



Falling behind to keep up: the credit safety net and problem debt

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Executive summary

Consumer credit is, in the right circumstances, socially and economically useful. But credit products can also cause harm and poor outcomes. This is particularly the case when credit is used as a safety net—that is, to meet essential costs by those coping with financial difficulty.

In October 2021, we commissioned a national survey to understand the extent to which credit is being used as a safety net. Over the course of the year before our survey was conducted, we estimate that 4.4 million people struggling to keep up with household bills and credit commitments borrowed £13 billion to pay bills and make it through to payday.



Using credit to pay for essentials causes harm, compounds financial difficulty and lowers living standards:

- Three quarters (71%) of those using credit as a safety net report negative impact on their health, relationships or ability to work, five times the proportion of others who hold credit products (15%)
- Two-thirds (65%) of those using credit as a safety net have kept up with credit repayments by recently missing housing or utility bills, using more credit or cutting back to the point of hardship. This compares to one in ten (12%) among others who hold credit products

Practices in the credit market and design characteristics of products drive harms caused by safety net borrowing:

- A range of credit products are marketed and widely available to consumers in financial difficulty. Ineffective creditworthiness and affordability assessments lead consumers to take on products that are not suitable for them and facilitate unaffordable borrowing
- Poor product design in the revolving credit market exploits consumer inertia and vulnerability, leading to unaffordable repayments and high debt servicing costs. Persistent credit card debt rules are not protecting customers in financial difficulty against poor outcomes

Safety net borrowing is primarily driven by a combination of low financial resilience—such as having a low disposable income and limited savings—and life events such as unemployment, illness or relationship breakdown that cause a reduction in income or an increase in expenses.

Those most exposed are groups with low financial resilience including parents with dependent children, renters and those with additional vulnerabilities such as health conditions.

The harm experienced by those struggling with credit repayments means that it is important that customers in difficulty are able to access prompt, effective help and support.



In practice, we found that:

- Only one in four of those who have taken negative coping actions to keep up with credit repayments such as missing bills have been in contact with, or received support from, a bank or firm
- Half of GB adults (53%) say that they would be reluctant to seek help with financial difficulty from a bank or credit firm. We found that this is primarily due to low trust in firms to act in their interest, worries about credit reporting and anxiety, embarrassment and stigma talking about financial difficulty. Worryingly, reluctance to seek help increases among those experiencing financial difficulty
- Half of StepChange advice clients in a recent survey had been in difficulty for more than a year before accessing advice, indicating that many people receive support too late. We heard from clients who had encountered prompt and sympathetic assistance from firms, but many clients also told us that firms had often not supported them effectively and had sometimes refused to help or made problems worse

The harm caused by the credit safety net arises from issues spanning regulatory and social policy and requires joined-up solutions. Rising cost of living pressures demand government action to create and increase access to safer alternatives to safety net borrowing.

Regulation is not providing sufficient incentives for firms to break patterns of safety net borrowing and harm. The FCA recently announced proposals to implement a new Consumer Duty that will set 'clearer and higher expectations for firms' standards of care towards consumers and require firms to act to deliver good outcomes for customers.

Implementation of the Duty is an important step in shifting the emphasis of regulation from narrow issues of compliance to consumer outcomes and must be used as an opportunity to drive change in practices that are failing consumers.



Summary of recommendations

1. Action to tackle products and practices that cause or compound financial difficulty

- The FCA should use the new Consumer Duty to address harms caused by the credit safety net, such as ineffective affordability checks and practices that exploit behavioural bias and vulnerability among consumers in financial difficulty

2. Effective early intervention and support for consumers in financial difficulty

- The FCA should set out changes to rules and guidance to ensure consumers have, and are aware that they have, safe and fair options when they encounter financial difficulty
- Building on learning from pandemic payment deferrals, the FCA should require firms to provide a clear and widely visible offer to customers that acts as a gateway into tailored support and, where appropriate, free debt advice

3. Action to join up regulatory and social policy to provide safe alternatives to harmful safety net credit

- The government should give the FCA a new financial inclusion objective that includes a duty to identify the needs of vulnerable and financial excluded consumers that are not being, or cannot be, safely met by the market
- The government should review options to better support households with low financial resilience dealing with income and expenditure shocks so they do not have to rely on harmful credit safety net

Who uses credit as a safety net and why?

Using credit is commonplace: we find that 69% of GB adults have at least one loan or credit product with an outstanding balance.¹ The FCA's Financial Lives survey suggests that in February 2020, 85% of UK adults had outstanding credit or had used credit in the previous 12 months.²

Against this backdrop, a substantial minority are using credit in a way that is much more likely to lead to harm and poor financial outcomes. The Money and Pensions Advice service estimates that nine million people in the UK often use credit for food and bills.³ We focus on a specific group that is struggling to keep up with bills and credit commitments and has used credit to meet essential costs.

We find that 9% of adults (4.4 million people) have used credit as a safety net in the last 12 months. This includes:

- 10% of women and 7% of men;
- 10% of those who identify as belonging to an ethnic minority compared to 8% of those who identify as White British;⁵
- 13% of those who report an additional vulnerability such as a health condition compared to 4% of those who do not;
- 9% of those in England; 9% of those in Wales; and 7% of those in Scotland;
- 22% of single parents, 14% of couple parents, 8% of single adults under 65 and 7% couples under 65; and
- 13% of 35 to 44 year-olds compared to 4% of 18 to 24 year-olds and 6% of 55 to 64 year-olds (chart 1).
- Those who rent are most likely to use the credit safety net, followed by mortgagors, those not paying rent (or paying rent informally) and owner-occupiers (chart 2)



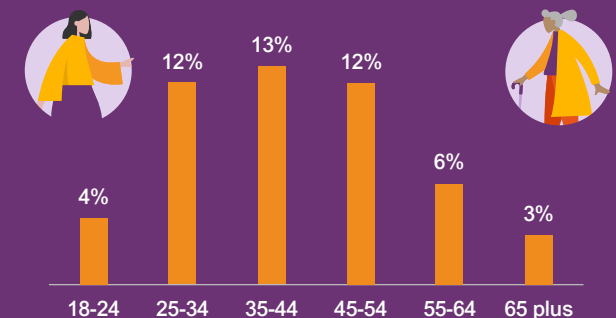
Definitions

We define those who are using credit as a safety net as those who report that they are struggling to keep up with household bills and credit commitments and have taken any of the following actions in the last 12 months:

- Used credit to pay essential household bills;
- Used credit to keep up with existing credit commitments; or
- Used credit to make it through to payday

We also refer to 'severe financial difficulty'. This means that respondents meet three or more of eight signs of financial difficulty, inclusive of the above 'credit safety net' actions.⁴

Chart 1: % using credit safety net by age



¹ This figure includes consumer credit as well as loans from family or friends and unregulated credit; the figure excluding family and friends is 68%.

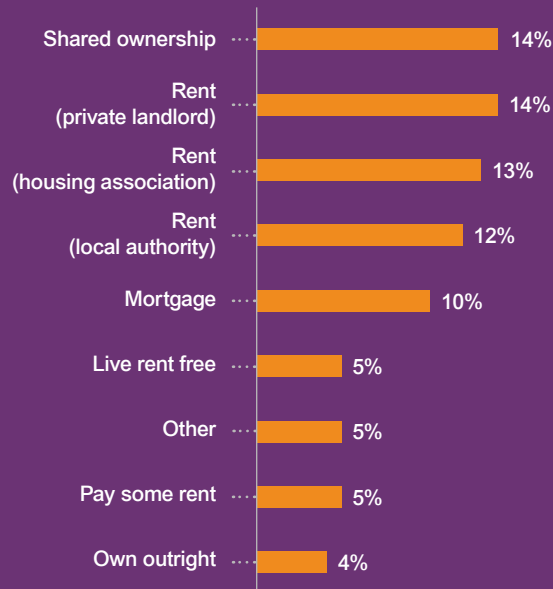
² Financial Conduct Authority (2021) *Financial Lives 2020 survey: the impact of coronavirus*, p.41.

³ Money & Pensions Service (2020) *Credit Counts: Use of credit*

⁴ We asked respondents if they experienced any of the following in the last 12 months: using credit, loans or an overdraft to make it through to payday; making just the minimum repayments on debts for three or more months; getting hit by late payment or default charges; missing a regular monthly payment on at least one debt; getting hit by overdraft charges on a regular basis; falling behind on essential household bills; using credit to keep up with existing credit commitments; and using credit to pay essential household bills.

⁵ The figure among those with an ethnic minority background if white minorities are excluded is also 10%.

Chart 2: % using credit safety net by housing type



In keeping with wider evidence, we found that those with characteristic associated with low financial resilience such as being younger (but over 25), being a parent or having a potential vulnerability such as a health condition or disability are more likely use credit as a safety net.⁶

Life events, low financial resilience and borrowing to make ends meet

“[The] cost of living kept going up and after paying essential bills there wasn't much left. When it came to replacing household items and car maintenance, I found myself borrowing to just make ends meet.”

“I had a relationship breakdown which resulted in me having to move home [and] buy all new furniture [and] white goods.”

“I would live beyond my means as a way of coping with my mental health and self-esteem issues. Spending money made me feel better.”

- 10% of those in employment have used credit as a safety net compared to 16% of those who are unemployed, 3% of students and 3% of those who are retired
- 18% of those receiving a means-tested social security benefit have used credit as a safety net compared to 7% of those who do not; this rises to 26% among those who have started receiving a means-tested benefit since the pandemic began

Chart 3 sets out to what extent specific life events are associated with using credit as a safety net. Life events are relatively common, with 53% of GB adults reporting they had recently experienced one or more life event that had negatively affected their financial situation (respondents were asked to think about events that happened in the last five years).

83% of those using credit as a safety net had experienced one or more life event. The events that are most likely to lead to safety net borrowing (that is, the highest proportion of those who experienced the event are using credit to get by) are having new children followed by relationship breakdown, ill-health/disability (and self-isolation) and work-related events including reduced hours at work, furlough and unemployment.

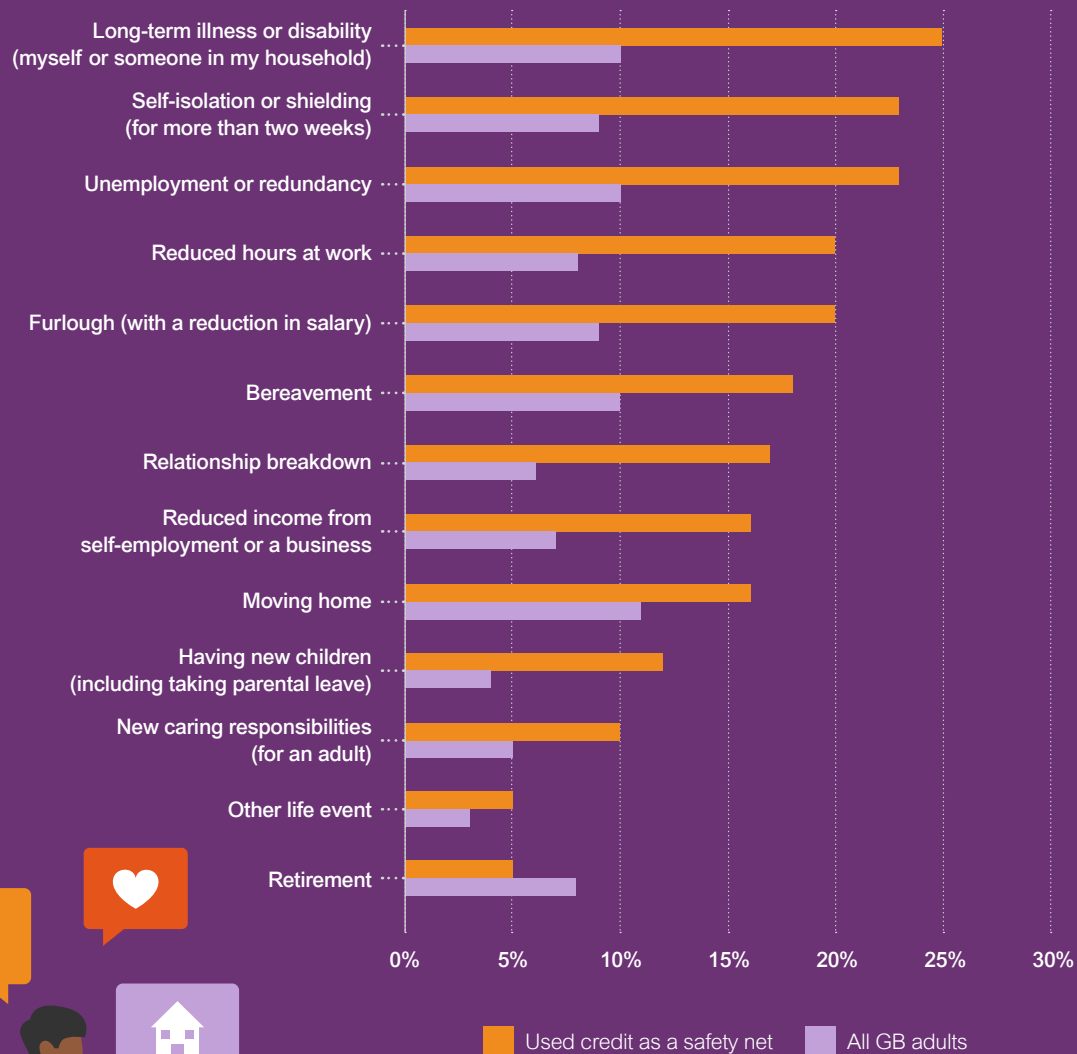
Experiencing a life event does not inevitably lead to using credit: a minority of those who had recently experienced a significant life event had used credit as a safety net. Rather, our own and wider evidence suggest that a combination of life events and low financial resilience (arising from factors such as limited savings and low disposable income) cause safety net borrowing.

GB adults were asked about recent life events that have negatively affected their financial situation and other socio-economic factors. We found that:

- 14% of those who have recently experienced a life event that affected their current financial situation negatively have used credit as a safety net compared to 3% of those who have not
- 20% of those with less than £500 of savings used credit as a safety net compared to 4% of those with more than £1,000 in savings and 3% of those with more than £5,000

⁶ Finney, A. (2020) *Why adults regularly use credit for food and bills: a review*. University of Bristol Personal Finance Research Centre.

Chart 3: Life events and credit



We see evidence of this among those who are receiving a means-tested social security payment where 25% of those who had experienced a life event used credit as a safety net compared to 5% of those who had not experienced a life event.

Wider financial coping strategies

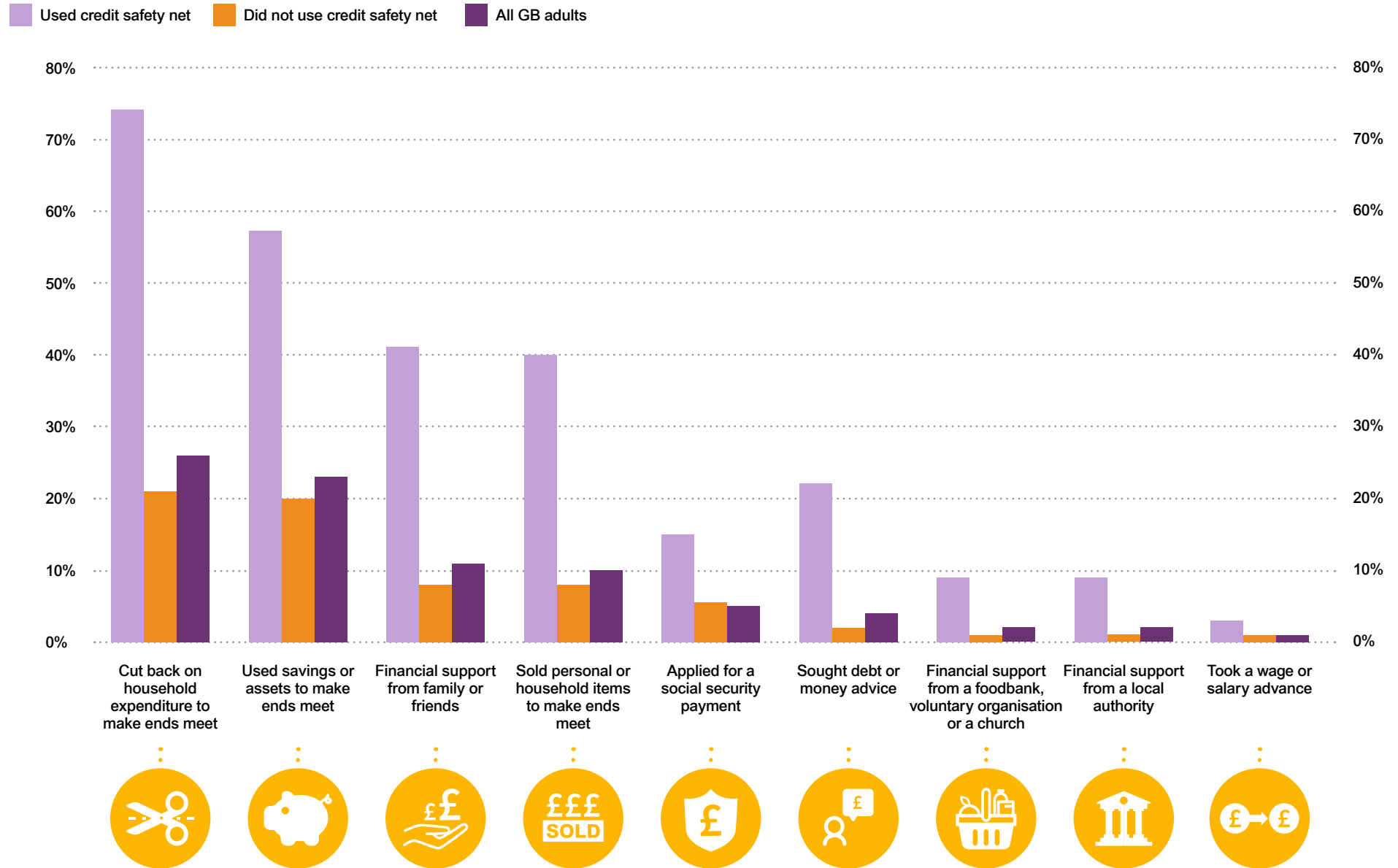
Chart 4 sets out the percentage of GB adults who have used a number of common financial coping strategies in the last 12 months, such as cutting back on expenditure, drawing down savings or accessing national or local support: 89% of those who used credit as a safety net have also pursued at least one coping strategy.

92% of those who used credit as a safety net had also cut back, used savings, sold items or sought support from family or friends, illustrating the extent to which those in financial difficulty seek to use their own resources and those of their immediate social network to cope.

Juggling household bills can be a financial coping strategy. Of those who report struggling to keep up with household bills and credit commitments, 13% have fallen behind on bills and 29% used the credit safety net. (47% of those who have fallen behind on bills have also used the credit safety net).

Notably, while social renters are more likely to be in arrears than private renters (or other housing groups), they are no more likely to be using credit as a safety net, suggesting that the additional flexibilities to manage rent arrears available to social renters could assist in coping with difficulty without using credit.

Chart 4: Financial coping strategies



How is credit used as a safety net?

Chart 5 sets out the products and loans those using credit as a safety net have used in the last 12 months.

Revolving credit is the most common form of borrowing: 82% of those using credit as a safety net used at least one form of revolving credit (including overdrafts, credit cards and retail revolving credit).

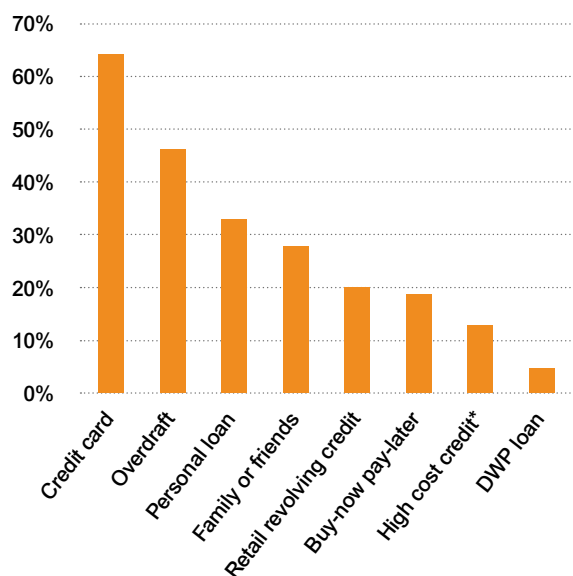
This pattern holds good for groups more likely to have low financial resilience, for example those receiving a means-tested social security payment (77%) and those in the social rented sector (77%).

Personal loans and deferred payment interest-free buy-now pay-later products are also often used by those borrowing to make ends meet, alongside informal borrowing from family and friends.

Recent years have been marked by the rapid growth of interest-free buy-now-pay-later products (BNPL, sometimes referred to as 'deferred payment credit'), primarily accessed at online check-outs. We find that, at the time of our survey, 19% of those who have used credit as a safety net had used BNPL.

29% of those using credit as a safety net have used a high cost credit product to borrow in the last year.⁷ Groups more likely to have low financial resilience are more likely to have used high cost credit: for example, 44% of those receiving a means-tested social security payment and 47% of those in the social rented sector. Notably, however, among these groups a majority only hold mainstream products. We briefly address if there are differences in the experiences of those with high cost and mainstream products later in the report.

Chart 5: Loans and products used to make ends meet



*Excluding retail revolving credit.

We include store cards—now largely online—and catalogue credit (collectively retail revolving credit) in this definition of high cost credit. Each tends to have similar cost characteristics to high cost credit cards, with representative APRs typically beginning at 30%. This form of credit was more likely to be used by women (27%) than men (10%); and by parents (25%) than those with no children (17%).

We also asked survey respondents about the loans and products they held at the time of our survey.



Unregulated lending

2.5% of those who had used credit as a safety net reported having used an unlicensed lender who charges interest, sometimes called a loan shark.

Concern has been expressed that family and friends borrowing masks illegal lending. We asked StepChange clients in a recent survey about family and friends borrowing. 65% of clients surveyed had recently borrowed from family and friends (42% from family and 21% from friends). 5% of those who had borrowed from family or friends reported they had paid interest (4% of those who had borrowed from a relative and 7% of those who had borrowed from a friend). 2% of those who had borrowed from family or friends reported that they had experienced threats, intimidation or violence from those who had lent them money.

We also asked the clients surveyed if they had borrowed from another member of the community or an informal lender online; however, a statistically insignificant number of respondents reported having done so. There may, of course, be reluctance to acknowledge some forms of unregulated borrowing, or difficulties capturing these loans in a general-purpose online survey.

⁷ We define high cost credit to include those products included in the FCA's recent High cost Credit Review, with the exception of overdrafts due to subsequent changes in the regulation of overdraft fees.

Increasing difficulty is associated with holding a greater number of loans and credit products, with those using credit as a safety net holding an average of 6.1 loans and products compared to 2.5 among those not using credit as a safety net (but who hold a credit product).

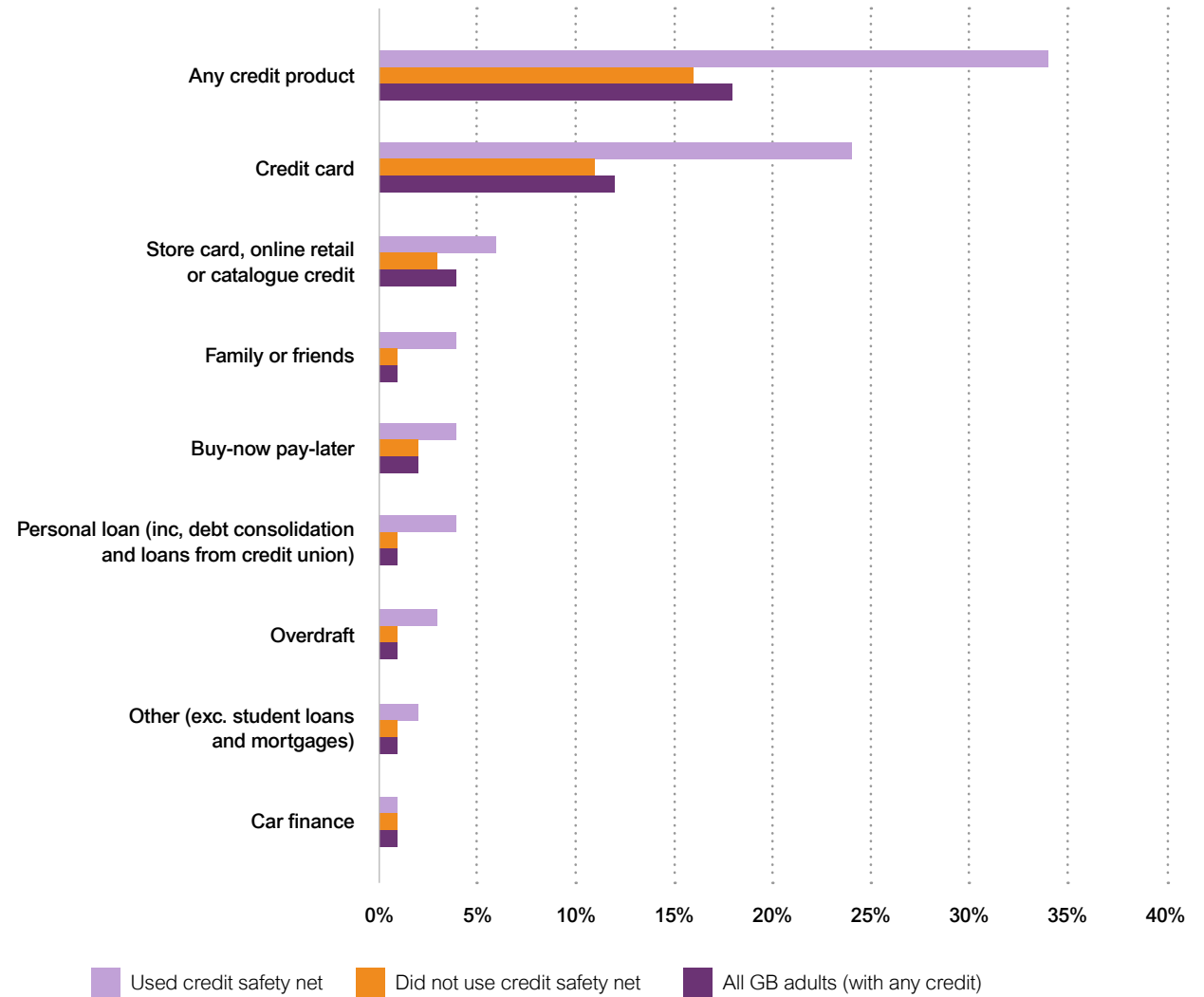
“I kept consolidating debts and taking on more credit to get by.”

Consumers are, by some way, most likely to hold multiple credit cards, followed by retail revolving credit and other forms of ‘standalone’ credit. Holding multiple overdrafts is rare nationally but one in ten (10%) of those who used credit as a safety net reported holding multiple accounts on which they have an outstanding overdraft balance.

Chart 6 illustrates that holding more than three or more of any type of credit product is relatively rare, with the exception of credit cards. However, the chart also shows that a substantial minority (34%) of those using credit to get by hold three or more of any type of product, illustrating the frequency of borrowing across different types of credit. This is twice the number (16%) of those holding credit products but not using credit as a safety net.



Chart 6: % with more than three of each type of loan or credit product



The impact and harms of the credit safety net

“I literally paid everything [credit repayments] but I didn’t have a lot of money left over for food and electricity so I just had to ration both.”

“There was no available money for anything other than debts and household bills. We went without new clothes, haircuts, day trips, etc. If anything needed replacing such as car tyres, washing machine etc I had to borrow money from my family.”

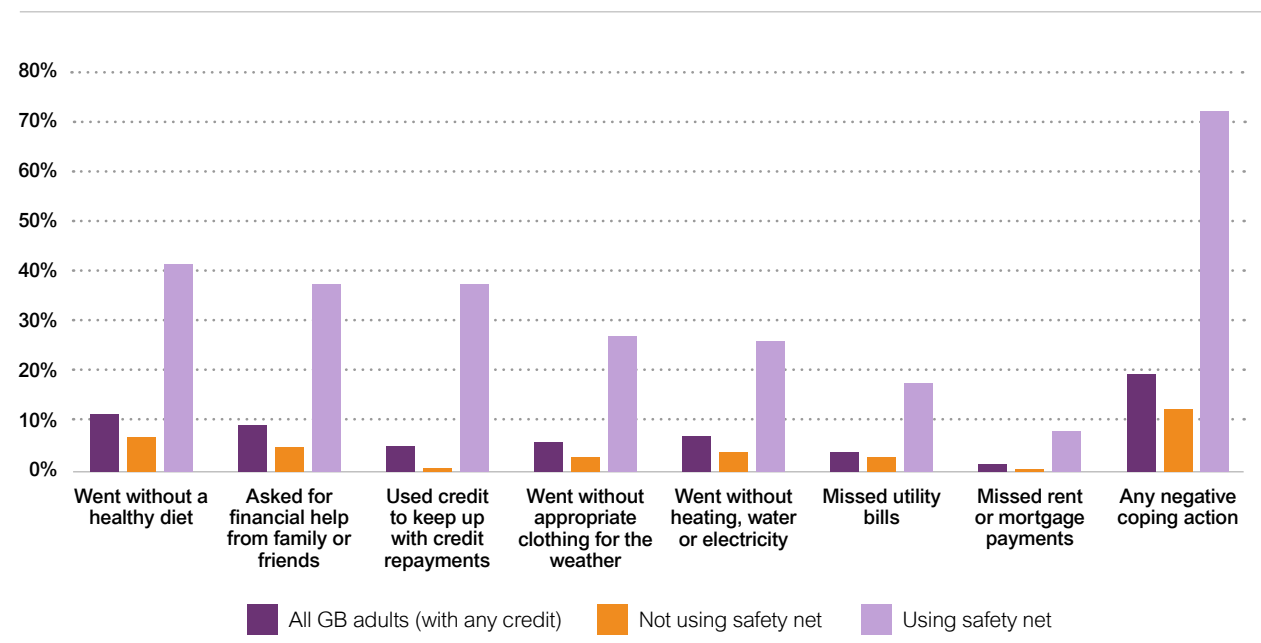
“I borrowed a large sum of money from a family member and I still haven’t paid it back. This has caused some financial difficulties for [them] and still is.”

“I was managing to pay all my bills but I was left with nothing and had to keep borrowing money from my mother.”

Using credit to make ends meet is, itself, a strong indication of financial difficulty. This is reflected in our data: 72% of credit safety net borrowers are showing at least one additional sign of financial difficulty (such as falling behind on household bills), while 51% meet our definition of severe financial difficulty (showing three or more signs of financial difficulty).

Chart 7 sets out actions those holding any credit product with an outstanding balance have taken in the last 12 months to keep up with credit repayments.

Chart 7: Actions taken to keep up with credit repayments in the last 12 months



Over half (57%) of those who had used credit as a safety net had taken at least one of the actions listed:

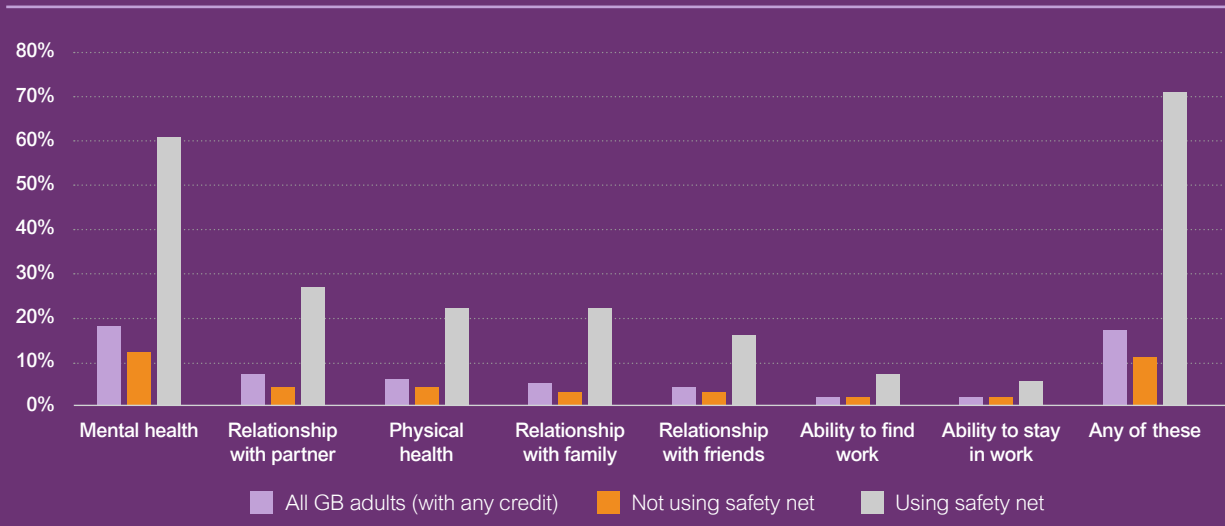
- 50% had experienced at least one form of hardship such as going without a healthy diet;
- 34% sought help from family and friends; and
- 18% had missed housing or utility payments

We also asked survey respondents about negative impacts of credit on their health, relationships and work (chart 8). 84% of those using credit as a safety

net had experienced at least one negative impact, compared to 22% of those who hold credit but do not meet our ‘credit safety net’ definition:

- 64% had experienced negative impacts on mental or physical health;
- 36% had experienced negative impacts on their relationships with family or friends; and
- 9% had experienced negative impacts on their ability to find or stay in work

Chart 8: Negative impacts of using credit on health, relationships or work in the last 12 months



“I suffered mentally and physically from the pressure I felt from the creditors.”

“Constant phone calls and letters added to my anxiety and stress which, on top of other life events resulted in me suffering from severe depression and attempted suicide.”

“The debt issue was always on my mind. This caused anxiety and lack of sleep. This in turn exacerbated my type 2 diabetes.”

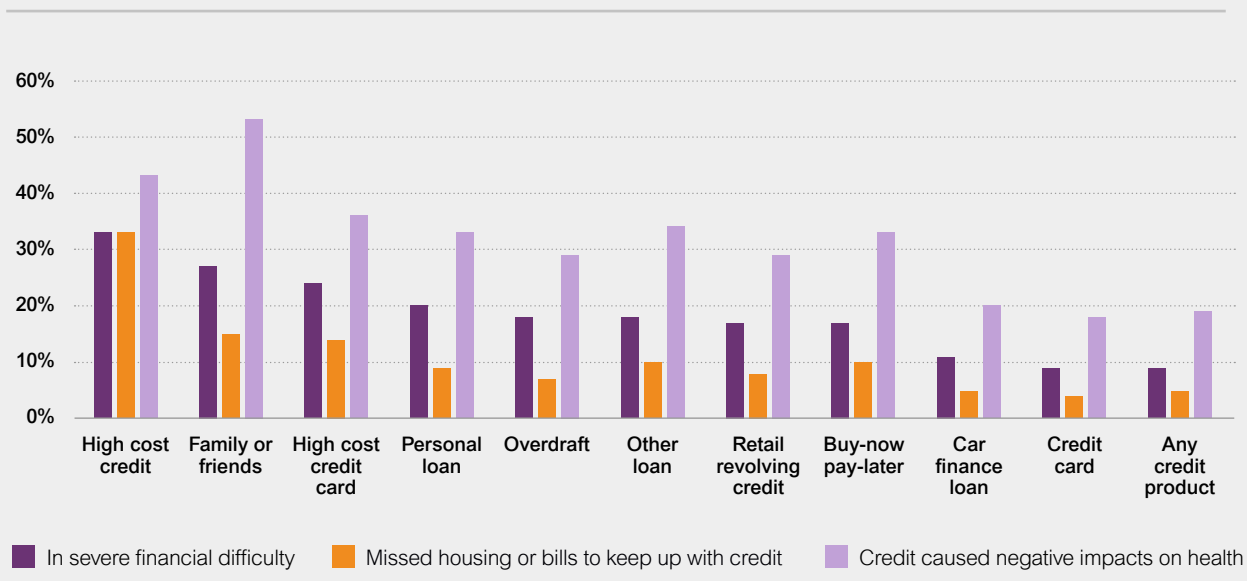
“Debt consumed my whole life: every minute of every day.”

There are some significant differences in the profile and experiences of customers holding different credit products. As might be expected, we find that high cost credit products are most likely to be used by those in difficulty and most likely to be associated with repayment distress. We also see high levels of difficulty among those borrowing from family or friends, perhaps because this type of borrowing is more likely to be pursued by those who have exhausted other coping options.

High cost credit card customers also stand out as being more likely than average to be in financial difficulty and take negative coping actions to keep up with repayments.

While BNPL users were no more likely than average to be in severe financial difficulty (nor less so), they were more likely than average to miss housing or household bills to keep up with credit repayments and experience negative impacts from credit on their health.

Chart 9: Experiences of customers who hold credit products



Indications of repayment difficulty and negative impacts are proportionately lowest in the credit card market. However, this must be put in the context of the size of that market: for example, while only 7% of those who hold a mainstream card meet our definition of severe financial difficulty, this is 49% of all GB adults in severe financial difficulty.

It is striking in our data that a significant minority of users of all mainstream credit products are experiencing difficulty, pursuing negative actions to keep up with repayments, or report negative social impacts of using credit, suggesting that the credit market as a whole is not working well for financially vulnerable consumers.

Negative coping actions and impacts are not only associated with the type of products accessed but the number of products held: 21% of those who hold six or more loans or credit products report negative coping actions to keep up with repayments compared to 7% of those who hold one. These figures are 59% and 13% respectively for negative social impacts on health, relationships and work.



Credit cards and 'high cost long-term credit'

Credit cards are not typically thought of as high cost credit. However, they have the potential to become so through long-term repayment patterns when customers are unable to repay more than the minimum monthly repayment.

Half (52%) of those with a credit card with an outstanding balance repaid the balance in full in the last month a repayment was due; 29% paid more than the minimum repayment but not the full balance, 12% paid the minimum amount and 3% paid less than the minimum or missed the repayment.⁸

Among those using credit as a safety net, there was more evidence of repayment difficulty: with 15% repaying the balance in full, 37% repaying more than the minimum repayment but not the full balance, 25% making the minimum repayment and 4% less than the minimum or missing the repayment.

7% of those who hold a credit card with an outstanding balance had been given a credit limit increase in the last 12 months. Of those who experienced a limit increase, 43% had used credit as a safety net in the last 12 months and 27% were in severe financial difficulty.

“[The firms] knew my income as a single parent, but allowed me far larger credit limits than I should ever have been allowed. Whilst I am responsible for getting myself into debt, as someone who was struggling, access to credit did not help. My limits should not have been increased and I should have been referred [to advice] when it was obvious I was only ever making minimum payments.”

“We were making the minimum payments on our credit cards but the balance was increasing so each month those minimum payments were increasing and it was leaving us with less and less money left over at the end of the month.”

“As long as I paid each month, [firms] kept upping the limit rather than asking why my cards were full and if I was struggling.”

7% of those with a credit card with an outstanding balance had experienced an increase in the interest rate for one or more cards: 48% of this group had used credit as a safety net in the last 12 months and 33% were in severe financial difficulty.

Credit cards are widely accessible in part because the market is segmented, both in the sense that customers may be offered different credit limits and APRs (borrowing rates), and that there is a market segment of high cost or 'subprime' cards that have higher representative APRs than mainstream equivalents (typically 35% compared to the current market average of 18%). StepChange has previously examined how subprime cards can cause and compound financial difficulty through unaffordable lending, poor product design and lender conduct, and the high costs that emerge for customers trapped in long-term repayment at high rates of interest.⁹



⁸ Where respondents held more than one card we asked them to think about the card with the highest outstanding balance.

⁹ StepChange Debt Charity (2019) *Red card: Subprime credit cards and problem debt*



We found that 8% of GB adults hold one or more high cost cards, including 25% of those using credit as a safety net. Sub-prime cards often indicate multiple borrowing and, our previous research indicated, a progression from mainstream to higher cost products.

There are stark differences in the typical profile of 'mainstream' credit card customers and those who hold a high cost card: for example, 24% of those who hold a high cost card with an outstanding balance are in severe financial difficulty and 35% have taken negative actions to keep up with credit repayments compared to 7% and 13% respectively of those who hold a mainstream card.

18% of those with a high cost card had experienced a credit limit increase in the last 12 months compared to 7% of those with a mainstream card, and 7% had experienced an interest rate increase compared to 4% of those with a mainstream card.

Following its 2015-17 Credit Card Market Study, the FCA implemented a package of measures designed to address problems it had identified, including 'persistent credit card debt' (this means that a customer as has paid more in interest and charges than they have repaid of the balance of a card over an 18-month period). Credit card firms are now required to write to customers in persistent debt. If a customer remains in persistent debt, a firm must write to a customer again after 27 months. After 36 months, the firm must engage with the customer and provide a solution to repay the balance affordably within a reasonable period.

We asked respondents to our StepChange client survey about their experience of the persistent debt interventions: 54% of survey respondents with a card recalled being contacted by a firm about persistent credit card debt.

48% of this group reported that being contacted about persistent debt had made their situation neither better or worse; 7% felt it had made their situation better and 36% that it had made the situation worse (9% were unsure or preferred not to say).

Among clients who had positive experiences, persistent debt communications had often helped them to realise they had a debt problem and/or prompted them to take action such as contacting free debt advice. Some clients also had positive experiences of support and advice from firms.

“After I had received letters about persistent debt from two credit card companies, I contacted [free debt advice] as it made me see the reality of our financial difficulties.”

“StepChange was listed in [the] letters about organisations who could help me. I had not defaulted on any payments to any creditors prior to contacting StepChange but realized I had no realistic way out of repaying my debts without doing so.”

“They were very helpful and put my mind at ease. They froze the interest and advised me of the next steps to take.”

Neutral impacts seemed to stem most often from the lack of support accompanying communications: the letters or messages told clients something they already knew (that they could not afford to increase repayments) and were not perceived to provide a clear support offer or next step for those who could not afford to increase repayments. Some clients observed that the process was administrative, one describing it as 'rote'.

“I did find the process quite stressful with limited advice of what to do and what options were open to me. I felt scared of the consequences never having been in financial difficulties before.”

“My creditors contacted me to tell me that I would need to start paying more towards my debt due to changes in regulation designed to stop people from remaining in consistent debt. I spoke to them about this. It was not particularly helpful [as] they were just following an administrative process.”

Negative impacts stemmed primarily from the anxiety and distress caused by communications that were perceived to be threatening but offer no clear solution for those in difficulty. In some cases, clients had responded to persistent debt communications seeking repayments by taking out more credit, which had made their situation worse:

“[In response to the letter] I increased my repayments, funded by more debt.”

“It worried me when I got a letter about persistent debt as I couldn't do anything about it. I was very frightened and felt totally hopeless. I thought about suicide.”

The extent to which credit cards, particularly in the high cost market segment, have a continuing role in harmful debt spirals and the mixed experience of customers of the persistent debt rules indicates that there are unaddressed challenges to ensure the market works safely for consumers.



How customers and firms respond to financial difficulty

We asked survey respondents how willing or reluctant they would be to ask a bank or credit firm for help if they experienced financial difficulty: 53% of GB adults reported they would be reluctant to seek help; only 30% were willing, with 16% unsure.

Willingness to seek help decreased among those showing signs of financial difficulty: 60% of those in severe financial difficulty are reluctant to seek help, with 30% willing and 9% unsure.

Willingness further decreased among those who had taken negative coping actions to keep up with credit repayments, with 67% of those who had taken any action unwilling to seek help.

We asked why respondents who were reluctant to seek help why this was (chart 10). The most common concern was that a bank or firm would take steps that would negatively impact their situation (or withdraw access the credit), followed by concerns about negative credit reporting and anxiety, embarrassment and stigma.

22% of those who had taken any negative coping strategy to keep up with credit repayments had either contacted a bank or credit firm about financial difficulty, or been contacted by a bank or firm in the last 12 months; this rose to 34% among those who had missed housing or utility bills to keep up with repayments.

Credit builder products and financial difficulty

Financial difficulty is a significant driver of demand for credit building products. Of the 1.5 million GB adults we estimate have taken out credit to build their credit rating in the last 12 months, 48% find it difficult to keep up with household bills and credit commitments and 27% meet our definition of severe financial difficulty.

We asked StepChange clients about their experience of credit builder products. 17% of the clients we surveyed had taken out a product in the last two years to build their credit rating, most often through a credit card (12%), followed by a loan (6%) or another type of product (2%).

Clients told us they were not able to discern any meaningful difference to their credit record as a

result of using the products and that the products had negative impacts because they increased debt:

“[The credit builder card] didn’t help because I was still struggling with debt when I took out the credit card to help build credit.”

“Trying to build up my credit rating just got me into more debt as I was paying when I could and they then put credit limit up [which] made me spend more.”

“[Credit builder products] haven’t worked that well, it’s just another piece of debt.”



In an online survey, we explored with StepChange clients their experience with banks and firms after they began to experience repayment difficulty.

Among clients we surveyed, 26% were offered further credit after they were in financial difficulty, 35% had a payment taken they could not afford, 51% had interest added to an outstanding debt and 61% received excessive contact via letters, emails, texts, or phone calls.

“Creditors kept putting interest up and I took out more credit to try and keep up with it. I fell into the debt trap hook, line and sinker.”

“The ease with which I was able to obtain credit is disturbing. I never actually went looking for credit, [I] just responded to my bank offering it.”

“I've felt extremely low and unable to see a way out of the spiralling debt issue.”

“Once I came to sort the debts out I was surprised at how easy it actually was.”

“I was constantly worried about how I was going to pay off my debt. Most of these companies never helped, though they knew I was struggling to pay; they just kept adding on interest making things worse and making you feel that there was no way out of the situation.”

“I had credit cards that were maxed and the bank kept offering me a loan to pay down the credit card debt but kept the credit card open. They should have encouraged me to close the credit card account.”

“One company was very good and willing to help by lowering interest rate. Another simply doubled the interest rate and charges on any new purchases.”

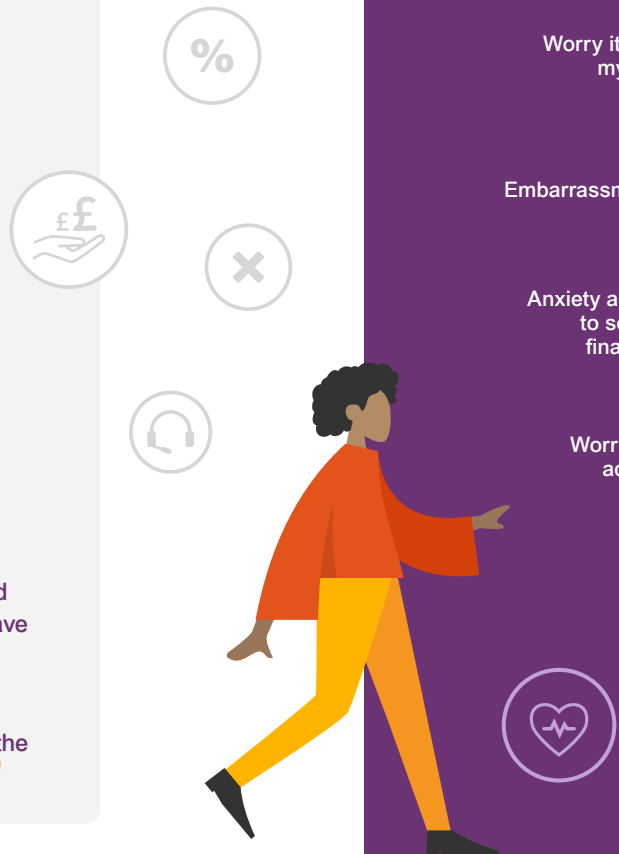
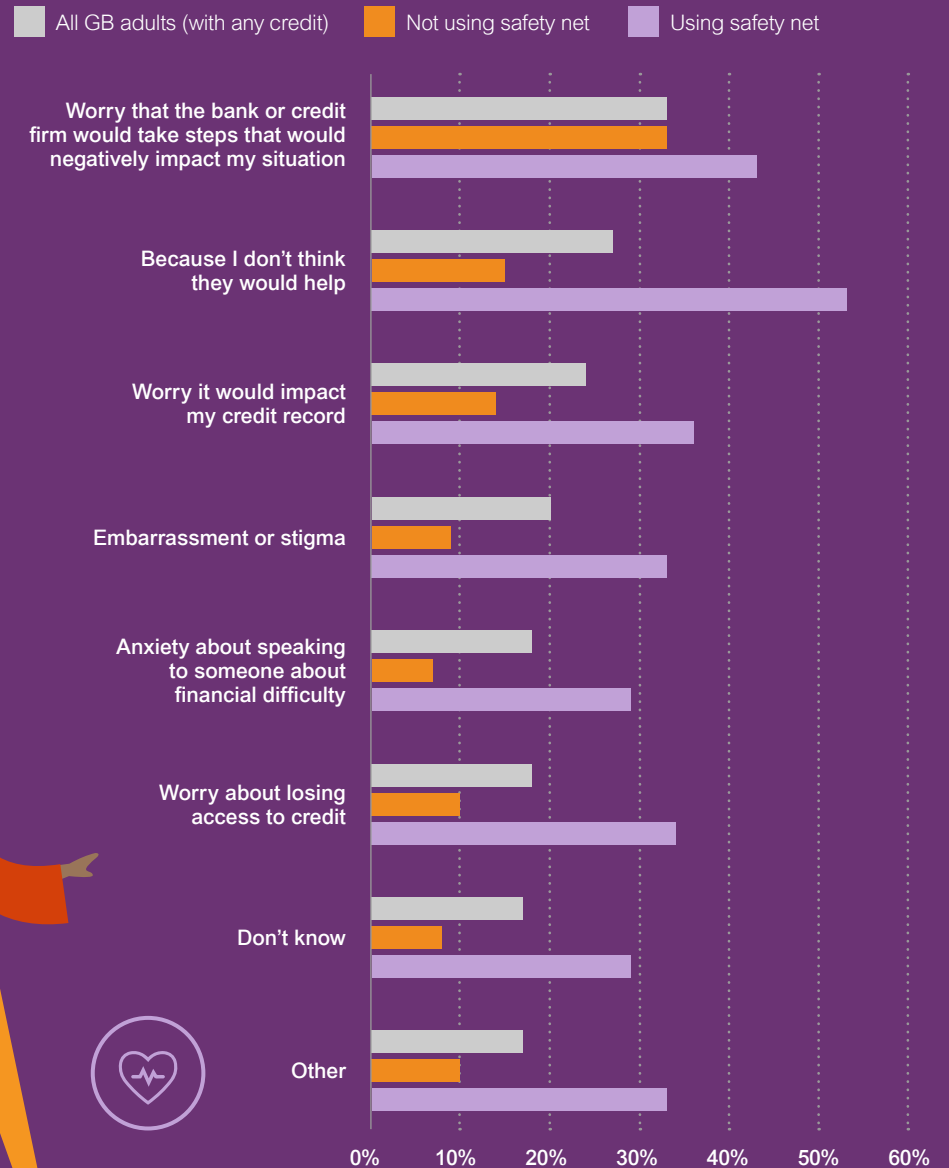


Chart 10: Reasons customers are reluctant to seek help from bank or credit firm



A majority of clients surveyed (55%) were in financial difficulty for a year or more before they accessed debt advice; 22% were in difficulty for six months to a year, and 19% less than six months.

Reasons cited by clients who had been in difficulty for more than six months for not accessing advice earlier include anxiety or mental health problems (55%), stigma about debt problems (50%), not being sure advice could help (41%), worries about the impact on their credit record (38%) and not being aware free debt advice is available (37%).

“I felt overwhelmed and worried about the future and the effect this would have on my living situation and family.”

“They sent letters and calls but feeling so anxious I didn’t respond.”

“I just needed someone to tell me that there was a way out.”

“If I had known about [free debt advice] earlier I would’ve sought help much sooner, none of my creditors gave me this option.”

We asked the clients who had been in difficulty for more than six months if they thought they could have been referred to debt advice at an earlier stage: 68% responded that they could have been (15% responded no, and 17% were unsure or preferred not to say).

In survey comments, clients noted opportunities to offer help included:

- When credit card limits are increased
- When repayments are missed
- When only minimum payments are made over a period of time
- When debt is sold on to a debt collection agency

“Looking back, I think the credit card companies should have recognised we were having financial difficulties about a year before, as soon as one or two payments had been late/missed.”

“[The firm] informed me they couldn’t help until I missed a payment.”

“[The creditor] made me feel that I had to exhaust all their advice before I should seek help from a financial adviser.”

“Although most bills I received included information on where to go for help with debt problems, it may have been helpful if this had been specifically ‘called out’ by my creditors.”

Clients noted that data held by firms should be used to identify difficulty. Clients with multiple credit products with a single bank or firm particularly highlighted this opportunity (for

example, because they were repeatedly using an overdraft, or falling behind on repayments).

“I held all my accounts with one creditor. [It] was blindingly clear to anyone (including me if I’d had the ability to face it) that nearly all the debt was taken in order to service previous debts. ... Instead of offering assistance, [the firm] offered more debt.”

“As I had multiple debts and was missing payments, I feel my credit record could have triggered supportive interaction earlier and prevented the debts getting higher and allowed me to address the issue in a manageable way sooner thus relieving masses of stress and anxiety.”

“I had been making only minimum payments on all of my credit cards, so creditors could pick this up and offer help rather than offering credit card limit increases.”

One driver of delayed referrals may be firms’ ‘in-house’ support: while tailored support for customers is desirable, it is likely to be difficult for individual firms to deal fairly and achieve good outcomes for all customers, particularly those in acute difficulty, in complex circumstances or who have multiple debts. Unsuccessful attempts to support customers, even if well-intentioned, will delay access to free advice.



Learning from payment deferrals

At the outset of the pandemic, the FCA required consumer credit firms to provide a payment deferral of three to six months to any customer on request. Later, the FCA put in place tailored support guidance that guided firms in how they should support customers in financial difficulty during the pandemic. Customers can no longer access payment deferrals (though firms have the discretion to offer them) but tailored support guidance remains in place.

In January 2021, UK Finance estimated that firms had provided 2.1 million credit card and personal loan payment deferrals since the beginning of the pandemic.¹⁰

Nearly half (48%) of StepChange advice clients responding to the survey had accessed a payment deferral. Clients reported that payment deferrals had allowed them to pay bills, take the time to engage with firms, apply for benefits or re-budget and take other steps (for example, one client mentioned the holiday provided time to save for a bankruptcy fee).

“[The payment holiday] allowed me to afford essential bills without having to worry about debt repayments.”

“It gave some respite and breathing space to allow me to think and plan what I should do next.”

Some clients felt that payment deferrals had ‘delayed the inevitable’: they got help later than they otherwise would have done, and some had experienced more difficulty as a result.

“Payment holidays only stopped the anxiety for the length of the holiday. Once it had finished it was back to square one. If debt advice had been offered sooner, I could be six months further into paying my debts off.”

In some cases, payment deferrals had caused anxiety because they were not accompanied by a clear next step: customers were left to worry about what would happen when repayments resumed.

“[The payment holiday] merely made my anxiety worse, putting a plaster over something that needed a long-term resolution.”

“It didn’t help motivate me to seek support and just allowed me to stop thinking about it, therefore allowing [the situation] to get worse and increasing my anxiety, making it harder to seek support.”

The most common complaint about payment deferrals among clients was that interest charges were not suspended, resulting in a payment shock when repayments resumed and/or higher costs in the long run.

“At the time [payment holidays] felt like a positive thing but I didn’t realise I’d have to pay more in the longer term.”

“[Payment holidays] briefly helped until they were over and I found that [the firm] had increased my interest by more than 20%.”

“Charging interest during the Covid payment holiday further escalated the situation.”

The shorter 30-day payment deferral provided for certain high cost credit products did not appear to have been helpful: it was not long enough to provide meaningful breathing space while customers were more likely to be financially vulnerable and exposed to negative impacts from the higher cost of a longer loan term.

The success of payment deferrals depended on the circumstances of the customer and the approach of the lender. Payment deferrals provided valuable breathing space for many, and there are important lessons in the simplicity, accessibility and attractiveness of the offer that led to wide take-up. But for some of those who were struggling, payment deferrals disrupted rather than facilitated the support they needed. While lenders are not required to suspend interest charges for customers in difficulty (excluding specific circumstances such as accessing the Breathing Space scheme), FCA rules and guidance set a strong expectation that they will do so.¹¹ Payment deferrals were, for a time, a catch-all solution that did not require firms to consider this type of tailored support. Even once tailored support guidance was in place, feedback from clients suggests that most accessed payment deferrals first, before tailored support was considered, building in a delay.

These issues mean that some customers experienced worse outcomes through delayed support and higher costs than they otherwise would have done, notwithstanding inevitable disruption to firm support for customers during the early stages of the pandemic.

¹⁰ UK Finance press release 20 January 2021, ‘[Lenders continue commitment to supporting mortgage customers into 2021](#)’

¹¹ Specifically, CONC 7.3.4R ‘A firm must treat customers in default or in arrears difficulties with forbearance and due consideration.’ Examples are given under CONC 7.3.5G including ‘considering suspending, reducing, waiving or cancelling any further interest or charges’.

Conclusion and recommendations

The credit safety net is made up of a pattern of interlocking issues:

- A context in which one in four UK adults has low financial resilience to cope with lumpy expenditure and life events that cause income and expenditure shocks¹²
- A consumer credit market in which a range of products are marketed and widely available to consumers in financial difficulty, leading to unsustainable borrowing and unaffordable repayments
- Product design, particularly in revolving credit, that can cause and compound financial difficulty
- Repayment pressures that cause customers in difficulty to take negative coping actions such as further borrowing
- Barriers that dissuade customers in difficulty from seeking early help
- Ineffective early intervention by firms to identify financial difficulty and prevent negative coping strategies

Through our research, we found evidence that:

- People in financial difficulty are able to access credit products that are not suitable for them and cause further financial problems. High cost credit products are more likely to be held by those who are struggling, but the difficulties we observed also arose from mainstream products such as credit cards and personal loans that are not affordable to those who hold them
- Customers struggling to keep up with credit repayments often cope through harmful actions such as further borrowing and reducing their living standards below a minimum acceptable standard. These actions contribute to debt spirals and, alongside worries about credit, negative impacts on health, relationships and work
- Those in financial difficulty do not feel able to seek help from firms, and a minority do so: trust in firms is low and customers are discouraged by concerns about negative credit reporting. Covid-19 consumer credit payment deferrals showed that giving consumers an option that is visible and perceived to be safe increases take-up of support, but that payment deferrals must be linked to timely tailored support
- Low trust means it is imperative customers feel they have a safe way out and firms are proactive in identifying difficulty. We found that firms often fail to identify and support customers in financial difficulty and sometimes make problems worse. Many people for whom debt advice is appropriate

receive support too late, after further harm has occurred. Safe and fair options for those who encounter difficulty are not effectively built into regulation, product design or firm practice

- Credit cards are central to the experience of most people struggling with debt. Card product design and behavioural bias encourages rising balances among those struggling to make ends meet. A long-term product life cycle and marketing of cards to financially vulnerable groups mean that a significant proportion of customers inevitably encounter repayment difficulty. When this difficulty arises, customers tend to be locked into expensive long-term repayment patterns that, particularly in the subprime market segment, lead to high costs and poor outcomes. We also found that many in difficulty experience inappropriate interest rate increases. An evaluation of voluntary measures put in place following the 2015-17 FCA credit card market study suggests that not all of these measures are working well¹³



¹² Financial Conduct Authority (2021) *Financial Lives 2020 survey: the impact of coronavirus*, p. 82

¹³ Lending Standards Board (2021) *Credit Card Market Study – Voluntary Remedies Effectiveness Review: Summary Report*

- Persistent credit card debt rules are not working well enough for those in financial difficulty: interventions help some customers in difficulty access help but can also cause customers to make unaffordable repayments, take other negative actions such as further borrowing and do not prevent excessively high costs emerging through long-term repayment
- Anxiety about credit status drives risky borrowing using credit building products among those in difficulty. These products appear to be unsuitable for many of those who use them and have an opaque impact on a credit record (and consequently value to customers)
- Deferred payment BNPL products are routinely used by those in financial difficulty experiencing harms linked to credit use, reinforcing the case to bring BNPL within the scope of credit regulation. The rapid growth and popularity of BNPL illustrates the extent to which digitisation has changed the credit market, and raises questions about the extent to which the regulatory framework is equipped to prevent exploitation of consumer vulnerability and bias in a digital context

The harm to individuals and societal costs of the credit safety net are substantial.¹⁴ FCA rules and guidance already say a lot about the issues raised in this report, with clear expectations that products will not be targeted at consumers for which they

are not suitable, of effective creditworthiness and affordability checks, of effective early intervention strategies, and of appropriate tailored support and forbearance for those in difficulty. But regulation is not providing sufficient incentives for firms to break the pattern of safety net borrowing and harm.

The FCA recently announced proposals to implement a new Consumer Duty that will require firms to act in the best interests of (or seek to deliver good outcomes for) customers and set 'clearer and higher expectations for firms' standards of care towards consumers'.¹⁵ Protecting people in financial difficulty against poor outcomes caused by the credit safety net is a central 'use case' for the new Duty.

Implementation of the Duty must be a process that drives change rather than one that normalises existing practices and product design.

We have set out recommendations in three areas that are central to addressing problems caused by the credit safety net:

1. Action to tackle practices and products that cause or compound financial difficulty:

- Implementation of the Consumer Duty should drive change in practices and product design that are not in the best interests of consumers. This includes:
 - The persistent market-wide failure to put in place effective affordability checks
 - Practices in the revolving credit market that exploit consumer vulnerability and behavioural bias and cause harm, including low minimum repayments, automatic credit limit increases and inappropriate interest rate increases
 - The role of persistent debt rules in driving harmful coping behaviours, and the limitations of the rules in preventing excessively high costs in the high cost market segment
- The FCA should address inappropriate lending to customers in financial difficulty through credit builder products by clarifying expectations of firms and strengthening rules and guidance
- The government should use its ongoing Future Regulatory Framework Review to strengthen the FCA's hand to prevent consumer harms arising from the exploitation of consumer vulnerability and bias by updating and aligning the consumer protection and competition objectives with the stated aims of the Consumer Duty



¹⁴ Royal Society for Public Health (2018) *Life on debt row*; National Audit Office (2018) *Tackling problem debt*; StepChange Debt Charity (2014) *Cutting the cost of problem debt*

¹⁵ Financial Conduct Authority (2021) *CP21/13: A new Consumer Duty*

2. Effective early intervention and support for consumers in financial difficulty:

- The FCA should set out changes to rules and guidance to ensure consumers have, and are aware that they have, safe and fair options when they encounter financial difficulty. Learning from the successful elements of pandemic payment deferrals, firms should be required to provide a clear and widely visible offer to customers in difficulty that acts as a gateway into tailored support and, where appropriate, free debt advice.

Coping with lumpy expenses, life shocks and adjusting to change are all major drivers of safety net borrowing. Until policy makers take action to displace demand to safer options, financially vulnerable people facing difficulty making ends meet are likely to continue to turn to credit—often using expensive or unsuitable products that make their situation worse. StepChange has highlighted in its ‘Life happens’ work that many of the answers to this challenge lie beyond credit.¹⁶ However, safe credit alternatives to unsuitable products are central to giving those who are struggling better tools to navigate difficult periods.

Fair4All’s work to scale up alternative credit and the government’s commitment to support the pilot of a no-interest loan scheme are welcome.¹⁷ However, the ambition of this work does not match the scale of the gap in supply of safe alternatives. The recent FCA Woolard Review noted particularly that mainstream firms could be asked to do more to meet the needs of customers currently excluded from the market or served by subprime products.¹⁸ Further work is needed to address this gap:

3. Action to join up regulatory and social policy to provide safe alternatives to harmful safety net credit:

- The government should give the FCA a new financial inclusion objective that includes a duty to identify the needs of vulnerable and financial excluded consumers that are not (or cannot) be safely met by the market
- In addition to informing the FCA’s regulatory approach, the objective should be matched by further government work to scale up safe alternatives to unsuitable credit, including expanding grants to support financially vulnerable households to meet lumpy expenses



¹⁶ StepChange (2019) *Life happens: Understanding financial resilience in a world of uncertainty*.

¹⁷ Fair4All Finance (2021) *Fair4All Finance Autumn Update*.

¹⁸ Financial Conduct Authority (2021) *The Woolard Review – A review of change and innovation in the unsecured credit market*.

Methodology

Except where otherwise indicated, all figures are from YouGov Plc. Total sample size was 5,028 adults. Fieldwork was undertaken between 20th - 24th October 2021. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).

Where indicated, figures and quotes from a survey of StepChange clients who first contacted the charity in 2021. The survey was conducted online and a link was sent to a representative sample of clients. 550 clients responded to the survey.



Written by Adam Butler

About StepChange

StepChange Debt Charity is the UK's leading debt advice charity, working towards a society free from problem debt.

We help over 500,000 people each year deal with their money worries and take back control of their lives.

Our service is free and we never judge.

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