

# Low Income

Drowning in Debt

Briefing sheet

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Low income groups struggle more than anyone else with repayment of debts

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 low income CAB debt clients (a monthly net income of under £800) and compares the findings where possible with previous relevant CAB debt surveys<sup>1</sup>. It highlights that:

- **As in 2003, CAB debt clients of 2008 have a lower average income than the population of Scotland as a whole, with little or no money to spare to make repayments to debts**
- **Just under half of debt clients have monthly household incomes of less than £800 and almost one quarter less than £400**
- **Just under half have no income other than pensions or benefits**
- **Over half of CAB debt clients cited persistent low income as the main reason for financial difficulty**
- **Low income debt clients face more 'debt stress' than any other income groups. For every £1 of monthly income, CAB debt clients with a monthly household income of less than £400 owed on average around £52 of debt, which is a debt stress level of almost double those on higher incomes.**

<sup>1</sup> 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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**The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland  
(Scottish charity number SC016637)**



1939-2009: 70 years  
of Scottish CAB advice

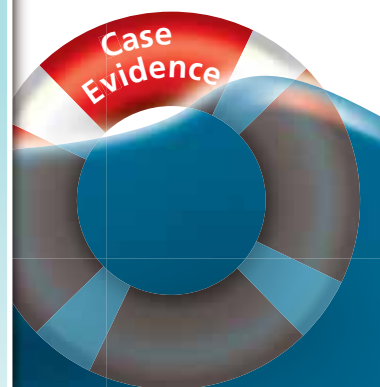
## Key findings:

### Low income debt clients – the main findings

- Debt problems frequently arise from changes to family circumstances that reduce clients incomes – job loss, relationship breakdown and higher cost of living can all turn manageable credit into unmanageable debt. CAB low income debt clients often have good budgeting skills through necessity, but may have nothing in reserve to cushion the impact of a drop in income. Even small reductions in income can be significant
- Low income debt clients are less likely to have had access to low interest mainstream credit. Instead they have had to rely more on higher cost credit options, such as: home credit and doorstep loans; high interest credit cards; pay day advance and cash converter lenders and rent-to-own retailers
- The overall average level of debt for low income groups is £13,563, which is low compared to £33,651 for those with the highest income; however, the impact is worse due to disproportionately high levels of 'debt stress'. This impacts negatively on the mental and physical health of low income clients
- Despite having less debt on average, those with lower incomes had higher debt to income ratios. This explains why 41% of debt clients with low incomes were more likely to go without essentials. Over 50% of women on low incomes use this strategy to manage debt
- Low income debt clients were more likely to owe money to a local authority and three times more likely to have debt with a utility company than debt clients with higher incomes
- Many CAB debt clients on low incomes qualify for the low income low assets (LILA) route to bankruptcy. 86% of CAB low income clients would consider LILA; however, only one fifth of all CAB debt clients could afford the £100 fee unconditionally, without further borrowing or saving. A person on benefits who could only save £1 a week would take two years to afford this.

### Citizens Advice Scotland's proposals for change

- Lenders and policymakers need to ensure that affordable mainstream credit is accessible for low income groups, and reform the Social Fund to increase affordable borrowing options for low income debt clients
- In reviewing LILA the Scottish Government should consider cancelling the £100 fee to ensure LILA is reaching all low income groups in Scottish society and other groups who should also benefit from access to a more accessible route to bankruptcy such as LILA
- Utility companies should bring down the cost of supply for card meters and ensure that those who are entitled to it are on social tariffs. The UK Government plans to have smart meters in all households by 2020. The Government should prioritise low income groups for early installation.



A North of Scotland CAB reports of a young male client aged 19 who has Job Seekers Allowance as his only income. The client has several debts, totalling £10,000. He has mental health issues which are not being helped by the vigorous pursuing of his debt by creditors. This client cannot afford to make the repayments and doesn't know what to do.

A West of Scotland CAB reports of a client on disability living allowance who has a very high interest rate on two credit cards and a bank loan. The payments are only paying the interest of the loan and not the debt. She owes £3,500 on credit cards, and has no income to make repayments.