CREDITOR AND DEBT COLLECTOR CONDUCT:

WHAT'S MAKING DEBT PROBLEMS WORSE?

JULY 2016

At StepChange Debt Charity we see the harm that debt causes every day. Our clients tell us how debt has damaged their health, their family relationships and their work life. Without the right help at the right time, these harmful outcomes create external social costs that fall on us all. We have estimated this cost to society to be £8.3bn, or £2,800 for each person struggling with severe problem debt[1].

There are a set of reasons why people fall into problem debt. We know that income shocks through lost or reduced employment, illness or family breakups are among the most common[2]. But the way that people are treated by their creditors is also important. Bad lending decisions, poor product design and aggressive debt collection practices can make severe debt problems more likely, more harmful and harder to deal with.

This report therefore calls for more to be done across the sector to reduce the harm these practices cause for people in problem debt. It outlines a series of recommendations that look to address the key issues uncovered in our analysis. It is true that we see helpful practice from creditors all the time. Almost 150,000 people are referred to us for help by their creditors every year. Many creditors respond constructively to the proposals we make for affordable debt repayments, and we are seeing improvements in the way many firms communicate with customers who appear to be in difficulty.

But practice remains too variable, and the research in this report suggests a large proportion of StepChange Debt Charity clients have experienced unhelpful practices that have made their debt problems worse.

How fairly were you treated?

We conducted a poll of StepChange Debt Charity clients to find out how their interactions with creditors, debt collectors and bailiffs impacted on their experience of being in debt. The sample was 1,794 StepChange Debt Charity clients who came to the charity for advice in Q3/4 2015. The fieldwork was conducted 2-15 May 2016.

We consider these respondents to be representative of clients who came to the charity in 2015. With our clients' consent, we were able to link responses to the survey to other data we already hold. This enabled us to analyse demographic and financial characteristics of clients who reported different experiences of financial difficulty.

50% of clients who were contacted by bailiffs said they were treated unfairly.

We asked clients whether they felt they had been treated fairly, unfairly or neither fairly nor unfairly by different types of organisation.

50% of clients who were contacted by bailiffs said they were treated unfairly, the highest "unfairness" score of any type of organisation. Local authorities feature second, and given that 51% of respondents who were contacted by bailiffs were being chased for council tax arrears on behalf of Councils, this suggests an important conduct issue among Councils and their enforcement agents.

The table below shows a degree of correlation between robust sector regulation, and lower scores for unfair treatment. Bailiffs and public sector creditors score consistently worse than regulated financial services creditors, including high cost lenders. Utilities companies' position may reflect the increased focus from regulators on how firms treat vulnerable consumers, but it also suggests that more can be done.

RANK	TYPE OF ORGANISATION	"I WAS TREATED UNFAIRLY"
1	Bailiff	50%
2	Local authority	42%
3	Dept. for Work and Pensions (DWP)	36%
4	Mobile phone company	32%
5	Debt collection agency	30%
6	HM Revenue and Customs (HMRC)	28%
7	Payday or short term lender	28%
8	Utilities company	27%
9	Catalogue lender	26%
10	Fee-charging debt management firm	26%
11	Store card lender	23%
12	High street bank	21%
13	Credit card company	20%

Vulnerability

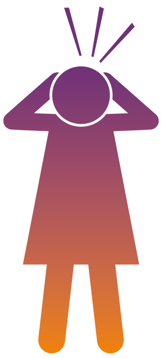
75% of respondents self-identify as being particularly vulnerable, based on the categories below.

Difficulty with English language	2%
Visual impairment	2%
Hearing impairment	8%
Stress / anxiety	67%
No vulnerability	25%
Terminal illness	3%
Ongoing mental health condition	16%
Depression	47%

Of those who have identified as being vulnerable:

45% made their creditors aware of their vulnerability.

However, of clients who made their creditors aware:



83% said that at least one of their creditors didn't take account of their vulnerabilities.

And:

35% said none of their creditors took their vulnerabilities into account.

Credit, interest and charges

We asked clients about their experiences of certain lending practices from their creditors to see whether certain behaviours are making their route into problem debt easier, and in turn, making their route out more difficult.

43% of clients have had their credit card limit increased without asking for it. This equates to over 130,000 new clients per year.

Credit cards debts are the most common debts among StepChange Debt Charity clients, with two thirds having a credit card debt at an average of £8,403[3].

In the credit card market study, the FCA considered the merit of requiring firms to actively ask consumers to opt into credit card limit increases. Firms are currently required to enable consumers to opt-out of proposed increases in the credit limit, but given the strength of evidence outlined in this report, we believe firms should have actively ask consumers to 'opt-in' to credit limit increases.

Similarly, 14% of clients have had their overdraft limit increased without asking for it.

In 30% of cases, clients specifically stated that being offered this extra credit made their debt problems worse.

One in four clients stated that they felt under pressure to take out more credit.

The research has also highlighted how creditors continuing to add further interest and charges makes a person's recovery from their financial problems more difficult:

- 52% said creditors and debt collectors continued to add fees and charges after they knew the person was seeking debt advice
- 68% said that default charges made their debt problems harder to deal with
- 62% said that creditors and debt collectors continued to add fees and charges despite knowing the person was in financial difficulty

This illustrates why those in financial difficulty need the support of a period of 'breathing space', where by law interest, charges and enforcement action would be stopped to enable people to seek debt advice and stabilise their finances.

Debt collections

When behaviour around collecting debts is poor, people in debt find it more difficult to repay. Our research suggests that the incidence of poor collection behaviour is widespread.

Two thirds of clients have experienced some level of bad practice from a debt collector in the last two years.

This could include debt collection agencies, debt purchasers and specific functions within the lenders themselves. Types of bad practice have included:

Given the extent of bad practice clients are experiencing in this area, it is important that people who borrow money continue to be protected to the same standards when their debt is either passed to a third agency for collection or when their debt is sold. It is promising that debt collection agencies and debt purchasers are reviewing standards in the sector, but equally our results show how important it is that the on-going work delivers results.

These types of bad practice have included:

14% of clients said that their creditor asked them to take out further credit to pay off debts

42% of clients said that in the last two years, collectors asked for a repayment that they couldn't afford

41% of clients have experienced phone calls or texts at times they asked not to be contacted. 14% were from high street banks, and 7% were from utility providers

Bailiffs

Having debts collected by a bailiff can be stressful, expensive and intrusive for people in financial difficulty. We believe this should only be used in exceptional situations, but evidence suggests that it is normal practice for some creditors.

We explored the way that our clients had their debts collected by bailiffs to examine the practices that make repaying debts more emotionally or financially difficult. Given that 50% of clients contacted by bailiffs stated that they felt they were treated unfairly, our research also invited free form comments to allow clients to express what the impact of the poor practice had been[4].

16% of clients have been contacted by a bailiff in the last two years[5]. Over half of these clients have been visited by bailiffs to collect council tax arrears. A further 16% of clients were visited by bailiffs collecting parking fines, demonstrating the prevalence of debts to councils being collected by bailiffs.

Those who have been visited by bailiffs were more likely to report being in a vulnerable situation than other clients. Nine out of ten respondents who have been contacted by bailiffs in the last two years now identify as having some level of vulnerability, beyond their obvious financial vulnerability.

This is compared to 75% of all clients. Of those who had been contacted by bailiffs, 22% have an ongoing mental health condition, 57% said they had depression and 66% stress or anxiety. This calls into question how well both creditors and bailiffs are taking vulnerable situations into account.

What impact is bailiff action having on financially vulnerable households?

This research shows that the incidence of stress and anxiety can be high for those clients who had been visited by bailiffs. These clients are often being pursued for multiple debts, and are being subjected to regular calls and visits to their homes. Of those who have been contacted by a bailiff, 82% have been contacted for more than one debt and 23% for four or more debts. 86% of respondents contacted by bailiffs in the last two years said the experience increased their stress.

Looking at the specifics of bad practice experienced by these clients, over half said that bailiff fees that had felt excessive had been added to their debts. 49% have experienced an intimidating doorstep visit, which suggests that stressful debt collection practices are common place for those being contacted by bailiffs. In negotiating with bailiffs to pay back debts, 48% said the bailiff refused to consider an affordable repayment offer.

The impact of these practices can be severe, both for the individual's health and for their ability to pay back their debts. Over half of those contacted by bailiffs said the experience made them feel unsafe in their own homes.

One client stated that:

"[The] kids were scared to live in my own house"

55% said bailiffs made their debt problems harder to manage, and 16% went further to say that they felt forced to take out more credit to deal with the demands from bailiffs.

As one respondent said:

"they made me take out more loans because I was scared, […] so I am in more debt than I was before."

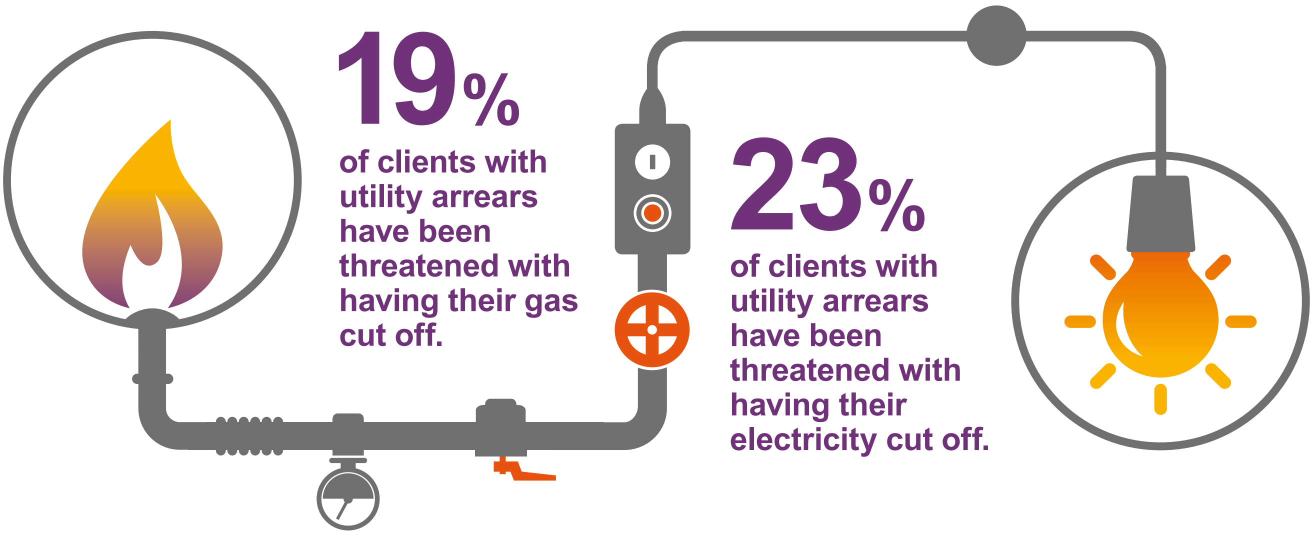
Talking about the impact of bailiffs collecting their debts, another respondent stated that the visits

"added unnecessary pressure. Thankfully I have my feet on the ground and children to live for otherwise I can't imagine how other people would deal with this."

We believe more needs to be done to ensure that enforcement by bailiffs does not make debt problems worse.

Utility providers

We know that paying essential household bills is a struggle for many of our clients. In 2015, one in four clients had water arrears, 14% had electricity arrears and 13% had gas arrears[6]. Therefore, the way that utility providers interact with people in debt is very important.



When taking all utilities, including mobile phone services, into account 43% of respondents with utilities arrears have been threatened with having a utility service cut off. Just 1% of clients actually had their gas or electricity service cut off.

Establishing an affordable and sustainable repayment method is vital to clients on the road to financial recovery. However, it is clear that in many cases this route is being blocked by uncooperative behaviour.

- **One in four clients with utilities arrears have had a repayment plan set at a rate that they cannot afford**
- **One in three clients with utilities arrears have had a prepayment meter forced upon them.**
  27% of these prepayment meters are from electricity providers and 24% are from gas providers

Standard debt advice practice prioritises paying off arrears on essential household bills and budgeting for future consumption. This aims to ensure that households do not lose access to essential services. Many creditors accept this, and know that repayments organised by independent debt advisers are fair to all.

We therefore urge utility providers to adopt the debt advice principle of sustainable, affordable debt repayments rather than applying undue pressure to financially vulnerable customers.

Conclusions and recommendations

StepChange Debt Charity

This report highlights some of the ongoing conduct issues that continue to cause or contribute to the harm experienced by people dealing with severe problem debt. It highlights how many of these people are in vulnerable situations. This makes it all the more important for policy makers to consider these findings and respond in ways that can get people the help and support they need to recover from problem debt.

The findings of our client survey re-confirm the importance of the proactive and positive approach to consumers in vulnerable situations set out in the Financial Conduct Authority occasional paper[7] and elsewhere. The industry response to this vulnerability agenda has been encouraging so far, but there is clearly more work to be done to support indebted consumers in vulnerable situations.

Too many people struggling with severe problem debt are still not getting the help they need to recover. We know from previous research that forbearance and the acceptance of affordable, sustainable debt repayments is a key route to financial recovery[8]. There is a need for policy makers to deliver a better guarantee of protection for people seeking help with problem debt. We are particularly concerned to see bailiffs, local government and central government departments so high up the list of creditors that our clients thought treated them unfairly.

· 01

The Ministry of Justice has only recently introduced reforms to bailiff regulation[9]. While this represents a modest step forward, the incidence of unfair conduct issues experienced by our clients remains high. We urge the Ministry of Justice to re-evaluate policy on enforcement agents and consider how to better control bailiff conduct; ensure people in financial difficulty are able to make affordable repayments that do not make existing debt problems worse; and firm up standards for protecting vulnerable customers so that these always work in practice.

· 02

Since 2009, StepChange Debt Charity has seen a large increase in the proportion of clients struggling with council tax debts[10].
While there are examples of excellent practice by some councils showing forbearance and supporting people through financial difficulties, this is far from guaranteed. There should not be a postcode lottery in good creditor conduct.

Local and central government should commit to binding good practice standards that prioritise supporting households to financial recovery.

· 03

The energy sector has a relatively good track record on considering the needs of people in vulnerable situations. However, this survey suggests that this is not always translating into fair treatment of people in financially difficulty.

We call for a new focus to ensure that debt recovery practices and policies have affordable and sustainable repayments at their heart.

· 04

While sector by sector reforms can help reduce the harm of problem debt, what public policy really needs to deliver is a holistic approach for all debts. StepChange Debt Charity has previously called for a new statutory **'breathing space'** scheme to prevent interest, charges and enforcement action pushing the financially vulnerable further into problem debt.

We would like to see people who seek advice for debt problems given a period of six months to a year in which interest and charges are frozen and enforcement action is halted.

This would allow time to recover finances and commit to affordable repayments. Where people can repay their debts at an affordable rate and within a reasonable time, these protections should continue.

· 05

In the credit card market study, the FCA considered the merit of requiring consumers to actively opt-in to credit card limit increases[11].

We have argued that the FCA should ensure that credit card limits are only increased where the borrower actively opts-in to this.

Based on the evidence in this report, we believe that credit limit increases should become 'opt-in', rather than 'opt-out', to help stop people being given credit that they did not actively decide they needed or that they could afford. This would also help prevent those who are already struggling from being pushed further into financial difficulty.

1. **Cutting the cost of problem debt: the £8.3 billion challenge.**
StepChange Debt Charity, 2014
2. **Navigating the New Normal.**
StepChange Debt Charity, 2015
3. **StepChange Statistics Yearbook 2015.**
StepChange Debt Charity, 2016
4. **Council Tax Debts.**
StepChange Debt Charity, 2015 explored the impact of bailiff enforcement action on productivity and mental health.
5. These figures also represent Sheriff Officers in Scotland.
6. **StepChange Statistics Yearbook 2015.**
StepChange Debt Charity, 2016
7. **Council Tax Debts.**
StepChange Debt Charity, 2015
8. Occasional Paper No.8: Consumer Vulnerability.
Financial Conduct Authority, 2015
9. This applies to clients in England and Wales only.
10. 10% of StepChange Debt Charity clients had council tax arrears in 2009, compared to 30% in 2015.
11. Firms are already required to enable consumers to opt-out of proposed increases to their credit limit.

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