

Citizens Advice Scotland

Scottish Association of Citizens Advice Bureaux



Debt Management Companies

CAB Evidence

Susan McPhee Head of Social Policy & Public Affairs

Citizens Advice Scotland and its 83 CAB offices form Scotland's largest independent advice network. CAB advice services are delivered through 199 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

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Introduction

1. Citizens Advice Scotland (CAS) is the umbrella organisation for Scotland's network of 83 Citizens Advice Bureau (CAB) offices. These bureaux deliver frontline advice services throughout nearly 200 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.
2. In 2008/09, Scottish Citizens Advice Bureaux dealt with nearly a million issues for clients. Issues related to debt increased by 16% last year to over 360,000 issues – nearly 1,000 debt cases for each day of the year. Debt continues to be the single biggest issue for CAB clients – representing around a third of all enquiries on an ongoing basis.
3. Our recent research report *Drowning in Debt* (2009) found that the average debt held by a bureau debt client was £20,193, a 50% increase in five years. In addition, the average number of debts was 6.3 (median 6) – few CAB clients had only one debt and more than one tenth had over 10 debts.
4. Our research found that – before coming to the CAB for advice – 10% of debt clients had used debt management companies or a fee charging debt advice service to cope with their debt.
5. CAB debt clients have fewer options in managing their debt than other client groups. CAB debt clients have much lower incomes than households in Scotland as a whole, are more likely to rent their homes and less likely to be in employment than the Scottish average. Three in every five households have at least one person with a health or disability issue. One in four of our clients do not have access to DAS or any other debt management options. This leaves CAB debt clients vulnerable to exploitation by unscrupulous debt management companies.
6. Our case evidence found:-
 - Clients being cold called by companies offering to wipe out their debt
 - Clients being cold called by companies offering to resolve their debts
 - Clients having their debts consolidated by companies leading to further debt
 - Clients facing high charges for debt management
 - Clients entering into inappropriate protected trust deeds

Case Evidence

Debt Wipe Out

7. Clients have visited the CAB having been lured by offers from companies to wipe out their debts. In many cases, this is not an option for them and leads to false expectations.

A North of Scotland CAB reports of a client who was cold called by a company. They indicated that they could get his loan – taken out in 2006 – wiped out. The CAB was able to advise that whereas some debts can be unenforceable, this was extremely unlikely and the fact that the company had contacted him directly was suspicious. The CAB were able to advise the client early enough to avoid him being contracted to the company, nor having to pay over any fees.

A West of Scotland CAB reports of a client who applied for finance from a credit company having seen an advert in a catalogue. The company passed the client directly onto a credit repair company who informed him that they would repair his credit, and fight for cancellation of a Visa card debt. The client's bank account was thereafter debited with two fees of £250 and £245. The CAB reviewed the paperwork received and noted that they involved more fees being paid whether or not the company managed to have the debt cancelled.

A West of Scotland CAB reports of a client who contacted the CAB after seeing an advert in the Daily Record. The company was unnamed in the advert, but were offering customers the chance to have the balance on their credit cards wiped out. The contact details involved a phone number only.

A West of Scotland CAB adviser received a call from a company offering to have up to half of her debts cleared. When the adviser questioned where the company got the number, the woman informed the adviser that she must have had a credit agreement within the last two years. When the adviser informed her that she had contacted the CAB and asked about costs, the line went dead.

8. Some companies appear to target homeowners, in addition to which their marketing offers solutions that they cannot deliver.

A West of Scotland CAB reports of a client who is an existing debt client within the CAB. This client has four children, and her sole income is derived from state benefits. The CAB has been assisting her for a number of weeks, but she has been targeted by a company who are offering to freeze all of her debts. Their card uses the saltire as their logo, and they refer to the Scottish Government DAS scheme in a way that suggests they are linked. This CAB reports that many of their home owner advisers have also been targeted by the same company.

Debt Consolidation

9. Some of the debt management companies have assisted clients by consolidating their debts – in reality allowing them to make one payment to the company at a huge cost to the client in terms of charges. Some clients have also been taken advantage of by what is clearly a scam.

A West of Scotland CAB reports of a client who had been cold called by a debt management company. She provided them with information concerning her four credit card debts and they offered to arrange for consolidation. She paid the company over £1,000 in charges but they have now disappeared. The client has now cancelled all of her credit cards, but is now in far more debt as a result of her contact with them.

A West of Scotland CAB reports of a client with multiple debts who has been using a debt management company to deal with her creditors. She started with a debt of £1,500 which was to be paid off within six years. However she has now been told that her debt has escalated to £31,000 to be repaid over twelve years. The client is now extremely anxious as she is now pregnant and her income will be reduced when she returns to work part time.

An East of Scotland CAB reports of a client who had debts of £10,000. She had agreed a repayment schedule with a debt management company who had offered to consolidate her debts and has been paying £100 per month by direct debit for the past two years. However, creditors are now making contact with her asking for money, as they had not received anything from the debt management company.

Charges

10. The largest problem area for CAB clients in respect of debt management companies related to charges. Many clients made contact with the CAB after they found that paying the hefty charges for debt management solutions left them struggling.

A West of Scotland CAB reports of a client who had around £17,000 of debt and was experiencing financial difficulties. The client started to deal with a debt management company who paid the client's two credit cards per month but charged £35 per month for this work. They had not advised the client that there was no sure way of stopping legal action. When the CAB reviewed the client's situation, they were able to increase the client's income by over £500 per month.

A West of Scotland CAB reports of a client who was struggling with meeting his commitments following a relationship breakdown. He had signed on with a debt management company and paid an initial fee and £25 a month thereafter. The CAB assisted him with withdrawing from the company and thereafter discussed a range of debt solutions with him.

A South of Scotland CAB reports of a client who had consolidated her debts with a debt management company and was paying a management fee of £45 per month. She had been phoned by a mail order company demanding payment, despite having made payment to the debt management company.

A North of Scotland CAB reports of a single male client whose only income is derived from state benefits. He has debts of approximately £62,000 with seven credit card companies. He took up an offer from a debt management company after being told he would be debt free in three years. He paid an upfront payment of £1,000 and has been making a monthly payment of £260 thereafter. He has since had a letter from one of the companies saying they will not accept the offer and want more money. He has now received a court citation despite the debt management company saying they will sort it out.

A West of Scotland CAB reports of a client who had an arrangement in place with a debt management company who were repaying her creditors. The client was paying £115 per month, of which £38.75 was going towards a management charge. The client has also been paying £25 per month to another creditor outwith the arrangement. She has been feeling frustrated as no progress appears to have been made with her debts. This client is 75 years old, with her income being derived from state benefits and pension credit.

A West of Scotland CAB reports of a client who sought money advice from a debt management company. The costs were £100 set up fee and £25 per month in charges thereafter. The client's monthly payment was set up at £310 to repay a debt of just under £30,000 from various credit cards. This client is aged 75 with a monthly income of approximately £800 made up of three pensions including the state pension. She incurred an overdraft trying to maintain payments on the account. The company had allocated £90 per month for food, clothes and housekeeping. The client had not been offered any alternative options.

Protected Trust Deeds

11. Other clients visit the CAB following incorrect advice to go into a protected trust deed. In some cases, the client has visited the CAB on receiving the advice, but in others it has been too late and they have been left in a worse situation than previously.

A North of Scotland CAB reports of a client couple who lived in rented social housing with their young child. They started getting into debt ten years ago by taking out loans to repay other debts. They recently contacted a firm of insolvency practitioners about their debts, who recommended a protected trust deed. When the paperwork came through, the clients were shocked to see the amount that was due to be paid to the company, and were concerned as to whether they could afford this. The CAB adviser reviewed the case and it became apparent that the clients – although working – had no surplus income. The company had suggested that £200 be paid per month into a trust deed. The clients had not been given any other options in respect of their debt. As they were not yet committed, the CAB assisted them with maximising their income. These clients are now considering a voluntary repayment plan.

A North of Scotland CAB reports of a client who had made contact with a company whose title and logo suggested that they were DAS registered – the clients had taken this to mean that they were dealing with a government adviser. The clients had believed that a formal debt payment programme had been set up for them but then visited the CAB as they were unsure. The CAB contacted the company and confirmed that they were not DAS registered, and that the advice the clients had been given had been to enter into a protected trust deed. The CAB looked at the clients' finances and determined that given their level of debt and housing status that this would not be a recommended option for them.

A West of Scotland CAB reports of a client couple with multiple debts – the woman had catalogue debts of around £8000, and the man had credit card debts of approximately £48,000. They were joint owners of a house with around £40,000 equity. The client contacted a company on receiving a promotional card from them. The company called the clients and conducted the interview over the phone. The company representative told the woman that her debt was too small, but that the man should enter into a trust deed. They were then told that no fee would be payable. When the papers were received, they stated that the clients agreed that they had been advised of all of the possibilities of clearing their debt. In addition they noted that there was a professional fee of over £8000. When the CAB advised the clients, they clarified that there had been no discussion over the equity in the client's home and that the advice provided was totally inadequate.

A West of Scotland CAB reports of a homeowner client with no equity who works fulltime. He has debts of credit cards and personal loans, and answered an advert in the Daily Record for an organisation that suggested it dealt with the debt arrangement scheme. The client told the CAB advisers that he was pressured into entering a protected trust deed costing £700 per month and also required to pay £1,000 to protect his home. The CAB have now taken over this case and are assisting the client regarding DAS or a voluntary repayment plan.

Conclusion

12. The majority of CAB debt clients are struggling to repay their debts, and are looking for solutions that will offer them assistance in doing so. Debt clients' circumstances can be complex, and each set of circumstances needs to be looked at carefully, with all options explored fully with a client. These cases are illustrative of how some companies are clearly exploiting the current economic climate, making matters worse for many people.
13. Controls need to be placed on those companies who offer to resolve a client's debt problems but are clearly offering inadequate or inappropriate advice. These cases illustrate how many of them are profiting substantially from our clients' debt problems, to the detriment of both them and their creditors alike.