports of a female lone parent client in full time employment. She is working and receives Working Tax Credit and Child Tax Credit, but owes council tax. A firm of Sheriff Officers has frozen her bank account but the only money she had in the account was backdated tax credits from the Inland Revenue which was paid by cheque into her account. She phoned the bank who said that they couldn't do anything about it because, in their view, payments lot their protection from arrestment once they had been paid into a bank account. She phoned the Sheriff Officers who agreed that if she could prove it was a cheque from the Inland Revenue then they would release the money. The client had been trying to contact the Inland Revenue all day without success and came to the CAB for help. The CAB advised the client to go directly to her local tax office to get the proof to release the money; very time consuming for something that should have been handled over the phone.

96. An earnings arrestment will continue every week or month until the debt is paid off, so is more likely to be successful in recouping the debt than a bank arrestment, unless the debtor loses their job. However creditors, particularly local authority creditors, may not always have access to current employment details, which can make bank arrestments a preferable option.
97. It is also possible for there to be double diligence, where a debtor faces both an earnings arrestment and a bank arrestment. This may arise where Sheriff Officers deliberately pursue both earnings arrestment and bank arrestment, or a local authority may employ different firms of Sheriff Officers to pursue different council tax debts, perhaps from different years, with the same client. There are a small number of cases where double

diligence is reported in the survey although it is not known which scenario is more common.

An East of Scotland CAB reports of a single male client in full time employment. He has had an earnings arrestment of £100 in respect of council tax arrears, and has now had his bank account frozen because the council used two sets of sheriff officers for different arrears payments periods. The client thought he had an arrangement with the council to pay off his arrears and was unaware that different sets of sheriff officers can use different enforcement methods of recovery at the same time. The CAB negotiated with both firms for a conjoined earnings arrestment.

98. Ordinary creditors can also use bank and earnings arrestments as a form of diligence, but there are few incidences of such use from the survey evidence. Citizens Advice Scotland case evidence suggests that such creditors prefer inexpensive, informal debt recovery methods. Another reason for the apparent small scale of formal actions by ordinary creditors in relation to the scale of debt, may be that some creditors may be based in England and, accordingly, may not be familiar with the different legal remedies in Scotland. Local authorities are, of course, by definition Scottish and familiar with the Scottish legal system.
99. Like local authorities, utility companies, landlords and mortgage lenders are more likely to have taken some form of action to recover debts than ordinary creditors. Utility companies take a variety of actions including the use of debt collection agencies and the use of sequestration. Case evidence shows that some clients have little option but to agree to the installation of a prepayment meter in order to have fuel supplies.

A North of Scotland CAB reports of a female client aged 19 who is a lone parent with two children both aged under three. She is unemployed and in receipt of incapacity benefit, income support and child benefit. Her husband left her the day before she visited the CAB. On the day she did visit the CAB, Sheriff Officers had forced entry into her home and disconnected the gas supply. The client uses gas for cooking, water and heating and was totally unaware of the unpaid bill. The utility company would not accept the client as a customer, and stated that even if they would they would want the full amount of arrears paid before considering reconnection. At first they were unwilling to speak to the CAB adviser, and requested to speak to the husband directly. The CAB negotiated on behalf of the client, pointing

out that she was vulnerable, young children were involved and she had no knowledge or warning. Eventually TRANSCO was told to go back that afternoon to reconnect the supply and fit a prepayment meter.

100. Creditors also pass debts to firms of debt collectors. These firms may own the debt outright, or they may be acting as agents of the original creditor. Citizens Advice Scotland has highlighted on-going concerns regarding debt collection companies and creditor behaviour in relation to debt collection on a number of occasions⁶⁶. Clients often face problems when creditors or agents acting for them try to recoup debts informally, rather than raising formal court proceedings. The survey shows that such negative informal creditor conduct is still significant in a number of cases.

A North of Scotland CAB reports of a female client aged 35 in part time employment living with her partner and three children and in receipt of working tax credit. She has been contacted by telephone by a firm of debt collectors who were very persistent, four times in four days. She explained to no avail that the CAB was dealing with her debts. She had no idea why the company was contacting her, unless it was from one of the collection agencies that is handling her debts.

A West of Scotland CAB reports of a female client in her fifties. She is single and in receipt of income support and disability living allowance. She has six creditors, all of which are doorstep lenders. She feels pressurised to take on more loans. She has fallen behind with her payments and each time one of the collectors calls she hides in the house. One firm send their collectors in pairs, and, as they cannot enter her home, they discuss her indebtedness at the top of their voices so her neighbours can hear. The CAB contacted the company to advise them of the situation and to make repayment proposals.

A West of Scotland CAB reports of a single female client with one child aged 16. She is in full time employment but is on low wages and receives WTC. She has one debt with a company that specialises in bad credit finance loans. The local agents keep phoning her and she feels intimidated. Two agents arrived at her door and started to shout loudly, telling her she could discuss it for everyone to hear or

⁶⁶ see *Would you credit it? – creditor behaviour in Scotland*, Citizens Advice Scotland, December 2001; *Tackling loan sharks – and more!* A response from Citizens Advice Scotland, September 2001; *Review of the Consumer Credit Act 1974: Consumer Credit Licensing – the evidence of Citizens Advice Bureaux clients in Scotland*, CAS, May 2003

invite them in. They told her that the CAB tells lies and they are not legal. The male agent told her he lives locally so he can call her at her home day or night, two, three or four times a week or whenever he feels like it. The CAB wrote to the company referring to the new OFT guidelines on debt collection practices.

101. Table 22 shows that there is a threat of repossession proceedings or some other form of legal action (apart from those specifically listed in the table) in around one in ten cases where there are mortgage or rent arrears. In about a quarter of such cases repossession proceedings have commenced by the time the client has sought advice.

An East of Scotland CAB reports of a client who received notice from Sheriff Officers advising that their mortgage company was instituting repossession proceedings on the basis of mortgage arrears of £1,278. The client was unaware that she had any arrears and had not received any notification from the bank of such. She paid the amount outstanding. Nevertheless, she received a further letter stating that the mortgage company now had a date to repossess her home. She contacted the Sheriff Officers to demonstrate that the amounts demanded had been paid off. However, the Sheriff Officers stated that they could only stop action at the request of the creditor.

102. Sequestration is a legal process that results in the client being formally declared bankrupt by a court. Sequestration results in the transfer of assets to a trustee who will sell them with the aim of sharing the proceeds among the client's creditors. Creditors can apply for sequestration under certain conditions. A client can also apply for sequestration if they have total debts of £1,500 or more and can demonstrate apparent insolvency⁶⁷. There are only a small number of cases from the survey where sequestration has been threatened or proceedings initiated and these are largely for council tax, rent arrears or utility debts. It is possible that creditors are using sequestration as a spur to payment. There is still a stigma attached to it, even though it can often be the best option for a client who has no assets and is not a home owner.

An East of Scotland CAB reports of a male unemployed client aged 58 years who lives with his wife. He is unemployed, has a disability and receives disability living allowance. The client is in receipt of council tax benefit, housing benefit, incapacity benefit and income support.

⁶⁷ *Would you credit it? – creditor behaviour in Scotland*, Citizens Advice Scotland, December 2001.

He has not worked since 2000. They live in council property and both rent and council tax are up to date. Over the years the clients have run up credit card and personal loan debts of £14,000, mostly in the name of his wife. It has now reached the stage where they can no longer afford to maintain the payments, other than by paying for one debt by borrowing from another creditor. The wife says she is ashamed and embarrassed to be in this situation and throughout the interview she was in tears. The clients' situation is unlikely to improve; after paying their normal household accounts, there is no money left to pay any of the creditors. The clients had initially gone to their bank who had offered to consolidate their existing debt with them and add on some of the other outstanding debt - meaning a loan of £7,500 over 5 years to be repaid at £180 per month. It would not however include the largest credit card debt of £7,000, which is with their existing bank. Their current weekly income is £180 per week. The CAB advised that the best course of action was to do nothing and wait to see if any of the creditors take legal action. Such legal action would mean that they could apply for their own bankruptcies. Alternatively, they could offer reduced payments, although it is hard to see where the money would come from. The CAB discussed with them what bankruptcy entailed. They were able to reassure the clients that they would not lose their house nor their car (the car was leased through the Motability scheme, which allows access to adapted vehicles for disabled people) and that their neighbours and friends would not find out about the bankruptcy, nor could they be imprisoned. The clients decided that this was the best option.

103. Recent research for the Credit Services Association suggested that more people are declaring themselves bankrupt, particularly in Scotland⁶⁸. It will be important to track how sequestration is used over the next few years. Local authorities may have fewer options now that they no longer can use poindings and warrant sales as a threat. They cannot write off their debts until they have pursued them as far as possible.
104. Attachment Orders (AOs) and Exceptional Attachment Orders (EAOs) can both be used by any creditor. These forms of diligence replaced poindings and warrant sales under the Debt Arrangement and Attachment (Scotland) Act 2002. They involve valuing a debtor's moveable goods and ultimately selling them. In relation to EAOs, it was intended that this

form of diligence would only be used in very exceptional circumstances and, even then, the creditor has to go through a range of procedures designed to protect the debtor before being granted the order. The OFT has issued guidelines governing debt collection, and it is likely that threatening the use of an EAO without proper court authority would constitute a breach of these guidelines. However, their situation is less clear in relation to Sheriff Officers, who are not required to hold consumer credit licences in relation to collection of council tax or court enforcement procedures. It should be noted that most formal diligence relates to collection of Government debts such as council tax.

105. The survey found only a small number of cases where there had been threats of Attachment Orders (AOs) or formal notification by both local authority and ordinary creditors. It is likely that ordinary creditors will not be keen to use either form of attachment. AOs are relatively simple to apply for, but not necessarily very effective as they can only be used on goods outwith the dwelling place. Similarly, EAOs involve extended and uncertain court procedures which may limit the usefulness of this form of diligence. However, there is some evidence that Sheriff Officers in particular are using the threat of AOs and EAOs in the same way that they used the threat of poindings and warrant sales, relying on debtors' ignorance of the new protections to encourage payment.

A West of Scotland CAB reports that they have now had two cases of a firm of Sheriff Officers trying to serve an attachment order where it is obvious there is nothing to attach. One was 22 floors up in a tower block and the other was the top floor of a tenement building. No car was involved in either case, and outbuildings would be highly unlikely. More alarming is that they have said they will make return visits and the client should be there for them to gain access to the home. In both cases the CAB has advised the client to refuse entry at this stage.

An East of Scotland CAB reports of an unemployed female lone parent with three children aged 11, 10 and nine. She brought a letter from a firm of Sheriff Officers to the CAB which misrepresented the legal situation by stating:- "We enclose herewith a questionnaire in accordance with the Debt Arrangement and Attachment (Scotland) Act 2002. You are required to complete this document and return it to our office within the next five working days. Failure to do so will

⁶⁸ *Debt management, collection and recovery: a survey of trends and current practice.* Report by the Credit Management Research Centre, Leeds University Business School and Creditscorer Ltd, Credit Services Association, October 2003

result in an officer attending at your home on the2003 to carry out an Exceptional Attachment Order assessment. The granting of this procedure may result in the immediate removal of your non-essential household goods". The letter is accompanied by a questionnaire that states, 'ignoring this intimation could result in the auction of your assets'.

Fees and charges for non-payment

106. Table 23 shows that more than half of all clients face regular charges for being overdrawn or in arrears. In addition, failure to freeze interest, charging of fees for missed payments or for sending reminder letters, as well as high fee levels are also common practice. Many debtors also face court, solicitors or other enforcement fees.

Table 23: Nature of fees and charges

Nature of fees/charges	No of cases	% of clients mentioning this
Regular charges for being overdrawn/in arrears	152	57
One-off charges/fees for recovery action	78	29
Court fees	33	12
Sheriff Officer fees	35	13
Solicitor costs	12	5
Other enforcement costs/fees	28	10
Increased APR as a result of arrears	16	6
Other fees and charges	10	4

A West of Scotland CAB reports of a female client aged 60 who is in receipt of retirement pension. She could not afford to keep up payments on her car after her husband died. She still owes £722, but was required to pay £154 per month. The CAB negotiated payments down to £50 per month and a halt to interest charges. Even though the client has kept to the new agreement, the creditors keep sending letters saying she is in arrears and have levied late payment charges of £35 per letter. The CAB has written to them reminding them that an agreement has been reached and asking that they keep to their side of the agreement and cancel the late charges.

A West of Scotland CAB reports of a female client in her late forties. She is single, in full time employment and has multiple debts. One of her creditors has been telephoning her repeatedly – four times in the course of one day, despite CAB involvement and an offer of repayment having been made. The client later received a letter from the creditor stating that telephone calls are charged at £10 each.

107. Such actions can seem like a deliberate attempt to intimidate debtors into paying more than they can afford for fear of accruing a large amount of fees.

A West of Scotland CAB reports of a female client who receives carer's allowance and income support, as she lives with her mother who is on

attendance allowance. She had various debts to catalogues and home shopping agencies and so the CAB prepared a financial statement and sent out offers of pro rata payments. One creditor responded by accepting the offer of £6.45 every 28 days, but added an arrangement fee of £96.87 – this represented 10% of the account balance.

108. Arrangement fees of this kind appear to be legal where they are contained in the terms of the credit agreement, but they penalise those who are trying to deal responsibly with their debts by offering a sustainable, reduced rate of payment.

Clients' views of priorities

109. Clients with more than one debt were asked to indicate their view of the most important ones to deal with, and their responses are shown in Table 24. Priorities will depend on the mix of different types of debt that clients have, the degree of informal pressure by creditors, perception of the likelihood of court action or the actual enforcement action being taken by the creditor and perception of the consequences of not prioritising a particular debt.
110. It is clear that clients generally do prioritise those debts that the CABx treats as priority, such as mortgage or rent arrears, as they fear the loss of their home. However, personal and unsecured loans are a first priority amongst nearly half of those with such debts, usually because it is the largest amount owed or because of pressure from the banks to pay. Personal loans are also likely to be prioritised because to do otherwise may jeopardise continued access to banking facilities. Where clients have such debts but are not prioritising them, it is generally because they also have housing or council tax debt, which they perceive as a greater priority. The perceived likelihood of facing formal debt recovery action is the most frequent reason for prioritising council tax debt, although a number of clients with such debts also have rent arrears and these are usually prioritised over council tax.
111. It is clear that clients are generally not prioritising credit and storecard debts, although, where they do so, they say it is due to the cost of repayments and the large size of such debts. Personal and unsecured loans, council tax and housing debt are all greater priorities than credit card debts, with a similar pattern for storecards. Utility debts are less frequently a priority, as personal loans, council tax and housing debts take precedence. Around one in seven of those with cash loans say that this is their first priority. Whilst it is not known what proportion of these are made by doorstep lenders, case evidence above has illustrated the tactics used by debt collectors to embarrass or intimidate clients in face to face situations. It is such circumstances that can cause a client to prioritise these debts over others. Additional factors include the need for continued access to credit and a personal relationship built up with the lender's agent.
112. Of those that have a secured loan, only a fifth say the secured loan is their first priority. Of those not prioritising the secured loan, this is largely as they are giving greater priority to mortgage arrears, other debts where there is threatened or actual court action or other

creditor pressure, or debts due to family obligations for child maintenance. Where priority is being given to other non-priority debts, this may demonstrate a lack of understanding of the consequences of not making payments on a secured loan.

Table 24: Clients views of three main priority debts

Priority debt	Most important debt - % of clients with this debt	Second priority - % of clients with this debt	Third priority - % of clients with this debt
Mortgage arrears	71	8	0
Rent arrears	62	5	11
Personal/unsecured loan	47	14	13
Council tax etc	22	40	9
Secured loan	18	45	33
Cash loan	15	17	17
Overdraft	10	26	10
Credit card	8	31	34
Store card	8	15	20
Utilities	5	19	28

Payment protection insurance for consumer debts

113. Payment protection insurance is normally expected to cover the payments on a loan where the borrower is unable to work because of unemployment or illness for a limited period. Twenty eight percent of those with consumer debts say that they have payment protection insurance for at least one of those debts. This does not mean that the insurance covers all of their consumer debts. Of those that have some form of payment protection insurance, at the point of seeking advice two thirds have not taken any action in relation to claiming. Of those that have taken some form of action, fewer than 10% have been successful in their claims at the point of inquiry. Where reasons are known, the main reasons for unsuccessful claims seem to be ineligibility for general reasons, the nature of illness or the lapse of time.
114. Citizens Advice Scotland case evidence provides a fuller insight into the failures of payment protection insurance. Clients in non-standard employment such as agency work or self-employment, or those whose circumstances have changed since they took out the insurance, often find that they are not covered by payment protection insurance. In some cases, the insurance only covers the main wage earner or the first signatory on a loan agreement. Companies also claim that the particular nature of an illness is not covered by the policy. Frequently clients are not aware of such clauses or do not feel that the terms have been fully explained. Many clients feel pressurised to take out such insurance, yet it is clear that it is not unusual for it to be ineffective, and the additional cost can often exacerbate a client's financial problems⁶⁹. These findings endorse those of previous research that found that PPI has significant limitations in resolving debt problems when they arise^{70,71}.

⁶⁹ Citizens Advice Scotland, Insurance Briefing, February 2003

⁷⁰ *Security at Risk*, Citizens Advice, 1995.

⁷¹ *In too deep, CAB clients' experience of debt*. Citizens Advice and Citizens Advice Scotland, May 2003

Knowledge of the Debt Pack

115. The survey sought an early indication of the reach of the Debt Pack. Overall, thirty clients had seen the Debt Pack. This is less than one in five of those clients that should have seen it by virtue of being subject to some form of formal recovery action, demonstrating that the pack is not yet reaching its target group. However, of those that had seen it, a third said it was very easy to understand and over half said it was fairly easy to understand. In most cases it had prompted the visit to the CAB or another agency for advice.

The impact of debt on clients' lives

116. These findings demonstrate the scale and nature of debt. The survey did not investigate the social impact of debt as previous research has demonstrated the devastating impact that it can have on people's lives⁷². Financial pressures often cause arguments and relationship breakdown. Similarly debt can arise from changes in family circumstances. What may have seemed affordable when someone is in work or the household has two incomes can easily become unmanageable on the loss of a job, reduction in earnings or relationship breakdown. Debt can also be a cause of ill-health or aggravate existing health problems.

A West of Scotland CAB reports of a client couple who came in for advice after they had already sold their home due to debts and moved in with relatives. The husband had been unable to work for six months due to stress-related illness. The wife was beginning to have health problems and their 14 year old son had started bed wetting. They moved to privately rented accommodation while waiting for council property. Then the husband and son moved out to stay with his mother and the wife was living between rented accommodation and her mother's house. The husband is currently attending hospital and receiving treatment for stress. He is presently on half pay from his employer which will only last for another few months.

117. Dealing with debt is stressful in many ways. Debt can easily get out of control; people find themselves borrowing more to meet demands from creditors, then find that the debt spirals. Ease of access to credit, even amongst those already heavily indebted, can seem like a lifeline. However, ignoring underlying repayment difficulties simply makes debt problems worse in the long-run. Financial management may seem easier on a high income, but even this does not guarantee that debts will not get out of control.

An East of Scotland CAB reports of a middle-aged couple, both in full-time work, with a joint income of £2,500 per month. They have 35 credit cards, on which they owe a total of £187,000. In addition, they have three bank loans, one of which is secured, and a mortgage. The total debt, including the mortgage, is £275,193. The couple are not in arrears with any of their debts and have been making minimum payments of more than £4,500 each month. However, they have been doing so by using their credit cards, which has been getting them

further into debt. The clients approached the bureau having realised that their total indebtedness was getting out of control. They have now signed a protected trust deed, which will require that their house is sold as there is a substantial amount of equity. The bureau notes that the couple has never had any difficulty in extending their borrowing and, indeed, was told by one bank official that they had the best credit record he had ever seen.

A West of Scotland CAB reports of a client who was sent to the CAB by her bank as she had a loan from them. They refused to negotiate a reduced repayment, as they classed this as a new loan because it was under a year old. In fact, the loan was actually another consolidation loan and amounted to £24,000 (unsecured). This client had a range of other debts, including credit card debts, totalling £56,900, due to nine creditors. The client's husband was completely unaware of the situation, and she was desperate to keep it from him. She knew that she had a problem with borrowing money, and had already approached her GP who had not been able to help her. Despite having referred the client to the CAB, the bank refused to negotiate further. The bank knew she was married and owned property. As she was desperate to keep the facts from her husband, his income could not be disclosed, nor could the property be brought into the picture. The bank harassed her continually, sending threatening letters. It all got too much for this client who tried to commit suicide three weeks ago. She survived, and now more positively her husband is aware of the situation, and has been very supportive, as has the rest of her family who have rallied round. She has now signed a protected trust deed, which means that the bank will receive a restricted sum.

118. People are anxious about their debts. The experience of CABx is that clients want to repay, even if they have sometimes not sought advice at an earlier stage. However, these findings suggest that some clients clearly will not be able to repay the substantial sums they owe, due to the sheer scale of debt, their age and little prospect of a change in their financial circumstances. Inappropriate lending is a major factor in many cases.

An East of Scotland CAB reports of a 64 year old single male who has not worked since 1988 when he was injured at work. He has been on incapacity benefit and an industrial injuries-related benefit since then. He lives in a council property and has a small amount of rent

⁷² Op. cit.

arrears plus council tax arrears. He is paying an extra £17 per week in respect of the rent arrears, and his weekly income is £162. Over a number of years he has built up debts of £7,000 for four loans and an overdraft. He is finding paying the monthly instalments on his debts impossible. He is now extremely anxious about his debts and has thought about killing himself. The CAB has been collating information and they received a reply from one creditor in connection with a loan for £1,250. The loan was taken out in April 2002 for five years – the purpose of the loan was for a holiday. This loan also has insurance attached, which the client can only make limited use of as he is in receipt of incapacity benefit and therefore all pre-existing conditions are excluded. The CAB prepared a financial statement which shows a small surplus of £8 per week. When his rent arrears are brought up to date, he should have about £100 per month but this is based on a tight budget. This client is concerned that he will lose his house or that Sheriff Officers will come and take away his possessions. The CAB advised the client of his options, which are reduced payments, trust deed or bankruptcy. After further discussion, advice and literature being given to the client, he decided he would wait for a creditor to take legal action and hopefully he would then be able to apply for his own bankruptcy.

Debtor options and sources of advice

119. On the basis of the evidence presented here, it appears that creditors are less likely to be doing nothing to recover debts than indicated by the 2001 *In too deep* research. This is particularly true in relation to priority debts, where creditors are generally more likely to take steps to enforce payment. Nevertheless, it is clear that in the majority of cases, ordinary creditors are not taking formal action. It may be that creditors do not consider the expense of court action to be worth it unless they know the debtor has assets. However, it is not always legal action or the threat of it that is a trigger for people to seek advice. Informal actions, such as repeated telephone contact, intimidating behaviour or the threat of removal of an overdraft facility (or closure of banking facilities altogether), also prompt people to seek advice.
120. Most publications and media publicity on debt and money problems reaffirm that people should seek advice early to avoid the serious consequences of debt. Yet, many people do not do so.
121. People also seek advice through other advice agencies, and through telephone services such as the National Debtline and the Consumer Credit Counselling Service (CCCS). They may also use fee-charging agencies known as debt management companies. It is therefore likely that what is reflected in the experiences of CAB clients tells only part of the story. Yet, this research has demonstrated the escalating scale of debt amongst CABx clients in Scotland and the extent of consumer debt across all social groups. This must be merely the tip of the iceberg.

Conclusions and recommendations

122. Scottish CAB clients are in substantially greater debt than in 2001. Whilst the average number of debts has increased slightly to just over five, CAB clients are now more likely to owe larger amounts. Multiple debts are the most common scenario – under a fifth of clients are enquiring about a single debt and over a fifth have more than eight debts. The average amount owed has increased substantially since 2001. The scale of debt, high debt to income ratios and the prevalence of multiple debts all have implications for the operation of, and access to, the Debt Arrangement Scheme and other policy developments at both the UK and Scottish level.
123. Debt stress in Scotland has increased considerably. The 78% increase in the more cautious median measure of typical debt to income ratios may be a function of lower Scottish incomes than in the UK as a whole. Of course, people living in Scotland are subject to the same financial and consumer pressures and the same interest rates as elsewhere in the UK. The credit industry operates on a UK-wide basis, yet Scottish incomes cannot service that level of debt.
124. As well as being considerably poorer than the population of Scotland, CAB debt clients have little spare income from which to fund repayments as over half have less than £800 a month to live on. A similar proportion have no income other than pensions or benefits. The Debt Arrangement Scheme as it is currently constituted will be inaccessible to such debtors as debt payment programmes require there to be sufficient surplus income to make repayments. The sheer scale of debt uncovered in this research means that, realistically, some will never be able to repay their debts. The Scottish Executive should review the arrangements for the statutory Debt Arrangement Scheme and introduce pilots, as permitted by the legislation, to address the issues raised in this report.
125. Consumer debt is now near universal amongst CAB debt clients. Credit card debt is as much a debt of poverty as a tool of financial management. Other forms of debt, including priority debts, are still important and risk being overlooked in the UK policy debate, which tends to focus on consumer credit. Over a quarter of clients have tax debts (principally council tax) and utility and housing debts still affect a significant minority of clients. Market and policy pressures dictate that such creditors will continue to exert substantial pressure to recover these debts.

126. The greater spread of incomes amongst CAB debt clients, and the fact that clients have a different debt profile as they accrue more and larger non-priority debts, has implications for the service that CABx provide. Debtors are also more likely to be home owners than previously and this will affect their asset base and, therefore, the range of options open to them to deal with debt. This all has implications for the CAB Service as advisers will require greater knowledge of the ever more complex financial services market compared with a time when priority or social debts were the main issue.
127. The recent White Paper on regulation of consumer credit⁷³ has focused media attention on non-status lenders. Yet, most debts are owed to mainstream creditors, which are apparently reputable companies. It is evident that extortionate credit, high charges, bad lending practices and disreputable recovery actions are not the preserve of a fringe group of lenders. Lack of access to affordable credit, limited bargaining power and the marketing techniques of many lenders suggests that there is clearly a need for greater consumer protection, particularly for low income clients. We hope that the proposals developed following the recent White Paper on the consumer credit market will address these issues. Creditors should consider all the available evidence about existing commitments as a whole, before extending new credit or increasing the limits on existing facilities.
128. Local authorities are also significant as creditors and they demonstrate a greater tendency to take formal court action to recover debt for council tax and rent arrears. Where there is multiple debt, as in most cases reported here, ordinary creditors will compete with each other to get their loans repaid ahead of those of other creditors. Even local authorities may find that debtors are prioritising other debts due to creditor pressure. Given this level of creditor competition, there is even more need to protect those with very low incomes from unduly harsh recovery methods yet, as noted above, the Debt Arrangement Scheme is likely to exclude them. It is important that debt is treated holistically, particularly given multiple debt is such a common situation.
129. Many people do blame themselves for their debts, but for many the situation is connected to low income, a drop in income, job loss and illness or disability. Lenders must also share the responsibility. Easy access to credit, irresponsible lending and high credit charges also contribute to the situation. The ease with which debtors can undertake further borrowing

⁷³ *Fair, Clear and Competitive: the Consumer Credit Market in the 21st Century*, Department of Trade and Industry, Cm 6040, December 2003

is a testament to the fact that lenders do not always consider all the available evidence about a consumer's commitments as a whole, before extending new credit or increasing the limits on existing facilities. The greater significance attributed by clients to a drop in income and low income is an indication of how vulnerable many people are to an unexpected change in their circumstances. Informal creditor pressure, particularly from banks, can also be a factor in the prioritisation of consumer debts over other priority debts and this may put debtors under greater risk of court action, loss of goods or services or even their home.

130. Although creditors are less likely to be doing nothing to recover debts than in 2001, a degree of complacency is evident in the fact that, at the time of debtors seeking advice, over a fifth of all creditors had taken no action at all. This is particularly true of ordinary creditors for whom there may be no point in taking legal action. Creditors may prefer to wait for clients' circumstances to change and, in any case, informal actions may be more effective in the long run. In many cases, neither party would want court action although informal actions can still be very distressing for clients. This situation may give debtors a respite but that could be short-lived now that interest rates have started to rise and if creditor attitudes shift, or indeed, they become more familiar with Scottish legal procedures, a great deal of further distress could result.
131. There are some early indications of the strategies adopted by local authorities, creditors and Sheriff Officers in response to the new legal provisions. Although there were few examples of the use of Attachment Orders there is some case evidence that Sheriff Officers, in particular, are using the threat of AOs to encourage payment, in the same way that they used the threat of poindings and warrant sales, relying on debtors ignorance of the new protections. We welcome guidance issued by the OFT on debt collection and expect it to be stringently enforced and regularly reviewed.
132. The Debt Pack is not yet fully reaching its target group. The majority of debt clients that should have seen the Debt Pack had not done so. The Scottish Executive should clarify the circumstances in which creditors are required to distribute the Debt Pack and keep this under review to ensure that those facing a debt crisis have access to the information they need.
133. Debt is a stressful experience. Whilst CAB clients want to service their debts, it is evident that some clients will not be able to repay the substantial sums they owe due to the sheer

scale and number of debts. More older people now have debt than previously, so increasing age and the lack of a prospect of an improvement in financial circumstances mean that some people will never be able to repay their debts.

134. Both debtors and creditors could avert problems by addressing them as early as possible; this, however, will increase the demands on advisers. It is likely that the recent increases in the number of debt enquiries to CABx will continue due to the scale and complexity of multiple debt. In addition, the proposed statutory Debt Arrangement Scheme suggests that applicants should have access to free money advice to negotiate and prepare applications. Demand for advice will also increase as a direct result of the provisions of the Debt Arrangement and Attachment (Scotland) Act 2002. These developments will stretch existing resources and the Scottish Executive should ensure that there is sufficient provision of high quality money advice, keep this under regular review and guarantee that resources are made available to cope with the increased demand.
135. There is a need for the development of alternatives to high-cost credit. Financial institutions should develop simple and straightforward credit products which meet the needs of low income consumers. This could be in partnership with Credit Unions, social landlords and other agencies.
136. Extensive reform of the Social Fund is also needed to improve access to the fund and to ensure that it provides help for people when they need it most. Eligibility should be extended for community care grants and budgeting loans to enable them to better meet the needs that arise at particular life events and repayment should be permitted at modest rates.
137. Some form of social lending as in other European countries has been suggested by other research⁷⁴. This could provide affordable credit to people who would otherwise tend to use extortionate credit. Both the Social Fund and Credit Unions have the potential to give low income households access to cheap credit.
138. In drafting new relevant legislation, both Parliaments should look for opportunities to encourage and signpost people to seek advice at the earliest opportunity.

⁷⁴ Extortionate Credit in the UK - A report to the Department of Trade and Industry, Elaine Kempson and Claire Whyley - June 1999, available at: <http://www.dti.gov.uk/ccp/topics1/extortionate.htm>

139. Both the UK government and Scottish Executive should publicise the debtor protection measures that are in place. This should include reference to OFT guidance and the debt protection element of the Debt Arrangement and Attachment (Scotland) Act 2002. There should also be on-going publicity about the need to seek advice at the earliest opportunity, particularly where circumstances change.

Appendix I: Research design

This research is based on a survey of debt clients visiting thirteen Scottish CABx between 22nd September and 17th October 2003. In addition, evidence is drawn from the CAB social policy statistics and anonymised case evidence sent to the CAS social policy team, based on local cases from bureaux that indicate wider concerns and problems in their area.

The design of the research was undertaken in collaboration with a Debt Research Working Group (DRWG) comprising staff from CAS's social policy and money advice sections as well as advisers from participating CABx. The research also drew on the expertise of a Debt Research Advisory Group (DRAG). Both groups discussed and refined the research objectives, detailed below:

Objectives

- To assess the volume and nature of debt amongst CAB clients
- To build a demographic and social profile of CAB clients in debt
- To understand the underlying institutional and individual causes of debt
- To assess whether clients visiting the CAB who should have received the Scottish Executive debt pack have done so
- To explore client understanding of the debt pack and it's role in promoting their visit to the bureaux
- To explore the operation of new forms of enforcement and debtor protection provisions
- To examine the strategies adopted by local authorities, creditors and sheriff officers in response to the new legal provisions, specifically:
 - To assess the impact of the introduction of EAOs on the use of other forms of diligence, such as bank arrestments and earnings arrestments
 - Negotiation with creditors
 - The incidence of sequestration

An exercise was undertaken with the DRWG to examine the expectations amongst them about what they might anticipate to find was happening, particularly in relation to debt enforcement, and this informed the design of the questionnaire. The DRWG also made detailed comments on the areas of questioning, details of question wording, piloting arrangements and other practical aspects of the fieldwork.

The questionnaire was designed for use by CAB advisers when advising a client with a debt query. It was intended to reduce the need to ask additional questions to those that an adviser would ask anyway, in order to respond to the client's query.

The draft questionnaire was piloted with three bureaux during a week in August 2003. This raised a number of issues about data quality, training for advisers who were to administer the questionnaires and questionnaire design issues. The questionnaire was subsequently reduced in scope in order to make it more manageable.

CABx sample characteristics

Bureaux	Opening hours	No. of client contacts 2001/02	% of debt issues in relation other work	Specialist money advice session	Paid money specialist staff	Court reps	Manager hours	Deputy manager hours	No. of volunteer advisers	Debt handled 2001/02
Airdrie	31.0	8,798	9.65	Yes	1	Yes	35	35	5	£2,831,124
Argyll*	34.0	N/a	N/a	No	0	No	35	0	23	N/a
Clydesdale	20.0	7,842	10.16	Yes	1	No	34	0	14	£1,532,909
Dundee	32.5	13,499	10.47	Yes	0	No	35	35	26	£853,643
East Dunbartonshire	30.5	7,329	14.27	Yes	1	No	35	35	26	£2,467,189
Falkirk	31.5	9,171	13.69	Yes	0	No	35	0	34	£1,848,784
Glasgow – Easterhouse	26.5	8,628	27.75	Yes	1	Yes	35	35	36	N/a
Glasgow – Greater Pollok*	26.5	N/a	N/a	Yes	1	Yes	35	35	25	N/a
Hamilton	27.5	4,447	21.46	No	0	Yes	35	20	18	£1,650,000
Inverness	35.0	18,139	13.52	Yes	2	No	35	30	25	£2,494,108
Motherwell	32.0	17,532	14.18	Yes	0	No	35	0	35	£1,958,825
Shetland	22.5	2,612	11.56	Yes	1	No	35	35	8	£427,908
Skye	29.0	2,614	11.21	Yes	2	Yes	35	0	5	N/a
Scottish average	24.8	6,881	14.65	0.55	0.89	0.35	35.94 hrs	8.1 hrs	21.64	Approx £1,519,974
Sample average**	28.9	9,146	14.35	0.85	0.77	0.38	34.92 hrs	20 hrs	21.54	Approx £1,784,943

* Figures not available for 2001/02. 2002/03 figures, where available, are estimates.

** The average has been worked out using a base of the number of bureaux for which information was available.

Thirteen CABx took part in the fieldwork from across Scotland. In most respects, these are broadly similar to all CABx in Scotland, although they are more likely to hold specialist money advice sessions. According to 2001/02 figures:

- Thirty-four out of 62 CABx offices hold a specialist money advice session. However, only two bureaux in the sample do not.
- All Scottish CABx employ 103 specialist staff in total, with 55 of that number specialising in money advice. The mean nationally for number of money advisers per bureau is 0.89. The mean in the sample is 0.77.
- Twenty-two out of 62 CABx offices provide court representation. However, five bureaux in the sample provide court representation. The mean *number of bureaux* providing court representation is 0.35. The mean in the sample is 0.38.
- Fifty-three out of 62 CABx offices have a full-time manager (other bureaux have part-time managers). All CABx in the sample have a full time manager.
- Twenty out of 62 CABx offices have a paid deputy manager, whereas seven in the sample do.
- There are 1,342 volunteer advisers across all CABx.
- The 47 bureaux that responded to the question reported handling debt of £71,438,776 that year. This can be extrapolated to suggest a total figure in excess of £95 million for 2001/02.

CAS staff visited all participating bureaux before the fieldwork started in order to brief advisers on the purpose of the research and detailed aspects of managing the fieldwork. Advisers were instructed to get informed consent from clients before proceeding with the survey. They also explained to clients the purpose of the research, that it is confidential, voluntary and that participation in the survey would not affect in any way how the CAB adviser assists them to deal with their finances.

During the four-week fieldwork period, a total of 268 clients were recorded with a debt query. This compares with a total of 116 Scottish clients recorded in the 2001 *In too deep* research.

Eighty six percent of forms were completed in person by advisers at the participating CAB, with the remaining ones completed in relation to telephone enquiries. Total returns from each CAB during the fieldwork period are detailed below.

Details of distribution of responses

CAB	No of cases	% of total
Airdrie	15	6
Argyll and Bute	9	3
Clydesdale	24	9
Dundee	8	3
East Dunbartonshire	44	16
Falkirk	17	6
Glasgow -Easterhouse	21	8
Glasgow -Greater Pollok	13	5
Hamilton	26	10
Inverness	21	8
Motherwell and Wishaw	24	9
Shetland	24	9
Skye and Lochalsh	22	8
Total	268	100

Debriefing

The DRWG met to discuss the initial findings and to provide a de-brief of their experience of the fieldwork. They had found that the pre-fieldwork visits by CAS staff were helpful and that this had motivated advisers. However, there were a number of factors that may have affected the overall number of returned questionnaires.

Some CABx reported a lack of staff over the fieldwork period, which would limit the number of clients they could deal with. There were also a number of bank holidays in parts of the country that may also have lowered the number of debt clients bureaux saw.

CABx also noted that it was easier for clients to decline to participate in the survey over the telephone.

Analysis

The DRWG and the DRAG have both commented on all drafts of this report and have made suggestions for further analysis.

Members of the Debt Research Working Group

Isobel Hall, Falkirk CAB

Gill May, Hamilton CAB

Brenda Tambarinni, Glasgow – Easterhouse CAB

Jimmy Rafferty, Clydesdale CAB
Anne Burke, East Dunbartonshire CAB
Gavin Dempster, Motherwell and Wishaw CAB
Joy Melville, Dundee CAB
Iain Russell, Airdrie CAB
Sylvia White, Shetland CAB
Helen Timbrell, Argyll and Bute CAB
Margaret Anderson, Inverness CAB
Catriona Maclean, Skye and Lochalsh CAB
Sheena Campbell, Glasgow – Greater Pollok CAB
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Lindsay Isaacs, CAS
David McNeish, CAS
Susan McPhee, CAS

Members of the Advisory Group

Sarah O'Neill, Scottish Consumer Council
Robbie Clyde, Social Justice Group, Scottish Executive
Mike Dailly, Govan Law Centre
Anita Morrison, Legal Studies Research Branch, Scottish Executive
Simon Stockwell, Home and Social Division, Scotland Office
Graham Blount, Scottish Churches Parliamentary Office/Debt on our Doorstep
Tracy Moore, Office of Fair Trading
Barbara Powell, Office of Fair Trading
Beccy Reilly, Citizens Advice Scotland
Mark Berman, Citizens Advice Scotland
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Luska Jerdin, Social Justice Group, Scottish Executive
Douglas Ellis, Home and Social Division, Scotland Office
Kerry Jones, Senior Policy Adviser, Department for Trade and Industry
Yvonne Gallagher, Money Advice Scotland
Paul Hunter, Consumers and Retail Products Team Leader, Financial Services Authority
Cathy Sharp, Research for Real
Abigail Bremner, CAS

Lindsay Isaacs, CAS

Susan McPhee, CAS

Case evidence

Case evidence was drawn from examples highlighted by the fieldwork and from recent anonymised case evidence collected from CABx by the social policy team. The selection of case evidence was made in order that it might be illustrative of an issue identified in the survey. Cases are indicative but not necessarily typical, representative or indeed, worst case scenarios.

Calculation of debt to income ratios

There were a total of 268 returned survey forms. Given that a number had some missing information for key variables, these have been excluded from different elements of the analysis. All extreme values for income and debt amounts have been checked manually, errors corrected and any doubtful figures excluded from the analysis. Note that debts do not include outstanding mortgages, but do include mortgage arrears.

Overall, there are 250 cases that have both valid debt and income data for which debt to income ratios have been calculated. Analysis of average debt to income ratios by other key independent variables are based on the valid number of cases for that variable, so for example, there are 247 valid cases for gender. All other independent variables used have either 249 or 250 valid cases.

In nine cases, debts represented commitments of more than a hundred times the net monthly income figure. These cases have been further checked. They are all associated with job loss and/or a drop in income associated with job loss, retirement or relationship breakdown. To some extent, these figures reflect the immediate crisis situation; debts have been taken out when incomes were higher and the ratio reflects the fact of a change in circumstances and sudden drop in income. In the very lowest income cases, clients were either awaiting the outcome of a benefit application or were working but receiving very low wages.

Appendix 2: Survey questionnaire

CITIZENS ADVICE SCOTLAND



DEBT RESEARCH PROJECT 2003

QUESTIONNAIRE

Please direct any questions about this research to the person co-ordinating the research in your bureau in the first instance, or to Abi Bremner, Social Policy Officer, at Citizens Advice Scotland (0131 550 1014; abigail.bremner@cas.org.uk)

**CITIZENS ADVICE SCOTLAND
DEBT RESEARCH PROJECT 2003**

Instructions for advisors

This questionnaire is to be used with all new and returning CAB clients with an issue relating to debt on which the CAB is advising during the period **22 September – 10 October 2003** inclusive.

Advisers may complete this form in person or over the telephone. Where a couple come in together to inquire about their debt, questions 3-5 should be completed for one of the couple only. The couple can decide which of them gives the information for these questions. If they are undecided, please select the client whose first name is first in the alphabet. All the remaining questions apply to those who are liable for the debt, whether individually or jointly.

Questions are numbered and written in bold. Some have a preamble that may be read to the client. Instructions to advisors are in *italics*.

Please complete the questionnaire as fully as possible. It may be possible to fill in some of the information after an interview, as you will need it for the purposes of advising the client. In such cases, please make sure you collect all other the information from the client, before ending an interview.

In general, advisers should ask the client the question *as it appears on the form*. Most have pre-coded answers that require you to circle the appropriate response. Questions 13-17 are designed to enable advisers to ask for this information in their usual way as part of the interview, and then to code appropriately.

Some questions will not apply to all clients. Follow the instructions that route you to the next relevant question, but take care not to miss out any relevant questions.

You will need a copy of the Scottish Executive 'Dealing with Debt' leaflet to use as a prompt for Q18 and a SHOW CARD (provided) for Q11 and Q13.

Before you begin, if another adviser may have seen the client during survey period, check that they have not already completed a questionnaire.

Advisers should familiarise themselves with the questionnaire before the beginning of the research period. If you make any mistakes please cross them out clearly.

Completed questionnaires should be stored in a secure place and returned to CAS at the end of EACH WEEK.

Please explain the following to the client

- This survey is being undertaken by The CAB Service to build up a better picture of the types and extent of financial difficulties across Scotland and to see how recent changes in the law are affecting people.
- We expect several hundred people to take part in this survey.
- It is confidential. No individual client will be identifiable in the reporting of the results.
- Participation in the survey is voluntary; it will not affect in any way how the CAB adviser will assist the client to deal with their finances.
- Some of the questions are similar to those that the adviser will need to ask anyway to help with an enquiry. Others are only necessary for the purpose of the research.

Then

- **CHECK** client has not already completed a questionnaire.

Afterwards

- **THANK THEM** for taking the time to answer our questions.

ASK ALL CLIENTS

I need to establish who is liable for the debt that you are seeking advice about. To do this I need to ask you a few questions about yourself and the people you live with.

1. First of all, can you tell how many adults and children live in your household? That is, who lives in your home with you, whether or not they are related to you?

Include the client when calculating household size. Code replies as follows:

One adult, no children	1
One adult, one or more children all under 16	2
One adult, one or more children, at least one over 16	3
Couple, no children	4
Couple, one or more children all under 16	5
Couple, one or more children, at least one over 16	6
At least two (unrelated) adults	7
Other households (please state)	8

2. Now, we need to establish who is (legally) responsible for repayment of the debts that you are inquiring about today?

Code replies as follows:

Client <u>only</u>	1
Client and spouse/partner of client	2
Spouse/partner of client <u>only</u>	3
Adult child of client (over 16)	4
Former spouse/partner of client no longer living with client	5
Other unrelated adult that lives with client	6
Other (please state)	7

Now a few questions about the person who is liable for the debt.

3. What is your/their age?

16-17	1
18-24	2
25-34	3
35-54	4
55-59	5
60-74	6
75+	7

4. Gender

Male	1
Female	2

5. Employment status of the person who is liable for the debt.

a) ASK ALL		b) If employed, ASK	
Employed FT (30+ hrs per wk)	1	Temporary	1
Employed PT (<30 hrs per wk)	2	Permanent	2
Self-employed FT (30+ hrs per wk)	3		
Self-employed PT (<30 hrs per wk)	4		
Unemployed	5		
Retired	6		
Student	7		
Looking after family/home	8		
Sick/disabled	9		
Other	10		
Missing OFFICE USE ONLY	99		

6. Do you or anyone in the household have any long term limiting illness, health problem or disability that limits your/their daily activities or the work you/they can do?

- Yes 1
- No 2

7. Do you/the liable person own or rent your home?

- Own home – no mortgage 1
- Own home – with mortgage 2
- Rent from Council or other public sector 3
- Rent from Housing Association/co-op/charitable trust 4
- Rent from private landlord/employer 5
- Live with parents/family 6
- Live rent-free 7
- Other (*please state*) 8

8. What are the sources of income for your household?

Check that household refers to the people that have liability for the debt established at Q2 above. For example if the client is an adult living with their parents, only the client's income is relevant if s/he has sole liability for the debt.

(please circle all that apply)

- Income from work 1
- Income Support 2
- Housing Benefit 3
- Council Tax Benefit 4
- State Retirement Pension 5
- Occupational Pension 6
- Pension Credit/ Minimum Income Guarantee 7
- Jobseeker's Allowance 8
- Incapacity Benefit 9
- Disability Living Allowance/Attendance Allowance 10
- Other disability benefits 11
- Child Benefit 12
- Working Tax Credit 13
- Child Tax Credit 14
- Student Loan 15
- Income from parents 16
- Child maintenance 17
- Other 18

- Missing OFFICE USE ONLY 99

9. How much is the net monthly household income? Please include income from all sources after deductions like tax and national insurance contributions. Check that household refers to the people that have liability for the debt established at Q2 above. For example, income from an adult child living in the same household is not relevant unless that person is jointly liable for the debt.

ENTER AMOUNT £ **MISSING 99 OFFICE USE ONLY**

10. Please tell me up to *three* main reasons why you think you are in financial difficulties?
(Don't prompt; please record full reasons)

a)

b)

c)

11. Now looking at this list (SHOW CARD) are there *any other reasons* why you think you are in financial difficulties? *(Circle all that apply)*

Retirement	1	Taken on first home/tenancy	12
Job loss	2	Delay in paying benefits	13
Low income	3	Delays in payment of Tax Credit	14
Illness/disabilities	4	Easy access to credit	15
Relationship breakdown	5	Misunderstanding of repayment terms	16
Having children	6	Failure of payment protection insurance	17
Money mismanagement/budgeting problems	7	Failure of mortgage indemnity insurance	18
Death/death related expenses	8	Alcohol and drug addiction	19
Unexpected major necessary expenses	9	Use of cheque cashing facility	20
Drop in income	10	Business related problems	21
Fault of others in the household/family	11	High interest rates or credit charges	22
		Other <i>(please state)</i>	23
Missing OFFICE USE ONLY	99		

12. How have you been managing your debt until now?

(Circle all that apply)

Borrowed from friends/family	1
Taken another job	2
Taken on more work/overtime	3
Further loans/borrowing	4
Used credit	5
Used Debt Management Companies	6
Used Cheque Cashing facilities	7
Juggled finances	8
Tried to negotiate with creditors	9
Gone without essentials	10
Sought advice from CAB or other agency	11
Done nothing to address the problem	12
Other <i>(please state)</i>	13
Missing OFFICE USE ONLY	99

PLEASE COMPLETE THE GRID OPPOSITE FOR EACH DEBT.

(photocopy and continue on extra grid if necessary)

Now I want to ask about each of the debts that you have in turn.

Q13. Please clarify the type of debt and categorise each according to the following key.

There is no need to name the creditor

Personal/ Unsecured loan (eg. bank loan)	1	
Cash loan (eg. doorstep loan, family loan)	2	
Secured loan	3	
Hire purchase agreement	4	
Consolidation loan	5	
Overdraft	6	
Credit card	7	
Store card	8	
Catalogue	9	
Other consumer debt (<i>please state</i>)	10	
Credit Union	11	
Student debt	12	
Council tax/Community Charge/Poll Tax (incl. water & sewerage charges)	13	
Utilities, including fuel, mobile phones etc	14	
Social Fund	15	
Repayment of overpayments of benefits	16	
Repayment of overpayments of Working Tax Credit/Children's Tax Credit	17	
Child maintenance including Child Support Agency	18	
Income tax/National Insurance contributions	19	
Rent arrears	20	
Mortgage arrears	21	Missing
Other - including employment and legal debts (<i>please state</i>)	22	OFFICE USE ONLY 99

Q14. Amount owed for each debt (Enter in £)

Q15. Type of creditor (Local Authority/ Mainstream (like high street banks etc)/ Non-Status (or 'sub-prime,' lends to those who have problems accessing credit eg. doorstep lender)/ Don't Know)

Q16. Record the last action undertaken by the creditors to recover the debt according to the following key: (code one only)

No action to date	1	
Reminder letters	2	
Default notice issued	3	
Referral to debt collection agency	4	
Referral to Sheriff Officers	5	
Court action initiated/decreed obtained	6	
Summary Warrant obtained	7	
In negotiation with CAB	8	
Repayment plan agreed	9	Missing
Don't know/Client is uncertain	10	OFFICE USE ONLY 99

Q17. Details of formal recovery actions by creditor.

(Code one only. Code last action for each debt)

Charge for Payment obtained	1	
Summary warrant obtained	2	
Bank Arrestment	3	
Notice of Earnings Arrestment	4	
Earnings arrestment	5	
Threat of sequestration by creditor	6	
Sequestration proceedings initiated	7	
Threat of Attachment Order or EAO	8	
Notice of Attachment Order	9	
Attachment Order	10	
Notice of Exceptional Attachment Order	11	
Exceptional Attachment Order	12	
Threat of repossession	13	
Repossession proceedings commenced	14	
Other (<i>please state</i>)	15	Missing
No formal action taken	16	OFFICE USE ONLY 99

COMPLETE THIS GRID FOR EACH DEBT

For each debt	13. Type of debt (<i>code according to key above</i>)	14. Amount owed (<i>Enter in £</i>)	15. Type of creditor LA /M / NS / DK	16. Last action taken by creditor (<i>code one only according to key above</i>)	17. Details of formal recovery procedures (<i>code one only/last action according to key above</i>)
1 st					
2 nd					
3 rd					
4 th					
5 th					
6 th					
7 th					
8 th					
9 th					
10 th					
11 th					
12 th					
13 th					
14 th					
15 th					
16 th					

BEFORE GOING ANY FURTHER PLEASE DOUBLE CHECK YOU HAVE RECORDED ALL THE INFORMATION REQUESTED ON EACH DEBT ON THE PREVIOUS GRID

18. ASK ALL (except those who have **not** had formal recovery action taken against them – coded 16, at Q17 above)

Show 'Dealing with Debt' booklet as a prompt.

a) Have you been sent or given a copy of this publication?

- | | | |
|----------------|---|-----------------------|
| Yes | 1 | [if yes, ask b and c] |
| No | 2 | Go to Q19 |
| Not sure | 3 | Go to Q19 |
| Not applicable | 8 | OFFICE USE ONLY |
| Missing | 9 | OFFICE USE ONLY |

b) How easy or difficult was it to understand?

- | | | |
|----------------------------|---|-----------------|
| Very easy | 1 | |
| Fairly easy | 2 | |
| Neither easy nor difficult | 3 | |
| Fairly difficult | 4 | |
| Very difficult | 5 | |
| Not applicable | 8 | OFFICE USE ONLY |
| Missing | 9 | OFFICE USE ONLY |

c) Have you taken any action as a result of receiving this document?

- | | | |
|--|---|-----------------|
| Yes, came here for advice | 1 | |
| Yes, went to another agency for advice | 2 | |
| Yes, other (please specify) | 3 | |
| No | 4 | |
| Not applicable | 8 | OFFICE USE ONLY |
| Missing | 9 | OFFICE USE ONLY |

ASK ALL CLIENTS

19. Please record all other aspects of creditor or debt collector conduct.

(Please indicate all that apply)

	YES	NO	
Negotiating or agreed repayment terms with CAB	1	2	
Rejection of client financial statement or offer of repayment	1	2	
Threat of or disconnection of services	1	2	
Refusal to negotiate with CAB	1	2	
Allocation of payments received to previous year's council tax arrears	1	2	
Use of different firms of Sheriff Officers to pursue different year's council tax debts	1	2	
Pressure to take out Consolidation Loan	1	2	
Pressure to re-finance/further borrowing	1	2	
Behaviour or language that seeks to pressurise debtor	1	2	
Threat of debt recovery without court action	1	2	
Misinformation to debtor	1	2	
Fees/charges for non-payment including court fees	1	2	<u>go to Q20</u>
Threat of repossession	1	2	
Repossession proceedings commenced/completed	1	2	
None of the above	1	2	
Other (please state)	1	2	

ASK ALL CLIENTS WHO HAVE INCURRED EXTRA CHARGES INCLUDING COURT RELATED FEES AND COSTS

20. What administration charges and fees have you incurred as a result of being in debt?

(Please code all that apply)

	YES	NO
Regular charges for being overdrawn/in arrears	1	2
One-off charges/fees for recovery actions	1	2
Court fees	1	2
Sheriff Officer fees	1	2
Solicitors costs	1	2
Other enforcement costs/fees	1	2
Increased APR as a result of being in arrears	1	2
Other (please state)	1	2
Not applicable	8	OFFICE USE ONLY
Missing	9	OFFICE USE ONLY

ASK ALL CLIENTS WITH MORE THAN ONE DEBT

21. a) For all of your debts, which do you consider to be the most important to deal with?

(please indicate the three most important, 1 being the most important)

Personal/ Unsecured loan (eg. bank loan)	
Cash loan (eg. doorstep loan, family loan)	
Secured loan	
Hire purchase agreement	
Consolidation loan	
Overdraft	
Credit card	
Store Card	
Catalogue	
Other consumer debt (please state)	
Credit Union	
Student debt	
Council tax/Community Charge/Poll Tax (incl. water & sewerage charges)	
Utilities, including fuel, mobile phones etc	
Social Fund	
Repayment of overpayments of benefits	
Repayment of overpayments of Working Tax Credit/Children's Tax Credit	
Child maintenance including Child Support Agency	
Income tax/National Insurance contributions	
Rent arrears	
Mortgage arrears	
Other - including employment and legal debts (please state)	

b) Why is that? *(please record brief details of response)*

ASK ALL WITH CONSUMER DEBTS

22. a) Do you have payment protection insurance for any of your consumer debts?

- | | | |
|----------------|---|------------------|
| Yes | 1 | <u>ask 22 b)</u> |
| No | 2 | |
| Don't know | 3 | |
| Not applicable | 8 | OFFICE USE ONLY |
| Missing | 9 | OFFICE USE ONLY |

b) What action have you taken in relation to the payment protection insurance?

c) Please give reasons why you have not claimed or why the claim was unsuccessful.

ASK ALL CLIENTS

23. Do you have a prepayment meter for gas or electricity?

- | | |
|-----------------------|---|
| Yes, both | 1 |
| Yes, gas only | 2 |
| Yes, electricity only | 3 |
| No, neither | 4 |

**THANK YOU FOR TAKING PART IN THIS SURVEY.
Please reassure client of confidentiality.**

To be completed by advisor at the end of the interview

NAME OF ADVISOR COMPLETING FORM			OFFICE USE ONLY	
24. FORM WAS COMPLETED	In person Over the phone	1 2		
NAME OF BUREAUX (Write in)			Q25. CAB CODE (enter)	

Please return completed questionnaires to:

Debt Research
Social Policy Section
Citizens Advice Scotland
Spectrum House
2 Powderhall Road
Edinburgh
EH7 4GB

TO HELP WITH PROCESSING, PLEASE
RETURN QUESTIONNAIRES AT THE END OF
EACH WEEK

That's Friday 26th September

Friday 3rd October

Friday 10th October

**PLEASE RETURN ALL QUESTIONNAIRES NO LATER THAN
FRIDAY 17TH OCTOBER!**

REPORT SUMMARY

'On the Cards' is based on a detailed survey of debt clients from Citizens Advice Bureaux across Scotland, in both rural and urban areas. It shows that:-

- There has been an explosion in consumer debt problems brought to CABx in Scotland over the last two years – the average debt is £13,380, a 64% increase since 2001. Over one in five debt clients have debts of more than £20,000 with individual clients owing between £145 and £94,601 – excluding mortgages.
- Storecard and credit card debts are common to every income group, from those on very low incomes to the higher ranges. Of those who had credit card debts, 14% had five cards or more, while some had up to 13 different credit card debts.
- Four out of five creditors are taking action to pursue their debts, with one in four debt clients reporting that they were being pressured or harassed. One in six clients had been threatened with unlawful debt recovery methods.

Citizens Advice Scotland and its member CABx form Scotland's largest independent advice network. CAB advice services are delivered from around 200 service points throughout Scotland, from the islands to the city-centres.

The CAB Service aims:

To ensure that individuals do not suffer through lack of knowledge of their rights or responsibilities, or of the services available to them, or through an inability to express their needs effectively;

and equally:

To exercise a responsible influence on the development of social policies and services, both locally and nationally.

The CAB Service is independent and provides free, confidential and impartial advice to everybody regardless of race, sex, disability or sexuality.

Contact details

Citizens Advice Scotland
First Floor, Spectrum House
2 Powderhall Road
Edinburgh
EH7 4GB

tel: 0131 550 1000

fax: 0131 550 1001

web: www.cas.org.uk

e-mail: info@cas.org.uk

need advice: www.adviceguide.org.uk

Price £8

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