



Drowning in Debt

Citizens Advice Scotland's latest report, **Drowning in Debt**, is based on a detailed survey of debt clients from representative citizens advice bureaux across Scotland, in both rural and urban areas. The research shows that:

- There has been a 50% increase in consumer debt levels brought to the Scottish CAB Service over the last five years. The average debt is now £20,193, compared with £13,380 in 2003

- One in ten debt clients had debts of more than £50,000, with clients owing between £100 and £239,346 – excluding mortgages
- On average, CAB debt clients had just over 6 debts each, compared with just over 5 in 2003. Almost nine out of ten owed money to a bank
- For every £1 of monthly income, CAB debt clients owed on average around £28 of debt. The ratio of debt to monthly income has risen by a quarter since 2003
- Creditors were pursuing debts more vigorously than in 2003. Almost twice as many debt clients in 2008 had been threatened with unlawful debt recovery methods, and almost two fifths reported being pressured or harassed. The vast majority had charges and fees added to their debts due to their failure to pay on time

Since the last survey in 2003, personal debt has reached record levels and consumer debt is the biggest single issue that clients raise with bureaux. In 2007/08, bureau advisers in Scotland dealt with just under £198 million of debt.

“ I had thirty-odd credit cards. They kept sending me application forms, so I just filled them in and sent them back. Some of them gave wee incentives, such as one bank gave me a mobile phone. It was £14,000 or £15,000 limits on them. ”

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The Scottish Association of Citizens Advice Bureaux - Citizens Advice Scotland
(Scottish charity number SC016637)

The recession has brought falling incomes, higher prices, unsympathetic lenders and fewer sources of affordable credit: a "perfect storm" which has left Scottish CAB clients drowning in debt

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Key findings:

Within our research group:

- 65% of clients had at least one personal loan and 69% had at least one credit card debt compared with just over half in 2003. Since 2003, catalogue debt, credit card debt, personal loans and overdrafts have all grown
- The average monthly net income of clients in 2008 is £935 – around 40% less than the Scottish average household income. One in five clients had a net income below £400 a month. As in 2003, half had no income other than pension or benefits
- Falling income levels for a variety of reasons were significant as a cause of financial difficulties. Additionally, easy access to credit and chronic causes of poverty – such as low income, job loss, relationship breakdown and illness – were major contributing factors to debt problems, as were high interest rates and charges
- There were fewer homeowners in 2008 – only one quarter owned their home compared with a third in 2003. The majority were tenants with limited access to affordable credit
- Two in five clients – including half of all women – were going without essentials as a way of managing their debts compared with one third in 2003. Other strategies included: seeking advice; juggling finances; trying to negotiate with creditors; bankruptcy and borrowing from friends and family
- Nine in every ten clients said debt had a negative impact on their health. Almost all said debt had affected their mental health, and a third their physical health. Clients attributed stress and depression to their financial situation regardless of the reason for being in debt. Pressure from creditors also contributed to health problems
- The Debt Arrangement Scheme was not an option for the majority of CAB debt clients. Two thirds would consider the low income low asset (LILA) route to bankruptcy, but 80% of them could not afford the £100 fee unconditionally.

Citizens Advice Scotland's proposals for change

- Lenders and policy makers need to ensure that affordable mainstream credit is accessible to 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 policy makers should increase support for existing money advice services to address growing demand and target disadvantaged groups
- The Scottish Government should review the LILA route to bankruptcy and abolish the £100 application fee.

|| *An East of Scotland CAB reports of a client who has experienced financial difficulties following the breakdown of a relationship. The client is a single parent of two young children and fell into arrears on her mortgage. The only option for the client is to apply for bankruptcy through LILA, however she is ineligible as her repossessed house has not been sold due to the slow down in the housing market.*

Case evidence

|| *A North of Scotland CAB reports of a client who was repeatedly harassed by creditors. He received numerous threatening letters, including fifteen letters in a one week period, and several threatening phone calls a day. A number of phone calls were received at 10pm at night saying it was an emergency. The client felt this aggressive creditor behaviour had impacted on his health and made him feel suicidal.*

|| *A West of Scotland CAB reports of a client who had gone without essentials to manage their debt. The client suggested "If you are really skint you can skip on food, I am really skint...the horrible choices that people have to make in the real world. I've just not been able to eat properly."*

