Debt on your Doorstep

Who is responsible?

advice ni
the independent advice network

An e-consultation on Debt

Debt on your doorstep:
Who is Responsible?

A report by advice[ni] on advice workers experiences of debt

December 2004

advice^{ni} e-Consultation on Debt

Foreword

This report marks the conclusion of advice^ni's third online e-consultation exercise under its 'advicenet' project. The project aims to give advisors an online forum to discuss issues of concern and to share their skills and experiences. In this case the issue under consideration is debt; its causes and its impact.

This report is well named because it brings to life the knowledge and experiences of advisors working with individuals and families who are experiencing the harsh realities of debt on their doorsteps. As the report shows, for many of those people the unopened red letter or ignored knock on the door, can when not opened, bring with it terrible consequences: including, suicide, loss of home and mental and physical illnesses. The report also explores what can be done to help people before the problems spiral out of control and also provides recommendations drawn from advisors experiences of what can be done to address debt in our society.

I want to thank all the advisors who took part in the e-consultation for sharing with us their very valuable insights and comments. Thanks also to Fiona Magee (advice^ni) and Conor McGale (Omagh Independent Advice Services) for their skillful e-moderation and drafting of the report. I would also like to thank the Community Foundation Northern Ireland for their financial support.

I hope that the report will be helpful to you in generating a greater understanding of debt: its causes and its impact on individuals and families.

Bob Stronge

Director
advice^ni

1. Introduction

1.1 Background

advice[ni] is a voluntary membership organisation and the umbrella body for the independent advice sector in Northern Ireland. Its members provide free advice, advocacy and representation services. Services can be generalist, covering a wide range of topics on which the public seek advice, or specialist focussing on particular issues (e.g. housing) or communities of interest (e.g. older people). All members are required to demonstrate that they are committed to, and that their advice services reflect the fundamental principles of equality of opportunity, independence and impartiality.

The mission of advice[ni] is to *"represent, provide leadership and support its members to facilitate the delivery of high quality, sustainable advice services".*

Advicenet is the result of a pilot project designed to develop a space on the Internet where advice workers could discuss social policy issues affecting their clients. This online community enables frontline advice workers to participate in social policy formulation and implementation debates. The project was funded by the Community Foundation for Northern Ireland (CFNI) under Measure 2.6 "Active Citizenship" of the EU Programme for Peace and Reconciliation.

1.2 e-Consultation Aim

advice[ni] launched its third advicenet e-consultation on the 21st June 2004. The aim of the e-consultation, ***Debt on Your Doorstep; Who is Responsible?*** was to gather the views of advice[ni] members on the issue of debt and look at the causes. The e-consultation focused on the following issues:

- The impact of debt on advisers clients;
- The role that Government, Financial Institutions and the Advice Sector have to play in supporting people who are experiencing financial difficulties;
- Advisers' experiences of particular lenders and their lending criteria;
- Changes needed to be made the Social Security system to assist clients in avoiding debt;
- Actions needed to prevent people getting into debt.

Parallel workshops took place in Belfast and Derry to enable those with little or no internet access to participate.

This report summarises the main points and recommendations raised by advice[ni] members during the e-consultation.

2. Causes of Debt

2.1 Change of Circumstances

Participants agreed that an individual's change of circumstances was the main reason for people getting into debt. One adviser stated *"The causes are varied and include loss of employment, death of a partner who would have been the main earner, reduction in benefit income (particularly DLA) and over commitment".* Other advisers added "*relationship breakdown, and ill-health"* as major changes to a client's lifestyle affecting their financial status.

2.2 Money Management Skills

Lack of money management skills were also a reason given as a cause of debt. One adviser stated "...*clients have indicated poor money management as a reason. This may tell us that clients are spending more than they can afford and as a result become over committed."*

Another adviser added "*the majority of clients that I counsel have very little basic knowledge of money management and think that by taking on more credit they can solve their problems. Unfortunately they don't realise until it is too late that they have only compounded the problem e.g. opting for a loan that is secured on their property to clear debts and then starting to use the credit cards etc again".*

2.3 Credit Availability and Advertising

Advisers believed that direct mailings and marketing campaigns from financial institutions to those individuals experiencing poor credit ratings should stop. One adviser believed that *"The finance companies have to share a major proportion of the blame; they spend enormous amounts of money on advertisements promoting debt on television and bumf through the letter box almost giving money away. They even target people with county court judgements and low credit ratings."* Another adviser added, *" it appears that as soon as someone reaches the age of 18 they are bombarded with offers of credit, it is made so easy for people irrespective of their circumstances to obtain credit".*

The issue of how students are targeted by lenders was also discussed in the e-consultation. One adviser stated *"Students entering third level education are bombarded with glossy adverts and trendy 'freebies' by high street banks, seeking the student business and loyalty, not only for the duration of study but long term loyalty".* Another adviser added *"I was at the University of Ulster graduation in Derry yesterday. The first stall I encountered was MBNA. It was a University of Ulster card managed by MBNA. Surely the universities have seen the statistics, are fully aware of consumer debt, yet in all, they invite credit card companies to prey on graduates. Just because you have a degree does not mean that you are guaranteed a job, never mind a top line salary. Credit Cards just compound student debt."*

Advisers also talked about the easy availability of credit lending. One participant believed that "*It is all too easy to obtain credit these days…Credit* *card companies bombard our home with various tempting offers and such is the level of temptation that many people will fall into the cycle of debt. Such companies can legally purchase mailing lists"*

2.4 Peer Pressure

Peer pressure was also seen as a main cause of debt. One adviser stated *"..that children's peer pressure at Xmas for example can put families deep in debt, which carries on increasing year after year.* Another participant agreed; "*I think that regardless of our level of income we all fall prey to "keeping up with the Jones" syndrome especially at Christmas, which can at the best of times take 12 months to repay. We all succumb to the clever advertising, and at the end of the day parents always want to make Christmas that bit more special for their children."*

2.5 Lack of Independent Advice

One adviser raised the issue that poor advice from financial institutions may also cause debt, "*The problem is that the client has often tried to manage the situation themselves and having taken advice from lenders which has not been in their best interests. The right advice early in the situation could have really made a difference to their situation. There is a real need for good information and education to help with the management of finance."*

3. Impact of Debt

3.1 Clients

There was general consensus within the e-consultation, regarding the impact of debt on clients. One participant stated *"Debt can have a major impact on health, particularly mental health, and lead to a lower standard of living where people are literally struggling to put food on the table".* Another adviser said *"the main effect of debt for a lot of people is stress, worry, anxiety, fear, low self-esteem, stigma and the belief that by taking out another loan that somehow things will get better".*

The long-term effect of debt was also remarked on. In the words of one participant, *"Debt can eventually lead to poverty exerting even more pressure on the benefits system, leading to financial exclusion of the individual, and having an effect on the quality and security of life for children"* Another adviser commented on the severe repercussions of lending, *"Debt has a major impact on my client group from debt with banks, store cards, club books and loan sharks…The impact of all this is either they will be taken to court for non-payment, they will be black-listed or local loan sharks will decide their own type of punishment".*

One participant also highlighted the impact of debt on students. *"This government advocates lifelong learning - but how much does it cost? The average student can expect to graduate with an average student loan debt of £12k and that's before any housing costs, bank loans, car, HP or credit cards".*

3.2 Financial Exclusion

Advisers discussed how their particular clients or client groups become financially excluded. One adviser stated "*When an individual goes to prison he/she will rely on support in the community, usually a partner or family to provide money to cover the cost of items such as toiletries, phone credits, tobacco. This means that the partner in the community who is perhaps now receiving social security benefits, is expected to meet the cost of the prisoners needs yet he is not included in her benefit award".*

Another adviser added *"People who have criminal convictions experience difficulty in accessing financial and insurance services as they will be excluded on the ground of risk. This makes it difficult for those who honestly declare convictions to get mortgages, loans, car and home insurance. If they do get these they find that premiums are that much higher".*

Participants believed that sometimes, clients become financially excluded through no fault of their own. *"I know of clients who live at a particular address and who have been unable to access credit due to the previous occupant getting into financial difficulty. In other words the address has been black-listed".*

With regards to students and the issue of financial exclusion, one participant posted the following figures. *"The average cost of a degree is now nearly £20,000 and with the proposed introduction of top-up fees, combined with increases in the cost of living this could raise student debt at graduation to as much as £33,708 by 2010. Since the elimination of grants, student debt has increased by 544% and now totals over £5 billion. Parents are now paying more than £500 million towards university costs every year. In 1992 only a third of students owed money. Now 90% are in debt and only 17% of university students are from working class backgrounds (a decrease of 3% in less than two years). Also poorer students owe 15% more on graduation. Three quarters of working class young people who decide not to pursue higher education cite lack of money and fear of debt as the main reason".*

4. Changes to the Social Security System to Assist Clients in Avoiding Debt

4.1 Benefit Levels

The inadequate benefit levels that people are relying on were discussed by participants. One adviser was of the view that *"There needs to be a revision of social security benefits. I realise that this will not immediately solve debt, but the government needs to be realistic. Let's give those who are on benefits a fair deal. Why can't benefits be indexed against the average gross industrial wage as opposed to the prices index".*

Another participant used the case of mature students to highlight inadequate levels and the perceived "poverty level" from the Government. *"According to our most recent figures, students have £34.85 per week left from their Student Loan to live on after paying for their housing costs. This income level compares to £44.05 per week given to Jobseekers Allowance claimants. While higher education is an investment on future earning potential, surely it is unacceptable that students live below the government's recognised 'poverty level'".*

4.2 Social Fund

Some participants also felt that wider access to the Social Fund from a variety of benefits and not just Income Support, Income-Based Jobseekers Allowance and Pension Credit was needed. *"the decision not to allow access to budgeting loans and community care grants to those who will be removed from Income Support due to Child Tax Credit.., will worsen the problem as it could mean another 1,500 of the most vulnerable going to loan sharks and getting into the worst kind of debt".*

Also, some advisers felt that there were some changes that were needed to be made to the Social Fund, particularly in relation to the repayment levels of Budgeting Loans and greater access to the Funeral Payment Scheme. One adviser stated, *"I would suggest that for many young families starting out their first contact with debt is the Social Fund Budgeting Loan. The Government imply that this should be welcomed because there is no interest added to the loan. But it must be remembered that previously grants were given to those claimants in need. Also claimants are living on the poverty line, an amount the law has determined they need to live under. The repayment of the budgeting loan brings them well below this level".*

Another adviser said *"We find that when people access budgeting loans from the Social Fund, they are initially asked to pay back quite high repayments, some as much as £16 per week. This is exceptionally high for someone living on Income Support or Pension Credit"*. The adviser went on to say "*We have recently had a number of queries regarding funeral payments: the regulated Social Fund only pays a certain amount for costs and bereaved people are having to pay the remainder of the costs themselves and are getting into debt as funeral bills are quite significant."*

5. Role of Government, Financial Institutions and Advice Sector in Supporting People Experiencing Financial Difficulties

5.1 Government

Participants generally felt that Government needed to look closely at Credit Agreements. One adviser stated, *"Legislation needs to be changed to make it easier for the consumer to know what they are committing themselves to as people often do not fully realize the implications of contracts which contain small print of a nature to their disadvantage".*

Another participant suggested that the capping of interest rates should also be considered, as it *"…would encourage the financial institutions to compete against each other for a more competitive interest rate regards credit. It would also help towards preventing unscrupulous lenders from charging extortionate rates of interest, sometimes charging at 400%. Unfortunately it is our most financially vulnerable members of society who feel that they can only turn to the likes of doorstep lenders."*

There was general agreement among the participants that the Government should be doing more public awareness work. As one participant stated, "*I feel the government needs to run a publicity campaign educating the general public on borrowing and the consequences of missing payments and what legal actions lenders can take*."

Another adviser felt that the Government's role needs to be more investigative. *"The government has a responsibility to set up a task force to investigate the spiralling debt which has been incurred, and particularly to protect our most vulnerable, i.e. infirmed, unemployed, learning disabled, elderly and our youth from the widespread exploitation which is carried out at the hands of the financial institutions/lenders. I think that this should extend to the banning of advertisement of credit and the imposition of strict controls on the amount of credit any person is entitled to.*

Finally, a participant raised the issue of financial exclusion. "*If the government is serious in its intent to tackle social exclusion and eradicate poverty it must address the issue of financial exclusion head on."*

5.2 Financial Institutions

Most advisers raised concerns at the lack of accountability financial institutions had in relation to their lending and advertising. One adviser stated that *"Financial institutions need to be more responsible in terms of who they give credit to as it is all too easy to obtain such credit…Financial institutions engage in financial temptation but overlook the ability of the customer to repay. Things need to be much clearer and simpler."*

Many advisers also felt that the area of specialist credit needs to be looked at as a matter of urgency. One participant argues, *"if they (clients) are unsuccessful on the high street they can turn to adverse lending institutions.*

Therefore those people who may have been turned down due to affordability can still obtain credit by other means - surely this defeats the purpose. These lending institutions charge exorbitant rates of interest and are very quick to go down the legal route should the individual default".

5.3 Advice Sector

With regards to the role of the advice sector, many participants agreed that the sector was there to *"pick up the pieces".* One adviser elaborated on this by saying *"The advice sector offers light at the end of the tunnel in helping clients to organise their finances much better and thus easing the burden of worry and stress. We can target resources and maximize income, therefore helping people out of their situation, which is not always their fault. We can help to remove the stigma of debt. We can give individuals back control of their own lives."*

Other participants felt that the sector should have an increased role in raising public awareness. *"The way forward for our membership, in my opinion, is to create an awareness and education strategy on the prevention of debt, aimed at the local population."* Other advisers felt that awareness raising should begin in schools.

Participants also highlighted the lobbying role that the sector has. One adviser believed, *"For its part the Advice Sector should take the opportunity to flag up these injustices and inequalities by responding to the consultation document New TSN - The Way Forward, which incidentally identifies financial exclusion as one of its targets."*

6. Actions Needed to Prevent People Getting into Debt

Throughout the e-consultation, participants suggested a number of ideas that would help prevent people getting into debt. These were:

6.1 Raising Public Awareness

Participants generally felt that raising public awareness around debt was vital. One adviser believed that a particular area that needed highlighted was *"The legal procedure for the recovery of debt in NI, not all of it, of course, but areas that affect the consumer".* Another adviser added, *"I also believe that the way forward is a strategy to bring about public awareness aimed at the prevention of debt. However, we, as advisers, must be careful that we are not educating people to live in poverty. Any such strategy would have to run parallel to a vigorous lobby to increase benefits and to cap interest rates."*

6.2 Signposting the Public

Participants felt that it was important that people facing financial difficulties should know where to go to when they need help. As one adviser outlined *"clarity on where to go and who to speak to".*

Another adviser suggested, "*what about a one stop shop, i.e. centralised free phone number, government supported, where people can be advised, listened to and/or signposted".*

One participant felt that independent money advice services need to be further developed, so as to have *"a comprehensive money advice infrastructure, where the public are receiving solid and correct advice."*

6.3 Money Management

The e-consultation highlighted the need for money management skills to begin at a young age. *"Primarily money management should become an essential skill learnt from a young age. Such a skill could be introduced at school as a life skill. Education officers should be at hand to encourage schools to educate their youth about budgeting and money management.*

Another participant agreed, stating *"Consumer education, in an ideal world, should commence in primary schools".*

6.4 Legislation Review

Advisers agreed that clients needed greater clarity before entering any credit agreements. One adviser put it simply as *"the contracts the clients sign should be in easily understood language"* Another adviser added, *"The need for greater understanding of credit agreements, i.e. 'buy now pay later' and APR etc".*

One participant felt that any review of lending legislation should be more wide-ranging; *"A revision of the Consumer Credit Law is required to include,* *capping of interest rates, banning of credit advertising in every form, strict criteria for lending/borrowing and tighter regulation of mortgage lenders."*

6.5 Government Action

Advisers felt that Government needs to be more pro-active and be seen to do the following; *"to revise the benefits system, to bring them into line with 21st Century economics, to protect our most vulnerable (elderly, learning disabled, those with mental illness, disabled and our youth) from unsavoury creditors."*

Another adviser felt that *"The government… must take a more responsible role by imposing self-restrictions on credit legislation. For example, the government could also put in place someone like an ombudsman to regulate credit controls and complaints".*

6.6 Lenders Action

A notable feature of the e-consultation was the view that financial institutions should also be more pro-active in assisting clients in particular difficulties. *"… people are in financial difficulties, money lenders should have a MORE specialised team to deal with this rather than their collection dept. Clients say that every time they phone money lenders they speak to someone different and they then receive different reactions to their circumstances".* The adviser goes on to state, *"Money lenders need to realise that during the course of their loan agreement, their clients have a life, and unfortunately set backs happen…possibly resulting from loss of job, reduced income due to ill health, a death in the family and many more reasons."*

Another adviser felt that the establishment of a "*creditor's code of conduct"* would greatly assist both the individual and the lender.

7. Recommendations

7.1 Government and its Agencies

- Advicenet calls for Government to investigate widening access to the Social Fund Budgeting Loan, Community Care Grants and the Funeral Payment Schemes, and also examine high repayment costs that adversely affect those client groups currently living on or below the Government "poverty line".
- Advicenet recommends that the Government runs a publicity campaign educating the general public on borrowing and the consequences of missing payments.
- Advicenet recommends that the Financial Services Authority carries out a major publicity drive to promote it's recently launched Financial Promotions Hotline. This will allow consumers to report any advertisements from credit and financial institutions that they believe are unfair, unclear or misleading.
- Advicenet recommends that more public awareness work is carried out to publicise the roles of the Office of Fair Trading, the Financial Services Authority and the Trading Standards Service.
- Advicenet recommends that government establish an adequately resourced, comprehensive money advice service for Northern Ireland to help people deal with their personal debt problems.
- Advicenet recommends the establishment of a government supported signposting service (a free phone number) that will direct people facing financial difficulties to appropriate sources of help.
- Advicenet recommends that money management skills be introduced at primary school.

7.2 Advice Agencies

- Advicenet recommends that advice agencies step up their lobbying of Government (and its departments with responsibility for debt issues) to ensure that adequate resources are placed within frontline money advice organisations to assist people experiencing debt.
- Advicenet recommends that advice^ni provides support and guidance to its members participating in public awareness work on debt/money issues.
- Advicenet recommends that advice^ni continues to undertake a policy role in relation to financial issues whilst seeking the views of members when responding to Government consultations.

7.3 Financial Institutions

- Advicenet recommends that financial institutions/lenders employ specially trained staff to deal with people experiencing financial difficulties.

- Advicenet recommends the establishment of a Creditors Code of Conduct outlining their roles, responsibilities and expectations of staff conduct when dealing with customers that are experiencing financial difficulties.
- Advicenet recommends that Financial Institutions review their lending and advertising policies to the general public, particularly regarding the targeting of clients, affordability and more responsible lending.

8. Information Sources

advice[ni] – www.adviceni.net

Consumer Credit Counselling Services – www.cccs.org.uk

Consumerline – www.consumerline.org

Financial Services Authority – www.fsa.gov.uk

Financial Ombudsman - www.financial-ombudsman.org.uk

Housing Advice NI – www.housingadviceni.net

Joseph Rowntree Foundation – www.jrf.org.uk

Money Advice Trust – www.moneyadvicetrust.org

RightsNet – www.rightsnet.org.uk

Social Exclusion Unit – www.socialexclusionunit.gov.uk

9. List of Participants

Advice workers from the following independent advice centres took an active role in the e-consultation:

- Churches Advice Centre
- Consumer Credit Counselling Services
- Help the Aged
- Housing Rights Service
- LIAISE
- Neighbourhood Assist
- NIACRO
- NUS-USI
- Omagh Independent Advice Services
- Presbyterian Orphans Society

10. E-Moderators

The e-consultation on debt was moderated by:

Fiona Magee (advice^{ni})
Conor Mc Gale (Omagh Independent Advice Services)

11. Contact Information on this Briefing

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