

Credit and debt in low-income families

June 2010

Chris Dearden, Jackie Goode, Grahame Whitfield and Lynne Cox

This report examines the experiences of credit and debt for low-income families over a twelve-month period. It was conducted against the backdrop of the global ‘credit crunch’, when a sustained period of readily available credit was followed by recession, increasing unemployment and rising household costs.

Until relatively recently, research on debt has tended to take a static, cross-sectional approach. This has not aided the understanding of how credit and debt are defined and experienced over time by households on low incomes. This report provides policy-makers and those who provide access to credit and advice services with new insights to assist them in reducing the numbers of over-indebted people and in supporting people who experience over-indebtedness and financial crisis.

The report:

- explores the types of credit and debt people living on low incomes used and experienced, and their own definitions of these terms;
- looks in detail at the ways in which people became indebted and lived with indebtedness over time;
- examines how people managed their indebtedness;
- describes the impact on people of living on low incomes and with indebtedness for sustained periods of time; and
- suggests how the government and financial sector might respond to improve the circumstances of people living on low incomes.

Contents

List of tables	3
Executive summary	4
1 Introduction and methodology	7
2 Explaining over-indebtedness	15
3 'Managing' debt, over-indebtedness and resilience to debt	28
4 Conclusions	40
Notes	49
References	50
Acknowledgements	53
About the authors	53

List of tables

Tables

1	Target sample design (numbers achieved)	9
2	Types of credit and debt	12
3	Explaining over-indebtedness	18

Research background

The recent global 'credit crunch' followed a sustained period of readily available credit and rising household indebtedness in the UK. Its impact has been characterised by restriction of access to credit, increased unemployment and rises in the cost of living – particularly for people living in households on low incomes. Although not anticipated during the design of the research, this combination of circumstances provided a unique opportunity to explore the experiences of people living on low incomes who had used credit or who lived with debt.

This study aimed to provide policy-makers, those who provide access to credit and other agencies who work with people on low incomes who are experiencing financial problems with a detailed insight into how people think about and manage their credit/debt over time. It is hoped this report will contribute towards efforts to reduce the levels of over-indebtedness and to improve support to people living on low incomes. It is also hoped that it will inform financial inclusion policy through providing insight into the strategies adopted by people living on low incomes and into the kinds of interventions that may help improve their circumstances.

This study used a longitudinal qualitative design involving 60 participants over a twelve-month period to enable an annual cycle of household financial management to be explored in depth. It explored factors including: previous experiences of credit and debt; personal choices, aspirations and expectations; individual and social resources available to people; and life events that might change people's circumstances. It also explored 'supply side' factors such as the availability and marketing of different types of credit and creditor behaviour.

The casualties of the culture of 'easy credit'

In many ways, people living on low incomes are among the casualties of an earlier era of 'easy credit'. They, and the population in general, were actively encouraged to make use of credit during a period in which few attempts were made by creditors to assess ability to repay or by the government to restrict borrowing. In a society where using credit has become the norm, many of the people in this study found it hard to resist the regular – mainly unsolicited – offers of credit. Even those who knew that taking out further credit was not a real solution felt it was a necessary short-term means of overcoming their financial difficulties.

However, given the limited nature of the participants' financial circumstances, these findings suggest that the subsequent restriction of access to credit is likely to have a particularly significant impact on them given the integral role that credit plays in their day-to-day lives.

The experience of indebtedness

These findings do not present a picture of widespread profligate use of credit to acquire high material standards of living among people on low incomes. More typically, they show people using credit to 'smooth' income and expenditure flows, and moving into problematic debt due to persistent levels of income below that needed to meet their day-to-day needs, their insecure labour market experiences and the financial impact of relatively normal life events such as family formation and unexpected expenditure. The findings also provide insight into the impact of the emotional demands of a continuous struggle to manage over-indebtedness.

The findings highlight points in people's lives that are 'risky' in terms of debt acquisition and of the significant long-term negative impacts life events and early decisions can have. For many,

problems with credit arose through unsolicited offers of credit cards, loans, overdrafts and mobile phone/pay-television contracts in their late teens/early twenties, a time when most had low/unpredictable incomes, little experience of managing their own finances or a limited understanding of the implications of their decisions.

Being unable to manage debt often resulted from significant changes in circumstances, such as their taking out a loan when in work and finding it difficult to meet their commitments later on. Indeed, for some, relatively normal life events such as having a family, setting up and maintaining a home were 'automatic generators' of problematic debt. Once living with debt or credit commitments, the impact of living on a low income for sustained periods was that people often found budgeting and financial management extremely difficult. Few participants (whether in work or not) had much control over their current income or likely income in the future. In these circumstances, people reduced their outgoings and to make ends meet often went without basic needs. Their circumstances also limited their ability to meet their current financial commitments (including existing debts and arrears) or to avoid further use of credit to meet day-to-day needs. Ironically, ending up in this situation was often a consequence of their seeking education/training or taking up (insecure low-paid) work.

The participants were critical of many of the attitudes and working practices of creditors, which they saw as being unfair and discriminatory. Examples they gave included: utility companies' charging policies; excessive bank charges and fees; the overt marketing of loans and credit cards to vulnerable people (including those reaching the age of 18); and the high levels of interest charged by those who specifically target the poor, such as doorstep lenders and those selling goods on credit door-to-door. Many felt the mainstream banks, previously organisations they respected, were the least flexible and applied the most punitive charges, in many cases increasing people's levels of debt.

The participants showed real determination to improve their circumstances. However, very often, the considerable emotional energy needed to constantly juggle the demands on their income became depleted and their earlier progress and ambition towards reducing often long-standing

debts were reversed. In addition, simply thinking about their financial circumstances was an ongoing cause of stress and the cumulative effect over time had a notable impact on mental health and further indebtedness. As such, this research strongly suggests that living on low incomes for a sustained period is likely to lead to over-indebtedness so that it becomes almost impossible to find a route out, regardless of motivation. As a consequence, this research strongly supports the existence of a 'debt trap'.

There is, however, a range of factors that were commonly associated with people being in control of or changing their circumstances. Those with some degree of financial literacy and credit averseness had some 'protection' against further indebtedness. Even modest savings also acted as a 'buffer' for some, although saving modest amounts was mostly confined to those in regular work. Money advice was not commonly taken up, but where it was, it made a big difference by making people aware of their options and enabling them to access provisions to clear existing debts. However, the main way in which people were able to make a meaningful impact on their debts and on improving their circumstances was through their ability to work and maintain a reliable income (above minimum income levels) over a period of time.

Conclusions and policy implications

Any policy response to these findings needs to acknowledge the complexity of the lives of people living on low incomes in relation to their use of credit or experience of debt. Making a real impact will require careful consideration of people's lives in a dynamic way, rather than focusing on single aspects of their lives in isolation at a single point in time. This is a complex issue for which there is no simple solution.

The main conclusion from this research is that it would be counter-productive if government efforts to introduce regulations to deal with the borrowing culture in the general population had the greatest impact on people who use credit to smooth their financial circumstances and meet their day-to-day needs. In order to avoid an increased shift from formal to informal and less regulated providers, it is essential that

low-income households have access to readily available, affordable, low or no interest credit.

These findings strongly support the idea of work as a route out of poverty. However, they also demonstrate the adverse effects on families' capacity for effective financial management in the context of repeated episodes of moving between low-paid, short-term, insecure employment and being reliant on benefits. In line with other research, these findings suggest that current benefit levels are inadequate and the minimum wage is insufficient to sustain a minimum standard of living in the medium to longer term. One of the most striking findings is that the wider impact of living on an inadequate income for a sustained period severely limits people's ability to meet their day-to-day expenses, to avoid taking out further credit or to avoid becoming over-indebted.

As such, unless benefit levels and minimum wage levels are addressed, then many people living on low incomes will remain vulnerable to increasing indebtedness in order to meet their day-to-day needs and may fall into a 'debt trap', from which their ability to escape (and indeed motivation to maintain the effort required to do so) diminishes over time. The study also highlights the importance of the availability of sustainable well-paid employment and the need for focused timely support for people undertaking training/education and taking up work. Otherwise, there is a risk that people's willingness to do these things may be reduced (even if it *may* lead to longer-term financial stability) as a result of additional costs incurred by delays in the benefit system. Without action to address these issues, it would seem unlikely that government ambitions for the reduction of poverty, unemployment and long-term receipt of health and disability-related benefits will be achieved.

The recently announced plans for the provision of advice on debt and money management for school aged children and similar initiatives are welcome developments. However, these findings show that raising people's financial capability in isolation will have little overall impact and that other, more structural, issues need to be addressed if the circumstances of people living on low incomes are to be improved. This research indicates that if efforts are to have the impact where the need is the greatest, it must be a priority for them to be

provided in the most disadvantaged areas. There is also a need for similar provision for people in permanent low-paid or sporadic employment if their circumstances and prospects are to be improved.

It is also clear that the availability of savings and access to money advice are both critical. While the Saving Gateway is a promising form of provision, these findings suggest that allowing people to access their money at times of crisis without penalty would particularly benefit those who are over-indebted and may encourage additional take-up. Similarly, the provision of professional money advice needs to respond to the reality that a neat pattern of indebtedness, followed by advice and becoming debt-free, is rare. These findings suggest that ongoing contact by telephone would be both beneficial and cost-effective.

The fact that people on low incomes pay the highest charges for utilities such as gas and electricity also runs counter to the government's aim of improving financial inclusion and, given that many people on low incomes cannot/are reluctant to set up direct debits, this is a significant cause of indebtedness for people on low incomes through no fault of their own. As such, these findings support the idea behind the 2006 EU directive to reduce cost differentials between payment methods as this would have an immediate and marked impact.

Concluding remark

The consequences of the 'credit crunch' and recession have been considerable and far reaching and the swathe of planned and proposed initiatives in response will have significant consequences on how a whole range of families manage their household budgets and commitments. As such, the findings from this research are likely to be relevant to a wider population than just those on the lowest incomes.

1 Introduction and methodology

Introduction

This research involved fieldwork being conducted over a twelve-month period with people living on low incomes who had used credit, lived with debt or who were likely to do so in the near future.

The study aimed to expand on the understanding provided by existing research and analysis by developing the approach used in previous poverty dynamics research. It aimed to inform the understanding of the relationship between debt and poverty, by examining whether short- and long-term over-indebtedness have different consequences in terms of the experience of people living on low incomes in the UK and whether persistent and transient poverty have different outcomes for people in terms of their use of credit or experience of debt.

This research was very timely. While not anticipated during its development, this research was conducted at the time of the global 'credit crunch', which followed a sustained period of readily available credit and rising indebtedness among the general UK population. Fieldwork was conducted against a backdrop of impending and then actual recession, increasing unemployment and rising household costs. While this study was not focused on the general impact of the recession in itself, it provides a unique opportunity to explore the experiences of people already living in often difficult financial circumstances during a particularly turbulent period.

Background

Much has been made in the media over the last few years about the levels of consumer credit and debt, and in the last 12 to 18 months of the contribution of this to the 'credit crunch'. Household indebtedness in the UK has been increasing over the past decade. This raised concerns about the potential medium- to long-

term financial implications for households and their ability to continue to service these debts and, in particular for people in low-income households, to maintain themselves while doing so.

By mid-2002, a fifth of British families were in arrears with their financial commitments, including unsecured borrowing and arrears on utility and other household bills (Kempson *et al.*, 2004). In July 2004, the stock of personal debt in the UK, both secured and unsecured, had passed the trillion mark – one thousand billion pounds – for the first time (McKay, 2005), and now adds up to a figure in the region of £1.44 trillion. By May 2007, average debt in the UK, excluding mortgages, was estimated to be £8,833 per household (Credit Action, 2007). In addition, it is well documented that consumer credit has been widely used in the UK as a means of smoothing consumption over time and managing finances flexibly. However, it can also lead to financial difficulties and over-indebtedness (DTI/DWP, 2004).

Despite the fact that there is some acknowledgement in government initiatives to reduce poverty of the association between low income and debt, the link between debt and poverty has not been explored in depth. As with much poverty research conducted over the last few years, until relatively recently research on debt (and, hence, policy in this area) has tended to take a cross-sectional and static approach. This has resulted in there being a lack of understanding about how people on low incomes use credit and live with debt over a period of time. It has also meant that there is little understanding of the perceptions of credit and debt among people in these circumstances themselves.

The concern that there was a lack of understanding of how people on low incomes viewed and used credit and lived with debt was the impetus behind the Joseph Rowntree Foundation commissioning this research project.

Aims of the study

This project aimed to address the gap in the evidence and provide new insights into how debt is defined and experienced over time by households on low incomes. The overall aims were to investigate:

- What factors make households vulnerable to debt?
- What ‘triggers’ debt? What is the relationship (if any) between these triggers and those of poverty?
- What impact does debt have on households’ experience? How does this fit with the wider experiences and consequences of poverty?
- How do over-indebted people manage their debts? How do they deal with ‘critical moments’ of financial crisis resulting from/causing debt?
- How do low-income households get out of debt? How does this relate to movements out of poverty?

By adopting a perspective derived from the poverty dynamics approach, this research aimed to unpack the complex inter-relationships between debt and poverty over time. It also aimed to provide policy-makers, those who provide access to credit and other agencies with information to assist them in reducing the numbers of over-indebted people and supporting those people who experience over-indebtedness and financial crisis. The study also aimed to inform financial inclusion policy through contributing to understanding of the strategies that are adopted over time by people living in households with financial difficulties.

The poverty dynamics approach

This study developed the approach set out in the existing literature on poverty dynamics (Smith and Middleton, 2007). At the heart of this approach is a core belief that households’ income and circumstances are not static but instead change over time. That is, from this perspective,

‘the poor’ do not exist as a fixed homogenous category, but instead are seen as groups of people who have a range of experiences or who pass through a number of states (such as temporary, recurrent or persistent poverty, and ‘near poverty’ or ‘severe poverty’) over time.

By showing the factors that increase people’s risk of entering poverty and the events associated with actually triggering a move into poverty, poverty dynamics research has provided policy-makers with a clear indication of the corresponding events associated with people moving out of poverty and the factors that protect people from entering poverty in the first place. Extending the poverty dynamics perspective to the study of credit/debt suggests that it too cannot be fully understood as a static snapshot, but – like poverty – it is a diverse and dynamic aspect of people’s lives and something that needs to be explored over time.

Existing research in this area has used both quantitative and qualitative methods. Statistical longitudinal research shows that there are different types of poverty and that people use credit and experience debt in different ways; both need to be understood in respect of the way different people move into and out of these states, and in terms of their impact over time. For example, longitudinal analysis using data from 1995 to 2002 found that movements into and out of arrears were relatively frequent, even among lower-income families (Kempson *et al.*, 2004). It also found that over a period of a year the position of around three in ten families had changed in relation to arrears: 34 per cent without arrears had acquired them and 26 per cent with arrears had ceased to have them. However, statistical longitudinal research is often limited by two factors: first, the availability of comparative data over time and, second, the prescribed question-and-answer format, which limits the range of factors and events that can be considered as mediating change. This also limits its ability to clearly represent the lived experience, perceptions and aspirations of people living on low incomes who are using credit or living with debt.

A number of qualitative studies have also explored the impact of poverty and debt on people’s lives. There is evidence to indicate that the income of most low-income households fluctuates frequently, for example, because of

movement between benefits and work (Hills *et al.*, 2006). However, an important minority (including households on out-of-work benefits for long periods) experience persistently low income. The literature suggests that the length of time on low income can affect people's ability to manage financially in apparently contradictory ways. Those who have recently moved into low income may be able to manage financially better than those who have been on a low income for long periods, if they have savings. However, they may cope less well if they take debts with them into low income. Those who have been on a low income for long periods may manage better because they have adapted to life on a low income, or they may find it harder because they are less able to deal with crises (Dobson, 1994; Kempson *et al.*, 1994; Kempson, 1996).

This research design aimed to develop the poverty dynamics approach and to ensure that the lived experience of people living on low incomes and who had (or were likely to have) experience of the use of credit/debt was at the heart of the investigation.

Methodology

This study used a flexible longitudinal qualitative design that was intended to allow regular and intensive contact with 60 participants over a twelve-month period. This period was selected so that changes in circumstances and, in particular, 'trigger' events and their consequences could be quickly identified and explored. In addition, conducting the fieldwork over a twelve-month period enabled an annual cycle of household financial management to be observed and explored.

In contrast to previous longitudinal studies, this design also enabled the research to take into

account an unrestricted range of mediating events and factors including personal agency, choice, aspiration and expectation, individual and social resources, life events (such as couples setting up home together) and 'supply side' factors, such as the availability and marketing of different types of credit.

The research was undertaken as follows.

Recruitment

Recruitment was undertaken door-to-door by BMG Research in areas of Derby, Nottingham and Leicester using a carefully designed screening tool. The areas in which recruitment was undertaken had previously been identified as electoral wards with high concentrations of low-income households.

Selection for participation involved a number of core criteria (summarised in Table 1). Defining 'long term' as the previous three years, roughly equal numbers from three groups were sampled: the long-term low-waged; those in long-term receipt of benefits; and those who had moved between these two categories (often referred to as 'churners'). Within these groups, care was taken to ensure that sufficient numbers of families with and without children were included and that there were lone-parent and two-parent families.

Only households with an annual household income below £20,000 were considered eligible for selection. In the event, the vast majority of those recruited had an income of below £15,000 and almost half had an income below £10,000. Being on a low income was the major criterion, alongside current or previous debt and the use of credit. No consideration was given to other dimensions, such as material or social deprivation, although many of the households also experienced these.

In terms of demographic characteristics, the recruited sample consisted of 33 women and 24 men (although partners sometimes participated in

Table 1. Target sample design (numbers achieved)

	Long-term out-of-work benefit recipients	Long-term low-waged households	Households who 'churn' between work and benefits
Households with dependent children	10 (11)	10 (9)	10 (8)
Households without dependent children	10 (11)	10 (9)	10 (9)

interviews too) and the age range was between 20 and 60 years. Just over half of participants were in partnerships, and the rest were a mixture of female and male lone parent households, and single (female and male) households. Participants included people from a range of ethnic backgrounds.¹

Fieldwork

The first stage of the research involved initial **in-depth face-to-face interviews** with each of the 57 households recruited. This was intended to obtain baseline information and to enable selection of the case study participants. The remainder of the research was designed as follows:

- **Case studies:** On the basis of preliminary analysis of the initial interviews, twelve households were purposively selected as in-depth case studies and interviewed face-to-face every two months. A key criterion for selection was whether there was some indication that significant change *might* occur over the coming months, for better or worse – an expectation of work, for example, a court administration order being made, or a threatened eviction. This was intended to allow exploration of the wider issues associated with poverty and debt over time including, for example, informal support networks and experiences of social in/exclusion.
- **Regular follow-up:** The remaining 45 households were interviewed by telephone once every two months to maintain brief running updates of changing circumstances. This was intended to capture an overview of the dynamics of poverty and debt over time and also to allow identification of households experiencing critical moments/events, such as movement into or out of employment, or crises in debt management. Some households identified as having experienced a significant change or critical event were interviewed face-to-face to explore these in more depth. The time span of a year also allowed the capturing of seasonal and other time-specific demands on household income such as birthdays, holidays and Christmas, as well as the impact

of emergencies, such as washing machine or fridge breakdown, and price increases, such as those relating to food and domestic fuel.

- **Final interview:** All participants were interviewed again at the end of the project in order to clarify unresolved issues and expand on observations. At the end of the twelve-month period of the fieldwork, 50 of the original 57 participants remained – an attrition rate of 12 per cent. Of the seven participants who did not have a final interview, four had had only an initial interview and three had had two or more interviews, but subsequently became untraceable, despite many attempts to contact them and retain them in the research.
- **Check back with participants:** The final stage of fieldwork involved all households being invited to take part in a discussion group (one each in Derby, Leicester and Nottingham) at the end of the project to elicit feedback on findings, and to discuss and develop the policy implications of the study. In total, 21 people attended these, including, in some cases, participants' partners. As not all participants were able to attend these discussion groups, all 50 were asked in their final interview what they felt could or should be done to help people with debts and whether they would make any changes to policy or practice in this area.

All participants were given small payments to acknowledge the time they gave to the research and to aid retention. They were given £15 for the initial interview, £5 for each telephone follow-up interview and £35 for the final interview. Those who were selected as case studies were given £15 for each face-to-face interview and £35 for the final one. Those who attended the focus groups were given £30 to cover their time and any associated travel costs. It is increasingly common to offer research participants small incentive payments and, for this particular study, was considered essential as a key way of encouraging retention over the duration of the project.

A strength of the design was this flexibility not only to recognise the 'dynamic' nature of people's employment status, household composition,

experience of poverty, credit and debt, but also to respond in a dynamic way to such changes, and to bring people, events and issues into greater focus as and when warranted. The relative intensity of this approach also helped in the gathering of reliable, detailed information (both 'as it happened' and retrospectively) and was a key factor in the low level of attrition during the study.

As contact with participants was primarily via mobile telephone, and arrears on payments often led to these being cut off, the relatively low attrition rate was a significant achievement. This was a result of the considerable effort that went into establishing and maintaining links with participants, and the good research relationships that can build up on a longitudinal qualitative project, but also as a consequence of the importance participants themselves attached to the subject being studied, its topicality and the perceived value of having their experiences and views represented. This was a key element in the success of the project.

Analysis

Interviews were analysed in two ways. First, as significant issues emerged (for example, the way different types of credit were used and different kinds of debts managed, participants' experiences of professional money advice, the occurrence of debts 'inherited' from a former partner, etc.), these were identified and used to analyse all the data thematically. Second, in keeping with the aim of mapping the dynamics of change over time, a narrative approach was taken to documenting participants' 'stories': their trajectories over a year, critical events and turning points, how they themselves made sense of their experiences, and how this affected the way the year unfolded. This twin approach is reflected in the report by the inclusion of findings on particular themes and issues, and of case studies that portray the complexities of people's lives, the interactions of different factors and the dynamics of change over time.

Defining debt and over-indebtedness

Despite a considerable amount of policy interest and a substantial body of research on the levels

and nature of personal and household debt, there is no generally accepted definition of when and how debt becomes a problem. However, a range of different definitions have been used in different contexts, including what are often termed 'objective' and 'subjective' measures.

Objective measures are those derived from legal or statistical measures. To the extent that an 'official' measure exists, this uses a variety of quantitative formulae and clusters of indicators of over-indebtedness, including: 50 per cent of gross monthly income spent on total borrowing repayments; 25 per cent of gross monthly income spent on unsecured repayments only; and having four or more credit commitments (DTI, 2005).

Legal definitions of over-indebtedness use the notion of 'insolvency', meaning 'other than temporarily unable to pay a debt on schedule' (Act of Debt Adjustment 1993/57), which is reflected in the widely used definition that households or individuals who are 'in arrears on a structural basis, or are at a significant risk of getting into arrears on a structural basis are described as over-indebted' (Oxera Consulting, 2004).

A number of other quantitative indicators of over-indebtedness are also in widespread use such as household debt to income ratios, as well as a broader range of statistical 'proxies' such as number of bankruptcy proceedings; private debt restructuring petitions received by courts; debt write-offs on credit card debts; debtors registered by the Ministry of Justice as 'in distraint' or claims being exacted 'in distraint'; and numbers of new customers contacting debt advisory organisations.

In contrast, subjective definitions are of a more qualitative 'self-declared' nature. For example, a widely used subjective definition describes individuals as being over-indebted if they declare their household borrowing repayments to be 'a heavy burden' (DTI, 2005; Tudela and Young, 2003). This definition broadly parallels that used in a number of international studies (Betti *et al.*, 2007; Muttillainen and Reijo, 2007; Haas, 2006).

This study focused on the definitions people living in low-income households had of the circumstances in, and extent to which, owing money became and remained a problem for them. The relative 'severity' of debt and the distinction

between ‘debt’ and ‘over-indebtedness’ – and how this varied – was also examined in terms of participants’ own definitions (this is discussed in detail in Chapter 2). This was a core element of the approach adopted in that it provided an opportunity for participants to propose and examine their own definitions of these concepts, set out what they viewed as being problematic as well as (where appropriate) offer suggestions as to what could be done to help people in similar circumstances in the future.

Types of credit and debt among participants

Within the sample as a whole, 17 different kinds of credit use/debt were reported in the initial screening questionnaire (see Table 2).

This is probably a conservative list and it is reasonable to assume many participants had additional types of credit/debt to those reported. For example, some potential participants reported having no debts at the point of screening but on further questioning turned out to have significant arrears or borrowing; among the case study participants who were interviewed in depth at home

every two months, additional and higher levels of credit/debt were disclosed during the conduct of the research as a relationship of trust built up.

It was also the case that most of those interviewed were using more than one kind of credit and/or had more than one type of debt. Many of those with such multiple forms of credit/debt reported ‘juggling’ their repayments rather than regularly servicing all of them – for example by taking out loans to service credit card debts or using credit cards to make mortgage payments.

The ‘snapshot’ picture obtained at the beginning of the research indicates that arrears with bills were the most commonly reported form of debt. Although people typically reported that they prioritised the payment of fuel bills, arrears on gas, electricity and water rates featured prominently. Some interviewees reported that lack of awareness of their obligations and the infrequency with which bills arrived explained the accumulation of some often large arrears. Lack of awareness was a specific issue raised in relation to water rates arrears, which were in some cases substantial. However, water bills were often treated as a low priority as people were aware that water would not be disconnected, unlike gas

Table 2. Types of credit and debt

Type	No. of participants
1. Arrears on bills	30
2. Credit card	20
3. Overdraft	17
4. Catalogue	16
5. Loan from family	16
6. Rent arrears	14
7. Bank loan	13
8. Doorstep loan	11
9. Instalment purchases (e.g. BrightHouse stores)	11
10. Social fund loan	9
11. Mortgage	8
12. Loan friend	8
13. Court debt	7
14. Credit union loan	6
15. Student loan	4
16. Store cards	3
17. No debts	3
18. ‘Other’ debt	1

or electricity. Although some households had secured lower charges for utility bills by making arrangements to pay by regular direct debit, some lost the financial advantage resulting from this when their 'juggling' of other demands meant there were insufficient funds in the account when direct debits were taken. In these circumstances, participants commonly reported being heavily penalised by what they considered to be punitive and disproportionate bank charges which bore little relation to the amount overdrawn or the amount of the payment. In response, some participants felt it was a better option financially to go to court to negotiate payment of bills through regular, more manageable instalments.

Related to the issue of utility bills, many participants' mobile phones were often cut off for periods of time – sometimes by their provider when these bills went unpaid and sometimes by themselves by choosing not to 'top up'. Given that this was the main way in which they were able to contact and be contacted by others, the sporadic nature of this connection often had a significant impact.

Instalment buying was reported from catalogues and from stores like BrightHouse, where goods are primarily bought on a 'pay weekly' credit basis. This form of credit was used primarily for furniture and household goods. A more unusual, though not uncommon, way to buy such goods on credit is with loans repaid via a 'pay per view' arrangement. This is where a meter is fitted to the television (although it is not necessarily the television that is being bought in this manner), which enables a set number of hours to be viewed per £1 fed into the meter with a 'tariff' being set in accordance with usual viewing patterns and monthly repayment levels. The box is emptied every two months, and the tariff adjusted if necessary to keep up to date on payments. Refunds of any over-payments when the box is emptied were sometimes fed back into the meter as a way of 'lowering' the tariff, or were seen as a way of 'saving' to pay other bills. As with other kinds of borrowing undertaken, many were fully aware that disproportionately high levels of interest were being charged in these forms of credit, but they saw no alternative way of purchasing these goods and, in these circumstances, whether or

not the weekly repayment was a manageable amount was more salient than how much more expensive the item was, with interest added, than if they had been able to exercise greater choice by 'shopping around' as a cash buyer.

Borrowing from family and friends, well-documented in studies of low-income families, often happened on a reciprocal basis, and in these circumstances, either expectations of repayment were said to be low, or a greater sense of obligation to repay appeared to substitute for any need for sanctions. However, this often meant adult children borrowing from older, sometimes pensioner parents, who were themselves living on a low income. Despite family ties and friendships, this did sometimes put a strain on relationships.²

Credit card debts were often in respect of items purchased years ago when in a more financially secure position; in some cases, interest continued to mount while they no longer used this form of credit, being ineligible now to do so.

Overdrafts were not always pre-arranged, resulting in incurring charges. There were also examples of participants struggling to repay bank loans taken out during an earlier period of employment, and evidence of unsecured loans being placed in the hands of debt collecting agencies. Experiences of relationships with such agencies varied, but some certainly found agency personnel intractable, and occasionally highly unpleasant.

In contrast, those using *doorstep lenders* tended to do so in a 'serial' way, having a friendly and long-standing relationship with the company through the agents who collected payments. Serial borrowing was often encouraged by loan companies, such as Kingstons and Provident, who were reported as representing customers' ability to repay as a demonstration of their having earned the right to borrow more – as a kind of 'reward'. Again, the 'manageability' of instalment amounts and the flexibility to miss repayments from time to time was more important to borrowers than the interest being charged. It also meant that some participants prioritised these repayments above more routine bills such as gas and electricity as a way of retaining access to this form of credit in the future. *County Court Judgements* were seen as particularly important to avoid if possible

as these also affected future prospects of accessing credit.

Catalogue companies did not seem to be too demanding in respect of debts, and so were often prioritised less highly. Less popular forms of borrowing (at least at the point of recruitment) included the Social Fund and Credit Unions. *Social Fund loans* had been taken out by some participants to cover such things as Christmas and holiday expenses; the fact that repayments were deducted at source was on the one hand seen as removing the worry associated with ‘juggling’ but, on the other, led to difficulties further down the line with meeting other demands. If other bills were paid, this led on occasion to going without food – the only area where any flexibility remained.

The fact that sanctions differ for different types of debt influenced how participants said they managed them, with repossession being the ultimate sanction in relation to mortgages or loans secured against property. Only one participant had faced repossession during the life of the study, although there were examples of this having happened to others in the past. In fact, some of those with mortgages said they had benefited from the lowering of interest rates as part of the government’s stimulus package in response to the ‘credit crunch’. Despite a high incidence of rent arrears, no one was evicted during the period of the study, although some only narrowly avoided this, following bailiffs’ visits.

Arrears on utilities and rent, as the most common form of debt, were most prevalent among those in receipt of benefits and those who had typically ‘churned’ between low-wage and benefit income. This evidence, based on families who defined themselves as having problematic levels of debt, demonstrates the inadequacy of participants’ income levels for sustaining a minimum standard of living over time, and the need for sustainable jobs. Delays in processing benefits often exacerbated the difficulties faced in managing low incomes, leading to further arrears. Arrears’ repayment arrangements also varied, with some local authorities, for example, sending bailiffs and others sending a housing department employee to visit in a more supportive ‘problem-solving’ role. The practices of some utility companies that impose a need to make an up-front lump-sum payment as a pre-

requisite of a repayment plan also inhibited some participants’ ability to begin to manage their debts more effectively, as did the level of bank charges.

New regulatory measures introduced by the Financial Services Authority (FSA) in November 2009, in relation to mortgage lenders, include the need for a ‘breathing space’ for those struggling with repayments, a measure that, if adopted by other kinds of lenders, might help those constantly struggling with the prioritisation of debts. In Chapter 4 we will comment further on how new regulatory measures are likely to affect over-indebted low-income families.

Structure of the report

The remainder of this report is structured as follows.

Chapter 2 explores participants’ own definitions of credit, debt and over-indebtedness. It sets out the complex range of experiences participants reported having experienced prior to, and during, the period of the research and the factors associated with the different trajectories and outcomes they experienced.

Chapter 3 examines the wider financial context to participants’ use of credit and how the availability of credit in the years preceding the research affected them. It also examines the strategies they adopted and resources (financial, social and cultural) they drew on to ‘manage’ their debts and in their efforts to try to avoid over-indebtedness.

Chapter 4 reviews the main findings from the research and considers these in light of participants’ views and recent developments, including those aimed at the general population in response to the recession and ‘credit crunch’.

2 Explaining over-indebtedness

Introduction

Part of the purpose of following participants over a twelve-month period was to uncover: (i) the 'trigger events' that had resulted in people using credit and/or moving into debt; (ii) the factors that had prevented or ameliorated this (often referred to as 'protective' factors); and (iii) factors that facilitated effective management of/exit from debt.

As indicated in the introduction, the research was based around participants' own definitions of credit, debt and over-indebtedness, and these are outlined first. The chapter then explores these issues in detail. It sets out the complex range of experiences participants reported prior to, and during, the period of the research and the factors that were related to their trajectories and outcomes. It then presents some detailed case studies to illustrate the experiences, circumstances and perceptions of some of the people who took part in the research. A summary of key themes concludes the chapter.

Participants' definitions of credit and debt

Participants' understandings and perceptions of credit and debt were, perhaps not surprisingly, embedded in their own experiences of indebtedness. Those whose experience was largely of over-indebtedness saw credit and debt as *the same thing*; one was seen *inevitably* to follow from the other:

If I get something on credit, then obviously debt follows: credit – debt, credit – debt, it's not hard, is it?

(53-year-old single woman, no children, long-term sickness benefit recipient)

Credit just makes me think they're giving you money to spend whenever you want, and debt is something that happens after your credit.

(22-year-old partnered woman, one child, churner)

I think credit equals debt. In my mind, it's the same, because you spent money that's not there.

(49-year-old partnered woman, no children, churner)

I think I would seriously consider (before) ever taking out credit again once this is cleared, because it has really put me off. Actually, it's a slippery slope.

(24-year-old single woman, one child, long-term low-waged)

The above comments were rooted in the experience of being over-optimistic about the ability to repay loans or credit card expenditure in view of income (sometimes due to not consciously budgeting or looking at 'the whole picture'), 'adverse shocks' that negatively affected an earlier ability to meet repayments, or prioritising perceived family needs over and above actual ability to finance these:

I think 'oh, I've got this money to spend', but it's never your own, is it? And you don't think. I pay the minimum – payment on that is £34 a month. £26 of that is interest. My credit limit on it is £1,700. When I work my sums out, it's going to take me 16 years to pay that off.

(54-year-old divorced man with disabilities, no resident children, long-term invalidity benefit recipient)

Nobody knows what's round the corner. Nobody knows what circumstances are going to hit. We're all victims, aren't we, at the end of the day?

Nobody has it just plain sailing all the time, and I think the worst thing is that feeling that you're going down and down and down, further into debt, and you wish you hadn't taken the commitment on in the first place, because the guilt sets in and the worry, you have sleepless nights ... you're borrowing from the future, and you don't know what future you've got. You can only hope and be positive that you're going to have a good future. And you take it out on the terms that you're going to honour the commitment, you know, you don't take it out thinking 'I'm going to rip them off, I'm going to take this loan and not pay it back'. You take it out with all the good intentions, and the will to pay it back, but then adversity hits.

(22-year-old single woman, no children, long-term low-waged)

'Debt is the pits. Debt is a terrible worry. I've had debt in the past ... but it's not debt of my own making. It's like robbing Peter to pay Paul – that kind. It's been because there's never been enough income to cover your day-to-day expenses, and then maybe something does go wrong ...

(48-year-old partnered woman, no children, churner)

Everybody could do with a bit of credit at some time in their life and a lot of people know they can't afford to pay it back, but they want that bit extra – like if you've got kids like my age, and they want a holiday, and you think 'I can't afford it', you're going to get in debt to get it for them.

(39-year-old separated woman, three children, long-term unemployed)

For others, the *method* of repayment rather than the ability to repay per se was what differentiated the two. One participant exemplified this when she described instalment buying as using credit ('[something] that's being paid for to buy, if you know what I mean'), whereas a 'Shopacheck' loan (repaid through 'somebody knocking at my door') was a debt.

It was significant that it tended to be among those *in work* that the two weren't necessarily synonymous; having been

in a position themselves to borrow unproblematically, they identified the ability to repay as the distinguishing factor:

Credit is not debt. Debt is when you're not able to pay your credit ... credit is borrowing money that you don't have. And debt is when you're not able to meet the demands of repayment.

(42-year-old married woman, two children, long-term low-waged)

If you're in a situation whereby you can pay off a loan in a short amount of time – you have all the money at once, say to buy a house – and you know that the loan you're getting you could pay back in six to twenty months, or maybe two years tops – that could be credit, and not a debt. If you get a loan and you have no idea how you're going to pay it back, then that becomes debt.

(27-year-old married woman, two children, husband long-term low-waged)

If you can borrow appropriately for something and you know you can manage to spread the load, then I think it's probably good.

(29-year-old partnered man, one child, long-term low-waged)

Depending on whether repayments can be met at some point in the foreseeable future, credit was seen either as a legitimate way of financing large expenditures, or as a necessary evil to supplement/'smooth' a low (or inadequate) income. One participant, who had 'churned' between low-paid work and benefit income was very specific about the significance of income levels for determining whether credit inevitably led to problematic debt:

They are always, on the news, on about how much people are in debt, how much money is owed. If they closed the gap [between high and low earnings], people wouldn't be in that problem.

(22-year-old married man, one child, churner)

However, even for those on the 'wrong' side of the earnings gap, credit was seen as a 'social good' in terms of accruing the kind of social capital

that can lead to social inclusion. A good credit rating constituted the kind of 'reputation' that is a prerequisite to getting into the housing market, which in turn facilitates access to further credit:

If you borrow credit, like with Provident – we keep paying it, it puts your credit rating up with that company ... if you've got a mortgage, credit cards or anything else, you pay it, they start helping you more. So eventually it's getting your credit rating up. So the higher credit rating you can get, then the more chance you're going to get a mortgage, and the more chance you can get credit.

(35-year-old married woman, three children, sickness benefit recipient)

A female participant who, like her husband, had been in work for most of the preceding three years, but who was currently taking some time out to help her daughter with childcare, also spoke very positively about credit as a form of investment, while a man buying his own house exempted his mortgage from constituting a debt because it was financing an asset.

Being able to get credit is a wonderful thing ... for example, if I have to buy a house or land, it is wonderful to be able to get credit ... if I really decide to stay here ... I would look to invest, because even while we were here my husband and I were talking about investing money in building, because back home it's very profitable ...

(42-year-old married woman, two children, long-term low-waged)

To me the mortgage doesn't [count] ... it's just a loan from the bank, it doesn't mean it's a debt, because obviously this house is worth about £100,000 – there's no way you could afford to go and pay that, so you have to have a loan for it. But in 15 years time, I won't have that loan. So I'm looking ahead to 15 years time, and I'll be 50 odd pound a week better off, £200 a month. That's a lot for me. I'll be living the life of Riley, won't I?

(42-year-old single man, no children, long-term unemployed)

Pathways into and out of indebtedness

There were a small number of people whose credit and debt 'careers' had started as a result of specific events or life changes. A commonly reported initial event involved what was referred to as 'going mad with a credit card' when given one at the age of 18, which had then had long-lasting consequences. Other specific 'trigger events' that had had major repercussions at a later stage in life included losing one's job, getting married and starting a family.

However, many initial interviews revealed a highly complex picture of credit use, involving arrears and other kinds of debt that did not necessarily accord with the notion that 'one-off events' were the key factor moving people into debt and over-indebtedness. This was reflected in *problematic* debt being seen as more characteristic of a result of a gradual accumulation/unfolding of circumstances over time, sometimes in a fairly chaotic fashion that made it hard for people to maintain a clear picture of their overall circumstances, or to exercise financial control.

In some cases, once people found themselves in the situation of being in debt/over-indebted, it was common for them to report that single event-based 'triggers' (as discussed above) then acted to work against them finding a route *out* of debt.

Taken together, it is clear that the 'adverse shocks' and events which expose households to the risk of financial problems – such as loss of employment, marital breakdown and poor financial management – often have a cumulative, rather than an immediate, effect on households' financial circumstances. This supports earlier research (Disney *et al.*, 2008) which found that such events can readily become part of a negative 'feedback' loop which results in indebtedness placing further strain on an individual's ability to retain a foothold in the labour market, keep their family together and manage their finances effectively.

Table 3 adapts and augments Jenkins and Rigg's (2001) poverty dynamics analysis to summarise some of the reported factors contributing to over-indebtedness, and the setbacks inhibiting progress out of debt. It also shows factors associated with facilitating more

effective management of, or decreases in, participants' debts. These are set out in relation to:

- **labour market-related factors** (such as the impact of redundancy or seeking better paid work, respectively);
- **non-work income-related factors** (such as delays in changes in benefit receipt or having access to alternative financial resources);
- **expenditure-related factors** (such as paying for special/ad hoc events or switching to cheaper supermarkets and selling possessions);
- **demographic factors** (such as change in household composition or adult children gaining employment);
- **health-related factors** (such as the impact of ill health on the ability to work or resilience); and
- **factors relating to 'social capital'** (such as the lack of access to relevant information or advice).

Table 3. Explaining over-indebtedness

Increases debt/inhibits repayments	Decreases debts/facilitates
Labour market-related	
<ul style="list-style-type: none"> • Redundancy • 'Churning' • Irregular contributions from non-resident partner whose work fluctuates • Employment-related transport costs • Complexities of combining partner's employment with own higher education commitments and childcare • Lack of employability skills after redundancy 	<ul style="list-style-type: none"> • Giving up (irregular) work in order to stabilise/gain control of income and make (small) regular repayments • Secure employment • Better-paid employment
Non-labour market income-related	
<ul style="list-style-type: none"> • Delays in benefit processing • Loss of Disability Living Allowance 	<ul style="list-style-type: none"> • Inheritance • Financial help from family/friends • Modest savings • Receipt of pension
Expenditure-related	
<ul style="list-style-type: none"> • Setting up home • Replacing household items • Birthdays • Christmas • Other religious festivals • Pets'/vets' bills • 'Punitive' bank charges • Secondary school costs • School holiday activities • Family annual holiday • Food/fuel price rises • Up-front lump-sum payment as precondition of repayment plan • Accumulating interest on unauthorised overdraft • Susceptibility to targeted/heavily marketed highly expensive forms of credit 	<ul style="list-style-type: none"> • Going without food • Going without holidays • Cutting back on fuel • Reducing quality/cost of purchases • Reduction in interest rates • Negotiating manageable repayments • Selling possessions (car boot sale; online auctions)
Demographic-related	
<ul style="list-style-type: none"> • Prior homelessness • Birth of child • Family breakdown/reconstituted family resulting in insupportable demands on single male earnings • Adult children leave home • Debts carried from previous relationships 	<ul style="list-style-type: none"> • Resident adult children start to make financial contribution

Continued on page 19

Health-related	
<ul style="list-style-type: none"> • Post-natal depression, necessitating partner giving up work • Self-diagnosed depression/children's ill health or disability acting to disable effective budgeting • Learning disabilities • Accident/ill health leading to loss of work 	<ul style="list-style-type: none"> • Emotional resilience to gain/stay in work and/or to resist additional credit
Social capital-related	
<ul style="list-style-type: none"> • Lack of timely information re: eligibility for assistance with home set-up costs • Contradictory information/advice from Job Centre • Lack of employability skills after redundancy (e.g. illiteracy, lack of computer skills) • Poor financial literacy • Decision-making embedded in couple relationships 	<ul style="list-style-type: none"> • Decisions based on good information about financial products • Professional money advice • Further/higher educational aspirations • Anti-credit religious values/identification with faith community as protection against sense of material/social exclusion

The issues that contributed to the ‘credit and debt journeys’ that participants followed over the year (in Table 3) represent what was in fact a dynamic interplay between structural, individual, relational and life course factors, over time. In addition to the charting of these journeys over a twelve-month period, all participants were asked at the end of the year for their own assessments of how their position in relation to indebtedness compared to where they had been at the start of the project. The next section of this chapter explores some of the issues identified.

Responding to changes in circumstances

What was striking about following most of these families over time was the precariousness of their financial situation. Although exacerbated by having debts, this often resulted from being on a wage and/or benefit-derived low income over a lengthy period, or from ‘churning’ between these two states in a series of insecure and low paid jobs, with often lengthy delays in processing benefit claims in between. The psychological energy required to keep *trying* to make progress, against the experience of repeated setbacks and the assumption that these would continue to happen in the medium to long term, was also evident. Insufficient income and lack of flexibility on the part of creditors were routine features of people’s ‘lived experience’:

... this is the story of my life. It's not as though I'm not aware of budgeting, and this is what I normally do as a family, but there just isn't

enough to cover everything and if I've got one thing under control, then I'm taking from something else, for something we need, like (food) shopping or rent – general living. So I'm never quite covering everything.

(31-year-old single woman, one child, churner)

I've always paid my water rates monthly, but this year ... I've got into a bit of debt, and they've said now, because I've not kept to the agreement, or I've been late paying, they're going to cancel. You know people [who] get their water bills through the post, and have got the opportunity to pay? Well people like us, poor people ... they send you a card and they tell you what to pay monthly. Last month I got behind and now they've turned round and said because I've not kept up, I've got to pay it all at once, and I can't, so I don't know what happens then.

(42-year-old single woman, one child, long-term unemployed)

Similarly, factors that ‘protected’ people against going further into debt or becoming over-indebted were not all ‘events’ (some were: an inheritance, for example, which enabled the clearing of debts), but could also be features of individuals’ wider social and cultural circumstances and beliefs. These included, for example, values to do with thrift learned from participants’ upbringing and an aversion to the use of credit, arising in some cases from religious beliefs and in others from a past history of over-indebtedness that had had

dire consequences, such as bankruptcy or repossession.

It is also worth noting that in relation to getting *out* of debt as well as getting *into* it, features of what might effectively constitute a ‘debt trap’ were not solely ‘event-based’, but were made up of events that were exacerbated, or augmented, by the impact of psychological reaction to their circumstances. For example, some participants reported that they either felt so overwhelmed by the apparent impossibility of their circumstances that a level of inertia and (self-confessed) denial took over, or they lacked the emotional wherewithal to tackle their debts in ways they were aware could potentially ameliorate their situation:

I can't cope with anybody telling me anything that I know already right now ... a lot of creditors are nasty people ... they send you red letters and then they start sending you letters from different collection services ... it's very intimidating and overwhelming ... sometimes I would just say 'I'm not phoning them'. But when I was in a position to, I have. For me, it's more of an emotional thing. Once you do it, you feel better. Sometimes it's just a choice – or not: 'Don't want to deal with that right now'. I just didn't have the mental capacity to cope with criticism, and bits of reading about [my] credit history, and all that sort of stuff. I knew – I didn't need to hear it.

(31-year-old single woman, one child, churner)

Nevertheless, resisting the use of credit in the face of the myriad ways in which it was heavily marketed to participants (see Chapter 3) also required a high level of emotional energy and commitment, especially in an environment in which it had been so readily available, and in which there was ample evidence around them of the lifestyles it apparently afforded others. On this latter point, however, some people questioned the sustainability (and sometimes legality) of others' lifestyles, where their financial circumstances were known, often commenting that while sometimes they wished they could afford such things as a holiday, they realised that this would ultimately disadvantage them later on.

Some of those recruited to take part in the research who were selected because of their

success in avoiding over-indebtedness commented specifically on how difficult it was to transmit their values and practices, and what they had learnt from hard experience, to children who had grown up in a climate of easy and widespread credit use.

Self-assessments of severity

Participants' assessments of the severity of their debt did not always accord with the apparent ‘reality’ in terms of the financial information they provided. Sometimes this ‘discrepancy’ was rooted in having achieved a better standard of living (e.g. a long sought-after house move amplifying feelings of well-being more generally) during the period of the study, even if this had necessitated further borrowing, for new furniture for example. This also seemed to arise out of how participants psychologically managed long-term reliance on low and insecure levels of income, and on their ongoing and repeated use of credit/debt.

There was a reluctance evident in some cases, for example, to look at the whole picture in relation to income and expenditure/debt, or to look too far ahead, and a tendency to make spending/borrowing decisions/commitments based on present circumstances – of having secured a job for example, regardless of whether this could be relied on for its permanence – and despite experience of life having proved precarious, unpredictable or ‘uncontrollable’ in the past. A period of restraint imposed by unemployment might also be followed by increased levels of spending (for example on more varied, better-quality or larger quantities of food) when income improved, rather than prioritising the repayment of debts or arrears.

Subjective assessments of the *severity* of participants' indebtedness also seemed to be a function of the perceived ‘manageability’ of their debts. For example, debts of a few hundred pounds could be experienced as ‘severe indebtedness’ by some participants if there had been an ongoing but unsuccessful struggle to reduce or clear them. Severity here seemed to be related to the constant worry participants experienced and the perceived intractability of the situation.

In contrast, some participants appeared to be able to separate out comparatively large debts (for example, from credit cards) that were felt

to be completely insurmountable and therefore 'ignorable', from those they felt they had some chance of clearing in the foreseeable future (for example, arrears), on which repayments were being made. In such circumstances, it is clear that participants' assessment of their overall debts being of only 'mild' or 'moderate' severity was being applied only to that part of the picture they felt able to address.

Such discrepancies agree with Bridges and Disney's (2006) suggestion that a propensity to report financial difficulties and debt problems (here, even to admit them to themselves) is associated with a self-reported lack of psychological well-being and other expressed 'lifestyle' attitudes. That is, while the overlap with actual arrears and repayment problems is strong, it is mediated through psychological and health perceptions (Disney *et al.*, 2008: 19), so that participants may be choosing to put the most problematic debts to one side because they are too afraid to face up to them.

The impact on participants of taking part in the research

For some, a 'side effect' of participation in a longitudinal study of this kind, charting change by interviewing them (even if only briefly by telephone) every two months, was reported as having prompted them to reflect (often for the first time) on the *whole* picture and to encourage prospective as well as retrospective thinking. Some of those for whom this was the case also commented on how 'helpful' participating in the project had been. Others, regardless of participation in the study, had very clear goals that kept them focused on addressing their debts – for example, aspirations of getting better-paid and more secure employment, through improving their educational qualifications. However, from time to time, even they lost the energy to remain focused on 'keeping on top of' their debts in pursuit of these goals, in the face of setbacks such as redundancy, unanticipated expenses or rising prices (during the course of the study, gas, electric and fuel prices rose considerably).

A few participants (mainly those in work) managed to save small amounts to cover anticipated expenses, to make regular payments on outstanding debts, and to resist further

use of credit. However, it was clear that for them too, maintaining a position of what they assessed as 'mild' indebtedness had its costs in terms of a drain on personal resources.

The dynamics at play in the lives of a range of people who had become or remained over-indebted are illustrated here with case study examples.³ Those factors associated with the ways in which people resisted becoming or remaining over-indebted are covered in Chapter 3.

Credit, debt and the paradoxes of 'agency'

The following examples provide a clear indication of the complexity of some people's lives and of the often intractable circumstances, and people's responses to them, that determine their ability and/or likelihood of reducing/clearing their debts or of remaining in debt and/or potentially increasing them. They also clearly demonstrate the dynamic and changing nature of debt: how changes in income levels or outgoings can make previously manageable debt unmanageable; how changes in circumstances can result in additional use of credit and increased debts. They also provide a clear message that developing forms of advice and intervention will be difficult given the range of contributory factors and scale of the problem.

Adele's situation (case study 6, below) illustrates the emotional experience of indebtedness, and the significance and impact of both feeling and of being in control, even of a lower (benefit-derived) income. This was also a feature of others reporting being in a better position at the end of the year, even if they hadn't reduced the amounts they owed. For example, at the beginning of the project, Louise Younger and her partner had recently been rehoused after being made homeless, bringing with them credit card debts, undischarged loans and arrears on fuel from a former tenancy. Both were in receipt of benefits for the duration of the project, although Louise's partner had participated in the 'New Deal' in the past. They bought a new bed on instalments via 'pay to view' and regularly incurred punitive bank charges by being overdrawn, as they 'robbed Peter to pay Paul'. They had their fifth child some months later, incurring associated additional expenses. By the end of the project, however,

they had stabilised their position with a debt consolidation loan, and this afforded Louise a greater sense of control than at the beginning of the year. Here we can see the interaction of a previous history of debt and homelessness, current labour market factors and 'supply side' factors such as bank charges, which added to their debts.

Others also made calculations about the benefits or otherwise of labour market participation, and the sense of control being in receipt of benefits afforded. Penny Gordon illustrates this. Her position at the end of the year could be seen to be worse, in that her partner had had to begin making CSA payments, and was later made redundant. Neither of them managed to find (re)employment. Taking into consideration substitute childcare costs for the responsibilities she undertook (during weekends and school holidays for her non-resident child from a former partnership, and full time for their resident pre-school child), plus tax credits for which they would become eligible, she used an online calculator to identify that they would only be £50 a month better off if they did both manage to find work at levels of remuneration they had had in the past. However, despite taking out another bank loan during the year to make some repayments on their credit card debts, existing bank loan, overdraft and arrears, she actually felt in a better position now that they were both in receipt of benefits, because creditors were less demanding, and life felt more 'risk-free'.

Case studies

This section draws on six examples drawn from case studies to provide detailed illustrations of some of the circumstances and changes people participating in the study experienced and of their attitudes and expectations of the future. Other examples are also used (here and in Chapter 3), from across the whole sample of participants. The types of issues these case studies raised were discussed with participants in the final interviews and the discussion groups at the end of the study. Participants' views on what might be done in response to these issues – and the things that ought not to be done – are set out in Chapter 4.

Credit, debt and family formation

Case study 1 illustrates the interaction between 'going mad with a credit card' at an early age and its repercussions later in life when labour market (loss of job) and demographic circumstances (marriage and the birth of children) changed, incurring significant additional expenditure; together with the health-related factors of both spouses' depression, and the poor information they received about their entitlements. As use of credit was common in late teens and early twenties, many participants, on entering a relationship or setting up home, had pre-existing debts.

Credit, debt and couple relationships

Case study 2 illustrates the ways in which financial management is not just a matter of economic but also of intimate relationships. It shows how debts can be 'inherited' from former partners, but also offers some insight into why individuals are not always able to learn from past experiences in the way that the Quernbys in **case study 1** felt they had done.

There were a number of examples, including the Hobsons, the most heavily indebted couple in the sample, where one partner became liable for the other's debt (what Kaye, 1997, refers to as 'sexually transmitted debt'). The dynamics of the Hobsons' relationship illustrates how decisions about the use of credit and the servicing of debts are often embedded in complex couple relationships.

Credit, debt and loss of benefit income

Case study 3 illustrates the impact on an individual – who has already 'inherited' debts from a former partner – of losing a substantial proportion of disability benefit.

Although it is more common, in low-income families, for women to have day-to-day management but not necessarily overall control of household finances, and therefore more likely for them to find themselves servicing debts incurred by their male partners (Goode *et al.*, 1998), Mr Eason was an example of the reverse. He was paying off his ex-wife's credit card debts of £7,000, and the interaction between this financial 'legacy' and the loss of income following reassessment of his Disability Living Allowance (DLA) further

reduced his standard of living, with serious consequences for his mental health.

Credit, debt and redundancy

Case study 4 illustrates the impact of redundancy on a couple who were already only just managing to make ends meet with the use of credit while both were employed. The longitudinal element of the research captures the impact of the recession, particularly in the building trade, and the knock-on effects of trying to budget and manage debts when circumstances change following redundancy.

Living on credit

Others felt better off at the end of the year because their material conditions had improved, despite incurring additional expenditure that could not be met out of income. This was the case for Diane Drummond. **Case study 5** illustrates how some low-waged couples see credit as the only way to achieve an 'ordinary' standard of family life.

Lone parenthood, debt and the struggle for 'betterment'

Case study 6 illustrates some of the difficulties associated with work as a route out of poverty for lone parents with debts. It shows the contribution of redundancy and 'churning' to over-indebtedness, interacting with 'adverse shocks', resulting in further loss of income; and how a series of events can cumulatively contribute to an emotional inability to maintain progress towards being debt-free, despite a strong desire for 'betterment' through enhancing one's employability skills.

Case study 1: Credit, debt and family formation

Mr and Mrs Quernby, a married couple in their early twenties with a 14-month-old baby, had just moved into a council flat, to be nearer Mrs Q's mother. Mr Q had been employed as a warehouseman but had given up his job when his wife suffered post-natal depression, and he struggled throughout the year to find anything other than intermittent agency work. They owed around £3,000, including credit and

store card debts and a bank loan for a car (later sold) dating from when Mr Q was 18 and single, and gas arrears in Mrs Q's name arising from having the heating on all day in their previous tenancy when the baby was small. They were paying £50 a week towards Mr Q's debts when they could, but nothing towards Mrs Q's, and they sometimes incurred bank charges of £35 in respect of unfunded direct debits. Their applications for a budgeting loan and a crisis loan were both turned down, and they also missed out on help from a council scheme:

... we got a leaflet ... basically the council get all your carpets – you get a fridge, a double bed, a single bed, washer, cooker, carpets, and you pay £15 on top of your rent every week, and if you're on Income Support, they pay it for you. I signed up after I read this ... I said 'Could I have that please, because I've got a little one?' and they said yes. And then the next day the bloke phoned me back up and said 'Oh, I've spoken to my manager – you can't have it because you'd already signed (the tenancy agreement)' So I said 'That's not fair. I'm only young. I've never been in a council house. How am I supposed to know this?' I just couldn't get it – because I'd already been down and done all the paperwork – I should have told them before that I wanted it.

They furnished the flat through a mixture of gifts (of food and money as well as unwanted furniture) from family; second-hand white goods and cheap carpeting from money saved from their benefit income of £90 a week, and child benefit of £18.10 a month; and took out further credit for a TV from BrightHouse. Worries about their debts caused rows between them, and they were both being treated by their GP for depression. They enquired about bankruptcy, but couldn't raise the £400 needed to do this. Towards the end of the year, when Mrs Q was expecting their second baby, they had got into the habit of consciously budgeting in order to live within their means,

had taken professional money advice and, to their immense relief, had been advised that they were eligible to apply for a Debt Relief Order (DRO). This represented a 'clean slate' and they felt in a much better position than at the beginning of the project. They felt they had 'learnt their lesson' about the perils of credit and debt and were more optimistic about their financial security in the future.

Case study 2: Credit, debt and couple relationships

Mrs Hobson, a partnered woman with four children, became liable for debts accrued on her credit cards by her ex-husband when he became unemployed, thereby placing considerable strain on the income of her new reconstituted family. As she was still employed initially, she retained access to credit and store cards, and allowed her new partner (who had a poor credit rating) to use them. Over a period of time, and with him 'in charge of' the household income, he 'maxed' them all, offering reassurances when she queried the state of their finances. When she started getting 'demanding' phone calls, and the truth came out, they got a bank loan of £18,000 to consolidate their debts.

However, her new partner then went on another substantial credit/store card spending spree, acquiring more debts. At the time of first interview, they owed around £30,000, including rent arrears, instalment purchases (hi-fi and car insurance), catalogues and loans from doorstep lenders.

Mr and Mrs Hobson were both unskilled and both had become unemployed by the time the research started, remaining so throughout, apart from a couple of very short spells of agency work. It had taken them a while to adjust to a substantial reduction in their benefit

income when the two older children (one of whom had been in receipt of disability benefit) left home, but over the year, they gradually reduced their debts, apart from what they felt to be the insurmountable loans and credit card debts, letters about which were returned by Mrs Hobson marked either 'deceased' or 'not known at this address'. They had very little in terms of consumer goods to show for their past level of credit spending, and it turned out that a considerable proportion of it had been incurred by Mr Hobson taking the whole family out to eat fairly frequently. Mrs Hobson revealed, as the fieldwork progressed, that Mr Hobson tended even now to minimise their debts and arrears, and she explained this – and his incurring the debts in the way he had in the first place – in terms of his insecurities as both a partner and as a 'provider'. He separately revealed what he saw as *her* personal insecurities, around self image, in relation to their partnership. His 'treating' the family to meals out seems to have been viewed by both of them in the context of their personal relationship as a couple.

They didn't feel that their position in relation to credit and debt had changed essentially from the beginning of the project. They were pessimistic about their employment prospects, despite Mrs Hobson going on a computer course and their having bought a computer (on instalments). Having seemingly 'bracketed out' the debts they felt were in any case insurmountable from their calculations, they nevertheless anticipated continuing to use informal credit to 'get by'.

Case study 3: Credit, debt and loss of benefit income

Mr Eason's ex-wife's debts, plus a loan and hire-purchase commitments he had taken on himself (for a holiday and a TV), amounted to around £9,000 in total. Living alone in relatively poor material conditions, following an occupational accident that left him unable to work due to a below-knee amputation of his leg, and other health problems, he used part of his DLA to pay a neighbour to do his laundry and cook for him at least once a week. He was managing to pay £29 a week off his debts until some time into the project, when his DLA was reduced by £400 a month. Depressed about losing his appeal, he made an unsuccessful suicide bid and was assigned a Community Psychiatric Nurse for a period. Towards the end of the project, the Citizens Advice Bureau helped him consolidate his debts, bringing payments down to £1 a week. Despite the greater manageability of these repayments, the loss of a substantial portion of his DLA meant he felt much worse off than at the beginning of the project. It depressed him that there was no chance of ever being debt-free, and he was very conscious of what he experienced as a poor standard of living.

Case study 4: Credit, debt and redundancy

Margaret Crowther and her husband were both made redundant during the period of the research. A couple in their fifties with no children, and living in privately rented accommodation, they had always 'managed', with the use of relatively low levels of borrowing on credit cards and bank loans. Margaret found another, though less well-paid, office job, but her husband found getting another job in the construction industry, in which he had worked all his life, extremely difficult, especially as he lacked a newly required health and safety

qualification, and was functionally illiterate. Mr Crowther was treated for depression as the year progressed, and Margaret's own mental health began to suffer as their credit card debts mounted and she resorted to using the pawnbroker.

Case study 5: Living on credit

Diane Drummond and her partner and child had been regularly living on an arranged overdraft of around £700 a month even before they moved to a better privately rented house than the sub-standard one they had been living in, in which the landlord refused to do repairs. The move had necessitated taking out a larger loan (£10,000) than was necessary simply to consolidate old loans and credit card debts incurred by both partners when single. The move coincided with losing Diane's income, as she went on maternity leave prior to the birth of their second child. Although her partner had been employed for the last three years as a warehouseman, and she was planning to go back to her part-time job in catering, she couldn't see how they would ever manage without borrowing. It was evident at the end of the project, as they settled happily into their new home, that their outgoings (including the new loan repayments) exceeded their income, and Diane was planning to increase the loan once they had made the necessary number of repayments to become eligible to do so. Nevertheless, she reported being in a better position than at the beginning of the year, accepting their higher levels of indebtedness as the price to pay for just being able to be an ordinary (low-income) family with a modest standard of living.

Case study 6: Lone parenthood, debt and the struggle for 'betterment'

Adele's partner of 16 years contributed to household expenses for her and their 11-year old son while continuing to live independently himself. They wanted another child but were ineligible for fertility treatment on the NHS. Her partner's solution was to take out a loan but she was unwilling to do this until they were debt-free. She had an outstanding loan with a credit union taken out to cover Christmas expenses and some arrears. She had been maintaining payments on all of these while they were both working. They had been planning to move in together 'fully', but shortly before the first interview he was charged with an offence, and was remanded in custody for several months before being sent to prison. At the same time, Adele herself was made redundant, ran up a huge mobile telephone bill dealing with the fallout of the custodial sentence, and accrued further arrears in the transition between employment and claiming benefits.

By the time of the second interview, her partner had been released on appeal, she was back in employment, and they had resumed their plans to co-habit. But she had made it clear to him that this was conditional on an equal commitment and equal contribution to household finances, to enable her to manage them effectively.

At this point, she had also got her finances back in order, having used her redundancy money to pay off her mobile telephone debt, and having arranged repayment plans on her rent, council tax, gas and water rate arrears. She also had some 'historical' arrears from her years as a lone parent before her partner began to contribute. The two major events that threw her finances into disarray and made her debts problematic for her, however, were her own redundancy and her partner's imprisonment. She was also highly risk-averse, and this deterred her from taking out the loan for the much-wanted fertility treatment. She

also had longer-term aspirations to enhance her employment status through returning to education, which she felt she'd missed out on when younger. It appeared that her years of being neither fully a 'lone parent' with only her own income and expenditure to manage, nor a couple with fully joint finances, followed by the twin crises of redundancy and imprisonment, had plunged her deeper into debt, but these were also crucial factors in enabling her now to 'call the shots' in relation to planning to get out of debt, including resisting the use of credit. By the end of the year, however, her partner had less work, they had not moved in together and she had decided to go back to studying as a way of enhancing her labour market prospects. This meant also a return to being reliant on benefits, which she felt was a backward step; at the same time, she felt the predictability and 'reliability' of even a lower income than she had been used to in work was preferable to the continual struggle of managing an ever-changing income, and what she felt were the unrealistic demands creditors make of over-indebted people who are employed on low wages.

Key issues

The main features of the 'journeys' participants in the research experienced in relation to their use of credit or experience of debt parallels many of the issues raised in poverty dynamics research looking at potential trigger events and/or risk factors of moving into or out of poverty.

There are clearly particular points along the life course that are more 'risky' than others, with a negative event or poor decision then having long-term negative effects on people's lives. In addition, once in debt, many people in circumstances the same as or similar to those of the participants appear likely to become over-indebted to such an extent that they find it almost impossible to find a route out. As such, it seems a reasonable conclusion to draw that there may well be such a thing as a 'debt trap'.

Some of the key factors that were associated with people becoming and remaining indebted for significant periods of time that were highlighted in this research included:

- access to credit (in particular credit cards), often unsolicited, at 18 years old when on low and unpredictable income;
- the impact of loss of or irregular/sporadic income (redundancy, loss of DLA), once living with debt and/or over-indebted;
- family formation/setting up home costs/reconstituted families almost automatically incurring debt for low-income families;
- the legacy of ex-partners' debts exacerbating individuals' circumstances; and
- low-income families with younger children, and more children, being at greater risk (with similar implications to poverty studies, in terms of childcare support/employment flexibility/benefit–wage differentials).

In contrast, the most significant factors that were associated with preventing (further) deterioration in their position or, indeed, managing to improve it, included:

- sustained employment, as opposed to the sporadic and vulnerable work which some took as a reaction to their circumstances;
- development, when further along the life course, of financial literacy/budgeting skills/credit averseness – all acting as 'protection';
- an active resistance to taking up (further) credit;
- even modest savings acting as a buffer to assist in withstanding 'adverse shocks' – although it should be noted that the ability to save even modest amounts was mostly confined to those in work; and
- where taken up, timely money advice making a big difference – for example, enabling

some to access the 'clean slate' option of a DRO and others to become more aware of their circumstances and options.

3 'Managing' debt, over-indebtedness and resilience to debt

Introduction

This chapter examines the wider financial context to participants' use of credit and experience of debt and how the availability of credit in the years preceding the research affected them. It also explores the various strategies that people adopted to 'manage' their debts and credit commitments, and the ways in which they tried to avoid moving into over-indebtedness. The case studies offer examples of how having (sometimes limited) access to a broad range of resources can influence both the level of debts accrued and the ability or otherwise to manage financial commitments on an ongoing basis.

The wider financial context

Despite the awareness of the potential role credit plays in social mobility in the form of home ownership, there was a general consensus among participants (including people who were long-term low-waged, long-term benefit recipients or 'churners') that credit had, until very recently, been too easily available – and that it was still too heavily promoted and marketed:

When I first got my credit card it was literally handed to me there and then. I think they gave me my overdraft at the same time as they did my credit card, so they gave me £4,000 worth of credit just in one go – which was never good for an 18-year-old.

(24-year-old single man, two non-resident children, long-term low-waged)

I think people are sucked in by the fact it's money there, and people who have got good credit ratings can just get ridiculous amounts of money.

(30-year-old single woman, two children, churner)

I'm bombarded with stuff asking me if I want it. Halifax are sending me stuff almost weekly offering me £10,000. I'd be better off if they didn't ask me.

(29-year-old partnered man, one child, long-term low-waged)

It's that easy, it's unbelievable – Friday, three more come through the post – like loans – they just post them through, offering you money.

(52-year-old single man, no children, long-term sickness benefit recipient)

In talking about the too-ready availability of credit (and even after the 'credit crunch' and banking crisis, there were many examples of people who defined themselves as heavily over-indebted who were still receiving offers of unsecured loans and credit cards), participants referred to all forms of lenders – including credit and store card companies, private loan companies, catalogues and retail stores that generally sell goods on credit – as culpable in this respect. They also mentioned some of the practices of more mainstream banks and building societies:

A lot of the banks target people that need to borrow and ... don't know how to handle their finances ... and they put all these tempting offers out ... I think it's quite wicked really the way they do it. And even when you're in the bank, they know all your finances, and they're still trying to say 'Get this loan, get that', and they know sort of what your income is and what goes in and what comes out ... they're not out there to help you, and they're not out there to say 'Oh, do you want to come in and sit down and talk about how to manage your finances?' They wouldn't do that.

(26-year-old single woman, no children, long-term low-waged)

In addition to availability, they were also critical of interest rate levels, particularly on the kind of borrowing available to those least able to afford it:

I think they're just encouraging more people to get into debt when you see all the loan things, and they always get you with a lower APR and when you look at it, it's not low, it's going to cost you a fortune.

(39-year-old separated woman, one child, long-term low-waged)

You go down there and think 'Oh, a nice TV', but by the time you have finance and everything, it's double the price.

(44-year-old divorced man, no children, long-term sickness benefit recipient)

I think the interest rate is ridiculous. For the people who can't afford it, it's nearly double interest. It's wrong.

(41-year-old partnered female, four children, churner)

Echoing parents' comments on the difficulties of educating children about the pitfalls of credit and debt, there were also comments about a *culture of borrowing* that had become established in society, and that would be difficult to change:

I can go to a bank and say 'I want to start a bank account' or whatever, but you need bits of ID ... but I can go down to BrightHouse and say 'I want a Playstation' and all I need is a utility bill ... and they'll give me it ... I do feel sorry, because I've watched programmes with people, especially students ... and they get themselves in that much debt to get an education.

(44-year-old divorced man, no children, long-term sickness benefit recipient)

All this stuff with the credit crunch and that, I think it was a long time coming. I just find it unfair that so many people have to suffer for people's credit use, and I actually feel sorry for people who have got themselves into that situation, especially if you're talking about from banks and stuff like that, because that is the way that they've [people] been encouraged over the years to use their

money and now there's no quick fix. It's very lonely and very frightening and ... it can break up families, it'll break up relationships.

(31-year-old single woman, one child, churner)

... you can't take it away from people ... people rely on that. It's like saying we're going back to black and white TV, that's how it would be.

(51-year-old single man, no children, long-term sickness benefit recipient)

In many ways, many of the participants in this study have been the casualties of the easily available credit of the past decade or so. Having availed themselves of this credit they are now having to manage their debts, using a range of strategies and often displaying remarkable personal resilience, using everything at their disposal in attempts to manage their money and repay their debts. And they are trying to achieve this aim while meeting their day-to-day needs on low (and possibly inadequate) incomes.

Strategies for money management

It was clear that over the year participants had a range of strategies that they adopted to try to manage their finances. These strategies varied and were influenced by their attitudes towards credit and debt, their financial position at the time, the level of their debt and their access to various resources that offered an element of protection against over-indebtedness. These resources, many of which are listed in the right-hand column of Table 3, proved invaluable in helping them to manage their money and the more resources they could access, the better they were able to manage. When it comes to managing debt or becoming over-indebted, additional factors that play an important part are financial and debt history, relationships with creditors, and creditor behaviour and working practices.

While all the participants had experienced credit and debt at some time in their lives (as a prerequisite for inclusion in the research), a very small number were debt-free when recruited, while others had 'manageable', unproblematic credit use and debts. For many, however, managing their debts was a constant struggle and one which many

did not realistically see as one they would ever be free from. The next section explores the critical protective factors that contributed to participants' managing their debts, rather than becoming over-indebted, in terms of the financial factors (relating to both income and outgoings) and non-financial factors (relating to access to more general resources (often referred to as 'social capital').

Financial factors

Participants' income and outgoings were important when decisions were made about how to manage their money and which debts to prioritise if they were unable to service them all. Without an adequate income they were unable to manage financially and debts could become overwhelming. Even with an adequate income, outgoings were also important since those who were over-extended financially still had to monitor their outgoings and make cutbacks.

Income

The most important factor in managing finances and avoiding over-indebtedness was a regular, stable, non-fluctuating income. This income may have been derived from earnings or benefits but needed to be guaranteed to ensure that recipients were able to budget and manage their finances. However, although an adequate income was critical to financial success, outgoings were also very important. Many of the participants, both waged and in receipt of benefits, struggled to manage adequately. Some of those with several children felt that earning sufficient to manage adequately *and* to service debts was almost impossible.

For example, Louise Younger lives with her partner and five children. Both she and her partner were long-term benefit recipients who received a considerable amount in benefits because of the size of their family. If they were both to work, they were aware that their earnings would have to also cover childcare costs. They could not imagine earning the level of income that would enable them to manage and reduce their debts. This was also true of smaller families that were headed by lone parents.

While many of those participants who were long-term benefit recipients struggled financially, this seemed to be less true where benefits were

health-related. For example, Andrew had a long-standing disability and received a range of disability benefits. Although he had a mortgage, this was his only debt and he was very wary of credit and debt, feeling that people should save for what they need. He had used credit in the past, when he was previously married, but not for some time. As he lived alone, he felt his needs were minimal and that he could fully meet them from his benefits without using credit or going into debt.

However, there were cases where health/disability-related benefits were reviewed and sometimes stopped or altered, causing uncertainty to recipients. Christopher lived with his brother and together they were buying the ex-council house that was their parents' family home. Both brothers had long-standing health conditions and received disability benefits. When Christopher was recruited to the research they were in mortgage arrears and had been served a repossession notice. Prior to the court case Christopher's brother had a heart attack and Christopher's own health deteriorated. With the intervention of another brother, they managed to keep the house and make arrangements to repay the arrears. Christopher was also helped to apply for Disability Living Allowance (DLA) which was granted, increasing his income – but which then stopped, putting his income back down to what it had been before, although by this time the arrears had been repaid. Mr Eason (**case study 3**) also had his DLA reduced, which caused him such stress that he made an unsuccessful suicide bid. We came across other cases where DLA had been suspended while claimants' health needs were reassessed. Although the payments were often restarted, such temporary and unexpected reduction in income often caused considerable stress to participants, as **case study 3** illustrates.

It was not only disability-related benefits that were sometimes suspended. One young woman had experienced repeated episodes of loss of benefit:

My benefits have been stopped about three or four times in the last three years because of [ex partner] being a bugger and having them stopped, saying I have been working when I haven't. So they stopped my benefits and I have had to put a new claim in and it has been a few

weeks before they have sorted it out ... I have had to stop paying water, stop paying gas, stop paying electric ... rent arrears on my house, because obviously housing benefit has been stopped ... So yes, I have struggled where my benefits have been stopped, because obviously I've had no food and stuff to provide for the kids or anything

(22-year-old woman, two young children,
long-term benefit recipient)

While benefits may be reinstated and in some cases backdated, the stress of suddenly losing income can have many knock-on effects as outlined above. The impact of going into arrears with bills and rent can lead to further hardship, cutbacks and sacrifices and it can be very difficult for people to recover from such setbacks.

Once income is lost or reduced, even for a short period, it can have serious implications for those with no savings and few other resources. When Diane was recruited for the research, the only debt her household had was an unpaid tax bill from a period when her partner failed to pay, thinking his employer was making contributions on his behalf. Diane and her partner were very debt-averse and had never owed money before. Diane was much concerned about this debt, worrying (probably unnecessarily) that her partner could go to prison. By the second interview he had lost his job in the building trade – an early victim of the recession – and was not entitled to Job Seeker's Allowance (JSA) as he had been self-employed. With no income, Diane had to cancel all of their direct debits for rent, utilities, and so on, and make savings in the household bills. At this point, the unpaid tax bill became far less pressing as Diane struggled to find the money to feed the family. Her partner then found less well-paid work as a labourer (he was a skilled builder who had previously been a site manager) and they slowly began to repay their debts. He also came to an arrangement to pay his outstanding tax arrears. This example demonstrates the dynamic nature of debt in low-paid households, where a sequence of events can unfold over a period of time, resulting in even the debt-averse being forced into living with debt or using credit.

Over the twelve months of fieldwork, it became clear that it was currently beyond the ability of

most participants to increase their income and that this was likely to remain the case for most in the short to medium term. They could try to either get employment if they were not working or to get better-paid employment if they were. Since many of them had few skills or qualifications, this would be difficult under any circumstances, but more so during the current recession – and even more difficult to get stable and secure employment. This is why being able to access other resources was so important to some. The majority were therefore constrained by their income but had more control over their outgoings.

There were, however, two notable exceptions. Two female participants reached their 60th birthday during the research and both opted to take their state pension while continuing to work. In these cases, the additional income enabled them to reduce debts and to save. However, it was only by both working *and* claiming a pension that they were in a position to do so. Interestingly, one of them had to replace her boiler shortly after starting to receive her pension. This necessitated her taking out a new credit card, having been refused a loan. She felt she could not have met the cost of servicing this credit without the additional income from her pension. It was unanticipated expenses such as this that were the most likely triggers to participants taking additional credit or defaulting on other debts. Although neither of these women regarded themselves as over-indebted, they were equally unable to clear their debts while in receipt of an (earned) income only, and neither felt able to fully retire.

Savings

In the light of a recent review undertaken by Kempson and Finney (2009), and the finding in Chapter 2 that even modest savings could help mitigate the risk of people moving into a situation of over-indebtedness, it was notable that there was little evidence of widespread saving among participants in this research.

In particular, many participants said they could not afford to commit to regular saving for some unidentified future occurrence (for a 'rainy day') because they needed to retain the flexibility to juggle bills/commitments on an ongoing basis

and to do this they needed ready access to any savings they had. Many said they aspired to save, particularly those who were in employment, but for those only in receipt of benefit income saving was generally considered less possible.

There was, however, some evidence of 'instrumental' saving – for example, for Christmas or holidays – but participants were clear that putting this money aside could be stalled and that it could (and often was) 'raided' if necessary. For some, the only way in which they felt able to save was to give money to a trusted family member for safekeeping. There was also some evidence of what might be termed 'incidental' saving, for example through the meter on the television ('pay-per-view').

Outgoings

Participants reported that they were able to control their outgoings to a much greater extent and, if necessary, to reduce them, when money was tight. They could make economies in some areas, increase their spending elsewhere, prioritise debts and decide which to repay first, or acquire additional debt as the need arose.

The first area where people appear to cut back is food. Shopping around for bargains, such as 'two-for-one' offers or 'buy one get one free' was common (although it was also observed that this did not always necessarily constitute a saving), as was changing brand and going for supermarket own label and basic ranges. Those who had the necessary skills cooked 'from scratch', thereby saving money on pre-prepared and convenience foods. However, during the period of research, basic foodstuffs were rising in price, reflecting the rise in the price of wheat. This meant that even economising on food was difficult for some of the participants and in the first few interviews the rising price of food was one of the major ways in which people felt affected by the economic situation. Some said they went hungry, prioritising the needs of others in the family, notably children, but sometimes partners, and cutting back themselves:

Yes I have to [go without food] sometimes. That don't bother me, I manage. There's a bowl of

cereal if I've got it or I could have toast or something.

(53-year-old single woman, long-term disability benefit recipient)

For those participants who had an element of financial leeway, getting bargains was not only restricted to food. They were also able to get better financial deals and cheaper tariffs on utilities. However, accessing these resources was more problematic for those with large debts and/or poor credit ratings. The cheapest way of paying for utilities is usually by monthly direct debit. This has the advantage of spreading the cost over a year rather than having large winter and smaller summer bills. For the supplier, the payments are guaranteed (providing the banks produce the funds from clients' accounts) and administration costs reduced. However, not all of our participants had bank accounts that allowed payment of direct debits. Other participants were unwilling to commit to fixed monthly payments, preferring to pay for gas and electricity as they used it, which they felt gave them more control, enabling them to cut back on usage if they were using more than they could afford. They paid a premium for these arrangements (and were aware that they did so) as prepay meters are one of the least cost-effective ways of paying for gas and electricity. Some did manage to pay for utilities by direct debit, but any savings made were more than cancelled out by bank charges if they had insufficient funds in their accounts when direct debit payments were due.

Those participants who were receiving benefits often had debt repayments for rent and utilities arrears and Social Fund loans deducted from their benefits. While many preferred this money to be deducted at source, it reduced their ability to determine their own priorities regarding management of their resources and payment of credit/debt commitments. Further, since benefit levels are set at subsistence rates, it also leaves families living on less than is considered socially acceptable for sustained periods. It also leaves people at further risk of not being able to meet their commitments and of taking on further credit.

Non-financial factors

In addition to income and outgoings, some participants had access to a range of non-financial factors that facilitated debt management and offered some protection from becoming over-indebted. These factors included: access to professional money advice; access to a range of financial services/products and the necessary knowledge to make informed decisions about these; a strong antipathy to debt; and the ability to pursue further education/training to improve their prospects in the labour market. As noted above, basic skills and knowledge, including good housekeeping, the ability to cook food from scratch and other domestic skills, were also important in cutting costs. For those who had already accumulated debts that were burdensome, perhaps the most important of these was access to professional money advice. Where debts were manageable this was less important.

Money advice

Several participants said they had used money advice at some point. The services most commonly referred to were those that incurred no costs to use, including Citizens Advice Bureaux (CAB), Surestart, Local Authority agencies, National Debtline and various church organisations including Christians Against Poverty. Only two participants said they had used services that charged a fee, although in one case the person concerned had initially not realised that some of the money he was paying went straight to the agency rather than to his creditors, leaving him frustrated that he was not clearing his debts as quickly as he had anticipated. The other person who used this type of service was relieved that she had taken action and felt it was worth the administrative charges to know that someone else was dealing with it on her behalf.

The majority of participants knew that money advice services were available, and the most commonly cited one was CAB. Of those who had not used such services, most felt they did not need them. Others said they felt too embarrassed to seek help and that they preferred not to discuss the extent of their debts or felt that it was their own responsibility to sort out their finances. Some had tried to seek help but had found the process

of queuing (including with their children) at CAB offices (where appointments cannot routinely be made) off putting and had been deterred from trying again. The majority of participants who had used money advice services were satisfied with the process. Only one person specifically said they had found the service unsatisfactory. This was because the repayment amount that the advisor suggested was too high, but it was reduced when the participant appeared in court.

Interestingly, many of the participants who had not used money advice services said that they had found taking part in the research helpful. Indeed, some, when asked if they had ever had any advice, referred directly to the research. As researchers we did not offer any advice, although we were able to pass on details about locally available services if asked. When questioned further it transpired that simply discussing their finances, the way they budgeted, what their debts were, how they made decisions and so forth was more than many had ever done and had encouraged them to take a good look at their finances and to stop to consider these issues. It may be that having someone take an interest and go through their outgoings and income with them is sufficient to make some people more financially aware. A one-off appointment with money advice may therefore be less helpful than ongoing (or an initial and follow-up) contact (either face-to-face or by telephone) with an advisor. Telephone follow-up appointments may also prove cost-effective for service providers.

Creditor behaviour and relationships with creditors

Another important factor in money management is creditor behaviour and the relationships people have with their creditors. The reason some participants chose not to use money advice was that they found it easy to contact their creditors themselves if they were experiencing difficulties in making payments. They felt that explaining their problems personally was often sufficient for creditors to accept a revised payment date or plan. Others found creditors more intimidating and had experienced having bailiffs or debt collection agents at the door.

Many respondents felt able to negotiate with utility companies, although these were sometimes seen as too inflexible when it came to setting monthly payments. The major criticism of utility companies was the high charges levied against those with pre-pay meters, the feeling being that the poorest and most vulnerable were charged the most while those who could afford monthly direct debits benefited from reduced tariffs. The one exception was water companies, who, most participants agreed, would not disconnect the water and could therefore be more safely ignored if the money was not available to pay them. None of our participants had contacted water companies to negotiate payments, but many had simply not paid any water rates – sometimes for years, with arrears often running to hundreds or thousands of pounds.

On the whole, the relationships borrowers had with doorstep lenders were positive, with one or two exceptions. Many participants were serial borrowers from doorstep lenders, allowing them the time to build up a relationship. This meant that even if they could not afford to pay the whole amount they felt comfortable negotiating a smaller payment on occasions. Indeed, doorstep lenders were sometimes complicit in suggesting excuses for non-payers. Although these relationships were positive, this did not mean that people who accessed these loans were happy with the ways in which loans were marketed or the levels of interest they attracted:

The people who don't work have to get street loans and they pay, say you borrow £100 you could be paying £40 back on that. When it goes down some they'll give you another one to top it up. So you end up in a lot of debt. To me they're like armchair pimps do you know what I mean?

(53-year-old single woman, long-term disability benefit recipient)

About four years ago I borrowed £400 and they added £400 and something credit on top. No, not credit, interest. But you're desperate at the time and just need to have it, don't you? I know it's a rip off really.

(42-year-old single woman, long-term benefit recipient)

By far the worst relationships appeared to be between mainstream banks and their customers. Many participants spoke of their frustrations at what they saw as excessive bank charges and penalties for unpaid direct debits and unauthorised overdrafts – the one often leading to the other. The inflexibility of banks regarding these charges and penalties was an area of deep resentment and reflects the fact that few respondents felt they had a personal relationship with bank staff. Further, the application of bank charges and penalties exacerbated many participants' debts, having the knock-on effect of making it more difficult for them to meet their outgoings and service their existing debts:

Well I've heard of people who have had credit cards and the charges they've put on there and if you don't pay the bill on time that's more charges. Like the bank – if a bill goes out and I haven't got the money in there it charges me £28. That's why I make sure the money is in there.

(33-year-old lone parent, three children, long-term benefit recipient)

Many participants commented on the unacceptability of being offered unsolicited loans, especially when money was tight and they felt they were being unfairly tempted:

The bank was actually ringing and asking whether I wanted a loan. They have done that several times ... I did not have much money in my account, just my salary. Yes they actually rang and a lady said, 'I have been checking your accounts'. For a few months this money went into my account. Yes they ring and ask whether you want a loan or not.

(42-year-old married woman, two children, long-term low-waged)

You walk into a bank and you desperately want money because you've seen something nice and shiny that you want to buy. They're desperate for you to buy it because they want commission. These big corporations, I know banks have had a problem recently but they've had a lot of money over the years. They should be responsible for the people they lend to. I know there is supposed

to be a responsibility code but I can't see why banks and big corporations, all these places that give you store cards – just 'Here's a store card' – they should be responsible. If they want to give finance they should be responsible for educating the people who are going to have it off them.
(40-year-old single man, long-term low-waged)

Other recent research (Ben-Galim and Lanning, 2010; Rowlingson and Joseph, 2010) also identifies the temptations and associated problems caused to low-income families by the overt marketing and ready availability of credit.

This finding relating to banks is especially pertinent at the moment as the government wrestles with ideas to make banks more accountable following the extreme measures taken to prevent the collapse of the banking system. Further, it is interesting to note an apparent shift in attitude from one where banks are viewed as legitimate, responsible lenders who offered flexibility to their customers to one where many people consider them as being irresponsible lenders, inflexible with their customers and as unfairly applying punitive charges.

Examples of access to resources and resilience

Just as there is rarely one single identifiable trigger factor that causes people to go into debt, so managing debt does not depend solely on income. Rather, it is the complex interplay of several factors including income, outgoings and other resources.

People in employment have more autonomy when managing their finances and making spending decisions. Those whose income is adequate can benefit from reduced tariffs and can avoid bank charges. It is these differences – between having an earned or unearned income, having more or less control of one's finances, having manageable or unmanageable debts, and having access to other resources – that influence people's ability to adequately manage their finances. The following examples demonstrate the impact the *combination* of these factors had on financial management over the twelve-month period.

Christine Reeson and her partner, a couple with no children, both found full-time jobs at

a large supermarket some months into the project, and while they didn't enjoy doing regular night-shifts, by the end of the year, they had cleared their credit card debts, overdraft and loan, a total of £1,500. Others who ended the year with no or low and manageable debts also tended to be in full-time employment.

Barry Price, for example, a single male homeowner with no children, was very financially astute; he shopped around online for financial products and took advice from a family member who worked for a bank about which branch to apply to for a loan. Barry, in common with all of the mortgage holders in the research, also benefited from the considerable fall in interest rates during the period in which the research was conducted. His income fell during the year due to a loss of overtime, but he compensated by taking more advantage of subsidised meals at work, and cutting back on holiday expenses.

Noreen McBride, a lone mother of a primary school-aged child, worked full time as a classroom assistant and kept her credit card spending (used primarily for 'smoothing') strictly under control. She saved regular small amounts to cover birthdays, Christmas and holidays, and restricted her social life by resisting invitations from family and friends to join them on outings and short breaks.

Jennifer Smart also actively resisted using credit. In the past, her self-employed husband had gone out of business and their house had been repossessed, and this made her highly debt-averse. They lived in a council house with their two adult and one school-aged sons. She and her husband were both in low-paid employment, but the household income fluctuated according to her own and her adult sons' 'churning'. She was very enthusiastic about adult learning, had acquired a number of in-work qualifications, and had aspirations to work for social services – an ambition she had achieved by the end of the year. She constantly kept a very tight rein on household finances, and also regularly saved small amounts towards Christmas and a modest annual family holiday. Her husband supplemented their income in a small way by buying and selling on eBay, and household appliances were also replaced by buying secondhand from this source. However, always monitoring expenditure, never

being able to spend spontaneously, actively resisting 'easy credit', and cutting out the weekly outing to bingo that had been her only form of socialising had taken a considerable toll on her:

I am very tempted to ... get a loan to see us through ... to have a buffer to fall back on ... just to have money available in case we need it ... being so penny pinching, it just takes the joy out of living ... it would stop me from being so grumpy, because I do think it makes you miserable ... people make you feel jealous probably ... I went next door and she says 'I've done it! We're going away ... don't care about the cost!' And I'd love to do that, just to say 'I don't care what it's costing, let's just go'. I've never taken them [the children] abroad, because I couldn't afford it ... and it is very tempting, and I do think they make it so easy for people [to get credit]. And people don't see – and maybe losing our house 15 years ago probably was the best thing, because you do see what happens when things go wrong. Or maybe not – maybe it just makes you miserable and cynical.

(43-year-old partnered woman,
three children, churner)

It is clear that for some people who become over-indebted, have access to few resources and have limited control over their income and outgoings, 'managing' money becomes almost impossible. It is difficult to see a solution to indebtedness when things become so bad and therefore not surprising that many in this position feel helpless and often depressed. However, even those with low incomes are able to manage very well if they have access to additional resources and are not over-burdened by debt. Equally, some people who do become over-indebted may be able to manage their debts if they can also access other resources, particularly professional advice and support.

Case studies

In this section, three case studies are used to illustrate how different participants managed their money according to their income, outgoings and access to various resources.

Dual income and access to wider resources

Case study 7 provides an example of a couple who have access to many resources that enable them to manage their finances well.

They are both in employment *and* have the potential to increase their hours and therefore their income. They have good credit histories, enabling them to shop around for credit card deals and to have an overdraft facility. They have the knowledge and the means to search the internet for bargains and keep a tight rein on their finances, always knowing exactly how much money they have and what they can afford. They also have some savings that can be used for any unanticipated expense. They cook meals from scratch, always eating good quality but inexpensive food including fresh fruit and vegetables. In addition to this they have close families who can help them out should the need arise. It is this combination of factors that make their financial situation secure despite the fact that they are low earners and find managing their budget a challenge. Over the twelve-month period of the research they experienced few changes to their financial situation other than changing credit cards for zero per cent deals elsewhere.

Lack of access to wider resources

In contrast, **case study 8** provides an example of someone who has access to very few resources.

Tania has been receiving benefits for many years and has had no control over her income. She is unlikely to be in a position to seek employment while she is her son's carer and so cannot increase her income. Tania got into debt over a period of time after she gave up work to care for her son. Her income is insufficient to meet her outgoings and her debts have continued to get larger over time as interest on them has accumulated. She worries that she cannot cope financially and ignores letters from creditors.

During the period of research she went to court on the recommendation of a friend but found the situation very unpleasant and embarrassing. She has never sought any financial help or advice. Tania often referred to 'being poor' during interviews and was clearly distressed by her situation. Although the family had access to the mental health team, Tania had never discussed her own depression with anyone. Her mother seemed to

be the only family member she had contact with and she was too embarrassed to tell her about her financial difficulties. In desperation she tried to access additional credit during the year, applying and being turned down for both a credit card and a doorstep loan. At her final interview she was distraught as her son was about to turn 21 and she had no money to buy him a present.

The benefit of seeking formal financial advice

In contrast with Tania, who cannot service her debts and can see no way out, **case study 9** demonstrates how even large debts can be managed if participants acknowledge their problems and seek help. However, the solution to over-indebtedness is a long-term financial commitment and is only possible for Alan and Anna because Alan has secure employment and overtime is available, enabling him to increase his basic pay. They also have a helpful family and, in the longer term, Anna hopes to resume work, increasing the family's income.

Over the year they continued to chip away at their debts, using credit cards sometimes as a way of 'saving' (deferring payment) when they knew they would need access to money later in the month. Their limited income, reduced by their debt repayments, only barely covered their outgoings, meaning that unexpected expenses were not budgeted for and a cause of concern.

Case study 7: Dual income and access to wider resources

Matthew and Heather both work part time, a decision they took following the birth of their son. They both wanted to be around during his pre-school years and to avoid having external childcare costs. Matthew works in catering and Heather in retail, so both are low earners but they also receive tax credits which, they both acknowledge, are what makes it possible for them to manage financially. They privately rent a house and do not have a car. Their rent and household bills are all paid monthly by direct debit. They have two credit cards and an overdraft. They share a very similar attitude

to money, shopping around for bargains and good deals on food and other small purchases. When they need larger items they are happy to take secondhand goods from family and friends or to purchase secondhand from shops or online. Although money is tight, they consider themselves to be good financial managers.

Matthew and Heather both feel their jobs are secure and will both have the option of increasing their hours when their son is older. In the meantime, they have a realistic budget and make joint financial decisions. Heather uses the internet a lot for price comparisons and tends to shop around for zero per cent credit card balance transfers, ensuring they pay no or minimal interest on their outstanding balance. She also checks their account balances regularly and always knows what money they have available. They have a second credit card that she can use at work, combining the staff discount reduction and a points system to make the card work for them. The overdraft is in Matthew's name and is used for larger items that they cannot afford to pay cash for such as a camera and driving lessons. They always pay more than the minimum payment on their credit card balance and reduce the overdraft monthly. They have some savings in an ISA which they would like to add to monthly.

Although Heather acknowledged that having savings in addition to debt may not be the most financially advantageous arrangement, they felt that having something to fall back on – money that they could access immediately if necessary – would prevent them from having to take on any additional debt. Matthew and Heather also have a wide circle of friends and spend time in each other's homes. During the year, Heather's parents bought them a new fridge-freezer, and although large gifts like this are not common, they are greatly appreciated.

Case study 8: Lack of access to wider social resources

Tania Kirkpatrick is a lone parent living with her 20-year-old son. They live in a depressed area in a council flat where Tania is very unhappy. Tania's son was diagnosed with ADHD as a child and she had to give up low-paid factory work nine years ago to care for him. He now has mental health problems, bi-polar disorder and is sometimes suicidal. Both Tania and her son receive benefits: he receives incapacity benefit; she gets income support and carer's allowance. Tania's son makes no regular contributions to the household apart from occasionally paying the cable television bill or making a £10 contribution.

When we first met Tania she was in arrears on payments for water rates and a television licence and had received final demands for both. She also had debts on a credit card, an unpaid loan and catalogue debts and had recently had a court administration order for these three. Tania felt the amount the court ordered, £16 a month, was too much and she could not pay that amount and clear the other debts. These debts had accumulated over time and were not the result of large-scale purchases but of 'getting by'. By the time she went to court more than half of what she owed was interest from the original sums. She had initially used the credit card for clothes but ended up using it for more everyday purchases. She only ever paid the minimum and so the interest accumulated. Her loan was from a doorstep lender. She borrowed £400 but had to repay £800 with interest. The catalogue had been used for clothes and household purchases.

As a long-term benefit recipient Tania has not been able to save any money and has always struggled financially. She has pre-pay meters for her gas and electricity and in autumn 2008 was putting in £27 per week and worried about the costs over winter. Despite Tania's debts being in the hundreds of pounds rather than thousands, she felt completely overwhelmed by them. She was

very depressed at every interview, constantly worried about money and could see no way out. She had not discussed her depression with her GP as she was too embarrassed to discuss her debts. She felt she was penalised for 'being poor'. She had told neither her son nor her mother about her debts. Her mother lives locally and has a pension. Although she occasionally gives her daughter £10 for 'a treat' she would be unable to help with Tania's debts even if she were aware of them.

Case study 9: The benefit of seeking formal financial advice

Alan and Anna Clarke live with their two young children in a privately rented house. They have several debts including two bank loans, two credit cards and a store card. They also pay to a debt collection agency for old utility arrears. Their debts stem from Alan's student loan and overdraft, personal credit cards, a loan that Anna had and a joint loan for their wedding. Both Alan and Anna brought individual pre-existing debts into their relationship and then acquired joint debts. About two years prior to the research they realised they were over-indebted and could not keep up their payments. Initially they consolidated a loan, credit card and overdraft into one loan but were still unable to manage. They went to CAB, who contacted their creditors and arranged voluntary manageable payments for them. Sticking to these agreed payments would take them twelve years to clear their debts. When we met them they were two years into this agreement and were mostly managing to keep up with their payments. They still struggle occasionally and continue to use credit cards to manage their money. Alan's job is secure and he has been able to get overtime throughout the recession. In the longer term he may be able to progress and earn more money. Anna is doing some courses with a view to returning

to work when both children are at school full time. They run a car with difficulty and Anna's mother has helped them out with the cost of repairs and MOT. Although Anna worries a lot about money, Alan is more laid back and only deems their debts to be moderate as he feels they will be able to stick to their arranged repayment schedule and be free of debts in about nine years' time.

Key issues

Many of the participants in this research can be considered as being casualties of the previous ten years of easily available credit. In some, but not all, cases their income may have been considerably higher when they first accessed credit, but often credit was offered regardless of income and ability to repay. In other cases, their circumstances had changed over time and they had found it difficult to manage their previous commitments in their new circumstances. In a society where using credit has become the norm, many found it hard to resist the regular – mainly unsolicited – offers they received.

Our findings suggest that budgeting is difficult for households who remain on a low income for a sustained period of time and that frequent small scale borrowing can ultimately leave people over-indebted and struggling to manage. Further:

- Successful money management depended on maintaining a careful balance between income and outgoings, but few participants in this study had much control over their current income or likely income in the short to medium term, especially those who were currently wholly or partly reliant on benefits.
 - Even those participants in employment were finding it difficult to find better paid employment or to work extra hours to increase their income as a result of the recession and rising unemployment. In both cases, this resulted in outgoings being often considerably squeezed, with people spending less, economising wherever possible and
- 'going without' even basic needs. It also limited their ability to meet their current financial commitments, to avoid further use of credit and to becoming over-indebted.
 - Having access to non-financial resources, such as the help of family and friends, professional money advice, education and training that may improve employment prospects and the possession of financial knowledge and skills, can greatly improve people's money management and financial situations. However, access to such resources is not universal and often the poorest and most vulnerable are the ones with the fewest resources to access.
 - The attitudes and working practices of creditors can make a great difference to low-income households. The participants were critical of many of these practices, which they saw as being unfair and discriminatory. Examples were plentiful, including: utility companies' charging policies; bank charges and fees that were viewed as excessive; the overt marketing of loans and credit cards to vulnerable people (including those reaching the age of 18); and the high levels of interest charged by those who specifically target the poor, such as doorstep lenders and those selling goods on credit door-to-door.
 - Many people demonstrated great determination in trying to manage their debts, accessing all the resources at their disposal and making personal sacrifices in order to keep on top of their financial situation. However, some had no or few resources to access and could see no solution to their problems or way out of their current situation. Some were very open that they tried to ignore the situation as they found this a coping mechanism in the short term. In contrast, others (particularly women who carried primary responsibility for budgeting) became depressed and anxious as a result of the constant struggle, setbacks and worry resulting from their circumstances and their perception that there was little likelihood of their ever being able to change this.

4 Conclusions

Introduction

This chapter aims to review the findings from the research to provide policy-makers, those who provide access to credit and other agencies with:

- information to better understand the attitudes and experiences of people living on low incomes who use credit and live with debt;
- an insight into the strategies adopted over time by households in financial difficulties; and
- an indication of potential impact of some initiatives aimed at encouraging responsible use/provision of credit among/for the general population on people living on low incomes and for whom credit/debt is an integral part of their everyday lives.

The first part of this chapter reviews the issues that were raised during the final interviews and ‘check back’ discussion groups with participants that were undertaken at the end of the research. The second part reviews the main findings from the research and considers these in the light of participants’ views and recent developments, including those aimed at the general population in response to the recession and ‘credit crunch’.

At the point that the research was commissioned, policy in this area was relatively slow moving and, while the issue of borrowing levels among the general population and the issue of reducing (in particular child and pensioner) poverty were significant features of concern on the policy landscape, the situation facing people on low incomes who were experiencing over-indebtedness was not a particularly high priority. However, the government’s response to the ‘credit crunch’ and recession resulted in a range of policies and initiatives to try to alleviate the situation for people experiencing difficulties with their financial commitments. In addition, the financial sector’s main response was to restrict access to credit,

this in stark contrast to the situation some 18–24 months earlier. Where appropriate, we also refer to some of the more recent changes that have been made as a result of the continuing financial situation and view these from the perspective of people living on low incomes who use credit or who are in debt.

What participants think should be done

All participants were asked in their final interview what, if anything, they felt should or could be done to help people who become over-indebted. Additionally, as described in Chapter 1, three separate ‘check back’ groups were held (in Derby, Nottingham and Leicester) and 21 of the original 57 participants took part – with some bringing their partners to the groups. These discussions followed a brief presentation of the issues that the research team had identified in the initial analysis as those they thought were the key points that had emerged from the research. The participants were then able to discuss their views on these issues and any others they thought pertinent.

So what did people think could, or should, be done? An immediate reaction was to say that creditors should not lend money to people who can’t afford to repay it – that there should be both more scrutiny of borrowers’ financial positions and more responsibility on the part of lenders. On the other hand, there was also recognition that many people living on low incomes were in fact reliant on credit for the necessities of life:

If it means you can borrow something that you really need to get, and then you can pay it back, then it’s OK, but otherwise I think it should be more restricted to who they lend credit to. But then I guess some people have to pay things on credit, like they need something like a washing machine, and they pay it like that – then that, I guess, that’s good, if that’s the only way they can do it. But often you end up paying more than you would anyway.

(26-year-old single woman, no children, long-term low-waged)

The most commonly suggested solution to this was to address inadequate incomes. The kinds of examples mentioned by participants included: improving benefit levels; providing more support to lone mothers in work (in the form of greater flexibility to respond to children's needs at short notice); providing more funding for community-based preventative services; and ensuring more secure and better-paid jobs:

I think they should help out the people who live on benefits with children ... I've got three children with ADHD ... Because we're single parents they don't actually allow us to claim for disabled children whereas we should be. We actually need to find a job which gives us time to be able to up and go ...

(33-year-old divorced woman, four children, long-term unemployed)

I do think there's more that the government could do with other issues. Being made redundant and having the experience of that, it's people like me who have come from low income backgrounds that are trying so hard. Why not put more money into funding services that do the preventative work with finance issues ... or raising awareness ... everything that would stop people from having a successful life – invest in that, because the support is there, and a lot of people are able and willing and want to do that. But it might not be very beneficial to me – I wasn't secure in my job and my manager battled to get us more money because all of the staff were still struggling.

(31-year-old single woman, one child, churner)

As far as banks and loan companies are concerned, however, there was little optimism among participants that they would act more responsibly in the future, since they were all seen as being driven solely by a profit motive:

For people who have credit cards and they're in debt, I think it should be made common knowledge, so that if they apply for a credit card somewhere else – but then the banks won't benefit will they? They don't really care

about the people, they just care about making the money, so it'll never stop.

(39-year-old separated woman, one child, long-term low-waged)

First of all, I feel sorry for the people that haven't got a lot of money, are on a small income, even working ... everything is bills, everything. There is hardly anything left for the family, and that's people working on low income ... I know it's cruel, but I wouldn't let very low incomes, or social security – people in our situation – have those cards because it's not fair. Well, it's the company's fault, in some ways, because they are just looking at the greed side of things, and the interest that they make.

(53-year-old single woman, no children, long-term sickness benefit recipient)

This being the case, participants called for greater regulation of banks, loan and credit card companies, and of the marketing and provision of credit:

I think they [the government] should make people more aware of what they're doing when they're borrowing money, and is it their only option, or is there other ways to get round the problems that people get with money and things? I think that the government have got a lot of control over advertising in banks, what banks do. I don't know they might not, but I feel that they could have a lot of influence over banks.

(26-year-old single woman, no children, long-term low-waged)

There's a lot of adverts on TV – you've got companies like Provident, Shopcheck, HSE loans, luring people into debt. They should stop all that. Really [the government] should be clamping down on things like that.

(32-year-old partnered man, four children, churner)

With the credit crunch at the moment, obviously with the government giving the Bank of England sort of freedom it's worked, but there definitely needs to be some legislation on the way that banks loan money. It's what's caused a lot of the

credit crunch, selling and buying debt, and the way they lend each other money as well, and sell debt to each other. And I didn't like the way the student loans were sold off ... It was originally, they were from the government, but then they're not strictly from the government anymore ... it's now another company, and obviously someone is making some money somewhere.

(44-year-old divorced man, two children,
long-term low-waged)

The prime [thing that needs changing] at the moment is obviously bank charges. Lloyds TSB have just lost their case which I think is a good thing ... Credit card companies need to be controlled and monitored more closely, same as a lot of the [loan] companies do.

(38-year-old single man, no children, churner)

Realistically I don't think anyone is going to do anything about it because it's a business to the financial institutions isn't it? And I don't know if the government are capable of doing anything about it ... in an ideal world, yes, I would like to see them do something about it.

(25-year-old married man, no children, churner)

In line with both empirical evidence that youth is a particular risk factor in the acquisition of problematic debt, and their own experience of accessing credit when around the age of 18 years acting as a significant trigger into later over-indebtedness, there was a widespread and strongly held feeling that credit cards and loans in particular should not generally be made available to this age group:

I think the younger you are the more tempted you are to spend on stupid useless things ... if you've got an older age range where someone's got a credit card, they're more easy with it than just going 'Oh, I like that TV, I'll put it on the card' ... the younger you are the more foolish you are, and as you get older, you realise your mistakes, because you're getting wiser as you're getting older ... like, say if I had a credit card I probably would waste it.

(22-year-old single woman, two children,
long-term unemployed)

I think about the youth, teenagers and credit cards. I think it's not right, because each of us was young, we didn't think about the future, we thought we won't get older. My parents are old, my teachers are old, but they really can't work it out properly, and even the most adult people can't. Even they can't, so what do they expect from teenagers who are really young people? ... But the government should do something, now, stop it here, it's enough ... it's like sending you into a storm ... 'There's a storm, but go in there, you'll be alright.'

(49-year-old partnered woman,
no children, churner)

I think they should lift the age limit on [credit cards] as well ... I think [to] when you're in your 20s, because when you're younger, you think you don't have to pay anything, and get all the good stuff but when you get older you think ... you can't have all the good things, because you can't afford it ... it gets them into debt at an early age.

(32-year-old partnered man,
four children, churner)

I think age limit for one – to get a credit card at 18 ... I mean, you're still a kid at 18 aren't you? Twenty one is still young ... but at least 21, you've got to have a proper full-time job, on so much a year, not give all these students credit cards, and then they owe all this money for years and years. My sister's like in 15 grand debt now. She's paying it ... but they get in so much debt. No, they should stop it.

(31-year-old partnered woman, one child,
long-term unemployed)

The idea of 'a clean slate' was discussed – the notion that at some point all debts could be erased and people would be freed to 'start afresh'. While some participants said they could see the advantage of this, many also demonstrated a clear sense of 'ownership' of their debts, feeling that they had a moral duty to repay money they had spent. Indeed, one participant whose debts had 'expired' said:

Basically, they've got six years to collect the money if there has been no written contact

between the two parties and they can no longer claim it back, it's not ideal, I mean I felt bad about it, but there was nothing I could do at the time.

(53-year-old single man,
two children, long-term low-waged)

Although relieved that he no longer had the debts, he felt guilty about not repaying the money and was adamant that he would not access credit again unless he was certain he would be able to manage the repayments.

Some participants had also been offered deals whereby they repaid a given amount and the rest of their debt was cancelled. One was able to take up this offer by negotiating with the debt agency who asked for £750 as a final payment (approximately half of what she owed). She offered £250 a month for three months, which was accepted. Others, however, were not even in a position to make these types of payment, so their original debts remained. People in this position expressed some dissatisfaction that the debt agency would only 'wipe clean' a debt if they could make a large payment that was often beyond their means.

Many participants were aware of the existence of bankruptcy (and some who had taken advice became aware of Debt Relief Orders), but pursuing the bankruptcy route was seen as a last resort, or as too expensive. It was a strongly held view, however, that interest should not continue to accrue on debts that clearly cannot be managed. Most participants in the research had debts that had increased over time, due to interest accrued, and in some cases they were hardly making an impact on the capital despite regular payments being made and being committed to meeting their obligations. Many found this extremely disheartening and some questioned the sense of continuing to repay in these circumstances.

Given the government's desire for people to borrow less and save more, we also asked our participants if they saved and, if so, what they did with their savings. As discussed in Chapters 2 and 3, savings could provide a safety net against going into or further into debt. However, those who received benefits were least likely to have savings, while many of those on low incomes who

were in work said they tried to save something. Most of those who saved did so on a short-term basis, saving for specific things such as holidays, Christmas, birthdays and so on (as per Dolphin, 2009). None of our participants had heard of the Saving Gateway, a government initiative due to commence in 2010 and aimed at those in receipt of certain benefits or those on a low income who receive tax credits.⁴ People eligible to participate in the scheme will save monthly for two years up to a maximum of £25 per month and, at the end of the two years, the government will add an additional 50 pence for each pound saved. However, while the majority of participants were broadly in favour of such a move, and felt that the bonus payment would be a good incentive to save, they were concerned about having to tie up their savings. Few felt that they would be able to leave savings untouched for so long as they tend to draw on them regularly to meet unanticipated expenses or for expensive times of the year.

And finally, combined with greater regulation of the financial services industry, and greater protection for young people, there was a call for more education to promote financial capability for when people did become eligible for credit:

I think the government is responsible because it should be taught properly, I was never taught about finance at school. I was taught maths, I wasn't taught APR and how a car loan works, I wasn't taught how a mortgage works ... so they could actually give them a living budget – you've got games like SIMS ... all these reality games and things – why is there not reality games where you can end up in debt?

(40-year-old single man, no
children, long-term low-waged)

I think that they maybe should have some kind of education in school at managing money and debt because I think they're living at home longer as well. We both left home early, but that was the done thing. But they're running up debt, and mum and dad have bailed them out, and they don't have to pay bills, and they've got no concept of housekeeping.

(35-year-old partnered man, two
children, long-term low-waged)

Placing the findings in context

In many ways, the participants in this research can be considered as being among the ‘casualties’ of an earlier era of ‘easy credit’ who, like the UK population in general, were actively (although perhaps not explicitly) encouraged to borrow and to make use of credit with few attempts made by creditors to assess their ability to repay or of government to restrict levels of or criteria for borrowing or to increase the risk to lenders of providing credit to people who could not afford to repay. However, given that their financial circumstances are more limited and often more precarious than those in the wider population, the impact of this access to credit (and its subsequent restriction in light of the credit crunch) on the people living on low incomes for sustained periods of time (like the participants in this research) has been particularly hard and would appear likely to stay with them into the longer term.

The research does not present a picture of widespread profligate use of credit to acquire a high materialistic standard of living, but more typically the use of credit and the acquisition of debt as a function of persistent low levels of income, both benefit and earnings-derived, and exacerbated by often repeated experiences of ‘churning’ between the two situations. As such, the overall picture emerging from this research is of people initially and indeed mainly using credit to ‘smooth’ income and expenditure flows, and subsequently, since their ability to plan and manage their finances is so constrained, being tipped into problematic debt by various interactions between the labour market, income and expenditure (including, crucially, lender-behaviour), demographic and health/disability-related factors. This is demonstrated by the most common kind of debts being arrears on household and utility bills and borrowing undertaken while in employment becoming problematic when unemployed.

Where a number of factors (e.g. redundancy, ‘adverse shocks’, increased expenditure as children reach secondary school) combined or built up into a more consistent pattern over time – particularly for those who repeatedly moved in and out of work – many individuals found themselves in a situation that might be characterised as

being in a ‘debt trap’. Many repeatedly tried over a period of time to escape their situation, until the considerable emotional energy needed to constantly juggle all the different demands on their income (including unmanageable debts) became depleted and their earlier progress and ambition towards reducing often longstanding debts was reversed. Very often, the cumulative effect of repeated cycles like this was a notable impact on mental health and of further indebtedness.

There were many instances of young people being offered (rather than seeking) credit cards and bank loans when they reached the age of 18, and using them to spend on clothes, ‘going out’ or a car, without proper regard to how these debts could be repaid. In addition, accessing credit via such means as signing contracts (after unsolicited promotion) for mobile telephones or pay television services (such as Sky or Virgin Media) with little awareness or understanding of the consequences of becoming unable to continue paying the charges (and then facing considerable charges when trying to exit contracts due to an inability to pay or when a direct debit was unpaid by their bank).

Further along the life course, having ‘settled down’ and had children – but in a context of churning in and out of low-paid and insecure work – many people found that they were still struggling to pay debts that had been built up some years earlier. For some this meant falling into arrears on household bills, and resorting to other kinds of credit (Social Fund, doorstep loans, BrightHouse stores) for basic needs such as furniture, clothes and food. The experience of the Quernbys (**case study 1**, Chapter 2) illustrates a general finding of the research, that financial capability is not something suddenly acquired on an 18th birthday, but requires a much longer process and some active guidance (in some cases, this guidance may be needed across the life course). In the present circumstances and with current provision, it seems likely that many people who move into debt in their late teens or early twenties may well continue to live with the consequences for many years and that this will have a detrimental impact on their ability to undertake education/training or take employment at the levels of pay commensurate with their skills.

Relating to this, some participants suggested financial education should be part of the school

curriculum. This is, in fact, already the case, although there are concerns about how effective it is. According to a study undertaken for the Financial Services Authority (FSA, 2006), for most schools, in an already stretched curriculum, personal finance education was in the form of occasional lessons usually once or twice a term or less. The report suggested that a relatively narrow range of topics are covered, that not all teachers had confidence in delivering them and that the majority of schools did not have evaluation policies and practices in place to assess whether measures taken were effective and long term. However, a recent government press release (DCSF, January 2010) states that this situation is to be addressed and that all children will now learn about debt and money management, in particular:

- 5–7-year-olds could be taught how to identify different notes and coins, and how to save money (for example in a piggybank);
- 7–11-year-olds could learn about managing a bank account and savings account, and about budgeting;
- 11–14-year-olds might have lessons on how credit cards, mortgages and loans work, or about managing personal finances including paying household bills, etc.; and
- 14–16-year-olds could explore how money problems can have an impact on people – learning about debt and effective budgeting skills.

In addition, the Royal Bank of Scotland Group's (RBS) 'MoneySense for Schools' programme that uses both web-based and face-to-face teaching methods (RBS, 2008) is one kind of provision which aims to address this issue. The RBS claims that, in 2008, about 337,000 pupils received MoneySense lessons and that support was also provided to teachers (both online and by telephone). This initiative and others like it would seem likely to prove beneficial for those teachers who feel they do not have the expertise to provide personal financial education and for the pupils who receive this provision. Some provision is

also planned for young adults, through 'Beyond school, Money Guidance' (FSA/HMT, 2009), a multi-channel service currently being piloted by the government and the FSA in partnership with charitable and private sector frontline providers of independent financial information and guidance (in response to Thoresen, 2008).

This is the type of education/provision that was felt by the majority of participants in the research to be lacking and that would have been beneficial to them in helping them earlier in their lives, when their youth and financial inexperience had made them vulnerable to the proactive and sophisticated marketing techniques of lenders. The acquisition of credit and store card debt and bank loans at this point, before they had developed any financial 'capability', meant that such skills became even more vital when they found themselves needing to borrow more simply in order to make ends meet. Further along the life course, with new family responsibilities, subject to the vagaries of insecure and low-paid work, and with the fewest choices due to being able to access only the worst 'deals', the need to be able to make informed decisions, the ability to manage multiple demands on an inadequate income, and knowledge of where and how to seek timely advice became even greater. So the findings of this research clearly support the delivery of this kind of provision to *all* children throughout their school career. More specifically, however, the findings indicate that a particular emphasis should be placed on ensuring this provision is made in areas where there are high numbers of households on low incomes and at risk of 'churning' as this is where the need is the greatest.

In addition, if the 'Beyond School' initiative is found to be effective and rolled out nationally, it will address the stark need for provision for people who have left the education system and will provide them with the advice and support they need to improve the way in which they manage their financial affairs. This research provides a strong indication that, in particular, people who experience repeated spells in and out of work or who are working in low-paid work over sustained periods of time need some form of provision if their circumstances and prospects

are to be improved. At present, the main form of provision that is accessed is support for dealing with over-indebtedness (something there is reluctance to access) rather than at helping people develop their financial capability in order to avoid moving into this situation.

In terms of thinking about how the persistence of debt and over-indebtedness within low-income households can be overcome/addressed, there are also clear implications from this research for both benefit levels and the kind of jobs available in the labour market.

In the case of the former, it appears that – in line with other recent research conducted for the Joseph Rowntree Foundation by CRSP on Minimum Income Standards (MIS) – current benefit levels are inadequate to sustain a minimum standard of living in the medium to longer term. For example, the required minimum incomes, excluding housing and childcare costs, are estimated to be £152.77 for a single person, £204.89 for a lone parent of toddler and £367.21 for a couple with two children, based on figures at April 2009. The benefit payments for these three groups would fall short of these minimum standards by 58 per cent, 33 per cent and 37 per cent respectively (Hirsch *et al.*, 2009).

It also seems to be the case that the wider impact of this on people who are either permanently reliant on benefits or who experience serial periods ‘churning’ between work and benefit income is one where their ability to meet their day-to-day expenses on an ongoing basis is very limited. In addition, it restricts their ability to meet their commitments to repay existing credit, to avoid taking out further credit or to avoid becoming over-indebted.

It would seem very likely that unless these issues are addressed, then many people living on low incomes (whether in work or on out-of-work benefits) over a period of time will remain vulnerable to ongoing and increasing reliance on credit and indebtedness as a result of trying to meet their day-to-day needs. It would also seem likely to have a significant impact on their ability or indeed willingness to take steps to undertake training/education and/or take up work that they know will be low paid and insecure, even if it may lead to longer-term financial stability.

This said, the findings from this research strongly support the idea of work as a route out of poverty, but also demonstrates the potential adverse effects on families’ capacity for effective household financial management of ‘churning’ between low-paid, short-term, insecure employment and returning to being reliant on benefits. Further, as discussed above, the current level of the minimum wage does not provide an adequate income (as demonstrated by Hirsch *et al.*, 2009) and people living with this level of income for sustained periods appear particularly likely to fall into a ‘debt trap’ as a result of their meeting their basic needs. It also highlights the importance of the availability of sustainable well-paid employment and the need for broader support for people undertaking training/education and taking up work, when not only can additional costs be incurred but problems can also arise through the impact of changes in the levels of benefits and tax credit, and of the delays in implementing these.

While these ‘structural’ factors were highly significant in relation to barriers to moving out of and entries into a state of over-indebtedness (or even to a position in which debts became manageable), it is essential to note that these did not occur in isolation. Reflecting the complexity of people’s lives, these very often combined with other events associated with specific points along the life course: the consumer temptations and financial inexperience of youth; the costs associated with initial family formation; the arrival of additional children; the breakdown and re-constitution of families; people becoming liable for their (ex-)partners’ debt, accidents and ill health; the receipt of pension income; and with ‘adverse shocks’ in terms of unanticipated expenditures that place unmanageable demands on incomes already rendered inadequate by current debts and commitments. Any policy response, including information provision and support, needs to acknowledge this complexity and not simply address single aspects of people’s lives in isolation.

But this is to look at only one side of the equation. What about the ‘supply’ side of credit and debt? In many ways, what distinguished participants in this research from the rest of the population was not the fact that they used credit and lived with indebtedness (as they themselves

observed and the 'credit crunch' demonstrated, the context has been one of a 'culture' of borrowing) but that their income levels made this both a necessity and an unsupportable burden if they were to meet their basic day-to-day needs. This position also made them highly vulnerable to being targeted by lenders (both formal and informal) whose practices further disadvantaged them, such as credit card companies and doorstep lenders with high interest rates or banks that made excessive charges if they failed to manage cashflow adequately and became overdrawn. Many participants were hoping that the (at the time of the research) awaited court decision relating to 'excessive bank charges' (in respect of unauthorised overdrafts or unpaid direct debits) would be in favour of consumers, enabling some to reclaim charges and avoid such charges in future. However, this was not the case. Nevertheless, some banks have reduced their charges – possibly anticipating a different outcome. It remains to be seen whether others will follow suit or whether those that reduced charges will increase them back to former levels. If the latter occurs, then it will remain the case that many people on low incomes will continue to accrue additional debt as a result of these charges.

In addition, given what this research has uncovered about the importance of credit to people living on low incomes, the impact of the current restriction of access to and the hardening of eligibility criteria for formal credit needs to be carefully considered for its impact on people living in households with low incomes. Otherwise, given that many households have no choice but to borrow on an ongoing basis, it would seem likely that their borrowing will shift to less formal and less regulated providers.

As such, the findings of this research strongly support the notion that it is incumbent on the government to ensure that taxpayer investment in the banking system is directed to those that need the most help and that the global credit crunch should not be used as an excuse by lenders to make it more difficult for low-income groups to access affordable credit (see also Debt on our Doorstep, 2007). It is important that people on a low income are able to access credit to meet unexpected expenses and as a means of

continuing to smooth their financial circumstances. Whatever initiatives are put in place, emergencies will continue to happen and people will have unpredictable changes in circumstances (such as getting or losing a job) and need to be able to access cheap, low or no interest social loans. It would be counter-productive if efforts by the government and the financial industry to deal with the 'borrowing culture' in the general population had its greatest detrimental impact on those people who use credit to meet their day-to-day needs as opposed to those who use it for material purposes.

A particular issue that needs urgent attention is the fact that many of the most vulnerable and disadvantaged households are paying the highest charges for basic utilities such as gas and electricity. A high proportion of participants in this research were paying for their fuel in advance (on pre-pay meters) and yet paying a premium (in comparison to those able to pay by direct debit) for doing so. Currently, the *Observer* and *Guardian* newspapers (*Guardian*, 7 December 2009 and *Observer*, 20 December 2009) have a campaign to get those who use pre-pay meters or pay by cash/cheque to apply for a refund. This follows a EU directive from 2006 stating that differentials between payment methods must be cost reflective. This issue also relates to the reluctance of many people on low incomes to set up direct debit payments given that they fear the potential additional costs they will incur if they do not have sufficient funds available on the day the payment is taken.

In terms of the factors that mitigate the risk of people becoming more indebted, it is clear that the availability of savings and access to money advice are both critical in assisting those who are, or are in danger of becoming, over-indebted. The Saving Gateway would seem a good way forward to help and encourage people in low-income groups to put aside money. However, only a minority of participants felt able to save and this tended to be short-term savings for specific items or events. They needed instant access to any savings they had. If people on low incomes are to benefit from this provision, this issue must be taken into account in order that the least well off are not penalised for accessing their savings out of necessity. Amending the requirement of

not accessing funds for two years so that people can access their money at times of crisis without penalty would benefit those who are over-indebted and may encourage additional take-up.

Finally, the research clearly indicates that the use of professional money advice can be critical in preventing people from becoming over-indebted or helping them to recover from being over-indebted. However, a one-off appointment (which is often all people receive) may not be sufficient. Our research confirms Orton's (2008) interim findings that a neat pattern of indebtedness, followed by advice, followed by becoming debt-free is rare, and that situations are usually much more complex. Some form of provision that consisted of regular appointments or regular contact by telephone on an ongoing basis would evidently be more beneficial for many people, and the use of telephone interviewing/consultation could prove cost-effective for advice agencies.

As a concluding point, the consequences of the 'credit crunch' and recession have included rising unemployment, a rise in the number of organisations reporting that they may make further redundancies, a likely reduction in public sector spending, as well as a whole swathe of planned and proposed initiatives aimed at reforming the provision of and access to credit. The findings highlighted here are therefore likely to apply to increasing numbers of families over the next few years, and the issues are likely to affect a wider range of households and individuals than is currently the case.

Notes

- 1 No analysis is undertaken in terms of ethnicity due to the small numbers involved. However, where an issue was raised in terms of ethnicity/religion this is mentioned where relevant.
- 2 According to research from Skipton Building Society in 2007, Britons were, at that point, owed over £25 billion by members of their family – an increase of 82 per cent on the £14 billion they were owed ten years earlier. This financial debt was reported to be having an adverse effect on relationships, with nearly one in five (17 per cent) falling out with loved ones as a result.
- 3 All names have been changed.
- 4 More information is available at the Directgov website: <http://www.direct.gov.uk>.

References

- Ben-Galim, D. and Lanning, T. (2010) *Strength Against Shocks: Low income Families and Debt*. London: IPPR.
- Betti, G., Dourmashkin, N., Rossi, C. and Yin, Y.P. (2007) 'Consumer in the EU: measurement and characteristics', *Journal of Economic Studies*, Vol. 34, No. 2, pp. 136–56.
- Bridges, S. and Disney, R. (2006) 'Debt and depression', Centre for Finance and Credit Markets Working Paper 06/02, University of Nottingham. Available online at: <http://www.nottingham.ac.uk/economics/cfcm/publications/0602.pdf> (accessed 8 January 2010).
- Credit Action (2007) *Debt Facts and Figures*. Available online at: <http://www.creditaction.org.uk/debt-statistics.html>.
- Debt on our Doorstep (2007) *Responsible Credit: Proposals for Action*. Available online at: <http://www.debt-on-our-doorstep.com/files/ecrcprinciples.pdf> (accessed 8 January 2010).
- Disney, R., Bridges, S., and Gathergood, J. (2008) *Drivers of Over-indebtedness: Report to the Department for Business, Enterprise and Regulatory Reform*, Centre for Policy Evaluation, University of Nottingham.
- Dobson, B., Beardsworth, A., Keil, T. and Walker, R. (1994) *Diet, Choice and Poverty: Social, Cultural and Nutritional Aspects of Food Consumption among Low Income Families*. London: Family Policy Studies Centre.
- Dolphin, T. (2009) *Saving and Asset-Building in Low-Income Households*, Institute for Public Policy Research. Available online at: <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=722>. Case studies available online at: <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=723> (both accessed 8 January 2010).
- DCSF (Press release 3/01/2010) 'Children to learn about money matters like saving, mortgages and the financial market'. Available online at: http://www.dcsf.gov.uk/pns/DisplayPN.cgi?pn_id=2010_0005.
- DTI (2005) *Over-indebtedness in Britain: A DTI Report on the MORI Financial Services Survey 2004*. Department of Trade and Industry. Available online at: <http://www.dti.gov.uk/files/file18550.pdf>.
- DTI/DWP (2004) *Action Plan 2004: Tackling Over-indebtedness*. Available online at: <http://www.dti.gov.uk/files/file18559.pdf?pubPDFdload=04/1340>.
- Financial Services Authority/Her Majesty's Treasury (2009) *Money Guidance Pathfinder – Background and History*. Available online at: http://www.fsa.gov.uk/financial_capability/pdfs/money_pathfinder.pdf (accessed 8 January 2010).
- FSA (2006) *Personal Finance Education in Schools: A UK Benchmark Study*. Available online at: <http://www.fsa.gov.uk/pubs/consumer-research/crpr50.pdf>.
- Goode, J., Callender, C. and Lister, R. (1998) *Purse or Wallet? Gender Inequalities and the Distribution of Income in Families on Benefits*. York: Joseph Rowntree Foundation/Policy Studies Institute.
- Guardian on line (7 December 2009) 'Calls grow for £2bn energy bill'. Available online at: <http://www.guardian.co.uk/money/2009/dec/07/calls-grow-energy-bill-rebate>.
- Haas, O.J. (2006) *Over-indebtedness in Germany*. Employment Section, Social Finance Program Working Paper No. 44. Geneva: International Labour Office.
- Hills, J., McKnight, A. and Smithies, R. (2006) *Tracking Income: How Working Families' Incomes Vary through the Year*. CASE report 32. London:

Centre for Analysis of Social Exclusion, London School of Economics and Political Science.

Hirsch, D., Davis, A. and Smith, N. (2009) *A Minimum Income Standard for Britain in 2009*. York: Joseph Rowntree Foundation.

Jenkins, S. P. and Rigg, J. A. (2001) *The Dynamics of Poverty in Britain*. Department for Work and Pensions Research Report No. 157.

Kaye, M. (1997) 'Equity's treatment of sexually transmitted debt', *Feminist Legal Studies* Vol. 5, No. 1, pp. 35–55.

Kempson, E. (1996) *Life on a Low Income*. York: Joseph Rowntree Foundation.

Kempson, E. and Finney, A (2009) *Saving in Lower-Income Households: A Review of the Evidence*. London: Her Majesty's Treasury.

Kempson, E., Bryson, A. and Rowlingson, K. (1994) *Hard Times: How Poor Families Make Ends Meet*. London: Policy Studies Institute.

Kempson, E., McKay, S., and Willitts, M. (2004) *Characteristics of Families in Debt and the Nature of Indebtedness*. DWP Research Report No. 211.

Muttillainen, V., and Reijo, M. (2007) *Households' Payment Problems, 2002–2005*. Research Communication No. 81. Available online at: <http://www.optula.om.fi/uploads/5pl9ufx4.pdf> (accessed 8 January 2010).

McKay, S. (2005) 'Debt: envy, penury or necessity?' In Stewart, I., and Vaitilingam, R. (eds) *Seven Deadly Sins: A New Look at Society through an Old Lens*. ESRC.

The Observer (20 December 2009) 'Cash readers fume at being overcharged for way they pay gas and electricity bills'. Available online at: <http://www.guardian.co.uk/money/2009/dec/21/overcharged-gas-electricity-bills>.

Orton, M. (2008) *The Long-term Impact of Debt Advice on Low Income Households*. Project

Working Paper 2: The Year 1 Report. Available online at: http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp2-the_year_1_report.pdf (accessed 8 January 2010).

Oxera Consulting (2004) *Are UK Households Over-indebted?* Report prepared for APACS, BBA, FLA, CCA.

Rowlingson, K. and Joseph, R. (2010) *Assets and Debts within Couples*. Dorking: Friends Provident.

The Royal Bank of Scotland Group (2008) *MoneySense Report Year 2*. Available online at: http://rbsoilandgas.com/downloads/pdf/about_rbs/moneysense_report_2008.pdf.

Shelter (2010) '1 million paying for homes by card'. Available online at: http://england.shelter.org.uk/news/january_2010/1m_paying_for_homes_by_creditcard (accessed 11 January 2010).

Smith, N. and Middleton, S. (2007) *A Review of Poverty Dynamics Research in the UK*. York: Joseph Rowntree Foundation.

Thoresen, O. (2008) *The Thoresen Review of Generic Financial Advice: Final report*. London: HMSO.

Tudela, M. and Young, G. (2003) *The Distribution of Unsecured Debt in the United Kingdom: Survey Evidence*. *Bank of England Quarterly Bulletin*. Winter 2003, 417–27.

The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy-makers, practitioners and service users. The facts presented and views expressed in this report are, however, those of the author[s] and not necessarily those of the Foundation.

Joseph Rowntree Foundation
The Homestead
40 Water End
York YO30 6WP
www.jrf.org.uk

This report, or any other JRF publication, can be downloaded free from the JRF website (www.jrf.org.uk/publications/).

A CIP catalogue record for this report is available from the British Library.

© Loughborough University 2010.

First published 2010 by the Joseph Rowntree Foundation

All rights reserved.
Reproduction of this report by photocopying or electronic means for non-commercial purposes is permitted. Otherwise, no part of this report may be reproduced, adapted, stored in a retrieval system or transmitted by any means, electronic, mechanical, photocopying, or otherwise without the prior written permission of the Joseph Rowntree Foundation.

ISBN: 978-185935-739-2 (pdf)

Designed by Draught Associates
Project managed and typeset by Cambridge Publishing Management Ltd



Investors in Diversity

www.iiduk.com

Acknowledgements

This report was undertaken by the Centre for Research in Social Policy (CRSP) at Loughborough University. It was commissioned by the Joseph Rowntree Foundation.

The authors would like to thank our colleagues in CRSP, in particular Noel Smith and Abigail Davis, for their input to the design of the project and comments on the report, and Nicola Selby, Nigel Bilsbrough and Sue Cotton for their considerable support in ensuring the project ran smoothly.

We would also like to thank the Project Advisory Group from whom we gained ongoing informed advice and support, namely:

Andrea Finney	University of Bristol
Annie Finnis	Work Directions
Catriona McKay	Scottish Executive
Chris Goulden	Joseph Rowntree Foundation
Laura Adelman	Department for Children, Schools and Families
Michael Orton	Institute for Employment Research, University of Warwick
Mick McAteer	Inclusion Centre
Nick Emmel	University of Leeds
Peter Tutton	Citizens Advice
Philip O'Donnell	Department for Business, Innovation and Skills
Susan Lee	
Tim Crosier	Social Exclusion Task Force, Cabinet Office

Our biggest thanks go to the participants in the research (and their families) for giving their time to the project and for their commitment in staying with it to its end. We hope this report does their honesty and openness justice.

About the authors

Chris Dearden is a Research Fellow in the Centre for Research in Social Policy (CRSP) and has been at Loughborough University for 18 years. She specialises in researching vulnerable groups and is experienced in interviewing children and young people (including young carers and looked-after children), adults with mental health issues and ex-prisoners.

Dr Jackie Goode is Senior Research Associate at the CRSP, Loughborough University. Her research interests include within-household resources and entitlements, food practices and gender relations. Past research has been funded by the Economic and Social Research and Medical Research Councils, the Nuffield Foundation, the Leverhulme Trust and UK government departments, as well as the Joseph Rowntree Foundation.

Grahame Whitfield is Assistant Director at the CRSP. He joined CRSP in 2008 after spending most of his career working in policy research within government. He is interested in a broad range of social policy issues around disadvantage and equality, but his main area of interest is in research on the position, experiences and aspirations of disabled people.

Lynne Cox is a Research Associate at the CSRP. She is an experienced qualitative researcher with particular interest in youth and the welfare and social status of both aged and disabled people.