Scottish Affairs Committee:
Enquiry into the Banking Sector

Memorandum from Citizens Advice Scotland (CAS)

November 2009

Summary

- The effects of the banking crisis and associated difficulties in the subsequent recession have had a significant impact on the Scottish economy and citizens advice bureau clients.
- Much of the negative impact on our clients stems from poor banking policy and practices that existed before the crisis, many of which remain in place today and continue to affect clients.
- As the recession hits jobs and incomes, increasing numbers of people are experiencing detriment due to poor banking practices.
- Banks are becoming more aggressive in chasing debts and less sympathetic to customers experiencing financial difficulties.
- The UK Government's measures to deal with the impact of the banking crisis have been more successful at maintaining 'business as usual' for banks, but less successful at addressing the needs of vulnerable consumers affected by the crisis.

Introduction

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 222 service points across the country, from the city centres of Glasgow and Edinburgh to the Highlands, Islands and rural Borders communities.

In 2008/09, 360,836 debt issues were dealt with by Scottish bureaux – a 14% increase on the previous year. This represents nearly 1,000 debt issues dealt with by Scottish bureaux every day of the year. Consumer debt remains by far the most common single issue that clients bring to bureaux. Many of these debt issues relate to the UK banks, who are one of the main types of creditor used by bureau clients. Our *Drowning in Debt* report (2009) showed that banks were the creditors for almost half of the debts held by bureau debt clients, and that almost nine out of every ten debt clients are in debt to their bank.

Banks play an important role for the vast majority of adults in the UK. They are the gateway to mainstream financial services, the provider of current and savings accounts, and the main source of much needed credit. Banks provide mortgages to buy homes, capital for businesses, and are a necessity for anyone who gets wages for employment. Because of this important role that the banks have in UK society, the repercussions of poor policies and practices have a wide and sometimes severe impact on our clients.

The effects of the credit crunch and associated difficulties in the subsequent recession have had a significant impact on the Scottish economy and on Scottish CAB clients. While some of the effects were unprecedented and difficult to have foreseen, much of the negative impact stems from poor banking policy and practices, many of which remain in place today and continue to affect CAB clients. The Credit Crunch, and the subsequent troubles of both HBOS and RBS, has undoubtedly affected the reputation of the sector, but from a CAB perspective, confidence and trust in banks has been eroded over a period of years.

This briefing looks at the contribution of banking policy to the ongoing difficulties in the sector arguing that a return to 'business as usual' isn't acceptable for Scottish CAB clients

The effect of the banking crisis on banking services to the public

The impact of the financial crisis has been very obvious in some cases – the HBOS merger and the near demise of RBS – but in other ways it has been less tangible. Many of our clients have found to their detriment that banks are more difficult to deal with, with credit and mortgages more difficult to access, banks taking a harder line on those in arrears, and showing an unsympathetic attitude to customers suffering financial difficulty.

However, most of these problems weren't directly caused by the financial crisis, but were in fact pre-existing problems that have been made worse by the crisis. Many of the current problems for our clients are caused by policies that were causing detriment prior to the recession, and which are becoming more obvious now as jobs are lost, incomes fall, and debt rises.

For example, the issue of unfair **overdraft charges** is still ongoing, and promises to drag on through the courts for some months. In the mean time, citizens advice bureaux are reporting increasing numbers of clients who find themselves facing disproportionate charges. Many of these clients are victims of the recession who had never gone into their overdraft previously and had little experience of the extortionate charges that they now face. While the recession may have pushed clients into their overdrafts, it is the pre-crisis policies of banks that unfairly keep them there.

> A South of Scotland CAB reports of a client who accumulated over £1,000 in bank charges over a three month period while his bank refused his application for an approved overdraft limit. The client is overdrawn by £270 and wanted an overdraft facility so that he can pay off the money that he owes without being stung by multiple charges. The bureau contacted the bank and managed to negotiate a £500 overdraft facility for the client.
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> An East of Scotland CAB reports of a single mother who is in serious financial difficulties due to disproportionate and unfair bank charges. The client is being charged £5 by her bank for every day she is overdrawn and £25 for every transaction she makes. The client is living on Income Support with a five year old daughter.

A West of Scotland CAB reports of a client who incurred an overdraft of 70 pence after a company failed to cancel a Direct Debit as requested. Consequently she has incurred overdraft charges of £176 to date with £20 being added per day.

Those who have credit or debt from their banks are finding life more difficult in the financial crisis. Bureaux have reported anecdotally that **banks are more aggressive in their behaviour** and actions towards those who owe them money, and that they are often unsympathetic to customers in financial difficulties. This can include behaviour that amounts to harassment in their communication with clients.

A West of Scotland CAB reports of a client who received phone calls at all hours from his bank after falling into arrears. The client received calls into the evening and from 8am. His wife often took the calls and sometimes they were ‘silent’, but the client was sure they were from the bank. The bureau wrote to the bank complaining on behalf of the client. The reply stated that all customers who get into arrears receive phone calls like this, but the system is unable to cope with requests not to call at certain hours. Some calls start out as silent as the operator can’t always respond immediately. These administration difficulties at the bank cause unfair stress and worry for clients.

A North of Scotland CAB reports of a client who is being harassed by her bank by way of frequent messages to her phone. The bureau is attempting to act on the behalf of the client, but the bank refuses or is reluctant to negotiate with the bureau, and is continuing to target the client directly.

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, with evidence showing that banks can threaten to withdraw banking facilities if the client does not take the offer. 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.

A South of Scotland CAB reports of a client with learning difficulties whose bank is insisting on a consolidation loan rather than repayments to creditors. The client was accompanied by a friend to set up direct debits to his creditors for token offers, but on both occasions in which he tried to do this, the financial adviser at the bank (to whom the client does not owe money) told the client with some persistence that he should forget about token offers and the bank would give him a £5,000 consolidation loan (the client's debt was only £1,700). The client's friend told the bank he would get a power of attorney for our client so that he could prevent the bank persuading the client to take out the loan.

Scottish bureaux are also reporting that banks are insisting on much **higher repayments** from clients in order to repay the debt quicker. Many clients are already at the edge of what they can afford to repay. If they attempt to make the higher payments they risk going without essentials or missing priority payments. However, failure to make the higher payments would in turn result in default charges and high interest rates, making the debt much more difficult to repay. This leaves the client with a difficult choice to make.

A North of Scotland CAB reports of a lone parent whose bank are insisting that she increases her repayments on her overdraft to over four times the level she is currently paying. The client has an agreement to pay £66 per month, but now her bank is insisting on the overdraft being cleared in six months which would entail payments of over £300 which the client cannot afford.

Another problem that has emerged in the financial crisis is the increased use of the '**right of set off'**. The right of set off allows banks to legally transfer cash from current or savings accounts to pay credit card or loan arrears without account holders' permission. Citizens Advice Bureaux have seen cases of people having their pay or benefit payments removed from accounts, leaving them unable to meet priority debts, such as mortgage payments 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 with to negotiate repayments. The bank took £400 from her current account after her wages had been paid in, leaving the client with no money at all. The client contacted her branch who stated that if the client moved her account to another bank they would take her to court.

An East of Scotland CAB reports of a client whose bank used their 'right of set off' to take the client's wages to go towards arrears on a loan. The client is working 10 hours per week and is receiving £11 per week in benefits. Upon being paid this month, the bank took all the funds towards repaying arrears on his loan, leaving the client with no funds.

One of the hallmarks of the pre-Credit Crunch period of prosperity was easy **access to credit**. However, bureaux evidence has shown that this often led to irresponsible lending, where inappropriate amounts of credit were offered to low income consumers under unaffordable agreements. While irresponsible lending still occurs, it is now a concern that banks may be cutting back on the availability of credit for consumers. In particular, we have seen clients who have found that they suddenly don't meet a bank's lending criteria having done so previously. There is evidence to suggest that lending criteria is shifting upwards, leaving those less well off without access to what is increasingly a necessity in today's economy.

A West of Scotland CAB reports of a client who had an offer of a mortgage withdrawn at the last moment by his bank. The client was offered a mortgage, and on the strength of this has sold his house. His bank has now withdrawn the offer, stating that the client and his wife no longer meet their lending criteria. The client's circumstances have not changed, suggesting that the bank has shifted their lending criteria away from the client.

If banks reduce their supply of credit in the market, it does not automatically mean that demand for credit from consumers will reduce. In today's economy, access to affordable credit is a necessity for most consumers, and a lack of supply from mainstream lenders will mean that consumers will turn to other sources of (often unaffordable) credit. There is evidence to suggest that without a source of affordable mainstream credit, **consumers are turning to more high cost forms of credit**.

An East of Scotland CAB reports of a client who intended to borrow £1,500 from a log book loan company at rate of over 400%. The agreement required the client to hand over her car log book and a car key prior to obtaining the loan. The bureau explained to the client that the interest was very high on the loan and the client could lose her car. The client would have repaid £4,100 over 78 weeks for a loan of £1,500.

This type of case shows how important it is that access to affordable credit from mainstream lenders is open to those on lower incomes. The alternative for consumers is to seek higher cost and higher risk sources of credit. Simply to go without credit may not be an option.

The effectiveness of measures put in place by the UK Government to tackle the impact of the banking crisis and to aid recovery in Scotland

The solutions put forward to solve the financial crisis have mainly focused on introducing stability and liquidity into the existing system, as well as attempting to reduce risk taking in the sector. The customer-focused solutions introduced by the UK Government, such as the Homeowner Mortgage Support Scheme, have had a moderate impact on the tide of repossessions, with banks reportedly showing greater forbearance before bringing their customers through the repossession process. Plans to curb the worst excesses of the credit card and Payment Protection Insurance (PPI) industries are also welcome, although the benefits expected from these plans are yet to be felt by our clients.

However, while the UK Government has spent much effort dealing with the banking crisis, we consider that few of the solutions appear to have given any great consideration to the needs of customers who are suffering most from the effects of the crisis (and, indeed, were suffering from poor practice prior to the crisis). This return to 'business as usual' for the banks will not address the endemic problems that customers often have to face with their banks. We consider that any solution to the crisis requires looking at the needs of the high street customer and particularly low income and vulnerable consumers.

Conclusion

The banking crisis has had a severe impact on Scottish Citizens Advice Bureaux and the clients that approach them for advice. Bureau advisers are dealing with a hugely increased workload, with many clients experiencing complex and difficult issues. Every single CAB in Scotland is stretched to capacity trying to deal with the excess workload. The government recognised this pressure this year and provided an emergency funding package, which we were able to funnel straight into front-line local services. However, the effects of the banking crisis will go on for some time after this funding ends in March, and it must be ensured that Bureaux will be equipped to carry on dealing the needs of their clients.

The effects of the banking crisis for our clients are in many ways an amplification of the effects that were being felt before the crisis. Unfair banking charges, irresponsible lending, unsympathetic attitudes to those experiencing financial difficulties and aggressive debt collection were all hallmarks of the pre-crisis UK. The effect of the banking crisis has been to worsen these problems for clients, and at the same time to introduce many more people to these poor practices. Any remedy for the banking crisis needs to address these problems and give greater consideration to low income and vulnerable consumers, who are the real losers in the crisis.

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