

Creditor Behaviour

Drowning in Debt



In just five years debt collection has become more aggressive, with many creditors harassing and pressurizing people into paying their debts - whether they can afford to or not

Citizens Advice Scotland's latest report, **Drowning in Debt**, is based on a detailed survey of debt clients from a representative sample of citizens advice bureaux across Scotland, in both rural and urban areas. Based on information extracted from the research, this briefing focuses on creditor behavior towards indebted clients, and compares the findings where possible with our last debt survey, carried out in 2003¹. It highlights that:

- **Twice as many clients than in 2003 were being threatened with informal debt recovery action**
- **Creditors have taken some form of recovery action on four out of five debts. Local authorities, student loan companies and UK Government agencies were most likely to take recovery action**
- **Creditors are acting more quickly to recover any monies owed, with 33% more debts being referred to debt collection agencies than in 2003. Utility companies, housing associations, private landlords and legal and employment services were more likely to refer debts to debt collection agencies**
- **Some creditors have threatened clients with legal debt recovery methods that are specific to England and are inapplicable in Scotland**
- **Creditors had not sought to take formal action in a majority of cases, suggesting that most creditors prefer informal methods of debt recovery.**

¹ On the Cards: The debt crisis facing Scottish CAB clients Citizens Advice Scotland 2004; Growing Old Together Older CAB Clients and Debt Citizens Advice Scotland 2008

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Key findings:

Informal debt recovery action

Creditors did not take any formal action against almost nine out of every ten debt clients, choosing instead to use informal methods of debt recovery. The research shows that:

- Two fifths of debt clients reported being pressurised or harassed by their creditors
- More than one in ten debt clients had lost track of who their original creditor was for one or more of their debts. This was mainly due to the involvement of debt collection agencies, but also because sometimes their debts had been sold on by the original creditor
- There was a drop in the number of clients receiving formal default notices from their creditors, with only one in twenty receiving such a notice compared to one in ten in 2003
- Almost one in five debt clients felt pressured to re-finance their debt or to borrow more money
- Slightly more clients reported receiving a threat of disconnection of services (e.g telephone) than in 2003.

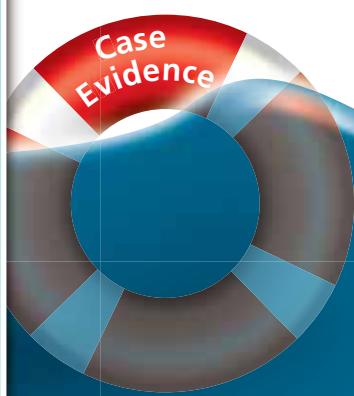
Formal debt recovery action

As in 2003, creditors pursued legal action on only one in ten debts. There was hardly any change in the forms of formal debt recovery pursued, with research showing that:

- Hardly any creditors used bank or earnings arrestments to recover money
- Threats of repossession and the number of repossession proceedings started and completed were one of the least common methods of debt recovery, though in 2008 only one in four debt clients were homeowners
- Almost one in five debt clients had a summary warrant issued on one or more debts, and about the same number had their debt referred to Sheriff Officers. These actions are only open to public sector creditors such as Local Authorities who are trying to recover council tax payments
- More debtors have started bankruptcy proceedings than in 2003, most likely due to the introduction of the Low Income Low Asset route to bankruptcy.

Citizens Advice Scotland's proposals for change

- Lenders and policymakers need to ensure that affordable mainstream credit is accessible for low income groups
- Both the UK and Scottish Governments should introduce tighter regulation on creditor behaviour and improve legal protection and remedies for people experiencing creditor harassment
- Lenders and policymakers should increase support for existing money advice services to address growing demand and target disadvantaged groups.



A North of Scotland CAB reports of a client who receives frequent letters and late evening calls for which he is charged £10 to £20 each time. He 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.

A West of Scotland CAB reports of a client who has an outstanding loan with a finance company which she is finding difficult to repay. She has offered to make token payments on her debt but a debt collector from the company keeps contacting her employer about the outstanding amount. The agent has now threatened the employer stating they will pursue debt payments through the courts.