Living with debt after advice

A longitudinal study of people on low incomes

Gaby Atfield, Robert Lindley and Michael Orton

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Foreword

As a Foundation exploring the role of money and financial systems as a mechanism for the delivery of social goods and services, we seek to understand how individuals and systems interact, for good or ill; people's experience of debt is an example. In the projects we support, we aim to encourage thinking about the causes of problems and the possibilities for alleviating them. Friends Provident Foundation adopts a broad perspective but one major area of concern is how those on low incomes and with access to very limited resources cope with economic and social change and what can be done to assist them.

There has been increasing policy activity in this area but there is a need to strengthen the evidence available to the policy and practitioner communities on which to base further developments. Much research has been carried out using largely unconnected snapshots of the circumstances of people in debt. However, there has been a growing requirement for greater understanding of the pathways trodden by people who struggle with debt, how they perceive their evolving situations, and the scope for supporting them in dealing with debt. This report by researchers from the Warwick Institute for Employment Research, funded by the Foundation, describes the main findings of a qualitative study the core of which has involved following the experiences of debt encountered by people on low incomes over a period of eight years.

We are delighted to have been able to work with the Warwick team over the past years and believe that this long-term research captures the essence of how debt, perception and economic circumstances interact in the lives of those most vulnerable to market failure. A key lesson from the research is that money management skills are not enough to change the circumstances of families where there are simply insufficient resources. We must continue to seek creative ways to ensure vulnerable consumers do not anticipate dying in debt.

Danielle Walker Palmour
Director
Friends Provident Foundation

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Some of those to whom great thanks are owed are not named due to the sensitive nature of the subject matter researched. This of course applies to the more than 100 participants who talked with candour and openness about their financial problems and often other personal issues. Their willingness to do so is testament to their desire to have their voices heard, for their stories to be told and to their personal courage.

Anonymity also applies to the organisations who helped identify and involve participants in the project. This included a number of advice providers and a mortgage lender. Their help was truly critical in enabling the project to be carried out.

Finally, over the eight-year life of the project we have been hugely fortunate in being able to call on the expertise, knowledge and support of the advisory group. Over the course of such a longitudinal project there have been changes in the membership of the group, and those who have been involved are listed below. To them and the organisations they represented, we express our great thanks. (The organisational affiliations given are those applicable to the period during which those named were members of the advisory group. Where an organisation changed its name during the membership period, the name in force at the end of the membership is adopted.)

Advisory group

Chair: Danielle Walker Palmour (Friends Provident Foundation)

Edlira Alku (Citizens Advice)

Lizzie Becker (HM Treasury)

Alexy Buck (Legal Services Research Centre)

Catriona Cardiff (HM Treasury)

Sharon Collard (Open University)

Lisa Colclough (Citizens Advice)

Pamela Cornes (Barclays)

Zoe Dixon (Transact)

Joanna Elson (Money Advice Trust)

Andrea Finney (Personal Finance Research Centre, University of Bristol)

Jim Fearnley (Money Advice Trust)

Chris Goulden (Joseph Rowntree Foundation)

Tony Herbert (Citizens Advice)

David Hoggett (Department for Business, Innovation & Skills)

Faye Jordan (Barclays)

Colin Kinloch (Money Advice Service)

Philip Maloney (HM Treasury)

Mike Norris (Department for Business, Enterprise and Regulatory Reform)

Louisa Parker (Money Advice Trust)

Pascoe Pleasence (Legal Services Commission)

Nicola Pollock (Esmée Fairbairn Foundation)

Fiona Price (Department of Trade and Industry)

Hugh Rawson (Department for Business, Enterprise and Regulatory Reform)

Karen Rowlingson (CHASM, University of Birmingham)

Jenny Shellens (Friends Provident Foundation)

Stephen Sinclair (Glasgow Caledonian University)

Marisol Smith (Legal Services Research Centre)

Jane Tully (Money Advice Trust)

Peter Tutton (Citizens Advice/Step Change Debt Charity)

Sharon Wright (University of Glasgow)

Executive summary

Policy context

Problem debt remains a major concern in 2016, just as it was when this project commenced in 2007. Approximately 8.8 million people in the United Kingdom are over-indebted and at least 3 million people are struggling with problem debt. It is estimated that around 1.5 million people currently seek debt advice. An annual £8.3 billion social cost has been associated with problem debt.

About this study

The motivation behind this project was a recognition of two important gaps in our knowledge – the long-term impact of debt advice, and the consideration of debt as something that affects people over time rather than being a relatively short-lived experience.

This research was an in-depth qualitative study. It began in 2007 with 59 low-income participants who had received debt advice. Attrition was low, with 51 of the original 59 participants remaining at the end of the project. Participants were interviewed six times.

In 2011 an additional cohort of 53 people who had experienced mortgage arrears was recruited to the project, some of whom had sought advice and some who had not.

The longitudinal perspective allowed for investigation of transitions out of debt and the factors that enabled people to make this transition – or the reasons why they did not.

'Debt-free' – but not risk-free

At the conclusion of the project just over a third of participants described themselves as 'debt-free',[1] but there remain questions about whether they are actually completely without debt – rather than having manageable payment plans in place – and about the long-term sustainability of their debt-free position.

A substantial number of participants had declared bankruptcy, sold possessions or received gifts and inheritances, but had not seen a sustainable increase in their income – they had simply made a temporary change to what appears to be a longer-term story of problematic over-indebtedness and incomes that do not meet outgoings.

1 The term 'debt-free' must be qualified. Some participants described themselves as debt-free when they were clearly not entirely without debt, having overdrafts, credit cards and mortgages. Some also owed money to family members, but they had no debts for which they were being pursued by creditors. These qualifications to the notion of being 'debt-free' apply throughout this report and, therefore, the use of quotation marks is dropped from this point onwards.

In terms of financial resilience, or the ability to withstand or recover quickly from financial problems, only two participants who were debt-free at the end of the project had savings exceeding £1,000 and the majority had none. A lack of savings leaves even debt-free participants in an extremely precarious financial position and risks cycling between being debt-free and indebtedness.

A key finding in relation to this group was that the proportion of participants who had become debt-free simply as a result of cutting back and saving more was very small. Instead, bankruptcy, gifts and inheritances, and increased income (for example, through finding employment or receiving more benefits) were the key triggers for becoming debt-free.

Those who had become debt-free as a result of increased income were the most confident that they would be able to continue to be so.

The majority of participants in this group continued to see debt advice as having helped them – they felt better able to deal with creditors, it gave them confidence and provided someone to talk to. Advice may not in itself have led to them being debt-free, but it did allow them to cope with being in debt until such time as their personal circumstances changed, triggering the move to being debt-free.

Managing over-indebtedness

At the conclusion of the project almost half the participants described themselves as 'managing' their debt. They typically had repayment plans in place with the majority of their creditors and anticipated that at some point in the future (if not for many years) they would become debt-free.

Three key factors were identified in relation to participants feeling that they were managing their debt: having payment plans in place with most or all creditors; being largely cautious and capable in managing financial affairs (a 'minding the pennies' approach to financial management was common); and having strong social networks, particularly family members who could provide financial and, importantly, emotional support.

Particularly after 2010, participants began to move out of this group and into one composed of people who saw their debt as a long-term, intractable problem. The reason given for this was usually increases in the cost of living.

People in this group found debt advice useful in helping them cope with being in debt, generally over an extended period of time.

Living with intractable debt

A third group of participants (the smallest in number) were still in debt at the end of the project and saw little possibility of moving out of debt. At best, they were managing their financial commitments to a certain extent and sometimes making very small repayments; at worst, debts were increasing.

Having an income that is simply not sufficient to meet debt repayments, and often not high enough to meet essential expenses, was the most common reason participants gave for seeing debt as problematic and insurmountable. For these participants, the problem was a fundamental lack of money. People in this group obtained their income either through employment or benefits or a combination of both.

For older participants their perception of the likelihood of long-term indebtedness and, indeed, of dying in debt was clearly related to their age. This was expressed as simple arithmetic: they did not foresee a significant increase in their income and did not have enough years left to pay off their debts at their current rate of repayment.

The effects of significant, long-term health problems were also evident in this group.

Debt advice for this group increasingly focused on dealing with the ongoing demands of existing and new creditors, averting crises and making the experience of being in debt manageable. People in this group were likely to have sought advice on several occasions, and it became clear that for this group there is a need for longer-term, holistic advice of which debt management is only one aspect. The value of simply having someone to talk to about their problems, including those not directly related to debt, was considerable.

Addressing this kind of indebtedness means addressing structural barriers in society; it means ensuring that people on the lowest incomes have not only sufficient means to live but also the means to become more financially resilient. The study has revealed an uncomfortable truth – if individuals do not have enough income to meet their everyday needs, debt advice can limit the impact of debt but it can do little to promote repayment or to limit debt itself.

Policy implications

- *Provision of debt advice services* – Overall, participants were satisfied with the debt advice they had received and the lasting impact it had on their ability to manage their debts. Most were able to act autonomously upon advice they had received. However, a small group of participants clearly required more ongoing, tailored support if they were to avoid their financial situation stagnating or even deteriorating.

- *Advice for complex cases* – Dealing with debt does not simply involve dealing with monetary aspects. The causes and experiences of debt need to be contextualised with reference to other issues, including health and well-being concerns and matters relating to the family. A holistic approach is required. The importance of simply having someone to talk to cannot be overstated, particularly for people facing long-term debt; the experience of debt is, for many, an extremely isolating experience.

- *Assessing debt advice outcomes* – In assessing the efficacy of debt advice, it is important to recognise that the road from becoming indebted, receiving debt advice, to becoming debt-free is rarely a smooth or straightforward one. It is also important to place value on debt advice that does not ultimately result in an individual becoming debt-free, but which does result in them being able to manage their debt better and reduces the wider impact debt has on their physical and mental health, family and other circumstances.

- *Creditors* – Some participants had had extremely negative experiences with creditors, feeling pressured or tricked into agreeing to repayment plans that were unsustainable. The detailed proposals from StepChange Debt Charity relating to reducing creditor harassment and the imposition of burgeoning interest/charges warrant further attention.

- *Financial situation* – The precarious nature of participants' financial situations and their lack of financial resilience stem largely from a lack of control over income and outgoings, and a mismatch between the two. The situation is worsened by falling incomes and increases in the price of basic necessities.

- *Mortgage arrears* – For those with mounting mortgage arrears there is a strong case for the introduction of a 'right to sell and stay', so that anyone who can no longer meet mortgage repayments can sell their property to a registered social landlord but remain as a tenant paying a fair rent.

- *Debt and poverty* – This project has illustrated how, over a period of time, many participants simply did not have sufficient income both to live on and repay debts. In such situations debt is not the cause of problems but a symptom of the inherent risk of lapsing into poverty as a result of living on a very low and often uncertain income. However, the provision of the very best financial education and debt advice, and the most considerate of creditors, do not offer sufficient solutions in these cases. For people on low incomes we need to think very differently about debt. Wilful non-payment and financial mismanagement were found to be minor concerns, especially as in such cases practical solutions are available to most debtors and creditors. The provision of debt advice is important but policy-makers should also pay more attention to 'upstream' measures that prevent chronic debt problems arising in the first place: these relate especially to low wages, social security and health.

Previous reports and other research documents from this project are available at:
http://www2.warwick.ac.uk/fac/soc/ier/research/debt/

Chapter 1
Introduction

Getting into some kind of financial difficulty is often seen as a consequence of unwise individual choices, the resulting situation then being treated as entirely the responsibility of the individual. Financial difficulty is also seen as the consequence of systematic problems, such as low incomes. But under closer examination the notions of 'choice' and 'consequence' and the links between the two can turn out to be not quite so clear-cut. Moreover, societies differ in their expectations of individual capacities to make choices in their own interests and in the social acceptance of collective responsibility for at least some of the outcomes of those choices. References to the welfare state, for example, encompass different arenas of social concern and senses of social responsibility. Some people are seen as worthy of more support than others, as indicated by the range of attitudes towards the notion of the 'deserving poor'.

In policy debates there is sometimes an underlying implication that if only people were educated enough, informed enough, had sufficient advice and good access to coherent guidance they would not get into so much financial difficulty. The evidence from psychological research, however, suggests that whilst attention paid to these matters should help, some people find it much more difficult to make good decisions than do others and some people have much worse luck than others in the situations they face.

In this report we explore people's experience of seeking to maintain financial security. The principal focus is on the experiences of low-income families over the period 2007–15, split into six stages, at the start of which they were in debt and had access to various forms of free debt advice on how to deal with it. The study seeks to understand personal experiences of debt over a substantial period of time and offer some insights for policy and practice. The research on which the report draws was not designed to evaluate differences between forms of debt advice nor remedies, for which a much more substantial project would be required.

Significant changes have taken place in the socio-economic environment and policy activity relating to debt and advice over this period, and these are reviewed in Chapter 2.

The design of the study and the analysis of its findings drew on earlier research in this area, and this evidence is summarised in the first part of Chapter 3 and subsequently alluded to at other points in the report. The approach taken in the present study is described in the second part of Chapter 3. Its longitudinal nature, involving repeated interviews with the same people over a substantial period, contrasts with most previous research on debt and advice.

Phase 1 of the study covered the period 2007–10 and yielded insights on individuals in debt who had sought or were seeking advice, and how that advice had related to their experience. Chapter 4 deals with the findings relating to advice, drawing on the evidence from this research phase where most of the interviewees had received advice.

Chapters 5 to 7 cover the same participants over Phase 2 of the project, from 2011 to 2015. Chapter 5 explores the experiences of those people who, during the period of the project, gained control of their over-indebtedness and reduced it substantially, indeed to the point where they perceived themselves to be debt-free. Chapter 6 focuses on the individuals who had grappled with their debt but only partly managed to sustain an effective strategy for getting on top of it. Chapter 7 explores the experiences of participants whose debt situations were intractable and the best they could expect was to live with debt, often surviving with just enough money to live on.

Chapter 8 reviews research findings from the cohort added in 2011 of people with mortgage arrears. People in this situation usually also have other debts to which they can even give higher priority in dealing with their indebtedness. Indeed, the boundaries between the different sets of circumstances covered in Chapters 5–8 are somewhat blurred, and this needs to be taken into account in deploying the longitudinal evidence.

Chapter 9 reflects further on the nature of the evidence and its implications for analysis. The principal policy implications of the study are drawn together in Chapter 10.

Chapter 2

Socio-economic situations and policy responses

SUMMARY

Although gross household debt levelled out over the study period, the type of debt that people need help with shifted away from traditional credit products (bank overdrafts, loans and credit cards) to basic household bills such as energy, water, telephone and council tax. The UK's economic recovery remains fragile, with high debt levels in the private sector hindering growth and financial stability.

Policy responses have changed over the period, with a greater emphasis on the need for better financial education. The Farnish review (2015) made a strong case for the provision of free debt advice to those who need it, with a central role envisaged for the Money Advice Service in developing the provision of cost-effective debt advice.

Personal debt

The context for this research is one in which problem debt remains a major concern in 2016, just as it was when the project commenced in 2007. The research has been conducted during a period of major economic and political change that was preceded by an extended period of UK economic growth, conceived at a time of financial crisis, and carried out during a tentative emergent recovery accompanied by public sector spending austerity – but the core issue of personal debt displays large elements of continuity.

The extent of the problem today is demonstrated by the fact that approximately 8.8 million people are over-indebted and at least 3 million more are struggling with problem debt. The Money Charity (2015) drew attention to the following features of the UK position in June 2015:

- people in the UK owed £1.44 trillion;
- the average total debt per household, including mortgages, was £54,000 – equivalent to an average debt of £29,000 per adult, which is around 110 per cent of average earnings;
- outstanding consumer credit lending was £172 billion – equivalent to an average debt of £6,454 per household (£3,413 per adult).

The following indicate the levels of advice offered and certain problem debt outcomes:

- there were 19,000 individual insolvencies in England and Wales in Q2, 2015;
- 209 people per day were declared insolvent (165) or bankrupt (44);
- 2,330 consumer County Court Judgments were issued every day during Q1, 2015 with an average value of £2,171;
- Citizens Advice bureaux (CAB) in England and Wales dealt with 6,323 debt problems every working day during the year ending March 2015;
- the CAB dealt with 588,000 new enquiries in Q1, 2015.

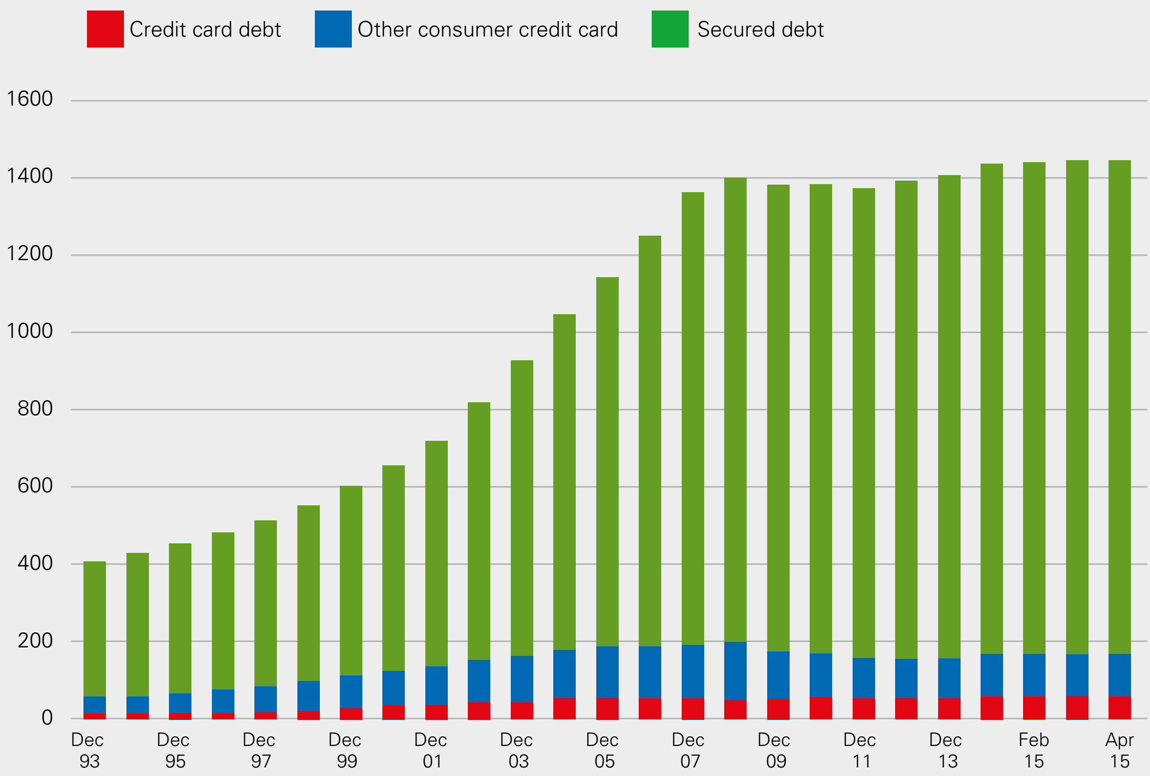
Regarding mortgage arrears, the Council of Mortgage Lenders (cited in The Money Charity, 2015) reports that:

- 114,000 mortgages were in arrears (1 per cent of the total, or 2.5 per cent of mortgage balances);
- 17,700 properties were taken into possession in the year to March 2015;
- 48 properties were repossessed every day in Q1, 2015;
- 63 mortgage possession claims and 47 mortgage possession orders were made every day.

The above follow the dramatic growth in UK personal debt experienced up to 2007, dominated by increased levels of mortgage borrowing, after which 2007–15 showed a marked levelling out, coinciding with the period of this study (Figure 1). Slight falls took place in 2009–11 but the growth in levels of personal debt has subsequently resumed, albeit modestly.

In the more recent period, debt advice providers have reported some significant changes in the composition of personal debt. For example, the Money Advice Trust's (2015) National Debtline service has seen a radical shift in the types of debt problem it helps to resolve. More people are finding they cannot afford basic household bills such as those relating to energy, water, telephone and council tax. Thus, more people than ever before now need help with debts relating to these services and to catalogue shopping, whilst fewer people report problems with traditional credit products such as bank overdrafts, loans and credit cards. Council tax debt is a particular concern, with changes in council tax benefit producing what is being called a council tax debt crisis – StepChange Debt Charity (2015) has reported an almost fourfold rise in the number of people helped with council tax arrears since 2010.

Problem debt is a cause for concern because it has implications not just for individuals but also for the overall health of the economy. StepChange Debt Charity (2015) estimates there



Source: The Money Charity (2015).

Figure 1

Total UK personal debt (£bn), 1993–2015

is an annual £8.3 billion social cost to problem debt. But it is also part of a wider picture of economic recovery in which overall household indebtedness is actually expected to increase. The International Monetary Fund's (April 2015) *Global Financial Stability Report* notes that economic recovery remains fragile, with high debt levels in the private sector hindering growth and financial stability, and gross household debt in the UK projected to remain high compared with that of other advanced economies.

The risks were indicated by the Office for Budget Responsibility's (July 2015) *Economic and Fiscal Outlook*, which projected that growth in productivity and real wages is insufficient to generate enough real income to sustain the growth in household consumption envisaged in the forecasts without an increase in personal indebtedness.

Gross household debt was almost 170 per cent of income at the onset of the 2008 financial crisis, falling to about 145 per cent during 2013–15. Despite revising down its forecasts of indebtedness published in April 2015, the Office for Budget Responsibility's July estimates still show a return to 170 per cent by 2020.

It may be that along with the financial crisis has come a gradual 'normalisation' of being in debt from the perspective of the wider society (Ben-Galim and Lanning, 2009; Rowlingson and Joseph, 2010), and this may ease the stigma attached to being in debt. But the above scenario would seem to represent a very negative external personal debt environment within which those on low incomes must cope with the greatest risks of getting into debt and the most difficulty in getting out of it.

Policy responses

Over the period of the research, government policy in this area has focused on the growth of personal debt generally and that of problem debt in particular. Whilst this indicates an underlying continuity in the recognition of the problem and the importance of dealing with it, there have been significant changes in the policy response; for example, the Government's Over-indebtedness Action Plan has been discontinued along with specific programmes such as the Mortgage Rescue Scheme. The Competition and Markets Authority (2014) reviewed how problem debt affects consumers' decisions and choices in the goods and services that they purchase. The review highlighted issues important for tackling problem debt effectively, including: supporting financial capability; providing early debt advice; and undertaking further research on the behaviour of consumers, with a view to providing early warning of those who are at risk of falling into financial difficulty, and targeting help to avoid and resolve problems.

The Financial Inclusion Commission's (March 2015) report similarly emphasised the need for financial education and access to objective and understandable advice on credit and debt. Changes in the regulation of consumer credit have also taken place, as set out by the Financial Conduct Authority (FCA) in taking over responsibility in this area from the Office of Fair Trading.

Debt advice services

The provision of advice services remains a policy concern in relation to resolving debt problems in 2016, just as it was in 2007. It is estimated that around 1.5 million people currently seek debt advice. The Money Advice Service (MAS) is a key player in the funding and coordination of debt advice services in England and was subject to the Farnish review, the report of which was published in March 2015 and upon which the rest of this section draws. The review notes a strong case for the provision of free debt advice to those who need it in order that customers of major creditor firms can get back in control of their finances and creditors benefit from lower levels of bad debt overall. Wider societal benefits include lower incidence of stress-related illness and less likelihood of family breakdown. It is also noted that demand for debt advice could grow in the short term as the new FCA regime bites on commercial debt management firms in the coming months. Moreover, interest rate rises may push a further cohort of people into problem debt. However, awareness of the availability of free debt advice amongst consumers is relatively low, many do not understand the difference between free and commercial advice, and many people wait 12 months or more before seeking help.

The Farnish review concluded that MAS should leverage its role at the heart of the debt advice landscape and recommended that MAS convenes and chairs a high-level Debt Advice Steering Group, bringing senior representatives of major creditor firms together with the CEOs of the main debt advice bodies – Citizens Advice, Money Advice Trust and StepChange. MAS could then work with all parties to broker agreement on:

- a consistently applied front-end triage process to ensure that consumers receive cost-effective debt advice that meets their needs;
- early identification and 'nudging' of customers with problem debt into the triage system so more people get advice and debt does not spiral out of control;
- common processes and approaches with advice bodies and creditors to help promote efficiency, effectiveness and fairness;
- a common framework for management information to be reported back to creditors and the wider sector.

Chapter 3
Previous research and the present study

SUMMARY

Getting into and out of debt usually takes place over a considerable period of time. However, to date, there has been little long-term research into the impact of debt advice. This is of additional concern given that some research has suggested its effect might decline over time. This report is the first longitudinal study of the impact of debt advice in the UK.

This six-stage longitudinal study began in 2007 with 59 participants on low incomes and with a significant debt problem. In 2011 it recruited an additional 51 people who had experienced mortgage arrears. The research was carried out using semi-structured interviews.

This project investigated two core issues, recognising that dealing with debt and becoming debt-free takes time: the long-term impact of debt advice; and the experience of debt over an eight-year period and the key factors that enable people to move out of debt or the reasons why they do not. This chapter provides detail about how the project was undertaken, but begins by briefly reflecting on how the project fits with relevant previous research.

Previous research

A considerable literature and body of empirical evidence on debt has been developed since the 1980s. The motivation behind this project was the recognition of two important gaps in our knowledge: the long-term impact of debt advice, and the consideration of debt as something that affects people over time rather than being a relatively short-lived experience. Dealing with these two points in turn, it was noted in the early 2000s that, despite significant levels of funding for debt advice services, there had been remarkably little research on the impact of that advice. Williams (2004) went so far as to say that most findings had been produced by people working in money advice who were trying to justify their funding. Similarly, a report by the Public Accounts Committee on helping over-indebted consumers was very critical of the lack of knowledge regarding many aspects of the provision of debt advice (House of Commons Committee of Public Accounts, 2010).

However, there is now a much stronger evidence base. To cite just one example, a review of the client experience with debt advice projects funded by the Money Advice Service in England

and Wales (O'Brien et al., 2014) found that 9 out of 10 clients benefited from the advice. As with most research in this field, though, it offered only a snapshot, not a longer-term understanding of impact.

Seeking to move beyond a static view of debt by including longitudinal elements, the Legal Services Research Centre (see Pleasence et al., 2007) undertook four studies but considerable methodological difficulties were encountered. A random control trial was halted after the first follow-up due to sample attrition. Another element of the research, a study of advice agency clients, was able to contact only 35 per cent of the original participants after 12 months and did not progress further.

A major cause for concern was that the limited research available suggested the impact of advice might decline over time, indicating only short-term effects. For example, the Legal Services Research Centre study of advice agency clients found that some benefits of advice were less evident after one year than after six months (Pleasence et al., 2007). Ambiguity was also evident in a large-scale survey in the United States, which found that money advice had only a modest impact (Collins et al., 2008).

However, making progress in understanding the experience of dealing with debt among people on low incomes is not straightforward. It is much easier to conceive of a large-scale survey-based longitudinal research project than to execute it. A key stepping-stone to achieving this was missing. Warwick's Institute for Employment Research proposed a longitudinal qualitative study in order to fill that gap.

The present study

The rationale for longitudinal qualitative research (see, for example, Ruspini, 2000; Bacon et al., 2002) lies in the need to allow for the impact of contemporary society's complexity and dynamic change – in order to understand the variety of behaviour and the interconnectedness of people's lives, their experiences must be examined over time. Policy design, in particular, needs to be based on an appreciation of how people perceive the choices they face and negotiate the different pathways that they embark upon. The study of debt, where timescales can be considerable and personal situations complex, calls for just such an approach, alongside more statistically representative but inevitably less nuanced survey research.

Phase 1 of this longitudinal study of the impact of debt advice ran from 2007 to 2010. It started with 59 participants who were in debt. Participants were interviewed three times during the study period (years 1 to 3). Phase 2 of the project covers 2011–15. Participants from phase 1 of the project were interviewed a further three times. In 2011 an additional 51 participants joined the study. These were people with mortgage arrears; they were also interviewed on three separate occasions during phase 2 of the project. The following table shows the phases and years of the project.

Table 1
Phases and stages of the project.

	Main cohort		*Mortgage arrears cohort*	
Phase 1 interviews	Year 1	Oct 2007–Apr 2008		
	Year 2	Oct 2008–Apr 2009		
	Year 3	Nov 2009–Mar 2010		
Phase 2 interviews	Year 4	Jan 2011–Apr 2011	Year 1	Mar 2011–Jun 2011
	Year 6	Sep 2012–May 2013	Year 2	Dec 2012–Sep 2013
	Year 7	Sep 2014–Mar 2015	Year 3	Sep 2014–Mar 2015

Note: The absence of Year 5 is to indicate a time gap in the sequencing of interviews with the original cohort.

Debt and debt advice

The study began in 2007 with 59 participants, and focused particularly on people with low incomes, including those on benefits. Attrition, which is always an issue in longitudinal studies, has been relatively low. In phase 1 a total of 56 of the original 59 recruited participants interviewed at year 1 (in 2007/08) were re-interviewed at year 2 (2008/09) and 56 at year 3 (2009/10). In phase 2 of the project, 47 were interviewed at year 4 (2011), 53 at year 6 (2012/13) and 51 at year 7 (2014/15). Simple loss of contact accounts for most of the drop-out at each stage (over a quarter of the original participants moved house during the project), although one sadly died.

Participants were recruited through six not-for-profit advice providers: two Citizens Advice bureaux, a national telephone helpline and three community-based independent advice providers.

All participants were on a low income, whether this income came from benefits, employment or a combination of the two. Additionally, all had a significant debt problem. Multiple arrears with basic household commitments, including, for example, rent/mortgage, council tax and fuel bills were taken as an indicator of significant debt problems.

Mortgage arrears

In 2011 a cohort of 51 people with experience of mortgage arrears were added to the project, some of whom had sought advice to deal with these arrears and some of whom had not. Participants were recruited through advice providers, a mortgage lender and a market research company that recruits participants for research projects. 'Purposive sampling' was used so that half the participants had received advice about their mortgage arrears and the other half had not. However, as the interviews were conducted, it became apparent that making a clear distinction between those who had and had not received advice was somewhat problematic as several in the 'no advice' group had, it transpired, engaged with an advice provider, albeit to a limited extent. In 2011 interviews were conducted with these 51 participants, 49 were re-interviewed in 2012/13 and, finally, 40 in 2014/15. As with the debt advice interviews, attrition was limited. The main problem was loss of contact rather than refusal to be interviewed – one solution to mortgage arrears is of course moving house.

The interviews for both cohorts were semi-structured, following a 'conversation with purpose' approach.

Chapter 4
The positive impact of debt advice – and its limits

SUMMARY

Participants who had received debt advice reported that they had initially found it difficult to access. However, subsequent to their receiving advice there was an overall fall in indebtedness amongst these interviewees during the years 2007–10.

Participants generally found creditors difficult to deal with. Some interviewees became more confident in their financial management following the advice and were able to make financial arrangements with their creditors independently of advisors. Most felt that debt advice had an ongoing impact on them.

Being on a persistently low income hampered people's ability to extract themselves from debt, regardless of their financial skills and the advice they received.

Phase 1 of the project began in 2007 and ran through to 2010, based on in-depth interviews with 59 people who received debt advice in 2007 and were followed up annually thereafter. The causes of debt were:

- low income (which includes both long-term experience of low income, and a change of circumstances leading to low income); and
- a broad heading of 'credit', which includes the behaviour of both interviewees and creditors – some interviewees talked in terms of using credit to 'live beyond their means' or 'going mad' with store cards, but at the same time were critical of creditors for 'throwing money' at them, increasing credit card limits and offering additional lending that interviewees had little likelihood of ever repaying.

One group of interviewees ascribed their financial difficulties to mental health problems, and the interconnectedness of causes was critical for many interviewees. Debt advice was largely seen as helpful, even among people who had not managed to improve their debt situation.

Key findings of phase 1

Seeking advice

Interviewees reported major difficulties accessing advice services. For a large majority of interviewees, seeking advice was a last resort once it became clear that they were unable to solve their problems on their own. Moreover, limited opening hours, length of time spent queuing, length of time for an appointment to be available and lack of continuity in provision meant that obtaining advice then required some persistence. The research included people who had sought telephone advice and those who obtained face-to-face advice, but the project was concerned with the overall impact of advice and did not compare impact by different providers or services. Moreover, it was evident that advice seekers have very different needs and capabilities and there is no 'one size fits all' solution.

Changes in interviewees' financial position since receiving advice

There was an overall positive picture of declining total indebtedness. Although only a minority of interviewees were debt-free after three years, the single largest group were those for whom debts were reducing through payment arrangements. Only a very small number of interviewees reported increasing indebtedness, although for a significant minority their debt position remained uncertain.

There had been a very substantial shift from people having real financial difficulties/ falling behind with some commitments to being able to keep up with payments – although participants generally found it a constant or occasional struggle to do so.

A substantial minority of interviewees continued to categorise themselves as having real financial difficulties/fallen behind with some commitments. Only a very small minority of interviewees reported being able to keep up with all bills and commitments without any difficulty.

Interviewees' own assessment of how things had changed followed the overall finding of largely positive change (although with some neutral and negative responses), but was more multi-dimensional including a strong emphasis on themes of income adequacy, ability to make ends meet, and well-being.

The longer-term impact of debt advice

Three years after seeking advice, it was still seen as having been helpful by a large majority of interviewees. Only a small minority felt it had been unhelpful, and the main issues raised were related to service provision rather than the content of advice.

Three elements of advice were found most helpful: having someone to talk to; being given information and options; and being shown how better to deal with creditors. Advice led to positive change for a large majority of interviewees. Even where indebtedness remained unresolved, interviewees reported that advice enabled them to cope better and prevented further deterioration.

A large majority of interviewees saw advice as having an ongoing impact – including lessons learned about financial management and the ability to act for themselves – but there were limits to what advice could achieve.

Further themes: advice-seeking behaviour, creditors, financial capability and life on a low income

There was evidence of a positive shift in attitudes to advice seeking although the majority of interviewees were no longer engaged with an advice provider and were able to act for themselves. Other themes applied only to small numbers of interviewees but included: a need for ongoing, long-term advice and support; interviewees having a less positive experience when returning to a provider for further advice; and continuing problems with access to services.

Interviewees reported many very negative experiences of dealing with creditors. These ranged from a view of creditors as being unhelpful and difficult to deal with, through to descriptions of creditors as 'aggressive', 'nasty' and even 'bullying'. Creditors asking for payment arrangements to be increased gave interviewees an ongoing sense of being under pressure. Difficulties in negotiating a payment arrangement led some interviewees to decide that trying to deal with a creditor was pointless. Such experiences remained evident throughout phase 1 of the project.

The majority of interviewees reported feeling financially confident, with advice contributing to this, and across the sample as a whole there was positive change during phase 1. But interviewees were largely negative about financial education as a separate activity to debt advice, particularly questioning its relevance, given that the cause of their debts was not usually a lack of financial knowledge. In talking about financial capability, themes of careful budgeting and rejecting credit use dominated.

Even in this pre-austerity period there was a depressingly familiar finding of low income holding back people's ability to move beyond indebtedness – even when they had rejected credit use and were committed to careful budgeting, insufficient income meant they still faced a dilemma of how to meet basic and specific needs. At the end of year 3 there were no examples of interviewees with savings, and over half the sample had borrowed money between years 2 and 3 of the research.

Policy implications from phase 1

The following key points can be drawn from phase 1 of the project:

- *The provision of debt advice services* – The overall positive finding regarding the long-term impact of debt advice is important in relation to policy decisions about the provision and funding of services. However, the impact of advice needs to be evaluated on more than a simple measure of indebtedness – the impact of debt advice on people's health, and on enabling people to cope better and avoid problems deteriorating also need to be assessed.

- *Advice providers* – The importance of the 'someone to talk to' element of advice, and continuity of provision, were key to clients; there were also cases of some people having a negative experience of advice.
- *Creditors* – Interviewees cannot be seen in terms of 'can't payers' versus 'won't payers'. The willingness of creditors to accept affordable offers was critical; otherwise people can see contact with a creditor as pointless.
- *Preventing over-indebtedness: financial capability and credit use* – In developing messages around debt avoidance there are challenges in devising a financial capability equivalent of the 'five a day' message of healthy eating campaigns.
- *Preventing over-indebtedness: low income* – Income is rooted in benefit rates and wage levels. When these do not change it is inevitable that over-indebtedness persists.
- *Understanding over-indebtedness* – Our understanding of debt and how it affects and is experienced by different groups must become more sophisticated, especially in relation to people on low incomes.
- *Tackling over-indebtedness* – This requires action by a range of actors, including creditors, individuals, the third sector and Government; advice services play a critical role in 'oiling the wheels' of a holistic approach.

Looking at indebtedness through a long lens

The above conclusions emerged largely from phase 1. We now turn to consider the participants' situations at the end of the project.

As the research progressed through phase 2 (years 4 to 7, from 2011 to 2015), certain trajectories have been discerned over the whole project, albeit amalgams of quite diverse patterns.

First, some participants had become 'debt-free', although in the majority of cases this situation is still somewhat precarious. A larger number of participants were not entirely debt-free, but had no debts for which they were being pursued by creditors and saw themselves as having manageable debt, for example on credit cards and in overdrafts.

A second 'group' consists of the merging of two categories: (i) those who, during phase 1, had been managing their debt, and in some cases making small inroads into paying it off, and continuing to do so during phase 2; and (ii) those who were managing their debt to some extent, who had agreements with creditors and were also paying off their debt in small amounts but whose situation worsened in phase 2 and who at the end of the project were struggling to cope.

Finally, there is a third group of participants for whom debt seems to be intractable, and possibly a lifetime experience.

The three following chapters take each of these groups in turn. Each chapter outlines the characteristics of people in the group concerned, presents the evidence on their attempts to cope with debt, and reviews their experiences of receiving debt advice. It should be emphasised that the sample of interviewees is small and is not intended to be representative; in addition, there is considerable variation within the groups.

Chapter 5
Debt-free but not risk-free

SUMMARY

At the conclusion of this project just over a third of individuals described themselves as debt-free. People in this group tended to be in employment, without young children, and in good physical and mental health.

The transition to becoming debt-free was often abrupt (through declaring bankruptcy, receiving gifts and inheritances or selling assets), rather than the result of gradually coping and progressively paying off debt. Increases in household income due to factors such as an increase in wages, new partners, or children starting work, helped some move out of debt.

While the majority of people who became debt-free were very positive about the advice they received, the debt advice did not, in itself, lead to them being debt-free. However, it allowed them to cope with being in debt.

Financial resilience was hard to achieve even for people who became debt-free. There is a clear need for new financial products that meet the needs of people who can save small amounts on an irregular basis, in order to build a safety-net of savings.

This chapter discusses the experiences of those who were debt-free at the end of the project. Just over one-third of participants described themselves as debt-free at this point, although some were clearly not entirely without debt, having overdrafts, credit cards and mortgages. Some also owed money to family members, but they had no debts for which they were being pursued by creditors. These qualifications to the notion of being debt-free apply throughout this chapter.

Characteristics associated with being debt-free

- Slightly more likely to be in the younger age groups.
- In employment, particularly full-time employment, even if this employment is low-paid.
- Excluding particular health issues triggered partly by debt, in good physical and mental health.
- Have strong family networks, unlikely to have recently experienced significant family-related disruption.

- Less likely to have young children.
- Confident both generally and in managing financial affairs.
- Sought debt advice with a clear aim.
- Some had been declared bankrupt.
- Some had been students at some point in the project.

The most significant characteristics associated with being debt-free were being in employment, not having young children and being in good physical and mental health. These characteristics were not shared by all participants – for example, one participant experienced severe health problems but had become debt-free; nor are they unique to this group as there were other participants who were, for example, in work but still experiencing problematic over-indebtedness. The issues related to having young children are discussed further in subsequent chapters.

Transitions and triggers to becoming debt-free

The transition to being debt-free occurred most frequently between years 1 and 2 in phase 1 of the project. This is not to say that these participants had only been in debt for a year, as the majority had experienced a considerable amount of time in debt before seeking advice. This initial group was largely composed of participants who declared bankruptcy, with five participants becoming bankrupt between years 1 and 2. In year 3 more participants became debt-free, mainly through increases in income, for example through finding employment after being unemployed, increasing working hours, changes in benefits received, or largely serendipitous events – inheritances, new partners – or selling off possessions. This also applies to later years, though fewer then made the transition into being debt-free as the recession and austerity started to bite. Indeed, some participants fell back into problematic over-indebtedness following a period of being debt-free (see Chapter 6).

Thus, the transition to becoming debt-free following a period of problematic over-indebtedness is often an abrupt one, rather than the result of gradually coping and progressively paying off debt (although continued good money management was seen as a way of remaining debt-free).

Bankruptcy

Over the course of the project, seven participants declared bankruptcy, and of those, four remained debt-free at the end. These participants had gone through various debt-management processes prior to bankruptcy, and all were positive, overall, about the immediate outcome:

> 'The best thing I ever done was go bankrupt … to think "I don't owe a penny to anybody in this world", it was just the most fantastic feeling.' (Year 2)

For these participants, bankruptcy represented an end-point, a final resolution to their problems. Immediately after becoming bankrupt, participants reported a firm commitment to avoiding further debt and a definite aversion to credit – they had, like others who were debt-free, 'learnt their lesson':

> 'I don't plan to buy a house or anything like that in the next five years, and I'm off the catalogues, so it doesn't worry me if, you know, someone sees [that I have been bankrupt]. It was just such a relief to get rid of it all, get a fresh start kind of. Now I just have my money, and I know where I am. It's not easy, I haven't bought any clothes, I love clothes, in, well really a year, I don't go out, so I'm not saying it's an easy life, but … I don't have the phone calls [from creditors], I'm not always looking out [for letters from creditors].' (Year 6)

For some, bankruptcy did provide a fresh start, particularly in cases where problematic over-indebtedness had resulted from a situation that was now resolved. For others, it proved to be a temporary respite in a longer story of indebtedness; their material circumstances had not changed significantly; their incomes were no greater; their outgoings, beside some debt repayments, were no less; and, while they were coping now, the long-term sustainability of their financial situation was questionable. If they resort to further credit in future they are likely to face exclusion from access to mainstream financial services. Higher-cost credit may be available to them but it carries the risk of a rapid spiral back into problematic debt. Bankruptcy, then, seems a poorer option than access to other debt-relief solutions, but it remains the case that for some participants it represented at least a breathing space and hope for better things to come (see case study 1).

Case study 1: Natalie (20s) – bankruptcy

In 2007 Natalie had catalogue debt, credit card debt and debt with utility companies for unpaid bills totalling around £6,000. She was working part time in retail but for such a low wage that her debts gradually increased week-by-week. She was being threatened by debt collectors and was experiencing depression, affecting both her ability to work and to 'concentrate moneywise'.

She was receiving advice from Citizens Advice (CAB), but her ability to act on their advice was limited by family problems. It was at this stage that it was suggested to her that she go bankrupt, although she did not feel able to take such a big step at that time.

By 2008, after considering various options with the CAB, she declared bankruptcy. All but one of her creditors accepted the terms of her bankruptcy. She was repaying these debts at £5.07 per month.

> 'It was just such a relief, it made it all go away, well nearly all...'

The creditor who would not accept the terms of the bankruptcy, a catalogue company, was asking for £50 per month. She had also increased her hours to full-time and was generally keeping up with her payments and bills.

> 'They kept having more and more interest on top of it. And they said that if I could find £600 they would close the rest of the account off. But I said, I can't find £600. So therefore I'm having to pay the £50 each month.'

By 2009 she was not working after suffering an accident. She began to fall behind with council tax and other bills. The catalogue company were contacting her weekly after she began missing repayments. Despite this, she had taken on no further credit.

By 2010 she was working part time, earning £94 per week, experiencing significant mobility problems and having trouble determining her right to benefits. She was failing to repay even the £5.07 required under the bankruptcy order. She took a loan of £500 from a doorstep lender, to pay for Christmas, which she was repaying at a rate of £20.50 per week over one year.

By 2012 Natalie's situation had gradually improved. Although still working part time, her benefit and debt repayment situations had become much clearer. By 2013 she had returned to full-time work.

For Natalie the relief provided by bankruptcy was of immeasurable importance. Although she continued to struggle, due to fluctuating income resulting from ill health and the changing number of hours she could work, and had built up no savings to cope with such events, she finally reached a point she described as being debt-free by 2014 (although she was not entirely debt-free as she was still paying off debts related to her bankruptcy order).

Increased income

Amongst those who were debt-free at the end of the project, four participants had found employment having previously been unemployed, one had found higher-paid employment and two had increased the number of hours they worked. Other participants had seen their income increase due to changes in benefits, such as becoming entitled to disability benefits, housing benefit or older age-related benefits. A final group had not seen their personal income increase but had seen their household income increase, for example through finding a new partner or through other members of the household (partners, children or other adults) finding employment.

Participants who had become debt-free through an increase in income were the most confident in their ability to remain debt-free in the longer term. The increases in income were often relatively small, somewhere in the region of £25 to £50 per week, but for those who began with relatively small amounts of debt, increased income over a sustained period was enough to enable them to manage their debt, avoid incurring more, and eventually become debt-free:

> 'It's £25 I didn't have before, and that's £25 towards our gas every week when it's cold. It just makes things a little bit easier.' (Year 2)

The relatively slow and steady paying off of debt, of managing financially over a sustained period of time, appeared to be the source of participants' confidence. While their income remained relatively low, and while job loss was a concern, they could manage, they could 'make ends meet' week after week, month after month:

> 'It's just having more money, just, not loads more, but it's enough, it's enough to get by. I can see what's got to be paid and I know I've got the money there for it. Money in, money out, okay, okay. There's not really anything left over, but that's fine, I'm not worried. I'm managing, yeah, I'm managing.' (Year 7)

> 'Now that I'm in work, I'm going up, it's a different story, yeah. I still take on the extra shifts, like when I can, you know, get a bit extra, but yeah, I don't have the worry on my mind, like it's secure, the job, so, no, I don't worry about going back [into debt].' (Year 6)

Among this group were the two participants who had seen their income fall while they were studying. Case study 2 recounts the experience of one of these individuals. One was already in debt when commencing his studies, but the financial situations of both worsened considerably. However, whilst debt can be divided into debt for investment and debt to meet everyday needs, these two participants saw the connection between the two. Debt was being incurred to meet everyday needs, but the period of indebtedness was also seen as an investment, a temporary state that they had to cope with while they studied for qualifications that would, they hoped, secure their longer-term financial future.

Case study 2: Mark (20s) – earning and learning

Mark began to experience problematic debt in 2005, when he was at university. He attributes this largely to poor money management as a result of his age.

> 'I was a young man, 21 at the time [...] I didn't realise that and I wasn't able to grasp it until it was too late, until it happened. I think I got into it because I … had very spendthrift habits. I wasn't mature enough to keep those in check and look ahead.'

His debt continued to grow, as his rent took up almost two-thirds of his income and he struggled to make even small repayments against his existing debts. In 2007 he was given a County Court Judgment after defaulting on repayment agreements after these were increased beyond what he could pay.

By 2007 Mark had debts of around £6,500, including £2,000 owed to a relative. He was, nonetheless, confident in being able to pay off these debts as he had found work in a call centre.

> 'I'm not worried about the actual amount because I'm confident that I've managed to definitely, definitely learn from the mistakes and, not only that, but certainly budget for what's going to happen every week, whereas I didn't do that in the past, and I got into big trouble.'

By 2008 he had moved to a new part of the country with his new girlfriend. He first took a minimum wage job, but subsequently lost this job and the period of unemployment depleted his savings and ability to make repayments. However, he then found employment that was more highly paid and this kick-started a period of saving and paying off debts. By 2009 he had cleared many of his long-standing debts, although he was not yet debt-free.

> 'I budget incessantly because I know that every pound makes a difference.'

He had started a college course and was working part time. He was able to afford this as he was living with his girlfriend and her parents and paying a very nominal rent.

This situation continued through 2010 to 2012, although Mark was concerned about the student loan debt he was accruing, as well as the effect working was having on his studies. By 2013 he described himself as debt-free, although he still had an overdraft. He was confident that his studies would lead to a more secure future in which he and his girlfriend would be able to leave her parental home and buy a house together.

Although he stressed the importance of better money management, it is clear that the big difference to his situation came as he first found employment and then moved into higher-paid employment, with the promise of even more highly paid employment resulting from his studies, giving him a hopeful outlook for the future.

'Big Bang': the impact of gifts, inheritances and one-off sales of assets

Other participants who were debt-free as a result of financial gain were those who had received a lump sum of money that enabled them to pay off their debts. Three participants had sold houses, and a larger group had sold possessions such as jewellery or cars. These gains followed decisions to sell assets. A more serendipitous escape from problematic over-indebtedness came through inheritances or monetary gifts:

> 'My dad ... died, you could say at the right time, which is, I mean, you don't want ... but it was, coming into some money then, it was when I needed it. It was £10,000, that's what I got, the inheritance, and well, you don't want to say it was a relief, because obviously my dad, but it paid off, it got rid of, you know, at a point when it didn't seem possible, I got this help and it wiped everything out.' (Year 6)

Pathways into and out of debt as a result of one-off increases in income

The long-term sustainability of being without debt is clearly questionable for the participants in this group. Transitions between over-indebtedness and being debt-free, and back again, can occur frequently and those who were not in debt remained vulnerable to returning to being in debt. Kempson et al. (2004) analysed data covering 1995 to 2002 and found that movements into and out of arrears were relatively common. In the course of just a single year, around a third of people who had no arrears had acquired them, while approximately a quarter with arrears had ceased to have them. It would be expected that the recession would have had an effect on this pattern, by both increasing cycling between being in debt and being debt-free and by simply increasing the number of people falling into debt. It was also clear from this research that, even for those who move out of indebtedness relatively quickly, the experience of being in debt has long-term consequences.

For those who had become debt-free as a result of one-off increases in income, it is arguable whether their debt-free status will be permanent, essentially because their underlying behaviour and the external environment may not have changed significantly. As in the case of some who were declared bankrupt, participants in this group had not seen a sustainable increase in their income, they had simply 'reset the clock'.

There was a noticeable change in the confidence expressed by participants in this group across the life of the project. Immediately after becoming debt-free, the majority expressed relief and optimism about their future financial situation, but as time passed they began to express concerns. The participant quoted above, who had received an inheritance in year 2 had subsequently begun to dip worryingly into what remained of his inheritance after paying off his debts:

> 'It's been a help, it really has, to have that money there, because, to be honest, I've needed it. I haven't been using it for anything in particular, just here and there, you know, £20, £30, £100, bill here, bill there, what have you. I take a bit, a bit, a bit. But it's not going to last forever is it, doing that? It's gonna be gone, and I'll be back to square one, and then, well, yeah, then…' (Year 6)

Other participants realised that they had temporarily dealt with their debt problems, but that their longer-term situation remained precarious:

> 'I sold my car, I don't have one now, so I haven't got another one to sell, haven't got anything to sell really, but it's OK now.' (Year 6)

Many participants in this study got into debt following a catastrophic event that left them unable to cope financially – an illness, a job loss, a relationship breakdown. However, losing debt-free status (even one as heavily qualified as in this chapter) can also be a slow spiral, the gradual erosion of the financial situation of people who never really achieved financial resilience and were unable to absorb not just 'shocks' such as unemployment or unexpected expenditure, but also the general day-to-day increases in the cost of living. As the quote above illustrates, the slide back into indebtedness can be slow but inexorable: it is a bill not paid because it was £80 when an individual only had £60, it is £50 on a credit card that becomes £100 and then £300 because it is Christmas, which will not be paid off because just making ends meet is already a struggle and £300 is a significant amount to an individual who may have only £20 a week of discretionary money, and that is why they were using the credit card in the first place.

Only two participants who were debt-free had savings exceeding £1,000, and the majority had none. An inability to save while in debt may be expected but, for the majority, saving remained problematic even when they felt, in some sense, debt-free. For some, saving had simply not been something they had ever done; they had always spent all the money they had, often out of necessity. For others, although they wanted to save and understood the need for it, their incomes did not allow regular saving. This was particularly the case for people receiving benefits, but was also evident amongst those on low and/or variable wages.

Debt advice

For the majority of participants who were debt-free, the debt advice they received and found helpful was the same as that received by those who were not debt-free (as discussed in the next chapter). Debt advice helped them to deal with creditors, it gave them confidence and provided someone to talk to. While the majority were very positive about the advice they received, debt advice did not, in itself, lead them to being debt-free, but it did allow them to cope with being in debt until such time as their personal circumstances changed, triggering the move to being debt-free.

At the same time, the higher proportion of this group who were in (sustained) employment and the lower proportion experiencing significant mental health problems suggest that they had greater underlying capacity to manage and that they may have required less intensive debt advice as a result. Those in employment expressed greater confidence generally, and greater confidence in managing their financial affairs. This made them more able to act upon debt advice independently and to turn round their financial situations rather than allowing their indebtedness to spiral further, making it easier for them to meet repayments, and, for those who declared bankruptcy, to make a 'fresh start'.

Those who declared bankruptcy tended to have received advice from multiple sources in both the public and voluntary sectors as a result of their changing needs. Advice helped them to cope with a complicated and potentially upsetting process. But solutions exist that do not go as far as bankruptcy, such as Debt Relief Orders, Individual Voluntary Arrangements and Debt Management Plans. Unfortunately, access to these is often limited by rules concerning the amount of debt and levels of surplus income, leaving bankruptcy the only option. There is also a cost to bankruptcy, not just to the individual who must pay costs of approximately £705 (2015 figure), but also to creditors when debts are written off.

For both the debt-free and debt advisers, a key question is how people can stay debt-free in a sustainable way. Improving one's financial literacy is undoubtedly a part of that (see Chapter 2) but there is also a critical requirement for further financial products that meet the needs of people who can save small amounts on an irregular basis, so that the small increases in income seen by participants can be channelled into savings that gradually build financial resilience.

There are also questions about responsible lending, not just by those offering pay-day loans, but also by banks (e.g. see Gibbons et al., 2010). Participants in the study were often very critical of mainstream financial services, feeling that access to credit was too easy and the outcome of defaulting not clearly explained:

> 'Banks and other places have lent money to people they must have known had no hope of paying it back. If the Government is trying to force more strict regulation onto them, I would just say, "bring it on". At the end of the day, I'm not going to be trying to get credit in future anyway. But I think it should be made harder for people to borrow money … I think you ought to be able to prove that you can make the repayments before you're allowed to borrow it.' (Year 2)

Chapter 6
Managing over-indebtedness

SUMMARY

Participants in this group (almost half of those at the conclusion of the project) felt their debt was under more control once they had reached an agreement with creditors; debt advisors were often instrumental in achieving these agreements. This group tended to be cautious about managing their finances. They preferred using cash, and some recorded and accounted for every penny they spent.

However, their slowly-but-surely approach to their debt meant they remained in debt for long periods of time, and this had an impact on their health and well-being. Their social life was usually very restricted, and family support (if available) was important to both their emotional and financial maintenance.

Debt advice was particularly helpful in dealing with creditors, and in learning to live with their situation, thereby reducing levels of stress and anxiety. However, few of these participants returned for further advice. This could be because they felt more capable, or because they felt their circumstances hadn't changed.

This chapter examines the experiences of participants who were still in debt at the end of the study period but who saw being in debt as a manageable process. Almost half of the participants fell into this group. They typically had repayment plans in place and anticipated that at some point they would be completely debt-free.

Characteristics associated with being over-indebted

- Young (and, self-evidently, much less likely to be approaching retirement age).
- In employment, even if this employment is low-paid, or anticipating moving into employment.
- Excluding particular issues triggered by debt, in generally good physical and mental health or experiencing short-term ill-health.
- Have strong family networks.
- Slightly more likely to have no children or to have older children.

- Describe themselves as capable and cautious in managing financial affairs, particularly everyday expenses.
- Received debt advice they found helpful and were following this advice.
- Have a payment agreement with most creditors.
- Have not taken on more debt since year 1 of the project.

The key differences between participants in this group, who saw their debt as manageable, and those who were facing long-term intractable indebtedness fall into four areas: having payment agreements with most creditors; capable and cautious management of financial affairs; strong family networks; and relatively good health.

Transitions and triggers to managing over-indebtedness

Transitions from a situation of struggling with debt and falling behind with bills to coping and in many cases gradually paying off creditors can be seen most commonly in the earliest years of the project, particularly in the period between 2007 and 2009, after which some people began to move out of this group, either to being debt-free or, in some cases, to facing a situation of long-term intractable debt (see case study 3).

Case study 3: Brian (40s) – health and debt

By 2007 Brian had gone through a difficult divorce and had relocated to a different part of the country, seeing his wages fall in the process. He had come to an agreement with his ex-wife about how they would divide their various financial commitments, but she did not keep her side of the agreement. This resulted in Brian accruing £9,000 of debt 'overnight', including a £7,000 loan for a car.

> 'I've never been in debt in my life, never! ... I've had a mortgage, paid the mortgage, paid all that, never had a credit card, never had HP, oh, apart from the car, never had Visas, never had personal loans, never had bank loans, only the mortgage and then that, it's a big jump from no loan to this amount.'

He believed he had come to an agreement with his main creditor to freeze temporarily his loan repayments, but they called one or two times a day for six months seeking repayment. The debt was passed to a debt collection agency who asked for £20 per week repayment, although Brian thought he could pay no more than £5 per week. This resulted in his debts spiralling.

> 'They just keep sending letters after letters after letters and then I think, if some other people get it, they're going to be so scared, you know what I mean, they're going to do silly things, like go out and get another loan to pay that loan off.'

In 2008 Brian had a heart bypass. He was still receiving wages from his job and had succeeded in paying off his overdraft. Nonetheless, it was suggested that he seek bankruptcy, but he thought that this would be embarrassing.

> 'Bankruptcy is the last resort because, one, you ain't going to get credit or HP – which I don't have anyway, plus your name's going to be in the papers saying, under like, under the personals, … so and so is bankrupt. I think to myself, well, that's going to be the last resort.'

By 2009 Brian was unemployed, because his employer was unwilling to keep his job open indefinitely. He was being pursued for repayments on his car loan and was using his overdraft again. This continued into 2010 and he was continually being charged by the bank for being overdrawn by small amounts. His debt was gradually increasing as his income did not meet his outgoings. In 2012 his situation had stabilised somewhat. He was receiving disability benefits and seemed resigned to not returning to work in the near future. Repayments were still a struggle, but the situation was easier. However, by 2014 he had become increasingly anxious about his benefits and their declining value.

> 'I seem to go through three-year phases ... so there was the three years where it was absolutely hell and three years of promise, sort of thing. So I'm back to where I was before ... this all kicked off.'

Payment agreements with creditors

The transition to feeling debt was under control primarily coincided with the point at which a participant came to a repayment agreement with most or all of their creditors. These agreements largely prevented creditors and collection agencies from continuing to contact participants in pursuit of payment (although a number of participants described being continually asked to review their agreements and increase repayments), a process that all found enormously stressful. Fear of answering the door or the telephone and in some cases even of leaving their homes clearly contributed to the worsening mental health reported by participants. Good practice by creditors provided reassurance and a sense of control to those who had previously felt helpless in the face of mounting debts and increasing demands for money they simply did not have – they now had a plan, a way to move forward. The role of debt advice in securing these agreements was crucial and is discussed later.

Capability and caution in managing financial affairs

Careful financial management as a route to paying off debt in the longer term was a feature primarily associated with people in this group. For the majority, a basic lack of income meant that they were not able to make large inroads into their debt but the slow process of gradually paying it off, of doing something, provided participants with a sense of control and increased well-being – they were managing (see case study 4).

Case study 4: Carl (50s) and Karen (40s) – budgeting

In 2005 Carl had a stroke that resulted in him ultimately leaving work. Carl and Karen had insurance but found it did not cover this kind of eventuality. By 2007 Carl's health had deteriorated and Karen had become his carer. This reduced their combined income from around £50,000 when Carl and Karen were both in work (a figure that would have allowed them to easily meet repayments on their two loans, credit card and mortgage) to under £10,000.

> 'You just can't foresee what the future holds, can you, and that's it. At the end of the day it's just happened.'

Early contact with the mortgage lender and the CAB meant that they were able to begin tackling their debts before they began to spiral.

> 'He says, people normally wait about 12 months, two years, and they bring their pile of letters down, instead of ... I can act straightaway now for you, here's the situation that's just arisen, not which has arisen two years ago.'

By 2008 they had payment agreements with their two creditors, paying around £25 per month. The CAB and two voluntary organisations advocated on their behalf in relation to their benefits and their income had risen to around £12,000 per year. They had paid off one of their loans but still found it difficult to keep up with repayments.

> 'We have to watch every penny we spend, and, you know, you worry in case something's going to go wrong with the house, something's going to go wrong with the car, where are we going to get the money from?'

Their benefit situation was resolved by 2010, and by 2011 their situation was stable, although fluctuations in their benefits and increases in the cost of living made things difficult from this point on. Worries about meeting day-to-day living costs were ever-present through 2012 to 2014.

A clear theme of Carl and Karen's story was their long-standing caution with money, and the embarrassment they felt about being in debt: 'I have always worked, since I was 13 years old.' They managed their money with great care.

> 'Most days I go up to the bank and get a statement, because you can just put your card in there and just, and see what's gone in, what's gone out, and so it's there in front of you, you know, what's, what's happening.'

They shopped around for some services but were using pre-paid card meters for electricity and gas. Although they were aware that this was a more expensive way of paying, it allowed them to monitor and manage their outgoings on a daily basis, because they were aware that they were unable to cope with unexpected demands.

> 'It's no good having a bill come through, and then you think, God, I've got to find that.'

Those in this group were particularly cautious in managing their finances, they preferred using cash and took a 'watching the pennies' approach to budgeting, recording and accounting for every penny they spent:

> 'I write it all in my book, everything. I suppose, I suppose with [husband]'s illness and everything else going on, well it's a bit like trying to manage the weather, isn't it? You can't control it. But my book, I've got my numbers in my book, pennies, pounds, it's all there, I know everything that is going on, it all adds up, neat like. [Husband] thinks I'm a right harpy, he goes off and I'm like, 'How much did that cost?' 'Oh, 60p' 'Exactly 60p? 60p-something, how much?' But I've trained him. He knows not to turn up without a receipt now, because I'll have him. It makes, it's my little bit of control. It sounds silly, but it's my thing, my thing that I can do, this thing: my book, my numbers, I know where I am.' (Year 6)

> '[The debt advisor] told me, write everything down, everything that you spend, then you can see if you are getting into difficulties, what you are spending your money on. So I did, and then I just kept going with it, you know, I keep an eye on everything so I know what I've got.' (Year 7)

> 'I think [my situation is] much better … one thing I did was opened a [basic bank] account which operates purely on a cash basis. That means no cheque book, no overdrafts … I don't borrow money and I don't buy things on credit and so on, I purely operate on a cash budget … living within my means.' (Year 2)

Such caution in managing finances, a preference for using cash and constant recording of spending may seem an ineffective approach to debt management (see Centre for Social Justice, 2013), resulting in a prolonged time in debt and having a significant impact on their quality of life, but for these participants it appeared to be the only option. However, perhaps more could be done to help those who have relatively small debts but lack the means to pay them off quickly. For participants in this group, as well as those facing long-term intractable debt, the experience of being in debt over a long period of time comes at a cost beyond that of the financial burden to the individual – small debts may become big, ongoing problems and, in sufficient numbers, aggregate to producing a problem for the wider economy and society.

The declining mental and physical health of those in debt over an extended period of time presents a burden to health services; more than half of all participants were prescribed antidepressants at some point during the period of the study; time lost from work to deal with health problems or even to seek debt advice and deal with creditors comes at a cost to the economy. The participants in this group were confident that they would eventually pay off their debts – but the cost of them moving slowly to achieve this objective, regardless of how well they eventually saw themselves managing this process, is potentially high at a societal level.

> 'I haven't had enough money to just say, "Here you are" and pay the whole debt, all the debts, off. So, they're still there. It's always there, I've just got used to it now. It is, it's always there, in the back of your mind. I can live without having credit anymore … it's just having the debt hanging over your head.' (Year 3)

The ability of participants to pay off debts in relatively small amounts, paying off only a few pounds a week, also highlights the precariousness of their financial situation and how thin the divide is between managing and feeling relatively confident, and not managing. Small increases in the cost of living, for example, can tip the balance – a few pounds a week can be the difference between moving forward and falling back, between coping and not coping.

This is also evident in the experiences of participants who had been debt-free at some point, but who were back in debt by the end of the project. Five participants reported a move from being debt-free to indebtedness over the course of the eight years of the study. In two cases further debt was incurred for a specific purpose, for example buying a car that was needed for work; but in the other three cases there was simply a gradual slipping back, taking on new debts because they saw no other options to make ends meet, and in all three cases one of their creditors was a high-cost doorstep lender. There are also specific cases of people taking on debts that they did not necessarily regard as being debts, for example receiving Social Fund Loans, which were not seen as borrowing, getting a new credit card or taking on catalogue debt. All were confident in their ability to return eventually to being debt-free, but the risk of continually cycling between being in debt and being debt-free was a concern, given these naïve perceptions.

Strong social networks

Strong social networks prevent isolation (see Chapter 7), which is otherwise a key contributor to declining mental health. But many of those in debt reported a falling away of these support systems. Shame and embarrassment about being in debt contributed to a gradual decline in social networks, a loss of the support such networks can provide, and a growing feeling of not being able to participate, of not being able to live a 'normal' life – some things matter greatly, like not being able to afford to go out, not having nice clothes, not wanting to invite friends to an increasingly shabby house. One participant in year 2 described the experience as 'like being a leper', someone who was excluded not just financially, but socially.

> 'It was my birthday, my fortieth, and my mates, they were like, "We're going out", and I was like, "No, no, I can't", because I didn't have any money, literally nothing in my pocket, and my friend, my best friend, she just said, "We're paying", just like that, no big deal, no, no discussion, no you know, feeling sorry for me, just "We're paying", and they did. I'm so grateful for that, I never would have expected it, probably would never have done the same in their shoes. You don't talk about it, do you? You don't, well you kind of know someone is having a hard time or whatever, but you don't really think, I never would think, about what that is actually like.' (Year 7)

The erosion of social networks of friends increasingly saw participants turn to their families for support; as will be seen in the next chapter, those who were without family support or who had to support even more indebted family members were the ones who struggled the most with living with debt. Mewse et al. (2010) note the extent to which personal debt remains primarily a problem of family poverty, and experience of debt has consequences beyond the individual, including spill-over effects onto members of their immediate family. In this study, having a family that could offer support, whether financially or emotionally, played a key role in influencing an individual's ability to feel that they were managing being in debt. The following quotes illustrate the financial support offered to participants by other family members. The sums involved were often relatively small because few participants had family members who could give or loan significant amounts of money, but they made a difference to how participants perceived their situation:

> 'I'm struggling because of having the card meters put in for gas and electric. So we are really struggling with that at the minute, and if it wasn't for my son, we just wouldn't have any, because he's paying that.' (Year 4)

> 'My mum helps out, or my wife's father helps out and we, obviously – when I get paid – we just give the money back. They put things on their credit cards and things like that.' (Year 4)

> 'I wouldn't say it's comfort … well, I feel it's comfortable, but then again that's because I know I've got the in-laws to depend on if ever I'm really stuck. So, yes, I would say it's comfortable now.' (Year 6)

Additionally, participants reported receiving gifts of food, clothes for children, furniture and holidays from parents and siblings. When lent money by family members, there was usually an agreement, often unspoken, that they would be the last creditors who would be repaid.

> '[My family] always said to me, "You will never be homeless", and just them saying that … I'm proud, you know, I like to take care of myself, I've got to sort myself out, but just having that there. Because, my friends, you know, I'm ashamed. I know if I went to them, they would help, do anything, but it's not the same as family is it? Family, they know my circumstance, and … My son's birthday, they made sure he had something for that, every year we've been here, they've got me the money for that.' (Year 6)

Concerns about the spill-over of debt, particularly its stigma, affected participants with young children. Many were adamant that their children should not 'go without', even if this meant that they had to take on further debt to provide the things they thought their children should have. Holidays, birthdays and Christmas led to expenses that were seen to be important, but this often triggered further borrowing and increased debt (see also Bennett, 2008; IPPR, 2009).

Debt advice

A clear message from participants across all groups was that debt advice must focus not only on ways to become debt-free, but also on ways to live with debt – the manageability of debt was as important to their assessment as being debt-free. Fundamentally, this meant that participants sought advice on how to manage the process of being in debt and stop debt becoming all-consuming. So, overall, participants were realistic about what debt advice could do for them:

> 'They can't just magically take your debt away from you, that's just not, you know, it's just not a possibility is it. So you know, it's just a matter of paying it off a bit at a time, and hoping that you can, you can stick to it. There's just no magic solution to it.' (Year 3)

> '[The adviser is] dead helpful, yeah, but she can't cut your bills down for you, she can't make the electric cheaper or the shopping cheaper.' (Year 3)

The debt advice viewed as being most valuable focused on dealing with creditors, particularly how to negotiate a repayment plan that was manageable and did not result in the participants keeping up with some repayments while neglecting others. The majority of participants in this group had received relatively limited, focused advice and had been able to act upon it themselves, although a small number had needed advice agencies to negotiate with creditors on their behalf. Several noted that creditors were less aggressive and more open to negotiation when dealing with advice providers than they were with individuals:

> 'They do have extremely good pulling power. I mean, for that I'm very grateful … if I've got a creditor on the phone and I say it's in the hands of [the advice provider] then I get a totally different attitude.' (Year 2)

Advice on living with debt also focused on increasing well-being and reducing the stigma of being in debt:

> 'When I feel really, really low, I think of [the advisor] saying to me, "You know, you're not the only one in this position. You're not in that much debt, compared to lots of people", so I make myself worry less, and I think to myself, you know, it's going down, £1 a week, £1 a week, it's going down, you know? So when I'm here and feeling down, it's the first thing I think of, the advice they give me.' (Year 2)

> '[Improved well-being] doesn't come from the advice other than the advice kept me going at a time when I could've just given in. And I don't know what I would have done if I'd have given in, whether that would have been suicide or crack up and end up in a mental hospital, I don't know. I know that I was close to those points several times, you know. But the advice kept me going, it gave me that little bit of strength. So on that level, you know, it was 100 per cent.' (Year 4)

As will be seen in the following chapter, participants perceived financial education as being almost irrelevant – people did not need to be taught how to manage money because they had no money to manage. Whilst some gained a certain sense of control and well-being through keeping budgets and accounts, a suggestion that is made by debt advisers, others were reluctant to take such measures, feeling that it encouraged them to focus all the time on being in debt and, as a result, actually reduced their quality of life.

It is noticeable that few participants who were debt-free or who were managing their debt re-visited an advice provider very much, if at all, over the eight years of the project. To an extent, this might reflect their overall positive view of the usefulness of the advice they received, particularly advice on managing creditors. In addition, though, it may reflect the personal capacities of the members of this group who were able to act upon the advice they received with no additional support. Less positively, though perhaps quite realistically, it may be connected to participants' recognition of the limits to what debt advice can do: for those whose situations had stabilised, there was little more that could be achieved through debt advice alone; for those still struggling, for example with cycling between being in debt and being debt-free, low incomes were seen to limit what else advisers could do. 'Financial resilience' could not be constructed out of just any situation.

Chapter 7
Living with intractable debt

SUMMARY

People in this group experienced a wide range of issues and problems that contributed to their over-indebtedness; the majority of these were not immediately caused by financial management, but all had an effect on their finances.

Very few people managed to move out of this group during the course of the project, and many became more disillusioned about their ability to pay off their debt as time went on.

Insufficient income to live on, old age and having complex needs were common factors amongst the people with intractable debt; many had fallen into the situation through a single event (income change, illness, family changes) rather than as a result of consistent overspending, and they lacked any savings to manage the situations they faced.

People in this group had often approached advisors more than once. There was a clear need for longer-term, holistic advice of which debt management is only one aspect.

This chapter discusses participants who, at the end of the project, saw little possibility of moving out of debt in the medium to long term, if at all. At best, their situation was stable in that they were managing their financial commitments to a certain extent, perhaps making some minimal repayments to creditors, but in such small amounts that the prospect of ever paying off their debts seeemed remote. At worst, their debts were increasing.

Overall, participants in this group showed relatively little change during the study in how they view their debts. Some had at one stage been more optimistic but by the final year of the research they saw themselves facing a bleak future.

Characteristics associated with intractable debt

- Older people, retired or approaching retirement and consequently anticipating no scope for increasing income.
- Claiming benefits, particular disability-related benefits.
- Experiencing significant long-term ill health (physical and/or mental).

- Experiencing significant recent family problems – divorce, bereavement, partners or children with debt problems.
- Describe themselves as isolated and lacking family support.
- Slightly more likely to have younger children.
- Lack confidence in managing their financial affairs.
- Struggling with everyday expenses, regard debt as inevitable.
- Seeking longer-term debt advice and support, often in conjunction with support for other issues.
- Have payment agreements with most creditors, but for amounts that 'keep creditors away' rather than make significant inroads into paying off the debt or even interest accrued on debts.
- People who did not find the debt advice they received helpful or who were not following the advice they received were more likely to fall into this group, although the majority found the advice they received helpful.

In contrast to people who moved out of debt, or those who felt they were managing their debt, it is more difficult to limit the list of characteristics given above to a few key ones. Intractable over-indebtedness was often a result of the interaction of a range of characteristics, the majority of which were not directly related to financial management, but all of which impacted upon it.

Transitions and triggers to intractable debt

Very few participants who regarded themselves, at the end of the project, as being in debt long term had managed to make any changes in this area of their lives during the period of research. In the main, the people in this group were struggling at the start of the project in 2007 and were still struggling in 2015 when the project ended.

> 'It's dead easy to get in debt, easy as pie; hardest thing is getting out.' (Year 4)

However, it is possible to identify two sub-groups. The first ('the disillusioned') comprises participants who, at one point, had regarded paying off their debts as a real, if not necessarily immediate, possibility, but who subsequently viewed their debts as impossible to pay off. While this can be seen in every year of the study, it became more common post-2010, and was largely related to perceived increases in the cost of living that were not matched by increases in income. The second sub-group comprises those with multiple difficulties, financial and non-financial.

The disillusioned

> 'I can manage things and I haven't taken out any new debts, but I'm only managing because I'm not paying anything on the debts and I won't 'til they take me to court.' (Year 3)

A possible conclusion is that absolute levels of initial debt had relatively little association with whether or not an individual had become debt-free, was managing their debt or regarded themselves as facing an intractable problem of indebtedness. There appears to be a subjective response to indebtedness – what is seen by one person as a burdensome level of debt may not be seen as such by another person (DTI, 2005; Tudela and Young, 2003). Seeing debt as a burden was more closely related to the extent to which the participant regarded the situation as intractable and how worried they were about that (Dearden et al., 2010).

Multiple difficulties

There are other burdens, however – burdens felt by those experiencing on-going physical and mental health issues, family breakdown, homelessness, social isolation, disconnection from the labour market and little prospect of ever becoming employed. The story of debt for this group was intertwined with a bigger story of lives that had become increasingly difficult, of people who often needed far greater support than they were receiving to deal with multiple problems. For this group, debt was a symptom of – and a contributor to – much broader problems and the involvement of this group with creditors raises many issues.

A growing resignation to a life lived in debt was evident amongst participants who viewed themselves as having long-term intractable debt. In the early years of the study, participants in this group expressed high levels of concern about debt – they were stressed, fearful and uncertain about the future. In the middle years of the study, there was evidence of a growing lack of confidence, of an erosion of self-esteem and increasing isolation. In the later years of the study this was replaced by resignation, a feeling of being out of control, and in some cases a refusal or inability to confront issues, yet recognising, in the face of a stagnating income and increased outgoings, that nothing can realistically be done:

> 'I just chuck [letters about arrears] in the bin now. Whereas before I would really worry about my debts, I've passed the point of worrying now, because I can't give them what I haven't got.' (Year 4)

> 'Things are probably the same. It's just that I don't feel intimidated anymore. I used to get really depressed and worried. I used to worry myself sick. But the problem is I just don't have enough money to pay my debts. Yes I'm in a terrible state, I am, but I just don't let it get me down.' (Year 3)

Low incomes and cost of living increases

Having an income, whether from employment or benefits or a combination of the two, that is simply not sufficient to meet essential expenses, never mind debt repayments, was the most common reason given for seeing debt as problematic and insurmountable. This can trap people in long-term indebtedness (see Centre for Social Justice, 2013, 2014, 2015; Dearden et al., 2010; Ben-Galim and Lanning, 2009; Jenkins et al., 2009; Hills et al., 2006; Kempson, 1996; Dobson et al., 1994; Kempson et al., 1994). For those existing largely on benefits, but who are already using credit simply to meet essential needs (Dearden et al., 2010; DTI/DWP, 2004), welfare reform and changes to the benefits system are also a concern.

As the project progressed, the impact of recession then austerity on people with low incomes became increasingly evident. Wages have stagnated in real terms and the types of flexible employment associated with low-wage, insecure work have been a growing feature of the economy (Kelly and Pearce, 2012; Gregg and Machin, 2012). High inflation on food, domestic fuel and public transport has hit those on low incomes hardest, simply because they spend a greater proportion of their budget on these essential items (Tutton, 2009). Additionally, people on low incomes often pay a 'poverty premium' on essential goods and services; for example, they are more likely to use electricity pre-payment metres and do catalogue shopping (Save the Children and Family Welfare Association, 2007).

> 'I used to have a good life ... holidays, clothes, a nice life. Now, there's days I struggle for money for the electric and I've had nights where I've sat in the dark … There's a couple of tins in the cupboard and that's it … It's not holidays I'm talking about missing, it's having something decent to eat and putting on the heater when it's cold.' (Year 3)

The inability of some participants to meet their basic living expenses without falling further into debt, or the struggle they face in doing so, has been a consistent issue throughout the project. However, post-2010 more participants were having greater problems with meeting essential everyday living expenses. Some who had shown that they were able to manage their money and take steps to pay off their debt now found themselves no longer able to do so. Previous chapters have shown that making some inroads into paying off debt, however small, was extremely important to the emotional well-being and self-confidence of participants. The loss of this sense of coping amounted to a growing feeling of helplessness and hopelessness. The rise in the cost of living was an increasingly prevalent concern:

> 'January 2010, the average petrol price was £1.10. January this year, the average is £1.20, so it's gone up £0.10 a litre … You spend £1.34 on what was £1 this time last year, eggs which were £1.62, are now £1.95, gone up across the board, and the very fact that our money has not gone up, they're talking about putting it down, and you actually add to that what we've just been talking about, the actual people wanting to put the bills up, what we owe, a combination of that, yes it's a struggle.' (Year 4)

> 'Everything seems to cost more these days, it's just ridiculous. I try to, you know, shop cheaply, don't spend, but the money just goes. I don't live better.' (Year 7)

> 'I can't believe the cost of things now. Like something was 50p and now it is £1, it goes up and up, tomorrow it will be £2 and where do we go from there? I've always, I've set aside, this much money for bills, this for food, and I run out every time. I've got to adjust, but where?' (Year 7)

> 'Everything, everything, everything costs more. I just can't cope with it. You think you are doing okay, you think you know where you are, then you go to the shop and you're putting things back, things you had planned for, you're always thinking, thinking, thinking, trying to add it up, "Will I be OK, can I pay?", going round the shop. Sometimes I just give up, and I don't, I don't eat, I think, you know, I'll skip this, skip this meal and then I'll have enough, for later, to have a meal later, you know, one meal.' (Year 7)

For these participants, the problem was a fundamental lack of money. They could not afford to repay their debts – often, they could not even afford basic living expenses without falling further into debt.

Older people – dying in debt

For older participants, age was clearly related to their perception of the likelihood of long-term indebtedness and, indeed, of dying in debt. This was expressed as simple arithmetic: they were unlikely now to see a significant increase in income through finding better-paid employment (if, indeed, they had a job) and, given the minimal repayments being made against their debts, they did not have enough years left to pay their debts off: figures given were often as low as 50p per week, but because they generally had multiple creditors these repayments sometimes mounted up to a substantial proportion of their income. The prospect that they would die in debt was a very real one for these participants.

> 'There's nothing I can do, not any more, and there's nothing they can do either. I've got my pension, good luck with that, hopefully I'll die soon.' (Stage 7)

> 'It's not going to get better, and I am resigned to that. There is no way out now, it's just downhill all the way. I'm too old and I'm too tired, I'm too tired by life.' (Stage 7)

Complex needs – overlapping factors

The effects of significant long-term ill health, sometimes of unpredictable incidence and often unanticipated loss of income, was one of the main reasons given by participants in this group for their debt problems, but being in debt had itself resulted in the worsening of people's mental health in particular.

A vicious circle was apparent amongst some participants: ill health led to lack of income – which led to debt – which resulted in a lack of confidence in managing financial affairs and reduced ability to follow debt advice. It also meant that people in this situation sought ongoing advice not just for debt problems but also for other issues, and required holistic support, of which debt advice was just one aspect and often not the most central one (see case study 5).

Case study 5: Connor (30s) – when something goes wrong

Connor split up with his wife of 13 years in 2005. They had two children together. The breakdown of his marriage and ongoing issues with his wife were very difficult to deal with. He lost his job and then his home and was sleeping rough for some time. Prior to this, Connor described himself as having a 'nice life' and always being able to keep up with repayments on things bought on hire purchase. Now he owed £4,000.

When Connor began to be pursued for debt repayments on a loan he had a breakdown and was committed to a psychiatric unit. By 2007 he had found accommodation, and was looking for a job, but was struggling financially, living on incapacity benefit, a large proportion of which he used to keep his car.

> 'You think, should I get something to eat or should I go and get some gas and electric?'

By 2008 he was getting support for drug and alcohol problems. His father managed his money for him and, as he was unable to get a bank account, friends intervened to ensure he could make repayments on his car as well as giving him money to pay utility bills. He had begun to fall behind on his rent and was unclear about his current level of debt or to whom he owed money.

> 'I still get letters and they phone my dad up and my dad will basically say to them, "You know look, he's got nothing. You know, he's already been in the bloody madhouse once. If you manage to find him and hassle him and hassle him and hassle him, that's where he'll end up again."'

He continued to struggle through 2009 and 2010. In 2009 he commented that he was afraid to find work because his creditors would want to take all the money he earned.

> 'They can't take what you ain't got, but does that mean you've got to actually live in the dark with no food in the cupboards? You know, would they listen and if I say, "Look, I need a bit of food", you know? I mean, because, to be fair, it's me that owes them the money, it's only right for them to say, "Live in the dark, it's not my problem, we want our money back." You know, and I don't want to live in the dark, so that's what puts me into that category, like.'

In 2010 Connor was arrested for drug dealing and was facing a five-year prison sentence. He did not take part in any interviews after this point.

> 'If you put it in a nutshell it seems kind of far-fetched to say, but it's all led from the Government throwing money at you and then you're accepting it and then something going wrong in a period of your life where you're stuck, like in my case it was a breakdown of a marriage and … and then you try and get on, you can't get on, so you do something wrong and then the Government have got you on your back and then the Government throw you in jail.'

Isolation and a lack of family support networks further exacerbate this situation; this affected people's mental health, but also limited the extent to which they were able to access other networks, including those that may have been a source of advice and support on financial and other issues. People who are extremely isolated, many of whom in our sample are those who have the greatest and most complex need for advice and support, are at risk of being the least likely to be able to access this advice.

For some participants in this group, the benign effects of family networks and support were evident, but more negative influences can also arise. In some cases, family issues had precipitated their indebtedness:

> 'I think the big problem was when me and my wife split. That's when everything seemed to snowball for me, because I couldn't sort myself out financially at all. If I had sorted myself out then, I don't think all this would have happened.' (Year 1)

A few participants, despite being in debt themselves, reported that they were lending or giving money to other family members whose financial situation was worse than their own (see case study 6).

Case study 6: Mary (60s) – debt and family

Mary had spent most of her working life cycling between indebtedness and being debt-free. Although she had worked until she was 55, she had experienced persistent ill health which had seen her income fluctuate. She owned her own home, but at one point had debts on eight credit cards as well as a loan. In 2007 she had debts totalling around £32,000.

> 'I've worked, and if there was no money in the bank then I'd use the credit card; thinking, oh, I'll get my wages next week, so that will cover that, you know.'

Over the course of the project, Mary's situation declined rapidly. She had some payment arrangements in place as early as 2007, but these payment arrangements were for very small amounts, usually £1, and creditors began to ask for more. She was visited by debt collectors and bailiffs.

> 'He said, well, as far as I can see, you owe £18,000 you know. I went, yes? He said, well, we're never going to get that back at a pound a week.'

Her debts gradually increased, and at no point in the six years was she keeping up with any bills.

Mary's family were unable to provide her with any support, as many of them were also in debt, and despite her own debts Mary began to provide financial support for other family members.

> 'Everyone I know is in debt, I don't know anyone who isn't.'

By 2012 Mary and other family members were engaged in a seemingly endless cycle of transferring money between themselves to meet essential needs. Mary would give money to her son to keep his electricity connected, then later he would give money to her to pay her gas bill, and so on. She was buying things for her mother, who in turn paid for her to go on holiday, and she was providing a home for her grandson. For Mary this was one of the hardest things to cope with. It represented, for her, a loss of identity. She had always regarded herself as someone who was capable and competent, the person people turned to when they needed help, and she attempted to continue this, to make sure others were alright, even as her own debt and associated problems spiralled.

> 'I give my last penny away, yes, I do; that's what my mum said, "You're too soft, you've helped everybody, where are they all when you want them?" But you can't change the way you are.'

Mary had been put on antidepressants when her debt problems started. By 2013 she had made three suicide attempts and described herself as being 'in a very bad state' and she saw no hope that things would ever change.

Debt advice

As people fail on a regular basis to pay off existing debt and often drift further into debt, debt advice becomes increasingly focused on dealing with the ongoing demands of existing and new creditors, averting crises, and making the experience of being in debt manageable:

> 'It was help at the time, it was help at the time, but, but they only help you for a certain period of time. And I don't think, you know, I think they help with making sure people don't hassle you, you know, so you have more worries on your head. As for long-term help, I don't think they give you long-term help, you know. So I don't think they do.' (Year 3)

Participants in this group were likely to have sought advice on several occasions, often to deal with new demands from creditors. Particular issues included creditors wanting to change payment plans and increase repayments, and the 'selling on' of debt between creditors, resulting in demands for increased payments, an increase in overall debt, and administrative issues related to a lack of clarity over who participants were expected to make repayments to:

> 'One of [the creditors] has just put [the payment] up by about 50 per cent. And they don't actually tell you they're going to do it, they've done it, right, and when you don't pay that amount, and this is the way they get you, another way they're doing it, if you don't agree to that amount, and if you carry on paying the amount that you're paying, you're in arrears straight away, the first month that you don't pay the new figure, got you, you've not paid it, you're now in arrears, we can go for broke. And that's the real method of doing things.' (Year 4)

A concern for this group was the difficulties they faced in accessing advice. Some thought that the advice they received on subsequent visits had not been as good as that initially received; others worried about being a burden on clearly over-subscribed services, while many reported that advice services were unable to see them unless they arrived early in the morning and waited for hours.

Over the course of the study it became increasingly clear that, for some people, there is a need for longer-term, holistic advice of which debt management is only one aspect. While there is undoubtedly a limit to what advice as such can achieve, ongoing support needs are not always being met. The value of simply having someone to talk to about their problems, including those not directly related to debt, was considerable for this group who often experienced high degrees of isolation.

Ad hoc support from advice agencies was common, but limited both by time and staff turnover. Joined-up service provision, which sees debt management as part of a wider process, rather than an isolated issue set apart from other support needs, would benefit this group.

> 'She was incredibly helpful. I don't know if anybody else would be as helpful, because she really went out of her way to help me. I mean, with my mental health, I couldn't go into the town centre, so she met me on the edge of town. And then, when I had my fall, she came here, which they don't do. But she said, you know, it was such a dire situation and she was so worried about how I was coping and that ... So she came here to help, so she really went out of her way. So it was her, specifically, not [the organisation] as such. Because then, when she'd gone, her replacement just didn't want to know.' (Year 4)

Aside from ongoing support for living with debt and coping with mental health and other problems, it is difficult to identify other ways in which this group can be supported. Ultimately, debt advice and financial education can only go so far. If someone simply does not have enough money to meet their essential needs, they will not pay off debts and they will fall further into debt.

> 'I know how to read bank statements. The problem is, it's always a zero balance. I don't need to know more about financial stuff – what I need is more money.' (Year 3)

Addressing this kind of intractable indebtedness means addressing structural barriers in society, it means ensuring that those on the lowest incomes have both sufficient means to live and the means to improve their financial resilience. Many of the participants in this study fell into problematic over-indebtedness because something went wrong, because they lost their job, because their relationship broke down, because they became ill, and a life on a low income meant that they had simply never developed the financial resources to cope with such events. So they got into debt and became trapped there. Advice on managing money can be useful, but it is very limited if, in the words of one participant, you 'ain't got nothing to manage' (Year 7).

Chapter 8
Further insights – mortgage arrears

SUMMARY

Most of the people interviewed who had mortgage arrears had run into financial difficulties relatively recently as the result of a single specific event, rather than as part of a slow, cumulative process. All the participants who had mortgage arrears also had other debts, and in general their mortgage arrears were a symptom of wider financial problems.

By the conclusion of the project about a quarter of the people in this group had sold their homes to repay mortgage arrears.

A wider range of advice options was available to people with mortgage arrears than to people with other types of debt, and in particular creditors offered much more advice and support. Obtaining debt advice, regardless of the point at which it was received, resulted in significant improvements in reported levels of general well-being. The majority of the people with mortgage arrears were financially literate, as shown by their understanding and ability to act on advice they had been given.

Mortgage arrears have increased in recent years as the disparity between average house prices and average income has grown (Chamberlin, 2009) and stable employment of the kind necessary to consistently pay off a mortgage has declined (Nettleton and Burrows, 1998). This chapter examines the experiences of those with this specific type of debt. Fifty-one people took part in an interview in 2011; of these, 49 were re-interviewed in 2012/13 and 40 in 2013/14. Half of the participants had received advice relating to mortgage debt by 2011, while the other half had not (although many subsequently did so).

The purpose of including mortgage arrears in this study was twofold: to examine relevant financial advice issues surrounding this particularly problematic type of debt; and to explore the potential for developing a research methodology based on including people with financial problems who have sought advice and others who have not.

Reasons for mortgage arrears

The majority of the participants in the mortgage arrears interviews were experiencing significant financial difficulties and mortgage arrears were not their only debt. Making mortgage repayments that were unaffordable or unanticipated had led to people neglecting other payments, resulting in a wide range of other debts, and often these were of more immediate concern. Most of those interviewed had run into financial difficulties relatively recently. They were likely to have fallen into debt as the result of a single specific event, rather than as part of a slow, cumulative process. This accords with research by DCLG (2009) who found that 56 per cent of people got into mortgage arrears due to a loss of income, primarily as a result of unemployment, sickness or injury, and reductions in pay, hours worked, or self-employed income; a further 29 per cent had experienced a loss of household income, as a consequence of events such as the death of a partner or relationship breakdown.

Divorce, and transfer of the mortgage to one partner or buying a partner out of a mortgage, was the most common reason given by participants for having mortgage arrears and other debts:

> Basically I split up with my partner and I had, … my mortgage, like I had to have it swopped over into my name and it was really like a high interest mortgage because, I think because I'm having it on my own, I didn't get a very good rate.' (Mortgage arrears [MA] Year 1)

Job losses and sporadic employment were also frequently mentioned as a cause of arrears:

> 'I did have arrears for, probably from May or June until November, because I wasn't working during that time since I lost my job in May, which was a short-term contract – well, it was a bit-time contract anyway … so I didn't have any work over the summer. Then I got a job in November which only lasts 'til April, so I'm probably going to get into a similar problem again in April.' (MA Year 1)

The easy availability of credit was much less frequently mentioned by this group as a reason for their financial problems, although some participants noted that banks had more readily given mortgage loans in the past, without closely scrutinising the applicant's financial situation and ability to pay.

Transitions and triggers to mortgage arrears

In year 1 participants expressed a high degree of fear about their mortgage debts and about the future. For many, losing their home seemed a real and immediate prospect and the size of debt they had quickly accrued made debts seem unmanageable. While some participants had, at this stage, received helpful advice from mortgage lenders and debt advice agencies, there were still participants who were experiencing difficulties in dealing with mortgage lenders:

> '[The mortgage lender] told me in November, they phoned me and they said to me ... basically really upsetting and a really obnoxious person on the phone, he said to me, there's no point in putting a Christmas tree up because you won't be in that property for much longer.' (MA Year 1)

This fear was exacerbated by their experience of problematic over-indebtedness in general. All the participants who had mortgage arrears also had other debts – for utilities, mobile phones, on credit cards and so on. Some had accrued this debt because they were trying to make repayments against a mortgage they could not afford and were, for example, using credit cards to meet other financial needs, but in general, their mortgage arrears were a symptom of wider financial problems.

By year 2 general debt, rather than specific mortgage debt, was the primary concern of the majority of participants. As is discussed later, the advice and support available specifically for people with mortgage arrears meant that by year 2 most had some kind of agreement in place with their mortgage providers. The participants who were still very anxious about their mortgage arrears were primarily those who had either put off seeking advice and support or who had agreed to unrealistic repayment terms that they had never been certain that they could meet and who were now finding that they could not do so. Many were also still very concerned about their other debts and their treatment by the creditors pursuing them.

A slow housing market was seen as a complicating issue across all three years of this part of the project. Particularly in years 1 and 2, participants had decided that the way to clear not only their mortgage arrears but also their other debts was to sell their home. For some, this was a very difficult and emotional time. The situation of people who had started to experience debt following a serious and most likely long-term illness was further complicated by the need to find appropriate accommodation adapted for their specific needs.

> 'I've got friends, I've got family and everyone says, you will never be homeless because I've often said, you know, "I don't want to end up sleeping in a cardboard box". And they said, "No, that will never happen". ... The reason why I'm trying to sell the house, because I like my house, I love my neighbours, I like living here, but … I'd rather live somewhere else without the worry and the stress than be here with the worry and the stress.' (MA Year 1)

By year 2 several participants had sold their homes and by year 3 around a quarter had done so. This was often done at a net financial loss, and took some time, with participants reporting that their home was for sale as early as year 1, but not reporting having sold it until year 3. They said that selling their house allowed them to become more financially stable. A longer-term concern in relation to this group is their unwillingness to enter into another mortgage agreement, even if this were possible given their financial history:

> 'I'll probably go into rented accommodation because then you've got so many financial people that can help you, you know, there's so many housing benefits and things like that that help low-income families, but when you've got a mortgage, when you've got your own house there is nobody out there to help you financially.' (MA Year 1)

> 'I'm just going to rent now. I don't know what I would be able to buy, to be honest. I just want a bit of money behind me, to put it away and know it is there if something comes up, so that is what I am going to do.' (MA Year 3)

When considering the small number of those initially with mortgage arrears who had become debt-free by year 3 (12 people), those who sold their home are a significant majority. Only one person had become debt-free during the three years without selling their home and this was a result of remarriage. Those participants with whom contact was lost are also quite likely to have sold their homes, with contact being lost through moving house.

Mortgage arrears can reach significant figures very quickly. Even missing a single month's repayment resulted in debts of several hundred pounds. Repaying this amount of money quickly simply by saving more from a low income was seen as impossible, even before health concerns and other issues are taken into consideration.

Rolling arrears onto an existing mortgage was also seen as a solution by some participants, particularly those who saw themselves as experiencing short-term financial problems in an otherwise relatively stable financial history. Additionally, the majority of mortgage lenders were willing to seek solutions to prevent debts spiralling further and, as has been noted, it was those who sought help latest who appeared to be experiencing the greatest difficulties. Mortgage lenders had agreed to lower repayments for a fixed term, which was helpful for participants, although many expressed anxiety about what would happen when the fixed term ended. There were also examples of people extending the term of their mortgage, although these were much less frequent. In some cases, it was difficult to understand exactly what arrangement had been made with a mortgage lender, with participants only being clear that they were being asked to pay less to prevent the further accrual of mortgage debt. Re-mortgaging, and making 'debt for equity' swaps to pay off their debts, which had been considered by some participants discussed in the previous chapters, were not available to those with mortgage arrears.

In year 3, concerns about mortgage arrears remained secondary to the much more pressing concerns of creditors seeking repayments for other debts for all participants who had not sold their home, although, as has been mentioned, the prospect of mortgage lenders changing their terms and asking for higher repayments was worrying for many. By year 3, the concerns of those experiencing mortgage arrears did not appear to be significantly different from those experiencing other forms of non-mortgage debt.

Mortgage arrears advice

As has been noted, half of the participants in the project were selected because they had received advice about their mortgage arrears, either from an advice provider or from a mortgage lender or both. The other half of the participants had not, in 2011, received advice. As the project proceeded, many of those who had initially not received advice did so.

Those who had received advice prior to year 1 reported, across the whole three years, generally higher levels of well-being. They were more likely to feel in control of their debts, and to have clear steps to take to meet repayments against at least some of these debts. In some, but not all, cases they were less likely to report declining levels of mental health and happiness across the course of the project. In general, receiving advice, regardless of the point at which it was received, resulted in significant gains in reported levels of general well-being. In some cases, having lower repayments on a mortgage freed up money for repaying other debts and prevented the kinds of spirals into ever increasing indebtedness identified in the previous chapter. In other cases, simply feeling that at least they did not have to worry about their mortgage and keeping their home was important to participants – it was one less worry.

Difficulties in accessing advice was the most common reason given for not seeking advice. Not knowing who could provide advice was commonly mentioned, as were difficulties in making appointments and long queues to see providers. These were mentioned more commonly than simply not wanting or needing advice, and suggest that persistent issues need to be addressed in providing adequate advice provision.

Problems in receiving financial and other support as a consequence of being a home-owner were mentioned by a number of participants:

> 'The Jobcentre people. And they said, "Nothing you can claim, because you're a house owner, and this, that and the other." And I said, "Yes, but I can't. I can't afford anything." "Sorry, mate." That's all I got, really.' (MA Year 1)

Creditor behaviour

A clear difference between those who had mortgage arrears and other participants in the study was in the range and availability of advice provided to those with mortgage arrears. Mortgage lenders offered advice, and participants were also able to seek advice from more general debt advice providers. In some cases, participants reported that the advice they received was somewhat contradictory, but the overwhelming majority were very positive about the advice given by mortgage lenders and debt advice services. This is in contrast to their experiences with other types of creditor, the majority of whom provided little to no advice and quickly passed dealing with debts to debt collection agencies.

A further difference in relation to mortgage arrears advice is the duration over which advice was sought and received. Unlike those who had only non-mortgage debts, and who tended to have sought advice only once, the majority of those who received advice on mortgage arrears did so over an extended period of time. This advice focused on dealing with mortgage lending companies, banks and building societies and often included legal advice and also generic advice on dealing with creditors. Reassurance was a very significant and valued component of this advice. Having someone tell them that they were not about to lose their homes, that the mortgage lender wanted to work with them to seek a less drastic solution, was of immeasurable importance:

> 'The empathy they had was lovely, you know. They were very understanding. They were very reassuring and said, "Look, you know ...", because you get these horrible letters now from banks: "The bailiff will come or we'll take you to court", and she said, "No they can't do that, they can't come into your house and take your stuff away." They reassured you to say that, you know ... that it's scaremongering but they can't do that and they shouldn't have put people like that through ... especially when they were going through what I was going through.' (MA Year 1)

> 'Just having someone say, you know, "Let's sort this out, let's sit down and we will see what we can do", that's, because I was scared, you know, I didn't want to go and see them, I thought, "Don't bring yourself to their attention", but actually [the debt advisor] was right, I had to go and talk to them, and it was like, when I did, it was like, "OK, this is a real person and she wants to help me", she wasn't, you know, all about what I did wrong, it was just like, "OK, what can we do now?" and, you know, moving forward.' (MA Year 3)

The ability to act on advice was also important. As discussed in the previous chapter, people with problematic indebtedness were experiencing significant problems not just with debt, but also with mental health and other issues for which they needed support. Those with mortgage arrears were less likely to have similar issues. On the whole, they had a fairly stable financial history, and were reasonably confident in managing their financial affairs; they had, after all, once been in a position to get a mortgage. Although a significant proportion reported developing mental health problems, primarily anxiety and depression, as a result of their concerns about debt, the majority were people who were able to understand and act on advice they had been given and who understood its value.

Chapter 9
Reflections on the longitudinal evidence

The longitudinal perspective offers an opportunity to go further in examining what determines transitions and how people's characteristics and situation affect their decision-making. With this in mind, the following issues have emerged.

Trajectories and initial experience of advice

- The financial trajectories of different groups of participants diverged quite significantly early in the project, with some people becoming debt-free, others coping with their debt and some reporting that they were struggling. In the first four years of the project there was evidence of people transitioning between groups, particularly moving from not managing to managing their debts. Much less movement between groups is seen in the later years, and those transitions that did occur were generally negative moves, with people previously not in debt falling back into debt and those who were previously coping ceasing to do so.

- A small group of people ended the research period debt-free, although this was less through prudent financial management than through one-off financial gain or, in a small number of cases, through declaring bankruptcy. A larger group were making some repayments against their debt and anticipated being debt-free at some point in the future. This group diminished in size in later stages of the project, as participants who were managing their debt began to experience greater financial difficulty. This resulted in the emergence of a third group whose situation worsened over the course of the project, leaving them in a similar position to the final group – those who were experiencing serious financial difficulty, making only small repayments that often do not cover the interest they are incurring on their debt, and do not see a debt-free financial future.

- The advice needs of people following different trajectories varied. Seeking further advice after initial contact was quite rare. It was most common amongst those who were experiencing significant difficulties, especially family breakdown and mental and physical health issues; these people require more holistic support that extends beyond averting crises specifically related to debt.

- In the latter stages of the research, the impact of recession, austerity and, in particular, increases in the cost of meeting basic needs had become a central issue. People experiencing debt are less financially resilient and less able to cope with even small increases in their living expenses. Feeling able to manage their debts was of key importance to participants, and fears that this manageability was precarious had a clear impact on their well-being.

Experience of debt

- A person's experience of debt has consequences beyond that individual. It clearly had an impact on participants' families, not only because it limits the money available for supporting children, for example, but because families, particularly parents, were themselves becoming creditors, in many cases creditors who would be amongst the last to see their money returned.

- The experience of being in debt was an isolating experience for many participants. Lack of money and the stigma of being in debt cut people off from social support networks. This is a particularly acute issue for individuals with complex needs, who are often those least likely to be able to manage the debt repayment process and the most likely to need additional support.

Triggers for change – keeping the role of financial literacy and advice in perspective

- Events that can transform an individual's financial trajectory from a short-term to long-term debtor, from managing debts to being unable to cope, in the early stages of this research primarily consisted of 'unanticipated shocks' (such as illness or family breakdown) that may fall largely outside the scope of traditional financial management. The impact such events have on debt management highlights both the lack of financial resilience amongst people on low incomes and the need to address debt-related issues in conjunction with personal and social issues. In the latter stages of the project a more gradual decline into debt was evident, with levels of debt increasing as relatively small payments were missed by people whose income did not meet their basic expenses.

- Nonetheless, the debt advice sector should be very confident about the value of advice given, and the counselling element should not be underestimated. Typically, though, there were no neat linear processes linking the search for and provision of advice and the resolution of debt. We suggest that the main challenge is to get people to seek advice earlier – and this means de-stigmatising debt.

- Growing financial resilience is a key concern, but how individuals with low incomes can achieve this is unclear. Financial education has a key role to play (see Walker, 2011; Walker et al., 2012; Erturk et al., 2007; DTI/DWP, 2004, 2005) but, as noted, many participants had a reasonable degree of financial literacy and were careful with their money (see also Ben-Galim and Lanning, 2009; Financial Services Authority, 2006). Improving people's financial capability will not, in isolation, prevent people on low incomes falling into debt, nor will it enable them to eventually become debt-free (see Mandell and Klein, 2009 and Watson, 2003 for further discussion of the role of financial education for people on low incomes).

- Whilst the role of financial education is important, its promotion lacks focus. For example, what is the financial education equivalent of the 'five–a-day' message of healthy eating – what are the key messages to sustain good financial health? Also, what of the critique that financial capability without debt advice is less effective?

- If we look at the experience and views of those in the research, knowing more about how to compare interest rates, knowledge of different financial products, etc. may be helpful but is not the key to avoiding over-indebtedness.

- There should be more emphasis on basic messages. Drawing on comments made by participants in this study these could include:

  - Know your means and live within them – but if your income cannot meet your essential bills, seek help from the right people.

  - Some organisations will 'sell' you money, but the price can be high – every penny you borrow has to be repaid, plus interest.

  - Never, ever, try to borrow your way out of debt.

  - No one needs more than one credit card.

  - One loan at a time – repay one before you take out another.

  - Secured loans are a bad idea.

- 'Danger signs' akin to those used in campaigns for sensible drinking could be useful to people. Again, drawing on comments made by participants in this study, they could include:

  - If you're robbing Peter to pay Paul,

  - paying for groceries on credit card because you don't have enough in your bank account,

  - your bank account is regularly overdrawn,

  - you're regularly paying interest on your credit card

  - … it's time to stop!

Just as it might be time to rein in your drinking a bit, so it might be time to rein in your spending a bit, stop borrowing and get some advice.

- The prospects of participants who had mortgage arrears and little hope of being able to pay them off, for example due to redundancy or relationship breakdown, have been shown in the research to be bleak. Forced eviction and homelessness was a real possibility. At best, a person might be able to sell their home and repay their mortgage but they then have to find rented accommodation and face the upheaval of moving, with consequences for access to employment, schooling and so on. In one case a person with mortgage arrears sold their home to a local business and was allowed to stay on as a tenant for a specified period. Such businesses, however, have a reputation for attracting people in dire circumstances and purchasing properties at relatively low prices. Tenancies are for fixed periods so offer only temporary respite.

Analytical issues

- In the use of a qualitative longitudinal approach it is important not to 'over-interpret' the data. The dangers of slipping into a mode of discussion that implies representativeness and causality when neither can be justified are ever present. This report has tried to offer the evidence in a digestible form, avoiding repeated warnings about interpretation, and conveying some broad insights that exploit the richness of the individual data.

- Taking a longitudinal perspective highlights two key analytical points. It reveals the inadequacy of work on theorising debt and on the development of associated typologies of debt. For the former, it is necessary to go back to Rock (1973), who offers a sociological account of debt including discussion of debtors' career structures, deviance and social control in the regulation of debtors' identities. In the 1990s there was a Marxist argument that debt was being used as a disciplinary tool and, most recently, there is the paper on the politics of debt by Montgomerie and Stanley (2015). But, otherwise, there does not appear to be anything recent on theorising debt per se.

- The lack of theory capturing the dynamics of debt trajectories inevitably hampers the development of typologies to guide survey designs that go beyond static 'snapshot' approaches. With regard to typology, the Money Advice Service (2013), for example, has identified eight segments of the over-indebted population: struggling students, first-time workers, optimistic young workers, low-wage families, stretched families, worried working families, benefit-dependent families and uncomfortable retirees. Most debt reports resort to a typical list of a mixture of who is in debt and its causes – for example, low income, financial mismanagement, change of circumstances, etc.

- We are, therefore, some way from having adequate typologies and observational models that help both to analyse debt and to structure discussion.

Chapter 10
Policy implications

Observers may perceive people who have sought debt advice as being at particular points on the spectrum of debt-free to long-term indebtedness, and try to work with that essentially static evidence to get a picture of cause-and-effect and potential remedies. However, it is apparent from this research that better understandings are needed in order to design policy and the practices on which implementation depends. These are essentially concerned with helping people to make transitions that are in the right direction and are sustainable. The key policy implications of this research are summarised below.

- *Provision of debt advice services* – The main body of evidence presented in this report is on a group of about 50 people who were initially in debt almost eight years ago and their subsequent experiences and perceptions through to the present day. These particular participants were satisfied overall with the debt advice they had received and the continuing impact it had on their ability to manage their debts. Most participants were able to act autonomously upon advice they had received. However, a small group of participants who have complex needs clearly required more ongoing, tailored support if they were to avoid their financial situation stagnating or even deteriorating.

- *Advice for complex cases* – Dealing with debt does not simply involve dealing with monetary matters. The causes and experiences of debt need to be contextualised with reference to other issues, including health and well-being concerns and family situations. A holistic approach is required that addresses, as far as possible, all these issues, rather than simply looking at debt in isolation. It may be necessary for various advice and other services (notably, those relating to ill health and disability) in both the voluntary and statutory sectors to work in partnership with individuals to address these various needs. Particularly for people facing long-term debt, the importance of simply having someone to talk to cannot be overstated, and continuity of contact is also important. The experience of debt has been, for many, an extremely isolating experience.

- *Assessing debt advice outcomes* – In assessing the efficacy of debt advice, it is important to recognise that the road from becoming indebted, receiving debt advice, to becoming debt-free is rarely a smooth or straightforward one. It is also important to place value on debt advice that does not ultimately result in an individual becoming debt-free, but results in them being able to manage their debt better and reduces the wider impact being in debt has on their physical and mental health, family and other circumstances.

- *Creditors* – Some participants in the study had had extremely negative experiences with creditors, feeling pressured or tricked into agreeing to repayment plans that were unsustainable. Willingness to engage with individuals in debt, and flexibility in changing repayment plans, are more likely to lead to at least some debt being repaid. People who are under pressure, isolated and scared are unlikely to make the kind of good financial decisions that will lead to sustainable repayment. The detailed proposals from StepChange relating to reducing creditor harassment and the imposition of burgeoning interest/charges warrant further attention. Another important point is the differentiated experience of people with mortgage arrears, who reported far greater engagement with, and support from, lenders than was the case in relation to other types of debt.

- *Low income, debt and austerity* – The majority of participants declared themselves to be prudent, often frugal, managers of their own finances (although they may not have been in the past). However, there is a limit to how far this often-detailed micromanaging of their finances can offset the growing differential between income and necessary expenditure. Cuts to benefits for people on low incomes will only worsen this situation.

- *The precarious nature of participants' financial situations,* and their lack of financial resilience, stem largely from a lack of control over income and outgoings and a mismatch between the two: their situations have often worsened as a result of falling incomes and rising prices of basic necessities.

- *For those with mounting mortgage arrears,* there is a strong case for the introduction of a 'right to sell and stay' scheme, so that anyone who can no longer meet mortgage repayments can sell their property to a registered social landlord but remain as a tenant paying a fair rent. This draws on the now discontinued Mortgage Rescue Scheme as a potential model. A 'right to sell and stay' would provide another option for anyone faced with mortgage problems, providing them with a fall-back of being able to sell to a registered social landlord, clear all or most of their debts but stay on in their home and, as a tenant, being able to apply for Housing Benefit if appropriate.

- *Debt and poverty* – The above assumes people have sufficient income both to live on and repay debts, but this project has illustrated how, over a period of time, that is not the case for many. In such situations, debt is not the cause of problems but a symptom of the inherent risk of lapsing into poverty as a result of living on a very low and often uncertain income. The provision of the very best financial education, debt advice and the most considerate of creditors does not offer sufficient solutions in these cases.

- So, for those on low incomes, *we need to think very differently about debt.* Policy debates about debt are stuck in particular ruts and do not fit with the lived reality of debt as revealed in this research: wilful non-payment and financial mismanagement are, in fact, minor concerns, especially as in such cases practical solutions are available to most debtors and creditors. Instead, policy-makers should pay more attention to 'upstream' measures that prevent chronic debt problems arising in the first place, such as low wages, social security and health.

- The research also raises issues about *the behaviours of lenders*, both before and after arrears occur. Lenders should share a greater responsibility for exercising due diligence over the borrower's capacity to repay – the more so for those on low incomes. When people cannot cope with their debt, both sides of the contract are implicated, not just the individual or household. Government, as a third party, is also a responsible actor especially when a family starts to lose the fragile grasp that it may have achieved over its financial situation when changes in the tax-benefit system are introduced that further shift the burden of managing risk onto already hard-pressed households.

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