

Working households' experiences of debt problems

A research report prepared for StepChange Debt
Charity

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Introduction from StepChange Debt Charity

On 5th November we became StepChange Debt Charity. Our new name symbolises a renewed determination to meet the challenge of problem debt in the UK today. Around six million households are either in financial difficulty or at risk of financial difficulty and new figures set out in this report show how declining household incomes and stagnant income from wages are causing many working households to struggle with both credit commitments and increasingly with payments for essentials like rent, fuel and council tax. So we are committed to helping more people deal with their debt problems more quickly.

We know that this is not a straightforward task. We estimate that nearly half of our clients were worrying about their debt problems for more than a year before seeking advice. We have also seen a significant rise in the number of our clients using high cost credit to help manage financial difficulties before seeking advice. People may use a variety of strategies to cope with pressure on their household budgets, some of which may subsequently make their debt problems harder to deal with.

To help build our understanding, we asked the Personal Financial Research Centre at the University of Bristol to carry out in-depth interviews with some of our clients. Respondents were asked how their debt problems developed, how they became aware they were getting in to difficulty and the choices they made to try to deal with this. The research aims to start a conversation about how we (as a society) can get better at identifying early signals of financial difficulty and help people towards the right help before debt problems get a grip on their lives, in a way that we know can cause real and lasting damage.

The report has a particular focus of the debt problems faced by working households. We are now all familiar with the concept of a 'squeezed middle' in UK society and many StepChange Debt Charity clients typify those working households with median incomes currently struggling to make ends meet. So there is urgency to the key messages coming from this report, that these households need more help earlier to deal with the current pressures on their household budgets. As a key provider of free debt advice, StepChange Debt Charity urges all of our partners to join with us in working to bring this about.

1 Why look at working households' experiences of debt problems?

In these challenging economic times, working households are increasingly vulnerable to problem debt and serious financial difficulties. First, they have higher levels of consumer credit borrowing compared to other households. And second, they face a heightened risk of employment-related drops in income as well as low wage growth, tax credit and welfare benefits cuts and rising costs of living.

StepChange Debt Charity commissioned this research to shine a light on the debt problems currently faced by people living in working households. The research looked in detail at:

- The processes by which working households accumulate consumer credit.
- The ways in which working households respond to their increasing levels of consumer credit debt.
- The reasons why working households seek help when they do, and not earlier.
- Working households' experiences of getting help and their feelings about their financial futures.
- What we can learn from working households' experiences in order to improve the help and support they require.

1.1 Employment and consumer credit

Employment status is an important predictor of non-mortgage borrowing. First, the prevalence of consumer borrowing varies by employment status, as well as reflecting the strong association between age and credit use. So, while 17 per cent of households headed by a retired person in 2006/08 owed money in

unsecured credit, this rose to 56 per cent of the self-employed, 61 per cent of employees and 62 per cent of those looking after the home and family (Daffin, 2009).

Second, the type of consumer credit that households use is closely linked to employment status and household income. So, for example, credit cards are disproportionately used by householders in full-time work; overdrafts are strongly associated with variable incomes such as from self-employment; and mail order tends to be used mainly by low-income households (Kempson, 2002).

Third, employment status is an important predictor of levels of borrowing. In the period 2006-2008, of households that owed any money in non-mortgage borrowing, those headed by someone who was self-employed owed the largest mean amount in consumer credit (£9,600). The second largest mean amounts were owed by households headed by an employee (£8,100). The amounts were considerably lower for people looking after the home or unemployed (£3,200 in both cases); heads of household who were temporarily sick or disabled (£3,800); and those who were retired (£3,600) (Daffin, 2009).

1.2 Employment and problem debt

Changes in personal circumstance that result in a drop in income are a major cause of financial difficulties, particularly when combined with high levels of existing borrowing. These are very often employment-related changes such as redundancy or job loss (Kempson, 2002; European Commission, 2008; Disney et al, 2008).

1. Why look at working households' experiences of debt problems?

Official statistics paint an uncertain time for working households at the present time, with an increased likelihood of employment-related drops in income. Even for people who are in work, reduced hours, temporary contracts and fluctuating self-employment increase the risk of financial difficulties, particularly for households already on lower incomes (Resolution Foundation, 2010; Collard, 2011).

Low wage growth and cuts in tax credits also impact on the ability of working households across the board to make ends meet, particularly in the face of rising prices for everyday expenses such as food, petrol, public transport and childcare (Ben-Galim and Lanning 2010; Financial Inclusion Centre 2011; Resolution Foundation 2011 and 2012).

UK unemployment has risen steadily since 2008, reaching 8.4 per cent by January 2012. By May 2012, it had dropped slightly to 8.1 per cent. There has also been a steep increase in redundancies. Between January 2008 and January 2009, redundancies increased from 4.4 to 10.5 per 1,000 people. Since that time, the rate of redundancies has fluctuated, dropping to 5.7 per 1,000 in 2011, rising again to 7.0 in January 2012, before falling back to 5.1 in November 2012.

Source: ONS Labour Market Statistics, November 2012

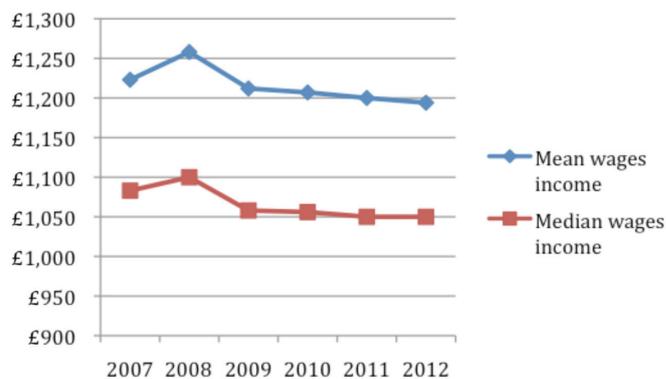
1.3 The picture for StepChange Debt Charity clients in working households

In 2012, 60 per cent of the clients helped by StepChange Debt Charity lived in a working household (where at least one person was employed or self-employed). The state of the UK employment market is reflected in StepChange Debt Charity's client data:

- Unemployment and reduced income account for around half of all payment problems among StepChange Debt Charity clients (CCCS, 2011).

- Average income from wages among StepChange Debt Charity clients has been static or declining since 2007 (Figure 1).
- 46 per cent of working households seeking debt advice from StepChange Debt Charity in 2012 had lower household incomes than their counterparts in 2011.
- The average monthly household income from all sources for working households helped by StepChange Debt Charity was five per cent lower in 2012 than in 2011 (down from £1,594 to £1,514). Working households on lower incomes experienced greater drops in their average income (around 11 per cent).
- StepChange Debt Charity clients living in households that depended on self-employment had average household incomes in 2012 that were between four and six per cent lower than their counterparts in 2011.

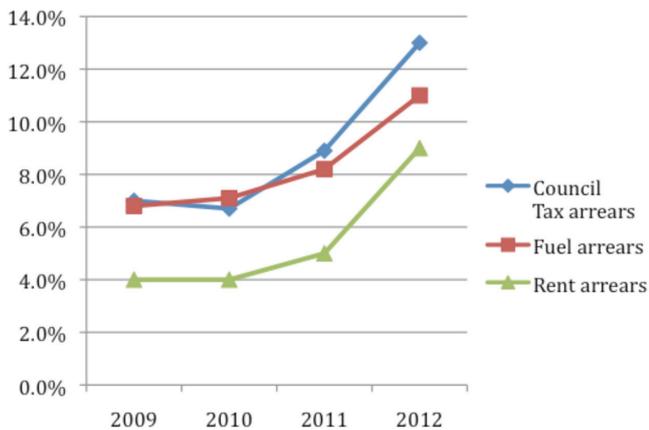
Figure 1: Wages income among StepChange Debt Charity clients in working households



Source: StepChange Debt Charity client data. Base: 339,051 clients in households where at least one person is employed or self-employed.

In the current economic climate, all StepChange Debt Charity clients (not just those in working households) find it increasingly difficult to meet basic living expenses. In particular, the proportions of clients with council tax, fuel and rent arrears have increased sharply (Figure 2), as has the average amount of arrears.

Figure 2: Proportion of StepChange Debt Charity clients with arrears on household bills



Source: StepChange Debt Charity client data. Base: All StepChange Debt Charity clients.

As the pressure on household finances intensifies, there is evidence that a greater proportion of StepChange Debt Charity clients are using short-term payday loans to try and make ends meet. The proportion of StepChange Debt Charity clients with payday loans increased from 3.7 per cent in 2009, to 9.6 per cent in 2011 and up to 17 per cent in 2012. And the average number of payday loans among clients that have them has also increased: from 1.6 loans in 2009 to 2.5 loans in 2012. As a result, the average amount outstanding has risen from around £1,200 in 2009 to over £1,400 in 2012.

1.4 About this research

The findings described in this report are based on qualitative depth interviews with 20 StepChange Debt Charity clients who were living in working households at the time they turned to StepChange Debt Charity for help. A working household was defined as one with any earned income from employment or self-employment. The interviews were carried out with people in three different locations: the South (Reading/Slough); the Midlands (Birmingham); and the North (Manchester). By the time they contacted StepChange Debt Charity, most of the people we talked to had significant levels of unsecured debt, in many cases amounting to well over £40,000.

The qualitative interviews are not intended to be representative of all StepChange Debt Charity clients, or of all working households in debt. Instead, their value lies in the depth of understanding they give us about working people's views, attitudes and experiences of credit and debt. Additional information in the report comes from a review of recent evidence and analysis of client data conducted by StepChange Debt Charity.

2 Accelerators: The processes of consumer credit accumulation among working people

How do working households come to accumulate consumer credit in the first place? The depth interview data highlighted a number of ‘accelerators’ that influenced the accumulation of consumer credit when times were good, facilitated by the easy availability of consumer credit in the decade prior to the financial crisis. But people also turned to consumer credit when they faced more difficult times as well.

2.1 Borrowing when times are good...

Being able to access credit for the first time seemed to be a rite of passage into adulthood. People’s first experience of consumer credit typically occurred between the ages of 18 and 21, when they were offered a credit card or overdraft by their bank or responded to offers of credit they received through the post. Their credit use was typically cautious in the beginning: a credit card kept for emergencies, or low balances paid off in full every month.

First steps: starting to use credit

I just thought it was an adult thing to do... it just seemed that I was becoming, I suppose responsible, and able to do things that everyone older than me were doing as well.

(Man, late 30s)

Borrowing against the future

I thought, I’ve gone to uni, there’s nothing to worry about, you’ll be fine.

(Woman, mid 20s)

I’d earned more than I’d ever earned and I think again that sense of security... I can buy things with a credit card but I can easily pay them off.

(Woman, late 30s)

Consumer credit use typically started to accelerate when people’s earned income began to increase, or they anticipated that this would happen. When people graduated from university or qualified in a profession, for example, they often had unrealistically high expectations about their future earning power; or indeed the spending power that a particular salary brought. Their spending increased in line with these expectations; paid for, crucially, on credit. In other words, they were borrowing against the future.

Even if working people had some niggling concerns about their increasing credit use and creeping balances, they enjoyed the lifestyle that credit bought and expected to be able to earn more in the future which would in turn allow them to repay what they owed. In reality, spending on credit often outpaced any actual earnings growth or career progression that people experienced.

2. Accelerators: The processes of consumer credit accumulation among working people

For some working people, their self-image was strongly tied to their job and their earning power. They perceived that they worked hard, earned a good salary and were successful. They used credit to buy the lifestyle that they thought they deserved and which signalled to others their success. In some instances, credit was used in anticipation of bonuses or wage rises that did not always materialise, or were less than expected.

'Because we're worth it': consumer credit and working people's self-image

He felt it was so important that he had a Jag, and he had to have a Jag because then people would think he was successful.

(Woman, late 50s)

We would generally use credit cards continually, rack up huge balances and once a year, when my bonus came in, repay everything and carry on again.

(Male, late 50s)

We had the cars out front, we had the double glazing, we'd purchased stuff and we could see what we were getting for it... at the time we thought we were making educated intelligent decisions.

(Man, mid 30s)

People's perception of you, you know... I drove around in a Porsche, we had a lovely lifestyle, did what we wanted, went out when we liked. When really it was all fake.

(Woman, late 40s)

There were several examples in the depth interviews of working people 'borrowing to invest', where they used credit to set up a small business or to buy a franchise (see Mark's story on page 10). This was sometimes triggered by a desire to boost household income or in response to redundancy. The investment did not always produce the expected returns, which in turn meant that credit was used for running costs, such as buying stock.

This blurring of personal and business finance helps explain the higher-than-average level of borrowing among self-employed people described in Section 1. It is also seen clearly in StepChange Debt Charity client data. The average outstanding credit card balance for all StepChange Debt Charity clients is £10,517 across 2.8 cards. For self-employed clients it is much higher: £17,237 across 3.6 cards. Self-employed clients showed higher outstanding balances on other forms of consumer credit as well.

2.2 ...And borrowing when things go wrong and to help get by

In the depth interviews, people often told us that a drop in household earnings had accelerated their slide down the slippery slope of unmanageable debt. Examples included self-employed people who had spells out of work or on reduced earnings (see Greg's story on page nine); employees who had been made redundant on one or more occasions; and people who had reduced their working hours or stopped working altogether for health reasons. Some people had seen their earned income decrease following the 2007 financial crisis. Others had experienced a loss of earnings more than five years ago, which had had long-term financial repercussions.

For families, changes in earned income could have a knock-on effect on the tax credits they received from year to year. In some cases, the repayment of tax credit over-payments or the loss of tax credits had added to their financial worries.

While a drop in income could be a trigger for seeking professional advice, it was common for people to try and manage the situation as best they could. And among the working people who were interviewed

for this study, credit was invariably one of the ways they used to fill the gap left by a drop in earned income. People were often optimistic about being able to find alternative employment, so the short-term use of credit to more or less maintain their existing lifestyle was easily justified. For families, credit was an important way of ensuring that children's lives were not disrupted.

We turned to credit cards to, you know, survive, because we hoped that my husband was going to get another job, he'd never been out of work... so we honestly thought that it was a blip and that he'd get work instantly and it just never happened because of the recession.

(Woman, mid 40s)

My son one day wanted a McDonalds and I haven't got no money and my son's words actually were 'Well, it's alright mum you've got a credit card, you could put it on there.'

(Woman, late 30s)

But a return to work generally meant starting on a lower salary than they had been paid previously, something that few people seemed to have anticipated. Again, credit was a handy way to bridge the shortfall. Borrowing (or borrowing more) to bridge the gap between income and expenditure generally made a bad situation worse, something that other research has also highlighted (Collard, 2011; Finney and Davies, 2011; Ben-Galim and Lanning, 2010).

Greg's story: Using consumer credit to compensate for falling earnings

Greg became a self-employed taxi driver about 10 years ago, after he was made redundant from his sales job.¹ Over the last two years, he estimates that his earnings have dropped by 25-30 per cent and he describes how 'I'm having to do more hours to earn less money'. He has been using credit to compensate, so that his bank account is very often overdrawn and he now finds it hard to meet even the minimum repayments on his credit cards, which have a combined balance of around £5,000. Despite the fact that Greg and his family have 'cut down to basics' he has also missed some of his mortgage and utility payments. Because of his situation, Greg has deliberately cut himself off from his friends.

"I don't even see my friends no more because I just can't be bothered and they've all got good jobs and everything ... I can't tell them what my situation is, I just find it...I wouldn't like to use the word embarrassing, but it's more frightening and you don't want them to think less of you".

1 Names and some personal details have been changed to protect individual's identity.

In addition to, or in combination with, borrowing to manage a drop in earnings, spending on credit could also be a comfort when people experienced a traumatic event, such as a relationship breakdown, being a victim of crime, or being diagnosed and treated for a serious illness. At the same time, these events could result in a loss of income in their own right, which consumer credit again compensated for.

Comfort spending

When I was feeling sorry for myself because of everything I was going through... the last £50 on the credit card I'd buy myself something... it's because I was feeling down, I'd gone out and spent to cheer myself up.

(Woman, late 30s)

2. Accelerators: The processes of consumer credit accumulation among working people

Other life events had financial ramifications as well, which consumer credit could be used to smooth. These often involved family breakdown and re-formation. Examples included making a financial settlement following divorce; paying legal fees in relation to divorce or the custody of children; taking on the financial responsibility of a new partner's children; and the costs of caring for a family member.

Mark's story

Mark's story illustrates how things can go wrong when consumer credit is used to try and manage the ups and downs of self-employment.¹

Mark is a man in his late 40s. Several years ago, the combination of a period of ill health, and two redundancies led both Mark and his wife to set up their own businesses. They spent a considerable amount of money to get the businesses up and running, and used credit cards to fund the set-up costs. While the businesses provided a small income, he only paid off the minimum payments on the credit card. ***"We sort of managed it badly... took too much money out instead of paying off what we put on credit card"***. In the end, his wife had to wind up her business within a year and go back to her

old profession. Their levels of credit use continued to increase, as it was also used to supplement their income during periods of unemployment and low earnings.

Mark's story also shows how, in some cases, a consequence of unmanageable debt can be family breakdown. When it became clear that they were struggling, Mark and his wife's opposite responses to the situation made it impossible to agree one course of action. Mark described how ***"I would just carry on pedalling and just pedal faster"*** whereas his wife began to consider bankruptcy as an option. They are currently separated and each pay a proportion of their £50,000 credit card debts. Mark is still persevering and managing his credit repayments outside any formal plan. His wife is on debt management plan, which Mark firmly rejected as it meant he would have no further access to credit, something he could not countenance as ***"to me it gives me security"***. Mark remains positive about his position, and is just about managing on his earnings from self-employment, helped by a drop in his mortgage repayments ***"I'm just always like that, something will turn up, it will be okay"***.

¹ Names and some personal details have been changed to protect individual's identity.

3 Applying the brakes? How working people try and manage their consumer credit before seeking debt advice

In the face of increasing credit balances, working people in the depth interviews felt they were managing their credit use as long as they could pay at least the minimum contractual amount each month on credit and store cards, and were able to make personal loan repayments. The continued offer or availability of credit (including automatic credit increases) was also a tacit signal to them that things were okay.

I thought if the banks thought I couldn't cope, pay it, they wouldn't give it to me.

(Woman, 50s)

Like many debt advice clients, they often had little or no idea about the total amount of credit they were accumulating. Spending across more than one credit card made it easier for people to under-estimate the total sum they owed. There were instances where people felt their borrowing and spending was out of their control, for example in the case of a compulsive gambler.

It starts to build up... you're not taking into consideration what you spent before.

(Man, mid 30s)

I don't think it goes in your head how much you're adding onto the cards when you're using them... in your head you're saying, oh I'm not really spending money.

(Woman, late 50s)

As people continued down the slope of unmanageable debt, they tried unsuccessfully to manage their financial situation in a range of different ways, described below. Very often these responses involved more borrowing and were clearly warning signs that things were not right. But people did not recognise these signs, or chose to ignore them, or held on to the belief that they could sort it out themselves because they were too embarrassed to admit otherwise.

3.1 Using credit to repay credit

Using credit to repay credit was a common way of trying to manage credit cards and overdrafts. Credit cards were used to pay off other credit cards; balances were juggled between credit cards and overdrafts; or credit card balances were transferred to nought per cent deals. The cycle was perpetuated because people continued to spend, particularly on their cards.

So you were taking cash out or doing whatever you could to kind of move the money, keep moving it around...and we were coming up with all sorts of ingenious ways to try and keep them [creditors] appeased.

(Man, mid 30s)

Using credit to repay credit sometimes did signal to people that their financial situation was unsustainable, but this was generally only once they could not take out any more credit (or at least believed they could not).

3. Applying the brakes? How working people try and manage their consumer credit before seeking debt advice

3.2 Debt consolidation

Over half the people in the depth interviews had consolidated their consumer credit debts at least once. A few had done so on several occasions. For some, at the time it was no more than a convenient way of organising their debts into one (possibly lower) payment. Others seemed more concerned; one person, for example, lied to his lender about the amount he owed for fear that his loan application would be refused.

Without exception, all those who had consolidated their debts continued to use consumer credit. A few people put the brakes on their credit use (in particular credit cards) in the immediate period after they had consolidated their debts. But they started to borrow again within a relatively short period of time, for example once they were sent a replacement credit card in the post or when they were short of money.

I didn't cut up the credit cards after I took the [debt consolidation] loans so and you know, after a couple of months, oh I'm a little bit short I haven't got enough for petrol this month so I'll start using one of the cards and then within six months that's it... all the cards are full again.

(Woman, mid 30s)

3.3 Financial help from friends and family

A growing number of working StepChange Debt Charity clients have debts to their friends or family when they come for help: 20 per cent in 2012, up from 16 per cent in 2011.

The types of financial help that people we interviewed had received from their family or friends included borrowing from them to repay consumer credit debts; parents remortgaging their home to repay an adult child's debts; and family and friends helping out with money to pay household bills.

Where people had turned to parents or other family members for help, this could put a considerable strain on relationships. At least one person had lied to his family about the scale of his consumer credit debts when he asked for their help. In some cases, family members were unwilling or unable to provide financial help, or to do so more than once.

3.4 Other ways of trying to manage consumer credit

Another possible way of trying to manage a deteriorating financial situation is to cut back on spending. But only a few people in the depth interviews talked about reining in their spending in any significant way. One man for example talked about how he and his family had '*cut back on practically everything*' in order to make the repayments on a personal loan after he lost his job.

For the rest, it was often the case that people did not appreciate the seriousness of their financial situation until very late in the day, and remained optimistic about how things would turn out. Some had intended to cut back but did not, or found it difficult to cut back for more than a short time.

In addition, there were examples in the depth interviews of people proactively contacting their creditors in order to discuss their financial situation. Where this happened, people's experiences were mixed. Some had been able to negotiate temporary arrangements with their creditors to ease their situation, such as switching from a repayment to an interest-only mortgage for a short period. Others tried to make payment arrangements with creditors but were unable to reach a satisfactory agreement.

Ultimately, for the working people we interviewed, the strategies they used to try and put the brakes on their deteriorating financial situation were a stop-gap at best. Unsure what their other options might be, borrowing was often a stock response. As a result, their financial situations had become extremely difficult and entrenched by the time they approached StepChange Debt Charity, as John's story on page 13 illustrates.

John's story

John's story demonstrates how a series of events over time can lead to unmanageable debt, and the different ways in which people try (unsuccessfully) to manage their debts.

John is a healthcare professional in his early 40s who has been on a debt repayment plan with his creditors since 2008.¹ A number of events over the last 10 years resulted in John losing control of his finances. His use of credit had first started to increase as a result of a relationship breakdown, and the ensuing costs involved in moving house. The tipping point into unmanageable debt for him came when he was the victim of a crime. The trauma of this event meant he was unable to keep his job, so he used credit both to cover the lost income, as well as a means of dealing with the emotional effects of the incident.

"I tried to put a brave face on, tried to pretend that everything was normal and that everything would get back to normal, but it didn't. And I think my emotions were just so all over the place, and the way I tried to compensate that was actually [to] spend money".

John recognised that he needed to act to sort out his credit debts. He tried cutting back by moving to

various cheaper accommodations and borrowed money from his family. But faced with declining earnings from self-employment due to the economic downturn, he still could not manage. His attempts to negotiate with his creditors were also unsuccessful, as none offered to reduce his repayments even temporarily. By the time he eventually made contact with StepChange Debt Charity (then called CCCS), he owed in the region of £28,000 comprising car finance, two personal loans and several credit and store cards.

"It was kind of last resort... I'm a bit of an optimist and I always think, you know, something will happen... something will change and things will get better. But as I said they didn't get better they just got worse".

John's situation is more stable now he is on a debt repayment plan. Following another recent drop in earnings, he contacted his creditors to explain his circumstances, and was relieved to find them much more sympathetic than they had been in the past.

1 Names and some personal details have been changed to protect individual's identity.

4 Turning points: reaching out for help

Faced with mounting consumer credit debts and having tried unsuccessfully to manage their finances, it was often a combination of factors that signalled to people the true seriousness of their situation. This realisation led them to seek professional help.

Around the time they sought advice, the enormity of the situation households were facing began to sink in. People worried that they would never be able to pay off the borrowing they had accrued. Having struggled on for years, some only sought help when they eventually realised that their ability to repay their debts was unlikely to improve. For others, a drop in income – the loss of their ‘second’ job or a cut in tax credits – acted as the catalyst. Others still described feeling ‘hopeless’, totally out of control or ill with stress and lack of sleep as a result of their money worries. It was only when they reached this emotional breaking point that they were compelled to look for help.

Overwhelmed by debt

...it was the start of me realising that this was just never going to go away...That's when the sleepless nights started because that's when I think the penny dropped.

(Man, early 40s)

Basically I was swamped, I couldn't pay anything anymore.

(Man, late 30s)

Coming face-to-face with a material loss could also be a turning point for people to get professional help. This included being worried about imminent eviction, or the realisation that very soon they would not be able to pay for basics like petrol and food. For one person, the crunch point came when she could not afford to buy Christmas presents for her children and had to ask a family member to buy them for her.

Reality bites

It was just the amount of money, knowing that, you know, if I was going to pay this it meant to say we wouldn't be eating.

(Man, late 50s)

There were several cues that signalled to people they had over-reached their capacity to afford credit which, in turn, prompted them to take action: being unable to make the minimum payments on credit cards, starting to get charged on an overdraft and falling behind with payments. They also extended to rather more subtle cues: realising that the interest charged on a credit card was more than the minimum payment; becoming aware of the mounting interest on existing debts; and the perception that they would not be able to borrow any more from commercial lenders.

Telephone calls and letters from creditors demanding payment was an extreme sign that households were in trouble with their credit commitments. One woman described being ‘inundated’ with letters on a daily basis and calls up to five times a day, and there were examples of people being called at work by creditors

4. Turning points: reaching out for help

or receiving notification of creditors' intentions to call in bailiffs. Not surprisingly, this could make people feel *'quite threatened', 'harassed' and 'bullied'*. Concerns about creditor action, together with a dawning sense of the magnitude of their debt problems and the need to take responsibility for them, led people to seek advice.

At the same time, people's experiences of debt collection could put them off trying to discuss their situation directly with their creditors. So rather than getting help from her creditors at a time when she needed it, one woman described how *'I may as well have been talking to a robot'*.

Creditor action

We were getting letters from all the creditors, maybe one or two a month. The phone calls started...it wasn't just a simple 'hello, how you doing?' it was quite 'we need you to pay this' and there wasn't any direct threats but you feel under, you feel threatened don't you, you are kind of becoming defensive...I was sat there and I went, I've got to do something about it.

(Man, early 30s)

They're not interested in your situation, they just want the money.

(Woman, mid 40s)

A number of people had sought debt advice as a result of intervention from others. This included referrals by creditors to StepChange Debt Charity, typically when people contacted their creditors to discuss missed (or to negotiate lower) payments. It also included referrals from other advice or support organisations that people had turned to for help (such as Gamblers Anonymous or Citizens Advice Bureaux [CAB]), or a recommendation by a friend or family member.

Once they had taken the difficult step of getting in contact with StepChange Debt Charity, people's experience of debt advice generally exceeded any expectations they had. They particularly valued StepChange Debt Charity's professional, supportive and understanding advisers. People's fear of being judged also proved to be unfounded.

I just felt such a relief that I'd spoken to somebody and that somebody understood. And also that I wasn't being judged.

(Woman, late 30s)

It was just like a massive weight lifted off our shoulders.

(Woman, late 40s)

4.1 Why don't people get help sooner?

There were a number of reasons why working people did not get professional help sooner. As described above (and in Julie's story on page 18), they often realised only belatedly that they were in trouble financially. Others were unwilling to face up to the reality of their situation, despite their anxiety about it. Households' over-optimism about their ability to get on top of their debts also played a role. A few households carried on without seeking help because they wanted to shoulder the burden of their debt themselves.

(Try to) keep calm and carry on

I recognised that it was bad, but I thought it could get better...Until you suddenly tot it all up and think, well we can sort that one out maybe but then gosh there's that one and the other one, so when you realise that, you know.

(Woman, early 50s)

I'm like an ostrich, it's best to put my head in the sand. Yes, it's a case that I know I have to deal with it but I prefer not to deal with it.

(Man, early 40s)

Concerns about what other people might think, embarrassment and the possible stigma of entering into a debt solution stopped some people from seeking help sooner. They were worried about being judged by society at large, but also by employers, family members or debt advisors. Pride (their own or their partners), the desire to maintain an image of themselves as successful, professional people, and wish to keep their problems private were often all linked to a strong sense of personal responsibility and self-blame for their situation.

Too proud to ask for help

I didn't want anyone to know and I mean absolutely nobody.

(Man, early 40s)

It's hard to admit you've been so daft, perhaps if I was 22 but I was nearly 30!

(Woman, early 40s)

Once people had acknowledged that they needed help, they often did not know where to get advice from, the nature of the advice available or how to access it. At its simplest, people had not heard of StepChange Debt Charity (CCCS as it was then) or, more generally, were not aware of the existence of free-to-client debt advice services like StepChange Debt Charity. Some assumed that any advice would be charged for, which they could not afford to pay, or they feared being exploited by commercial companies looking to make a profit. A fundamental difficulty that people faced was distinguishing free-to-client advice organisations from others that charged, in web searches and sometimes even after speaking to them. Even if they were aware of the existence of

free-to-client debt advice services, people sometimes assumed they were not for professional working people 'like us' until told otherwise by a friend or family member.

Not knowing who to turn to

I talked to people but I never knew specifically what questions to ask and that's what it comes down to. People don't know what trouble they're in and don't know how to get help.

(Man, late 30s)

You're always seeing these adverts on the TV saying 'we can help you' but really, let's be honest, they're not helping you. They're actually making the actual thing worse.

(Man, early 40s)

I didn't know which ones were ones wanting to take money out of you and which ones were like the CCCS that were like a charity and just really wanted to help you out.

(Man, late 30s)

Worries about the wider implications of debt advice could also result in delays seeking advice. People were often very protective of their credit rating, for example in order to be able to access mortgage finance in the future. This could act as a strong deterrent to getting help sooner, something that other research has highlighted as well (see for example, Finney and Davies, 2011; Policis and Toynbee Hall, unpublished).

4. Turning points: reaching out for help

Julie's story

Julie's story illustrates how spending on credit can build up over time, outpacing any earnings growth that people experience and culminating in serious financial difficulties.

Julie is a marketing manager in her late 30s, and is due to complete an IVA in around two years' time.¹ Her financial problems started about 10 years ago, when she had over a year off work because of ill health. She did not adjust to her new financial circumstances, using credit to cover her living expenses, because she expected to return to her job within a few months. Her only income was Statutory Sick Pay, which she described as 'pin money'.

When Julie was fit to return to work, she was not able to return to her previous well-paid job and had to take a much lower-paid position. Optimistic that she would quickly move up to a higher-paid role, she continued to fund the lifestyle she was used to with credit. And while her position and salary did improve considerably over the next eight years, her use of credit continued to increase at an even greater pace.

Some people feared losing their home or else being made homeless. Others described fears (that may or may not have been founded in reality) about the adverse impacts on their marriage and family relationships, losing their job, and in one case the possibility of being imprisoned.

Fears about debt advice repercussions

What put me off is that one of the credit card companies said to me I could go down that route [bankruptcy], but that I would be blacklisted for six years....It would still be deemed that I've defaulted on the payment.

(Man, early 40s)

"That's when the credit cards started going back up again, because I was then thinking, Well long-term I can get, I can climb back up the ladder as I'd done previously and get to a point where I can clear them... it's next month's problem".

It wasn't until her most recent promotion that Julie recognised that, even with a £10,000 pay rise, she was unable to repay her credit commitments without borrowing even more. By this time, her consumer credit debts totalled close to £80,000, comprising a personal loan and six or seven credit cards. In retrospect, she realises that she should have got help with her finances when she returned to work on a lower salary. But she didn't know what help was out there, and a friend's experience with an IVA firm put her off looking. Ultimately, it became easier for her to carry on borrowing than it was to resolve the issue.

"I knew I could juggle them around and borrow, you know, rob Peter to pay Paul basically, I knew I could do that, so that's what I did".

1 Names and some personal details have been changed to protect individual's identity.

In addition, a few people in the study described feeling so stressed by their financial situation that they felt powerless to act. One man, for instance, felt intimidated by a 'big red letter' he received from a lender. Some had other challenges in their lives which they felt were more pressing than their debt problems.

Life takes priority

So, it's been two years since I've had a bet, so I've not gambled for two years and I'm dealing with that, I'm dealing with trying to earn money. I'm dealing with trying to have a family life and trying to deal with my debt.... if you said to me "what comes first?", you could probably work out the debt is right at the end.

(Man, early 40s)

The dynamics at play in couple households could also affect how people felt about and responded to their financial situations. In some households, for example, one partner was a worrier while the other was an optimist. While worriers were often concerned about increasing credit balances, they tended to be carried along by their optimistic partner or trusted their positive view of the situation. In other households, one

partner was not always aware of the extent of their partner's credit use until things started to go very seriously wrong. In some cases, debt was partly or wholly responsible for the breakdown of relationships, because of the tensions caused by money worries or because couples could not agree on how to deal with their debt problems (as we saw in Mark's story on page ten).

5 Financial futures

The clients we interviewed had mostly contacted StepChange Debt Charity sometime in the last six years. In a few cases, clients' first contact dated back to between 2002 and 2005. For most of them, the outcome of debt advice was a repayment plan to pay an agreed amount of their unsecured credit commitments. This was typically a debt management plan that had been negotiated and arranged on their behalf or an IVA (Individual Voluntary Arrangement, introduced in the 1980s as an alternative to bankruptcy).

A small number of working people had decided against making any repayment arrangements with their creditors and were instead trying to pay back what they owed according to the original contract terms. One woman had chosen this route so that she could retain her credit cards which she depended on to buy stock for her business. Another man had not pursued debt management or personal insolvency because his wife was strongly against the idea.

People's outlook about their financial future was shaped by a combination of factors such as the stage they had reached in the debt resolution process, the level and stability of their household income and their job prospects. A number of women in the study had recently gone through marital separation in which debt problems were heavily implicated. They had since set up a new home on their own, and were having to adapt to a whole new way of life.

5.1 The outlook for people who were making repayments

For those who were still in the process of repaying what they owed (either through an arrangement set up with the help of StepChange Debt Charity or on their own), the outlook was mixed. For the most part, these people were managing to keep up with their credit repayments and their household bills. But it was often still a struggle to make the household books balance. As one person put it, *'the immediate crisis may be over but the effects are still painful'*.

Concerns about earnings and job security in the current economic climate were at the forefront of many people's minds. Some people had seen their earned income fall in recent times or they remained out of work. Others worried about being able to manage if their earnings fell below their current level.

Although most people who were on the road to repaying their debts had no desire to use consumer credit (even if they could access it), a few people were still borrowing. One woman (described earlier) used her credit card to keep her small business afloat. Another had a credit card with a small credit limit which was her way of managing her fluctuating earnings from seasonal work. A third woman had reverted to taking out payday loans in order to make ends meet, as her earnings would not stretch to cover her debt repayments and her living costs. She recognised that this was not a sensible strategy, describing it as *'starting to circle the drain again'*. It seemed unlikely that her existing repayment arrangements would last much longer.

5.2 The outlook for people who had reached debt resolution

Several people who took part in the research had already successfully completed their debt management plan. They had repaid their debts over periods ranging from six to nine years. In addition to them, one person had recently been declared bankrupt; having successfully kept up with a debt management plan for a number of years, a significant reduction in tax credits made the plan untenable.

Having reached debt resolution, this group generally had a positive outlook on the future. As one woman put it, *We can finally live, we can have a life again.* They were managing to make ends meet, often helped by the budgeting skills they had learned over the course of the debt advice process. Reduced costs (such as downsizing to a smaller home) or increased earnings played a part in some cases as well.

A few were using credit cards that they paid off in full every month in an effort to improve their credit rating and hopefully get a mortgage to buy a family home. Others expressed strong views about not wanting to use consumer credit.

5.3 Help to avoid problems in the future

As well as putting in place a mechanism to manage their consumer credit debts, debt advice often changed how working people felt about money and how they managed their money. This was because the debt advice process provided an opportunity for them to talk candidly about their finances in a way that they had rarely or never done. There were three main changes that people talked about in the interviews.

First, as a result of their experiences people felt they enjoyed a better relationship with money than they had in the past. They had learned the value of money and felt they had more control over their money (rather than vice versa). One person described how a debt management plan *'rehabilitates you with money'*. Another talked about being *'a steward of my money'*.

Learning the value of money

My relationship with money was poor. I didn't truly understand the value of it.

(Woman, late 20s)

Second, learning the value of money translated into behaviour changes such as a more cautious approach to spending, making sure that priority bills were top of the list, and budgeting. Several people were trying to put money aside for emergencies or a holiday, when in the past they would have simply relied on credit to see them through.

Steps towards better money management

I think the one good thing actually about the debt, it actually taught me to be a bit more restrained with what I'm doing, think twice.

(Man, late 50s)

Third, the debt advice process helped people feel more confident about managing their money, but also about dealing with their creditors. In some cases, this spilled over into other areas of people's lives as well.

Feeling more confident

They [debt adviser] give you a certain amount of strength because knowledge is a great weapon... You realise they can't hurt you providing you pay a minimum of £1 a month... instead of feeling lost and down about it like an underdog.

(Man, late 50s)

I know there's support mechanisms, support mechanisms for all sorts... I think it would be fair to say because of my dealings with the CCCS I've been very happy to go elsewhere and look for help.

(Man, mid 30s)

6 Key messages

For the working people who took part in this research, there were many things related to employment that acted to accelerate their consumer credit use: their expectations about their future earning power; their desire to become self-employed; their self-image as professional people. And it was made possible by the ready availability of consumer credit to working people in the decade before the financial crisis.

When things went wrong, rather than applying the brakes to their credit use they kept borrowing: using credit to repay credit, borrowing to consolidate debt, and borrowing from friends and family. Very often, working people in the interviews had used credit to compensate for lost earnings from employment or self-employment. StepChange Debt Charity statistics show that, in these straitened times, an increasing number of its clients use payday loans to bridge the gap between rising basic living costs and static or falling incomes.

With the benefit of hindsight, working people could see the sorts of support that might have helped them avoid serious financial difficulty. But they also understood that, like them, other working people facing debt problems might not heed the warning signs or else choose to ignore them. To overcome this would require a level of proactive help and support that currently does not exist.

6.1 Responsible lending

Failures in responsible lending were a cause of the global financial crisis. And responsible lending remains a live issue in post-crisis credit markets.

While working people in the interviews acknowledged their responsibility for the situation they had got into,

at the same time they felt that lenders must share this responsibility. They questioned why they had been able to borrow so much on credit cards, store cards, personal loans and overdrafts, in some cases even after a drop in income. As one man described his experience with lenders *'It's always a want and never a why'*. Lenders' willingness to continue lending helped fuel people's optimism that they were able to manage their borrowing, when in fact they were not.

To prevent other working people getting into a similar situation, people in the interviews considered that lenders should lend more responsibly. Examples mentioned in the interviews included:

- Lenders somehow setting an overall limit on the amount people can borrow.
- Having credit limits that better reflect or are more proportionate to people's earnings.
- Lenders asking more questions before granting further credit, especially where the reason for borrowing is debt consolidation or where an existing credit card or overdraft is at its limit.

Steps have been taken to address some of these issues, such as the five new consumer rights for credit and store card users that government and the card industry jointly committed to in March 2010².

People also highlighted the important role that advertising played in reinforcing the perception that lending was the only or best option for people who were finding it difficult to manage their finances.

² www.bis.gov.uk/assets/BISCore/corporate/docs/C/10-808-consumer-credit-store-cards-joint-commitment.pdf

6. Key messages

The messages out there are: it doesn't matter how bad your situation is, there is somebody that will lend you money.

(Woman, late 30s)

6.2 Debt awareness: Help people to see the flashpoints

'Get help earlier' was the main advice that these StepChange Debt Charity clients would give to others in a similar situation. They regretted not getting help sooner themselves: they would have accumulated less consumer credit and avoided some of the stress and worry of serious debt that they and their families had gone through.

In hindsight, people were able to see the flashpoints or warning signs that their credit use was getting out of control and that they needed help. Based on their experience, these included:

- Spending up to credit limits in a short space of time.
- Borrowing to repay borrowing.
- Juggling or falling behind with priority bills such as housing costs or utilities.
- For students, remaining in overdraft after receiving their student loan.
- Relying on borrowing to manage a period of unemployment or ill health.

But people could not see these signals at the time. To overcome this lack of awareness they suggested promoting public messages (for example through a public information campaign) about the sorts of behaviours that people should be worried about. As well as the flashpoints described above when people might be more receptive to the idea of help, they talked about some of the messages that had hit home with them:

- *Being told how long it will take to repay your debts. That might make you think twice about needing those boots or that holiday.*

(Woman, early 40s)

- *That there are options other than borrowing and juggling. Learn that debt is not the answer.*

(Woman, late 30s).

- *Don't bury your head in the sand, don't think it will go away and get better because it won't.*

(Woman, early 30s)

At an individual level, lenders were well-placed to see these signs and proactively contact customers they considered to be at risk of financial difficulties.

I know the credit card companies are out to make money but there must be alarm bells that ring with spending patterns, you know, maybe when you're...not paying it off and you're only paying the minimum and that amount is not going down, you know, there should be some sort of cut off point or some assistance.

(Woman, late 40s)

6.3 Pre-arrears help and support

Debt advice services are largely geared towards helping people once they are in serious financial difficulty. But linked to the idea of getting help earlier, the people we interviewed would have liked to sit down with someone and talk through their finances and their credit use in order to break the cycle of borrowing that they were in. This was different in people's minds to the sort of debt advice they had received once a crisis had been reached.

Just someone to talk you through and say you need to cope without credit cards, you know, or someone to tell you to rip them up or cut them up.

(Woman, 50s).

[Someone] to jump in and say 'It's come to our knowledge...you're living on your overdraft, this cannot continue'.

(Man, 40s)

Again, this type of pre-arrears help and support might happen at key flashpoints when people were vulnerable to using consumer credit, such as around the time of job loss, in higher education or when they were looking to consolidate their debts. People did not have a clear idea about who might provide this support. An organisation independent of lenders was important for some, particularly as they wanted help to look across their finances as a whole. The issue of people's receptivity to any form of help was crucial: it seems likely that people would require some sort of stimulus to engage with pre-arrears help (such as proactive contact from a lender), because they may well not recognise the need for it themselves.

6.4 Debt advice: Help people distinguish between different providers

If people are to be encouraged to get help (and to get help earlier) then they must be better-informed about the advice services that exist. While some people in the interviews were aware that free-to-client advice services such as CAB existed, they often did not know what type of help these services offered or whether they offered help to people 'like them'. And they found it hard to distinguish between different advice providers, particularly when they searched for help on the web (which many of them did).

More advertising for free-to-client debt services was a recurrent theme in the interviews. These adverts should stress that there are no fees or charges for the advice, and that it is provided by organisations that are not out to 'make money' from people in debt. This was desperately needed, in people's view, to counterbalance the many adverts on television for fee-charging debt advice services and payday loans.

Some of the people we interviewed had found out about StepChange Debt Charity (CCCS as it was then) from their bank or another lender. Even so, people felt that lenders could do more to make people aware of the free-to-client debt advices that exist, for example by providing information more readily and proactively and directing people to free-to-client services.

6.5 Next steps

The accelerators and flashpoints of consumer credit described in this report (and summarised below) offer a good starting point for a concerted consumer education campaign to raise debt awareness among the general public. This is something which, more than five years from the start of the financial crisis, has not happened in the UK.

Accelerators of credit use	Flashpoints of consumer vulnerability
<ul style="list-style-type: none">• Borrowing against future earnings• Borrowing ‘because we’re worth it’• Borrowing to invest in a small business or franchise• Borrowing to compensate for lost earnings• Comfort spending• Borrowing at times of family breakdown or reformation	<ul style="list-style-type: none">• Spending up to credit limits in a short space of time• Borrowing to repay borrowing• Borrowing to consolidate debts• Juggling or falling behind with priority bills• For students, remaining in overdraft even after receiving student loan• Relying on borrowing to manage a period of unemployment, reduced earnings or ill health

But consumer education about debt awareness must also be an ongoing process. Lack of debt awareness, misunderstandings about debt advice and low awareness of debt advice services have been recurrent themes in research reports over many years, in good economic times and bad. At a time when household finances continue to be stretched, advertising of free-to-client advice services is now a more pressing issue than ever before, as adverts for payday loans and fee-charging advice services proliferate on television, the web and elsewhere.

In addition, the research supports the valuable role that lenders can play in proactively helping people to recognise and address actual or looming financial difficulties. Some good work happens already in this pre-arrears space. But more is required to ensure that lenders communicate with customers effectively and consistently about the help and support that is available, from lenders themselves and from advice services.

Greater attention should also be paid to how creditors and advice services respond to people who do the right thing by proactively trying to get help early, before they fall into arrears. Often concerned to avoid a debt crisis and maintain their credit rating, these people can be frustrated to find little practical help available to them.

These calls for action are not new, but they are increasingly urgent. For a whole range of reasons, work does not prevent people from getting into financial difficulty. And people in employment and self-employment continue to face uncertain times. Working households on lower incomes will be particularly affected by the forthcoming welfare reforms, and further cuts to welfare benefits and tax credits seem likely. Time is running out for many working people: they need help now.

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Appendix: Qualitative research

The qualitative research for this study comprised 20 depth interviews conducted with StepChange Debt Charity clients who were living in working households at the time they contacted StepChange Debt Charity for help with their debt problems.

To identify people to take part in the depth interviews, StepChange Debt Charity emailed around 2,000 of its clients that lived in working households in specified postcodes in three locations (Reading/Slough, Birmingham and Manchester).

Interested clients responded to StepChange Debt Charity to consent to their contact details being passed to the Personal Finance Research Centre (PFRC). Professional qualitative interviewers at PFRC contacted these clients to arrange an interview.

Interviews were carried out in clients' homes or another location that was convenient for them. PFRC interviewers used a topic guide to ensure that the main issues were discussed in sufficient detail. The interviews were recorded (with respondents' permission) and transcribed for analysis. Each client who took part in an interview received shopping vouchers worth £20 to thank them for their time. The interviews ranged in length from 35 minutes to one and a half hours. The average interview was 67 minutes. The characteristics of the clients at the time they were interviewed are shown below.

	Number of respondents
Women	10
Men	10
In their 20s	1
30s	8
40s	7
50s	3
60s	1
Single person, no dependent children	5
Single person, with dependent children	2
Couple, no dependent children	4
Couple, with dependent children	9
Living in a mortgaged home	10
Living in a rented home	10

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