

# The Debt Arrangement Scheme Survey 2017

The results of a client survey about the benefits and issues of the Scheme

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# Executive Summary

The Debt Arrangement Scheme (DAS) is a statutory debt management plan unique to Scotland. It enables people with problem debt in Scotland to pay their debts over a reasonable period whilst giving them breathing space from creditor actions that can add to financial difficulties and make the stress of dealing with problem debt worse. DAS stops creditors adding interest and charges to any debts included in the Debt Payment Programme (DPP), as long as the client makes their monthly payment. It also prevents creditors making calls and sending letters that we know make our clients feel harassed. And, once approved, it can prevent court enforcement action.

DAS is backed by the Scottish Government and is the only statutory debt management plan in the UK. Although StepChange Debt Charity only started preparing DPP applications for our clients from 2013, we have welcomed DAS from the start, as we recognise the positive aspects that the solution provides (moratorium, freezing of interest and charges, court enforcement stopper, no creditor harassment) for our clients. These protections make a dramatic difference to the lives of our clients whilst supporting them to pay their debts. It is because we see and hear from our Scottish clients the benefits of the DAS protections that the charity is campaigning for something similar (a statutory Breathing Space scheme) to be introduced in the rest of the UK.

- 81% of our clients said it is now easier to pay their debt through DAS
- 78% of our clients said that they are less stressed now and can sleep

By the end of 2016, the charity has become the largest free to client money adviser organisation that prepares and processes DPP applications. In order to understand what our clients think about DAS and the steps they went through to set up a DPP, we undertook a survey of 1,496<sup>1</sup> StepChange Debt Charity clients with a DPP in January 2017. The findings are based on the responses of 461 clients – nearly a third of the sample size.

Our findings show that awareness of DAS was low, with clients telling us that they were not previously aware of the existence of a solution that could offer them ‘breathing space’ and protections. 60% of our clients said that had they known that such a product was available they would have sought advice earlier. If DAS was more actively promoted as a measure for dealing with financial difficulty, it is likely that the take-up figures would be significantly higher.

DAS legislation has been changed significantly over time. While most of these changes have aimed to make the DAS administration process more effective, many of the changes have removed flexibility in DAS and led to increased hurdles for clients and money advisers. This has made it

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<sup>1</sup> 1,496 Scottish clients who had a DPP approved between January 2014 and December 2016

harder to communicate the benefits of DAS to potential clients and could be resulting in them not seeking advice at all or choosing an alternative solution.

An unintended side effect of the reforms made to DAS is that the time taken for a client to access the protections provided by DAS has increased considerably. This causes problems for the client with increased interest and charges being applied to their debts, harassing phone calls from some creditors and potentially court enforcement action whilst they gather the necessary information.

## What has worked for clients?

The moratorium gives clients protection from court action and takes away the stress and worry of what will happen – this is a clear pay-off and helps people rebuild financial stability.

Freezing interest, fees and charges gives clients clarity on the debt being repaid and provides a clear incentive for getting advice. It also caps the amount they need to pay back and ensures that all the money they pay goes towards paying their debt instead of seeing it escalate. Nearly all (96%) of our clients said that the most important features of DAS were the knowledge that their debt would not grow as the interest and charges are frozen, and being able to pay their debt in manageable way.

Other benefits cited by clients were the protections, in particular that their assets don't have to be sold to pay their debts. Therefore clients don't have to worry about whether their car, home or other assets will be sold, which is a major disincentive to taking up solutions like bankruptcy.

Many of the clients surveyed cited what a significant difference it made to have support from an approved money adviser. Overall, most clients were satisfied that their debts were being paid and their lives were getting 'back on track'. One said:

“The advisors were excellent and immediately gave me the feeling that I was not alone in dealing with the debt.”

When asked how they felt interacting with their creditors, nearly two-thirds of our clients said that they no longer felt like their creditors were treating them badly (68%) and they felt more confident about contacting their creditors (63%). This is possibly because clients are not so frightened or feel as threatened as they have protections in DAS.

## Creditor behaviour

Most creditors have little knowledge of DAS. This may be understandable given that UK wide clients making payments towards debts via a DPP amount to less than 1% of all formal and informal debt payment plans (based on around 2,500 DPPs approved in Scotland per year). Nearly 60% of clients said that they had contacted their creditors for help but the majority of those clients felt that creditors were not able or willing to help. Nearly a fifth of our clients (19%) weren't aware of anything that their creditors could do or that they would offer help.

Although the terms of a DPP require creditors to halt any enforcement action, many of our clients stated that creditors continued to chase them for payment of a debt even though they were making regular payments through a DPP. Nearly a quarter (24%) of our clients said that they were still getting harassing phone calls from some creditors. And over a third of clients (35%) said that they were still getting letters demanding payment or an additional payment for debts that are included in a DPP.

Since these practices are not allowed under DAS, this suggests that creditors' policies do not recognise client rights under the scheme, or that there is a significant gap between policy and practice which they need to address.

The impact on clients varies, however, with most reporting these practices add stress and anxiety.

They said:

“Some creditors still continue to send me letters and calling and texting me with threats.”

“Still receiving emails and letters asking for full payments even though I am on DAS; it is very stressful”

## What needs to change?

Our experience as Scotland's largest provider of DAS leads us to conclude that on the whole, DAS does work for clients who have sufficient disposable income to access the scheme. However, there is a strong case for DAS to be more flexible. DAS already allows for changes in payments to reflect clients' circumstances, and even payment breaks if necessary. The exception is at the very start of a plan where arguably the client's circumstances are most unstable and the sustainable level of their repayments hardest to determine. The introduction of a Zero-DAS, where clients could temporarily make a small, or zero, payment for up to a maximum of 12 months following advice from an approved money adviser would offer breathing space to clients who have temporarily reduced income, due to an income shock. They would be able to access the DAS protections rather than struggle on as debts mounted up through added interest, fees and charges.

At six weeks, the moratorium period is not long enough for clients to compile the information they need to complete the DAS set-up process. Clients stated that were struggling to get the information they needed from their creditors, their own records and others, such as employers or the DWP, to evidence their debts, expenditure and income. The moratorium period needs to be extended.

The bureaucratic nature of DAS is very time consuming. Many clients told us about the pressure of watching additional fees and charges being added to their debt while they were waiting for the DPP to be set up. DAS needs to be more streamlined.

# Background

## The current state of debt in Scotland

Debt is a growing problem in Scotland. Over the past decade, the combination of stagnant wage growth and the rising cost of living has placed significant pressure on household budgets. The average debt of Scottish clients has also increased, in a reversal of recent trends. In 2015, average debts were £12,256 and in 2016 that rose to £12,677; the first rise in average debt in 10 years.

Clients' essential costs have risen faster than their income. In addition, the average client budget surplus - the amount of money left in a client's budget after essentials have been covered - has fallen from £20 in 2012 to just £7 in 2016. With the country's cost of living set to rise more rapidly than wage growth by 2020, the risk of people falling into debt is increasing.

## Debt Arrangement Scheme

The Debt Arrangement Scheme (DAS) is a statutory debt management scheme introduced by the Scottish Government in 2004 to help Scottish people with problem debt to pay their debt over a reasonable period of time.

DAS gives someone in debt much-needed breathing space and allows them to pay their debts in full through a Debt Payment Programme (DPP). The DPP takes into account what the client can reasonably pay based on their disposable income and there is no limit on the level of debt or the period of time it takes to pay the debt. However, if creditors were to reject the programme the Accountant in Bankruptcy (AiB), who oversee and administer DPPs, will consider whether the proposals were 'fair and reasonable'. The usual repayment period is between five and 12 years, although some clients may have longer terms if they are expecting a change in their circumstances. All interest, fees, penalties or other charges that would have been applied to the client's debt included in their DPP are frozen from the date the DPP is proposed and are waived upon completion of the programme.

At StepChange Debt Charity Scotland, we only deal with help individuals applying for a DPP but people with business debts can get advice on, and apply for, a Business DAS and advice on how to set one up is available from an insolvency practitioner.

DAS is not an insolvency process, but all approved DPPs are recorded in a public DAS Register.

## Impact

The number of approved programmes under DAS has been increasing steadily over time, helping more and more people in Scotland pay their debts. The DAS legislation has seen numerous

amendments over the past 10 years which has led to fluctuating levels of take-up. There are notable accelerations in the growth and dips of approved DPPs following key events that improved its appeal to struggling consumers:

2007: Introduction of freezing interest and charges while clients are paying their DPP

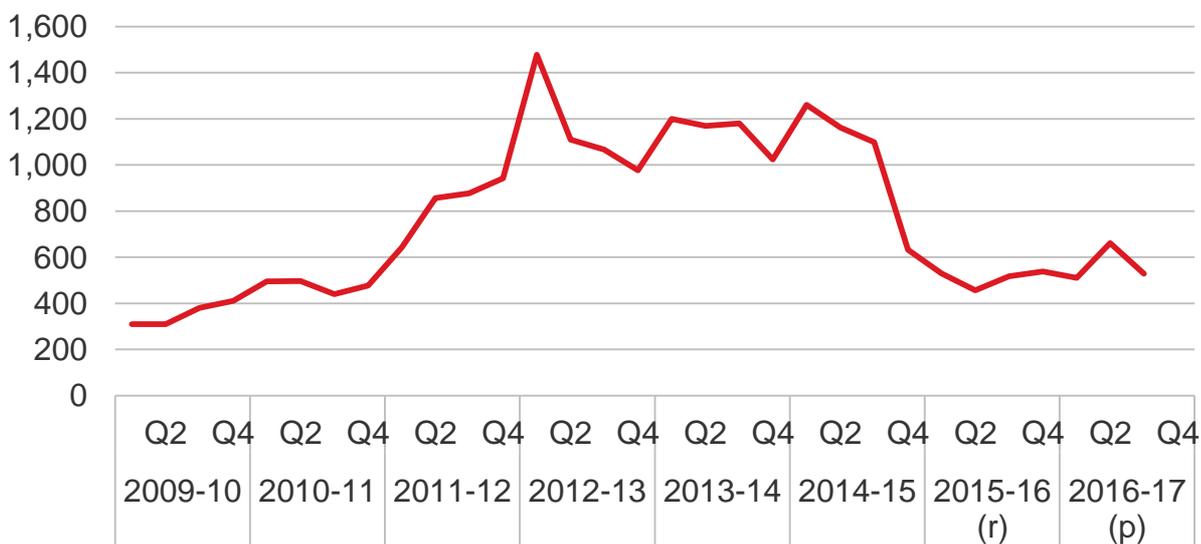
2011: Introduction of 'breathing space' moratorium on court enforcement action in Scotland  
This allows an approved money adviser to complete a notice on the DAS register which gives the client six weeks protection from creditor court action. This moratorium is only available once in a 12 month period. Once a DPP application is submitted, the protection period is extended. The protection will only stop if the DPP is rejected or revoked.

2011: The AiB updated their IT system, DASH, to enable them to provide some of the administration functions for money advisers from the free advice sector.

This reduced the administration time and costs for this sector and encouraged some new suppliers of advice to come into the market.

2015: The introduction of the requirement for evidence to support income and expenditure and the use of a common financial tool.

### No of Approved DPPs in Scotland (by quarter)



Source: Accountant in Bankruptcy (AiB)

### Current status of DAS

According to the Accountant in Bankruptcy (AiB) quarterly statistics reports, there were around 13,100 live DPP cases at the end of December 2016. The total amount repaid during 2016 through

DAS was around £9.6 million each quarter with creditors receiving a minimum of 90% of the debt owed to them (after DAS Administrator and payments distributor fees are deducted).

Of the total live cases, around 4.5% (around 600) will vary each month due to changes in client circumstances and a further 2.5% (320) will be revoked, often due to non-payment of the DPP or the non-payment of an on-going liability, such as council tax.

Currently there are around 510 DPPs approved each quarter in Scotland. On average the repayment term is just under seven years.

StepChange Debt Charity is currently the largest provider of approved DPPs in Scotland, submitting around 300 applications a quarter on behalf of our clients.

DAS legislation has been amended several times over recent years. These have included real improvements that have boosted the protection and encouraged take-up. However, some of the recent changes to DAS are undermining levels of take-up.

In 2015, the moratorium was extended in Scotland to include any clients seeking debt relief through bankruptcy or trust deeds. As a result, all moratorium notices are now recorded in another free public register, the Register of Insolvencies. This is maintained by the AiB.

Our advisors report that the fact that people have to have their names on a public register is a major disincentive to people taking up DAS.

Legislation that commenced in Scotland from April 2015 introduced greater requirements on clients to provide their approved money advisers with evidence of their income and expenditure.

We fear that the added bureaucracy has created uncertainty for money advisers and undermined their confidence in processing DAS applications.

In addition, we have seen changes in the regulation of the sector with many firms choosing whether to apply to the Financial Conduct Authority (FCA). Normally an Insolvency firm would have to be authorised by the FCA to provide DAS DPPs.

As a result, we have seen a marked reduction in the number of DPPs approved over the past year.

The AiB reported<sup>2</sup> in their quarterly statistics report on 26 April 2017; “*The sharp decrease in DAS approvals in 2015-16 (from 4,156 to 2,041) is likely due a number of reasons including legislative changes and uptake of other forms of statutory debt solutions such as PTDs (Protected Trust Deeds). The attractiveness of DAS relative to other statutory debt solutions could have also been affected by changes to regulatory procedures, operated by the Financial Conduct Authority, in relation to money advisors*”.

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<sup>2</sup> [https://www.aib.gov.uk/sites/default/files/aib\\_-\\_quarterly\\_insolvency\\_statistics\\_publication\\_-\\_2016-17\\_q4.pdf](https://www.aib.gov.uk/sites/default/files/aib_-_quarterly_insolvency_statistics_publication_-_2016-17_q4.pdf)

## The client's voice

In order to understand what users of DAS felt, we undertook a survey of StepChange Debt Charity DAS clients in January 2017. We contacted 1,495 Scottish clients who are paying their debt through DAS or who are about to have a live DPP in place. Nearly a third of clients responded – 461 clients.

# What does a DAS client look like?

Of almost 17,000 clients who contacted StepChange Debt Charity Scotland in 2016, nearly a fifth were recommended DAS as the most appropriate solution for their circumstances. The debt and demographic profiles of a DAS client were different to that of an average client. Generally, clients with a DPP had higher debts, were older and had larger incomes. This is to be expected as a budget surplus is a pre-requisite to qualify for what is a debt repayment solution.

	DAS client (2017 survey)	All clients (2016 data set)
Average debt	£21,121	£12,677
Average income (net month)	£1,732	£1,264
Average budget surplus	£298	£7
Average number of debts	8	5
% of homeowners	52%	34%
% of renters	38%	56%

## Case Study 1

Mr Brown from Ayrshire, aged 40-59 with £21K debt told his story:

*“First off I got into debt through gambling. I watched and cared for my wife for seven years, through the deterioration in her health from cancer, till her death. When she died I was naturally distraught and angry. I seemed to go into self-destruct mode and gambling was the outlet and I soon got into serious debt. I heard about StepChange. I can now say that starting a payment scheme through DAS to pay back my debt has changed my life around. Now my bills are being paid and family are relieved to see me back to eating and living properly. I have still a little way to go as I am still not over my wife's death as we were very close but at least I can see a way forward now thanks to StepChange..*

*The people at DAS are very caring. The DAS advisers are a credit to people who feel there is little point in going on. They should be proud of their work. I urge people to think very hard about burying their head in the sand and seek the help.”*

## Demographics

Based on a survey of Scottish clients who are paying their debts through a DPP or are about to start a DPP, they are more likely to:

- Be women: 62% of our DAS clients are women compared to 56% of all our clients.
- Be aged between 40 and 59 years old. Over half of our clients (54%) are aged 40-59 compared to 45% of all clients in Scotland.
- Own their home. 52% of our clients have a mortgage or own their home outright compared to 34% of homeowner clients.

38% of the survey respondents are in rented accommodation; 18% with 18% having a private landlord. Nearly a third (29%) of clients surveyed have a dependent child or children and 8% are disabled.

## Income and outgoings

The income of the clients in the survey, on average, was more than the overall average for clients who contacted the charity in Scotland last year; £1,732 per month compared to £1,264. Just over two-thirds of the clients surveyed were in full-time employment. Unsurprisingly, as DAS requires clients to have a disposable income after their essential costs have been paid, the disposable income of the survey sample to be significantly higher at £298 than an average Scottish client (£7).

## Debts

The average debt level of the survey respondents was £21,121, 66% more than the average debt of all Scottish clients (£12,677) who contacted the charity during 2016. The average number of unsecured debts owed was eight. The average length of time that it would take for the DAS clients in the survey to pay all their debts and become debt free (except for any mortgage or secured loan payments) is just under six years.

# Engagement with Creditors prior to advice

Problem debt is primarily driven by income shocks, as people struggle to adjust to changes in their family circumstances. Many people are unsure about when or where to seek help.

## Creditor engagement

We asked our clients whether they contacted their creditors to seek assistance before contacting the charity for advice. Nearly 60% of clients said that they had contacted their creditors for help. However, nearly a fifth of our clients (19%) weren't aware of anything that their creditors could do to offer help.

Of those who did not contact their creditors, their reason for not doing so were:

- 40% said they didn't think the creditor would help
- 37% said they were too embarrassed
- 34% were worried that the creditor would take further action against them
- 27% said they thought that they could cope without help
- 20% said that they thought their situation would improve
- 12% said that they had asked for help before and didn't get any

Some comments from our clients:

*"They wouldn't negotiate with me as an individual"*

*"I felt physically sick at the thought of talking to creditors and having to go into detail about my private circumstances over and over again with different creditors."*

*"They were only willing to delay payment but not freeze interest"*

*"I was advised by the first one (creditor) I contacted to get in touch with StepChange"*

*"When I referred them on to StepChange they then sold the debt to another company and I had to explain the situation to them".*

Of those clients who had contacted their creditors, 58% said that none of their creditors offered to stop adding interest or further charges to the debts due. Over 50% said that none of their creditors agreed repayment terms that were affordable. A further 25% of clients commented that less than half of their creditors agreed to freeze interest and charges. Nearly two-thirds of clients (63%) who contacted their creditors, said that the creditors did not stop further demands for payment nor stop threats of action to recover the debt due.

More worryingly, nearly half (49%) of clients said that they felt pressured into agreeing a repayment plan that they could not afford. In addition, over 60% of those clients who notified their creditors that they were struggling to pay their debts said that their creditors did not refer them to get money advice or give them contact details of where to find help and advice.

When asked how helpful creditors were when they were contacted, nearly half of all those who responded said that most creditors were unhelpful, with utility and local authorities being slightly more helpful.

Our client, Mrs Bower from Ayrshire, said *“It is only during the second half of 2016 that I began to realise that I was very depressed and anxious trying to pay minimum payments. I tried to arrange a loan from (bank named), but that was useless. In November I spoke to someone at (bank named) and told her everything. She advised me to contact a debt charity and suggested StepChange, said the details were printed on statements so I felt I could trust it. I did not contact any of the other banks/credit cards etc. as I had kept up with those payments ok. (bank named) were in my opinion very helpful.”*

Clients said that the most unhelpful were:

- 46% banks
- 46% payday/high cost credit providers
- 44% catalogues
- 43% mobile phone providers
- 39% credit card providers
- 38% HMRC
- 35% DWP
- 34% local authorities
- 28% utilities

## Client behaviour

When we asked our clients how they coped with the demands of their creditors, over half said that they incurred more debt by borrowing more from new or existing credit sources and/or friends and family.

Paid one creditor's bill which resulted in falling behind on other bills	31%
Borrowed from family or friends to meet creditors' demands	31%
Used existing credit to meet creditors' demands	28%
Borrowed more money from new credit sources	25%
None of the above	35%

(Clients could select more than one category)

We know from evidence provided by our clients that when they are struggling with debt, the impact is felt by others in the family or at work. When asked how it made them feel, nearly two-thirds of clients (65%) said that it put their family relationship under strain. Similarly over two-thirds of clients (68%) stated that it made it harder to concentrate at work.

It made it hard to concentrate at work	68%
It put family relationships under strain	65%
It made it hard to keep up to date with essentials like rent or mortgage, gas, electricity, council tax	55%
Worrying about debt affected your health to the extent you sought treatment from a GP or hospital	42%
You cut back on essentials for children like food, clothing and school equipment	41%
It made it hard to focus on applying for new or better paid jobs	21%
Other	5%

(Clients could select more than one category)

Clients told us:

*“I was scared to answer the telephone”*

*“Stress and anxiety was very bad”*

*“We would visit relatives at dinner time so we could get food”*

*“I kept the debt from my husband and family thus causing a great deal of stress and insomnia.”*

## What led the client to seek advice?

We know that around half of all clients who contact the charity did so after waiting an average of one year after they realised they had problem debt. There are many different reasons why people seek help and why they delay in seeking help. We asked our clients to explain what factors prompted them to seek help.our advice.

25-39 year old male client from Fife with £40K of debt said: *“Knowing that things could never improve without seeking some sort of help. I would have been in a vicious circle for many, many years and I had to bite the bullet and accept that I could not get out of this by myself.”*

25-39 year old female client from Glasgow with £5K of debt said: *“My son and I had been eating plain pasta for a week as I had no other food or money in the house.”*

Most clients said that stress, worry, health issues and lack of sleeping werewere the main factors. A 40-59 year old female client from Glasgow with £19K of debt said: *“I felt I was no longer coping and not sleeping and feeling so helpless.”*

Actions taken by their creditors, changes in family relationships or changes to income also featured high as factors that triggered our clients to seek advice.

## Case Study 2

Mr Young from the Scottish Borders with £4K of debt said:

*“I did not earn a high wage and living on my own I was struggling to pay bills. So I applied for two credit cards thinking I would be able to control my spending and just have them as a back-up for when I was struggling. Ten months later, I realised I was only really managing to pay the minimum amount. But the card company would just keep increasing the amount available and I'd use it. I struggled on for a further three months but when they sent me notification they were increasing the amount available again. I felt I would never get out of debt as all I was paying off was the interest. So I sought help from StepChange so that I could get my debts under control as I knew the temptation of a further increase would send me into deeper debt as I would spend it. DAS has helped me arrange an affordable payment so that I can look forward to a debt free future.”*

# Knowledge of DAS

DAS has not been proactively or consistently publicised by the Scottish Government since its inception in 2004, although it has been part of their annual Financial Health Service awareness campaign over the past two years. Similarly, those in the fee-charging debt management sector in Scotland have not been actively advertising DAS as much as other available statutory debt solutions. Therefore, awareness of DAS has remained generally low. Over 60% of clients who responded to our survey did not know about DAS before they sought advice about their problem debt. In addition, they said that had they known that such a product was available that could help them; they would have sought advice earlier.

## Features of DAS

The protection features incorporated within DAS such as freezing interest, fees and charges gives clients clarity and reassurance on their debts being paid through their DPP. Similarly, clients' assets are protected and they don't have to worry about what will be sold, which is a major disincentive to solutions like bankruptcy.

When asked what features of DAS are important to them once they are paying their debt through a DPP:

- 96% said their debt won't grow as interest or charges frozen
- 96% said being able to pay debt in manageable way
- 94% said creditor couldn't take court action against them and their home was safe
- 85% said knowing when they would be debt free and
- 85% said creditors would stop contacting them

## Moratorium

The moratorium gives clients protection from court action whilst they are in the process of gathering information and applying for their DPP. It takes away any stress and worry of what will happen - this is a clear pay-off and helps people rebuild financial stability.

Just over half of clients didn't know about availability of a moratorium – although this could have partly been due to the fact that, until 2015, the process was previously known as intimation.

When asked about the impact of completing a moratorium, nearly half of clients (47%) who had completed one said that their creditors kept harassing, with 8% of those clients having court enforcement action started after the moratorium was recorded in the register.

Creditors kept contacting them for payment or threatening court action or court action started after moratorium	47%
Creditors stopped contacting them during the period before DAS	34%
Clients didn't notice any difference	19%
Court action stopped	5%
Other	6%

(Clients could select more than one category)

Our clients told us:

*"Because it took much longer than I had expected, interest and contact continued much longer than I'd hoped or expected"*

*"Some creditors continued to contact me but most stopped"*

*"High Street bank still sending statements with monthly charges for overdraft use and interest knowing that I am with DAS"*

In 2015, changes to the DAS legislation meant that clients had to provide more information to support their application. Of those clients who found it quite difficult to get the evidence to support their application, most said it was due to difficulties getting information from creditors about their debt.

Some clients explained why they found it so hard to compile the required information:

*"Some companies didn't give recent statements easily"*

*"Some creditors didn't want to supply details of my debt easily"*

*"Some debts changed to different companies"*

*"My paper work filing system was not great"*

*"No access to a printer"*

*"Every time I supplied the info it was not enough"*

*"It's hard to gather receipts and tickets when you don't normally keep them. This meant that it took more than a month to get all the data needed."*

Since the 2015 changes, it takes a client an average of nearly 90 days to gather all the information to support their application. This is nearly double the time it took before these changes were introduced. Furthermore, we have unfortunately seen a doubling of the number of clients who don't manage to submit all the required paperwork and who give up their application. At the end of 2016 this was about a fifth of clients who started DAS but failed to complete the process and lost contact with the charity.

Since the DAS scheme was introduced, the charity has always argued that the application process needs to improve and that the time taken for a client to access this solution – up to three months - is too long. This is especially pronounced when compared to a non-statutory debt management plan, which takes less than two weeks to set up. The cumbersome nature of the application process, the supporting evidence needed and the varying levels of cooperation from some creditors can put a great deal of pressure on clients before they can propose a DPP to their creditors. In addition to extra interest and charges this adds additional stress and anxiety to clients at a very stressful time. Our money advisers make sure that clients understand how long it can take from their very first contact and advice session to finally completing an application proposal to creditors and getting their DPP approved. Most clients who responded to our survey (59%) thought that it was quicker or took about the amount of time they had expected from what they were told at their advice session to their application being accepted. However, many commented on the adverse impact (eg additional stress, financial constraints and interest being added) of having to wait for so long. Comments included:

*“I am more in debt because it took almost 6 month to get it started.”*

*“The phone calls were ongoing and at times very long and I firstly felt I wasn’t getting anywhere sorting through the paperwork and obtaining the correct paperwork seemed to take a long time.”*

### Case Study 3

Mrs Davis from the Scottish Borders aged 60+ with £6K of debt said:

*“I was advised to contact StepChange from one of the advisors at my bank (bank named). I just wish I had been told there was such a charity that could help, as my anxiety and stress was making me very ill and I already suffer from Tourette Syndrome which is exacerbated by stress. I also suffer from depression, but can now see a tiny light at the end of the tunnel, and I am very grateful for the help I have received and the friendly manner in which the process was dealt with. Prior to contacting DAS, I was very hesitant as I felt they would look upon me as someone that did not bother about what cash flow/debt problems I had, and would look down on me as just another useless person who could not manage their money. Thank you for all your help.”*

## Reflections on DAS

All the clients surveyed had already been provided advice and had their application for a DPP approved and were paying their debts or were about to make their first payment through their DPP. We asked them to reflect on the whole application process and to consider how DAS had affected them. We also asked them to consider the advice they had received and how well the StepChange Debt Charity money adviser had explained the debt solution to them. Most clients were very happy with the explanation of the advice process, with 78% saying that the information they received was 'very clear'.

Q - How well did the StepChange debt advisor explain the debt solution process to you?

Very clearly	78%
Clearly, but the paperwork helped to provide additional information	20%
Not very clearly, but the paperwork helped to provide additional information	1%
Not very clearly, so I had to call again for further information	1%

When asked to consider how DAS has affected them:

- 81% said it is now easier to pay debt
- 78% said that they are less stressed now and can sleep
- 72% said that their finances are now stabilised
- 67% said that they feel more confident about the future
- 60% said that they are more confident and their creditors treating them better
- 58% said they don't worry about essential bills

In addition, over half of the clients (57%) said that their family relationships had improved. All our clients with children (29% of the survey sample) said they no longer felt that problem debt was having a negative effect on their children. In addition, over half of clients (55%) said that they were able to concentrate at work better since managing their debts through a DPP.

Only 7% of clients who responded said that DAS has not made a difference to their debt problems.

Our clients told us:

*“I am more in debt because it took almost six months to get it started”*

*“Even though it took longer to set up, I would say in the end it has totally changed my life”*

*“I don't like to think about where I would be if I hadn't found DAS and I am forever grateful now I love my life again and I feel that I am normal again even although I am still paying I can see the light at the end of this very long tunnel I was in and I thank DAS for that.”*

## Creditor engagement

Many clients commented on the fact that creditors continued to chase them for payment even though they were making regular payments through a DPP. They said they understood that creditors have to send statements, but felt that they were being harassed for additional payments against the terms of the agreement.

Nearly a quarter (24%) of our clients said that they were still getting harassing phone calls from some creditors. And over a third of clients (35%) said that they were still getting letters demanding payment or additional payment for debts that were included in a DPP.

Our clients told us:

*“A few creditors still continued to contact me for a while, insisting I make additional payments and that DAS didn't apply to them.”*

*“I still get constant letters and phone calls from creditors. Have been told last week it should now stop but have been on the plan for coming up to a year.”*

*“I presumed that once the DAS has started it would stop the phone calls and letters but I still had contact from creditors saying they had no contact from StepChange and that the '30 day hold period' had expired and interest was still being added to my original debt and now owe a lot more than when I started this process.”*

In many cases, these actions were taken by creditors because they do not fully understand the requirements of DAS.

On a positive note, nearly all our clients (91%) said that creditors were not pursuing their partner for joint debts being paid in their DPP. And nearly two-thirds of our clients said that they no longer felt like their creditors were treating them badly (68%) and they felt more confident about contacting their creditors (63%). This is possibly because clients are not so frightened or feel threatened in the same way as they have the protections under DAS.

## Case Study 4

Mrs Chalmers from Perthshire aged 60+ with £35K of debt said:

*“When the DAS adviser initially said that they could help, my first reaction was to burst into tears as this was a huge relief. I don't think that even I realised just how anxious I had become and I felt that I had let down my late husband and my family. The monthly payments are calculated to include all expenses which has made me really aware of budgeting very carefully. It has not always been easy but I have found ways of taking on extra work to make sure that ends meet. Occasionally money has been very tight but knowing that I have no overdraft facility and no credit cards is a wonderful feeling - if I have very little left at the end of the month then I know I can't spend and strangely I am much happier even when finances are strained.*

*I just can't start to thank DAS enough. I used to be terrified of the post coming every day because I knew that somebody would be demanding money and now even with unexpected bills, I am able to cope.”*

Although there were negative comments about DAS, there were also many supportive comments from clients including:

*“Quite frankly, the DAS and StepChange support transformed my life. My only regret is I did not go for this help a lot earlier on.”*

*“Using DAS almost immediately took away the pressure and stress that the debt was causing. The advisors were excellent and immediately gave me the feeling that I was not alone in dealing with the debt. The only regret I have is that I did not contact them earlier as it would no doubt have saved me a lot of stress.”*

*“It has helped so much. I know how much I have to pay each month and I don't dread the phone ringing now. Times are still hard but things are now manageable, whereas they were not before my DAS.”*

*“I can't find the words to say how much better I feel knowing that my debt is now being addressed and in just over two years I'll be debt free!”*

*“I am so happy. DAS has helped so much. I have lots of different debts and now I can manage it with one affordable payment. DAS has been essential in turning my life around for the better. I don't know what I would do if it wasn't there”*

# Conclusion

Scottish-based clients have access to a debt payment solution that offers better terms and safeguards than other solutions in any other part of the United Kingdom.

DAS works for clients who have some disposable income and can pay their debts over a reasonable time. It freezes interest and charges as long as they maintain their payments.

Despite the benefits of DAS, it is its inflexibility which stops some qualifying clients from applying. The DAS application process can take a long time because of delays in getting information from clients and around creditors confirming debts. These delays can result in additional fees and charges being applied to clients' debts, exacerbating their situation and potentially forcing them out of DAS as the repayment period is deemed 'no longer reasonable'.

Most clients who sought advice from StepChange (83%) fell into debt due to unexpected hit to their income. For many, these bumps in the road are not always permanent. They include loss of a job or a reduction in paid working hours which led to clients turning to credit to keep afloat. Many also faced the burden of additional interest and charges being added to their debt when they had failed to pay even minimum payments. By the time the client had returned to a level financial footing, they had often accumulated more debt to manage. The inflexibility in the DAS does not take the 'income shock' effect into consideration.

Clients who don't currently have sufficient income to pay their debts within a reasonable period, but are expecting a positive change, usually have to use an alternative solution in the interim to pay their debts. During this interim period interest and charges are added to their debt.

Often, these clients are placed on a TPP – a Token Payment Plan – which is usually around £1 per month per creditor. We would also like to see the introduction of a "temporary zero contribution" DAS (Zero-DAS) which would build on the success of DAS as a solution for clients in Scotland. It would allow client to temporarily make a very small – or even zero – contribution until their financial position stabilises.

## Making DAS more flexible

Currently under DAS a client who is paying their debts through a DPP can apply for a payment holiday for up to six months if they have an income shock and it is reduced by 50% or more. A Zero-DAS would mean that effectively that payment holiday could be offered up-front for those clients who are unable to afford to pay their debts at the moment. It would give them Breathing Space that is currently not afforded to them, meaning that they would have a period of time where their already-unaffordable debts could not increase any further. The introduction of a temporary zero contribution would encourage clients to seek help sooner, freeze interest and charges for a period of up to 12 months while they organise their finances.

The level of any payment the client would pay, including a temporary zero offer, would be subject to the assessment of an independent money adviser using the Common Financial Tool.

It would provide the money advice support during this period and help clients to regain control of their finances and pay their debts. Creditors too would not incur further costs chasing client payments or processing small amounts.

Clients who are initially assessed to have no prospect of a positive change in their financial circumstances would not be eligible. There would be a six-month checkpoint call to assess if the client has had a positive financial change.

The benefits of a flexible system are very clear:

- There is no cost for the client to enter DAS, but entering a non-protected payment programme without Breathing Space protections could cost the client thousands in interest and charges; making debt problems hard to solve.
- The evidence from our client survey suggests people would be more likely to seek help earlier.
- The client is given time to recover from a financial shock, and can do so safe in the knowledge that their debt is not increasing in the meantime.
- Creditors will be more likely to receive the owed monies as the client will be allowed time and space to return to a positive financial position.
- Creditors will have less overhead costs pursuing debts or passing to debt collectors.
- Client more likely to pay their debts rather than apply for debt relief through bankruptcy or trust deeds.
- It's fair – clients getting into difficulties and taking the responsible decision to seek debt advice would give them time and space to get their finances in order and start paying their debts.

The introduction of a zero-DAS would ensure that Scotland continues to pioneer debt repayment programmes that are responsible and give people with debt a fair chance to repay

## Moratorium

The period for a moratorium needs to be more than six weeks. Our evidence shows that clients need much longer to complete their application due to the large body of evidence they are now required to submit. We would suggest that the moratorium period be extended to 16 weeks giving them the breathing space needed to get their affairs in order (this period could be included in the total period of zero-DAS). Alternatively, the legislation could be amended to allow more than one moratorium period.

Interest and charges should also be frozen from the point a moratorium is in place. That would encourage use of the moratorium by clients. It would also stop some creditors from procrastinating on the amount of outstanding debt at debt confirmation time.

## Creditors

There needs to be more responsibility on creditors. Clients provide all the details, evidence of income and expenditure and amount of debt. Money advisers have to ensure that clients provide the information demanded, chase debt values and send letters to creditors. The legislation only affects creditors once the DPP is approved. Creditors should have to take more responsibility for their client's debt information and provide the correct information to the money adviser, accept and use DASH (the online tool used by the Accountant in Bankruptcy (AiB)), accept e-communication through DASH and keep their contact details up to date on DASH.

Creditors receive at least 90% of the debt due over the term of the DPP. Therefore, by requiring them to take more responsibility, it will encourage them to understand DAS, comply with the current legislation and reduce the detriment their behaviour can cause to clients.

## Simplify the process

DAS needs to be simplified and streamlined to save costs for the advice sector and the AiB. In their annual report, the AiB reports that the unit cost of administering DAS has increased<sup>3</sup> from £68 to £81. StepChange Debt Charity warned the Scottish Parliament and Government officials that the changes introduced by the Bankruptcy and Debt Advice (Scotland) Act 2014 would increase the costs for money advice organisations. We have seen our unit cost for processing DAS applications for clients increase by nearly 30%. This means that there are fewer resources available to help our other clients.

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<sup>3</sup> [https://www.aib.gov.uk/sites/default/files/accountant\\_in\\_bankruptcy\\_aib\\_annual\\_report\\_and\\_accounts\\_2015-16\\_0\\_0.pdf](https://www.aib.gov.uk/sites/default/files/accountant_in_bankruptcy_aib_annual_report_and_accounts_2015-16_0_0.pdf)

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For free help and advice with problem debts:

Call: 0800 138 1111 Monday to Friday 8am to 8pm and Saturday 8am to 4pm

Online: [www.stepchange.org](http://www.stepchange.org)

Twitter: @StepChange

Foundation for Credit Counselling Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland. A registered charity no.1016630 and SC046263. It is a limited company registered in England and Wales (company no.2757055). Authorised and regulated by the Financial Conduct Authority.