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SUSTAINING DEBT REPAYMENTS

Experiences of people in informal repayment arrangements

CRSP Centre for Research in Social Policy

LLOYDS BANKING GROUP

Contents

Foreword

Should individuals struggling to manage their debts pay for the advice to help them back into financial health, or does the old cliché that the best things in life are free apply to debt advice? What are the best ways for people to work their way out of unmanageable debt and into financial health?

These are questions which have been debated across creditors, not-for-profit advice agencies, government and the private advice sector for many years. Seeking to further understand the thoughts, experiences and opinions of those who have experienced the process of trying to resolve debt problems, Lloyds Banking Group, in partnership with the Money Advice Trust, commissioned the Centre for Research in Social Policy at Loughborough University to help them find out what made debt repayments sustainable in the longer term and therefore more beneficial to customers and prospective customers.

Lloyds Banking Group has long provided help and support to those in financial difficulty and along with The Money Advice Trust has held the belief that whilst people should be able to pay for debt advice if they choose, that decision should only be made from a truly informed position. This research suggests that many customers of fee-charging services are not fully aware of the fees they are paying or the free alternatives and it is hoped that this report will be a catalyst for change on this important topic.

The research finds that fee-charging debt management plans are more likely to fail than solutions where no fee is charged. They also take a much more superficial approach to budgeting and evidence suggests that customers therefore end up with repayment amounts they cannot sustain in the long term. Both organisations are also aware and concerned about the risk that some private companies have the potential to become bankrupt or even disappear before monthly payments are passed on to creditors. This report aims to flesh these issues out and bring them to the attention of people in financial difficulty as well as policy makers in the private, public and third sectors. In so doing the report seeks to provide some those most vulnerable in our society with the right level of information to allow them to make informed decisions that will have a wide-reaching impact on their financial wellbeing.

The research raises important concerns about the level of fees paid for debt management services. In some cases these are exceptionally high: one interviewee with a fee-charging debt management plan (DMP) was paying £400 a month, of which £300 was a fee to the company (a 75 per cent fee).

Why then do people opt for fee-paying plans? Clearly there is an information gap, with people in periods of severe distress unable or unwilling to shop around for the best solution. Our research has found that half of those who were being charged fees for a debt management plan were not aware that such plans could be set up for free.

It is also crucial to ensure that the free sector has the capacity to respond when an individual reaches out for help. Some interviewees using fee-charging plans had been put off from the free sector by long waiting times to see an adviser.

Through the findings in the report, it is clear that the creditor industry, the free advice sector and government need to make the public aware of the free options. It is also necessary that the free sector continues to work together to ensure that clients reach services in a channel that that suits them as quickly as possible.

Lloyds Banking Group and the Money Advice Trust are both determined that anyone who finds themselves in financial difficulty is fully aware of the free support available to help them out of debt and into financial health. Both organisations look forward to discussing the results of this insightful research with key stakeholders to ensure that when people in financial difficulty seek advice, it is provided in the most beneficial way.

Graham Lindsay
Group Director for Responsible Business
Lloyds Banking Group

Joanna Elson

Joanna Elson
Chief Executive
Money Advice Trust

About us

Lloyds Banking Group

Lloyds Banking Group, which funded this research, is the leading provider of current accounts, savings, personal loans, credit cards and mortgages in the UK. We believe we can make a contribution to society by helping families, business and communities prosper, and by doing so in a responsible manner. The Group recognises that many customers find themselves facing financial difficulties at some point in their lives and works to help them find a practical and workable repayment plan. Last year the Group contributed £15 million to UK debt advice and debt charities, to help those facing serious financial problems.

The Money Advice Trust

The Money Advice Trust (MAT) is a charity formed in 1991 to increase the quality and availability of money advice in the UK. We work with government, the private sector and the UK's leading money advice agencies to:

- increase the availability of money advice;
- improve its quality; and
- improve the efficiency and effectiveness of its delivery.

MAT's key activities are:-Support to the debt advice sector through:

- Training;
- second tier support;
- quality assurance developments, e.g. accreditation;
- policy, research and evaluation;
- fundraising, facilitation and strategy development; and
- direct service provision (National Debtline, Business Debtline and My Money Steps)

Centre for Research in Social Policy, Loughborough University

The Centre for Research in Social Policy (CRSP) is an independent research centre based at Loughborough University. A main area of CRSP's work is on poverty and income studies, including studies of debt and financial inclusion and how households experience poverty and exclusion at different times of their lives. The research was conducted by Yvette Hartfree (Senior Research Associate), Matt Padley (Research Associate), Kim Perren (Research Fellow) and Paola Signoretta (Senior Research Associate).

Executive Summary

This report provides insight into the experiences of people in informal debt repayment arrangements and the Scottish Debt Arrangement Scheme, and the factors influencing the sustainability of debt repayments. Drawing on quantitative and qualitative research it seeks to improve understanding of the consumer experience of setting up and managing a debt repayment arrangement, and the key influences on the outcomes of repayment arrangements. The report also provides an account of the similarities and variation across different informal debt repayment arrangements, looking at free and fee-charging Debt Management Plans (DMP), self-negotiated agreements (SNA), and the statutory Debt Arrangement Scheme (DAS) in Scotland.

Key Findings

Sustaining debt repayment arrangements

Drawing on all of the evidence from this research study, the key factor determining whether debt repayments were sustainable or not was affordability.

Analysis of the survey data shows that ease of repayment was linked to:

- the size of debt - respondents with the lowest debts levels found managing their repayments easiest;
- repayment amount - where repayment amounts were more than £30 per month the difficulty of managing repayments increased; and
- work status - households with two adults in full-time work were less likely to find repayments difficult to manage compared to households where there was just one or no adults in full-time work.

Unexpected changes in circumstances made debt repayment arrangements more or less affordable. Positive changes in individuals' circumstances enabled them to increase their regular repayment amount, or to pay off a lump sum and complete their debt arrangement sooner. Detrimental changes in individuals' circumstances, such as a job loss, relationship breakdown, or household bills going up, made repayment amounts less affordable.

That affordability is a key determinant of whether debt repayments are sustained is not surprising. However, the qualitative research provides new insight into the process of setting up repayment arrangements and the importance of careful budgeting to ensure that repayment amounts are set at an affordable level. Where repayment amounts were set at an affordable level at the outset, on-going repayments were easier to sustain. Affordable repayment levels were achieved when they were: based on a thorough and detailed assessment of individuals' income and outgoings; allowed for a reasonable and realistic level of household expenditure; and were conducted in consultation with the person entering the arrangement. When the repayment amount was set at too high a level repayments were difficult to sustain.

Whether debt repayment arrangements succeeded or failed was also related to whether the right arrangement was entered into in the first place. There was very little evidence from the qualitative research that people were ‘shopping around’ or gathering information to find the best solution to their debt problem. Interviewees were not aware of all of the options available to them and most took the first solution they came across. It was apparent that some interviewees were in a debt solution that was unsuitable for their circumstances making their arrangement more likely to fail. There were examples in the qualitative research of interviewees who had abandoned their arrangement and instead opted to become bankrupt, take out a Debt Relief Order or an Individual Voluntary Arrangement.

The research shows that the behaviour of creditors and debt management companies also influenced the success of repayment arrangements. Survey respondents who found it easy to manage their debt repayments were significantly more likely to say their creditors had been helpful than those who found repayments difficult. A concern is that the most common reason why repayment levels went up was due to pressure from creditors to increase payments. This pressure on individuals to increase their repayment amount, possibly to levels that are unaffordable, increases the risk that payments will not be sustained. Flexibility by creditors and debt management companies in adjusting repayment levels when circumstances change can help repayments to be sustained.

A small proportion of survey respondents failed to complete their repayment arrangement because creditors stopped accepting offers of payment or their arrangement was cancelled by the debt management company. From the in-depth interviews we know that in some cases this was action taken by the creditor or debt management company and was not the fault of the debtor. It included: people who entered into arrangements with bogus companies who disappeared; an interviewee whose arrangement was cancelled by their debt management company because their request to reduce their repayment amount fell below the company's minimum payment threshold; an interviewee whose arrangement was cancelled while she was in hospital because she was unable to make her manual payments; and creditors who sought court intervention, which subsequently resulted in bailiffs being used in an attempt to recover the debts.

The failure rate of repayment arrangements, although small overall, was twice as high amongst respondents that had paid a fee, compared to those who had not paid a fee. This finding is likely to be reflecting the poorer practices of fee-charging companies (discussed below), as well as the additional cost of fee-charging plans.

The motivation of individuals was not a key factor in whether repayment arrangements were sustained. Interviewees had a strong desire to pay off their debts and see their arrangements through. Even interviewees who were struggling or had failed to sustain their repayments still wanted to pay off their debts. However, the provision of regular statements showing how much debt had been repaid and how much was still outstanding did help keep people motivated to sustain their repayments. Interviewees who did not receive this information felt disempowered and demotivated.

Differences across arrangement types

Debt Management Plan and Debt Arrangement Scheme

Overall, there was little discernible difference between the experiences of interviewees with a DAS compared to interviewees with a DMP. The only differences found were that interviewees who had taken out a DAS were particularly clear that all interest and charges on their debts would be frozen and that creditors would not be able to contact them. The option to take a payment holiday had a very positive impact on the ability of one interviewee to sustain their repayment arrangement following ill-health. The interviewees we spoke to had very little awareness that they were in a 'DAS' and that it was a specific type of debt repayment arrangement.

There was much greater difference between interviewees' experiences of DMPs/DAS taken out with free providers and those taken out with fee-charging providers:

- Both free and fee-charging DMCs provided a very good service to customers in setting up DMPs and DAS – for all interviewees the process was very easy and straightforward.
- Free providers conducted a more thorough and detailed assessment of the level of repayments people could afford. Fee-charging companies appeared to use a more surface approach to budgeting with little or no discussion with the individual about affordable levels of repayment.
- Interviewees who had arrangements with free providers also had a better understanding of their repayment arrangements. Interviewees who had taken out arrangements with fee-charging providers were less clear about how much they were paying in fees and how long they would be making repayments to clear their debts. A few interviewees felt they had been misled, only finding out several years into the arrangement how much they were paying in fees.
- Free DMCs provided more on-going information, through monthly and annual statements that clearly showed how much debt had been paid off and how much remained. Annual reviews of the affordability of repayment amounts and individuals' current financial circumstances were also conducted by some providers. In comparison, not all fee-charging companies provided monthly or annual statements and those that did were less clear in showing how much debt was outstanding, what percentage of payments were being taken in fees and how long it would take to pay off remaining debts. The exception was an interviewee who had a DAS with a fee-charging provider.
- Overall, interviewees with free DMCs were generally more positive about their experience than those with fee-charging DMCs.
- With fee-charging companies the research found a few examples of interviewees who were being charged very high monthly fees, as well as high upfront charges that had to be paid before DMCs would start making payments to creditors.

Self-negotiated arrangements

By their very nature the experience of interviewees with self-negotiated arrangements was very different to those with DMPs and DAS because they were dealing directly with their creditors. The experience of interviewees with self-negotiated agreements was in part influenced by the amount of money they could afford on a regular basis to service their debts. Where interviewees had very low incomes, generally those who were dependent on benefits as their major source of income, they were unable to do any more than make small token repayments against often significant debts. In these instances there was an acceptance that they were unlikely to ever repay debts and payments were seen as a means of satisfying demands from creditors. Where interviewees had a greater level of available resource each month with which to repay debts, there was a clear commitment to repaying debts and ultimately being debt free. Access to free online budgeting tools and debt advice helped in negotiations with creditors as people were able to justify their offers of reduced or token payments. Interviewees with self-negotiated arrangements had both good and bad experiences of negotiating with creditors and dealing with their creditors on an on-going basis. Some creditors were unwilling to negotiate, and demanded higher payments or threatened to take action against them. Others accepted offers of reduced repayments, agreed to freeze charges and interest and undertook annual assessments of individuals' financial circumstances to ensure that repayments were set at an appropriate level.

1 Introduction

1.1 Introduction

This research sought to provide new evidence on people's use and experiences of debt management plans (DMP), self-negotiated repayment arrangements (SNA) and the Debt Arrangement Scheme (DAS) in Scotland, and the sustainability of repayments made while in these arrangements.

The research involved a quantitative survey and in-depth follow-up interviews with a small number of survey respondents. The survey collected information on the features of repayment arrangements such as plan length and amount owed, the use of debt advice, reasons for choosing a fee-charging debt management company, the ease of setting up arrangements and the ease of maintaining repayments. Analysis of the survey data explored the factors affecting the sustainability of debt repayments. The qualitative interviews aimed to more fully understand the triggers for seeking help with unmanageable debts and the decision-making process allied to this, people's experiences of setting up debt repayment arrangements and managing their repayments on a day to day basis and the reasons why, for some people, repayments arrangements cease to be sustainable.

This research is very timely and follows a recent Government consultation on consumer credit and personal insolvency (Department for Business, Innovation and Skills (BIS), 2011). The Government's response to the consultation emphasised their commitment to a non-regulatory route to improving practice and standards within the debt management industry and the establishment of a debt management plan protocol which would dovetail with Office of Fair Trading guidance for debt management services (OFT, 2011).

1.2 Background

There are currently a range of debt management options on offer for individuals, the availability of which is dependent on a number of factors, including the type of debt, whether the person in debt has sufficient income to afford repayments and other personal circumstances. If an individual has no money to pay off debts and their circumstances are unlikely to change in the short-tem, they have limited options for dealing with their debts. These include asking creditors to write off the debt, applying for a Debt Relief Order, or applying for bankruptcy (Citizen Advice Service, 2012). If an individual does have sufficient income to repay their debts, then the number of options is wider. Options include: dealing with creditors themselves, using a debt management company to negotiate with creditors to set up a debt management plan, applying for an Administration Order, applying for an Individual Voluntary Arrangement (IVA) or using loan consolidation.

The focus of this study is on informally negotiated debt repayment arrangements including debt management plans and self-negotiated arrangements (either using a self-help model or via a third party agency), and the Debt Arrangement Scheme (a formal scheme) that is only available in Scotland. Please see Appendix 3 for definitions of each arrangement type.

1.3 Research aims

The aim of the research was to understand the consumer experience of being in a debt repayment arrangement. More specifically the research sought to understand:

- the reasons why some people are successful in maintaining their debt repayments, whilst others fail to keep up their repayment arrangements; and
- whether there are any differences between people's experiences of being in an informal debt repayment arrangement, such as DMP or SNA, compared to the Scottish formal DAS.

The results of the research are intended to inform the policies and behaviour of creditors, debt management companies and the debt advice sector in how best to support their customers through debt repayments to help prevent repayment arrangements from failing. The research also seeks to provide evidence for Government policy in relation to a protocol on best practice and the need for a statutory debt management scheme in England and Wales.

1.4 Research methods

1.4.1 Quantitative survey

In June 2012, an online survey was conducted by TNS UK drawing on its online panel. These panellists were selected initially on the basis of quotas representative of the GB population aged 18+ (for age, gender and household income) derived from the TNS national omnibus. Survey recipients were then asked to complete the questionnaire if they were currently, or had in the past five years, been in an informal repayment arrangement, or on a DAS if in Scotland. People living in Scotland were oversampled (n=200) to increase the number of people with a Debt Arrangement Scheme included in the survey. In total 1,003 survey responses were achieved.

As with any online, panel-based survey, the study excludes people who lack internet access. Whilst the survey is not representative of the UK adult population, the data can be used to explore the characteristics of people with debt repayment arrangements and how these characteristics are associated with particular outcomes.

1.4.2 Qualitative in-depth interviews

From the survey, a sub-sample of respondents was selected to take part in the qualitative research to follow up on their survey responses in more depth. The qualitative sample was selected to include:

- a range of geographical areas, including Scotland and England, as well as mix of urban, suburban and rural areas;
- people with different types of debt repayment arrangements, including SNA, DMP with both fee-charging and free-to-client providers, and DAS (in Scotland); and
- a range of repayment experiences, including people who had failed to maintain their repayments, people who had successfully completed repayment plans, and people who were currently in a repayment arrangements, some of whom were finding making their repayments easy and others who were finding it difficult.

A total of 24 in-depth interviews were conducted. The majority of interviews were conducted face-to-face. Telephone interviews were conducted with people who lived outside of the main fieldwork locations, or who were not available during the fieldwork visits for a face-to-face interview. Fieldwork took place in July 2012. A more detailed profile of people who were interviewed is provided in Appendix 1. The topic guide used in included in Appendix 4.

2 Setting up repayment arrangements

Key Findings

- The principal causes of people finding themselves in arrangements to repay unmanageable debts were an unforeseen drop in household income, additional household costs, and heavy reliance on credit for day-to-day spending.
- People often 'struggled on' with unmanageable debts, only seeking a solution when this became unsustainable.
- Most people had not accessed independent debt advice through formal channels prior to setting up repayment arrangements.
- Many people did not shop around to ensure they found the most appropriate solution for their circumstances both in terms of investigating all possible options and in comparing debt management companies.
- The majority of people had found setting up repayment arrangements easy with both fee-charging and free service providers and debt management companies were felt to have offered a professional service.
- People with self-negotiated agreements had made use of a range of budgeting tools including online resources and 'paper' tools.
- People with free DMPs had participated in detailed budgeting processes in contrast to those with fee-charging DMPs, where there was less discussion of affordable levels of repayment.
- People with free DMPs were clearer about repayment levels and plan length, and those with DAS were aware of the statutory requirement for creditors to freeze interest and charges. Individuals with fee-charging DMPs generally had a less clear grasp of what their plans entailed.

This chapter examines the experiences of individuals in setting up debt repayment arrangements. It covers the triggers for setting up debt repayment arrangements (drawing on evidence from the in-depth interviews), how people chose their repayment arrangement and the role of debt advice agencies in this decision making process. From the survey results the features of repayment arrangements are presented, including the length of arrangements and the payment of fees. People's experiences of setting up debt repayment arrangements, their understanding of what they had signed up to and their motivations to repay are also discussed.

2.1 Triggers for action

As outlined in previous research on debt and financial difficulties (Goode and Waring, 2011; Kempson et al., 2004; Kempson, 2002), for most of the in-depth interview participants the cause of unmanageable debts was an unforeseen drop in household income, linked to changes in working hours, the loss of employment, or long term sickness preventing work, the breakdown of relationships or significant life events such as the birth of a child, resulting in additional costs putting strain on household income.

Interviewees reported creditor behaviour, including action or threats of action to recover debts, as a significant trigger for taking action to tackle unmanageable debts and most had experienced demands for payment. While some had managed to maintain debt repayments before entering an arrangement, many had missed payments or found themselves in a cycle of paying a different creditor each month and missing others.

There was variation in the frequency and form of creditor contact. Some interviewees had experienced particularly persistent demands from creditors with repeated phone calls, text messages and letters demanding full payment and threatening court proceedings and other action to recover debts. Interviewees reported feelings of ‘drowning’ in debt, experiencing sleepless nights, feeling unable to cope and in extreme cases feeling suicidal because of the combination of unmanageable debt and constant contact from creditors.

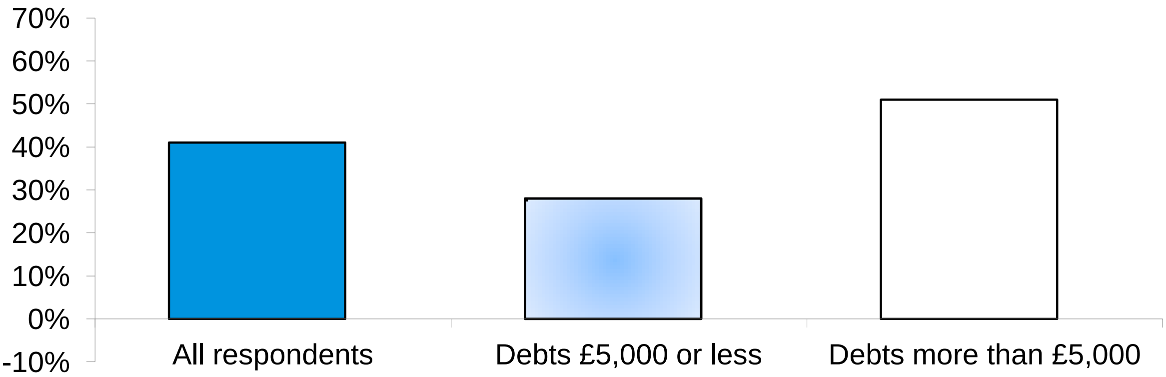
> Interviewees reported creditor behaviour as a significant trigger for taking action to tackle unmanageable debts

The in-depth interviews revealed that in general there is not a single isolated trigger for action, but rather the combination of reduction in income, changes in family or personal circumstances, unexpected life events and contact from creditors coalesce to make ‘struggling on’ untenable.

2.2 The decision making process and the role of advice agencies

It is clear from the in-depth interviews that most participants did not necessarily look for the best or most appropriate solution; they were searching for any solution to address their current circumstances. Interviewees frequently spoke of a desire to do something rather than doing the best thing to address their debt problems. There was little evidence of ‘shopping around’ for the best deal and for the most part interviewees landed on the first ‘solution’ offered to them. The process for choosing arrangements seems to be as influenced by individual circumstances, prior knowledge of debt repayment options and by support networks (family, friends, work colleagues) rather than advice from debt advice agencies, creditors and debt management companies.

Figure 1 Use of debt advice in setting up repayment arrangements



Base: All respondents (1003)

Analysis of the survey data showed that debt advice agencies played a role for less than half of respondents in setting up their debt repayment arrangement (41 per cent). The larger the size of the debt the more likely people were to have sought debt advice (Figure 1). However, this still leaves 60 per cent of people overall who did not have any contact with debt advice agencies.

The main reason why debt advice was not sought by survey respondents who set up their own repayment arrangement, was because they felt they did not need it - over a third of respondents (42 per cent) said they had not needed advice. A small number of respondents did not get advice because they did not know where to go (15 per cent).

Fee charging DMPs and DAS

In-depth interviewees in fee-charging DMPs and DAS did not consider they had received advice through any formal channels prior to taking out their arrangements. Other interviewees with fee-charging DMPs had used the internet to search for debt management companies, basing decisions about which debt management company (DMC) to go with on customer reviews of different companies. These reviews are often subjective making them a potentially unreliable source of information.

The decision making process

One single male with around £15,000 of debts had looked in the telephone directory for debt management companies in the nearby city, selected one and arranged an appointment. In explaining his decision he stated:

> *'I signed up because I was desperate … it was just because I don't really have much family support, it was only me really.'*
>
> (Single male, 48, fee-charging DMP)

Another interviewee had responded to a leaflet that had been put through his door and he admitted that he had not really been certain of what he was signing up for at the time and had not sought advice from any formal channels. He stressed the attraction of being offered what appeared to be a solution to his mounting debts:

> *'I was just hearing what I wanted to hear, you know, it feels so easy and I wondered why I'd never done this before … Personally I just wanted an out you know, I wanted somebody that was wanting to help and I thought that this was the answer to my problems.'*
>
> (Partnered male, 50, fee-charging DMP)

Analysis of the survey data supports the finding that people were not aware of all of the options available to them when they took out their arrangement - of those who were being charged fees, half (50 per cent) were not aware that DMPs could be set up for free. Other reasons why people took out a plan with a fee-charging debt management company are shown in Table 1. Some respondents had tried to get advice from a debt advice agency, but could not get help quickly enough. Others had not sought advice because they did not think the debt advice agency would be able to help them quickly enough.

Table 1   Reasons why respondents chose a fee-charging debt management company

	Per cent
I wasn't aware that this type of arrangement could be set up for free	50
I thought the company I chose was the most able to meet my needs	21
I tried to get help from a free advice agency but they couldn't help me quickly enough	14
I thought I would get a better service if I paid a fee	14
Someone recommended the company to me	13
I did not have time to shop around so I chose one of the first companies I could find	10
I didn't think any free advice agency could help me quickly enough	7

Base: Respondents with a fee-charging DMC (101)[1]

Free DMPs and DAS

Formal advice played a more prominent role in the decision making process for interviewees with a free DMP or DAS, but there was still little evidence of shopping around for the best or most appropriate arrangement. Interviewees with a free DMP had generally been directed to the free-to-client provider by Citizens Advice Bureau (CAB), or had a free-to-client provider recommended by friends, colleagues or creditors.

People with a free DMP or DAS who received advice from CAB were generally positive about the service, but some reported difficulty getting an initial appointment due to high demand or the lack of a local office. Some noted that getting an appointment could take up to three months which they felt was unacceptably long in the context of mounting debts and pressure from creditors. Online searching for debt help also figured in the decision making process for those with DAS.

Self-negotiated arrangements

Interviewees had made use of formal advice agencies, and in particular the CAB. In general CAB were reported to have provided practical assistance such as drafting letters to send to creditors and more emotional support for some experiencing the overwhelming stress of debt. Interviewees suggested that the service offered by CAB varied across localities. Some reported receiving invaluable advice and support, whilst others felt that they had not been offered advice about all of the available options. Some said that they had not received any support.

[1] Percentages sum to more than 100 per cent as respondents could choose multiple responses.

Some interviewees had also made use of online tools and advice such as those offered by National Debtline (My Money Steps) and Consumer Credit Counselling Service (Debt Remedy).

The role of advice and advice agencies in shaping the decision making process varied significantly across all arrangement types. This reflects the variation amongst individuals in their prior knowledge of debt solutions, emotional and psychological state and willingness to seek advice. It is also clear that individuals are unsure where to look for information, the absence of any objective or regulated means of comparison makes it difficult to choose between competing debt management companies, and the Citizens Advice Service is struggling to meet demand.

2.3 Features of debt repayment arrangements

The majority of debt repayment arrangements in the survey, including self-negotiated agreements, were for five years or less (63 per cent) with four in ten (43 per cent) having arrangements that were three years or less. A small group of respondents had arrangements without a set length (17 per cent), and five per cent did not know (or could not remember) how long their arrangement would last.

The overall picture of people's debt arrangements from the survey was that the majority of people had the interest and charges on their debts frozen by at least some of their creditors (73 per cent), indicating the willingness of many creditors to negotiate on the terms of debt repayments. However, around one in six (17 per cent) were being charged interest and charges by all of their creditors.

Analysis of the survey data showed that the size of debt was a key determinant of whether respondents' had a plan that was set up by a debt management company on their behalf - the larger the debt, the more likely this was (Table 2). Overall, thirteen per cent of respondents had a plan set up for them by a debt management company, but this increased to 30 per cent of respondents who had a debt of £15,000 or more.

Table 2 Percentage of respondents whose plan was set up by a debt management company, by size of debt

Amount owed to creditors	Per cent
Less than £2,000	4
£2,001 - £5,000	5
£5,001 - £10,000	9
£10,001 - £15,000	21
More than £15,000	30

Base: Respondents whose plan was set up by a DMC (134)

Where plans were taken out through debt management companies, 71 per cent of respondents were charged fees. The survey findings showed that over two thirds of these respondents (70 per cent) were paying fees through regular instalments. Nearly one in three (30 per cent) had to pay an upfront fee, most of whom were paying regular instalments as well (Table 3).

Table 3 Percentage of respondents whose plan was set up by a debt management company, by size of debt

	Per Cent
Instalments throughout the arrangement	70
Upfront payments and throughout the arrangement	21
An upfront payment only	9

Respondents with a fee-charging DMC, excluding don't know/can't remember (97).

Upfront and monthly fees

Interviewees gave examples of paying very high monthly fees to their DMC; one interviewee with a fee-charging DMP was paying £400 a month, of which £300 was a fee to the company (a 75 per cent fee). There were also examples of high levels of upfront charges. One interviewee with a fee-charging DAS had made two payments of £662 for setting up the plan; another with a fee-charging DMP had paid a £350 fee before he signed up to the arrangement; and another who had experienced two failed fee-charging DMPs paid upfront charges of £1300 and £300 and felt in both instances that nothing had been done by the companies until she had made this payment.

2.4 Experiences of setting up debt repayment arrangements

2.4.1 Ease of setting up arrangements

The survey showed that overall the majority of people (83 per cent) said they had found it easy to set up their arrangement. This is supported by findings from the in-depth interviews. There was significant agreement amongst interviewees (across all arrangement types) regarding the ease of setting up repayment arrangements.

DMP and DAS

Where a debt management company (including both free-to-client and fee charging providers) was involved in setting up debt repayment arrangements most interviewees reported that having made initial contact with the chosen DMC, the process of setting up the plan was very straightforward. For most the process entailed a visit or telephone consultation with a representative of the company during which time details of income and expenditure were taken.

Relief from creditor contact

'It was an absolute nightmare coming home and there's a letter through the door from the bank, warning letters and threats, taking court action and all that, so it was through the CCCS they stopped these letters from coming.'

(Single male, 49, DAS)

There was a clear sense that DMCs focused on delivering a good service to customers and making the transition from unmanageable debts to debt repayment arrangement as stress-free as possible. A particular feature of fee-charging DMCs was the provision of a very 'professional' service with effective salespeople focused on ensuring an easy set up process. Interviewees lacked detailed knowledge about the negotiation process with their creditors undertaken on their behalf, but most received confirmation that their creditors had accepted the plan.

Although interviewees welcomed the uncomplicated set-up process, it was clear that the focus was on repaying debts rather than a broader assessment of the financial needs of individuals; an easy set-up process did not necessarily result in a quality outcome for individuals or mean that the arrangement was the best solution. There was little evidence of discussion of other options for addressing unmanageable debts and little support offered to individuals to improve financial capabilities such as money management or budgeting. Further, interviewees with both fee-charging and free-to-client arrangements were generally unaware of debt repayment options outside of that which they had selected at the outset.

> An easy set-up process did not necessarily result in a quality outcome for individuals or mean that the arrangement was the best solution

Self-negotiated arrangements

Where participants had negotiated agreements with creditors, most reported that the process had been straightforward once dialogue with creditors had begun. However, and in contrast to those participants using DMCs, it was clear that those negotiating agreements with creditors on their own behalf (self-help) spent more time and effort than those entering into either a DMP or DAS. As found in previous research (MacDermott, 2008) interviewees with self-negotiated agreements experienced a range of responses from creditors. Most interviewees reported that offers of reduced payments and requests to freeze interest and charges had eventually been accepted by the majority of creditors. However, some had experienced repeated attempts from creditors to increase repayment amounts (this is discussed further in Section 3.5).

There was little evidence of creditors signposting participants to sources of advice and support. Many interviewees, even where offers of payment had been accepted, had experienced warnings of escalated action against them. In instances where creditors did not accept offers of repayment some interviewees expressed frustration about the attitudes of creditors.

The rejection of offers of payment resulted for some interviewees in creditors seeking county-court judgments. Where this happened, courts generally reduced debts payable to creditors and ordered interviewees to make token payments.

2.4.2 The budgeting process

The in-depth interviews revealed a clear difference in the budgeting process between fee-charging and free-to-client DMCs. Although most participants who had arrangements managed by a DMC had undertaken some form of budgeting, free providers undertook a more thorough and detailed assessment of what was affordable in the context of household spending. Importantly, with free providers, interviewees appear to have played a central role in budgeting either through a face-to-face or telephone consultation, resulting in repayment levels reflecting the needs and circumstances of individuals.

Frustration at creditor attitudes

One 35 year old male had contacted creditors immediately after being made redundant and before he had missed any payments, but had some offers of payment rejected:

'I was immediately honest with them, I told them my situation, I tried to make them an offer that was the most I could afford, they wouldn't accept it and there was nothing more I could do.'

(Single male, 35, self-negotiator)

In contrast, fee-charging DMCs adopted a more 'surface' approach to budgeting, there had often been little or no discussion about affordable levels of repayment, and companies had regularly taken paperwork from participants and come back to them with the repayment level. As explored in Chapter 4, the negotiation process over repayment levels may be a key factor influencing the outcome of repayment arrangements.

Most interviewees with an SNA had made use of budget sheets accessed either through an advice agency or through online tools. Where these tools had been used interviewees were positive about their value. They regarded detailed budgeting as a key factor in negotiating with creditors, enabling the justification of offers of much reduced or token repayments in the face of pressure from creditors to pay more. Even where formal budgeting tools had not been utilised, all interviewees had undertaken some form of listing of income and expenditure. The survey findings showed that one in three (35 per cent) respondents with an SNA did not complete a budget sheet. It could be that these people undertook a rough assessment of their income and expenditure, rather than completing a more formal or detailed budget sheet.

2.4.3 Understanding of repayment arrangements

It was clear from the in-depth interviews that there was substantial variation in understanding of the detail of what had been signed up for. Interviewees, who used a free-to-client DMC, whether for DAS or DMP, generally had a greater comprehension of what their arrangements entailed, knew how long the arrangement would last and felt that the level of repayment had been reached following a realistic and thorough assessment of what was affordable.

Understanding of repayment arrangements

'They always went at the client/customers pace, they didn't say you have to pay more than what you could, it was a case of you pay what you can pay and if your circumstances change then you could up it.'

(Single female, 47, free DMP)

'They worked out to leave you enough money to live on but also an acceptable amount to pay each month.'

(Partnered male, 36, free DMP)

Those who had DAS were very clear that once they and their creditors had entered the scheme, there was a statutory requirement for creditors to freeze interest and charges and not make direct contact.

Interviewees using fee-charging DMCs were far less clear in their understanding of what they had signed up for, particularly in terms of the length of arrangements and the level of fees and charges applied by DMCs. Those paying a fee often lacked knowledge, at least at the start, of how much they were paying in monthly fees to the DMC. There was, however, a greater knowledge of the amount of upfront fees being charged.

Although the set up process was described by interviewees as easy, there were clear examples of individuals feeling they had been misled by companies and not fully understanding the nature of the arrangement they had entered. Some only discovered after several years how long they would be making repayments for and how much they were paying in fees.

There was a sense amongst interviewees that clear information at the commencement of their arrangement would have been beneficial, but also a sense that the lack of clarity was offset by the feeling that they were doing something to tackle debts. Participants with fee-charging DMPs commented:

Well it eases your mind, you're thinking well at least I've sorted this out and you weren't getting as many letters coming to you from creditors.'

(Single male, 48, fee-charging DMP)

'Probably didn't understand it as much as I should have done, but the fact that someone out there was willing to help you, you don't look too deeply, you feel you're getting some help and the amount of stress and worry that goes is, you can't describe.'

(Widowed male, 59, fee-charging DMP)

Understanding of repayment arrangements

A lone parent reported that there was no great clarity from the DMC about the length of arrangement and how much they were taking in fees each month. She also noted that during the budgeting process the company representative had encouraged her to inflate some of her outgoings in order to lower monthly repayments. While this had resulted in a lower payment and a preferable short term financial situation, she felt that this had, in the long term, not been of benefit in actually repaying her debts. She also felt she had been misled by the DMC about the likelihood of her debts being written off by creditors. The company had informed her:

> *'They'd negotiate with the creditors and the creditors would get to the point where they'd turn round and say well oh if she gives us £50 we'll wipe the debt."*

Now five years into her arrangement, her creditors had not written off her debts, and she was still unaware of how long she had remaining to pay and how much she was paying in fees each month. What she was very aware of, however, was how little of her initial debt had been paid off over this period.

It was clear from the in-depth interviews that there are broad similarities between free and fee-charging DMCs in terms of the ease of setting up arrangements, but differences in the level of information and transparency provided to individuals at the outset of arrangements.

2.5 The expectations and motivations of people entering debt repayment arrangements

Most interview participants reported an initial satisfaction with their debt repayment arrangement, and an expectation that their chosen solution would provide a means by which to reduce their monthly debt repayments, clear debts and halt contact from creditors.

Interviewees spoke of a desire to get back on their feet, get their lives back and exert control over circumstances that had often spiralled out of control. Having made an investment in finding a solution, sometimes financial as well as emotional, there was a clear determination to see arrangements through to completion. For some there was a clearly felt moral obligation to repay debts as well as a resolute desire to avoid bankruptcy and the stigma associated with this.

Motivation to repay debts

'I was hoping ... we would come to an agreement with the credit card companies and the other people, that we would pay a specific amount off per month until it was deemed that it was satisfactory that the debt was cleared.'

(Widowed male, 59, fee-charging DMP)

'Once I was in it I felt like I was doing something positive, that I was finding a way sort of out of the mess that I felt I wasn't going to be able to get out of.'

(Lone parent female, 37, fee-charging DMP)

3 Managing repayment arrangements

Key Findings

- The three key factors influencing the ease of managing repayment arrangements were: the affordability of repayment levels agreed at the commencement of the arrangement; positive and negative changes in circumstances; and the response of debt management companies to individuals' changes in circumstances.
- Where detailed budgeting was used to inform repayment levels, people had generally found payments manageable in the context of household spending.
- The majority of survey respondents had found it easy to maintain debt repayments and had not missed a payment; around a quarter had found it difficult to keep up with their repayments
- Almost two-thirds of survey respondents had experienced no change in repayment levels while in an arrangement; one in five had seen their repayments increase, with slightly fewer reporting a decrease. The most common reason for a rise in repayments was pressure from creditors to increase payments.
- There were a range of experiences of on-going contact with debt management companies. In general people valued effective and regular communication, annual financial reviews and online tracker tools.
- The survey showed that overall respondents had found creditors helpful during their repayment arrangement.

This chapter explores the experiences of individuals in managing debt repayment arrangements. This includes discussion of: how people have managed their repayments on a day-to-day basis and what made it difficult or easy to manage repayments; and the impact of changes in circumstances on sustaining repayment arrangements. The use and role of debt advice during debt repayment arrangements; and on-going contact with debt management companies and creditors is also discussed.

3.1 Managing repayments

Around a quarter of survey respondents (28 per cent) said it had been difficult to maintain their repayments, but only five per cent described this as being very difficult.

Participants in the qualitative interviews initially welcomed the reductions in monthly repayments resulting from entering into an arrangement. Regardless of arrangement type, most reported that at the start payments had generally been manageable. Following from this initial relief it is people's longer term experiences of managing these repayments and their ability to sustain them (or not) that this research was most interested in.

The extent to which interviewees found it easy or difficult to manage their debt repayments could be attributed to three main factors:

1. the affordability of repayment levels agreed at the outset of the arrangement;
2. changes in circumstances – both positive and negative; and
3. the response of debt management companies to changes in circumstances.

3.1.1 Affordability of agreed repayment levels

Interviewees who had free DMPs expressed a high level of satisfaction with the ongoing level of repayment, informed by a detailed and thorough budgeting and review process. These interviewees reported that both initial and longer term repayments were set at an appropriate level, taking into account reasonable levels of household expenditure and other financial commitments.

For some interviewees with self-negotiated agreements, repayments had remained manageable because in their initial negotiations with creditors they had made use of budgeting tools to clearly outline what they could afford to repay. Where detailed budgeting had taken place, and creditors had responded positively to offers of reduced repayments, interviewees found that their monthly repayments were affordable within the context of household spending. This was true for those who were dependent on benefits as their main source of income and for those in full-time employment, suggesting that income level was not a sole factor in determining whether repayments were manageable.

There were other interviewees with self-negotiated arrangements for whom negotiations with creditors had resulted in repayment levels being set at an unsustainable level. In some instances this had resulted in interviewees being unable to sustain repayments and as a result declaring themselves bankrupt as unmanageable debts continued to grow.

There were interviewees with DAS and fee-charging DMPs who had found the repayment level set at the start of their arrangement easy to manage and others who had found it difficult. Under DAS, the statutory obligation on creditors to freeze interest and charges was felt to have exerted a degree of control over unmanageable debts, abating the spiral into ever greater indebtedness.

> Repayment arrangements set at an unsustainable level… in some instances resulted in individuals having to declare themselves bankrupt as unmanageable debts continued to grow

Interviewees who had found arrangements difficult spoke of the day-to-day difficulty of balancing debt repayments alongside other household spending. For example, one lone parent reported that she was finding it difficult to maintain the DAS repayments and that there was no spare money after paying her mortgage, utility bills, living costs and DAS. She did note though that having only one monthly debt repayment rather than a number of payments to different creditors had made the process of repayment easier to manage.

A single male with a DAS who had struggled to manage his repayments acknowledged that he had taken on a higher monthly repayment than recommended by CCCS because he wanted to be debt-free more quickly. Managing his debt repayment alongside household spending was an effort every month and despite feeling he was doing something to address his debts, the level of stress associated with his financial position had not been reduced. However, he hoped that the longer term gain would be worth the short term sacrifice.

3.1.2 Changes in circumstances

Changes in circumstances were a factor in the sustainability of repayment arrangements and were often outside the control of participants. For some interviewees, positive changes in circumstances had resulted in an ability to increase repayment amounts and therefore pay off their debts more quickly, such as new employment or receiving a windfall.

Other interviewees had experienced changes in circumstances that had made it more difficult, and sometimes impossible, to sustain monthly repayments, such as loss of employment, cuts to overtime and long-term sickness.

The impact of changes in circumstances

A male with £14,000 of debt and a fee-charging DMP had entered into an arrangement in 2001 that initially at least was manageable. At this time both he and his wife were receiving incapacity benefit and while it was often a struggle to balance the budget, making the monthly debt repayments was manageable. Over time it became increasingly difficult to meet repayments as they were on a fixed income that did not rise in line with increases in utility bills and food bills. Over a period of several years, and with the agreement of their DMC they reduced their monthly repayment amounts, from £350 at the start of the plan to £90.

In 2009 his wife died and the household income from benefit receipt more than halved, resulting in even the reduced payment of £90 now being unaffordable. He contacted the DMC to ask for a reduced payment and was told that they would review the situation. Subsequently, without any information or warning from the DMC he discovered that his arrangement had been cancelled and his creditors started contacting him again for the money he owed. He later found out that £90 was the minimum payment level his DMC would accept. His creditors had also recommenced charging interest and fees on his debts.

The result of this was that the amount he owed rose to just short of his debt levels at the start of the plan in 2001. He is currently unable to make any repayments on the debts he owes because of his low income level, but has also been unable to find an alternative debt solution as he cannot afford the fee to declare himself bankrupt.

Analysis of the survey data showed that almost two-thirds of respondents (64 per cent) experienced no change in the size of their regular repayments. However, this may not necessarily mean that their circumstances did not change during their repayment arrangement. The remainder (36 per cent) did experience a change in their repayment amount, as shown in Table 4.

Table 4 Proportion of respondents who experienced changes to their repayment amount

	Per cent
No – the amount I pay each month has stayed the same	64
Yes – my regular payments went up	18
Yes – my regular payments went down	15
Yes – I paid a one-off lump sum	6

Base: All respondents excluding don't know (959)

The single most common reasons given for repayment levels going up was pressure from creditors to increase payments (32 per cent), wanting to pay off debts sooner (21 per cent) and cutting back on other outgoings (24 per cent). Positive changes in personal circumstances such as getting a new job were also mentioned (Table 5).

Table 5 Reasons why repayment amounts went up

	Per cent
I felt pressured by one or more of my creditors to increase payments	32
I wanted to pay the loan off sooner	21
I cut back on other outgoings	24
I paid off other debts	17
I got a new job	13
My benefits went up	9
My partner got a new job	8
Someone left me some money in their will	2
I started a new relationship which helped increase my household's income	4
Other	6

Base: Respondents who repayment amounts went up (173)

The most common reasons given for repayment levels going down (reported by 32 per cent of respondents) was as a result of household bills going up. Other reasons included losing a job or reduced working hours, becoming ill, having to pay for an unexpected household expense or repay other debts (Table 6).

Table 6 Reasons why repayment amounts went down

	Per cent
My households bills went up	32
I could no longer afford my regular payments because of other debts	16
I / my partner lost a job	16
I had to pay an unexpected household expense / repair	14
I became ill	12
My / my partner's working hours were reduced	11
My benefits went down	10
The relationship with my partner broke down	10
I / my partner had a baby	9
A family member became ill	7
I started caring for a friend / family member	6
A close friend / family member passed away	3
Other	6

Base: Respondents who repayment amounts went down (140)

Where participants in the in-depth interviews had experienced a negative change in circumstances, there appears to be little that they could have done differently to prepare for or mitigate the impact of these changes. In some instances it might have made a difference if there had been more effective support from DMCs, in terms of payment holidays, adjustments to repayments, or advice about other options. It may also have made a difference if interviewees had made greater use of advice agencies when circumstances began to get difficult.

3.1.3 Responses by debt management companies to changes in circumstances

From the in-depth interviews there were examples of both good and bad practice by debt management companies in supporting and responding to changes in their customers' ability to manage debt repayments.

Interviewees with DMPs, with both free and fee-charging providers, reported positive experiences of managing debt repayments as a result of their debt management company responding flexibly to changes in circumstances (both positive and negative) and accommodating these by altering repayments. For example, a partnered male welcomed the flexibility offered by his free provider that had enabled him to make additional repayments on top of his regular payment when he could afford to do so. A single female described the helpful attitude of her free provider, as compared to her creditors, as:

> *'it was like chalk and cheese, the chalk being [bank] and the cheese being the debt company saying, yes we are here to help you, we'll go at your pace, we'll take what you can afford, and if you can pay more if things change we'll go with you.'*
>
> *(Single female, 47, free DMP)*

There was one example where an interviewee with a DAS had used the provision within the scheme to take a payment holiday after having a heart attack and being off work for several months. He felt this had been extremely helpful:

> *'They stopped the agreement for four months, which was a godsend, you know, because I didn't know how I was going to be able to pay the DMP, you know, CCCS over the phone spoke to me and said look don't worry, you know we can cancel these payments for four months until you get back on your feet again … But it just took so much stress off me.'*
>
> *(Single male, 49, DAS)*

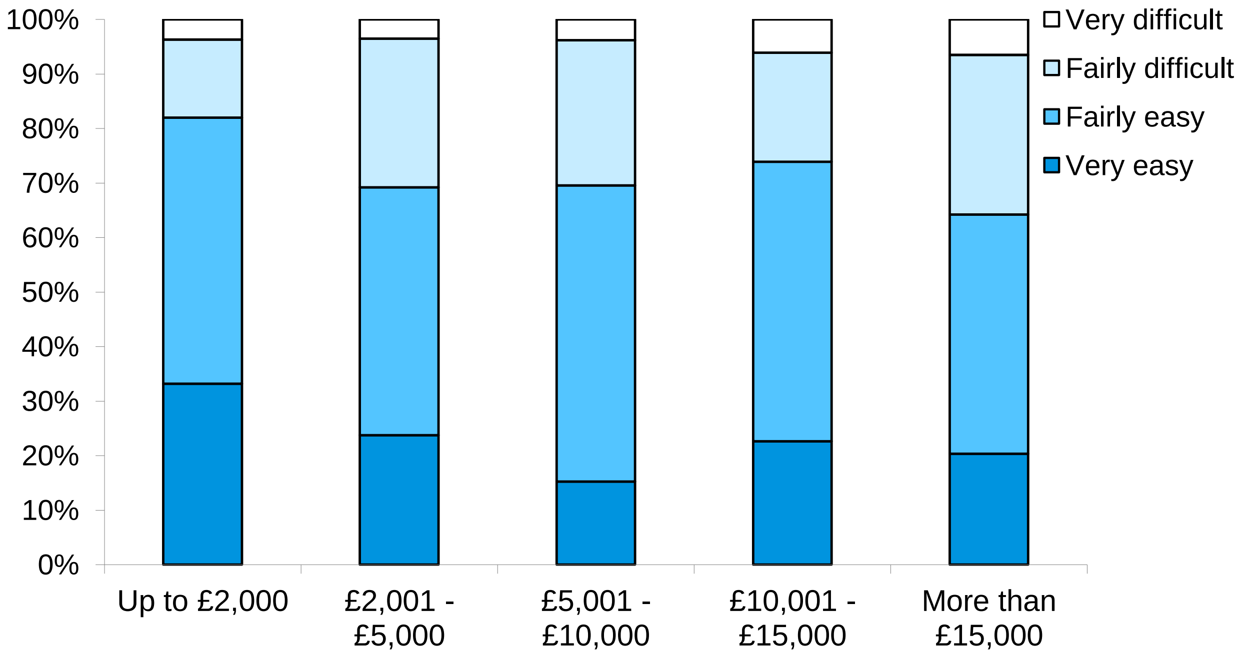
Not all providers responded flexibly to changes in the circumstances of their customers. An example was a partnered male with a fee-charging DMP who, after having his working hours cut, had difficulty managing his repayments. The situation was made worse by the DMC who increased his monthly repayment without any discussion of the changes in his circumstances. As a consequence, and despite significantly cutting back household spending, he had resorted to taking out payday loans to cover everyday expenditure, a course of action that was not, in the long run, sustainable. In spite of the difficulty he had experienced in managing repayments, he remained committed to repaying his debts:

> *'I want to pay people back, you know, it's not as if I'm not wanting to pay them. It's just going to take longer; if it takes me to the day I die I'll pay them back. I'm just wanting time you know, a payment that I can handle, without any of these hidden fees that I've paid, you know.'*
>
> *(Partnered male, 50, fee-charging DMP)*

3.1.4 Size of debt

Analysis of the survey data showed that size of debt was significantly associated with whether respondents found it easy or not to keep up their repayments (Figure 2). Respondents who owed their creditors £2,000 or less, were most likely to say that they found it very easy to make repayments (33 per cent) and were least likely to have found it difficult. Those with debts of more than £15,000 were most likely to say they found making payments fairly difficult (29 per cent) or very difficult (seven per cent). This is discussed further in Chapter 4.

Figure 2 Ease of making repayments by size of debt



Base: All respondents excluding don't know (987).

The survey data also showed a significant association between ease of repayment and payment method. Most respondents made their repayments on a monthly basis (84 per cent) using either a direct debit or standing order (84 per cent). These respondents were significantly more likely to say that they found it easy to manage repayments (73 per cent) compared to those who made non-automated payments (62 per cent) by cheque, cash, via PayPoint or through their bank.

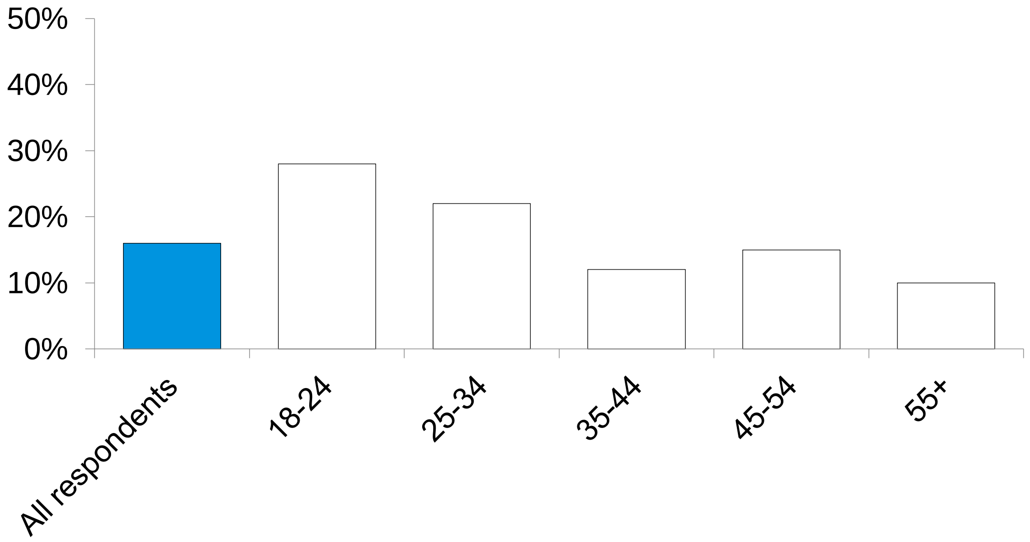
There are two likely explanations for this. Firstly, respondents with automatic payments found repayments convenient and easy from a practical perspective because once set up they would not have to do anything else, other than ensure they had sufficient money in their bank account. Secondly, it is well documented that many low income households avoid automatic payment methods such as direct debits to give them greater control over their finances so that they can ensure that they have sufficient funds in their bank account before any payments are made (Hartfree, 2010; Nice, 2010). Paying bills and other payments manually avoids the risk of incurring costly bank charges if automatic payments leave accounts when there are insufficient funds. Thus, this association between the ease of repayment and payment method may be reflecting the more constrained financial circumstances of respondents who prefer not to make automated repayments.

3.2 Missed payments

The survey showed that the majority of respondents (73 per cent) had not missed any of their regular repayments. Eleven per cent had sought prior agreement with either creditors or the debt management company, with 16 per cent who had not received authorisation for missing a payment.

Age was significantly associated with unauthorised missed payments (Figure 3). Younger age groups were more likely to have missed payments compared to respondents aged 35 and over, with the highest rate of unauthorised missed payments amongst 18 to 24 year olds (28 per cent). Regression analysis also identified age as a significant predictor of whether respondents missed a payment without authorisation – younger age groups had a higher likelihood of missed payments (see Appendix 2 for further details). This association between age and missed payments could reflect a higher motivation amongst older people to make repayments, or greater financial resources.

Figure 3 Unauthorised missed payments by age group



The survey analysis also showed that respondents who always made repayments through manual methods had a higher overall rate of unauthorised missed payments (24 per cent), compared to those who made automatic repayments (14 per cent).

Only one participant in the in-depth interviews had missed a repayment without prior agreement. This was as a result of them having an emergency six week stay in hospital. During this time payments were not being made because they were usually paid manually. The outcome was that the DMC cancelled the DMP.

3.3 The use of debt advice agencies

Some interviewees had made use of debt advice agencies when they began to struggle with repayment arrangements, but these were in the minority. Other interviewees who were clearly struggling to maintain their repayments had not sought advice and were not aware of the support and advice available to them, nor where to find it.

The survey data shows that just under half of respondents who missed a payment got advice from a debt advice agency (44 per cent). Table 7 shows the reasons why respondents said they did not get advice and the channels used by those who did seek advice.

Participants in the in-depth interviews who had contacted debt advice agencies, including CAB, CCCS and local authority based services, reported a range of experiences. Some interviewees had very positive experiences of debt advice and support in seeking alternative debt solutions and completing detailed budgets, while others had felt ‘ashamed’ of decisions they had made regarding their debts.

Table 7 Use of debt advice when respondents missed a payment

	Per cent
Yes, I phoned up for advice	35
No, I did not get advice because I did not need it	23
No, I did not get advice because I did not know where to go	20
Yes, I used the internet for advice	18
Yes, I went to see an adviser	14
Yes, I wrote a letter to an advice agency	6

Base: Respondents who missed a payment excluding don't know (253)

3.4 On-going contact with debt management companies

Participants in the in-depth interviews who had DMPs with fee-charging DMCs reported mixed experiences of contact with companies. Some had received monthly statements of payments made or phone calls informing them that their creditors had been paid. This contact from DMCs was seen positively in contrast with previous contact from creditors. However, interviewees with fee-charging DMPs also reported that the information that they received lacked clarity, particularly in relation to how much they still owed and what proportion of their payment was being taken as a fee. Others had not received any information from their DMC since taking out their arrangement.

Overall, these interviewees were unaware of: how much was still owed to creditors; the proportion of monthly repayments going to each creditor; and how long was left in their arrangement. Interviewees who expressed frustration at the lack of information from DMCs were generally in agreement that the actions of DMCs were disempowering and they felt no greater control over their financial circumstances than prior to entering the arrangement. Motivation to continue their repayments was undermined by a lack of regular, clear information about current debt levels. There was also a feeling that the fees charged by DMCs did not represent good value for money and that companies were doing little to justify charging a fee. As a female lone parent noted:

> *'They don't really do anything, I mean they did initially obviously because they contacted all the creditors and sorted this plan out, but after that point they've not really done anything else other than send me a statement every month.'*
> *(Lone parent female, 37, fee-charging DMP)*

Only one interviewee had a DAS with a fee-charging DMC. In comparison they reported a far more positive experience than those with fee-charging DMPs. They had received regular statements from the company showing how much had been paid off and they were very satisfied with the service received from the company. They did, however, note that: 'for £100 you'd expect their service to be good'.

Interviewees who had free-to-client DMPs and DAS had more positive experiences of contact with DMCs than those in fee-charging arrangements. All reported effective and regular communication through monthly and annual statements. This was seen as playing a key role in motivating them to sustain repayments, as it was clear how much of their debt they had paid off, which of their creditors had been paid what, and how much was remaining. Some interviewees stressed the value of online ‘tracker’ tools enabling them to see at any point how much they had paid off.

Some interviewees stressed the value of online ‘tracker’ tools enabling them to see at any point how much they had paid off.

Interviewees who had undergone an annual review of their plan by telephone, looking at the affordability of their repayment level in the context of their current financial circumstances, found this to be a positive experience and an important factor in helping them sustain debt repayments.

While many found these regular reviews of budgets useful, there were isolated examples of tight constraints being applied to budgets that did not allow much leeway for discretionary spending, something that was felt to make managing payments more difficult:

> *‘I think the worst part is having to say every single item that you spend money on … they [free-to-client DMC] only give you like £15 a month for your cigarettes, I mean for God’s sake I mean that’s what two and a half packets in a month, so things like that.’*
>
> *(Single male, 49, free DAS)*

It was clear from the in-depth interviews that despite some frustrations, and in contrast to some with fee-charging companies, interviewees using free-to-client providers found them to be very supportive. Even though communication was limited to regular statements and annual reviews, participants were satisfied that support was in place should they need anything further.

3.5 Contact with creditors

The overall picture from the survey findings was that many respondents (61 per cent) thought their creditors had been helpful during their repayment arrangement. However, over a quarter (28 per cent) felt they had been unhelpful. Respondents who found it easy to manage debt repayments were significantly more likely to say that their creditors had been helpful (80 per cent) compared to those who had found it difficult to manage repayments (40 per cent).

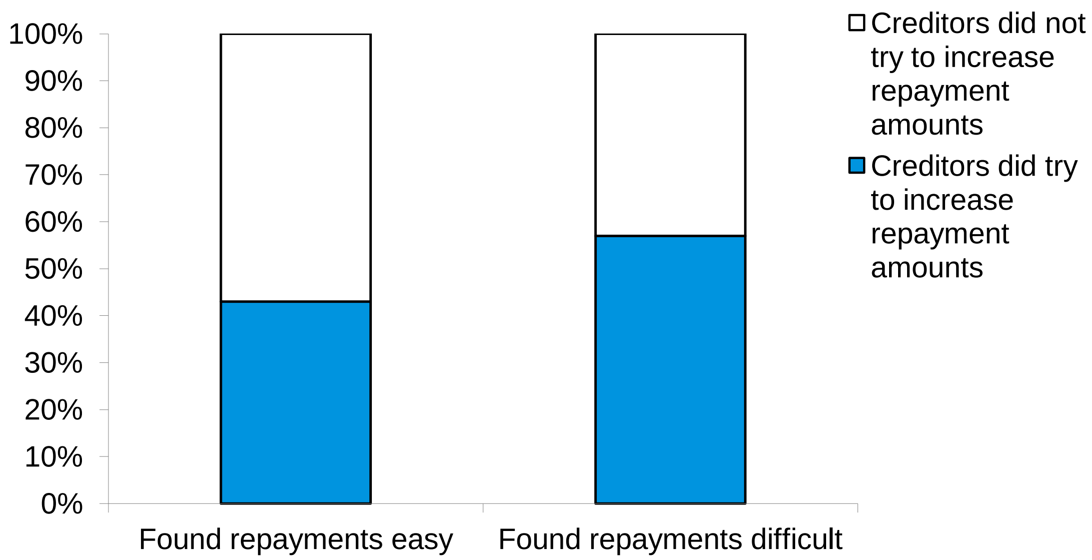
From the interviews, those who were in debt repayment arrangements taken out through a DMC, whether fee-charging or free, had had little or no subsequent contact from creditors. There was a clear sense that arrangements had provided relief from the stress and anxiety caused by contact from creditors. It appeared that creditors had recognised the commitments made by interviewees to repay their debts. Annual statements from creditors were viewed positively as they verified the information being provided by DMCs about the amount of debt they had repaid.

As would be expected those with self-negotiated agreements experienced a greater level of on-going contact from creditors than those with arrangements with DMCs. This contact included creditors notifying people that their debt had been 'sold on' to another company, creditors reviewing repayment arrangements, regular statements from creditors about debts still owing, and individuals contacting creditors to re-negotiate repayment amounts. Some participants reported that they had found this on-going contact with creditors useful.

For other interviewees, the agreements reached with creditors appeared to have done little to stop persistent contact from creditors. For example, a single male living on incapacity benefit was still being contacted by one of his creditors requesting increased repayments, despite him having completed a detailed budget with CAB demonstrating his inability to make any more than a token repayment each month.

The survey data shows that respondents' experience of attempts by creditors to increase their repayment levels after the arrangement had been set up were mixed: half (53 per cent) had not experienced this, whilst half had (47 per cent). It is not possible to know from the survey data what the extent or tone of this contact was. However, analysis of the survey data shows that respondents who found it difficult to manage their repayments were significantly more likely to have experienced attempts by their creditors to increase their repayment amounts (57 per cent) than respondents who found it easy to manage their repayments (43 per cent) (Figure 4).

Figure 4 Ease of making repayments by whether creditors tried to increase repayment amounts



Base: All respondents excluding don't know/can't remember (960).

What is clear from the in-depth interviews is that there is a lack of consistency in the approaches and attitudes adopted by creditors, and different participants reported starkly contrasting experiences with the same creditors.

4 Factors influencing the sustainability and outcome of repayment arrangements

Key Findings

- The two key factors influencing the successful completion of arrangements were sustainable repayment levels and positive changes in financial circumstances.
- The in-depth interviewees showed that individuals who had completed arrangements had undertaken a comprehensive budgeting process at the start of the arrangement, resulting in agreement about an affordable debt repayment level in the context of household spending.
- The main reason why repayment arrangements 'failed' were changes in circumstances leading to reduced income and additional household expenditure.
- Individuals whose repayment arrangements had failed had generally not undertaken as comprehensive a budgeting process, with repayment levels set without an adequate evaluation of how these sat within broader household spending.
- Analysis of the survey data showed that those with the smallest levels of debt were least likely to find maintaining payments difficult.

The research sample comprised people who were currently in a debt repayment arrangement, as well as people who had been in an arrangement within the last five years. Those who were no longer in an arrangement had either completed it and paid off their debts, or had left their arrangement before their debts had been repaid. This chapter explores the reasons why some people were able to complete their debt repayment arrangement, while others were not. Section 4.2 focuses on the multivariate analysis of the survey data that looked at the characteristics associated with people who found it difficult to keep up their repayments.

4.1 Reasons why plans were successfully completed or ended

People who had completed their plans

The majority of survey respondents who had completed their debt arrangement had done so through continuing to make their regular payments (55 per cent). The remainder had increased their regular payments (17 per cent) or paid off their remaining debts with a one-off payment (29 per cent).

It was clear from those we spoke to in the in-depth interviews who had completed their arrangements that there were two key factors that had influenced this: sustainable repayment levels and positive changes in financial circumstances. With practical and viable budgets in place, participants reported a greater sense of control over their debts and over household spending in total. Accompanying this was an altered attitude towards credit and debt amongst some interviewees. For example, interviewees reported feeling a stronger imperative to only spend the money they have rather than relying on credit:

> *'I mean I can now happily sign up for a credit card but I don't want to. I want to keep, because I've got money coming in, bills go out and what's left I can spend, and if I don't have it, the money, I don't buy this or this. I don't want to get a bit of plastic and say I'll have this and this and this and start again.'*
>
> *(Partnered male, 30, free DMP)*

The result of this change in attitude was that participants who had successfully completed their arrangements appeared less likely to find themselves in a similar situation in the future.

People whose repayment arrangement failed

Among survey respondents who had left their repayment arrangement before it was finished, more than half (55 per cent) said it was because they could not afford to keep up with repayments. A quarter (26 per cent) said they decided to stop making repayments. More detailed reasons given by respondents whose repayment arrangement failed are shown in Table 8.

From the in-depth interviews, just as a thorough appraisal of participants' financial circumstances was a key factor in the successful completion of arrangements, the lack of a detailed budgeting process was a key factor in making repayment levels unsustainable. Some interviewees whose arrangements had ultimately failed noted that repayment levels had been set with little consultation or discussion as to how debt repayments sat within the broader context of household spending. For some, the budgeting process was limited to handing statements and other documents over to debt management companies who consequently set the monthly repayment amount with little regard for how this fitted in to other household spending requirements. One single male with a fee-charging DMP commented:

> *'When you go for help they should tell you what you're going to do and what's going to happen, how much it's going to cost, and what happens, you know, go through the process of we'll take so much per month out of this, instead of just saying well you pay us so much.'*
>
> *(Single male, 48, fee-charging DMP)*

Where initial repayments had been set at too high a level, interviewees reported that maintaining these was very difficult and that this exacerbated the feeling of a lack of control over their financial circumstances. It was also clear that some participants in the in-depth interviews felt 'cheated' by the debt solution they had arrived at, frustrated at the lack of clarity from debt management companies and disappointed that the debt repayment arrangement they found themselves in was not the most suitable for their circumstances.

As outlined in Chapter 2, for many interviewees the decision making process leading to taking out a debt repayment arrangement was not informed by clear and detailed advice about the best course of action, but was rather driven by the need to find a source of help for the circumstances they found themselves in. Because desperation may lead individuals to take out an arrangement that is unsuitable and not fit for purpose, in the longer term these arrangements appear more likely to 'fail' and in some instances leave individuals in a worse situation than before.

Table 8 Reasons why repayment arrangements failed

	Number of respondents
I could no longer afford repayments because of other debts	14
I decided it would be better for me to become bankrupt	13
I / my partner lost a job	12
My household bills went up	11
I became ill	10
I had missed too many payments	10
My benefits went down	9
I moved address and lost contact	6
I had to pay an unexpected household expense / repair	5
I decided that a different type of plan (e.g. Debt Relief Order, IVA) would suit me better	4
I felt I'd paid enough	4
I / my partner had a baby	3
A family member became ill	3
I started caring for a friend or family member	2
A close friend or family member passed away	2
I took out credit while I was in the arrangement	2
The relationship with my partner broke down	2
My / my partner's working hours were reduced	1
I was contacted by a company who offered to manage my debts in a better way	1
Other	1

Base: Respondents whose repayment arrangement failed (57)

While there may still be stigma attached to bankruptcy, there were participants in the in-depth interviews who had turned to this option after other solutions had not met their needs. They may have been better served by going bankrupt sooner.

A few interviewees had failed to sustain repayment arrangements because the DMC had either been a bogus company, had disappeared, or had gone bankrupt before any payments to creditors had been made: out of twenty four in-depth interviews, three interviewees had experienced this. While it is not possible to generalise from the experiences of such a small number of participants, it is a concern that out of a small sample of people with informal repayment arrangements, we found several people with this experience. It is clear in each of these instances that there is little more that could have been done by participants to ensure that the DMC they selected was genuine.

A journey through debt repayment arrangements

One single female with a failed DAS and £15,000 of debt, had had a free DMP with CCCS that had failed following a long stay in hospital. As she did not have an automatic payment set-up she missed payments and consequently her DMP with CCCS was cancelled. Following this she contacted a number of DMCs in an attempt to set up another repayment plan. All of these companies had advised her that bankruptcy was the most suitable solution for her in her current circumstances, but she was not prepared to take up this option. Eventually she found a company who were willing to take her on, but after making ten payments to this company she discovered that they were not a genuine company and that her creditors had not been paid. Subsequently, she located a company online who were willing to help her go through bankruptcy for a £200 fee. However, the company advised her poorly and she did not complete the appropriate paperwork. The outcome of this journey through debt repayment arrangements is that she has borrowed the money from a friend to go bankrupt.

It was also apparent from the in-depth interviews that the successful completion, or not, of a debt repayment arrangement was not significantly affected by the motivation of interviewees to repay debts. As outlined in Chapter 2, at the start of arrangements, most spoke of a desire to regain control of the finances which had often spiralled out of control. Regardless of the ultimate success or 'failure' of repayment arrangements, the motivation to repay debts appeared to have been maintained by most participants.

Bogus and bankrupt debt management companies

A single female who had set up a DAS with what appeared to be a legitimate DMC, made ten payments of £20 a fortnight as a fee to the company. Having made the initial payments, during which time no payment was being made to her creditors, she contacted the DMC only to discover that they had vanished. A coupled male with a fee-charging DMP had been making repayments for some time when the DMC increased his payment without any consultation. He tried to contact the company to discuss the situation, but their phone number no longer worked. On contacting CAB who investigated his situation, he was informed that they were a bogus company. Although the company did not appear to be genuine, his creditors had been receiving some payments, although he was paying the DMC £150 a month fee out of a £250 payment. The third interviewee was a single female who took out a fee-charging DMP. She paid upfront fees of £1,300 in order to set up the arrangement, but before any payments were made to her creditors the company was declared bankrupt and she lost the fee she had paid, leaving her in a worse financial situation.

4.2 What determines whether repayment arrangements are sustained?

Quantitative analysis of the survey data explored the factors associated with whether repayments were sustained or not.

Had a debt repayment arrangement that failed

Although the smaller numbers of people who were no longer in an arrangement only allow for indicative results, the survey analysis suggested a higher failure rate for arrangements where a fee was paid compared to free-to-client plans (including DAS and those who self-negotiated). For example, twice as many respondents who paid a fee as those who didn't say they were unable to afford their repayments. Conversely, a higher proportion of non-fee payers than fee-payers stated they were able to complete their arrangement through making regular payments.

Table 9 Proportion of respondents who found repayments difficult by size of debt and monthly repayment amount

	Per cent No fee paid	Per cent Fee paid
I made regular repayments until all the debts had been paid off	50	21
I paid off my remaining debts with a one-off 'lump sum' repayment	25	18
My circumstances improved which meant I was able to increase my regular repayments	13	7
I couldn't afford to keep up with my repayments	5	11
I decided to stop making repayments into the arrangement	11	21
The arrangement was cancelled by my creditors	1	0
The arrangement was cancelled by the company managing the plan on my behalf	1	7

Base: All respondents excluding don't know/can't remember (987).

The importance of the monthly repayment amount was also demonstrated by logistic regression analysis which was used to identify additional characteristics that were predictors of whether or not respondents found it difficult to keep up their debt repayments. Further details of the analysis model are shown in Appendix 2.

This was also a statistically significant predictor of whether respondents found making repayments difficult even when the size of debt was taken into account. Respondents who had repayment amounts in excess of £30 a month had a significantly increased risk of finding it fairly or very difficult to make repayments (odds ratios of between 1.6 and 1.9, compared with an odds ratio of 1 for respondents paying £30 a month or less).

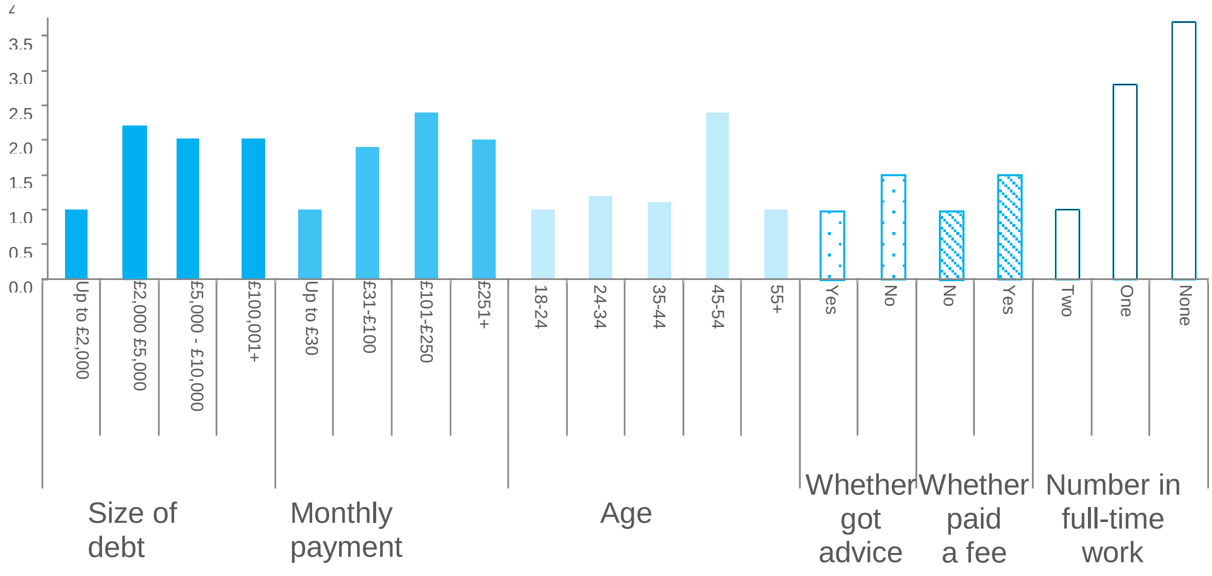
Additionally size of debt was a significant predictor of whether respondents found making repayments difficult. The odds of respondents with debts of more than £2,000 finding it fairly or very difficult to make repayments were between 1.6 and 1.7 times higher than respondents whose debt was £2,000 or less.

Compared with the youngest age category (18 to 24), respondents aged 45 to 54 had nearly a two and half times higher likelihood (odds ratio of 2.4) of finding it fairly or very difficult to make repayments. Whether respondents received debt advice before entering a plan and whether they paid a fee were not significant in predicting the likelihood of respondents finding it difficult to make repayments.

For respondents who had an on-going debt repayment arrangement, regression analysis showed that the work status of the household was a statistically significant predictor of whether they found it difficult to keep up repayments. Where there were two full-time workers in the household, the risk of finding it fairly or very hard to make repayments was lowest. In comparison, having only one person in full-time work, or having no one in full-time work increased the likelihood of respondents finding repayments difficult. For households with one full-time worker, the likelihood of finding it difficult to make repayments was almost three times greater (odds ratio of 2.9) and where there is no full-time worker the likelihood was almost four times greater (odds ratio of 3.8).

Figure 3 shows the results of the regression analysis, based on respondents who were in an on-going debt repayment arrangement. For each characteristic included in the analysis: size of debt; monthly repayment amount; age; whether respondents received debt advice before taking out a plan; whether they paid a fee; and the number of full-time workers in the household, the first category is the reference category with an odds ratio of 1.

Figure 3 Respondents who found it fairly or very hard to make repayments (Analysis based on subsample of those in an on-going debt repayment arrang



5 Conclusion

The chapter considers what lessons can be drawn from the research to inform the future practice of debt advice agencies, debt management companies and creditors, and makes some policy recommendations.

5.1 Implications for Practice

5.1.1 Creditors and Debt Management Companies

The research has identified a range of good practice behaviour that, if adopted by all creditors and debt management companies, would help people to sustain their debt repayments. Good practice includes:

- A greater willingness by creditors to negotiate with individuals at the outset who are trying to set up a repayment arrangement, which would prevent the need for court action;
- A proactive approach by creditors to signposting to free advice at an early stage when there is evidence of customers being in financial difficulties (for example, when first missing a payment);
- Clear, transparent information from debt management companies on the terms of arrangements, including the amount of fees, arrangement length and any minimum repayment limits – encouragement should be given to the use of online tools which allow customers to track the status of their plan, such as those used by CCCS and PayPlan;
- Thorough, detailed assessments from creditors (in the case of self-negotiation) and debt management companies of how much people can afford to repay that include a realistic allowance for household expenses and that are conducted in consultation with individuals, using a standardised system such as the Common Financial Statement (CFS);
- Regular on-going contact with customers through the provision of statements that clearly show how much debt has been paid off, how much debt remains, what proportion of payments have been taken in fees and the length of repayment arrangement remaining; and annual reviews of arrangements;
- Flexibility in adjusting repayment levels (up or down) and offering payment holidays if circumstances change, along the lines of the requirement in the IVA protocol;
- Not pressurising individuals to increase their repayment amount or increasing repayment amounts without the agreement of customers;
- Proactive signposting of customers to free debt advice when payments are missed or when arrangements fail.

It should be noted that the bulk of these good practices are already contained in the Office for Fair Trading Debt Management Guidance (2012) and the Lending Code (2012), for example:

OFT Debt Management Guidance:

– transparency on what the plan entails and fees charged;
– ensuring a realistic budgeting assessment;
– on-going statements to include how much each creditor is being paid and when.

Lending Code:

- proactive intervention & signposting to free debt advice;
- acceptance of the CFS or similar statements;
- creditors to agree to suitable review periods for repayment amounts once an agreement is entered, and not to seek revision of repayments unless the customer's situation has changed.

5.1.2 Debt advice

Overall, there is lack of well signposted pathways to information and advice for people with unmanageable debts. This can result in people seeking solutions that are not in their long-term interests. The profusion of debt management companies also makes it very difficult for people to choose the right provider. There is a general lack of awareness of free debt advice and free options for repaying debts.

Although many people felt that they did not need debt advice either when setting up their arrangement or when they missed a payment, there was a significant minority of people who did not know where to go for advice. There were also people with fee-charging DMPs who had tried to get advice when setting up their arrangement, but found that they could not get help quickly enough. In some cases there was a three month waiting list. Getting a quick solution to unmanageable debts is a priority for some people meaning that they do not feel they have time to shop around or wait for free debt advice. However, greater use of free advice agencies could enable people to choose a debt solution that best meets their needs and help those who are struggling to manage debt repayments to sustain their repayment arrangement.

This has two main implications for debt advice agencies and free debt management providers:

1. There needs to be better signposting to free debt advice including by fee-charging debt management companies, and awareness raising about free debt management services. A difficulty is that the free debt management providers are competing against a large number of fee-charging companies who advertise widely or who appear first on internet search result lists.
2. The debt advice sector, which is already stretched, needs to be able to respond quickly to requests for advice and help. It is important to have a route which creditors can use quickly and efficiently when referring people to free debt advice.

5.2 Policy recommendations

The Government has stated a commitment to improving practice and standards within the debt management industry. The strengthening of guidelines to improve practice and standards should include and build on the good practice identified in this research. The focus of improvement needs to be on the practices of fee-charging debt management companies (although not all employ bad practices) and those creditors who aggressively chase customers for increased payments.

One of the challenges facing a non-regulatory approach is in incentivising companies to sign up to a voluntary code of practice, given it is not a requirement to be a member of a trade association. A key issue is that many consumers who are seeking debt management solutions do not shop around, are not aware of the range of debt solutions available to them and, at a time of desperation, often select the first option they come across. In relation to debt management companies, consumers have very little information about the price (i.e. fees) and quality of the service being offered (i.e. whether the company employs good practice). This would include training qualifications, independent quality monitoring, use of the CFS and holistic advice in budgeting, and not cold calling or using misleading advertising. Without this information consumers are unable to choose the best provider; providers, therefore, have no incentive to compete for customers by improving their practices or by reducing/removing their fees.

The research also shows that some creditors do not abide by current best practice guidelines in the Lending Code, relating to dealing with people in financial difficulties sympathetically and not putting undue pressure on customers. This suggests a more rigorous compliance monitoring regime needs to be developed with appropriate sanctions for non-compliance.

One possibility for debt management companies might be introducing a comparison site showing key features and costs for each plan offered, although the feasibility of such an approach and its usefulness to consumers will need to be explored. It could be productive as part of any research into this area to evaluate the success of the home credit comparison site. Sending a statement of costs, terms & conditions and a letter of authority, with a cooling off period built in, might also allow people to make a more considered choice of provider.

In the event that self-regulation continues to prove ineffective, more robust measures will need to be considered. We would recommend as a minimum the following regulatory measures:

- to prevent debt management companies from charging excessive fees, including a ban on upfront fees;
- better regulation to protect people from bogus or rogue companies;
- to prevent creditors from chasing people for increased payments once an agreement has been entered into;
- to require debt management companies to provide customers with transparent information about the ‘product’ - similar to a Key Facts Document required for investment products - and a requirement to send a consumer charter using a prescribed format; and
- to require independent quality monitoring and regulatory sanctions for non-compliance.

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Appendix 1 Qualitative Research

Participants in the in-depth interviews were selected from survey respondents. The qualitative sample was selected to include:

- A range of geographical areas, including Scotland and England, as well as mix of urban, suburban and rural areas.
- People with different types of debt repayment arrangements, including self-negotiated arrangements, debt management plans with both fee-charging and free providers, and Debt Arrangement Scheme (in Scotland). From the survey responses the qualitative research sought to include respondents who said they had sought advice when setting up their arrangement and those who had not sought advice.
- A range of repayment experiences, including people who had failed to maintain their repayments, people who had successfully completed repayment plans, and people who were currently in a repayment arrangements, some of whom were finding making their repayments easy and others who were finding it difficult.

Table A1.1 Profile of respondents who were interviewed in-depth

	DMP free	DMP fee	DAS	SNA advice	SNA no advice	Total
West Yorks	1 completed		N/A	3 easy		**4**
East Mids		1 failed 1 easy	N/A		1 failed	**3**
London	1 easy		N/A	1 completed		**2**
North West	1 completed	1 failed	N/A	1 easy 1 difficult		**4**
Scotland	1 failed	1 difficult	1 easy 2 difficult 1 failed	1 completed	1 difficult	**8**
Other*	1 completed		N/A	1 failed	1 failed	**3**
Total	**5**	**4**	**4**	**8**	**3**	**24**

*Other areas included: Lincolnshire, Wales and East Yorkshire.

Appendix 2 Regression tables

Bivariate techniques (simple contingency tables) outline whether two characteristics appear to be associated (e.g. age and ease of making repayments). However, it is problematic to use simple associations to infer cause and effect as other factors may be influencing the outcome. Multivariate analysis (in the form of binary logistic regression) was used to consider whether characteristics were associated with an outcome when controlling for other factors.

Factors are included in the model that might ‘predict’ the outcome of interest e.g. whether respondents found it easy or hard to make repayments. For each factor entered into the model (e.g. age), one category (e.g. 18-24) is designated as the reference category, and given a ‘score’ (odds ratio) of 1.0. The scores for each of the other categories are compared to the reference category. For example, for the factor ‘number of full-time workers’, the category ‘two’ has been designated the reference category and so has a score of 1.0. The logistic regression model has calculated that the category ‘one’ (full-time worker) has a score of 2.9. This means that the likelihood of finding it hard to make repayments is almost three times greater where there is one full-time worker than where there are two.

As many respondents were no longer in debt repayment plans at the time of the survey, separate logistic regression analyses were conducted on respondents who had an on-going debt repayment arrangement (see Table A2.2).

Table A2.1 Binary logistic regression model: Found it hard to make repayments (full sample)

Table header	Table header	Coefficient(β)	Standard Error	Significance	Odds
Size of original debt	Up to £2,000			0.08	0.08
	£2,001 to £5,000	0.56	0.24	0.02	0.02
	£5,001 to £10,000	0.49	0.25	0.05	0.05
	£10,000+	0.54	0.24	0.03	0.03
Original monthly repayments	Up to £30			0.02	0.02
	£31 to £100	0.65	0.21	0.00	0.00
	£101 to £250	0.57	0.23	0.01	0.01
	£250+	0.49	0.26	0.06	0.06
Age	18 to 24			0.01	0.01
	25 to 34	0.24	0.32	0.46	0.46
	35 to 44	0.28	0.33	0.39	0.39
	45 to 54	0.86	0.32	0.01	0.01
	55+	0.32	0.32	0.32	0.32
Help from debt agency	No				
	Yes	-0.18	0.16	0.26	0.26
Paid fee	No				
	Yes	0.25	0.24	0.30	0.30
Constant		-2.13	0.33	0.00	0.00

Base: All respondents excluding don't know/can't remember (979).

Table A2.2 Binary logistic regression model: Finding it hard to make repayments (subsample that currently have plan)

		Coefficient(β)	Standard Error	Significance	Odds
Size of original debt	Up to £2,000			0.10	
	£2,001 to £5,000	0.78	0.33	0.02	2.19
	£5,001 to £10,000	0.63	0.34	0.06	1.88
	£10,000+	0.64	0.33	0.05	1.91
Original monthly repayments	Up to £30			0.03	
	£31 to £100	0.67	0.28	0.02	1.94
	£101 to £250	0.88	0.30	0.00	2.41
	£250+	0.74	0.35	0.03	2.09
Age	18 to 24			0.03	
	25 to 34	0.20	0.38	0.61	1.22
	35 to 44	0.11	0.39	0.78	1.11
	45 to 54	0.83	0.38	0.03	2.29
	55+	0.01	0.38	0.97	1.01
Help from debt agency	No				
	Yes	-0.21	0.21	0.33	0.81
Paid fee	No				
	Yes	0.16	0.30	0.59	1.18
Number of full-time workers	Two			0.00	
		1.33	0.35	0.00	3.76
		1.05	0.32	0.00	2.86
		-3.42	0.51	0.00	0.03

Base: All respondents who currently have an arrangement excluding don't know/can't remember (658).

Table A2.3 Binary logistic regression model: Ever missed a payment without agreement (full sample)

		Coefficient(β)	Standard Error	Significance	Odds
Size of original debt	Up to £2,000			0.82	
	£2,001 to £5,000	0.23	0.26	0.38	1.26
	£5,001 to £10,000	0.01	0.29	0.97	1.01
	£10,000+	0.10	0.28	0.73	1.10
Original monthly repayments	Up to £30			0.24	
	£31 to £100	-0.21	0.23	0.36	0.81
	£101 to £250	-0.20	0.26	0.43	0.82
	£250+	-0.67	0.33	0.04	0.51
Age	18 to 24			0.00	
	25 to 34	-0.30	0.30	0.32	0.74
	35 to 44	-1.03	0.33	0.00	0.36
	45 to 54	-0.77	0.33	0.02	0.46
	55+	-1.22	0.33	0.00	0.30
Help from debt agency	No				
	Yes	0.04	0.19	0.82	1.05
Paid fee	No				
	Yes	0.08	0.33	0.81	1.08
Constant		-0.86	0.30	0.00	0.42

Base: All respondents excluding don't know/can't remember (962).

Appendix 3 Arrangement types

Self-negotiated arrangements are informal agreements made directly between individuals and their creditors and can consist of agreed regular payments made to service debts over a negotiated period. In a typical case individuals offer a revised repayment schedule to creditors based on an assessment of their current income, expenditure and debt. Creditors may also offer to freeze interest and charges on debts. While self-negotiated arrangements offer a potentially simple and flexible debt management tool, they depend on an individual's ability to convince creditors to accept their plans and creditors may refuse proposals or impose additional conditions. Individuals can negotiate these arrangements without the assistance of a money advice agency, although there are tools available, such as CASHflow, that enable licensed money advice providers and clients to agree a financial statement (based on the principles of the Common Financial Statement (MAT, 2012)) to be used in negotiations with creditors.

Debt Management Plans (DMP) are informal agreements between individuals and their creditors. DMPs are usually negotiated by a third party, either a private, fee-charging company or a free-to-client organisation, such as the Consumer Credit Counselling Service (CCCS) or PayPlan. As DMPs are not legally binding, their characteristics vary. They can include debt cancelation, but more often they allow people to pay off their debts in full by extending the repayment period and lowering regular repayments. There is no limit on the amount of debt included in a DMP or the length of time a DMP can last, although in reality most companies will look at the viability of the plan in relation to the individual's age and circumstances, and companies will have their own policies on this.

In Scotland the Debt Arrangement Scheme (DAS) was first established in 2004, with amendments made in 2007 and 2011 through the Debt Arrangement Scheme (Scotland) Regulations. The scheme is a formal debt management arrangement run by the Scottish Government that enables individuals in debt to arrange and manage repayment through a Debt Payment Programme (DPP). The DPP allows debtors to pay off debts over an extended period while simultaneously providing protection from creditors taking action to recover debts covered by the DPP. The payment programme may last for any reasonable period and if agreed to by all parties freezes interest, fees and charges on existing debts, resulting in them being written off if and when the debtor completes the DPP. With a DAS debtors are also able to apply for a payment holiday for a period of up to six months. The scheme is delivered by approved money advisers at local authority money advice units or Citizens Advice Scotland.

Appendix 4 In-depth Interview Schedule

Aims / Objectives

- To gain insight into the experiences and behaviour of people in formal and informal repayment arrangements.
- To explore the processes involved and decisions taken throughout the process.
- To ascertain what the key motivations and barriers are to sustaining these repayments.
- To identify how and at what stages interventions can be made to offer support to enable people to sustain their repayments, taking changes in circumstances into account where appropriate.

Note: Interviews will be individually adapted to build on people's survey responses

Introduction

- Introduce self and CRSP
- Explain purpose of the interview
- Explain confidentiality and data protection
- Ask permission to record the interview
- Complete consent form

1. Respondent Background

Who lives with them in their household
Their current employment status - nature of job, length of time in current status
Any recent changes to their household or employment status

Confirm from survey response the type of plan they have - DMP / SNA / DAS – and ask when they took out their plan

2. Circumstances prior to taking out their credit debt plan

What prompted them to take out a debt plan

- what were their circumstances at this time – any changes
- what debts did they have – type, amount [SHOWCARD]
- how were they feeling about their debts – becoming unsustainable
- how long had they been in this situation for – when did their debts start to become unmanageable
- how were their creditors behaving – any threats or actions taken
- what was the trigger for taking out a plan

How did they come to the decision to take out a plan – probe involvement of:

- debt advice agencies
  - what channels did they use – face-to-face, telephone, web
  - were they specifically seeking debt advice or seeking wider help / advice
  - how did they hear about the advice agency
  - did they only receive debt advice or were other issues also covered – probe fully

  - how useful was the advice in helping them understand the available options; giving them confidence

- family and friends
  - what advice did they get, from whom
  - how useful was the advice in helping them understand the available options; giving them confidence

- debt management company
  - who contacted who first, by what channel
  - how useful were they: in helping them understanding the available options; giving them confidence

- creditors
  - who contacted who first, by what channel
  - how useful were they: in helping them understanding the available options; giving them confidence

- If did not receive information or advice from anyone
  - what knowledge did they have about DMP/ SNA/ DAS,
  - from where did they get this knowledge

Did they want to enter into the arrangement – how did they feel about it
What did they want to get out of it – what were they hoping for

3. Setting up their plan

Confirm from survey response:
- If DMP or DAS – who is their plan with (name of company / organisation)
- plan length
- upfront fees / regular charges
- interest and charges/fees by creditors

How did they choose their plan
- did they shop around / look into alternative plans / options
- awareness of advertising
- recommendation from debt advice agencies or family and friends
- use of information booklets, websites including self-help tools
- role of debt management company – were any incentives offered e.g. payment holidays, matched payments

If have a plan with a fee-charging company:
- did they consider free options – why / why not
- explore perceptions of free providers e.g. reluctance to use 'charity', better access to fee-payers out of hours - probe where these perceptions come from
- what were the perceived benefits of the fee-charging company

If DAS:
DAS is a statutory debt payment scheme where all interest and extra fees are frozen and which prevents lenders from taking you to court.

To what extent did these factors influence their choice of plan

All:
How easy or difficult was it to set up their plan
- what help, support, and advice did they get
- how helpful were the debt management company / debt advice agency
- did all creditors accept, or not
- how straightforward was the negotiation process?
- what was their experience of negotiating interest and fee freezes with creditors
- was any re-negotiation needed as a result of any creditors not agreeing
- how easy was it to set up their regular payment

If self-negotiation:
How did they contact creditors - were they able to use the same method for each
What was the process for this
- use of information / advice e.g. self-help websites, advice agency - in person/ by phone/ email/ letter

All:
What was their experience of completing a budget sheet to identify their income and expenditure and the amount they could afford to repay to their creditors
- do they recall completing a budget sheet
- at what point was this done – before or after making contact with creditors
- where was the budgeting sheet from – e.g. downloaded from a debt advice agency website, included within an information pack
- did they receive any help – what, from whom
- how much time did they spend filling it in – a quick estimate or an in-depth review
- how accurate was it
- how useful was it in calculating what they could afford to repay

If started plan by making small (token) payments:
How long did this arrangement continue for
What did the payment arrangements change to
Who dealt with this process
Views on how well this process worked

All:
How satisfied were they with the arrangement at the time
- repayment amount
- repayment method
- repayment timings (weekly, fortnightly, monthly)
- flexibility of payment options
- plan length
- fees / charges
- which of their debts did it cover – which were not covered (incl. priority debts), explore why not
- did it meet their needs

For any creditors that did not agree to the plan or were not approached as part of the plan, what happened to this/these debt/s [cover priority debts too]

- did they still have to pay a debt to a creditor outside the agreement
- what was the financial impact of this

How much did they understand about how their plan and how it would work

- what were their expectations
- If have a fee charging plan – were they aware their plan might last longer

How did they feel about being in a credit debt arrangement

- how motivated were they towards paying off the debt

4. Experience of DMPs / SNAs / DAS

What made it easy/ difficult for them keep up with their payment arrangements

- any changes (positive and negative) in household or individual circumstances
- any new debts incurred, or other debts paid off
- any impact of repayment of debts not covered by the arrangement plan

How manageable are/ were the repayment amounts

- initially and longer term

How do / did they manage their debt repayments on a day to day basis

- what priority did they have within wider household spending – high, low
- reasons behind choice of repayment method

How did making the repayments make them feel about their financial circumstances

- reduce any worries or stress / provide relief
- increase any worries or stress
- initially and longer term

Explore reasons behind:

- Any changes in payment amounts
- Any missed payments – authorised or unauthorised, payment holidays (DAS only)

Explore the impacts of these on:

- their ability to sustain payments
- their wider household finances and budgeting
- how it made them feel

Explore reasons for success in maintaining repayments up to now / completing plan

Explore experiences of contact with creditors during plan period:

- positive / negative experiences
- experience of creditors contacting them for payment
- experience of attempts to increase their payments
- communication by letter
- whether received regular updates of amount paid off / still owed
- frequency of updates
- views on these – helpful / unhelpful

Explore experiences of contact with debt management company during plan period:
- positive / negative experiences
- did they live up to expectations
- methods and frequency of communication
- communication by letter
- whether received regular updates of amount paid off / still owed
- frequency of updates
- views on these – helpful / unhelpful

What help, support or advice have/ did they received from any debt advice agencies
- positive / negative experiences
- probe method of communication and satisfaction with this

Ask all those currently in a plan:

How do you currently feel about your debt arrangement – positive, negative
- have their motivations changed since taking out the plan

How likely do you think you are to complete your plan – why

Ask all those who abandoned their repayment plan:

What caused them to end their plan – probe survey response
- was this expected or unexpected
- what were their feelings about ending it – positive / negative

Did they attempt to negotiate with their debt management company / creditors

Did they seek any advice when knew their arrangement was in danger of failing
- from whom
- what were they advised to do
- did they find this helpful

What happened to their debts after their arrangement ended - probe survey response for what happened and the reasons why
- did they seek further advice, from whom

How do they view the outcome of their arrangement ending early – a positive or negative outcome - why

What, if anything, could have them helped to sustain their repayments
- roles for debt advice agencies
- at what stage in the process could this have made a difference

5. Final Questions

Overall, how would you sum up your experience of your debt arrangement
- how does this compare to their initial expectations – better, worse, same
- probe survey response as to whether it has helped them to control their debts

Prior to taking out your debt arrangement, how would you describe your attitudes towards credit and debt
How would you describe your attitudes now – how have they changed and why

Have there been any changes to the way you manage your finances and household budgeting since you started the debt arrangement
- did completing the budget sheet help in any way

Do you feel any more knowledgeable about DMP / SNA / DAS than before
- what are the most important things to know about

Would you recommend a DMP/SNA/DAS to others – why / why not
- who are they suitable for

Thinking about your experience of the plan and the circumstances that you led you to taking out the plan, is there anything you wish you had done differently

What improvements do you think could be made to the way DMP / SNAs / DAS are set up and managed

What support do you think should be given by …… to help people who have, or are thinking about taking out a credit debt plan:
- debt management companies
- money advice agencies
- creditors
- government

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