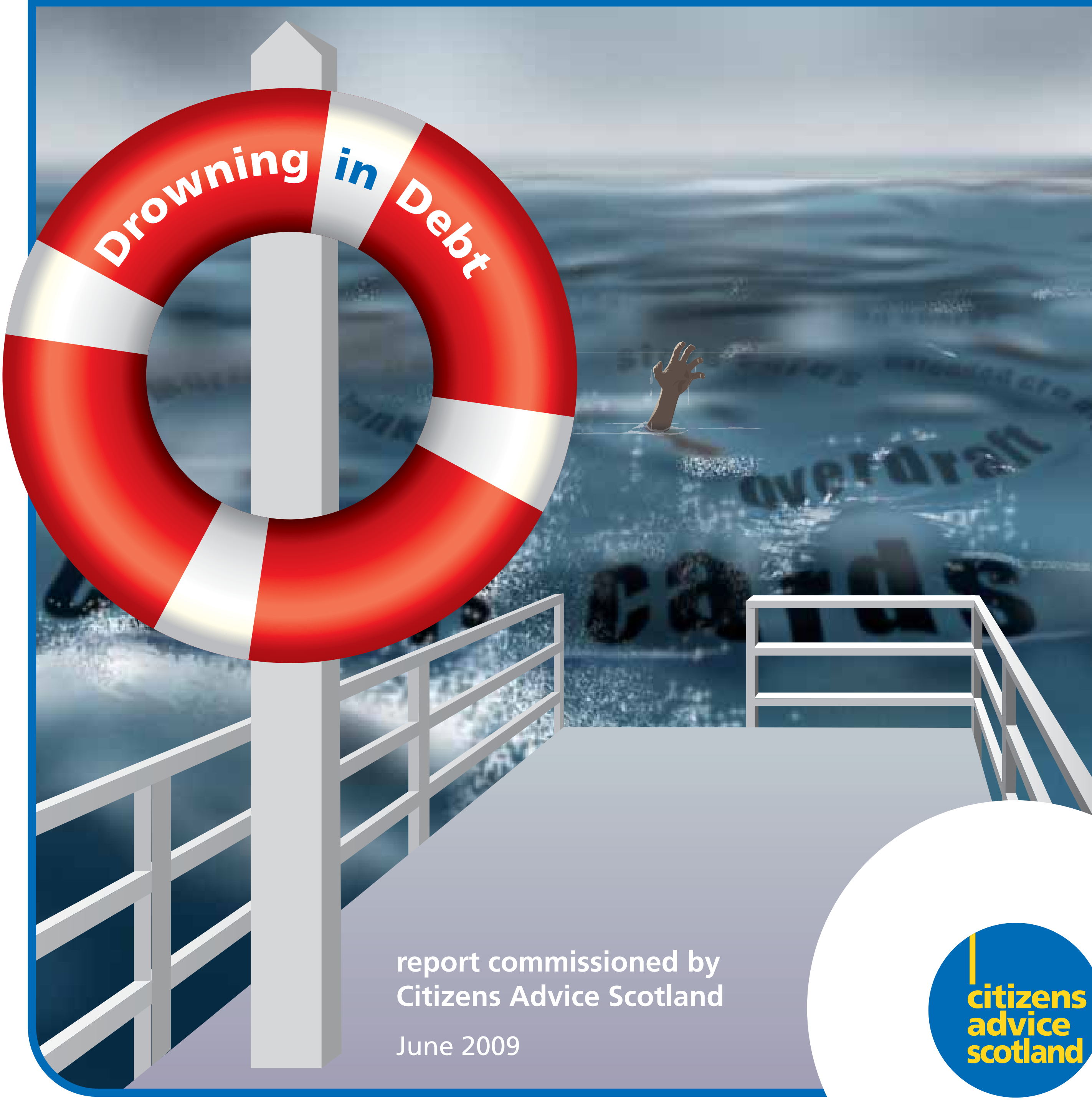
Drowning in Debt

based on the evidence of citizens advice bureau clients across Scotland



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Drowning in Debt

Scottish CAB Clients and Debt

By Morag Gillespie, John McKendrick, Louise Dobbie and Fiona McHardy, Scottish Poverty Information Unit

Citizens Advice Scotland and its 63 member bureaux form Scotland's largest independent advice network. CAB advice services are delivered through more than 220 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.

Citizens Advice Scotland
Spectrum House, 2 Powderhall Road
Edinburgh EH7 4GB
Telephone: 0131 550 1000
Fax: 0131 550 1001
Email: info@cas.org.uk
Web: www.cas.org.uk

The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland (Scottish charity number SC016637)

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- Grangemouth and Bo’ness
- Haddington
- Inverness
- Motherwell and Wishaw
- Orkney
- Roxburgh
- Shetland
- West Lothian

Finally SPIU would like to thank the debt clients and staff and managers in bureaux who gave their time to participate in individual and group interviews.

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Summary

Drowning in Debt reports on research amongst Scottish citizens advice bureau (CAB) debt clients in 2008. Since the last survey commissioned by Citizens Advice Scotland (CAS) and conducted in 2003, personal debt has reached new record levels and consumer debt is consistently the biggest single issue that clients raise with bureaux. Concern about debt has been heightened by the crisis in the banking and credit industry and recession in the UK economy. The credit market has tightened further in 2009. This research was carried out towards the end of 2008, in the midst of this period of rapid change.

Legislation on debt in Scotland has changed recently. Key changes include modification to the Debt Arrangement Scheme (DAS), a scheme designed to help individuals manage debts, and the introduction of a new route to bankruptcy for people with low income and low assets (LILA).

Key findings

CAB debt clients have markedly lower incomes than households in Scotland as a whole. They are much more likely to rent their homes and are concentrated in the 25-49 age range. They are less likely to be in employment than the Scottish average and two thirds of households have at least one person with a health or disability issue. This means CAB money advice is effective at reaching lower income and disadvantaged groups.

Debt amongst Scottish CAB clients has increased substantially and is more than 50% higher than in 2003:

- The average number of debts was 6.3 (median 6) compared to 5.1 in 2003. Few CAB clients had only one debt and more than one tenth had over 10 debts
- The average total debt is £20,193, an increase of 50% over the 5 years from 2003. The median debt in 2008 is £12,554
- One quarter of CAB debt clients owed between £5,000 and £10,000, and just over a quarter owed between £10,000 and £20,000. Almost one in ten had total debt of over £50,000
- 40% of men had debt of over £20,000 compared with 21% of women, as did 58% of owner occupiers compared with 20% of renters
- The average debt to monthly income ratio has risen by a quarter since 2003 and stands at 27.7 (almost £28 debt for each £1 of monthly income), the median ratio is 16.9, an increase of more than one third compared with 2003

The reasons for getting into debt are complex and interweaving, but changes leading to a drop in income and persistent low income were important features. The main reasons given included: low income, job loss, poor money management, relationship breakdown and illness. Once prompted, more clients identified with wider concerns including easy access to credit and a drop in income, higher cost of living and high interest rates or charges.

Most debt clients said debt had a negative impact on their health, particularly their mental health. Interviewees attributed stress and depression to their financial situation, regardless of the reason for being in debt. Pressure from creditors contributed to the impact debt had.

Rising fuel costs added to the pressures faced by debt clients in juggling their finances. Interviewees did not like pre-payment meters but they enabled them to repay arrears and monitor usage. However, their impact can be severe, and include self disconnection, particularly where they are set to recover arrears. Accordingly, there is still a clear need to ensure access to fuel at affordable and equitable prices for low income groups, with reasonable rates of debt repayment calibrated on meters.

Debt clients described a wide range of strategies to manage debts including: seeking advice; juggling finances; trying to negotiate with creditors; and borrowing from friends or family. However, it is a serious concern that 41% of debt clients, including half of all women in the survey, said they had gone without essentials as one of the ways they managed their situation. One in ten debt clients said they had tried to go bankrupt using the LILA route to bankruptcy. With persistent low income, any income shock is likely to result in financial difficulties, particularly if individuals have nothing in reserve and limited options for affordable borrowing.

The most common debts are on credit cards (32%) and personal loans (16%). By 2008, 65% of debt clients had at least one personal loan and 69% had at least one credit card debt compared with just over half in 2003. Since 2003, catalogue debt, credit card debt, personal loans and overdrafts have all grown, but borrowing from doorstep lenders has remained constant. This suggests that new borrowing is in addition to cash loans rather than substituting for them.

Banks were the creditors for almost half of the debts reported. Almost nine out of every ten CAB debt clients owe money to a bank in 2008 and two thirds have debt with mainstream consumer credit companies. Creditor actions on debt are taking different directions: more are in negotiation with the CAB but they are also referring more debts on to debt collection agencies. More clients had a financial statement or offer of repayment rejected compared with 2003. Overall, the behaviour of creditors as described in this survey is worse than in 2003:

- Almost twice as many CAB clients said they have received a threat of debt recovery without recourse to court action
- Almost two fifths of clients in the 2008 report had experienced behaviour or language that seeks to pressurise
- Almost a third had fees and charges imposed for non-payment, including court fees
- The vast majority had charges and fees added to debts, most commonly charges for being overdrawn or in arrears.

Debt clients and advice workers have experience of creditors who are unwilling to negotiate with clients or advisers. Banks using the "right of set off"[1] to service other lending from the same bank contributed to loss of control of money management,

[1] The right of set off allows banks to legally transfer cash from current or savings accounts to pay credit card or loan arrears without the account holder's explicit permission.

adding to the financial difficulties of some. Some creditors are adding interest charges back on to debts where they had previously been reduced or removed and some are now refusing to freeze interest at all. Other findings include:

- While a third of CAB clients clients had payment protection insurance, just under one in three of them had made claims of which 16% were successful
- Few people thought they had sufficient income to make use of the Debt Arrangement Scheme
- Two thirds said they would consider the LILA route to bankruptcy, but 80% of them could not afford the £100 fee unconditionally. Interviewees who have gone through the LILA route have found it straightforward.

CAB debt clients' concerns about advice mainly related to waiting times and delays in getting appointments, but reflected an understanding that services were over-stretched. Advice relieved the stress and anxiety of debt and gave some interviewees confidence. Following advice, some intend to exercise budgeting skills in future, while others plan to change how they borrow money. However some interviewees expect managing on a low income to be an ongoing struggle.

Conclusions and Recommendations

Debt and Low Income

- Access to affordable credit is essential in the absence of other measures such as wider application of and access to cheap sources of borrowing such as the Social Fund and Credit Unions. Both lenders and policy makers need to ensure that affordable mainstream credit is accessible for low income groups.

Importance of Advice

- Debt advice work is becoming more complex, clients have more debts than in the past and fewer people have single debts. This combination means that advice workers may need to work with smaller client caseloads than in the past
- In addition, demand for money advice is likely to grow, particularly in the current economic environment. This reinforces the importance of existing and new resources for money advice to address growing demand and target disadvantaged groups for support
- The greater complexity of debt issues and the challenges faced by CAB debt clients in dealing with their financial difficulties reinforce the need for face-to-face advice provision. More effective self help advice for those able to negotiate with their creditors themselves would help to reduce the pressure on face-to-face services so that help can be targeted towards those most in need of the face-to-face money advice provided by bureaux.

Fuel Poverty

- Fuel companies should reduce the cost of supply for card meters and ensure that those who are entitled to it are on social tariffs. Clear responsibility and powers are needed to ensure that vulnerable groups are protected in a system of fuel supply, which is based on competition to get the best price. There is scope for smart cards to contribute to solutions to fuel poverty. The UK government plans to have smart meters installed in all households by 2020. The government is recommended to prioritise low income groups for early installation.

Creditor Behaviour

- Creditors have clear scope to improve their practices. This is an important time to reinforce the requirements on creditor behaviour with tighter regulation
- The UK government should consider introducing a regulatory framework to reduce or prevent irresponsible and predatory lending practices and to implement sanctions against creditors who breach such regulations, for example through a waiver or reduction of the debt due to be repaid
- Further consideration should be given to improving legal protection and remedies for people facing harassment and victimisation from creditors, including persistent and aggressive telephone calling techniques
- Debt clients face problems with creditors from outside Scotland who fail to acknowledge Scots law. Regular reporting of such incidences should continue to be provided by advisers and reviewed by the Accountant in Bankruptcy and the OFT to ensure that effective measures are taken to address adherence to Scots Law and to consider the need for further regulatory provision where required
- Payment protection insurance remains a significant concern to be addressed and underlines the importance of progress with the recommendations made by CAS in 2007.

Impact of new legislation on clients

- Low “take up” of the Debt Arrangement Scheme within the CAB debt client group could be assisted by composition of debts to enable debtors to pay back only a percentage of the full amount owed
- The level of interest in the new LILA route to bankruptcy highlights that, despite all the challenges that bankruptcy can bring, it offers the prospect of addressing the worry and stress of unresolvable indebtedness. The importance of this should not be underestimated, particularly in view of the impact clients said debt has on their health. In reviewing the impact and scope of the LILA route, the Scottish

Government is recommended to consider whether LILA is reaching all the groups in Scottish society that was intended when the legislation was introduced and whether there are other groups who should also benefit from a more accessible route to bankruptcy such as LILA

- The £100 fee for the LILA route to bankruptcy is a barrier for a significant number of people. Many people in debt and on very low incomes suffer increasing levels of stress, as they try to "save up" the money for bankruptcy. Many CAB clients have income levels that fall well within the LILA qualifying income level. The LILA £100 fee should be cancelled. The evidence suggests people in debt are suffering mental and physical health problems as a result of their debt and the harassment and pressure from creditors. Whilst some may get help with the fee from friends or family, those managing alone could face a long delay before the LILA route is opened to them. At the very least, there should be a severe hardship test that would mean the fee could be waived, with automatic passporting if incomes are means tested benefits only.

About the research

The research for Citizens Advice Scotland explores debt amongst CAB clients. It is based on a survey of 273 debt clients during October to December 2008 in 21 member bureaux across Scotland, interviews with 10 survey respondents, a focus group with bureau representatives and case evidence from bureaux.

Introduction and context

Summary

- Since the last survey in 2003, personal debt has reached new record levels and consumer debt is consistently the biggest single issue that clients raise with bureaux. Concern about debt has been heightened by the crisis in the banking and credit industry and recession in the UK economy. The credit market has tightened further in 2009. This research was carried out towards the end of 2008, in the midst of this period of rapid change
- Legislation on debt in Scotland has changed recently. Key changes include modification to the Debt Arrangement Scheme (DAS), a scheme designed to help individuals manage debts, and a new route to bankruptcy for people with low income and low assets (LILA).

1. In 2003, Citizens Advice Scotland (CAS) conducted research into debt amongst citizens advice bureau (CAB) debt clients that is reported in '*On the Cards*'[2]. Since that time there have been significant changes in the debt landscape in Scotland. Borrowing and credit have grown significantly and consumer debt is the single biggest issue for the Scottish CAB Service.

2. This report provides the results of research amongst CAB debt clients in Scotland in 2008. The research aimed to provide a profile of debt clients in 2008 and consider:
   - How the landscape of debt has changed
   - How creditors are behaving in pursuing debts and what actions they are taking to recover them
   - What difference new legislative changes in Scotland are making

The scale of debt

3. The UK economy is in recession for the first time in 16 years. Problems with the repayment of sub-prime mortgages in the US triggered a global wave of concern about lending in August 2007 resulting in a "credit crunch". Falling house prices are reducing consumer confidence and consumer spending, while record debt levels and rising living costs have put pressure on household budgets. This pressure is felt disproportionately by low-income groups, many of whom already pay more for goods and services.

4. The Retail Price Index (RPI), which includes house prices, fell to just 0.1% in January 2009. However, this mainly reflects falling house prices. The

[2] Sharp C (2004) *On the Cards: The debt crisis facing Scottish CAB clients*. Edinburgh: Citizens Advice Scotland

Consumer Prices Index (CPI) excludes the effects of house prices. It shows inflation was 3.0% in February 2009[3], still above the government's target of 2%[4]. Price inflation in the 4 years to 2008 was 1% higher for low income households in Scotland than the average[5]. In addition, fuel price rises in 2008 had a disproportionate impact on the poorest households.

5. Despite the recession and the 'credit crunch', household borrowing in the UK continued to rise in 2008 so that "total indebtedness increased by 5.4 per cent over the 12 months to 30 September 2008, reaching almost £1.5 trillion"[6]. This includes secured borrowing, such as mortgages, and unsecured credit that is still growing and now accounts for 16% of the lending market.

6. The fieldwork for this research was conducted in late 2008 when CAB debt clients were experiencing the effects of the recession and the 'credit crunch', providing a snapshot at a time of rapid change. Even in the short time since this survey, the credit market has tightened further and credit growth is slowing[7].

7. Low income groups are less likely to have had access to low interest mainstream credit. Instead, research suggests they have had to rely more on higher cost credit options, such as home credit and doorstep loans, mail order and home shopping, sub-prime credit cards, pay day advance and cash converter lenders and rent-to-own retailers who "rent items such as sofas and TVs with total rental payments of several times the normal retail price"[8]. Changing patterns of debt are important considerations in this research.

8. Mortgage repossessions are a key concern, but it is also worth noting that 3,573 tenants in Scotland lost their homes in 2007-08, almost all of them for rent arrears, as a result of legal action by social landlords (councils and housing associations)[9].

9. Unemployment is rising more slowly in Scotland than the rest of the UK, but by January 2009 there were 8,000 more people unemployed than a year ago[10].

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[3] ONS (2009) *CPI inflation slows to 3.0 per cent*. News Release 17 February 2009. Available at: http://www.statistics.gov.uk/pdfdir/cpinr0209.pdf

[4] BBC (2009) *Recession Tracker*. Available at: http://news.bbc.co.uk/1/hi/business/7844962.stm

[5] Kenway P, MacInnes T and Palmer G (2008) *Monitoring Poverty and Social Exclusion in Scotland 2008*. York: Joseph Rowntree Foundation. Available at: http://www.jrf.org.uk/sites/files/jrf/2324.pdf

[6] Pricewaterhouse Coopers (2009:3) *Precious Plastic 2009: Consumer credit in the UK*. Available at: http://www.infohub.moneyadvicetrust.org/content_files/files/precious_plastic_2009.pdf

[7] Credit Action (2009) *Debt Statistics/ March 2009*. Available at: http://www.creditaction.org.uk/march-2009.html

[8] Save the Children (2007) *Robbing Peter to Pay Paul: How limited access to affordable credit hurts children living in poverty*. London: Save the Children. Available at: http://www.savethechildren.org.uk/en/docs/robbing-peter.pdf

[9] Shelter (2008) *Evictions by social landlords in Scotland*. Press release Available at: http://scotland.shelter.org.uk/professional_resources/policy_library/policy_library_folder/evictions_2007-2008

[10] Scottish Government (2009a) *Employment Figures*. News release, 11 February 2009. Available at: http://www.scotland.gov.uk/News/Releases/2009/02/11110321

Debt and Scottish CAB clients

10. Although there is no information available on levels of indebtedness in Scotland, debt issues brought to bureaux demonstrates how debt has grown in significance for Scottish CAB clients. The number of debt issues raised has increased in the last few years, representing one in five of all new issues brought to the CAB Service in Scotland. (Table 1).

Table 1: Scottish CAB new debt issues

Year	New debt issues	All new enquiries	Debt as % of all new enquiries	Debt handled	Ave. no. debts per client
2007- 8	90,154	459,917	19.6	£197,614,452.58	6
2006- 7	91,192	441,228	20.7	£178,755,923.94	5
2005- 6	88,307	442,550	20.0	£211,551,614.43	5
2004- 5	74,589	430,621	17.3	£157,871,162.00	4
2003- 4	65,827	405,858	16.2	£130,528,187.10	4
2002- 3	62,028	398,521	15.6	£100,613,593.91	4

Source: Bureau statistics and Bureau Characteristics Survey, Citizens Advice Scotland

11. Debt is also growing as a proportion of all issues, including long standing caseloads (Table 2). Debt accounted for 54% of the increase in all issues dealt with by Scottish citizens advice bureaux between 2002-3 and 2007-8, but more recently, ***new*** debt accounts for a smaller proportion of all debt issues than in earlier years. This is due to the growing complexity of debt advice work involving more contact with clients over time in order to resolve their debt problems.

12. The capacity of bureaux to meet this growing demand has been helped by additional resources provided for specialist money advice posts across Scotland. However, despite this, some bureaux still report long waiting times for appointments for debt clients.

Table 2: Scottish CAB new and repeat debt issues[11]

Year	Total all issues	All debt issues	Debt as % of all issues	New debt issues % of all debt issues
2007- 8	884,225	315,588	35.7	28.6
2006- 7	859,078	314,556	36.6	29.0
2005- 6	784,490	278,506	35.5	31.7
2004- 5	745,683	244,382	32.8	30.5
2003- 4	639,385	192,338	30.1	34.2
2002- 3	593,106	158,411	26.7	39.2

Source: Bureau statistics and Bureau Characteristics Survey, Citizens Advice Scotland

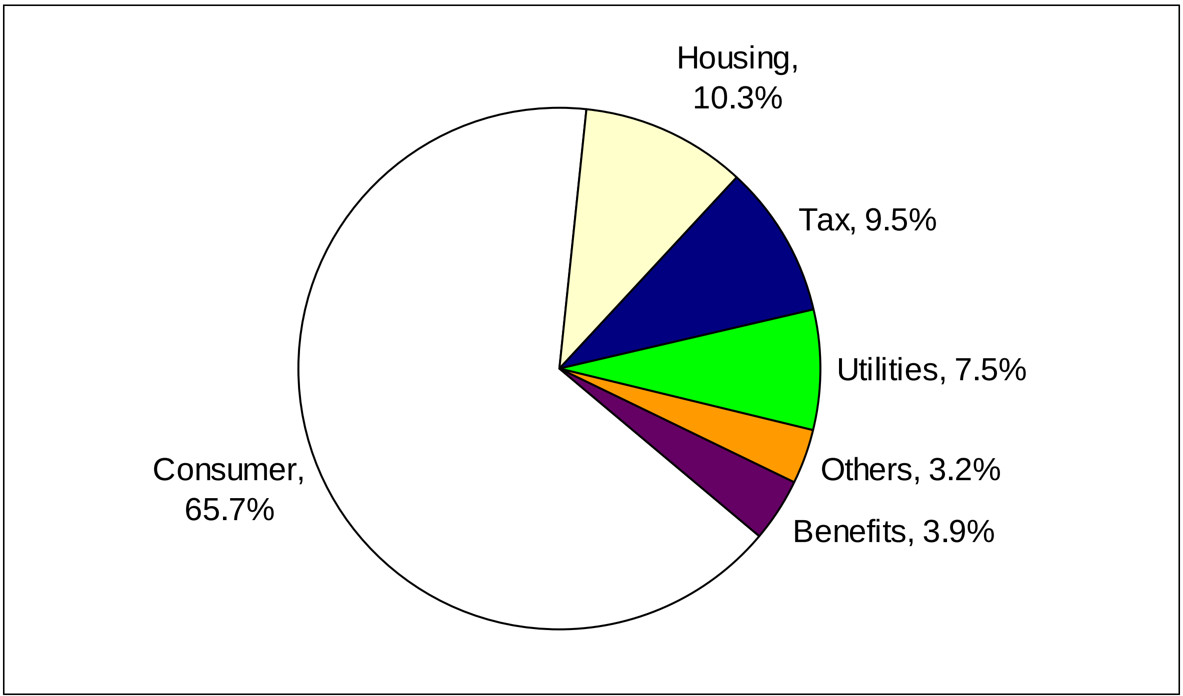
[11] 'All' issues include 'new' issues that clients bring to bureaux for the first time and repeat issues that need further contact with clients and ongoing work to resolve

Type of debt

13. Consumer debt is the largest single issue raised with bureaux. It also accounts for almost two-thirds of all new debt issues raised in 2007-8. Housing (including mortgage and rent arrears) and tax (tax credit overpayments, council tax debt and other debts to HM Revenue and Customs) both accounted for around one in 10 of new debt issues raised (Figure 1). Utilities, including fuel and telephone bills, and benefits are the two other most common types of debt brought to bureaux. The remaining 3.2% relate to debts concerning employment, legal and relationship issues.

14. Consumer and benefit debt issues have both recorded a slight fall in the last two years. In contrast there are more enquiries in all of the three other main categories: housing debt issues increased by 3.6%, tax by 2.1% and utilities debt issues by 1.9%.

Figure 1: Types of new debt enquiries, 2007-8



UK Policy Responses

15. Over-indebtedness is a focus for policy in the UK and the government has set up a range of initiatives that aim to tackle debt and promote financial inclusion. For example, regular research is carried out to monitor over-indebtedness[12]. One recent report highlights the importance to debt of adverse shocks, particularly loss of employment, marital breakdown and poor financial

[12] BERR website http://www.berr.gov.uk/whatwedo/consumers/consumer-finance/over-indebtedness/index.html

management that tend to have a cumulative effect on household financial circumstances. However, the report also identifies that some families have "more-or-less persistent difficulties in managing their finances for longer periods of time, arising largely from a lack of lifetime resources"[13].

16. The Financial Inclusion Taskforce has produced a Financial Inclusion Action Plan and monitors the progress of a Financial Inclusion Fund (FIF). The FIF supports initiatives to address financial exclusion, including face-to-face advice projects in England and Wales[14]. Although the FIF has not provided direct support for face-to-face advice in Scotland, CAS has recently received an award of £1.09 million throughout Scotland to deliver additional money advice, welfare rights and employment advice to assist people affected by the economic downturn.

17. Creditor behaviour has also been a focus of policy. The Consumer Credit Act 2006, implemented in 2008, strengthened the licensing system and extended the types of consumer credit covered. It aimed to strengthen consumer rights by enabling them to challenge unfair lending agreements and make disputes easier to resolve[15].

18. More recently, the OFT consulted about developing guidance on irresponsible lending, including behaviour and practices around lending decisions, extending existing credit and assessment of a borrower's ability to repay. The consultation asked about extending the guidance to other areas, such as advertising, selling techniques, product design, credit scoring techniques and the appropriateness of products for borrowers[16]. CAS responded to the consultation arguing that a definition of irresponsible lending should be included within the issues considered, and stated that full guidance is needed to ensure that "consumers know their rights and creditors know their responsibilities"[17].

19. Further developments are likely in this area since there is a new EU Consumer Credit Directive (2008/48/EC). This may affect legislation in the UK and the government is planning to consult on the Directive early in 2009[18].

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[13] Disney R, Bridges S and Gathergood J (2008) *Drivers of Over-indebtedness*. Available at: http://www.berr.gov.uk/files/file49248.pdf

[14] BERR website '*Consumer finance'* Available at: http://www.berr.gov.uk/whatwedo/consumers/consumer-finance/debt-advice/index.html

[15] BERR 'Consumer Credit Act 2006' Available at: http://www.berr.gov.uk/whatwedo/consumers/consumer-finance/credit_regulation/credit-act-2006/index.html

[16] OFT (2008) Irresponsible lending: a scoping paper. Available at: http://www.oft.gov.uk/shared_oft/business_leaflets/consumer_credit/oft1012.pdf

[17] Dryburgh K (2008) Irresponsible Lending: a consultation response to the OFT. Available at: http://www.cas.org.uk/irresponsiblelending.aspx

[18] BERR 'Consumer Credit – European Directive'. Available at: http://www.berr.gov.uk/whatwedo/consumers/consumer-finance/ec-directives/page29927.html

Scottish policy context

20. Policy and legislation has also developed in Scotland and two key areas are summarised here: support for money advice and legislative changes, including amendments made to the Debt Arrangement Scheme (DAS) and the introduction of the Low Income Low Assets (LILA) route to bankruptcy.

21. The Scottish Government is committed to tackling financial exclusion and recognises that information and advice is important for achieving better outcomes for people in debt. From 2003-4 financial inclusion funding supported new specialist money advice posts located in a range of agencies, including citizens advice bureaux[19]. Although initially ring-fenced, funding for these posts was later provided through the local government budget.

22. From 2007 the Fairer Scotland Fund replaced several funding streams, including financial inclusion. It is distributed to local authorities as part of their overall budget settlement[20]. Local authorities have discretion to spend more or less than the underlying budget allocation on money advice. The impact on money advice provision in Scotland is not yet clear and, since information will not be collated centrally, will be more difficult to assess in future.

Legislative changes

23. Many people have a range of options to help them address their debt problems, including making token payments, getting interest rates frozen or making repayments to creditors through a voluntary repayment programme. However, some need to consider more formal debt management processes. DAS is one option - it gives people the opportunity to repay their debts in full over a longer time period and at the same time protects them from debt recovery methods. Another formal option is a Protected Trust Deed[21].

24. Bankruptcy is a more far-reaching option. It is a legal device used when a debtor cannot pay their debts provided they fit the criteria. Anyone declared bankrupt has to hand over their estate, including their home, to a trustee who acts on behalf of the creditors. The debts effectively are cleared, but the debtor may have to make payments during, and sometimes beyond the period of bankruptcy.

25. A consultation on Scottish bankruptcy law in 2003 found that some people were excluded from debt relief. Either they could not demonstrate apparent insolvency (a formal mechanism needed to access bankruptcy) or they did not have enough disposable income or assets to contribute to a trust deed. In this situation people were stuck in a 'debt trap' where they could not pay their

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[19] Scottish Government (2008) *Financial Inclusion* Web page available at: http://www.scotland.gov.uk/Topics/People/Social-Inclusion/17413/22379

[20] Scottish Government (2009) *Fairer Scotland Fund* http://www.scotland.gov.uk/Topics/Built-Environment/regeneration-/fairer-scotland-fund/Q-A and http://www.scotland.gov.uk/Topics/Statistics/18209/200811Settlement

[21] A trust deed is a voluntary agreement between a debtor and their creditors to repay part of what they owe. The debtor's rights to the things that they own pass to a trustee who sells them to make part payment to creditors. A trust can include a contribution from income for a specified period, usually 3 years. (Accountant in Bankruptcy website: http://www.aib.gov.uk/MainNav/Services/ptd).

debts and interest and charges continued to accrue, so their circumstances got progressively worse[22].

26. The Bankruptcy and Diligence etc. (Scotland) Act 2007 introduced some major changes. It allowed for regulations to amend DAS that were implemented in June 2007. They included the freezing of interest and charges during the period of a debt payment programme and their cancellation at its end. The Act also introduced a new access route into bankruptcy from April 2008 (LILA), which allows people who meet the relevant criteria, particularly those on a low income and with few assets, to apply for their own bankruptcy[23].

Impact of new legislation

27. Bankruptcies and Protected Trust Deeds in Scotland were quite constant between 2005-6 and 2007-8 (Table 3). However, there were more bankruptcies in the first 3 quarters of 2008-9 than in earlier full years. This can be attributed to the introduction of LILA at the start of the 2008/09 year. Over the 9 months of 2008-9, LILA accounted for 7133 of 8540 bankruptcy awards on debtor applications, while only 1407 were awarded by proving apparent insolvency. The remaining 2338 bankruptcy awards were on creditor or trust deed petitions.

Table 3: Individual sequestrations and protected trust deeds, Scotland 2005-9[24]

	2005-6	2006-7	2007-8	2008-9 to end of Q3
Bankruptcies	5,423	5885	6158	10,878
Protected Trust Deeds	7199	8298	7509	5,662
Total Personal Insolvencies	12622	14,183	13667	16,540

28. The aim of DAS is to help people manage their debt repayments. Initial expectations were that around 1,500-2,000 people would be repaying debts through a debt payment programme (DPP) by 2006[25]. However, although 90 advisers had been trained for the scheme, take up has been low: in the two years from April 2005 to March 2007 there were only 283 applications[26].

29. CAS research indicated that key problems with DAS prior to the legislative changes in June 2007 included: the lack of freezing of interest and composition of debts (enabling debtors to pay back only a percentage of the

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[22] Accountant in Bankruptcy (2007) *Low Income, Low Assets - A new route into bankruptcy: Consultation on proposed regulations*. Edinburgh, Scottish Executive Available at: http://www.scotland.gov.uk/Resource/Doc/174131/0048565.pdf
[23] Govan Law Centre (2009) *Summary of bankruptcy reforms in Scotland*. Available at: http://www.govanlc.com/bankruptcy_010408.htm
[24] Accountant in bankruptcy (2009) *Latest Insolvency Statistics Released*. News Release 22.1.2009 Available at: http://www.aib.gov.uk/News/releases/2009/01/22104232
[25] Accountant in Bankruptcy (2008) *Debt Arrangement Scheme Review 2008.* Available at: http://www.aib.gov.uk/Resource/Doc/4/0000669.pdf
[26] Accountant in Bankruptcy (2007) *Annual Report and Accounts 2006-07* http://www.aib.gov.uk/About/annualtargets/annaulreport06-07

full amount owed)[27]. Whilst the changes introduced included freezing interest and charges, they did not include composition of debts.

30. The number of DAS applications increased to 442 in 2007-08 and 389 applications were made in the first 6 months of 2008-09[28]. These figures suggest that take up of DAS has increased since the changes, however the totals are still below expectations. Dryburgh's recommendations to make the scheme a more attractive option for resolving debt problems include composition of debt and extension of the time period for repayment (current guidance for advisers is 10 years, but DPPs can be for longer)[29].

Debt amongst Scottish CAB clients in 2003

31. In 2001 CAS took part in research on debt with the Office of Fair Trading (OFT), NACAB (now Citizens Advice England and Wales) and NIACAB (the CAB association for Northern Ireland)[30]. That study found that Scottish debt clients had lower incomes than other parts of the UK. They owed £8,140 and had 4.5 debts on average. The average debt to monthly income ratio was 11.5 (£11.50 for every £1 of monthly income). Most Scots debt clients said their debt was as a result of job loss, low income or a drop in income.

32. In 2003, CAS commissioned a Scottish survey of new and existing debt clients. *On the Cards*[31] found Scottish debt clients were in substantially greater debt than in 2001, owing £13,380 on average, representing a 64% increase in the average level of client debt from 2001. Over one in five clients had debts of more than £20,000.

33. The study also found that consumer debt was "almost universal" amongst CAB debt clients: nine out of ten clients had some form of consumer debt and over half had at least one credit card debt. Other key findings included:

    - The average number of debts was 5.1 and only a fifth of clients had just one debt, while over a fifth had more than eight debts
    - Priority debts such as council tax debt, rent and mortgage arrears and utility debts were significant, but credit card debt dominated - it was spread across all social groups and was as much a debt of poverty as a tool of financial management
    - The spread of income amongst debt clients was greater than in the past, but almost a quarter had incomes under £400 a month so CAB

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[27] Dryburgh K (2008) *Restricted Access: The Debt Arrangement Scheme*. Edinburgh: Citizens Advice Scotland.
[28] Accountant in Bankruptcy (2008) *Debt Arrangement Scheme Review 2008.* Available at: http://www.aib.gov.uk/Resource/Doc/4/0000669.pdf
[29] Dryburgh K (2008) *Restricted Access: The Debt Arrangement Scheme*. Edinburgh: Citizens Advice Scotland
[30] Edwards S (2003) *In too deep.* London: Citizens Advice Available at: http://www.citizensadvice.org.uk/in-too-deep.pdf
[31] Sharp C (2004) *On the Cards: The debt crisis facing Scottish CAB clients*. Edinburgh: Citizens Advice Scotland

debt clients were considerably poorer than the Scottish population as a whole

- Nearly half were social housing tenants, and clients were more likely to be unemployed, sick or disabled than the population as a whole
- Debt stress had almost doubled since 2001 and the average debt to income ratio was 21.9 (£21.90 of debt for each £1 of monthly income).

34. While many people blamed themselves for their debts, others cited external reasons for their situation such as: low income, a drop in income, job loss and illness or disabilities. However, Sharp[32] argued that lenders were also part of the problem in view of easy access to credit, irresponsible lending and high credit charges. Actions to recover debt, pressure from creditors and threat of debt recovery action without court authority were all sources of distress for clients.

35. Sharp argued for greater consumer protection, particularly for low income clients, in lending, provision of credit and debt collection practices. She advocated steps to improve access to cheaper forms of borrowing for low income groups and for extensive reform of the Social Fund. She highlighted the need both to encourage people to go for advice and to ensure that sufficient resources are in place to deliver that advice.

Research amongst CAB debt clients in 2008

36. With growing numbers of clients in debt, substantial legislative change in Scotland and rapidly changing economic and credit environments, this research is timely. This report provides a snapshot of the situations and experiences of CAB debt clients in the midst of this period of change.

37. This research is based on a survey of 273 CAB debt clients during October and December 2008. Additional evidence is drawn from semi structured interviews with 10 of the survey participants, a focus group with representatives of bureaux participating in the research and case evidence from bureaux across Scotland. Appendix 1 provides a summary of the research methods used in this study.

What the research can tell us

38. The findings of this survey are not representative of people in debt across Scotland as a whole and do not describe debt in Scotland. However, they do give insight into the situation of Scottish CAB debt clients and their experiences of dealing with creditors, services and legal remedies. They allow for comparison with the 2003 survey and some limited comparison with the Scottish findings from the 2001 research.

39. Appendix 2 provides notes used in figures and tables. It describes the meaning of key terms in the report. Appendix 3 provides a list of abbreviations used

[32] Sharp C (2004) *On the Cards: The debt crisis facing Scottish CAB clients* Edinburgh: Citizens Advice Scotland

and a glossary of terms used in the report concerning debt advice and legal procedures connected with debt.

40. The rest of this report describes the results of the research: who CAB debt clients are; their experiences of being in debt in 2008; the strategies they have employed; their experiences with creditors; and the impact for them of new legislation and advice.

Profile of debt clients

Key findings

- CAB debt clients have much lower incomes than households in Scotland as a whole. They are much more likely to rent their homes and are concentrated in the 25-49 age range.
- They are less likely to be in employment than the Scottish average and three in every five households have at least one person with a health or disability issue.

41. This chapter provides information about the profile of CAB debt clients in Scotland who participated in the research. Where possible the survey data are compared with information on the Scottish population and general CAB debt clients[33] to see whether debt problems affect some groups more than others. Findings are also compared where possible with those of the 2003 survey reported in *On the Cards*[34].

42. All except three clients described themselves as being of white ethnic origin. Almost all gave the UK as their country of origin and said they were UK domiciled. The low number of people from minority groups means no analysis can be done on the basis of ethnic origin.

Gender

43. Equal proportions of women and men took part in the survey. The sex of participants is similar to the Scottish population, CAB clients generally and participants in the 2003 survey.

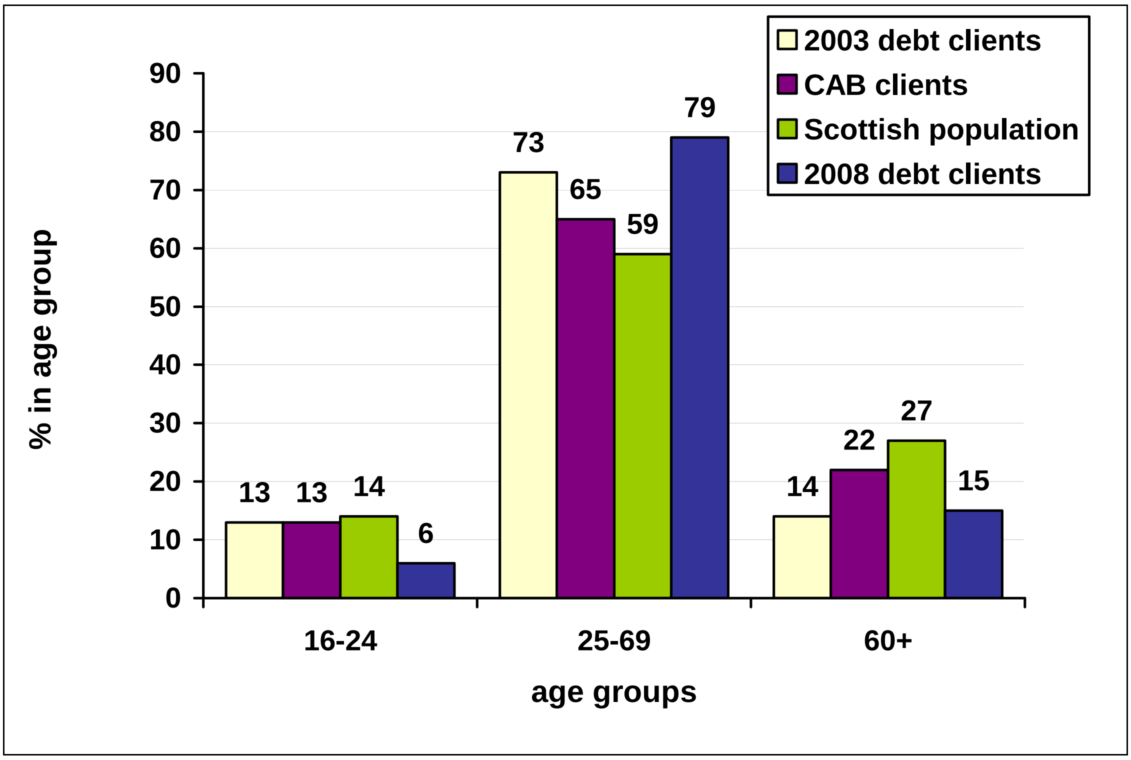
Age

44. CAB debt clients span the age spectrum, however they do not reflect the spread of the Scottish population since there are fewer younger and older people and a high proportion aged 25-59 (Figure 2). There are also some age differences when compared with the 2003 survey:

    - The proportion of under 25s dropped from 13% to 6% in 2008
    - The concentration of debt clients in the 25-59 age range is even greater in 2008 than in 2003

[33] Figures for general CAB clients are taken from the Bureau Characteristics Survey
[34] Sharp C (2004) *On the Cards - The debt crisis facing Scottish CAB clients*, Citizens Advice Scotland: Edinburgh

Figure 2: Age distribution



45. The reasons for fewer young people in the survey sample are not clear – they could have lower levels of indebtedness or it could be that young people in debt use different forms of advice (for example, telephone and internet based services). Amongst debt clients of working age, a higher proportion are aged 35 to 49 (42%) compared with the wider Scottish population (28%). Although the proportion aged over 60 is small compared with the wider population, it is similar to 2003. A survey of older CAB debt clients in 2008 highlighted that people over 60 are more in debt than in 2003, but this group may be more reticent than younger people about seeking money advice[35].

Household composition and marital status

46. Overall, the size of households of CAB debt clients is similar to Scotland as a whole (Table 4). However, there are differences in the make up of households:

- There are more single adult households and fewer households with two adults compared with Scottish household estimates, although the difference is less marked than in 2003
- There are more households with children than in Scotland generally - this is similar to the profile in 2003
- Most households with children had only one child.

[35] Dryburgh K (2008) *Growing Old Together: Older CAB clients and Debt*, Edinburgh: CAS. Available at: http://www.cas.org.uk/growingoldtogetheroldercabclientsanddebt.aspx

Table 4: Household Size

<table>
<tr><th></th><th>2003 %</th><th>2008 %</th><th>Scotland, 2007[36] %</th></tr>
<tr><td colspan="4">Number of people in household (including self)</td></tr>
<tr><td>1</td><td>43</td><td>35</td><td>34</td></tr>
<tr><td>2</td><td rowspan="2">57</td><td>28</td><td>34</td></tr>
<tr><td>3 or more</td><td>37</td><td>33</td></tr>
<tr><td colspan="4">Number of adults in household (including self)</td></tr>
<tr><td>1</td><td>63</td><td>50</td><td>40</td></tr>
<tr><td>2</td><td>32</td><td>38</td><td>50</td></tr>
<tr><td>3 or more</td><td>6</td><td>12</td><td>9</td></tr>
<tr><td colspan="4">Number of people aged under 18 in household (including self)</td></tr>
<tr><td>0</td><td>61</td><td>63</td><td>73</td></tr>
<tr><td>1</td><td rowspan="2">39</td><td>20</td><td rowspan="2">26</td></tr>
<tr><td>2 or more</td><td>17</td></tr>
</table>

Response rate: 2008 – 249 (all people) 268 (adults), 252 (under 18); 2003 – no details

47. The marital status of debt clients is closer to the profile for all CAB clients than the wider Scottish population (Table 5):
    - Most do not live with a spouse or partner
    - The proportion who are separated or divorced is high compared with CAB clients overall and higher still than Scottish household estimates.

48. In the survey, lone parents are the head of 14% of all households and 45% of households with children. Although this means that children are more likely to be in households with at least two adults, the proportion of lone parent families in the survey is higher than for the Scottish population (6%). Combined with the information on marital status more generally, this highlights that relationship breakdown is a significant feature amongst debt clients.

[36] Registrar General for Scotland, *Estimates of Households and Dwellings in Scotland 2007* (Table 9): http://www.gro-scotland.gov.uk/statistics/publications-and-data/household-estimates-statistics/estimates-of-households-and-dwellings-in-scotland-2007/index.html

Table 5: Marital status

<table>
<tr><th>Marital Status</th><th>2008 %</th><th>CAB Client profile %</th><th>Scotland 2007[37] %</th></tr>
<tr><td>Living with spouse or partner</td><td>37</td><td>40</td><td>60</td></tr>
<tr><td>Widowed</td><td>5</td><td>8</td><td>9</td></tr>
<tr><td>Divorced</td><td>16</td><td rowspan="2">16</td><td>6</td></tr>
<tr><td>Separated from spouse, but not divorced</td><td>7</td><td>2</td></tr>
<tr><td>Single, but previously lived with a partner</td><td>17</td><td rowspan="2">32</td><td rowspan="2">23</td></tr>
<tr><td>Single, and never lived with partner</td><td>18</td></tr>
<tr><td>Rather not say/other</td><td>(3)</td><td>3</td><td>-</td></tr>
</table>

Response rate: 2008: 260

49. In households with dependent children the age of the youngest child is spread across the range. However, the youngest child is aged less than five years old in 40% of households (Table 6). There are more young children in CAB debt clients' households than might be expected. This may reflect that some debt clients are struggling to adjust financially following childbirth and some of its consequences, such as: more limited work options for mothers of young children and the income shock from reduced working hours or having to stop work; the cost of childcare; and problems with accessing childcare.

Table 6: Age of youngest child in household

Age of youngest child in household	2008 %
0-2	28
3-4	12
5-9	31
10-14	19
15-17	11

Response rate: 2008 – 94

Housing tenure

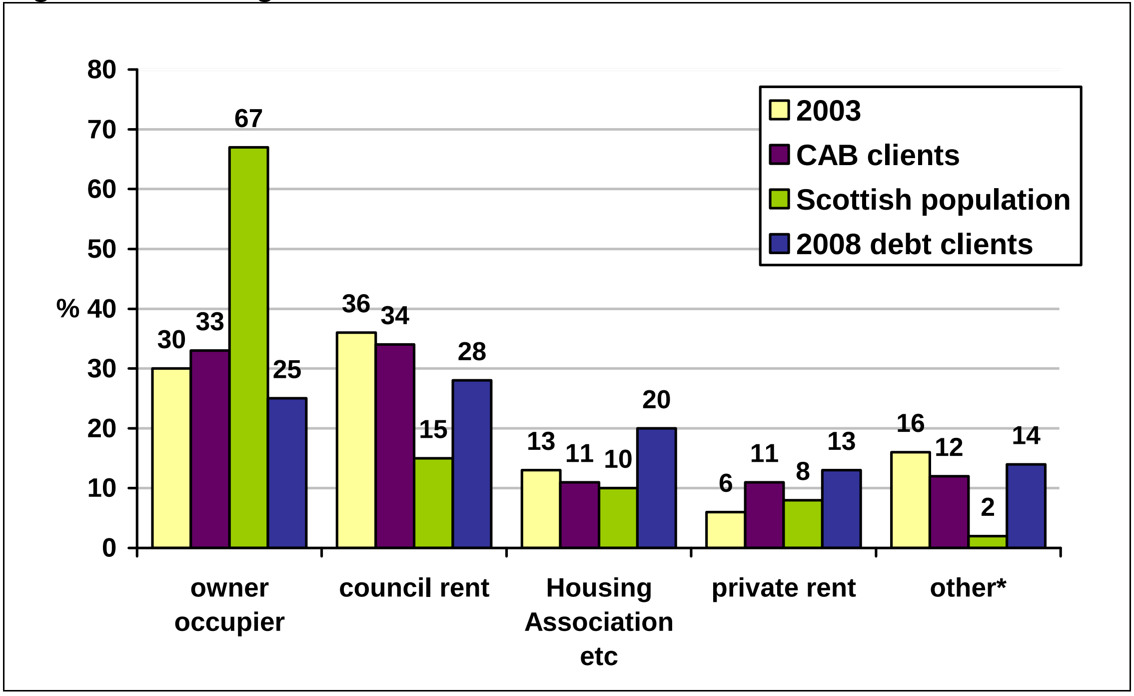
50. The housing tenure of CAB debt clients varies compared with the profile of CAB clients more generally and households in Scotland (Figure 3).

- A quarter of respondents own their own home, fewer than in 2003. However, in contrast with the wider Scottish population, almost all of those had a mortgage. Owner occupation is low amongst CAB clients generally and is less than half the level in Scotland overall
- Debt clients who are owner occupiers are more likely to be in older age groups - 43% are aged 50 or more compared with those in rented accommodation or non-householders (29%)

[37] Scottish Household Survey, *Annual Report. Results From the 2007 Household Survey:* http://www.scotland.gov.uk/Publications/2008/08/07100738/4

- Although local authority renting is lower than in 2003, renting from the social housing sector overall remains constant – 48% in 2008 compared with 49% in 2004. Tenancies with private landlords have increased
- The high ratio of tenants amongst debt clients and low levels of owner occupation indicate these are groups with limited opportunities to access affordable credit.

Figure 3: Housing tenure



** other includes non-householders and people who are homeless*

Ill health and disability

51. More than a third of survey participants have an illness, impairment, other health problem, mental ill health or a learning disability. Long-term illness, physical impairment and mental ill health were mentioned more often than other issues (Table 7). Almost one in 5 (18%) had more than one health issue. Physical impairment and long term illness are more prevalent than other conditions amongst other household members.

52. Overall, three in every five households have at least one person with one or more health or disability issues. Amongst those with an illness or impairment, around half of survey participants have a physical impairment and half have a long-term illness. The proportions are even higher for others in the household.

Table 7: Illness and disability - survey participants and others in household

	% all clients	% of ill/disabled people within group
Self		
Physical disability/ impairment	17	45
Long term illness	19	51
Other health problem (including addiction)	3	8
Mental ill health	14	39
Learning disability	1	3
NONE OF THE ABOVE	64	NA
Others in household		
Physical disability/ impairment	17	56
Long term illness	16	54
Other health problem (including addiction)	1	2
Mental ill health	7	21
Learning disability	4	12
NONE OF THE ABOVE	62	NA
ALL (self and others) – illness/ disability in household		
No illness/ disability	39	-
Illness/ Disability in household	61	-

Response rate: 2008 - 260 (self), 196 (others in household);
Columns can add to more than 100% because of multiple responses

Economic status

53. Almost half of respondents are in employment. Around two thirds of them work full-time and one third are part-time, while a small proportion is self employed (Table 8). Reflecting our earlier findings, a high proportion of debt clients are unable to work due to disability or ill health. The economic status of debt clients is broadly comparable with findings in 2003, but differs from the general CAB client population, in that they are more likely to be in employment and less likely to be unemployed.

54. Levels of employment are broadly comparable with the wider Scottish population, although slightly more worked part time. However, a much higher proportion of the survey respondents are either unemployed and seeking work, or unable to work due to ill health or disability. Fewer survey respondents are permanently retired.

Table 8: Main Employment Status of debt clients

<table>
<tr><th>Main Employment Status</th><th>2003 %</th><th>2008 %</th><th>CAS Client profile %</th><th>SHS 2006[38] %</th></tr>
<tr><td>Self-employed</td><td rowspan="3">50</td><td>5</td><td>NK</td><td>5</td></tr>
<tr><td>Full-time employed (working 30 + hours per week)</td><td>29</td><td>25</td><td>36</td></tr>
<tr><td>Part-time employed (working 30 or less hours per week)</td><td>14</td><td>15</td><td>11</td></tr>
<tr><td>Unemployed and seeking work</td><td>14</td><td>13</td><td>25</td><td>3</td></tr>
<tr><td>Looking after family or home</td><td>5</td><td>7</td><td rowspan="3">33</td><td>7</td></tr>
<tr><td>Permanently retired</td><td>10</td><td>9</td><td>27</td></tr>
<tr><td>Not working - ill health/ disability</td><td>19</td><td>21</td><td>6</td></tr>
<tr><td>Student in school, further or higher education</td><td>NK</td><td>2</td><td>2</td><td>5</td></tr>
<tr><td>Other</td><td>2</td><td>1</td><td>2</td><td>0</td></tr>
</table>

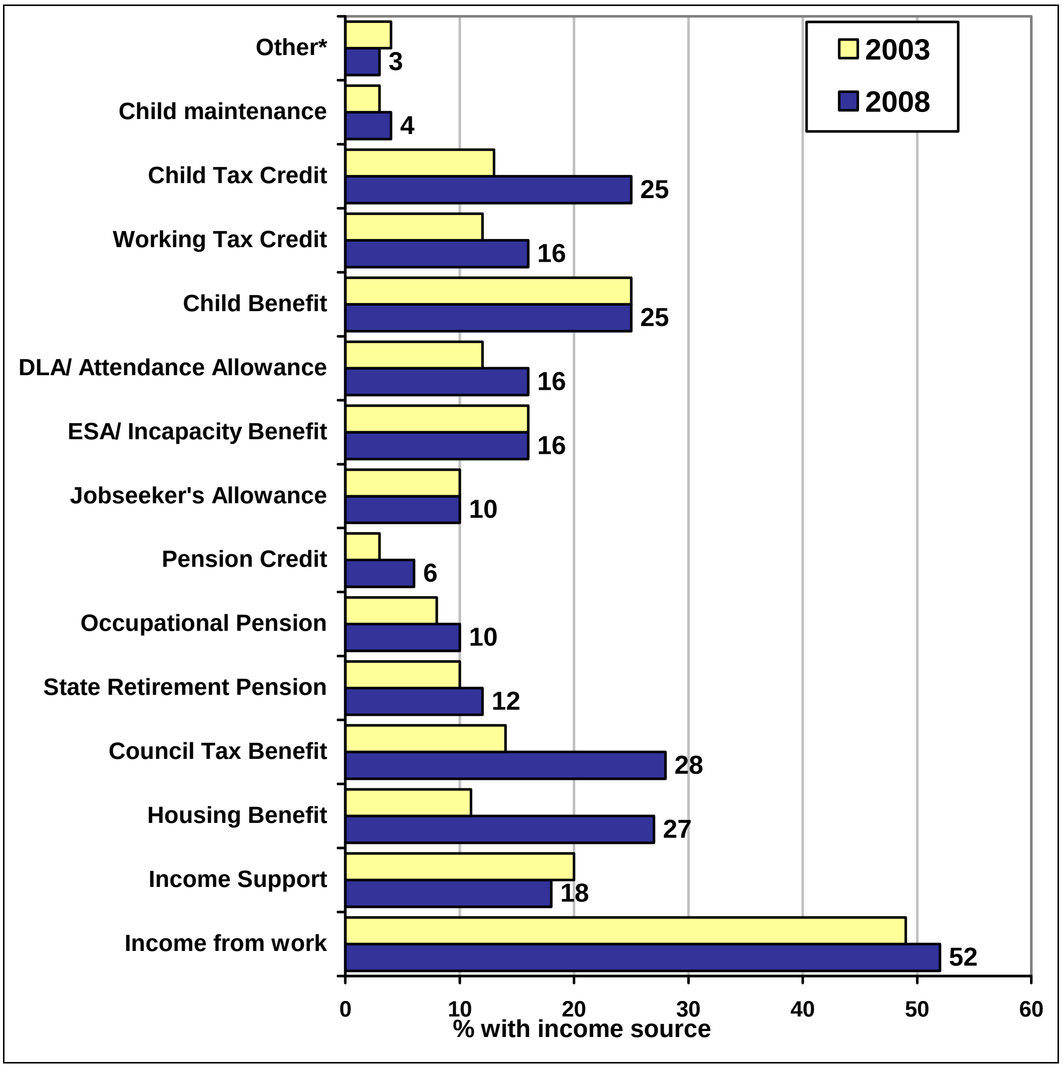
Survey responses: 2008 – 270 (clients), 146 (other adults); 2003 - not specified

Income sources

55. The income sources of CAB debt clients and others liable for debts are diverse (Figure 4). They are broadly similar to income sources in 2003, but more people are in receipt of Housing Benefit, Council Tax Benefit and Child Tax Credit in 2008. Earnings from work contributed to the income of 52% of debt clients. However, this also means that almost half of debt clients rely solely on pensions and/or benefits for income.

[38] Scottish Government (2007) Scottish Household survey, 2006: Available at: http://www.scotland.gov.uk/Publications/2007/06/04150044/4

Figure 4: Income sources



** Income sources mentioned by 3% or less in both years are excluded from the chart, including student loans, other disability benefits, income from parents*
Columns can add to more than 100% because of multiple responses
Response Rate: 2008 - 272 responses; 2003 - 268

Monthly income

56. The average monthly net income of debt clients in 2008 is £935 and the median is £882. This is much lower than the median income of households in Scotland, estimated to be £1599 a month in 2006-7[39].

57. The range of monthly net incomes of respondents is summarised in Table 9. This shows that actual incomes are broadly comparable with 2003 and that one in five debt clients in 2008 had an income below £400 a month. A smaller proportion had £1,600 or more a month than in 2003.

[39] Median Scottish Household income £369 per week in 2006/7: source Scottish household income: http://www.scotland.gov.uk/Resource/Doc/1034/0062195.xls

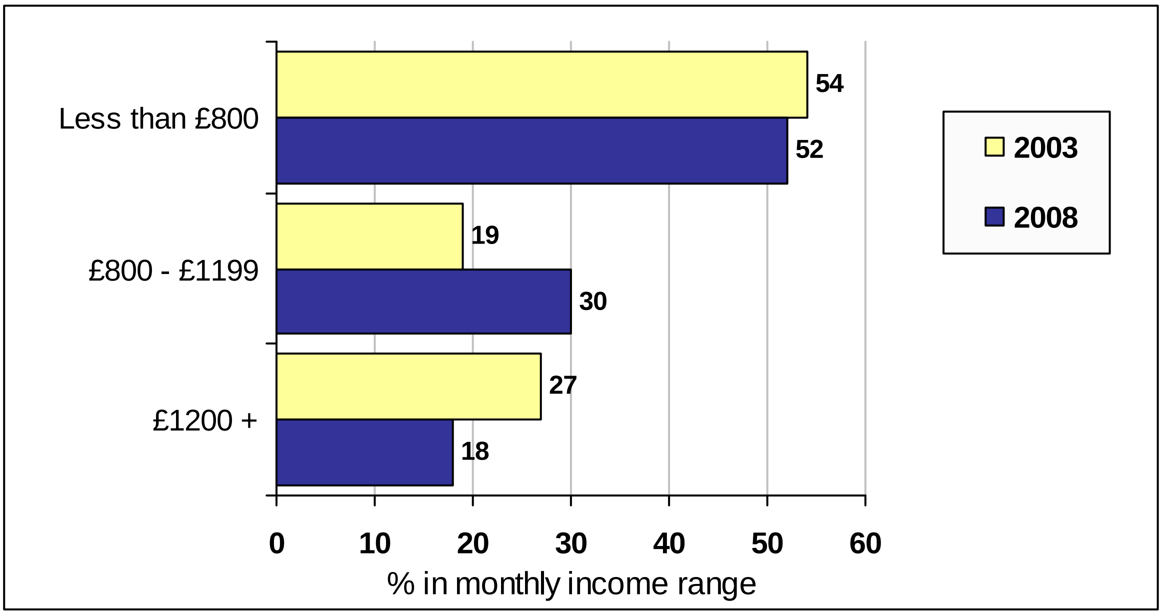
Table 9: Monthly income (net of tax and national insurance)

Monthly Income	2003 %	2008 %
Less than £400	24	21
£400 - £799	30	25
£800 - £1199	19	24
£1200 - £1599	15	20
£1600 and more	12	10

Response rate: 2008 - 244; 2003 – 255

58. Adjusting the 2008 data to take account of inflation[40] shows the changes in income more clearly (Figure 5). The proportion within the lowest income group is broadly similar to the 2003 findings. However, while there is an increase in the middle income group, there are fewer clients in 2008 on incomes equivalent to £1,200 or more than in 2003. This suggests there is a greater concentration of lower income groups than in 2003, despite the fact that a similar proportion are in employment. This may be because more clients are in part-time work or because more are lower paid.

Figure 5: Monthly net income, 2003 and 2008 (2003 equivalent level, adjusted for inflation)



[40] To take account of inflation, the 2008 income categories were down-rated to reflect the change in inflation, as measured using the RPI from 2003 to 2008. Net inflation over the period was a rise of 17.27%. Therefore, incomes are adjusted for 2008 by a multiplier of 0.8527 to enable direct comparison with incomes from 2003.

59. The incomes of CAB debt clients are strikingly different from households in Scotland[41]. CAB debt clients have much lower incomes, for example:

- 21% of CAB debt clients had an annual income of less than £4,800, but only 6% of Scottish households in 2007 had an annual income of less than £6,000
- At the other end of the scale, only 30% of CAB debt clients had an annual income of more than £14,400 but the majority of Scottish households in 2007 had incomes of more than £15,000

60. There are also some differences in average monthly incomes among key social groups (Table 10). For example:

- Average incomes are similar for men and women, but the median (mid-point) is lower for women. This suggests a small number of women have relatively high incomes but women are more likely than men to be on lower incomes
- Lone parents have lower incomes than partnered parents
- Households with disabled people have lower incomes than those with no disabled people
- The median income of those in work is double those not in work
- The median monthly household income of owner occupiers is much higher than that of those who rent their home
- Broadly, both average and median incomes reduce with age
- Incomes are highest amongst those seen in bureaux in urban areas (outside cities) and are lowest amongst those using city bureaux.

Table 10: Average net monthly incomes of key social groups

Group	Average	Median
Men	£933	£920
Women	£935	£841

<35 yrs	£992	£1,050
35-39 yrs	£1,022	£988
40-49 yrs	£985	£960
50-59 yrs	£832	£729
60 yrs +	£800	£700

Island	£899	£850
Rural	£966	£933
Urban	£1,028	£1,058
City	£689	£629

Group	Average	Median
In employment	£1,133	£1,241
Not in employment	£704	£591

No disabled people	£1,089	£1,048
One+ disabled people	£798	£874

Owner occupier	£1,294	£1,200
Rent	£809	£789

Lone parent	£1,049	£1,058
Partnered parent	£1,319	£1317

41 Scottish Household Survey (2008) *Scotland's People: Results from the 2007 Scottish Household Survey*. Edinburgh: Available at: http://www.scotland.gov.uk/Publications/2008/08/07100738/0

Liability for debt

61. The majority of people were responsible for the debts they wanted advice about, while a small proportion said their debts were their joint responsibility with a spouse or partner (14%).

62. The next section of the report provides the research findings with references made to differences amongst key social groups.

Number of debts

Key findings

- The average number of debts was 6.3 (median 6) compared to 5.1 in 2003
- Few clients had only one debt and more than one tenth had over 10 debts

63. The average number of debts has increased to 6.3 compared to 5.1 in 2003 and the median number is 6 (Table 11). The number of debts that each client has ranges much more widely than in either of the two earlier surveys. In the most extreme case, one person had 40 debts, more than double the highest number in 2003 or 2001.

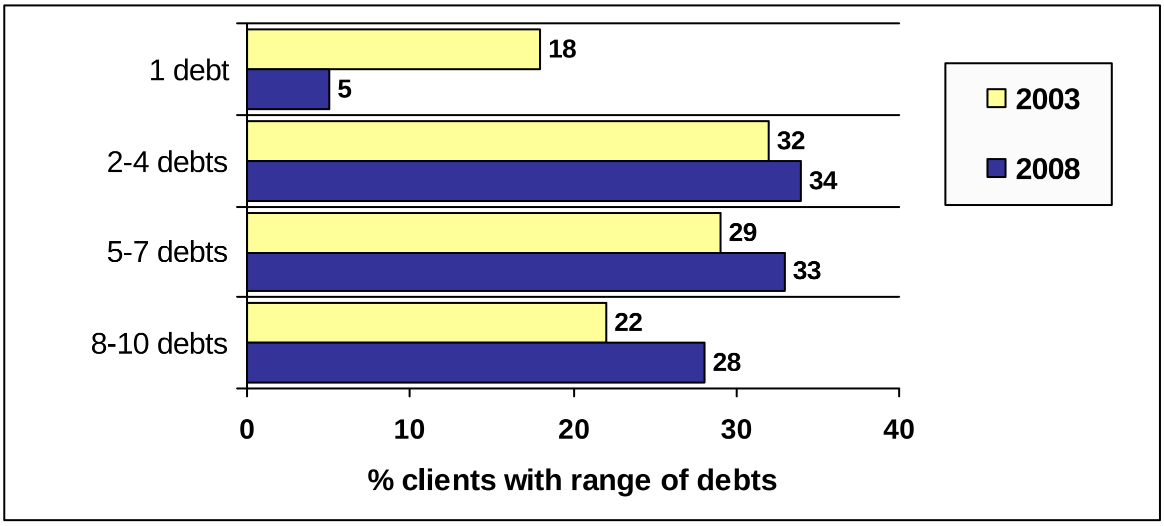
Table 11: Number and range of debts

	2001	2003	2008
Average number of debts	4.5	5.1	6.3
Median number of debts	-	-	6
Range of number of debts	1 to 18	1 to 18	1 to 40

Response rate: 2008 - 265 clients; 2003 - based on 268 clients

64. Part of the change in average numbers of debts is that far fewer CAB clients had only one debt compared with 2003 or 2001 (Figure 6). More clients in 2008 had a very high number of debts: 29% had 8 or more debts in 2008, compared to 22% in 2003, while 12% of clients had 11 or more debts.

Figure 6: Number of debts recorded for debt clients



65. Amongst key social groups, differences in the number of debts were not large, but key points include:

- 27% of those in part-time work had 8 or more debts compared with 22% of those working full-time
- Those with lower incomes had fewer debts than those on higher incomes – the average number of debts was 5.8 amongst those with incomes of less than £400 a month compared with 7.1 debts amongst those with £1,600 a month or more.

The level of debt

Key findings:

- The average total debt is £20,193 and the median debt is £12,554
- Half of CAB debt clients owed between £7,500 and £30,000 and almost one in ten owed in excess of £50,000
- 40% of men owed over £20,000 compared with 21% of women, as did 58% of owner occupiers compared with 20% of renters.

66. Average overall debt was £20,193, an increase of 50% over the 5 years from 2003. Half of debt clients owed less than £12,554 (median) (Table 12):

    - Individual debt levels ranged from £100 to £239,346
    - The three highest total debts were £135,657, £139,438 and £239,346.

Table 12: Average total value of debt

	2001	2003	2008
Total debt recorded	-	>£3.5million	£5.35 million
Average individual total debt	£8140	£13,380	£20,193
Lowest individual total debt	£140	£145	£100
Highest individual total debt	£85,000	£94,601	£239,346

Response rates: 2008 – 265 clients; 2003 - 265 clients

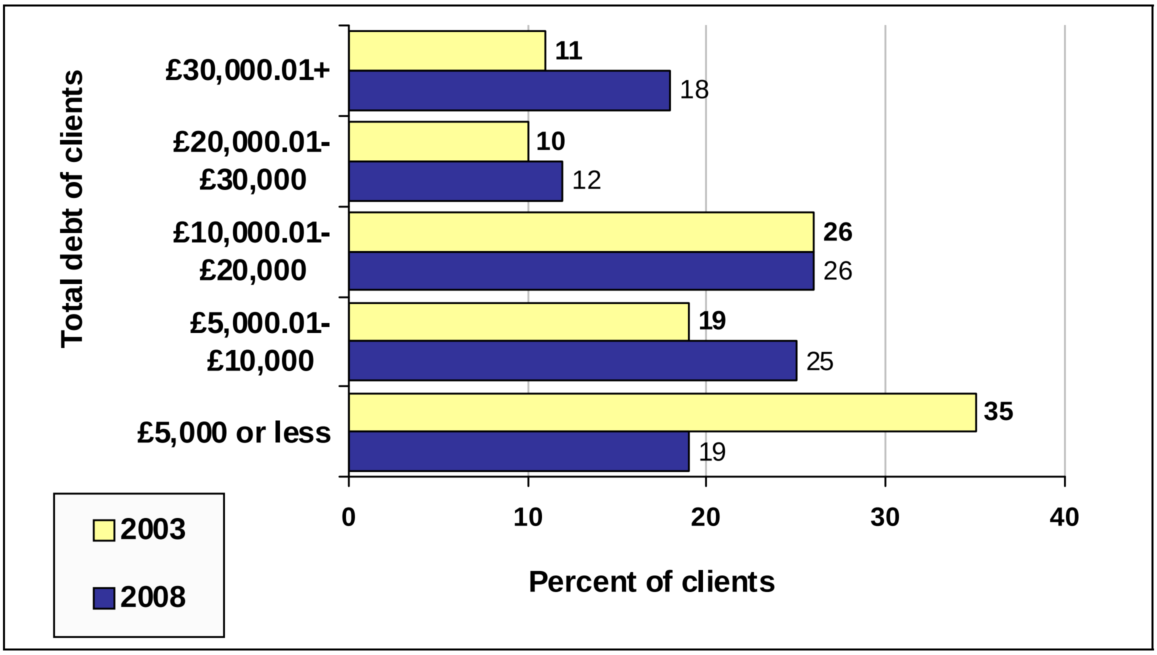
67. Average debts vary amongst key social groups. More details are provided in the section 'Debt profiles of social groups' below, but some of the most significant differences include:

    - Women's average debt (£14,752) was less than three fifths that of men (£25,772)
    - Those aged 60 or more had the highest average debt of all age groups – almost double the average for those under age 35
    - The average debt of owner occupiers was almost three times that of those renting their home. Since older people are more likely to be home owners, this is broadly consistent with age differences
    - Those who live with a partner had almost double the debt of those with no partner. This indicates that the level of debt per adult in the household is similar for one and two adult households. However, this does not necessarily mean that the responsibility for debt is evenly shared.

68. Households with one child had higher average debt than those without children, while families with two or more children had an average debt that was lower than families with no children. These differences are partly explained by a small number of cases with high amounts of debt. Other factors may include initial high spending costs for a first child and that a high proportion are pre-school.

69. The spread of debt has changed since 2003 (Figure 7). The proportion of clients owing less than £5,000 has almost halved. However, at the other end of the spectrum, the proportion with a total debt of over £30,000 increased from 11% to 18%. Half of CAB debt clients had total debt of between £7,500 and £30,000 and 8% had total debt of more than £50,000 (8%).

Figure 7: Distribution of total debt, 2003 and 2008



Response rate: 2008 - 265 clients; 2003 – total 265 responses

70. There are some large differences within key social groups, for example:

- 40% of men owed over £20,000 compared with only 21% of women
- 40% of debt clients living with a partner had debts over £20,000 compared with 25% of those living alone
- Groups that were more likely to have a total debt in excess of £20,000 include those in employment and those with higher incomes
- Almost three in every five owner occupiers owed more than £20,000, compared to only one in five of people renting their home
- As might be expected, those with more debts also had higher levels of debt – almost half of those with more than 8 debts owed over £20,000 compared with less than one in five of those with fewer than 5 debts.

Value of individual debts

71. The average value of clients' single *individual* debts ranged from £100 to £33,914, with the average being £3,598 and the median, £2,542 (Table 13).

Table 13: Average value of individual debts

Average value of debts	
Overall average value of debt	£3,598
Median	£2,542
Lowest	£100
Highest	£33,914

Response rate: 265 clients

Debt to income ratios

Key findings:

- The average debt to monthly income ratio was 27.7, much higher than in 2003, with a median ratio of 16.9 so levels of debt are rising faster than income amongst CAB debt clients
- Ten debt clients (4%) owe more than 100 times their monthly income.

72. Debt is compared here with net monthly income after tax and national insurance, if applicable – that is, income before all personal and household expenditure is deducted including rent, food and fuel. Sharp[42] highlighted that someone's debt to monthly income ratio is a good indicator of 'debt stress'. If income and debt increase proportionately, the ratio will remain constant. However, if the level of debt increases, or income falls, the ratio will increase.

73. The average debt to monthly income ratio was 27.7 and the median was 16.9, half of clients owed £16.90 or more for every £1 of monthly income (Table 14). Debt to monthly income ratios have increased significantly between 2003 and 2008. This indicates that overall levels of debt are rising faster than income amongst CAB debt clients.

74. Almost a third of survey respondents had debts that amounted to less than 10 times monthly incomes. Ten respondents (4%) had a debt to reported monthly income ratio greater than 100. In the most extreme case, the total debt was 189 times greater than the client's monthly income.

[42] Sharp C (2004) *On the Cards - The debt crisis facing Scottish CAB clients*, Citizens Advice Scotland: Edinburgh

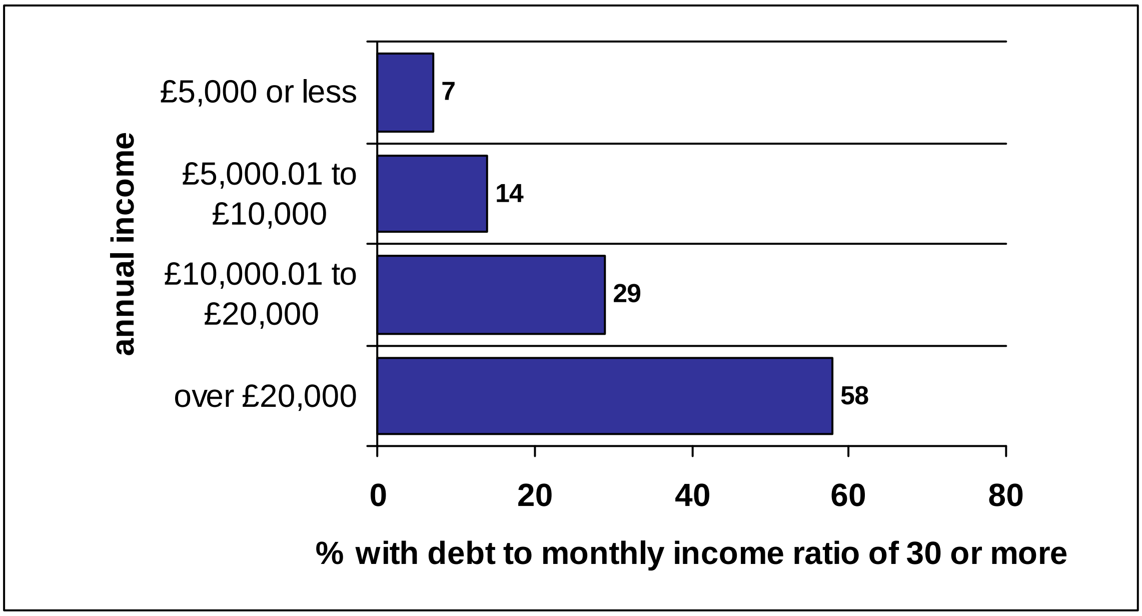
Table 14: Ratio of debts to monthly incomes

	2003	2008
Average debt to income ratio	21.9	27.7
Median debt to income ratio	12.1	16.9
Range		0.1 to 189.5
< 5	-	15%
> 5 and up to 10	-	15%
>10 and up to 15	-	14%
>15 and up to 20	-	12%
> 20 and up to 30	-	13%
>30 and up to 40	-	11%
>40 and up to 50	-	6%
More than 50	-	14%

Response rates: 2008: 235 clients; 2003 – based on 268 cases

75. Debt to income ratios are linked to income levels. Those with incomes of £20,000 a year or more are eight times more likely than those with annual incomes of £5000 or less to have total debt that is more than 30 times greater than monthly income (Figure 8). Taking account of the very low incomes found in this survey, drops in income and other crisis situations are still relevant, even for the debt clients with relatively higher incomes.

Figure 8: High debt to income ratios (x30 or more) by annual income



76. For several of the interviewees we talked to, changes leading to a drop in income were key to their difficulties, including job loss, ill health and the death of a spouse:

"It was because I'd gone from working full time, to having a baby daughter and then not having a job and then having to find a part-time job to fit round about it. I was able to pay until I had to stop working…"

"My illness came back and I couldn't work again."

"It all started when my husband died. We had a big bank loan… when he died I couldn't keep up the payments. So eventually it just got too much and I went to Citizens Advice Bureau about it."

77. Others had already been struggling with payments that became impossible to manage once a change in their circumstances led to a drop in income. Again, this was often linked with job loss and/or health problems for the interviewee or another member of the family:

"We had been trying to sort out debt that we had then I was made redundant and it just became impossible then to do anything with debt, to pay anything back."

Types of debt

Key findings:

- The most common debts are on credit cards (32%) and personal loans (16%)
- By 2008, 65% of debt clients had at least one personal loan and 69% had at least one credit card debt compared with just over half in 2003
- Since 2003, catalogue debt, credit card debt, personal loans and overdrafts have all grown, but borrowing from doorstep lenders has remained constant. This suggests that new borrowing is in addition to cash loans rather than substituting for them.

78. Two types of debts account for more than half of the debts reported: credit card debt and personal loans. Overall the debt profile is similar between 2003 and 2008 (Table 15). However, credit card debts increased by almost a quarter and catalogue debts rose from 7% to 10% of all debts. In contrast there were fewer unsecured loans and store card debts.

79. Amongst clients, the main change is that a higher proportion of debt clients have each type of debt, consistent with rising debt levels overall. By 2008, 65% of debt clients had at least one personal loan and 69% had at least one credit card debt compared with just over half in 2003. Other key changes to note include:

    - The proportion with an overdraft has almost doubled
    - There are substantial increases in the number of debt clients with personal loans, council tax, catalogue and credit card debt
    - The proportion of debt clients with rent arrears rose while the proportion with mortgage arrears fell slightly
    - Fewer debt clients have consolidation loan debt or HP debt, but the proportion with debts to the Inland Revenue (which includes overpayment of tax credits) was 3 times higher than in 2003.

80. Amongst interviewees, borrowing on credit cards and easy access to credit were significant contributors to their difficulties. Several described banks and credit card companies as "throwing money" at them and one woman used a bank loan to get her "through Christmas and New year". One man with a large number of debts had succumbed to the sales pitch:

    "I had thirty-odd credit cards. They kept sending me application forms so I just filled them in and sent them back. Some of them gave wee incentives

as well. Like with one of them, I got a mobile phone out of it… (Bank), it was £14000 or £15000 limits on them. I had five of them.”

Table 15: Type of debt

<table>
<tr><th rowspan="2">Debt Type</th><th colspan="2">% of all debts</th><th colspan="2">% clients with each type of debt</th></tr>
<tr><th>2003</th><th>2008</th><th>2003</th><th>2008</th></tr>
<tr><td>Credit card</td><td>26</td><td>32</td><td>55</td><td>69</td></tr>
<tr><td>Personal/ Unsecured loan</td><td>19</td><td>16</td><td>53</td><td>65</td></tr>
<tr><td>Overdraft</td><td>6</td><td>8</td><td>25</td><td>44</td></tr>
<tr><td>Catalogue</td><td>7</td><td>10</td><td>19</td><td>30</td></tr>
<tr><td>Council tax/Community Charge/ water & sewage</td><td>5</td><td>5</td><td>25</td><td>30</td></tr>
<tr><td>Store card</td><td>11</td><td>7</td><td>25</td><td>24</td></tr>
<tr><td>Cash Loans</td><td>7</td><td>4</td><td>17</td><td>17</td></tr>
<tr><td>Utilities: telephone, mobile phone</td><td rowspan="2">5</td><td>4</td><td rowspan="2">16</td><td>17</td></tr>
<tr><td>Utilities: gas, electric, water, fuel</td><td>2</td><td>12</td></tr>
<tr><td>Rent arrears</td><td>2</td><td>2</td><td>9</td><td>12</td></tr>
<tr><td>Secured loan</td><td>1</td><td>1</td><td>5</td><td>6</td></tr>
<tr><td>Income tax/NI contributions</td><td><1</td><td>1</td><td>2</td><td>6</td></tr>
<tr><td>Mortgage arrears</td><td>1</td><td>1</td><td>6</td><td>5</td></tr>
<tr><td>Repayment of benefits overpayments</td><td>1</td><td>1</td><td>3</td><td>5</td></tr>
<tr><td>Hire purchase agreement</td><td>2</td><td>1</td><td>10</td><td>4</td></tr>
<tr><td>Consolidation loan</td><td>1</td><td><1</td><td>5</td><td>2</td></tr>
<tr><td>Other consumer debt</td><td>2</td><td>1</td><td>7</td><td>2</td></tr>
<tr><td>Other – e.g. employment/ legal debts</td><td>2</td><td>3</td><td>8</td><td>12</td></tr>
</table>

Responses: 2008 - 1581 debts described by 260 clients; 2003 - 1334 debts

Columns may add to more than 100 because of multiple responses

All categories below 2% in all columns have been removed including credit union, student and social fund debts, WTC/CTC overpayments and debts to CSA

81. The type and extent of debts varied considerably between interviewees. Most recognised that rent and mortgage payments were essential, so most had prioritised paying these. However, for some, maintaining their home was at a precarious stage and one man was waiting to see if the lender would accept their repayment offer or start repossession proceedings. In another case, the family had been evicted from a council tenancy and are now living in privately rented accommodation:

“We lost our council house, just with arrears and muck ups with housing benefit, I was off sick for almost a year and it took 7 months to sort out housing benefits and by that time I had lost my house.”

82. The development of the CAB coding scheme between 2003 and 2008 also revealed some additional insights into the debt profile:

- Within the category of 'utility debt' telephone and fuel are both important - 23% of debt clients overall had utility debts, including some debt clients who had both types of utility debt
- Cash loan debt is almost entirely with doorstep lenders – less than 5% of cash loans came from family or friends. This may seem at odds with borrowing from family and friends being important as a strategy for managing debt (Table 20, page 44), but such borrowing may be for small amounts or used to bridge people over short periods and not viewed as debt.

83. Credit card debts were common across key social groups, although the more debts clients had, the more likely they were to have a credit card debt. However, wider use of credit cards is not a replacement for cash loans from doorstep lenders, but is in addition to them - cash loans were used by the same proportion of clients as in 2003. The combination of lower incomes and increasing use of credit cards reinforces Sharp's[43] view that credit card debt remains a debt of poverty as much as a tool of financial management.

84. Despite the high interest rates, interviewees found doorstep lending a useful source of credit at the time, although some had a change of mind once they fell into debt:

"Well at that time, I just thought, there's no other way I am going to get a loan from anybody else… I mean the interest rate they charge is high but people know they come every week and you just pay the lady and that's it."

"They're fine when they you get your first loan, but then they'll ask if you want a top-up. Then they kind of work it out that it is going to be easy to pay and it doesn't work like that. They are kind of sneaky I think… They seem friendly at the time but when you start missing payments they get abrupt with you…"

Most Important debts

85. Debt clients were asked to identify the 3 debts most important to them and why. The types of debts mentioned most often were broadly in line with the type of debts generally (Table 16). For example, over half of the most important debts were either personal loans or credit cards.

86. Debts that advisers describe as 'priority debts' are those that, if unpaid could put at risk the clients' home, fuel supply or essential items. Such debts include rent and mortgage arrears, secured loans, council tax and fuel bills. It is clear that debt clients also give such debts priority. Rent, mortgage arrears and council tax were all mentioned amongst the 3 most important debts by most clients who had such debts.

[43] Sharp C (2004) *On the Cards - The debt crisis facing Scottish CAB clients*, Citizens Advice Scotland: Edinburgh

Table 16: Most important debt – 10 most common responses

Debt Type	% of all responses	% clients with important debt of this type
Personal/ Unsecured loan	24	46
Credit card	26	43
Council tax etc/ water & sewerage	9	21
Overdraft	9	20
Catalogue	5	10
Rent arrears	4	9
Utilities - fuel	3	7
Secured loan	3	6
Store card	3	6
Mortgage arrears	2	6

87. Survey participants were asked why they had chosen the debts they thought were most important. The responses fall into 4 main categories that are outlined in Figure 9. Debt clients most often said the nature of the debt (for example, the level of debt or the interest rate) was the reason for a debt being important. They mentioned the actions of creditors (such as threatening legal action) more often than the type of debt (for example, a priority debt). A relatively small proportion of debts were seen to be of equal importance.

88. The most common reasons for prioritising debts are shown in Table 17. The reason debt clients gave most often was that the debt was the largest - this was mentioned 3 times more than any other reason. Others reasons given regularly were high interest rates and the risk of the client losing their home.

Figure 9: Factors in choosing most important debts

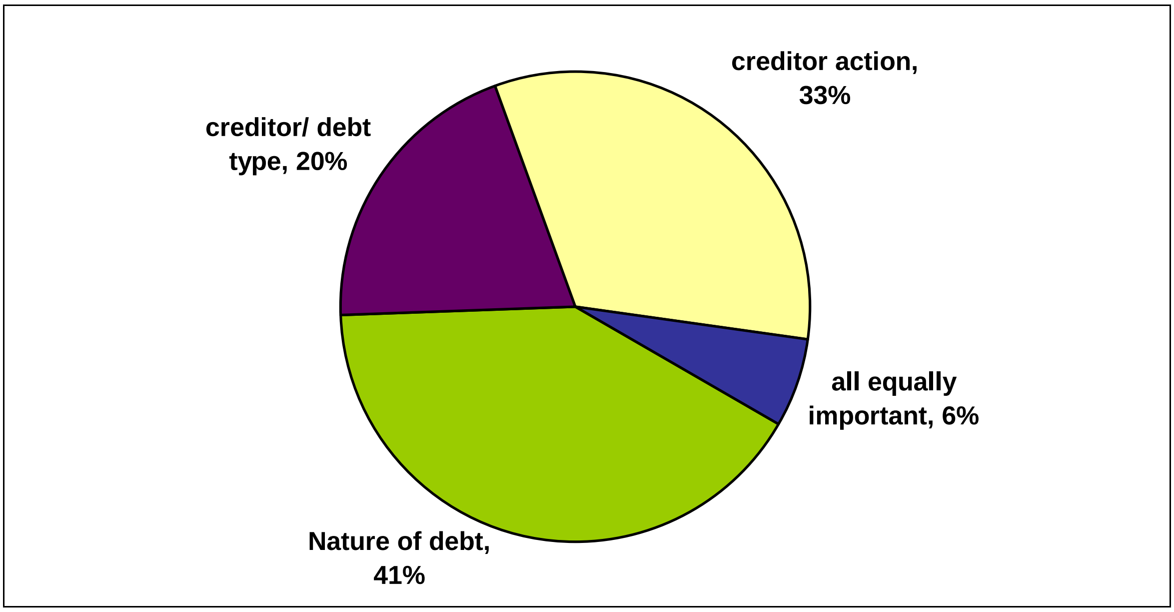


Table 17: Reasons for debts being important, proportion of all explanations

Ten most common reasons	% of all most important debts
Nature of debt	
Biggest debt	27
Interest rate	8
Creditor/ debt type	
Could lose home	7
Bank debt	4
Utility debt	3
Goods to be reclaimed	2
Creditor Action	
They keep phoning	5
Visit from debt collector	4
Legal action taken	3
Threat of legal action	2
Because they were helpful	2
All are equally important	**6**

Response rate: 2008: 455 explanations from the 211 clients

89. Debt clients tended to prioritise larger debt (Table 18). While the average value of individual debts was over £7,500 for only 10% of debt clients, 32% of the most important debts were more than £7,500. However, some clients prioritised lower value debts – 42% of the most important debts were for £2,500 or less.

Table 18: Value of most important debt

Average value of debts	Average value of debts - % of clients	Value of most important debts
Less than £1000	20	20
£1000.01 to £2500	29	22
£2500.01 to £5000	26	15
£5000.01 to £7500	15	12
£7500.01 to £10000	6	13
More than £10000	4	19

Response rate: 126 clients

90. Although no single issue concerning creditor actions was singled out amongst the reasons given, pressure from creditors, and their threatening or taking actual legal action were amongst the 10 most common reasons given. However, 2% of debts were prioritised because the creditor had been helpful. This response may be something that creditors could build upon in a positive way.

91. While debt clients did acknowledge priority debts, there are clearly competing pressures, as one female interviewee highlighted. Her main concern was the potential for her new husband's wages to be arrested for a debt she incurred before they were married. This meant she prioritised her tax credit overpayment over others:

"If I miss a payment then they will arrest my husband's wages and it will be really embarrassing for my husband because they will need to contact his employer. It will be quite embarrassing for him because he never knew about the extent of all my debts until I went to citizens advice. He knew about the debts but not the extent of it".

Reasons for debt

Key findings:

- Changes leading to a drop in income and persistent low income were important features. The main reasons given included: poor money management, low income, job loss, relationship breakdown and illness
- Once prompted, more clients identified with wider concerns including easy access to credit and a drop in income, higher cost of living and high interest rates or charges.

92. Qualitative research studies show the main reasons people get into debt are adverse financial shocks (e.g. loss of employment, onset of ill health, relationship breakdown); persistent low income; poor money management; creditor behaviour and over-commitment and over-spending. However, there are often multiple causes for debt problems that can mount up in a cycle of debt[44].

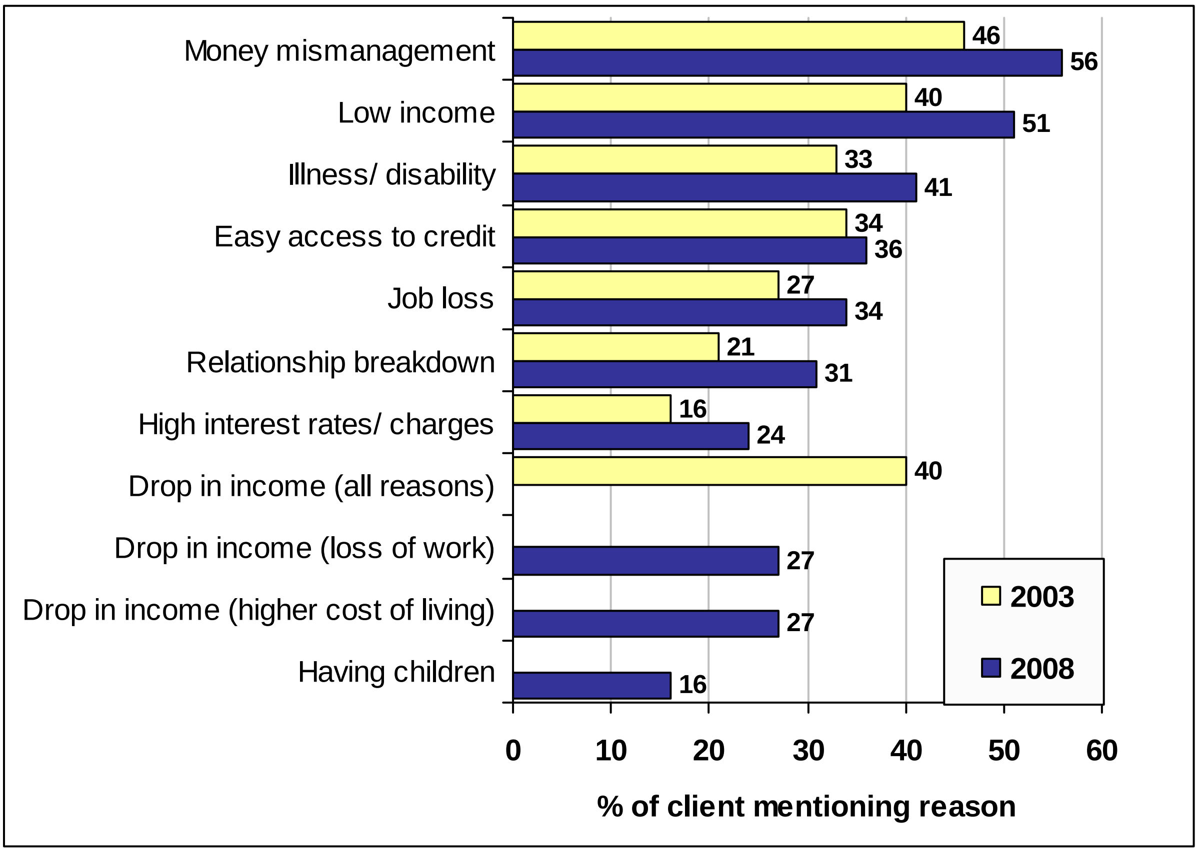
93. In this survey, participants were first asked without prompting to give three main reasons why they were in financial difficulty. A follow-on question asked for all other reasons, using a card with a list of 25 options. Figure 10 provides a summary of the most common reasons given. Overall, money management and low income were mentioned by the majority of debt clients. The most common reasons were broadly consistent between 2003 and 2008. However, debt clients mentioned all of the more common reasons more often in 2008. Along with rising numbers of debts, the factors contributing to financial difficulties are more varied and complex than in the past.

94. The 2008 survey involved a more detailed breakdown of a drop in income as a reason for financial difficulties. The two main reasons for a drop in income were loss of work and a higher cost of living. Overall, there appears to be a significant increase in the importance of falling income levels, for a variety of reasons, as a cause of financial difficulties.

95. The fact that 16% of debt clients mentioned having children as a reason for financial difficulties may help to explain the high levels of debt identified earlier amongst families with one child.

[44] Pleasence P, Buck A, Balmer N and Williams K (2007) *A Helping Hand: The Impact of Debt Advice on People's Lives*. Research Paper No. 15. London: Legal Services Research Centre; Turley C and White C (2007) *Assessing the Impact of Advice for People with Debt Problems*. Briefing Paper, London: Legal Services Research Centre

Figure 10: Main reasons for financial difficulties



96. Money mismanagement and low income were mentioned more than other responses overall (Table 19). Amongst the unprompted responses, 5 factors account for almost three quarters of the reasons for experiencing financial difficulties: money management or budgeting problems, illness or disability, job loss, low income and relationship breakdown.

97. There was a tendency for respondents to reinforce issues by reporting these as more than one of their three main reasons for financial difficulties, for example giving three dimensions of relationship breakdown to account for their financial difficulties.

Table 19: Reasons for financial difficulties

Reasons	unprompted responses %		prompted responses %		all responses %	% of clients mentioning reason – all responses	
	2003	2008	2003	2008	2008	2003	2008
Most common reasons							
Money mismanagement/ budgeting problems	17	18	8	12	13	46	56
Low income	10	11	12	13	12	40	51
Illness/disability	11	17	6	7	9	33	41
Easy access to credit	8	4	2	10	8	34	36
Job loss	10	14	5	5	8	27	34
Relationship breakdown	6	10	5	7	7	21	31
High interest rates/ credit charges	2	4	7	6	6	16	24
Drop in income							
Drop In income	8	NA	8	NA	0	40	NA
Drop in income through loss of work	NA	2	NA	7	6		27
Drop in income (loss of benefits)	NA	-	NA	1	1		4
Drop in disposable income (higher living costs)	NA	5	NA	6	6		27
Drop in disposable income (other reasons)	NA	1	NA	2	2		9
Other reasons							
Having children	3	2	4	5	4		16
Unexpected major necessary expenses	2	2	3	2	2		9
Business related problems	3	2	<1	2	2		9
Taken on first home/tenancy	1	2	2	2	2		8
Delay in paying benefits	1	-	2	2	1		6
Retirement	<1	1	2	2	1		6
Misunderstanding of repayment terms	1		10	2	1		6
Death/death related expenses	1	1	1	1	1		5
Failure of payment protection insurance	<1	-	2	1	1		5
Alcohol and drug addiction	1	1	2	1	1		5
Fault of others in the household/family	5	<1	4	1	1		4

Response rate: 2008: 543 unprompted reasons (247 clients), 871 prompted reasons (252 clients); 2003 - 457 responses across the 268 cases
Columns can add to more than 100 because of multiple responses
*Low level responses removed e.g.: delays in tax credit payments, failure of mortgage indemnity insurance, use of cheque cashing facility, creditor maladministration

98. Looking at the unprompted reasons emphasises that debt clients tend to blame themselves for their financial difficulties: 56% of the reasons are attributed to the respondent and her or his direct experiences, with a further 25% being shared with a partner. Far fewer explanations referred to 'systemic' factors such as the credit crunch or creditor practices. A very small proportion blamed other people for their situation.

99. While unprompted reasons focused mainly on specific events or changes affecting themselves or their families, debt clients identified more with wider concerns once prompted about other reasons for financial difficulties. Although money management and low income remained common reasons given, other factors were mentioned more often, particularly ease of access to credit and a drop in income through loss of work.

100. This survey is consistent with other research in identifying that adverse financial shocks are important to financial difficulties and that multiple factors contribute to these problems. In addition, however, debt clients have low average incomes compared with the wider population of Scotland and they recognise the importance of this, with more than half identifying low income as a contributory factor in their situation. Interviewees discussed the reasons why they found themselves in financial difficulties and some of the more common issues are discussed in the rest of this chapter.

Money management and budgeting difficulties

101. Some interviewees acknowledged that they had over-stretched themselves with their use of credit, or were generally struggling to manage their finances. One young man described how his problems built up over time:

"I got a contract phone when I was about 17 or 18 and that's following me around... I got a credit card about the same time and that had a £200 limit but that has gone up to £800 with charges and stuff and it has been passed to different debt companies and a bursary for a college course that I started in 2004 but I never managed to complete so I have to pay my bursary back to the local council."

102. Although easy access to credit was significant as a reason for financial difficulties once prompted, one couple's difficulties show how, combined with money management, such easy access to credit can create problems that can easily spiral out of control:

"We spent it at the time and didn't think 'the interest is really high' or anything else. You spend it when you think you need it and it accumulates really quickly and you don't realise what you have done. So in that sense that was money mismanagement because we would be paying that forever…You don't think of it that way and they increase the limit too easily for people. Far too easily. They'll bump it up every so often and you just think 'oh I've got a wee bit more to spend'. It's too easy because you're left with too much to pay back."

103. For several interviewees, repayments became impossible to manage once a change in their circumstances led to a drop in income. This was often linked with job loss and health problems for the interviewee or another family member:

"The wife's wages went down. I'm on IB [incapacity benefit] at the moment. Everything started to get on top of us when our circumstances changed. She's a home help and she's not getting as many hours as she used to. I can't work because I have ME."

Disability and ill health

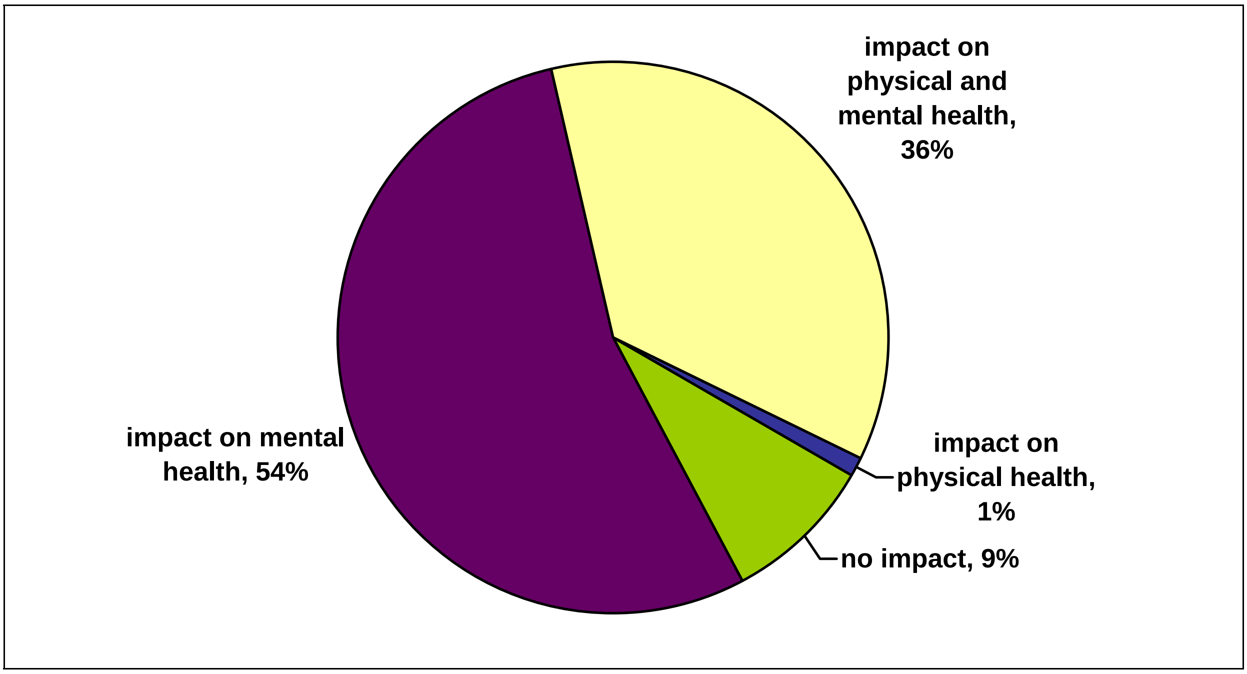
104. A high proportion of survey participants either had experience themselves or lived with others who had disability, health or impairment problems. Research shows how disability can affect the risk of poverty and low income[45]. One example reported of a case in which mental health problems and job loss resulted in increasing debts and distress for the client:

> An East of Scotland CAB reports of a client who is a home-owner, living alone, her only income is JSA; she suffers from depression and is in an extremely fragile mental state. After losing her job she has worked sporadically in short term, temporary jobs, but has not earned enough to meet her living costs. Her work pattern also means that she is not in a position to claim help with mortgage costs. She has accumulated credit card debt and recently, mortgage arrears. The client has sufficient equity in her house to clear her debts but she has no disposable income, so a mortgage to rent application would not be viable, nor would a trust deed or sequestration. She put her house up for sale despite her fears of being homeless and her distress at losing the home she had worked hard to acquire. Unfortunately, 6 months later, it remains unsold. Her mental state has deteriorated and she was recently admitted to hospital after a suicide attempt. She claimed help for housing costs but there is a time limit before she can do this again, meanwhile mortgage arrears are mounting.

105. As well as being a contributory factor to getting into debt, nine in every 10 debt clients said debt had a negative impact on their health. Almost all said debt affected their mental health and a third said it affected their physical health (Figure 11).

[45] Lardner (2006) *Paying the Price: The real costs of illness and disability for CAB clients*. Edinburgh: Citizens Advice Scotland

Figure 11: Impact of debt on health



Response rate: 258 clients

106. Survey participants were also asked which of their debts affected their health most. Of those who commented:

- More than a quarter said all their debts or the "whole situation they were in"
- In total, around one in five people said priority debts such as rent or mortgage (7%), council tax (7%) and secured loans (8%) had the most effect on their health
- More often, however respondents mentioned a high street bank or other lender (19%) or a consumer credit debt (5%).

107. Some comments were linked to the pressure or threats from the company or a debt collection agency. The behaviour of creditors was described in various terms including: aggressive, persistent, threatening or harassing. Several also commented about the pressure of having debts with doorstep lenders because 'they come to your door'. Creditor behaviour is discussed more fully later in the report.

108. The effect of debt on health and the additional stress it brought to their lives concerned most interviewees. Stress and depression suffered by clients, and occasionally their partners, was often attributed to their financial situation. This was equally likely to affect interviewees whether or not they thought they had brought their financial problems upon themselves, and pressure from creditors contributed to the impact debt had:

"It's my own fault really, but debt is so worrying and it does have an effect on the way you live, the way you think... and it does have a physical effect on you too because of the amount of stress it puts you under. So debt is a nightmare."

"It's stressful.... It makes you feel low... My husband suffers from high blood pressure as well so it doesn't help that... He's started getting hypertensive because of it."

"I was brought up with the idea if you want something you work for it, you save it up and buy it. But when I got myself into a situation like that. Well it was just unbearable, the letters… When I started getting these letters I felt like going down to the junkies in (local area) and asking if they had any spare stuff so I could end it all."

"It has made me stressed, it has made me not well, I got my second child, I had to give up work, my mum's disabled, I was worried because my wages weren't going into the debt. A lot of the time I was quite depressed about it because they were phoning me they were hounding me and I didn't have anything to give them but they weren't listening."

109. CAB case evidence also highlights how the pressure and behaviour of creditors had a negative impact on health, particularly mental health:

> A North of Scotland CAB reports of a client who was repeatedly harassed by a debt collection company requesting payments. The client received numerous threatening letters, including 15 letters in a one week period, and several threatening phone calls a day. Some phone calls were received at 10 pm at night saying that it was an emergency. On one occasion, the client was told that if he paid £90 immediately, his debt would be reduced by £7,500. The client made this payment, but his debt was not reduced and the company denied knowledge of the phone call. The client was also threatened with court action and wages arrestment, which the client felt had impacted on his health and made him feel suicidal.
>
> A West of Scotland CAB reports of a client whose mental and physical health has deteriorated greatly over the years due to the actions of his creditors. The client's creditors pass his debts from one debt collection agency to another repeatedly and he is harassed by letters and phone calls. The client arrives at the bureau each time this happens in a very agitated and almost suicidal state. The bureau has written to the client's creditors with letters from his GP and MP stating his health problems, but the creditors have not changed their actions towards the client.

110. One interviewee retired early because he was diagnosed with cancer, but he did not tell his wife for some time about his financial situation:

"Well, to a certain extent I never really thought much about it because to be honest, I didn't think I would be here by now... I thought that… with all the insurances, that would cover (wife)."

Relationship breakdown

111. Relationship breakdown is one of the main reasons given for financial difficulties. There are many factors around financial issues in the break-up of a relationship, including a drop in income, liability for bills and payments and juggling work and care responsibilities[46] . Lone parents as a group face a higher risk of living in poverty[47] (Palmer et al., 2005). These case examples help to explain why this can be such a significant feature of indebtedness:

> A West of Scotland CAB reports of a client whose debts have arisen following separation from her partner, two years ago, with whom she owned a house and had a joint secured loan on the property. The house has not been sold as it has negative equity, her ex-partner lives in and pays the mortgage for the house; they share the cost of the secured loan between them and have not accrued any arrears. The client has no assets, is lodging with friends and also has unsecured debts of around £21,000. They are both prepared to accept that their house may have to be sold or re-possessed, to cover their debts.
>
> A North of Scotland CAB reports of a lone parent whose ill health led to debt problems. The client was signed off work due to ill health, and subsequently experienced problems meeting her mortgage and loan commitments. The client was then contacted by a company offering to buy her home, clear her mortgage, and rent the home back to her. Despite being advised of the possible drawbacks of the offer, the client pressed ahead with the quick sale as she felt she couldn't wait any longer due to the impact that being in debt was having on her health.
>
> An East of Scotland CAB reports of a client who has experienced financial difficulties following the breakdown of a relationship. The client is now a single parent with two young children. The client fell into arrears on her mortgage due to the reduction of the household income and had her home repossessed. The only option for the client to escape her debts is to apply for bankruptcy through LILA, but she has been told that she is ineligible as her repossessed house has not been sold yet due to the slow down in the housing market.

Higher cost of living

112. Rising costs were a concern for debt clients, particularly following prompting. Most interviewees had found the rising cost of food and fuel to be an added strain on their money management, particularly on top of coping with a drop in income, putting further pressure on already limited budgets:

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[46] Gillespie M, Dobbie L, Mulvey G with Gallacher Y and Campbell J (2007) *Money Advice for Vulnerable Groups: Final Evaluation Report*. Scottish Executive (Web only publication) available at: http://www.scotland.gov.uk/Publications/2007/03/22115958/0

[47] Palmer G, Carr J and Kenway P (2005) *Monitoring poverty and social exclusion in Scotland* 2005. York: Joseph Rowntree foundation. Available at: http://www.jrf.org.uk/publications/monitoring-poverty-and-social-exclusion-scotland-2005

"With having a wee one, we have to have fresh food in the house and keeping up with that is hard… Just for a loaf of bread! It's nearly £2! We keep quite healthy and try to buy fresh stuff but I have to go and look for the reduced items to be able to afford it."

"The fuel bills have affected us, gas and electric. I've got arthritis in my hips so in the winter time the heating is on all time."

"It's worse staying in the country. It's Liquid Petroleum Gas I've got and it's very expensive. It's gone up twice this year. It went up in April then in October, another 4.9p a litre… The thing is when I got the gas put in 20 years ago, I had to pay about £345 to get two small tanks delivered to hold the gas, but you've got a monthly charge to maintain it. If I went to another company, they'd take them away and I'd need to get another company to come and bring their tanks, which is going to be a lot of money just to change suppliers."

Fuel meters

113. The level of disconnection from fuel supply is difficult to establish amongst people with fuel meters and key cards whom may disconnect themselves if they do not have enough money to pay for fuel. More than one quarter of CAB clients in 2008 were using pre-payment meters for either their gas and/or their electricity (Table 20). Some groups of debt clients were more likely to have fuel meters, including tenants, disabled people and those with lower value debts (less than £10,000).

Table 20: Pre-payment meters

Pre-payment meter ownership	2008 %
Yes, for gas and electricity	14
Yes, for gas only	<1
Yes, for electricity only	13
No	73

Response rate: 264 clients

114. Some interviewees had prepayment or key card meters. Although most did not like them, they provided the means for them to repay arrears:

"Once your prepayment meter goes to zero you get an emergency credit which for gas is like a fiver but at the moment in this weather you can use a fiver in a day no problem at all."

"So our fuel bills…we've got the meters and they are just eating it away… We are in debt with the gas and the electric. We did offer to pay it up but they said we would have to get meters put in. So we have had meters put in. This is a while back, so we are still paying it off."

115. Despite the extra cost of a key card meter, the ability to monitor usage on a daily basis helped one interviewee to manage their fuel consumption better:

"I was paying £25 a week with a normal meter. But I was sitting frozen… So I asked the electricity board to put in a key meter so I can see when it runs down... The electricity board told me it was dearer to use a key meter. They said it would be about £200 a year dearer… I can put on my heating and get hot water and if it's running down I can watch it whereas before, I couldn't sleep at night for thinking about what kind of bills I was going to get."

116. However, CAB case evidence also shows that the impact of pre-payment meters can be harsh for some people, particularly where they are set to recover arrears:

An East of Scotland CAB reports of a client who is struggling to heat his home as £7 out of every £10 he puts into his prepayment gas meter is taken as a debt repayment. The client is stuck in a vicious circle of not being able to get power supply due to the amount of debt repayment being deducted from each meter payment. Meanwhile his debt continues to grow larger due to standing charges being added. The client has not been able to afford to make payments for his gas for three months, and has therefore been using a freestanding heater to heat his house due to the situation.

A West of Scotland CAB reports of a client who is experiencing fuel poverty as a result of repaying debt on a prepayment meter. The debt was deducted at £15 per week from the client's payments into the meter. This means that the client has to pay at least £20 into the meter to get any heating. However, the client could not afford this and often went without any heating.

A West of Scotland CAB reports of a single parent who cannot afford to heat her home and so spends part of her week at her mother's house. The client cannot work and receives Disability Living Allowance. Due to her low income, the client built up gas arrears which led to the threat of disconnection by her supplier. The client has debt repayment plans in place, but cannot afford to make these payments and to pay for gas and electricity. Consequently, the client can only afford to heat her home for a certain number of days a week and spends the rest of the week at her mother's house.

A North of Scotland CAB reports of a lone parent with four children who is unable to afford heating for their home. The client had a pre-payment meter installed to collect arrears, and has struggled to find money for utilities. The client has had to turn off the heaters in nearly all the rooms despite having four children.

117. The experiences of CAB clients in developing strategies to cope with fuel costs are consistent with and reinforced by a recent study for Energywatch to review coping strategies[48]. The review of existing research identified 3 types of coping strategy:

- Reducing fuel use, including rationing (particularly older people) or self disconnection for pre-payment customers resulting in cold homes
- Taking other financial measures such as reducing expenditure on food
- Getting into debt – this strategy was more common amongst young households, particularly those with children.

118. While disconnection of fuel by suppliers may be a less common occurrence than in the past, the consequences of fuel poverty continue to be important for CAB clients with debts and an important factor in the difficulties they face in managing on a low income.

High interest rates and credit charges

119. Although few people identified creditor maladministration or failure of insurance as reasons for their financial difficulties, the broad behaviour of creditors and the type of banking arrangements that some interviewees had did contribute to their problems. Such issues were not reflected strongly in the list of prompted reasons, yet 3 of our 10 interviewees had bank account problems that contributed to their financial difficulties.

120. In one case, this arose because of the lack of a bank account which meant that regular repayments of a loan through the post office cost an additional £2.35 on top of the £10 monthly payment. The remaining two clients experienced problems because of the way their banks dealt with their bank accounts, particularly direct debits and money owed to the bank (e.g. a bank loan), as well as charges added to accounts which pushed them into overdraft, incurring further charges. This helps to illustrate why, once prompted, almost a quarter of debt clients found high interest rates and credit charges to be a reason for their difficulties:

"They were adding on £34 on top of the bank loan and they wanted £80 off me for the bank loan but I didn't have it because they were taking it off me. I had to go over to the bank and I had to explain to them that they were taking my wages off me and I couldn't afford to pay it and I had to take myself out of the bank.

"I used to wonder why the bank were so lenient and then over the years they make so much money from charges because every time… I have something come off and there is no funds to clear it then I will be charged £35 and then I will be charged £28 on top of that at the end of the month for unauthorised use of my overdraft."

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[48] Gibbons D and Singler R (2008) *Cold Comfort: A review of coping strategies employed by households in Fuel Poverty.* London: Energywatch

Low income

121. In debates about individual capability, financial shocks and other causes of indebtedness, the importance of having an adequate income can be lost. Research indicates people on low incomes often have good budgeting skills through necessity, but may have little or nothing in reserve to cushion the impact of a change in circumstances or drop in income[49]. Changes in circumstances that led to a drop in income were important for some interviewees. Amongst those who were struggling with long term low income, even small reductions in income could be significant:

"Well when you are on a fixed income it is never easy. Plus when they took away the 12% tax it took away about £25 which is a lot of money to me. It is a lot when you are on a state pension and I get a widow's pension from when my husband worked."

"I was getting £120 a month but recently it's been going down due to social funds coming off and CSA and, like I said, some of my debts are being paid through direct debit to the council."

"It's quite hard. I have £60 one week and £44 the following week and the week after that I have got an £80 one so its all coming off at the same time. I'm struggling."

[49] Gillespie M, Dobbie L, Mulvey G with Gallacher Y and Campbell J (2007) *Money Advice for Vulnerable Groups: Final Evaluation Report*. Scottish Executive (Web only publication) available at: http://www.scotland.gov.uk/Publications/2007/03/22115958/0

Strategies for managing debt

Key findings:

- Clients used a wide range of strategies to manage debts including: seeking advice; juggling finances; trying to negotiate with creditors; and borrowing from friends or family:
- 41% of debt clients, including half of all female respondents said they had gone without essentials as one way of managing their situation.
- One in ten said they had tried to go bankrupt using the LILA route to bankruptcy

122. Debt clients were asked about how they had been managing their debts up to the time of interview. It is clear they have used a wide range of strategies. (Table 21). The majority had previously gone for advice from a CAB or another free advice agency. Other common strategies were concerned with juggling finances, going without essentials or trying to negotiate with creditors. Another set of strategies involved further borrowing either from friends, family or lenders or through using credit.

123. The main strategies used are similar to 2003 overall. However, a higher proportion of clients in 2008 mentioned most of the more common strategies and, in particular, two thirds of CAB clients said they have previously gone for advice from a CAB or another free agency compared to two fifths in 2003. More clients now report going without essentials - two in five debt clients mentioned this in 2008 compared to one third in 2003. Given the timing of this survey and the number of clients with credit, it seems surprising that a smaller proportion used credit as a strategy for managing money compared with 2003. However, this may reflect the tightening credit market during 2008.

124. New legal remedies have broadened the options available for some people. One in ten said they had tried to go bankrupt using the LILA route to bankruptcy, however few had used the Debt Arrangement Scheme. There were a number of significant differences among groups in terms of the strategies used to manage debt including:

- Juggling finances to manage debt was a key strategy for 70% of debt clients with 2 or more children and 65% of owner occupiers
- Women and younger people were more likely to say they had borrowed from family and friends
- Women, particularly those aged 35-59, and those on lower incomes, were more likely to say they had gone without essentials to manage their debt. Some interviewees described what this meant for them:

"If you are really skint you can skip on food, I have been really skint… the horrible choices that people in the real world have to make."

"I have just no been able to eat properly."

"I don't go out the door because I have got no money now."

Table 21: Strategies for managing debt

Management Strategies	% of debt clients	
	2003	2008
Advice seeking		
Sought advice from CAB or other free agency	41	67
Used debt management companies to distribute payments to creditors	3	7
Sought advice from a debt advice service that charges a fee	NA	3
Financial strategies		
Juggled finances	48	52
Gone without essentials	32	41
Tried to negotiate with creditors	35	38
Further borrowing		
Borrowed from friends/family	29	34
Further loans/borrowing	24	25
Used credit	26	22
Used cheque cashing facilities	3	2
Work and earnings		
Taken on more work/overtime	10	12
Taken another job	5	5
Legal remedies		
Tried to go bankrupt using the *Low Income, Low Assets* route	NA	9
Tried to go bankrupt using other routes	NA	3
Using the Debt Arrangement Scheme	NA	<1
Other		
Done nothing to address the problem	13	11
Other	5	5

Response rates: 2008 - 271; 2003 – 264.
Columns may add to more than 100 because of multiple responses

125. Some interviewees described how they tried to juggle their finances. For one woman who was a lone parent at the time, family support was also a lifeline:

"At that time all my mum was taking off me was £20 a week and that was for me and my son, the rest of the money went on me actually getting to my work, paying my debt and my mum she was paying for all the food, nappies the baby wipes and all my kids clothes because I couldn't afford to go to my work, pay my debt and pay for my son as well."

126. Although still a small proportion, twice as many people had used debt management companies to repay creditors than in 2003 and a small number have used fee charging advice services. Some bureau representatives confirmed that some clients come to them because they have tried such services but: “they don’t find it works”. Advisers usually find it necessary to see most debt clients face to face at some stage of dealing with a case.

127. Some interviewees had used debt management or debt consolidation companies and described experiences that were consistent with advisers’ views:

“I had tried one of they things before where everything is consolidated but I couldnae even keep up with those payments… seemed like a solution at the time but then it wasn’t! Just an advert on the TV. You have got to pay £100 a month but they take so much of that a month for their fee and the rest is split up between who you owe money to… I would just miss payments to them and then it was all out of hand again... Citizens advice were a hell of a lot better. They are in front of you and they can talk through everything and they tell you exactly what’s going to happen. You are under no illusion of anything’s that’s happening.”

“I had tried to contact other debt agencies before I thought about CAB. They [the other debt agencies] were telling me that they couldn’t help me. I was really down about it… They went away and came back and said they couldn’t do anything at all basically. They said they would be leaving me with a £6 deficit.”

Reasons for seeking advice

128. Advice services often identify that providing money advice can be made more challenging because people wait till a late stage to seek advice. In the group interview, bureau representatives said their experiences of this remained largely unchanged, although some identified that more people were coming earlier for advice.

129. The responses to debt discussed above suggest that more people are seeking advice and that debt clients are using a wider range of advice sources. Interviewees discussed their reasons for seeking advice. Some had been aware of the CAB Service or had gone for advice in the past. Most described a specific debt or money issue that led to them going to the CAB for advice. Others had been pressed by family, friends or staff in other services to get advice on their financial situation:

“Because I had a gas and electricity bill that I got into debt with so went to them to see what the best thing was that could be done.”

“I was in debt and I had some small debts as well, credit cards and stuff and eventually - you always have the letters pile up and pile up - but my mother and my auntie they just got a hold of me and took me physically up to citizens advice and that was the first I had spoke to anybody.”

"I think it (CAB) is reasonably well-known but it was my housing-care co-ordinator. The local council has two or three people that help people in emergency accommodation. They help people moving into their new houses then giving them support once they've moved in. She's been helping me with my debts until I got referred to the Citizens Advice."

130. Going to the CAB was a new experience for one woman and her situation highlights that there are people who remain unaware of the nature of services available and the kind of situations with which people can get help:

"[before going to CAB] I never went for anyone, I didn't think I had the amount of debt to go and see someone I thought you had to have a lot more. They were threatening to come out and take my mum's stuff…my stuff and my son's stuff…. I was trying to get them to listen: 'I can only give you this a week, I have more than just you'. But there weren't accepting that off me and I had to finally go up to citizens advice."

Debt profiles of social groups

131. The experience of debt varies across social groups and key differences are summarised here. Information available about incomes, level of debts and debt to income ratios is summarised in Table 22 below. The number of debts does not vary a great deal between groups. Even where the differences are largest, among income groups and geographical areas, the variation is less than 1.5 debts on average. However, the level of debt varies much more. The gap is greatest between different types of housing tenure and income levels, while the presence of a disabled person (including the debt client and other people in the household) makes least difference to the level of debt.

132. Differences in the level of debt and average incomes contribute to wide variations in average debt to income ratios. For example, debt stress is high for men compared with women, partnered parents compared to lone parents and owner occupiers compared with tenants. However the difference is most marked between income groups - despite having fewer debts, the lowest income groups have a debt to income ratio that is almost double those on higher incomes.

133. Some differences emerge in the reasons for being in financial difficulty, the types of debt and strategies for managing debt. Some caution is needed in interpreting findings, particularly with smaller sample sizes, so findings are included only where they show some statistical significance.

134. Men and women employ different strategies for managing debts and have different reasons for financial difficulties.

- Women (62%) were more likely than men (45%) to acknowledge low income as a reason for their financial difficulties
- Women were more likely to say they had gone without essentials than men (49% compared to 32%) and to say they borrowed from family and friends to manage their debt (39% compared to 28% of men)

Table 22: Profile of social groups

Group	Ave no. of debts	Total client debt		Monthly net income		Average debt: income ratio
		Average	Median	Average	Median	
Overall	6.3	£20,193	£12,554	£935	£882	27.7
Men	6.4	£25,772	£16,731	£933	£920	35.3
Women	6.1	£14,752	£9,866	£935	£841	20.3
Less than 35	6.3	£16,060	£11,914	£992	£1,050	22.6
35-39	6.4	£21,605	£9,324	£1,022	£988	22.8
40-49	6.2	£21,352	£12,301	£985	£960	30.0
50-59	5.8	£18,281	£12,696	£832	£729	34.3
60 and over	6.8	£26,010	£15,182	£800	£700	30.5
Lone parent	5.9	£14,963	£8,954	£1,049	£1,058	18.7
Partnered parent	6.3	£27,853	£17,249	£1,319	£1317	26.7
Live with partner	6.6	£27,890	£16,210	£1,177	£1,200	30.6
Never lived with a partner	6.1	£15,764	£10,490	£772	£817	22.0
Previously lived with a partner				£807	£748	28.0
No children	6.5	£19,383	£12,833	£1,607	£1,580	
1 children	6.3	£25,791	£13,600	£1,010	£1,050	30.4
2 children	5.8	£16,618	£8,777	£1,185	£1,200	17.3
3+ children	6.4	£17,173	£9,866	£1,607	£1,580	12.2
No disabled people	5.9	£19,773	£10,754	£1,089	£1,048	25.4
One+ disabled people	6.4	£20,588	£12,733	£798	£874	29.1
In employment	6.1	£25,005	£14,834	£1,133	£1,241	25.1
Not in employment	6.5	£16,160	£9,866	£704	£591	30.6
<£400	5.8	£13,563	£9,944			51.4
£400 - £799	6.7	£16,709	£10,014			27.0
£800 - £1199	6.4	£20,967	£14,834			21.0
£1200 - £1599	6.3	£26,108	£18,596			19.6
£1600+	7.1	£33,651	£20,750			17.8
Owner occupier	6.9	£37,072	£25,398	£1,294	£1,200	33.8
Rent	6.1	£13,309	£9,944	£809	£789	23.4
Island	7.1	£18,570	£10.318	£899	£850	30.4
Rural	6.0	£20,304	£12,680	£966	£933	27.1
Urban	6.6	£23,760	£12,680	£1,028	£1,058	25.9
City	5.8	£15,127	£9,381	£689	£629	30.3

Note: Data for social groups can include small sample sizes and should be interpreted with caution

- Men (50%) were more likely than women (35%) to have an overdraft and a debt with a bank (93% compared to 80% of women), while women were more likely to have catalogue debt (42% compared to 16% of men).

135. These differences could be a reflection of women's lower incomes and gender roles within the family. Women may have different priorities and approaches to borrowing and credit. For example, greater use of catalogues may indicate this type of credit is a way of buying clothes and essentials for the family. The differences also raise the question of whether limited access to mainstream credit is a factor of gender as well as low income.

136. Broadly, the level of debt increases with age, but incomes reduce. This is reflected in higher debt to income ratios amongst those aged over 40. Other age related differences include:

- Money management was an important reason for financial difficulties amongst younger people (67% of under 40s compared to 58% of 40-49 and 49% of those aged 50 and above)
- Younger age groups also borrowed from family and friends more often than older age groups (43% of those aged under 40, compared with 31% of those aged 40-49, 24% of those aged 50 and above and 12% of those aged 60 and over)
- Younger age groups were more likely to have a debt to utilities/ services provider – 37% of those aged under 35 compared with only 11% of those aged 50-59 and 10% of those aged 60 and above
- Older people are less likely to have a debt with a local authority – 20% of those aged 50 and above, compared to 41% of those aged 40-49 and 38% of those aged under 40.

137. Comparison on the basis of marital or partnership status helps to explain why relationship breakdown is important as a reason for financial difficulties. People who are separated have lower incomes, but a debt to income ratio that is almost as high as for couples. Higher levels of fuel debt and wider consideration of LILA amongst this group reinforces the relevance of low income. Key differences include:

- Money management was an important reason for financial difficulties amongst those who had never lived with a partner (75%)
- Those not living with a partner were more likely than those living with a partner to say low income was a reason for their financial difficulties (61% and 43% respectively).
- Those not living with a partner were more likely to have a debt to a utilities/ services provider (30% compared to 19% of those living with a partner) and to have an overdraft - 48% compared to 34%.

138. Lone parents have lower levels of debt and debt stress than couples with children, and are less likely to have mainstream consumer credit debt (55% compared with 78%).

139. Information on the importance of the number of children in the household is also limited by small sample sizes. Those with more children were more likely to report juggling finances to manage their debt, (70% of those with two or more children, compared to 46% with one child). In the survey debt stress was greater in households with one child. The scale of difference is difficult to explain and may benefit from further qualitative research to identify whether there are patterns in family structures that can inform policy and practice.

140. Where disability or ill health is present in households, incomes are lower but debt stress is higher and health is more likely to be affected by debt. Other differences include:

- Money management was an important reason for financial difficulty in households with no disabled people (66% compared to 49% of households with disabled people)
- Pre-payment meters were more common in households with disabled people (34% compared to 22%)
- The negative impact of debt on physical and mental health was more important in households with disabled people (51% compared to 28% of in households with no disabled people).

141. Debt clients who were not in employment had less debt but more debt stress than those in work. However, part-time workers acknowledged low income as an issue more than other groups. Other key points include:

- Part-time workers (62%) were more likely than those not in work (57%) and full-time workers (42%) to say low income was a reason for financial difficulties
- Part-time workers were more likely to have a catalogue debt (46% compared to 30% of those not in work and 20% of full-time workers)
- Those in employment were more likely than those not in work to have a personal loan (71% compared to 58%).

142. Incomes of CAB debt clients are markedly lower than for the wider Scottish population. Those in the lowest income group have the highest levels of debt stress. There were only a small number of cases in the highest income group (£1,600 a month or more) so findings for that group should be treated with caution.

- Money management was an important reason for those in the top half of income (65%) compared to 52% in the bottom half
- Lower income groups were more likely to acknowledge their low income as a reason for their financial difficulties (61% of those in the bottom half of income, compared to 49% in the top half)

- Those on a lower income are more likely to have a utilities/ services debt (38% of those in the bottom third of income, compared to 28% in the middle third and 16% in the top third)

143. The housing tenure of CAB debt clients differs significantly from that of the Scottish population as a whole. Home ownership is low and renting is higher than in Scotland as a whole. Owner occupiers have higher income, higher levels of debt and more debt stress than people with other housing tenure. Some key findings include:

    - Clients renting their home (61%) were more likely than owner occupiers (32%) to cite low income as a reason for financial difficulties
    - Owner occupiers were more likely to report juggling finances to manage their debt, (65%, compared to 48% of those renting)
    - Clients renting their home (44%) were more likely to have a local authority debt compared to 18% of owner occupiers and 12% of others. They were also more likely to have a debt to a utilities/ services provider (32%) compared with owner occupiers (10%)
    - Those who were not owner occupiers (47%) were more likely than those who were (30%) to have an overdraft
    - Clients who rent their home were more likely than owner occupiers to have pre-payment meters (34%, compared to 10%).

144. Despite having less debt on average, those with lower incomes had higher debt to income ratios. This helps to explain, for example, why those with lower incomes were most likely to say they went without essentials to manage their debt (53% with debt of less than £5000 compared with 46% of those with £5,000 - £10,000 debt, 39% of those with £10,000 - £20,000 and 31% above £20,000 debt).

145. It is inevitable that those with more debts should feature strongly in having certain types of debt. Key differences included:

    - 76% of those with more than eight debts had a personal loan, compared to 62% of those with 5-7 debts and 56% of those with less than five debts
    - 76% of those with more than eight debts had a credit card debt compared to 72% of those with 5-7 debts and 55% of those with less than five debts
    - 95% of those with more than eight debts had a debt with a (non bank) mainstream consumer credit supplier, compared to 70% of those with 5-7 debts and 37% of those with less than five debts
    - Those with more debts were more likely to have a utilities/ services debt (47% of those with more than eight debts compared to 26% of those with 5-7 debts and 10% of those with less than five debts).

Types of creditors

Key findings:

- Banks were the creditors for almost half of the debts reported and almost nine out of every ten CAB debt clients owe money to a bank.
- Two thirds have debt with mainstream consumer credit companies.

146. In the 2008 survey debt clients were asked to provide details of the creditor's name to help analyse the type of creditors[50]. The results are given in Table 23 and key points include:

- Approaching half of all debts were to the banking sector
- The informal sector (catalogue companies, doorstep lenders and family/ friends) was more prevalent than the public sector
- Other (non banking) mainstream credit accounted for more than one in five creditors
- The next single most prevalent groups of creditors were catalogue companies and local authorities
- In 3% of debts, the original creditor was described as a debt collection agency, so the true original creditor is not known.

147. Looking at how many people have debts to different types of lenders and creditors shows just how important banks are. Almost nine out of every ten debt clients have at least one debt to a bank. Other findings include:

- Two thirds owe money to mainstream consumer credit companies
- As in 2003, most public sector debts are owed to local authorities
- Similar proportions had debts with telephone and (fuel) utilities companies
- More owed money to catalogue companies than doorstep lenders.

[50] One company may be a subsidiary of another but operating in a different role, for example a debt collection agency may be a subsidiary of a bank. The creditors are categorised according to the role identified by the client or in the relevant web pages of the organisation concerned and not by the parent company. As a result the data provided are indicative only.

Table 23: Creditor sectors and types

<table>
<tr><th>Creditor sectors and types</th><th>% of debts</th><th colspan="2">% of clients with debts to these companies</th></tr>
<tr><th></th><th>2008</th><th>2003</th><th>2008</th></tr>
<tr><td>All public sector</td><td>10</td><td>NK</td><td>40</td></tr>
<tr><td>Local authority</td><td>7</td><td>31</td><td>33</td></tr>
<tr><td>Student loan company</td><td><1</td><td rowspan="18">89</td><td>2</td></tr>
<tr><td>UK Government (taxation, benefits)</td><td>3</td><td>14</td></tr>
<tr><td>Banks and building societies</td><td>44</td><td>88</td></tr>
<tr><td>Banks</td><td>43</td><td>86</td></tr>
<tr><td>Building societies</td><td>1</td><td>5</td></tr>
<tr><td>Credit unions</td><td><1</td><td>1</td></tr>
<tr><td>Other mainstream consumer credit</td><td>22</td><td>65</td></tr>
<tr><td>Credit card company</td><td>7</td><td>29</td></tr>
<tr><td>Finance company</td><td>5</td><td>26</td></tr>
<tr><td>Retail/Storecard lenders</td><td>6</td><td>28</td></tr>
<tr><td>Combined credit/ finance/ storecard</td><td>3</td><td>12</td></tr>
<tr><td>Other consumer debt</td><td><1</td><td>4</td></tr>
<tr><td>Utilities and services</td><td>7</td><td>26</td></tr>
<tr><td>Legal/employment creditor</td><td>1</td><td>5</td></tr>
<tr><td>Utilities</td><td>3</td><td>14</td></tr>
<tr><td>Telephone</td><td>3</td><td>15</td></tr>
<tr><td>Private landlord</td><td><1</td><td><1</td></tr>
<tr><td>Housing Association</td><td><1</td><td>2</td></tr>
<tr><td>Informal lenders</td><td>13</td><td rowspan="8">17</td><td>42</td></tr>
<tr><td>Catalogue</td><td>9</td><td>29</td></tr>
<tr><td>Doorstep lenders</td><td>3</td><td>17</td></tr>
<tr><td>Family and friends</td><td><1</td><td>1</td></tr>
<tr><td>Other</td><td>4</td><td>16</td></tr>
<tr><td>Other consumer credit lenders</td><td><1</td><td>4</td></tr>
<tr><td>Illegal lender</td><td>-</td><td>-</td></tr>
<tr><td>Debt collection agencies</td><td>3</td><td>11</td></tr>
</table>

Responses: 2008 - 1636 debts (265 respondents); 2003 - 351 debts (268 respondents)

Columns may add to more than 100 because of multiple responses

**Note: the proportion of clients with debts to each creditor type can add to more than the total for the lending sector since they can have more than one type of debt in the sector*

148. Although a high proportion of debt clients owed money to utilities or services creditors (26%) and local authorities (33%), they tended not to have many debts with them (7% and 10% of all debts, respectively). Similar patterns exist for mainstream consumer credit and informal lenders. However, those with debts to banks and building societies were likely to have more debts with these creditors (44% of all debts, 88% of all).

149. There are some differences in the value of debts owed to different types of creditors. For example, most debts to utilities and services, informal lenders and the public sector are for less than £1,000. Mainstream consumer credit

companies are owed debts across a wider range, but most debts are less than £5,000. The debts owed to banks and building societies are more broadly based, but they account for the majority of debts over £5,000.

150. While being in debt to a bank is almost universal amongst CAB debt clients, there are some differences amongst groups in the types of creditors to whom they owe money. Some of these are to be expected. For example, those with more debts generally were more likely to have debt with local authorities, banks, catalogues and utilities companies. However, there is a particularly strong link between having a high number of debts and consumer credit. Almost all of those with more than eight debts - 95% - had debt to (non bank) mainstream consumer credit companies, compared to 70% of those with 5-7 debts and 37% of those with less than 5 debts. Other key differences include:

- Those renting their home were more than twice as likely as owner occupiers to owe money to a local authority and three times more likely to have debt with a utility company
- Other groups more likely to have a debt with utilities or service providers included younger age groups, those living on a low income, those with a higher number of debts and those living in remote areas
- Women (42%) were more likely than men (16%) to have a debt with a catalogue company, while men (93%) were more likely than women (80%) to have a debt with a bank
- Older people were less likely to have debt with local authorities than debt clients in younger age groups
- Partnered parents were more likely to have a debt with a mainstream credit company (78%) than lone parents (55%), as were those with more than 8 debts (95%) compared with 70% of those with 5-7 debts and 37% of those with less than five debts.

Creditor action to recover debt

Key findings

- More creditors are in negotiation with the CAB than in 2003, but they are also referring more debts on to debt collection agencies
- Overall, the behaviour of creditors was worse than in 2003 and almost twice as many clients said they have received a threat of debt recovery without recourse to court action
- Some creditors are adding interest charges back on to debts where they had previously been reduced or removed, and some are now refusing to freeze interest at all.

151. The actions of creditors to recover debts range from reminder letters about money due through negotiating repayments and agreeing repayment plans to more formal recovery procedures. These can include referring debts to a debt collection agency or taking legal steps through court action or diligence to recover debts. Debt clients were asked about the last action creditors had taken before their interview in connection with each debt.

Last action on debt

152. Three actions accounted for almost two thirds of all last actions on debts (Table 24): negotiation with CAB, referral to a debt collection agency and reminder letters. However, creditors had taken no action at all in one in five debts. Banks and building societies were more likely to have taken no action than other creditors, while public sector creditors were least likely to have done nothing.

153. Compared with 2003, three times as many debts were in negotiation between the creditor and a CAB – this applied across different types of creditors. This is an interesting change. The findings here are consistent with more debt clients seeking advice as a strategy for managing debt (Table 21, page 60). The increase in repeat enquiries about debt issues (Table 2, page 13) shows that more debt clients now need help with multiple debts and this may contribute to some people taking earlier action to get advice. People in debt find it difficult to negotiate themselves with creditors[51]. In addition, multiple debts are more likely to need the knowledge and skills of trained advisers and

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[51] MacDermott A (2008) *With a Little Help from my Friends: How advisers, creditors and debt collectors can work together to help people in debt negotiate repayments themselves*. London: Citizens Advice. Available at: http://www.citizensadvice.org.uk/index/campaigns/policy_campaign_publications/evidence_reports/er_consumerandebt/with_a_little_help_from_my_friends

face-to-face contact to address complex and protracted casework in negotiating with multiple creditors.

154. At the same time as more negotiation is taking place, more debts are being referred to debt collection agencies. This suggests that some creditors are acting more quickly to recover debts. Creditors in utilities and services were more likely than others to refer debts to debt collection agencies and public sector creditors were less likely to do so - the public sector has other options for debt recovery (see paragraph 162 below). Overdrafts were more likely to be referred to debt collection agencies than other types of debt.

155. More than one in ten debt clients had already lost track of who the original creditor was for one or more of their debts – this applied to 3% of debts overall (Table 23 above). The process of selling on debts was a source of confusion for some interviewees, particularly when they only discovered a debt had been sold on when the new creditor contacted them, often by telephone:

"They phoned me up to say they had taken over the debt. Cause they'd say 'I'm (name of debt collection agency).., 'Who are you?' I'd never even heard of them. They'd taken over the debt! They were wanting all the money. They were wanting paid off in a lump sum. I'd say 'Well, I've not got it. I can't give you a lump sum… and they also tell you to get your family or a friend to pay it for you!"

"You are dealing with one company and then someone new starts phoning you. It can get confusing but you can work it out. One company, were quite all right because they agreed to cut my bill in half for me. So that wasn't too bad. It meant me paying £8 more a month than what I would have been paying but for half the bill."

156. Fewer debts had default notices issued on them. Summary warrants were issued at a similar rate to 2003. Although relating to only 2% of all debts, almost one in every five debt clients had a summary warrant on one or more debts. Similar numbers have had a debt referred to Sheriff Officers. Both types of action related to public sector debts only.

157. Some debts clients already had repayment plans agreed for some of their debts. This was more likely to be with a bank or building society compared with other types of creditors and in relation to credit cards more often than other types of debt. Reminder letters were spread across creditors but were proportionately more likely to be for personal or unsecured loans than other debt types.

Table 24: Last action on debts as a proportion of all debts and debt clients

Last Actions	% of debts		% of debt clients
	2003	2008	2008
In negotiation with CAB	7	21	35
Referral to debt collection agency	15	20	46
Reminder letters	24	19	64
No action to date	22	19	36
Repayment plan agreed	10	10	27
Default notice issued	11	5	25
Court action initiated/decree obtained	4	3	23
Summary Warrant obtained	2	2	18
Referral to Sheriff Officers	2	1	18
Don’t know/other	3	(14)	(14)

Response rates: 2008 – 1410 descriptions 235 clients*; 2003 – not specified*

Columns may add to more than 100 because of multiple responses

Formal recovery action on debts

158. The extent and nature of formal recovery actions were similar between 2003 and 2008 (Table 25) and the vast majority of clients had not experienced any formal recovery action on debts. The lack of formal recovery action suggests that most creditors prefer to follow more informal routes to recovering money due. However, once formal processes are started, they can have significant consequences for debtors.

159. There are different forms of formal recovery. *On the Cards* discusses these in some detail and highlights that the legal processes can be questionable, for example, in relation to proof of liability for debts and whether some recovery procedures are legitimate for particular types of debts. The complexities are such that advice is particularly important and, sometimes, urgent for debtors facing formal recovery procedures.

160. Formal recovery actions are comparable between 2003 and 2008. However, initiation of sequestration proceedings is mentioned more often in this survey than in 2003. The threat of sequestration by creditors has not increased, so it is likely that at least some of the initiation of sequestration proceedings has been undertaken by the client rather than the creditor. This is not surprising in view of the introduction in April 2008 of LILA, the new route to bankruptcy. This provides people with low income and low assets with a route to bankruptcy not previously available to them and will be discussed further below.

161. It should be noted that housing repossessions started does not necessarily reflect whether the client’s home has been repossessed in the past – that situation would only be recorded here if a debt remained outstanding.

Table 25: Formal recovery action on debts, proportion of all debts and debt clients

Formal Recovery Actions	% of debts		% of debt clients
	2003	2008	2008
No formal action taken	87	87	88
Summary warrant obtained	3	2	10
Charge for Payment obtained	1	2	7
Bank Arrestment	1	1	2
Notice of Earnings Arrestment	<1	<1	1
Earnings arrestment	1	1	5
Threat of sequestration by creditor	1	1	3
Sequestration proceedings initiated	1	3	7
Threat of Attachment Order or EAO	1	<1	1
Notice of Attachment Order	1	<1	1
Attachment Order	0	-	-
Notice of Exceptional Attachment Order	0	<1	<1
Exceptional Attachment Order	0	-	-
Threat of repossession	1	<1	2
Repossession proceedings started	3	1	3
Repossession completed	1	-	-
Other	2	3	8

Response rates: 2008 - 1060 descriptions from 201 clients; 2003 – based on 1245 debts from sample of 268 clients

Columns may add to more than 100 because of multiple responses

162. *On the Cards* highlighted how missing payments of council tax can lead to an application to the Sheriff Court for a summary warrant in favour of the local authority. A surcharge is then added to the debt and the local authority can take steps to arrest earnings or make a bank arrestment to recover the debt. A small proportion of debt clients have experienced both procedures.

163. The following examples of recent case evidence from citizens advice bureaux relate to Sheriff Officers' actions on behalf of local authorities. They highlight the way in which arrestments can have major implications for managing money and dealing with other commitments and debts, particularly if more than one arrestment is put in place at the same time:

A West of Scotland CAB reports of a client who had his joint bank account frozen for council tax arrears despite already having a wage arrestment. The client has had a wage arrestment for two years, and understood that this would be enough to repay the debt. However, the Sheriff Officer arrested his account for the sum of £689. Since one form of diligence was already operating successfully over a significant period, the bureau thought that it was needless to impose a further form of diligence. This action put the family into hardship unnecessarily, as bills and other debts still had to be met. The bureau noted that the Sheriff Officer altered a debt agreement without prior agreement – an action that other creditors are not allowed to do.

A West of Scotland CAB reports of a single mother who had her wages and bank account arrested over a council tax debt. The client had made arrangements to repay £20 per week, but unfortunately defaulted on the repayments. The client then had her wages arrested (£76) and her bank account arrested (£284). The two forms of diligence left the client in severe hardship just four days before Christmas, and she risks losing her home if the rent isn’t paid.

A West of Scotland CAB reports of a client who has had her benefits arrested in her bank account for council tax arrears. The client is a lone parent who relies on tax credits to supplement her wage. She has around £3,000 in council tax arrears, and has been making regular repayments for over two years. The client was advised by the Sheriff Officers that ‘a new pursuer was taking over the debt’, and she was advised to cancel her payment arrangements. The client heard nothing further until finding that her bank account had been arrested with £388 frozen in the account, much of which was tax credits. The Sheriff Officer has agreed to release the tax credits only if the client signs a mandate authorising them to take the balance. She can't afford to lose this sum, but can't afford not to comply as she needs her tax credits.

Other forms of creditor conduct

164. Ordinary creditors can also use forms of diligence to recover money owed to them. However these methods have been used infrequently in connection with debt clients in our survey. They described their experiences of a range of actions by creditors or debt collectors, most of which are not formal. The experiences they reported (Table 26) most often concerned:

- Negotiating or agreeing repayment terms with CAB (39%)
- Experiencing behaviour or language that seeks to pressurise (39%)
- Being threatened with debt recovery (without court action) (30%) and
- Fees and charges for non-payment including court fees (28%)

Table 26: Experiences with creditors and debt collectors

Experiences with creditors	% of debt clients	
	2003	2008
Negotiating or agreeing repayment terms with CAB	41	39
Behaviour or language that seeks to pressurise debtor	24	39
Threat of debt recovery without court action	17	30
Fees/charges for non-payment including court fees	31	28
Rejection of client financial statement or offer of repayment	16	20
Pressure to re-finance/further borrowing	15	17
Threat of or actual disconnection of services	10	13
Misinformation to debtor	11	11
Pressure to take out consolidation loan	13	10
Threat of repossession	10	10
Use of different firms of Sheriff Officers to pursue different year's council tax debts	4	6
Refusal to negotiate with CAB	2	5
Allocation of payments received to previous year's council tax arrears	4	4
Repossession proceedings commenced/ completed	8	3
Other	5	2
None of the above	16	18

Response rates: 2008 - 268 clients; 2003 – 258 clients

Columns may add to more than 100 because of multiple responses

165. On the whole, the strategies used by creditors to manage debt reinforce their preferences for informal than formal procedures. They remain broadly consistent between 2003 and 2008 in some respects, but:

- Almost twice as many debt clients said they had a threat of debt recovery without recourse to court action
- Almost two fifths said they experienced behaviour or language that seeks to pressurise, compared to a quarter in 2003
- One in five had a financial statement or offer of repayment rejected. This reinforces concerns that self-help advice services presently are working less effectively than they should
- Creditor actions that were less common in 2008 included repossession proceedings being started or completed, and there was a small reduction in the proportion of clients who have had fees or charges for non-payment (including court fees).

Negotiating with creditors

166. Some groups were more likely to have debts for which creditors were negotiating repayment terms with the CAB. They include disabled people, those with younger children and home owners. Interviewees discussed their experiences of negotiating with creditors, both directly and through their CAB adviser. Most often experiences were mixed, with some creditors acting in a manner that interviewees thought was reasonable but, more often, creditor tactics and behaviours were a source of stress:

"I went to them (bank) before I missed any payments and said: 'I need to sort a lower payment out. We're in a bit of financial difficulty right now'... They said to me 'no, you have to get into trouble before we can help you'… We had everything with them and had paid them and not missed anything, they still weren't very good. So I couldn't believe that... I guess it's a way to get more money out of me."

"So I pleaded with them to lower the interest rate, or lower the payments or do something to give me a chance to try to get things done but they wouldn't negotiate."

"(Freezing interest) Some of them did right away. The (bank) was very good. Right away they just froze the interest and accepted the amount that CAB had worked out to pay them. I'd say they were about the best. There was a couple that accepted right away. Other ones, they're charging you late payments because you are not paying enough."

Pressure from creditors

167. Representatives from bureaux identified that some creditors are equally unwilling to negotiate with advisers and prefer to put pressure on clients to get payments. Other creditors negotiate with the CAB and continue to pressurise the client at the same time. Some interviewees described their experiences of these pressures:

"Well it's when you get phone calls from them and some companies are quite threatening. With my existing health conditions, it's already a lot to cope with. But it makes you feel physically sick. (Catalogue company) - they were quite aggressive. They start off all nicey, nicey but then they start threatening you. They'll threaten you with legal action, court orders, sending the bailiffs and stuff like that."

"I was getting a lot of phone calls and letters from the bank. But then the CAB told me that if I get them, don't answer them, just put the phone down. So I just did that. I just took their advice and went with them." (widow aged over 75)

"Well, I'd say it was just in the last couple of months that the debt is getting sold on. Some of them are accepting a lesser payment. With a couple of them… say I had to pay them £12 a month. They'd say 'can you not make it up to £15 a month?' So although the citizens advice figured out what each

company is to get, I just pay them an extra couple of quid and that keeps them happy."

"A lot of it has been sold on now. They have sold them on to other creditors… they start talking about putting liens on the house and charges. But so far, they've been accepting payment although, they point out that it will take about 50 years to pay them back!... It means we're still staying in this house."

168. The following examples of case evidence from bureaux highlight not only that some creditors are unwilling to negotiate with the CAB, but that awareness of a client accessing advice could lead to actions by creditors that were detrimental for the client:

A West of Scotland CAB reports of a case in which a major bank refused to recognise a citizens advice bureau as representing a client. The client had asked the bureau for help to re-claim bank charges on his account. The bureau contacted the bank by letter with a signed mandate from the client. The response stated that the bank 'is under no statutory obligation to record this information and therefore I am unable to assist further with your request'. The bureau contacted the bank again to request information relating to the bank charges, and was asked to forward another signed mandate from the client. The bureau received no reply, so sent the letter and mandate again, but were told on the phone that the bank had not received a mandate. The bureau received a letter from the bank six months after first sending a letter, advising that it had become an offence to provide claims management services without authorisation.' It further reads that after checks they were 'unable to confirm your company have the required authorisation.' The letter went on to say that the bank would deal directly with the client.

A North of Scotland CAB reports of a client who had her account closed by her bank after offering a reduced repayment for her debts. The client is a pensioner whose main source of income is her state pension. The client was having difficulty meeting the repayments on the loan and the bureau made a reduced offer of repayment to the bank and sent the bank a copy of her financial statement. The bank immediately closed her bank account with the result that her state pension which was due on that day seems to be lost. The bank was very unhelpful and would not return calls. The bank eventually offered to open a new account and to try to trace the £380 which had disappeared.

An East of Scotland CAB reports of a client who had her current account frozen after a bureau contacted the bank with an offer of payment on behalf of the client. The client had started to struggle with her financial commitments and decided to do the sensible thing and deal with her debts before they got unmanageable. The bureau sent out letters to the client's creditors offering repayments, but received no reply from the client's bank. On approaching her branch, the bank informed the client that the account was 'frozen' and she could not withdraw any money. The client had £461 in her account, and was therefore not in overdraft. The branch informed her that because she had involved the CAB, it was their policy to automatically freeze the account. The branch further told the client that she should have come to them for help, and not the CAB. The client duly informed them that she had approached them and asked for a loan to tide her over until her husband went back to work, which they had refused. The client then asked what help they could offer her, receiving the reply that as she had involved CAB, there was no further help they could give her. The client left the branch with no money, and two children under 10 to feed over the weekend.

Recovery without recourse to court action

169. Threat of debt recovery without court action was reported more often by disabled clients, those unable to work, debt clients living in rented accommodation and those with a higher number of debts. The greater risk of threats of debt recovery without court action affects groups of people who are more often at home and will therefore be easier for creditors and debt collection agencies to target. In contrast, debt clients who are in work or seeking work are less likely to be at home. Consistent with this is that those not in work were more likely than those in work to report experiencing behaviour or language that sought to pressurise.

170. In the group interview with bureau representatives, most participants said they had little evidence of illegal money lending and no evidence was presented in this survey. However advisers did perceive that creditor behaviour is changing in so far as they are beginning to take action quicker. Advisers linked this to the 'credit crunch' and the crisis in the finance industry. Advisers also thought that some creditors may operate at the margins of the law, as one group interview participant explained:

"The banks write letters which, yes, is distressing but they are not standing chapping on people's doors. We had one (finance company) who went to the person's door and took the old women to get her pension, got her money from her that she owed and then took her back."

171. Where CAB advisers are involved and interviewees experience pressure to increase repayments or other bad or possibly illegal practice, some advisers routinely raise concerns about the creditor with the Office of Fair Trading. Although organisations collecting debts do not have any powers until they have taken someone to court, advisers and interviewees identified actions that were taken without proper processes being followed. One adviser highlighted

that they had cases where the debt collectors have gone "directly to people's work and said to their boss, because X has not paid her debt this week can you take it off their wages?" Interviewees also described threats that they experienced:

"Got a few of them threatening… someone coming out to the door, a debt collector coming out to the door wanting all the money."

"They were just saying that they had been looking for me and they need me to pay and I would say I have not got it and they would say we want you to pay £80 this week and I would say I have not got £80 this week. I'd say I will give you £20 this week, and they would turn around and say it's not enough and then would say it would go to such and such then. It will get passed on or we will take you to court or we will get a doorstop collection."

"They would tell us people would be coming to the house and they would take what was owed, it wasn't until we went to citizens advice last month that we found out there is no such thing as a bailiff anymore in Scotland,… we had been getting letters about the doorstep collections and phone calls to my wife: you either pay this or someone will be there to get it, that wasn't very good it just added to the stress."

"After I ended up depressed and that I couldn't do it, didn't even want to speak to them, couldn't do it anymore. I mean nearly a year of just doing nothing then trying to avoid everything, being threatened on the phone, if my wife answered the phone, you used to get threatened on the phone."

172. Bureaux also have case evidence of harassment by creditors:

A West of Scotland CAB reports of a client with long-standing debt problems who is repeatedly harassed by letters and phone calls from creditors. The client is unemployed and has fully co-operated with arrangements made with creditors. The client's mental and physical health has deteriorated greatly over the years. His creditors pass his papers from one agency to another repeatedly and he is harassed by letters and phone calls. He arrives at the office each time this happens in a very agitated and almost suicidal state. The bureau sent a letter to the creditors from the client's GP stating his precarious state of health, but with no result so far and harassment continues. An East of Scotland CAB reports of a client who has received very intimidating letters from a debt collection agency. The letters have a picture of a dog at the top with a statement that 'our bite is worse than our bark'. The client felt very threatened by the image and language of the letter.

A West of Scotland CAB reports of a client who had two representatives from a doorstep lender come into her living room asking for repayment of a debt. The client has mental health problems and has run up some debt as a result. The men came into her house without permission, which greatly upset the client.

A North of Scotland CAB reports of a client who was harassed by her creditors for payments, even after her husband died. The client had her work and income reduced when her husband became ill, and as a result she was unable to maintain payments to her creditors. Since then, the client has been receiving harassing calls from her creditors, despite the bureau calling them to ask them to stop. The client came to the bureau to say that her husband had died a week previously, and that the creditors were continuing to call her despite the client stating the situation. The client received seven phone calls on the Saturday after her husband's death, and again on the day of the funeral.

Scots law

173. Scotland has its own legal framework that includes legislation relating to debt and bankruptcy or sequestration. The Debt Arrangement Scheme and the Low Income Low Assets route to bankruptcy, for example, are amongst the options available to people in debt in Scotland that are determined by Scottish legislation.

174. However, not all creditors from the rest of the UK and abroad acknowledge legal processes in Scotland. The DAS administrator has issued guidance for advisers to use with creditors. However, advisers are still facing problems with creditors who phone clients and argue that, "because the company is based in England, Scots law does not apply". Case evidence from bureaux provides examples of what has happened to some clients with creditors from other jurisdictions:

An East of Scotland CAB reports of a client who received a letter from a debt collection agency threatening legal action under English law. The letter contains full details of the legal action the agency say they are going to take against the client, all of which pertains to the English legal debt collection process, including bailiffs, warrant of execution, and walking possession agreements. The bureau comments that this type of letter causes confusion for clients, as it conflicts with what the bureau has advised, and worries clients who are frightened at the thought of bailiffs coming to their home.

A North of Scotland CAB reports of a client who had a call from a creditor telling her that they would come to empty her house if she didn't repay her debt. When the client told the creditor that the bureau had advised that this wasn't allowed in Scotland, the creditor said that the bureau was lying and didn't know what they were talking about.

A West of Scotland CAB reports of a client who received a letter from a debt recovery agency stating that unless a satisfactory agreement was reached the company would instruct bailiffs to enter the property with the intention of seizing goods to pay for the debt. This action does not apply in Scotland, although this point was nowhere in evidence in the letter.

An East of Scotland CAB reports of a client who has been threatened with going to jail over non-payment of debts. This does not take place under Scots law. The adviser asked the client to bring in a copy of the letter, and found that the small print of the letter states that this does not apply if the debtor lives in Scotland.

An East of Scotland CAB reports of a client whose creditor insists they are not bound by Scottish legislation. The client took a loan from a company in Scotland that is owned by an American company. He is behind in his repayments and has been receiving calls from the American company advising that they are not held to legislation in Scotland. They have asked the client to go to his family and friends to get the money to make payment to them.

175. However, one adviser thought some progress is being made, at least in relation to the larger banks that are reported to be training staff on compliance with the Scottish legal system. This progress is important because advice services do not have the resources to undertake awareness raising work with creditors. Interviewees also had different levels of understanding about the system and their rights, so advice was important to making them aware of what creditors can do and that ‘sending in the bailiffs’ is a threat that cannot be followed through in Scotland.

Banks, personal current accounts and further lending

176. The right of set off allows banks to legally transfer cash from current or savings accounts to pay credit card or loan arrears without the account holder’s explicit permission. Bureaux have seen cases of people having their pay or benefit payments removed from accounts, leaving them unable to meet priority debts, like mortgages and council tax, and in greater financial difficulty:

A North of Scotland CAB reports of a lone parent whose bank took £400 from her account to repay debts without her permission. The client has credit card and overdraft debts with her bank, with whom the bureau has been in contact to negotiate repayments. The bank took £400 from her current account after her wages had been paid in, leaving the client no money with which to live. The client contacted her branch who denied having any contact with the bureau, and who stated that if the client moved her account to another bank they would take her to court.

177. Some interviewees described similar problems with bank current accounts:

"The (bank), I cancelled my direct debts from that but I had a (bank) loan, which is direct debit. So they took the loan money out although I'd given them a written request to cancel. They cancelled all the rest but when I phoned them up about them taking their money out, they said, with it being a (bank) account, if the money's in the account, they'll take it out. So I had to cancel the (bank) current account."

"If you have got direct debits then they can legally go into your account any day they like, I didn't realise that at the time, it was only when the citizens advice guy said… that they can basically go in and out, you have gave them permission to go in and out of your account anytime so that's when I basically stopped all my direct debits, anything important found another way to pay it and anything else got dropped, its just not worth the hassle."

178. Another way in which a bank can put pressure on clients to repay is to encourage them to take out further products as part of their repayment. Once this offer is in place, it can be difficult for the client to reject the product and negotiate with the creditor. The types of related products that clients can be under pressure to agree to include further loans, consolidation loans, credit cards, and overdrafts:

A West of Scotland CAB reports of a client who made a repayment offer to her creditors, and was instead offered a further loan. The loan would have helped the client to avoid default, but would have cost a further £2700 in interest and charges. The client rejected the offer, and decided to stick to the repayment plan prepared by the bureau.

An East of Scotland CAB reports of a client who was offered a refinancing loan after making an offer of repayment. The bureau had helped the client to set up a repayment agreement with his bank six months previously with interest frozen on the account. When the arrangement expired, the bureau wrote to the bank with the same offer of repayment as the client's circumstances had not changed. The client then contacted the bureau to say that his bank had contacted him offering a refinancing loan. The bureau explained to the client that the loan would put him more in debt and he would not receive any money.

A North of Scotland CAB reports of a client whose bank will only accept an offer of repayment if the client takes out a new consolidation loan. The client is deeply in debt, and the bureau made offers to her creditors for repayments. The client's bank replied to the bureau saying that they will 'accept' her offer of £175 a month but only if she has a 'new line' opened, i.e. takes out a consolidation loan. If the client were to accept this, she would continue to pay interest and charges on the debt.

Fees and charges for non-payment

179. Survey participants were asked about charges and fees incurred as a result of their debt. Almost three quarters of CAB clients reported receiving regular charges for being overdrawn or in arrears (Table 27). The most common charges and fees that debt clients had experienced are as follows:

- Regular charges for being overdrawn or in arrears (73%) and
- One off charges or fees for recovery actions (23%).

180. These were also the most common fees and charges in 2003. However, there has been a large increase in the proportion of debt clients experiencing regular charges for being overdrawn or in arrears, but a reduction in those with experience of one off charges and fees for recovery actions. Once again these figures reinforce creditor preferences for taking informal steps in debt recovery.

181. Charges for being overdrawn or in arrears were a common experience for interviewees and one off charges and fees meant debts could grow quickly for some. A further problem for some interviewees was that banks could make deductions from accounts of which the client may not be aware at the time and this could then lead to further charges:

"I think they (debt collection agency) are still charging interest. I know the (phone company) one was £300 but now it is up to £422, every time they phone me or send me a letter that gets added to my bill because they are chasing me up".

"I have been charged so many times for being one day late, sorry, they have took the money one day early then I have been hammered by the bank and things like that happened all the time you know… that was the point where I decided I'm never going to be able to pay all this back. They put silly amounts onto them which make them unaffordable which makes you default on them, it's a strange way to do business, but there you go."

Table 27: Administration charges and fees

Administration charges and fees	% of debt clients	
	2003	2008
Regular charges for being overdrawn/in arrears	57	73
One-off charges/fees for recovery actions	29	23
Court fees	12	12
Solicitors' costs	5	6
Other enforcement costs/fees	10	11
Increased APR as a result of being in arrears	6	8
Fee for sequestration	-	9
Sheriff Officer fees	13	-
Other	4	2
NONE OF THE ABOVE	NK	12

Response rates: 2008 - 262 clients; 2003 – no information

Columns may add to more than 100 because of multiple responses

182. CAB case evidence also highlights how charges can mount up quickly and soon mean that debts get out of control:

> An East of Scotland CAB reports of a client who was harassed by creditors by telephone. The client is making payments, but is unable to keep up with interest and charges. The client is being phoned three times every day and at least once each day at the weekend. The amount that the client owes has increased by £700 since the client had problems making payments.
>
> A North of Scotland CAB reports of a client who receives frequent letters and late evening phone calls for which he is charged £10 to £20 each time. The client claims to have repaid a total of £7,816 for a loan of £5,000, but charges and interest mean the client still owes £8,456. The client recently received a phone call from the creditor seeking answers to personal financial questions. The client is very distressed by the situation.

183. Both advisers and interviewees commented on the practice of adding interest charges back on to debts where they had previously been reduced or removed. Advisers identified that a recent change in behaviour was that some banks and other creditors were stopping interest for a short while only and then putting it back on to debts again, as exemplified by the following two CAB case examples:

A West of Scotland CAB reports of a client who had interest applied to his debt due to a new bank policy. The client has been regularly making repayments of £80 a month towards his debt for around a year. After a review of the repayment schedule, the bank requested an additional £92 a month payment for interest charges. The bank had a new policy of suspending interest for a fixed period of around six months, after which interest and charges are reapplied to the account. The bureau was informed that the account would be passed to a debt collector whether or not the client continued to make payments. Because the debt collector was likely to freeze interest, the client decided to delay making payments until the account was transferred. The client then began to receive phone calls late at night from the bank regarding the debt.

A West of Scotland CAB reports of a client whose bank began to add on interest to a debt without warning after a period of freezing interest on the account. The client had been making the agreed £4 repayments to the bank, but was sent a letter stating that the client was now in arrears of £20.73. The bureau called the bank who explained that their policy is to freeze interest for a "once in a lifetime period" of one year. After that interest gets added for 4-5 months, at which point the account will be passed to a collector. The bureau pointed out that the client had adhered to the payment plan and that the interest charges far outweigh what she can afford and she will never make inroads into the debt.

184. Advisers identified a recent growing trend of some creditors refusing to freeze interest at all. Interviewees struggled to negotiate a compromise in such circumstances. With the help of a CAB adviser, others have achieved a freeze on interest and had late fees stopped:

"The CAB got them to lower the interest rate and stop the fees. They agreed that I should pay £14 a month until I could go back to work... I could cope with that, but it was only for one month. I had to keep going back to the citizens advice and they would phone them up and get this £14 agreed again. I kept getting threatening letters saying they were going to pass the debt onto a debt agency, that they would be selling my furniture. I couldn't sleep at night for worrying about it… Even though I was paying the £14 a month they were still putting the interest on it and charging me £12 for a late fee after agreeing that they wouldn't."

"We got 125% on our mortgage when we first got our house, because they used to do that. But we've changed over since then to a better company... but we still had that outstanding loan from (bank) to pay back. They have been a bit of a nightmare actually. They have accepted our offer of money but they've refused to freeze the interest and they keep putting it up and stuff like that."

185. Policies on how to deal with arrears and interest charges vary across the finance industry. These case studies from bureaux raise concerns about their impact for clients. In the first case, the debt client fell foul of the creditor's policy on interest payments:

> An East of Scotland CAB reports of a client with a debt of £10,000 in the form of a debit card account with a national bank. The bureau made the standard request to freeze the interest on the debt and offered £125 per month, based on the client's circumstances. The bank refused to freeze the interest of £124 per month because of the type of debt the client possessed. They said it is bank policy not to consider freezing interest if the offer is more than half of the contracted amount. The bank then verbally stated that "bureaux should be well aware of this policy". The client decided to drop the offer to around £100 per month, on the basis that bank policy will then allow interest to be frozen. Potentially this will clear the debt more quickly than the higher offer. The bureau revised the client's financial statement and reduced the monthly offer.
>
> A North of Scotland CAB reports of a client whose bank reduced his credit card limit to below the amount that he owes. The client had reached an agreement with his bank to pay £5 a month for a credit card debt. The credit card had a £3000 credit limit. The client received a letter from his bank stating that his credit limit would drop from that day to £550 – he owed £570.89. In another letter received on the same day he was asked for the full £20.89 the client was now over his credit limit plus charges.
>
> A West of Scotland CAB reports of a client who received unsympathetic treatment from her bank when repaying her loan. The client has a repayment arrangement in place with her bank that was due to be reviewed in October 2008. The client received a worrying phone call from the bank saying that there is no way that the present arrangement will continue after October and offered a final settlement figure of £9,000 for a debt of around £11,000. They suggested if she did not take advantage of this offer "her house would be involved".

Mis-sold loans

186. A factor that could easily get lost in the process of negotiating with creditors is the question of whether lending has been appropriate in the first place. For one elderly interviewee, the problem debt was probably originally mis-sold to them because of the age she and her husband were at the time they got their last loan (both in their eighties). For another CAB client, it was a top up loan that was mis-sold:

A North of Scotland CAB reported of a client who asked her bank to increase her overdraft limit but left having been mis-sold a top up loan for £1500. Over the course of three and half hours the client spoke to an assistant, the bank manager and an insurance representative to arrange cover, none of whom mentioned the loan interest rate or provided her with any paperwork. The client received a letter of confirmation two days later which showed the interest to be above 14%, but her original loan had been at an interest rate of 7.4%. The loan repayment period had also been extended to 6 years. The letter stated that the client had 14 days to change her mind. The client took immediate action to call the bank but was told she must write a letter. She wrote a letter, which she took into the branch but the staff at the branch refused to cancel the new arrangement. The client knew and accepted she had signed a legally binding contract in the bank, however the client was not given the full terms and conditions of the loan before signing and the letter explicitly described a cooling off period which she tried to comply with.

Payment protection insurance

187. A range of products are available to help people through unforeseen life events such as illness or job loss, including critical illness cover and payment protection insurance (PPI). CAB debt clients were asked specifically about PPI in the survey because it has been recognised as a significant concern for some time. In 2006, general concern was such that, following a super complaint from Citizens Advice England and Wales, the OFT consulted on the issue. In response to the consultation, CAS highlighted that clients were raising concerns about PPI in relation to: excessively high prices, aggressive selling, mis-selling, lack of transparency and low rates of successful claims[52].

188. The proportion of 2008 CAB debt clients with PPI is marginally higher than in 2003 (Table 28). It is interesting to note that 12% were unsure whether they had PPI for their consumer debts.

Table 28: Consumer debt and payment protection insurance status

	2003 %	2008 %
Have consumer debt and payment protection insurance	28	32
Have consumer debt, but no payment protection insurance		50
No consumer debts	72	5
Don't know		12

Response rates: 2008 – 233; 2003 – no information

[52] Isaacs L (2007) *Payment Protection Insurance: A response from Citizens Advice Scotland*. Edinburgh: Citizens Advice Scotland. Available at: http://www.cas.org.uk/competitioncommissionppi.aspx

189. Of the 86 people in the 2008 survey with PPI, only 25 (29%) had actually made a claim (Table 29). A small number of people (7) described why they did not make a claim. They included 3 people who are still working or did not qualify, one who 'never thought' about claiming, one who said the 'stress would be too great' and another was already in receipt of state benefits when the PPI was taken out. Amongst those who did make a claim, only 4 people said definitely that they received payment. In one case a decision is still awaited and, whilst the outcome of 3 cases is unclear, the rest did not get paid out.

190. In the 2003 survey, fewer than 10% had been successful in their claims at the point of inquiry. The success rate in 2008 is little better, suggesting that PPI remains a problem for CAB debt clients. Most often the reason given for not paying out on a policy was that the person did not meet the conditions, usually because of the circumstances in which they lost their job or because there was a pre-existing health condition. One interviewee said that, when the claim was refused:

"the company also refused to stop taking payments for PPI. This continued for 10 years."

Table 29: Payment Protection Insurance claim status

Payment Protection Insurance claim status	2003 %	2008 %
Made claim	< 10	29
Not made claim	> 90	71

Response rates: 2008 – 86; 2003 – no information

191. Interviewees who had payment protection insurance described the mixed fortunes they met with their claims. For some, the cost of such insurance was too much when things got difficult. Others maintained their payments and, whilst some situations resulted in pay outs, others found they could not claim:

"That was very expensive so only one or two cards had it. Not very many… what happened with one of the cards… they wouldn't pay out on hers. At the time L was off her work with stress because of my condition because I had been diagnosed. They say that is a mental condition so they wouldn't cover it."

"To bring the payments down we had to cancel the payment protection. It was adding quite a bit on to it. I think it was about £50 a month more… It was the mortgage payment protection we had. I had tried to use it just after I had my daughter (because) I had a really bad back problem. We thought we should have been entitled to help with our mortgage payments…. But basically they messed me about and told me it didn't cover this, that and the other. Basically it was falsely sold to me and I ended up cancelling it and I was absolutely raging at my financial adviser because he had miss-sold it to me. The company told me it was because I didn't tell them that I had a pre-existing condition. There was no question until I actually put in a claim. I would have been better off if I had been putting it in a bank over all that time. Then we would have had the money!

"My illness came back and I couldn't work again… I contacted the Visa people and explained it to them. I was paying insurance on it so they sent out an insurance form and I filled it in. After about a month they requested information from my doctor. I gave the doctor £15 for this information. Anyway, the annoying factor was, every time they wanted more information, it was like a month at a time I was having to wait and meanwhile I was still having to pay this… I explained to the doctor that the longer it took for them to get this information, the more money I had to pay and I was struggling. They wouldn't lower the interest rate. When the doctor finally gave them all the information… they told me that I didn't qualify for the insurance. I was absolutely sick. I didn't realise I was paying £46 a month on insurance. When they said they wouldn't pay out the insurance I stopped it."

Legal remedies

Key findings:

- Few people thought they had sufficient income to make use of the Debt Arrangement Scheme
- Most said they would consider the LILA route to bankruptcy, but most could not afford the £100 fee unconditionally
- Interviewees who have gone through the LILA route have found it straightforward.

192. This section explores the relevance and impact of new legal remedies for CAB debt clients. However, it does not explore all legal remedies and options. Some debt clients were speaking to an adviser for the first time. In these circumstances, legal remedies such as protected trust deeds and bankruptcy will not be immediate considerations even if relevant at a later stage.

193. The section describes the experiences that CAB debt clients have had of recently introduced measures, specifically: the Debt Arrangement Scheme (DAS), which is a formal tool for debt management; and the Low Income Low Assets route to bankruptcy, introduced from April 2008 are discussed. The background to the introduction of DAS and LILA is outlined in the first chapter. This section of the report discusses clients' views about these two new legal processes.

Debt Arrangement Scheme

194. Advisers asked clients about DAS only where there was a possibility that individuals might be able to consider the scheme as an option. As a result, more than half the survey respondents were not asked the question. Of those who did respond, more were of the opinion that they did not have enough disposable income for DAS to be an option for them (45%) than were of the opinion that they had (37%). A further 18% were unsure whether or not they had sufficient income (Table 30). However, of the 34 people who estimated that they could repay their debts in full within 10 years, only 10 survey participants estimated the length of time it would take: 7 thought it would take 1 to 3 years and 3 thought it would be less than a year.

Table 30: Debt clients with income to access DAS

Client has sufficient income to access DAS	2008 %
Yes, with full payment completed within 10 years	27
Yes, but full payment not completed within 10 years	10
No	45
Don’t know	18

Response rate: 105 clients

195. DAS is not a significant issue for the debt clients in this survey. On being asked about the response from English creditors to DAS, a very small number of survey participants (7) responded. Most believe that their creditors are co-operating or willing to participate with the process, while 2 do not think the creditors are aware of or understand the scheme.

196. Bureaux and other advice services received funding from the Scottish Executive (now Scottish Government) to train advisers for the new procedure. Although not yet in much demand, there are benefits of DAS for clients with sufficient disposable income. DAS stops diligence actions and should stop informal debt collection as well. Although a loan secured on someone’s home can mean that it is possible for them to lose their house, one adviser thought it is still a “preferred alternative” since DAS reduces that risk.

197. Advisers anticipate that, in cases where creditors do not freeze interest rates, DAS is particularly useful since, following changes to the legislation that came into force in 2007, interest rates and charges are frozen when someone enters the scheme. These case studies highlight that DAS can be an ideal solution for some people, particularly where it can protect their home:

An East of Scotland CAB reports of a couple who had outstanding debts of £33,335. Legal action was progressing for the unsecured debt, the couple had tried equity release schemes but could only secure £15,000 so they didn’t pursue that route. Family members were also unable to assist with equity release on the property and monthly payments for credit card debts had reached £750 per month. The couple discussed their options with an adviser and decided to use the Debt Arrangement Scheme, reducing their payments to £300 pm on the debt payment programme. One year since beginning the scheme, the couple reported to the bureau that although their budget is tight, they have a greater peace of mind and are no longer being hassled by creditors.

An East of Scotland CAB reports of a couple with £53,000 of unsecured debt, plus a mortgage and secured loan totalling £162,000. DAS was the only option available to the couple which would ensure statutory protection and safeguard their house.

An East of Scotland CAB reports of a client who has had adjudication taken against them by their bank for a £20,000 unsecured loan. The client jointly owns her home but the debt is hers only. The client made pro rata payments for roughly three years without missing a payment. The adjudication could not be halted but the client was entered into the Debt Arrangement Scheme. Using DAS means the client's debt will be repaid within ten years and the interest will be frozen.

198. However, evidence from Bureaux also shows that, in some cases, people who are part of DAS continue to be harassed by creditors:

A South of Scotland CAB reports of a client who is being harassed by a creditor despite being part of the Debt Arrangement Scheme (DAS). The creditor is demanding payments and threatening legal action over the debt. The bureau assured the client that he has been DAS approved, and is protected against such threats.

A South of Scotland CAB reports of a client who has a creditor that is pressing her for increased payments despite having being accepted into the Debt Arrangement Scheme (DAS). The client is being visited at his home by doorstep creditors demanding payments. The client has been assured that he is protected under the Scheme.

An East of Scotland CAB reports of a client who is in DAS but is still receiving harassing phone calls from a creditor. The creditor had advised the bureau that they will proceed with their recovery process notwithstanding DAS. They have stated that unless there is an arrangement to pay at least one percent of the debt owed per month, their debt recovery process continues and the debt will be sold on. The bureau informed the creditor that in accordance with DAS they will receive the full amount owed over a period of time. The creditors said this made no difference, noted the conversation and continued the debt recovery process. The bureau called the client to reassure her and to explain that the bureau will handle the creditor for her.

Low Income Low Assets route to bankruptcy (LILA)

199. Two thirds of CAB clients in 2008 (who expressed an opinion) reported that they would consider the LILA route to bankruptcy (Table 31). The income criteria for LILA relate to individuals so a couple who both want to go down this route need to make separate applications. Individuals can qualify if their income falls below the stated level or if they are in receipt of specific benefits, regardless of the amount of weekly income (including income support and income based jobseekers allowance and working tax credits). For LILA, low

income means gross weekly income of no more than the standard national minimum wage for a forty hour working week, equivalent to £229.20 a week[53].

200. Income data from this survey cannot be compared directly with these criteria since they are based on income net of tax and national insurance and include income for the debt client and any partner jointly liable for debts. However, income is a significant factor in whether debt clients would consider LILA as a possible option for them: 86% of the bottom third, 73% of the middle third and 50% of the highest third income group said they would consider LILA. Those not living with a partner were also more likely to have considered LILA (74%) compared to 59% of those living with their partner.

Table 31: Consideration of LILA

Would consider LILA	**2008**	
	Number	**%**
Yes	134	65
No	60	29

Response rate: 194

201. Bureau representatives thought both LILA and DAS are important new developments, but the LILA route to bankruptcy would be relevant to more CAB clients because of their low incomes. However, the £100 fee is an issue for clients. Money advisers have been asked to keep a list for the Accountant in Bankruptcy of people who are unable to pay the £100 fee for LILA. One bureau representative said:

"It has helped quite a lot of people but the other side of it is the £100 that is stopping a lot of people, if you are saving £100 on benefits it's as much as saving £1000 - people cannot afford £100. And the very idea of LILA was to help these people get debt relief once and for all."

202. In the survey clients were asked whether they could afford the £100 fee to access the LILA route to bankruptcy. Only one fifth of CAB clients (19%) said that they could unconditionally afford £100 (Table 32). It is interesting to note that there were 20 people (13%) who thought they would have to stop making some debt repayments to get £100 for the fee. This raises an interesting question as why individuals might continue to repay debts while considering this route to bankruptcy.

203. In line with the survey responses, the interviewees struggled to find the fee and had different approaches to paying it:

"It's myself and my wife and we are going to do one first and then do the other one… I'm just going to have to speak nice to my parents."

"Terrible because I'll have to pay it every week till I get the money… I was paying stuff off so I'll just use the money I was paying stuff off with until I get

[53] Accountant in Bankruptcy (2009b) *Low Income Low Asset (LILA)* (web page) Available at: http://www.aib.gov.uk/MainNav/Services/Legislation/accesstobankruptcy/Debtorsapplication/Lila

the £100 together. The Royal Bank has the account so I can just go down there and pay a bit in every week until I get the £100 together… She (adviser) said that was really the best option for me. I would rather have paid it off but I just wouldn't have enough money with all the old debts that are coming in now."

"The girl at the CAB said something about a Lord Provost's fund but I thought right away that's going to mean filling in forms. I said I would rather just get it off my son when I need it."

"Well, I had to scrape it up from the family! But they helped me as far as that was concerned. I had a job getting the £100 right enough."

Table 32: Affordability of LILA

Affordability of LILA	2008 %
Yes	19
Yes, but I would have to stop making some repayments to get £100	13
Yes but I would have to save up over time	28
No, but I could source £100 from elsewhere	30
No	12

Response rate: 156 clients

204. The LILA route to bankruptcy has offered a lifeline to interviewees who are not home owners and have few assets. Some interviewees said they had been struggling with debts for many years and were unable to do much about their situation because none of their creditors had taken them to court. Although they are at different stages of the process, interviewees' experiences so far suggest it is a fairly straightforward process, although the need for absolute accuracy in the application was a key concern for some.

"I just handed in all the letters we have, all the creditors and everyone we owe money to citizens advice and the adviser there contacted everyone just to let them know what's happening and then you pay a fee, I think it's £100 fee, to file for the bankruptcy and then it should just be a couple of weeks after that's done, we should hear and that should be it."

"I wanted to become insolvent, voluntary insolvent but what the problem was none of these companies… would take me to court… the LILA I will have to pay for myself. They will either accept what you have written down or they won't. But, if they don't, there is some kind of technical reason whether you have got a figure wrong or something, I believe if you have got that as a problem then you have to do it again and it's another £100… I have got it all, it's all written out but it's not sent away yet, there is still a couple of bits and pieces to go in it."

"The next step is for me to get £100 and go to the bank and get the thing from the bankruptcy company. I need to pay in the money and send my bankruptcy details to them and they'll sort it out for me."

“I just decided to ask for bankruptcy. I said I am 60 in January and I don’t think I am going to be able to work again. I would rather just go down the bankruptcy road rather than having to go over there every couple of weeks and phone up to agree to pay the £14 a month... they were still putting the interest on it and charging me £12 for a late fee after agreeing that they wouldn’t. So I went to fill in the forms for the LILA. So I am hoping to hear word that I am bankrupt. I don’t really understand the bankruptcy but I am led to believe that it will wipe out my debt.”

Experiences of advice and changing money management

Key findings:

- Concerns about advice mainly related to waiting times and delays in getting appointments, but reflected an understanding that services were over-stretched
- Advice relieved the stress and anxiety of debt and gave some interviewees confidence
- Some interviewees intend to exercise economies in future, while others plan to change how they borrow money. However some interviewees expect managing on a low income to be an ongoing struggle.

205. Survey participants were not asked any questions about their experiences of advice and this section of the report discusses the views of interviewees' only. The scale of debt advice work undertaken in citizens advice bureaux across Scotland reinforces how important advice is for helping people in financial difficulties to find resolution to their problems. Interviewees talked about their experiences of advice and the impact it had for them and shared their views on what more could be done for people in situations similar to their own.

206. Interviewees are still getting help with their debt problems, but most said they understood what was being done on their behalf and how the process of negotiating with creditors would work. Some got the help they needed with a particular problem or with a financial statement for negotiating repayments. In the course of getting advice, others learned about their rights and some of the limits of what creditors can do:

"If you have got any problems with any creditors they will phone up for you…In my case some of it I had done myself anyway, but they contacted the gas and electricity for me and managed to get something sorted out."

"I think the way the council is going to work is to work with my most recent debts and put the other ones to the side until I am able to deal with them so they are not pestering me constantly… but I think what CAB is trying to do is to speak to them and explain my situation at the moment, that I am not working and I can't afford to pay anything at the moment."

"They were absolutely brilliant with me. Now she is going to get me thorough this bankruptcy, she said 'any trouble in the future, any phone calls, don't hesitate to contact me and I'll contact the companies for you'. "

"They worked out an amount that would leave us able to still buy food and other necessities while still paying each of them a set amount. It was an amount that wasn't above what we could afford. So they communicated with the creditors and made agreements with them. So they were really quite helpful… we could actually buy shopping and nappies and not worry about having to get it off my mother-in-law!"

207. In discussing aspects of the CAB Service that interviewees thought could be better, interviewees' concerns mainly related to waiting times and delays in getting appointments, reflecting an understanding that services were over-stretched:

"The advice they give is good, it's just the length of time you have to wait to see someone… it was 6 to 8 weeks till the first appointment was available… For me trying to get in touch with CAB that's the worst thing having to phone them, the direct line number is a good thing to have, it is important to be able to get in touch."

"Well I think they've been helpful in the advice they have given. I don't think there is much more that they could really do."

"If you go to CAB and you are dealing with money you need to go to one of the financial advisers, who are thin on the ground, they need to pay for more of them… The length of time between appointments is getting longer and longer for financial advisers. "

"I was sat in the CAB one day for 4½ hours one day. But see if it was 6 ½ hours, I would still have sat there. Because I had to talk to somebody about it and they always made you feel relaxed after it."

208. One interviewee had not thought her debt problem was big enough for anyone to help her, highlighting that, even with the existing awareness of the Citizens Advice Bureau Service, there are people who may still fall through the net:

"I used to think that you had to be £20,000 or £30,000 in debt before you could even go to somebody, I didn't think it could just be a couple of thousand and then people would just help you. I thought I was on my own… What I have learned from citizens advice is that you don't have to be ashamed and you don't have to be scared, that was my problem. I was ashamed that I didn't know that there was other people like me… who had got themselves in that much debt. They had been really, really good for me."

Impact of advice

209. Research shows that money advice has positive effects for people. There are obvious benefits of income maximisation work that makes budgeting easier and can leave some people with reduced debts or debt free[54], or advice work that helps people to be 'in control'[55] (Orton, 2008), increasing confidence with money management and dealing with creditors. Advice also can have a positive impact on levels of anxiety, general health, relationships and housing stability[56]. In view of the almost universal view of CAB debt clients in this survey that debt has had a negative effect on their mental health, the positive impacts of advice are important considerations.

210. The main impact of advice that clients expressed was relief from stress and anxiety in gaining the help and support of an adviser. Some interviewees said they had gained confidence from the advice process and from gaining a better understanding of their rights, including in their dealings with creditors:

"They have gave me the confidence, they have told me that there is a law that no one can come out and take your stuff in Scotland, but I didn't know that. I thought that they could come and take my stuff. I was quite worried about what my mum and dad would think if they took his stuff as they had been working all their lives and everything that they have worked for, my debt is affecting them."

"It's ridiculous but it's very liberating once you find out what your rights are, must be one of the good things about getting advice... Even having been in and spoke to the adviser and found out exactly what was happening, it was just a sense of relief from there, you were just a bit clearer on things that would have worried you before that couldn't happen like bailiffs coming to your door."

"Helpful. I'd say it helps with the sleeping. We can sleep a wee bit better cause somebody was helping you. It was not such a strain. Because the way some of them (creditors) would talk to you to start with, if it hadn't been for them sorting out the financial statement and everything, I think I would have cracked up by now."

"If I was in a bit of a rut of having problems with companies being a bit difficult in any way, I would go straight to them again. They know. They understand it all. You can really get messed about with all these companies because they think you are stupid and you don't know anything. You don't know what your rights are. CAB will tell you all your options and your rights."

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[54] Gillespie M, Dobbie L, Mulvey G with Gallacher Y and Campbell J (2007) *Money Advice for Vulnerable Groups: Final Evaluation Report*. Scottish Executive (Web only publication) available at: http://www.scotland.gov.uk/Publications/2007/03/22115958/0

[55] Orton M (2008) *The long-term impact of debt advice on low income households*. Project Working Paper 2: The Year 1 Report. Warwick: Institute for Employment Research

[56] Pleasence P, Buck A, Balmer N and Williams K (2007) *A Helping Hand: The Impact of Debt Advice on People's Lives*. Research Paper No. 15. London: Legal Services Research Centre

211. For some interviewees, their own current practices and future changes are centred on economising with expenditure and fuel usage:

"I don't use my drier any more in the winter. I have bought an airer and that makes a tremendous difference. We don't leave anything on stand by. When we come out of rooms we put the lights off. It is just simple logic."

"Once I am cleared with all my debt I would never take on another bit of debt… My lifestyle would need to change I don't have the money to go out by the time I pay anything else, my kids they don't go without but I sacrifice myself to pay my debt and for my kids."

212. Some have reflected on their past borrowing or spending patterns and hope to change how they do things:

(Using high interest lenders again) "It is too high. Last year's one was just before Christmas and things were just a bit tight. That's why I did that. It was not through choice. I wouldn't want to do that again."

"I'd have never taken that much debt on. I thought we were laughing because the two of us had good wages. You never think of anything happening… We used to go away for a lot of short breaks. They are cut out! The holidays are cut out!"

"Well I certainly wouldn't get myself into the situation I was in, now I have not had any debt for five years. Although I have had debts hanging over me I've not had any extra kind of credit… even when I have been tempted I have promised myself I won't…"

"I would also just buy what I can afford... The loan was to pay off the credit card originally and then we ended up using it again. That's the way it worked out. I would just never do that in the future. I would know better…I would never want to get into that kind of debt."

213. However some interviewees expect managing on a low income to be an ongoing struggle:

"I can never seem to get rid of them, even when I have been doing work. They just seem too far out of my reach to pay off… I'm usually skint for one week out of the two weeks I get my money. It lasts a week then I'll be skint for a week waiting for my next giro to come through. I noticed that when I was doing work and getting a wage I was able to manage my money a lot better because I am used to being on a low income."

"I don't know. I just wish I could save a bit more than what I do. It's not very easy and there's always something cropping up. I can't be so liberal with going into a shop and saying 'I would like to buy that'. You can't just go out and buy things, the way you used to do."

214. Bureau representatives in the group interview said the credit crunch and rising food and fuel prices will have a big impact in the future that will affect the CAB clients and services. The availability and promotion of credit has

created a demand that will be difficult to manage in the near future. One adviser said that banks are *"so disengaged with the people that they are lending to, they have no idea what's going on"* and another said the past system with bank managers worked much better because they:

"…knew how many debts you had… knew everybody and would tell you, you can't afford it, full stop."

215. Advisers thought that many people are "treading water" and that they will "start going under, it isn't going to get better. In that sense we are going to get more". They also recognised that it will be important to achieve and maintain access to affordable credit for people on low incomes, whether through credit unions or other routes. One suggestion was to look to Europe for alternative approaches:

"They have different services where you can borrow at reasonable rate without having to pay 40% or 50% interest. Maybe we (the government) should be taking a more responsible role - is there a way in which it can be set up so we are not paying the likes of (unsecured loan company) and all these 200% interest."

216. However another adviser thought that companies would get round lower interest rates by:

"…putting administration fees on so although they can't charge more than 40%, there are administration fees so it ends up being much the same as here, so the maximum interest rates doesn't mean very much."

Role of advice services

217. Interviewees were asked if they thought there were other roles that advice providers like CAB could play in helping people to manage money better. Most interviewees saw little scope for preventative work, but did identify the enduring necessity of the advice service when things go wrong for people.

"I don't see how they can do any preventative work. For people who have got money problems… it comes from either people losing their job, prices increasing and for people who are on pensions, their pensions don't increase by any manner of means in line with the gas and electricity. Everything goes up but people are losing their jobs. It's a very worrying time for everybody right now. People are losing houses. So far I am ok, I haven't lost mine!"

"I think when it comes to saving money it depends on the individual themselves… There is nobody could make you save money if you don't want to. There is that much on the go now that if you want to spend, you spend and life just gets like that."

218. However, there were some other suggestions for actions to change how people view money management:

"I think it should be incorporated into the school's curriculum because kids are getting presents now for thousands of pounds and they don't seem to realise how much that is, how long it takes to earn that or how long it takes to pay that off, the kids just seem to think everything is free."

"There could be some sort of tuition or education. I know I would never go down the same road again and I would tell everybody else the same thing. "

Conclusions and recommendations

Debt amongst Scottish CAB clients in 2008

219. This research was carried out towards the end of 2008, in a period of rapid change. The ‘credit crunch’ has resulted in a much tighter lending environment than existed in recent years, but the debts that CAB clients want help with relate mainly to borrowing at a time of easier access to credit. Rises in fuel and consumer prices generally in 2007 and 2008 added to the pressures on family budgets. Britain is now in a recession for the first time in 16 years and, although Scotland has been affected less than other parts of the UK, unemployment is rising. Even in the few months since the research was undertaken, the lending and credit markets have continued to tighten.

220. CAB debt clients have markedly lower incomes than households in Scotland as a whole. They are also much more likely to rent their homes and they are more concentrated in the 25-49 age range than the wider population. They are less likely than the Scottish average to be in employment and three in every five households have at least one person with a health or disability issue. Overall, this profile shows that CAB money advice is effective at reaching low income groups, particularly those of working age. These are also groups who are less likely to have benefited from general easier access to affordable credit.

221. Consumer debt is the single biggest issue for Scottish bureaux: they dealt with almost £200 million of debt in 2007-8, almost double the level in 2002-3. Debt amongst Scottish CAB clients has increased substantially since 2003:

- Average debt at £20,139 is 50% higher than in 2003
- Across social groups, debt clients have more debts than in the past and they are much more likely to have debt on credit cards, personal loans and overdrafts. More than nine in every ten CAB debt clients have at least one debt with a bank as a creditor in 2008
- Debts have risen more quickly than incomes, so debt stress has increased significantly since 2003.

222. A recent survey across bureaux in England and Wales found the average total debt of £16,971[57] (Aznar, 2009) and average income of £1,021. The average income of Scottish debt clients is lower in this survey, but the average debt is higher. This is the reverse of the position in the 2001 survey across England, Wales and Scotland that found lower average debts in Scotland than elsewhere. The reasons for this are not clear and the characteristics of Scottish CAB clients suggest debt levels should be lower than elsewhere. However, the research in England and Wales was conducted earlier (July 2008) and surveyed new debt clients only, so is not fully comparable. The Scottish survey includes ongoing cases that are more likely to involve complex and multiple debt issues and, therefore, larger amounts of debt.

[57] Aznar C (2008) A life in debt: the profile of CAB debt clients in 08. London: Citizens Advice

223. There are some striking differences in debt levels amongst different groups. The fact that average debt rises with income or with being in employment is not surprising. There are big differences according to gender and housing status, yet much smaller differences between disabled people compared with non-disabled people. Debt amongst those over 60 is high compared with all other age groups and debt in households with one child is greater than those with 2 or more children.

224. Some of these differences are difficult to explain and may benefit from further qualitative research. Understanding more about debt amongst different family groupings and sizes would help to inform policy and practice for supporting the advice and information needs of people in different family situations. The birth of a child and moving from full-time to part-time employment, for example, may be important triggers for financial difficulties.

225. Sub-prime or non-mainstream lending has been a feature of borrowing amongst CAB debt clients in the past, particularly among low income groups. Since 2003, catalogue, credit card, personal loan and overdraft debts have all grown, but borrowing from doorstep lenders has remained constant. This suggests that new lending is in addition to cash loans rather than substituting for them in many cases. There are many examples of low credit limit cards that advertise extremely high interest rates[58]. This is consistent with bureau representatives' views that high interest lenders moved into provision of credit cards as credit became easier to get.

226. There is a real risk in the current environment that affordable credit becomes even more difficult for low income groups to access. They have not benefited as much as others from the credit boom, but low income groups, even more than others, need the means of smoothing one off costs and expenses.

Recommendation: Access to affordable credit is essential in the absence of other measures such as wider application of and access to cheap sources of borrowing such as credit unions and through extensive reform of the Social Fund. Both lenders and policy makers need to ensure that affordable mainstream credit is accessible for low income groups.

Debt and low income

227. The reasons for getting into debt are complex and interweaving. Overall, most debt clients linked their financial difficulties to money mismanagement, low income, illness and easy access to credit. Initial unprompted responses focused on money mismanagement and the reasons behind a drop in income, most often job loss, relationship breakdown and illness. Once prompted, they identified more strongly with wider issues such as easy access to credit, lower disposable income and drops in income. These results reinforce the findings of other research that highlights the importance of income shocks[59]. They are

[58] See for example: http://www.cccfinancial.co.uk/vanquis_credit_card.htm - on 24 March 2009, advertising a typical APR of 39.9%; and http://www.quickquid.co.uk/fee-schedule.html - on 24 March 2009 advertising a typical APR of 2356%

[59] Kempson E and Atkinson A (2006) *Overstretched: People at Risk of Financial Difficulties*. University of Bristol Personal Finance Research Centre

also consistent with other evidence that there is rarely a single cause for being in debt and that personal and external issues can mount up in a cycle of debt[60].

228. However, CAB debt clients have much lower incomes than the wider population of Scotland and some have lived with persistent low income for long periods. The extent and impact of low income amongst CAB debt clients raises questions about how reasonable it is to expect people to manage on a very low income, particularly if it is a long term situation. It is a serious concern that 41% of debt clients, including half of women, said they had gone without essentials as one of the ways they managed their situation.

229. The level of interest in the new LILA route to bankruptcy highlights that, despite all the challenges that bankruptcy can bring, it offers the prospect of some relief from the worry and stress of debt. The importance of this should not be underestimated, particularly in view of the impact clients said debt had on their mental and physical health.

Importance of advice

230. Debt clients' strategies for dealing with debt and statistics on debt advice combine to suggest that more people than in the past are seeking advice earlier. While some had used companies offering debt management programme services, these were not suitable for everyone. The increase in the availability of money advisers through additional funding has inevitably helped bureaux to respond to growing demand.

231. Yet interviewees still expressed concerns about the time they need to wait to see someone. Bureaux report they are working to capacity and some have six week waiting lists for appointments. This implies that there is still not enough advice capacity and the short-term future is likely to mean growing demand on services. Despite the strong presence of CAB services, not everyone knows who they are or what help they can give. Greater advertising of services would raise awareness but add to existing pressures.

232. Factors leading to a drop in income increase the risk of problem debt and the need for advice. The risk of job loss and drops in income can only increase in the coming period. This suggests pressure on advice services are likely to grow, at least in the short-term. It reinforces the importance of existing and new resources for money advice for addressing demand and targeting disadvantaged groups for support.

233. Across the board, CAB debt clients had more debts than in previous studies. Although those with a higher number of debts were more likely to owe more, overall the number of debts varied much less among social groups than did the amount of debt. However, the number of debts is important as an

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[60] See, for example: Pleasence P, Buck A, Balmer N and Williams K (2007) *A Helping Hand: The Impact of Debt Advice on People's Lives*. Research Paper No. 15. London: Legal Services Research Centre; and Turley C and White C (2007) *Assessing the Impact of Advice for People with Debt Problems*. Briefing Paper, London: Legal Services Research Centre.

indication of the work involved for a money adviser. Put simply, one single large debt is likely to involve much less work than 10 small ones to 10 different creditors. This also means that, if advice caseloads are based on client numbers rather than number or complexity of debts, it may be important to review caseloads from time to time to take account of contemporary credit and borrowing patterns. Advisers may need to work with smaller caseloads than in the past.

234. Interviewees indicated advice can have a range of positive effects:

- Many people need face to face support and telephone based services may not be suitable
- It can relieve stress and lift the burden of worry that accompanies debt
- Advice builds confidence and raises awareness of the rights and responsibilities of clients themselves and creditors
- Problems accessing services or delays in getting appointments were strongly linked to recognition that services are busy and under pressure. Such pressures can only be expected to increase in the foreseeable future, reinforcing the need for services to be in place and in the right locations to meet demand from low income groups.

235. Once they began to get their finances under control, some clients planned to change their money management in future. However, others thought low income would continue to be a struggle. This reinforces that low income is a chronic problem for some groups of CAB debt clients.

Fuel poverty

236. Almost a quarter of debt clients had utility debts and more than a quarter of the total had fuel meters. Case evidence reinforces the hardship that can result from high fuel costs. Although fuel costs have eased in recent months, fuel poverty remains an important policy problem. The fact that disconnection from fuel supply has been individualised through the use of prepayment meters does not lessen the need for measures both to ensure access to fuel at affordable and equitable prices for low income groups, and to ensure reasonable rates of debt repayment calibrated on meters.

Recommendation: Fuel companies should bring down the cost of supply for card meters and ensure that those who are entitled to it are on social tariffs. There also needs to be clear responsibility and powers to ensure that vulnerable groups are protected effectively in a system of fuel supply that is based on competition to get the best price. The scope for smart cards to contribute to solutions to fuel poverty has been highlighted[61]. The UK government plans to have smart meters installed in all households by 2020[62]. The government is recommended to prioritise low income groups for early Installation.

[61] Gibbons D and Singler R (2008) *Cold Comfort: A review of coping strategies employed by households in Fuel Poverty*. London: Energywatch

[62] *Department of Energy and Climate Change (2009) Smart Meters*. Available at: http://decc.gov.uk/en/content/cms/what_we_do/consumers/smart_meters/smart_meters.aspx

Creditor behaviour

237. Creditors are referring more debts to debt collectors, and utilities companies do this more than other types of creditor. This is consistent with advisers' impressions that creditors are acting more quickly to address non-payment or arrears. Although there is some reassurance in the higher proportion of creditors that are in negotiation with the CAB, the fact that creditors continue to put pressure on clients for more money is cause for concern.

238. More clients had financial statements or offers of repayment rejected compared with 2003. Self help advice is not as effective as it could be and many people end up having to get advice because they are unable to negotiate with creditors for themselves. CAB debt clients need face-to-face contact with advisers to resolve their debt problems. However, for those who need less support, more effective self help advice for those able to negotiate with their creditors themselves would help to reduce the pressure on face-to-face services so that help can be targeted towards those most in need of the face-to-face money advice provided by bureaux.

239. Overall, the behaviour of creditors described by CAB clients in this survey is worse than in 2003:

- As well as more financial statements or payment offers being rejected, more debt clients experienced pressure from creditors and almost twice as many were threatened with debt recovery without court action compared with 2003
- Interviewees demonstrated that these pressures come from high street banks and lenders as well as sub-prime lenders and debt collection agencies
- The vast majority of debt clients had charges and fees added to debts, most commonly charges for being overdrawn or in arrears
- Some debt clients found they could not manage when their banks withdrew money direct from an account to service other lending from the same bank – this added to stress and loss of control
- Advisers also experience problems negotiating with creditors and case evidence shows that people can appear to be victimised by some creditors for seeking advice

240. The survey did not identify any illegal lending. A benefit of easier access to credit may be to have marginalised illegal lending compared with the past. There was some evidence of creditors operating at the margins of the law. This is an area in which the OFT is taking more action. For example, they have imposed 'requirements' on some companies to improve their debt collection practices. The OFT said it will continue to "take firm action to protect consumers where debt collectors engage in oppressive behaviour or practices that fail to comply with our guidance"[63].

[63] OFT (2009) *OFT imposes requirements on 1st Credit over debt collection practices*. Press release, 20/09, 25 February 2009 Available at: http://www.oft.gov.uk/news/press/2009/20-09

Recommendation: The UK government should consider introducing a regulatory framework to reduce or prevent irresponsible and predatory lending practices and to implement sanctions against creditors who breach such regulations, for example through a waiver or reduction of the debt due to be repaid.

Recommendation: Further consideration should be given to improving legal protection and remedies for people facing harassment and victimisation from creditors, including persistent and aggressive telephone calling techniques.

Recommendation: Advisers should continue to refer appropriate cases of concern to the OFT or the Accountant in Bankruptcy in a systematic way. However, agencies with the powers to take action need to provide feedback to complainers on the progress of cases and review provision if it is found to be inadequate to address the problems identified.

Recommendation: Debt clients face problems with creditors from outside Scotland who fail to acknowledge Scots law. Regular reporting of such incidences should continue to be provided by advisers and reviewed by the Accountant in Bankruptcy and the OFT to ensure that effective measures are taken to address adherence to Scots Law and to consider the need for further regulatory provision where required.

241. Around a third of debt clients had payment protection insurance. However, few made successful claims. On tight budgets, PPI was expensive and, when claims were unsuccessful, it became a waste of money for some clients. The period of payment protection can vary. When it is for a short period and someone has long term health problems, for example, it can delay problems, but is unlikely to protect people from falling into debt in the longer term.

242. In its evidence to the Competition Commission, CAS argued for better training for staff selling PPI, clear and accessible policies, including clearly stated exclusions, comprehensive systems of monitoring and evaluation and reassessment of targets and bonuses in relation to selling PPIs[64]. CAS also argued that the Finance and Leasing Association should improve its lending code and monitor and respond to non-compliance issues in a timely and effective manner. The report concluded that the Financial Services Authority should develop a PPI policy that stipulates minimum standards:

"Compliance with the code must be effectively monitored and the FSA must have real powers to respond to breaches in an effective and proportionate manner."

243. This research suggests that the problems with PPI remain a significant concern to be addressed effectively and underlines the importance of progress with recommendations made by CAS in 2007.

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[64] Isaacs L (2007) *Payment Protection Insurance: A response from Citizens Advice Scotland*. Edinburgh: Citizens Advice Scotland. Available at: http://www.cas.org.uk/competitioncommissionppi.aspx

Impact of new legislation for clients

244. This research did not look in a comprehensive way at all the options available to debt clients. However, major new legal developments in Scotland include changes to DAS and the introduction of the LILA route to bankruptcy.

245. DAS take up was low and few survey participants anticipated using that route to resolving their situation. This is not a surprise, given the low incomes of CAB debt clients. However, in order to increase the relevance of DAS for more people, CAS recommended further changes in addition to the freezing of interest rates introduced in 2007, particularly composition of debts to enable debtors to pay back only a percentage of the full amount owed[65].

246. Some CAB clients have pursued the LILA route to bankruptcy and others are considering it as an option to address their difficulties of low income and debts that they cannot repay, combined with what is often relentless pressure from some creditors. However, most people considering LILA said they could not unconditionally afford the £100 fee.

247. Some people who meet the conditions to apply for the LILA route to bankruptcy will have been in this situation for some time. This is likely to have contributed to an initial rush of applications when LILA started in 2008. Although the Accountant in Bankruptcy considers that the £100 fee is not a barrier for people[66], this survey shows that it is a barrier for some.

248. The intention of the fee is to help make bankruptcy self funding and ensure people consider the implications of bankruptcy. Access to bankruptcy for some of the poorest groups in society is a positive step for those with no other option available to them. There are other strong disincentives to taking such a step lightly, such as the problems with keeping or opening a bank account. Many people in debt and on very low incomes suffer further stress and pressure from creditors, as they try to save up the money for bankruptcy. The full extent of the fee as a barrier may only become fully apparent over time. The core concern should be that the system achieves its aim of providing a remedy for people caught in a cycle of low income and growing debt that they cannot repay.

Recommendation: In reviewing the impact and scope of the LILA route, the Scottish government should consider whether LILA is reaching all the groups in Scottish society that was intended when the legislation was introduced and whether there are other groups who should also benefit from access to a more accessible route to bankruptcy such as LILA.

249. The qualifying individual income level for LILA is similar to the average income for individuals and couples in this survey. Yet many CAB debt clients have incomes that are at only half that level – one in five have less than £400

[65] Dryburgh (2008) *Irresponsible Lending: a consultation response to the OFT.* Available at: http://www.cas.org.uk/irresponsiblelending.aspx

[66] Accountant in Bankruptcy (2008a) *The Bankruptcy (Scotland) Act 1985 (Low Income, Low Asset Debtors etc.) Regulations 2008: Four Month Review*, October 2008. Available at: http://www.aib.gov.uk/Resource/Doc/4/0000658.pdf

a month. Whilst there is the facility to pay the fee in instalments, a saving of £1 a week is likely to be as much as a person in receipt of benefits and facing multiple unrepayable debts can afford. In that situation it would take just under two years to save the amount necessary to access the LILA bankruptcy route. If the procedure was court based, then these clients would qualify for either the severe hardship waiver or legal aid. However, because this is an administrative scheme, the applicants do not qualify.

Recommendation: The LILA £100 fee should be cancelled. The evidence suggests people in debt are suffering mental and physical health problems as a result of their debt and the harassment and pressure from creditors. Whilst some may get help with the fee from friends or family, those managing alone could face a long delay before the LILA route is opened to them. At the very least, there should be a severe hardship test that would mean the fee could be waived, with automatic passporting if incomes are means tested benefits only.

Appendix 1: Research methods

This research utilised a mixed methods approach and there are 4 components that have contributed to the research design:

- A questionnaire survey of debt clients that allowed for quantitative and qualitative responses – although based on the 2003 questionnaire, the 2008 survey involved some additional and changed questions, but still allows for comparison between the two surveys in most aspects of analysis
- Semi structured interviews that allowed for further exploration of key policy themes and issues raised in the research
- A focus group with the members of the CAS Debt Research Working Group that explored issues and experiences of advising debt clients
- Case evidence from bureaux across Scotland that provided further illustration of issues and themes.

The survey of CAB clients was administered by CAB advisers and analysed by SPIU. Two waves of data collection took place. An initial pilot of the questionnaire was run in 2 bureaux. Feedback on the questionnaire was obtained and appropriate revisions made. The main data collection took place over 6 weeks from 18th October to 21st of November 2008. The survey period was further extended to increase the number of returns and three urban CABx were introduced at a later stage to boost responses from urban areas.

In total 21 member bureaux across Scotland took part, a detailed list is provided in Table A1.1 below. Two of the bureaux have multiple service outlets – Citizens Advice and Rights Fife has 6 including a money advice unit and Dumfries and Galloway Citizens Advice Service has 4 service outlets. Bureaux were given survey quotas based upon their size and the number of debt cases they dealt with each year. Representatives from the Bureaux participated in a project advisory group that met on three occasions during the research.

Advisers in bureaux administered the questionnaires by phone and in person. In total 273 completed surveys were received, 9% administered by phone and 91% face to face. Surveys administered face to face utilised show cards for ease of use for the client and adviser. Individuals were given the opportunity to decline taking part. Participants in the questionnaire survey were given the opportunity to say if they wished to participate in a follow up interview.

From the returned questionnaires 10 participants were selected for interview. The semi-structured interviews explored issues identified in the survey and themes that are relevant to current policy agendas, such as experiences of the new Debt Arrangement Scheme and creditor behaviour. Interviewees were given a £15 gift voucher for a shop of their choice in exchange for their time. Four women and six men were interviewed. Their ages ranged from 24 to over 75. Interviews were conducted by telephone and recorded and transcribed. Key themes were then coded and annotated from the transcripts and key quotes identified.

Members of bureaux participating in the research were also members of the CAS Debt Research Working Group that met on 3 occasions throughout the period of the research. A focus group was held with members attending the second meeting to gain insights from those involved in providing debt advice in bureaux about the issues and themes they are identifying at present. There were 7 representatives from different bureaux who took part in the focus group.

Table A1.1: Bureaux participating in 2008 and 2003 surveys

Citizens advice bureaux	2003 %	2008 %	*Cases*
Island			
Shetland	9	12	*33*
Orkney	NA	2	*6*
Rural district			
Dumfries and Galloway	NA	23	*63*
CARF	NA.	15	*41*
Clydesdale	9	6	*16*
Roxburgh	NA.	2	*5*
East Ayrshire	NA.	2	*5*
West Lothian	NA.	1	*2*
Urban (town)			
Airdrie	6	8	*21*
Grangemouth	NA	4	*11*
Denny and Dunipace	NA	4	*11*
East Kilbride	NA	4	*10*
Motherwell and Wishaw	9	2	*6*
Haddington	NA	2	*4*
East Renfrewshire	NA	1	*2*
City			
Glasgow-Parkhead	NA	6	*15*
Edinburgh	NA	2	*5*
Glasgow -Easterhouse	8	2	*5*
Aberdeen	NA	2	*5*
Inverness	8	2	*4*
Maryhill	NA	1	*3*

Response rates: 2008 – 273; 2003 - 268.

The following bureaux were involved in the 2003 research but not this research – proportion of cases in the 2003 study are provided in brackets:

East Dunbartonshire (16%)	Hamilton (10%)
Skye and Lochalsh (8%)	Falkirk (6%)
Glasgow Greater Pollock (5%)	Dundee (3%)
Argyll and Bute (3%)	

What the research can tell us

The findings of this survey are not representative of people in debt across Scotland as a whole, but they do give insight into the situation of CAB debt clients. They allow for comparison with the 2003 survey reported in ‘On the Cards’ and some limited comparison with the Scottish findings from the research report ‘In too Deep’ (Edwards, 2003).

The research tells us about the nature and scale of indebtedness among CAB clients in Scotland and how debt among CAB clients has changed since 2003. but cannot tell us about the level of debt in Scotland or how debt is experienced by non CAB clients.

The research provides a full profile of what debtors perceive to be their ‘most important’ debt and how particular experiences of debt are associated with characteristics such as gender, age and ill-health.

Analysis can also inform understanding of CAB clients’ experiences of dealing with creditors, strategies for money management and their experiences of services (such as Payment Protection Insurance and advice) and new legal remedies such DAS.

Appendix 2: Notes on tables and terms used

Notes for tables and data analysis

- Each table provides the response rate for 2008 survey participants from the total of 273 responses
- Asterisk * indicates less than 1% in any column
- Where comparisons can be made additional data are provided for Citizens Advice Scotland's client profile data and national databases
- Brackets around percentages in columns, usually relating to missing data, means figures are excluded from calculation of percentages for true responses in the column
- NA = not available; NK = not known
- Column percentages may not add to exactly 100 because of rounding
- In tables with multiple responses *column percentages may add to more than 100*
- **Average** is used to describe the mean – the sum of values divided by the number of cases
- **Median** is the value below which 50% of the cases fall.

Terms used in the report

Whilst the word 'debt' is often used to refer to borrowing and credit, the meaning of 'debt' in this study relates to over-indebtedness: sums of money due but unpaid and that may be described as problem debt. 'Debt' can include interest accrued, default charges and legal costs. The whole amount borrowed can count as being due, for example in most credit card debts. However, where there is a continuing liability (for example rent, hire purchase), only the arrears would be considered as debt for the purposes of this research. In relation to mortgage borrowing, this means only mortgage arrears are included as debt and not the overall amount of a mortgage.

The terms 'disabled client' or 'disabled people' are used to refer to clients and households with one or more of the range of health or disability issues identified in the survey (Table 9). The findings on health and disability are not comparable with the data for CAS clients because more detailed questions were asked in this survey.

Appendix 3: Abbreviations used and Glossary

Abbreviations

CAB	Citizens Advice Bureau
CAS	Citizens Advice Scotland
CPI	Consumer Prices Index
DAS	Debt Arrangement Scheme
DPP	Debt Payment Programme
LILA	Low Income Low Assets
NACAB	National Association of Citizens Advice Bureaux (now Citizens Advice)
NIACAB	Northern Ireland Association of Citizens Advice Bureaux
OFT	Office of Fair Trading
PPI	Payment Protection Insurance
RPI	Retail Price Index
SPIU	Scottish Poverty Information Unit

Glossary

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

Attachment Order: A form of diligence that 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.

Benefit Debt: Debt relating to payment of social security benefits. The main categories of benefit debt are loans from the discretionary social fund and overpayments of social security benefits.

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

Debt Arrangement Scheme: A statutory scheme put in place by the Debt Arrangement and Attachment (Scotland) Act 2002 in which a debt payment programme compiled during debt management may be formally approved. Interest and charges are frozen and diligence prohibited while it is operating.

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.

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.

Exceptional Attachment Order: A form of diligence that involves valuing a debtor's non-essential 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.

Legal Debt: Debt relating to the legal process such as Legal Aid debt or court-imposed fines.

Money Advice: A series of tools and professional strategies used by advisers to counter the problems faced by clients in debt, including:

- a commitment to independent, impartial and high quality advice
- a problem solving approach that recognises the respective rights and obligations of the parties to transactions the client has entered into
- an holistic or 'whole person' approach to the problems of the individual which takes account of 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 is more effective 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, that may contribute to, or be the root cause of, a debt problem.

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 operating a home collection service). They generally charge high interest rates. The term mainstream is used to apply to other lenders.

Payment Protection Insurance: Insurance taken out on credit agreements, intended to provide continued payment of contractual instalments for a limited period of time if the debtor loses their job or be cannot work due to sickness or impairment.

Priority Debts: 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: 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.

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: Debt relating to government tax matters.

Utility Debt: Debt relating to gas, electricity or water supply or telephone services, including mobile phones.

Citizens Advice Scotland and its member bureaux form Scotland's largest independent advice network. CAB advice services are delivered using 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 age, disability, gender, race, religion and belief and sexual orientation.

Web: www.cas.org.uk

Email: info@cas.org.uk

Produced by The Scottish Association of Citizens Advice Bureaux -
Citizens Advice Scotland (Scottish charity number SC016637)
1st Floor, Spectrum House, 2 Powderhall Road, Edinburgh EH7 4GB
Tel: 0131 550 1000

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