

Debt Arrangement Scheme

Despite changes to the Debt Arrangement Scheme, citizens advice bureau debt clients are trapped in a cycle of debt – with no route out

The Debt Arrangement Scheme (DAS) was launched in 2004 as a way of offering debtors a formal route to debt repayment, and simultaneously protecting them from creditor action. However, an initial low take-up resulted in changes introduced in June 2007 that would freeze interest and charges for those who entered the scheme. Citizens Advice Scotland's (CAS) latest report, "Restricted Access", looks at the accessibility of the scheme as amended in relation to citizens advice bureau (CAB) debt clients across the country, in both rural and urban areas. The research shows that despite the reforms:

- Four in every five CAB debt clients still cannot qualify for DAS, mainly due to insufficient disposable income to offer to creditors
- One in every five CAB debt clients who did have some disposable income to offer to creditors were excluded from DAS as their debts would take too long to repay
- One in every four CAB debt clients could not access DAS or any other debt management option
- One in every ten debt CAB debt clients had debts of over £10,000 but had no access to any debt management option
- Of the small number of CAB debt clients who could access the scheme, only 25% were likely to choose DAS as their next step

|| *An East of Scotland CAB reports of a 45-year-old client in full time employment. Since her divorce she has struggled with bills, working overtime and double shifts, and even a consolidation loan which made matters worse. She has eight unsecured loans owing just under £22,000. She earns £1000 a month, but has a surplus of £140 to distribute to creditors. This is insufficient to access DAS.*

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One of the main benefits of DAS is that it offers protection from formal debt recovery and bankruptcy, and therefore can be a better route to debt management for homeowners. Yet our research found:

- Less than a quarter of CAB debt clients who are homeowners have access to DAS

Homeowners who cannot access DAS risk losing their home, particularly where there is equity in their property.

Client Profiles

81% of CAB debt clients could not access the amended DAS in order to repay their debts. The research found:

- CAB debt clients aged between 61 and 70 were more likely to be able to access DAS than other age groups, with clients under 20 being the least likely
- CAB debt clients who were separated, divorced or had children, were least likely to have access to DAS. This is probably due to the financial constraints associated with separation and supporting a family, which impacts on the amount of disposable income available for creditors
- CAB debt clients renting their homes from either the private or social rented sector were far less likely to have access than homeowners
- 89% of CAB debt clients with incomes of less than £10,000 were unable to access DAS
- Social groups with little access to the scheme included CAB debt clients with caring responsibilities, those unable to work due to ill health/disability and clients with low incomes.

Citizens Advice Scotland's Proposals for Change

The challenges for DAS are:

- To give access to those on its fringes who want to repay their debts
- Encourage those who can access the scheme to use it

CAS has maintained that in order to be effective, a debt arrangement scheme needs to allow for both the freezing of interest and some form of debt relief (composition of debt)¹. Debt relief would:

- Help CAB debt clients with some disposable income to repay their debts and avoid bankruptcy
- Ensure creditors receive more of the money due to them than through protected trust deeds or bankruptcy

By offering debt relief of 30p in the pound, the proportion of CAB debt clients able to repay their total debt within 10 years would increase from one fifth to one quarter, and would decrease the repayment times for other client groups.

Case evidence

|| A North of Scotland CAB reports of a client couple in receipt of disability benefits with a teenage child. They have debts of around £24,000 to multiple creditors. Although they have some disposable income, it is insufficient to access DAS or a protected trust deed. Although these clients have some equity in their home, they cannot afford a remortgage. Their creditors have accepted reduced offers in the short term, while the husband hopes to return to full time employment. Meantime they have no protection against formal or informal debt recovery nor bankruptcy.

|| An East of Scotland CAB reports of a client couple with three children with total debts of just under £40,000 to eight creditors. Their debts accrued when they moved into the area for work and rented property with their belongings in storage. They used a debt management company initially who made things worse. They want to repay their debts but only have a surplus income of around £200 per month which is insufficient to access DAS within a reasonable repayment period.

¹ Briefing on Debt Arrangement Schemes by Citizens Advice Scotland 1999