

# Debt

## On the cards - the debt crisis facing Scottish CAB clients

Debt continues to be one of the most significant problems brought to the 70 Citizens Advice Bureaux (CABx) across Scotland.

Citizens Advice Scotland's latest report, **On the cards**, is based on a detailed survey of debt clients from representative Citizens Advice Bureaux (CABx) across the country, in both rural and urban areas. The research 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 such debts, 14% had five cards or more, while some had up to thirteen 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.

Consumer debt is the biggest single issue dealt with by the CAB Service in Scotland. It accounts for one in ten of all new enquiries and has increased year on year over the past five years.

In 2002/03, bureaux advisers in Scotland dealt with £123 million of new debt.

**||** *An East of Scotland CAB reports of a client aged 58 who is unemployed, has a disability and is in receipt of benefit. He has not worked for three years, but during this time he and his partner have run up credit card debts and personal loans of £14,000. It has now reached the stage where they can no longer afford to maintain the payments, other than by borrowing from another creditor.*

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## Key Findings

Within our research group:

- Nine out of ten debt clients have some form of consumer debt, half have at least one credit card debt, and half have a personal or unsecured loan. One in every four debt clients has at least one storecard debt, or owes council tax, or has an overdraft
- Four in every five debt clients have multiple debts, with nine out of ten debts being owed to mainstream creditors. The average number of debts was approximately five, with one in every five clients servicing eight or more debts
- There are more better-off people in debt than two years ago. Nevertheless, over half of CAB debt clients have monthly household incomes of less than £800, and almost one quarter live on less than £400 per month. Half have no income other than pensions or benefits
- On average, for every £1 of monthly income, clients owed almost £22 of debt, excluding their mortgage. This level of debt stress has nearly doubled in the last two years
- Changes in circumstance and chronic causes of poverty - such as a drop in income, job loss, illness, low income or disability - are major contributing factors to debt problems, as are high interest rates, credit charges and easy access to credit
- While consumer debt predominates, one quarter of debt clients had outstanding council tax debt, with utility and housing debt affecting a significant minority
- One in six debt clients felt under pressure to take on further borrowing or had their offers for repayment rejected. Just over half had borrowed more money in an attempt to deal with their debt problem.

## Citizens Advice Scotland's proposals for change

- Lenders need to lend responsibly, to ensure that access to credit does not exacerbate existing debt problems
- The Scottish Executive needs to look at ways of broadening access to the Debt Arrangement Scheme to encompass those with limited disposable incomes
- Action needs to be taken on creditor harassment, and to ensure debtors are more aware of their rights
- Debtors need to be encouraged to seek advice at earlier stages – with more resources going into frontline advice services.

## Case Evidence

**||** *A South of Scotland CAB reports of a client whose debt was being pursued aggressively by a firm of debt collectors. They threatened to take her furniture if the debt wasn't paid in full. She borrowed cash from her brother's credit card to make the full payment and to stop the company harassing her.*

**||** *A West of Scotland CAB reports of a client aged 60 in receipt of pension and benefit who owes the bank £13,000. His offer of reduced payments was rejected, with the bank insisting on a consolidation loan instead – increasing the overall amount due.*

**||** *An East of Scotland CAB reports of a single client with a disability in receipt of benefit. She had obtained a credit card despite her low income. After missing one payment and exceeding her limit, she has accrued monthly charges and interest that have quadrupled her original borrowing.*