THE DEBT TRAP

Exposing the impact of problem debt on children

May 2014

StepChange Debt Charity

The Children's Society

THE DEBT TRAP
End the damage to children

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Foreword

This report reveals the true scale of problem debt for children and families – and the huge impact it is having on their lives.

It lifts the lid on how around two and a half million children are living in families with problem debt, behind on £4.8bn of payments on household bills and loan repayments.

At The Children's Society and StepChange Debt Charity, we work closely with many thousands of families struggling with debt. We see every day the lengths to which parents will go to protect their children from its sharp effects, how they are battling to pay the bills and find enough money for food, childcare and other everyday basics.

This leads to a debt trap – where families have no option but to take on credit to pay for essentials, but the costs of keeping up debt repayments leads to further pressure on household budgets, so children miss out on the basics. Parents are often faced with an impossible choice: do you take on further credit or cut spending on essentials for your children, reducing their quality of life?

In this report we expose how sometimes the strain of living in debt is simply too much to bear. It can not only mean that children miss out on the things their peers take for granted, but can cause problems in every area of a child's life - arguments at home, isolation and being bullied at school, to name just a few.

The evidence in this report reveals that we can help families to escape this debt trap, by limiting the likelihood of families getting into problem debt and giving them the support they need to get out of it if they do get into difficulty. There are clear ways to provide support before things spiral out of control, or to intervene when they have. Another generation of children brought up under the shadow of problem debt is simply not acceptable.

We need urgent action to help families in problem debt, to better protect children from debt related harm and to make sure families get the support they need before financial difficulty turns into unmanageable debt.

Our report raises a final challenge for policy makers to do more to prepare the next generation of borrowers for the financial pressures of adult life. Action must be taken to give children and young people the skills they need to avoid problem debt in the future; to promote better access to affordable rather than high interest credit and to challenge an advertising culture that sells high cost credit as an easy solution that, in reality, often make financial problems worse.

We believe it absolutely necessary to limit the destructive impact of debt on the lives of children and their families. This is wholly achievable by addressing the problems we are seeing now and heading off the problems our children will otherwise face in the future. We want a society where no child pays the price of problem debt.

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Contents

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Executive summary

For too many households, debt repayments and creditor demands spiral into unmanageable situations which can devastate lives.

However, despite millions of children living in families with problem debt, very little research has explored the impact it has on them. Combining a survey of 2000 families with children, and in depth interviews with 14 families in problem debt, this report addresses this gap.

The report examines the extent of problem debt among families with children, the drivers of problem debt, and the impact that this has on children's lives.

Key findings

The scale of problem debt among families with children

- Almost 1.4 million UK families with dependent children are currently in problem debt.[1] In total, families with children are behind with payments of £4.8bn to service providers and creditors (including national and local government). Around 2.4 million dependent children live in these households.

- However, this is only part of the problem; an additional 2.9 million families with dependent children have struggled to pay their bills and credit commitments over the previous 12 months, putting them on the edge of falling into problem debt.

The drivers of problem debt

- Families with children are often trapped in a situation where they have little alternative but to take out credit to pay for necessities; 10% of families said they had taken out credit to pay for food for their children, 18% for clothing and 6% for heating.

- This is part of a 'debt trap'; with families subsequently finding that keeping up the repayments on credit means their children miss out on the basics. Nine out of 10 parents in problem debt have cut back on essential items for their children within the last year so they could keep up payments on debts.

- For families already in poverty the situation is worse. Our analysis finds these families are particularly likely to be trapped in problem debt, which exacerbates and compounds the financial and psychological pressure they are already under.

The impact of problem debt

- Families trapped in problem debt are more than twice as likely to argue about money problems, leading to stress on family relationships, and causing emotional distress for children.

- Around six in 10 children surveyed in families with problem debt said that they often worried about whether their family had enough money.

- The presence of problem debt also damages children's relationships with their peers. More than half of children aged 10-17 in families with problem debt said they had been embarrassed because they lacked the things that their peers had, and nearly one in five said they had been bullied as a result. In both cases, children in families with problem debt were twice as likely to suffer these problems as other children.

- Evidence suggests that problem debt can lead to children facing difficulty in school. Around a quarter of children in problem debt were unhappy with their life at school – making them nearly twice as likely as other children to be unhappy in this area of their life. We believe there is a danger this may have a long-term, detrimental impact on their prospects.

- Problem debt can also have a profound impact on children's ability to engage in social activities. Almost three-quarters (73%) of children whose parents are currently in arrears note that their parents found it hard to pay for their social activities. This compares to 37% of those whose parents are not in arrears.

Creditor behaviour

- Depending on the type of debt, up to 42% of parents who had struggled with bills or credit commitments over the last year think they are being treated 'badly' or 'very badly', with payday lenders most likely to be treating vulnerable parents negatively.

- The vast majority of families with problem debts (84%) felt that they would have liked to have received more support, or to have received support at an earlier stage.

- Those who did seek support often received a sub-standard service, particularly from creditors and local councils. Of those who have sought help from their council, a third (32%) found this 'not helpful at all', while 28% of those seeking help from a creditor or creditors said the same. Our evidence suggests creditors are not considering how the presence of dependent children can increase a household's vulnerability.

Recommendations

The evidence in this report suggests that there are ways to address this debt trap by both limiting the likelihood of families getting into problem debt, and by giving them the support they need to escape it if they do find themselves in difficulty. Some of the areas to address include:

1. Reducing the harm to children caused by problem debt

- The government should work with creditors and the free debt advice sector to develop a 'Breathing Space' scheme. This would give struggling families an extended period of protection from default charges, mounting interest, collections and enforcement action.

- Every local authority should have a debt collection strategy which includes measures to address the impact of collection on children.

- The government should work with third sector organisations such as The Children's Society and StepChange Debt Charity to review the adequacy of protection for families with children against debt enforcement including potential harm caused by evictions, bailiffs, and court action.

2 Reducing the impact of problem debt on families

- Service providers and creditors should have to demonstrate to regulators that they have 'early warning' systems in place, to make sure they are aware when customers are facing financial difficulty. They should also offer free and high-quality advice and support.

- Families should be able to 'opt in' to alternative payment arrangements for Universal Credit.

- The government should work to bring together local welfare assistance schemes, credit unions and high street banks, to improve access to affordable credit for low income families.

3. Early interventions to prevent problem debt

- The government should review the case for tighter restrictions on loan advertising seen by children. Children and young people should learn about borrowing, credit and debt from their school and family, not from lenders advertising on television or other media.

- The government should establish a trial of savings accounts through credit unions and other providers, including linking this in to financial education in schools, to establish the effectiveness of this approach in promoting savings to young people.

If we address some of these challenges – by giving children, young people and families the skills they need to avoid problem debt, promoting better access to affordable rather than high interest credit, and giving families the support they need if they do get into difficulty – we can start to limit the destructive impact of debt on the lives of children and families.

Introduction

The problem of debt

The financial position of many families is extremely precarious. In the immediate aftermath of the financial crisis starting in 2008, unemployment rose sharply[2] and there was a dramatic increase in mortgage repossession actions,[3] credit defaults,[4] and personal insolvencies.[5] Subsequent low wage growth has ensured that many of those who fell into difficulty during this period have not recovered, and many more have run into problems.[6] Following an audit of debt advice provision undertaken for the Money Advice Service in 2012, London Economics reported[7] that it expected advisors to provide assistance to a total of approximately 1.2 million people in 2013.

It is therefore very concerning that the number of people seeking advice is likely to be much lower than those in need of help. The Money Advice Service estimates only 17% of those in problem debt are currently accessing advice.[8] Yet, the government's priority of reducing the national debt has constrained the support and services available to help those in this type of financial difficulty.[9]

For families with dependent children the situation is likely to be worse. The presence of children is overwhelmingly associated with a greater likelihood of financial difficulties. This is the case regardless of whether children are being brought up by one or two adults.[10] The challenge facing parents is currently made more acute by wider issues such as reducing levels of benefits, an inadequate societal 'safety net', the insecure labour market, and broader trends in income inequality and poverty.

Taking on debt is a necessity for many families, helping them juggle financial challenges and ensure a basic standard of living for their children. However, often this use of credit is the first part of a 'debt trap'. Many parents feel using credit is the only option they have to maintain an adequate standard of living for their children. But the cost of keeping up with credit repayments places further pressure on household budgets.

In particular, families in poverty are at greater risk of debt becoming unmanageable. A 'poverty premium' means that for these families, borrowing money is likely to cost more. Low income families are also more likely to rely on debt because resources are in shorter supply, there is less financial slack and future earnings potential is lower.[11]

The increasing burden of debt in our lives is a concern shared by many who provide support and campaign for changes in regulation and business practices. The Archbishop of Canterbury, Justin Welby, recently made a powerful contribution to the debate when he raised concerns about exploitative lending and encouraged the growth of credit unions.

The under-explored impact of debt on children

The negative effects of debt on adults are well-evidenced. The research review informing this report identifies impacts on physical and mental health; on adult relationships; and on housing and employment. The psychological effects of being in debt include a distinct phase of denial of the problem which can be the critical barrier to receiving early support. For example, 50% of StepChange Debt Charity's clients waited for more than a year after the onset of their debt problems before seeking advice.[12]

However, research on this issue has too often failed to look beyond how this debt affects the debtor alone; to the wider impact it has on a household, and in particular, on children. We note a distinct absence of children's voices and experiences in work on debt. This is possibly because children themselves, on the whole, are unable to directly accrue debts. This could also be because the effects are assumed to be similar to the effects on adults. It could be that nobody has asked children themselves how they are affected by their parents' debt. This report begins to address this gap, examining the impact of debt on families with children, not only through asking parents but also by exploring the issues with children themselves.

Our analysis is based on a range of sources, including an original survey of 2000 families with children aged 10-17 – asking questions of both a parent and child in the family – and qualitative interviews with 14 families (including, in many of the cases, with children in the family), who have suffered from problem debt. The stark findings of this report reveal that, far from being immune to the impact of family debt, every aspect of children's lives – from access to basic necessities, through to family relationships and school experiences – can be affected by the presence and consequences of unmanageable household debt. For too long, the impact of debt on children has been overlooked.

Children do suffer from the main 'debt effects' experienced by those around them – including their parents and carers. The impact of parents struggling cannot be hidden from children, however hard parents try.

We find that children also suffer from the existence of problem debt in direct ways, such as problems with their own mental health and well-being, the effect of material deprivation caused by the existence of problem debt and income fragility, and the disruption of their lives in terms of housing, family stability and school experiences. This report exposes the damage that debt can have on children's lives and highlights actions that are needed to mitigate or prevent this.

Reducing the impact of problem debt on children is possible, but it requires a concerted effort from government, creditors and regulators both to address the root causes and provide earlier, better quality support when families do get into difficulty.

Methodology

The findings in this report come from original analysis of data from four sources:

1. An original survey of around 2000 UK families with dependent children.[13] The survey gathered information from both a parent and a child (aged 10-17) in the household. All tables in this report are sourced from this survey data.
2. An online survey of 4442 British adults commissioned from YouGov. Fieldwork: 17-20 December 2013.
3. Fifteen in-depth interviews of parents with children facing problem debt,[14] who are currently, or have previously been StepChange Debt Charity clients. In six cases, we also interviewed children in the family. Interviews with parents and children were conducted separately.
4. We also conducted a focus group with a small group of young people in Manchester.

The scale and drivers of problem debt in families with children

Scale of problem debt

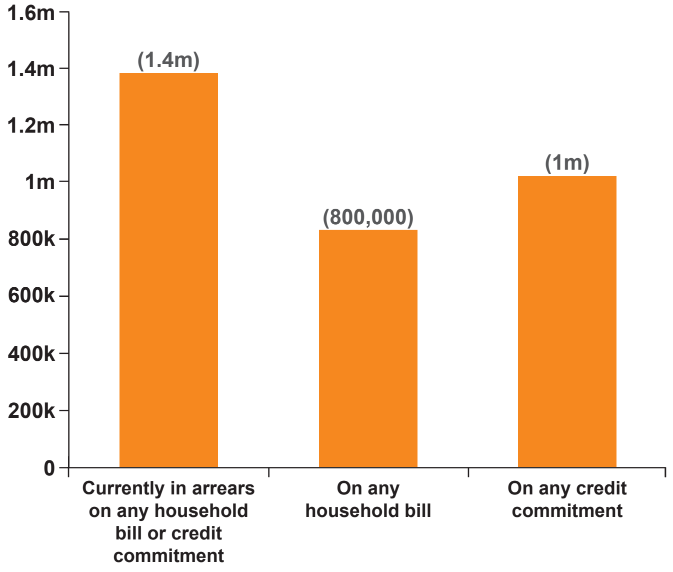
Our survey of over 2000 households with children found 18% are currently in arrears on at least one household bill or credit commitment[15] - referred to in this report as 'problem debt'. This equates to almost 1.4 million families across the UK, containing 2.4 million dependent children.[16] On average these households owe £3437 or an estimated total of £4.8bn in arrears to service providers, creditors and government, both national and local.

Around 800,000 households containing dependent children (11%) have missed payments on household bills and 1 million (13%) have missed payments on a credit commitment.

Our survey found a further 2.9m (38%) households containing dependent children are on the brink of problem debt, struggling to keep up with payments on household bills or credit over the previous 12 months.

This is particularly worrying, as many families continue to experience long-term reductions in household income. As the Office for National Statistics (ONS) reported in January 2014, nominal wage growth below the rate of price inflation has resulted in household real wages falling for the longest sustained period since at least 1964.[17]

Table 1: Numbers of families, with children, in arrears on household bills and credit commitments



n=2014 Figures rounded to nearest 100,000

Drivers of problem debt in families with children

We know debt tends to result from either long-term structural problems (insufficient earnings over an extended period), temporary personal economic disturbances, such as job loss, or a combination of the two.[18] These drivers can either lead to (1) families taking on credit to pay essential household bills or falling into arrears, or (2) repayments on credit, which had been affordable when it was taken out, becoming problematic.

Our research indicates parents are more at the mercy of these drivers than other groups. Where children must be supported, income is less likely to be sufficient, and when unexpected financial hardship strikes, having children makes it more difficult to either respond using available resource or adjust to cope. Families with children are 'closer to the edge' financially. Previous research has shown that for these families, credit may seem like a rational short term fix, but its long term consequences can be bleak.[19]

- Dependent children reduce the disposable income available to families. This can leave parents unable to pay for essential household items, for themselves or their children, without turning to credit.

- Parents are under pressure to turn to credit in these circumstances because they want to provide an adequate standard of living for their children.

- The lack of available income also means parents find it difficult to build financial resilience through savings. Thus making the impact of income shocks, such as redundancy, greater.

- Following an income shock, parents are less able to reduce spending, due to having to pay for essential items for their children.

Due to these additional pressures, once they have fallen behind, parents often fall further and further into deeper payment difficulties.

Expenditure pressures

Parents are less able than adults without dependent children to keep spending within income limits, due to the greater pressure that children put on household resources. Some 40% of parents said they had faced an unexpected cost over the previous 12 months, compared to 32% of adults without children.[20]

Hirsch[21] estimates the total cost of bringing up a first child through to the age of 18 currently averages around £170 per week for couple households and £190 per week for lone parents. These costs take account of the need for childcare as well as the implications for rent and council tax.

Only 29% of parents believe they would be able to cut back spending and still meet essential living costs if their income dropped by 25%. This compares to 36% of households not containing dependent children.[22]

Our interviewees highlighted the range of child-related costs that they needed to absorb. Some particularly emphasised taking on additional costs as a result of having a disabled child.

'The thing is our situation is completely different to most people because we have got a disabled child and […] my husband wants to work full time, I want to be able to work full time as well […] it's not through choice.'

'We were very happy in rented accommodation in this area but we had the problem that every couple of years you had to move. [For our son with] Aspergers, routine and stability is very, very important […] and we thought we've got to have our own place.'

Others with older children often struggled with the costs of higher education. For one mother, the cost of sending two children close in age to university at the same time plunged her into debt.

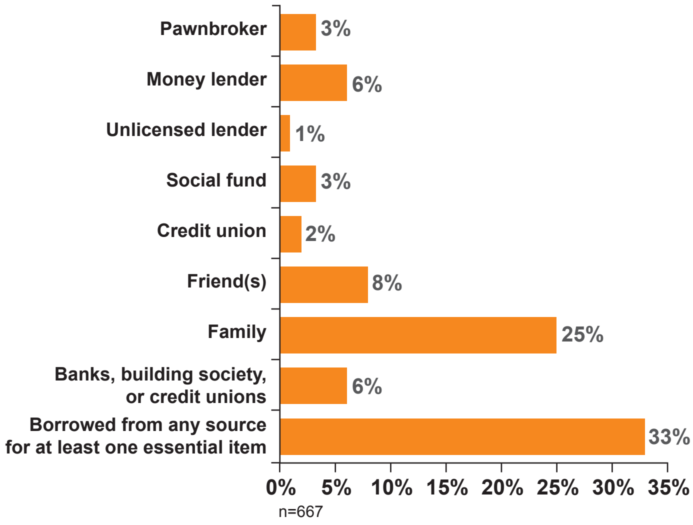
'My son went to university […] and because of my earning, you know, I am not entitled to be getting the grant. So inevitably I have to top up and I start by taking a loan to top up, and I took a loan to pay off a loan. And a year later my daughter went to university as well.'

The effect of these expenditure pressures is that families often find themselves in the situation of not being able to afford their day-to-day living costs and having to borrow money to plug the gap.

A third of parents (33%) have borrowed money[23] over the last 12 months to pay for essentials. At this point, credit was being used not to pay for large, one-off expenses but for basics such as food and household bills.

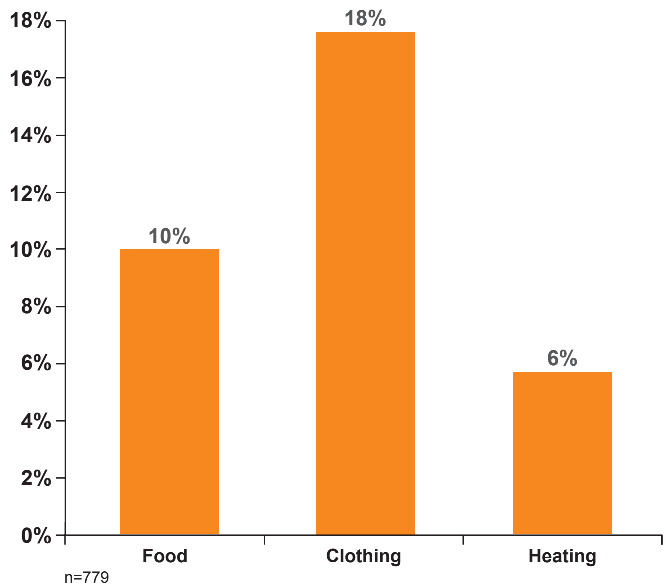
'We were using credit cards to live, not to buy things but just to pay the food bill or getting cash out to pay the council tax. And then when we maxed out our credit cards we then got into a payday loan problem, you know the old 'Oh well I'll borrow it for a month and okay it's going to cost me £200 but I can find £200' or the cash for said £200 was going to be available but of course it was not. And so you roll those over.'

Table 2: Families who had borrowed money to pay for essentials over the last year (by source of credit)



The pressures on parents to take out credit are made greater by the need to provide a basic standard of living for their children. When we asked parents specifically about borrowing in order to pay for different essentials for their children, 10% of families said they had taken out credit to pay for food for their children, 18% for clothing and 6% for heating.

Table 3: Families who had borrowed money to pay for essential items for their children (by essential item)



The combined pressures of having dependent children and a low income appears to make the dangers of debt particularly acute. Households in poverty containing dependent children are twice as likely to be in some form of arrears as families on higher incomes. Over a quarter (28%) of families with children in income poverty (before housing costs) are currently in arrears on either a household bill or credit commitment, compared to 13% of families not in poverty. A further 41% have struggled to pay household bills or credit commitments over the previous 12 months, compared to 36% of parents not in poverty.

Income shocks

Another common thread in the stories of the families we spoke to was the experience of an 'income shock', which tipped the balance away from feeling their debts were manageable to feeling like they were beginning to spiral out of their control. This finding is supported by StepChange Debt Charity statistics, which show that the majority of their clients are in difficulty due to such shocks.[24]

More than one in five adults (21%) with dependent children believes that if their income dropped or expenditure rose by a quarter, their insurance or savings would help them keep up with essential living costs for less than a week. This is compared to 13% of households without dependent children.[25]

Many parents appear to have little financial resilience to cope when such a shock occurs.

Firstly, due to the expenditure pressure discussed above, parents often do not have sufficient savings to pay an unplanned cost. Our survey of families found 46% do not believe they could afford to pay an unexpected expense of £500.

Secondly, their ability to adjust their income in the face of an 'income shock' is limited due to the need to provide for their children. Children both demand a greater household expenditure, and make it more difficult for parents to change behaviour to maximise income (for example, by taking new work involving more hours or shift work).

The 'income shocks' described to us were different in nature from one family to another, but relate to three themes: health problems, relationship problems, and employment problems.

Health problems

10% of adults with dependent children have experienced an injury or illness within the family over the previous 12 months.[26] Several of the families we spoke to had experienced serious health problems, which affected their ability to work.

'My husband had an accident and could not work. So we were having to get credit cards and extra money on the loan, extra money on the house to pay to live. I was actually on maternity leave at the time so I was not working. Our daughter was only 5 months old.'

In some cases, families were in receipt of sickness benefits, but had experienced problems with the system designed to deliver these. The benefits they did receive were also generally much lower than the salary that they had been earning.

'When the government changed things for employment support allowance and everybody had to be reassessed, they assessed him and said that he was fit for work and cancelled all our benefits.'

Further welfare cuts may exacerbate this situation, our survey found 42% of parents worry that further cuts to the welfare budget may result in them having to borrow money to pay for essentials (this is discussed in more detail on p16).

Relationship problems

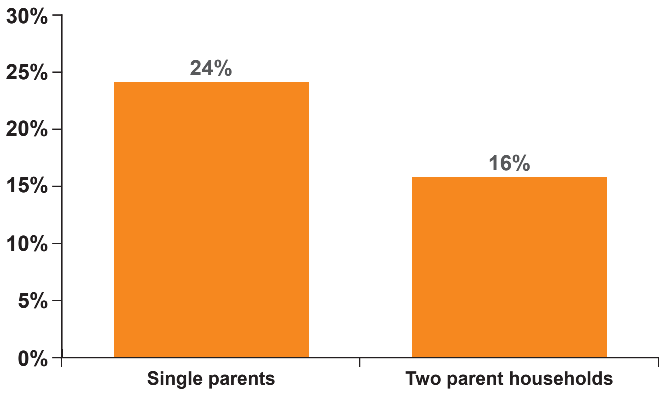
Relationship breakdown was another major reason for a change in the financial circumstances of the families that we spoke to. About half of the women we interviewed were lone parents, who had experienced a reduced income when they separated from their partner – either because of having to live on a single wage, or having to leave work themselves because of their additional caring responsibilities.

'My partner and I split up, and then obviously there was just my wage to try to sort all the household bills and everything like that.'

'When I had [my second child] I had to stop work because me and [my husband] split up like for good […] so I was on my own then and I couldn't get childcare for both of them around work so I stopped working.'

The survey informing this report finds debt problems to be more common among single parents. Almost a quarter (24%) of single parent households are currently in arrears on household bills or credit commitments, compared to 16% of two parent households. This is equivalent to 450,000 single parent households across the UK.

Table 4: Proportions of single parent and two parent families in problem debt



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Unemployment

Redundancy and underemployment are common triggers for problem debt and parents appear to face particular difficulty.

Research published by the Timewise Foundation,[27] which tracked 80 mothers in London who were looking for work over a three year period, identified a lack of suitable employment opportunities for parents. Many mothers found part-time working also required them to significantly 'downgrade' their employment. While some downgraded through choice in order to balance their work and childcare, others were forced to do so (particularly lone parents who felt forced back into employment by the JSA regime), and this resulted in lower paid work than they had experienced prior to childbirth.

For one family, redundancy and problems finding a new job, made the difference between a relatively comfortable life and the onset of major financial problems:

'We've had credit cards for a long time […] we've always been in a situation where we've been able to pay them off. I guess where it's started to create a problem was when I was made redundant.'

When families have no savings or other financial 'cushion' to fall back onto, even a short period of unemployment can make life extremely difficult.

'I had to take a cut in salary to do the degree, but I was promised a job at the end of it. And when I did my degree, suddenly I found that there wasn't a job. […] So I had about six or seven weeks when I was unemployed. I had no money coming in whatsoever. I had no means of paying my mortgage, [council] tax, anything.'

Having become indebted following an employment shock families then face the further expenditure pressure of having to find the money for debt repayments, while meeting basic living costs. Our interviews found that this often led to families being caught in a debt trap where they were borrowing simply in order to pay off previous debts.

'We were just getting into more and more debt […] because we were using a credit card to pay another credit card, the mortgage…'

'If I was a bit short at the end of the month, I would use the credit card, and of course they've got the interest. So then I would take out a loan to cover outstanding credit card and then that sort of snowballed over the years and then I'd have to take out another loan. You know, so I had like a couple of loans to cover credit cards. And then I was having trouble paying off the loans and then I remortgaged. So I think I remortgaged a couple of times as well.'

Cumulative problems

Problems at work, in relationships and with health are not mutually exclusive. In some cases, families experienced all of these concurrently.

'Things got worse last year, I was off work sick and I got notification through that I was being made redundant.'

'I was ill, really ill for about three months after my pregnancy […] When it was time to go back to work, I was just poorly all the time. I'd got stress of being a new single parent and I just thought I'm going to have to go for something part time without the stress of it. So that's when I started looking for work […] before I went part time I'd had pneumonia as well. I had a real run of bad luck. So obviously that affected my finances and everything…'

Often one short-term problem on its own might be surmountable, but the cumulative impact of experiencing one or more persistent problems, on top of a pre-existing level of debt, and combined with the costs associated with bringing up children, pushed family finances to the brink.

Protections against the drivers of problem debt

A number of factors can help to protect families against these income and expenditure shocks. These include welfare support, and financial education and money management skills.

Welfare support

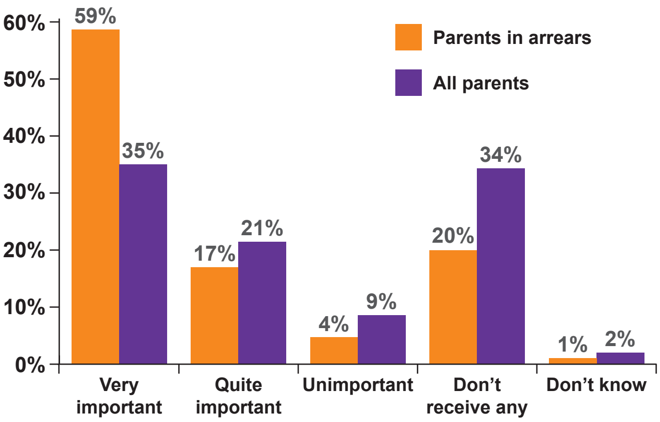
For many families, welfare support is crucial to prevent them from sinking into, or further into, debt. Over 35% of all families, and 59% of those in problem debt, said that help from benefits and tax credits are 'very important' in helping them to pay for essentials like food, clothing and heating.

When asked whether further cuts to welfare would lead to them having to borrow money to pay for essentials, 68% of families in problem debt agreed – compared to 36% of other families.[28]

The families we spoke to also told us more advice was needed in accessing the help already available:

'We've just had loft insulation put in last week [… because we're] under a certain income and because I've got a child under the age of 5 […] they don't advertise these things.'

Table 5: Parents views on the importance of help from benefits and tax credits in helping pay for essentials (eg food, clothing, heating)



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This is about more than simply the amount of money available, it is about ensuring the system works for vulnerable families, by being both accessible and providing a rapid response at times of income or expenditure shocks.

We urge the government to carefully consider how changes to the welfare system could increase vulnerability to debt and to set out a mitigation strategy. For instance, changes to the way benefits are paid under Universal Credit (including moves to monthly payments, and payment of help with housing costs direct to tenants, rather than social landlords,) could increase the risk of some families ending up in arrears on rent and other bills.

Children's financial education and advertising of loans

A sound education on debt and money management may help to prevent young people getting into debt when they become young adults – making them less vulnerable to the kinds of income shocks and expenditure pressures which can threaten to lead to debt problems.

However, both parents and children raised concerns about the level of financial education provided through schools.

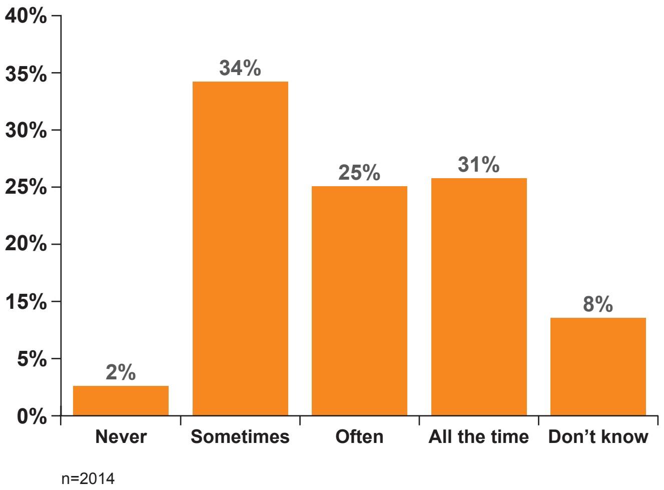
'I think kids should be educated more about it in school, because I didn't have a clue what I was getting myself into at 19.'

Nearly nine out of 10 (88%) parents said that schools should do more to teach children about debt and money management, with 47% saying they should do 'a lot more'.

Similarly, only 21% of children (aged 10-17) said that they agreed that their school taught them about debt and money management.

Concerns were also raised in our survey that children were frequently seeing advertising for credit – with 56% of children aged 10-17 saying that they were seeing such advertising 'often' or 'all the time'. Previous research by MoneySavingExpert.com found more than one in three people with children under 10 have heard their kids repeat payday loan slogans from television adverts.[29]

Table 6: Frequency of seeing advertising for loans on TV/posters etc. among children aged 10–17



When we talked to a small group of young people about advertising for debt, they were able to name several companies that advertise in this way, and made a number of critical comments:

'It's persuading people to get into debt.'

'Persuading other people to get loans that they need, telling them if they need it they'll get it quick and simple.'

We agree with the critique these young people make. Our research shows how people are often using credit to pay for essentials, sometimes to replace income spent repaying other credit. This can often lead to disastrous consequences as families with children fall further into arrears.

Yet children are being exposed to a barrage of advertising for credit products that we believe underplays the risks of falling into debt. We are concerned that this will help re-enforce a biased view of the relative benefits and dangers of credit use among the next generation of borrowers. MoneySavingExpert.com research has previously found that 14% of parents say that when they have refused to buy something for their child who is under 10, they have been 'nagged' to take out a payday loan for it.[30]

Effective financial education is needed to counter this influence, to explain to children the dangers of credit, and to equip them to understand the potential risks inherent in the products they see advertised. At the same time financial education should give children an understanding of effective routes out of problem debt without recourse to further borrowing, help build financial resilience through savings and minimise the isolation that children in families in problem debt feel. This last aim is important to help children cope with the day-to-day consequences of their parents' financial difficulties.

The impact of problem debt on children

Problem debt reduces the ability of parents to meet their basic needs and those of their children. Once in problem debt, families are placed in an impossible situation between making repayments and buying necessities, such as food or clothing.

The interviews we conducted with families showed the extraordinary lengths that parents in problem debt go to in order to stretch what they have to prevent children missing out on the very basics. Our survey shows the range of sacrifices parents are forced to make as a result of debt.

However, our analysis also reveals that sometimes this becomes simply too hard, and families have to cut back on support for their children.

Our results reveal that these periods of severe austerity can have a real impact on the mental and physical health of both parents and children. They can undermine children's relationships with their peers and their school experiences. Some of these impacts risk having an on-going effect that lasts throughout the child's life.

The impact of problem debt on meeting basic needs

Parents in problem debt are engaged in a 'juggling act', caught between making payments on debts, buying essentials or cutting back. The parents interviewed explained the difficult decisions to be made on a daily basis. One mother described the 'short week' each month when the cost of sanitary products for her daughter affects what she has available for food. Other families weigh up similar choices about spending money on food or buying things for their children.

'If we get a letter back like [about a school disco], I think we can just about afford that, but it means we won't have any bread and milk over the weekend. We're always having to juggle everything around so that these guys can get out and live their lives.'

'This half term I made sure that I budgeted […] and got enough food for [my son], so he wouldn't have to go out and buy anything, so I wouldn't have to give him any spends [...] And so I know he's got enough food.'

A common theme in our interviews was the desire to keep up with the monthly credit payments that were due, even if this meant constantly increasing the amount that they owed. For some this was an automatic response – it had not occurred to them that there was any other option but to keep paying - whereas for others, it was driven by a desire not to lose their credit rating.

'We were in a situation where we could not pay our mortgage off anyway. So fighting so hard by taking up payday loans to pay other loans to retain our credit rating was just nonsensical […] Basically we fought for about

5 or 7 years to retain our credit […] but we realised it was not possible in any way.'

Either way, eventually, families found it impossible to balance the books each month and so defaulted on payments. Paradoxically, it was often not until payments were missed that families felt they could get access to help.

'We were in arrears but because we were paying what they wanted to, we weren't in financial difficulty. So, if we'd actually stopped paying them […] we would have had help.'

Where there was a shortfall in meeting the family's needs, parents would often prioritise their children's needs over their own.

'I will try and get the money somehow so in a way they don't go without, you know'

'A friend of [our daughter] lent her £10 and she […] was going to use her pocket money to pay it off. I did not want her to be in debt to her friends. And you know we had less petrol […] that week, you know. It is […] I don't want her to struggle.'

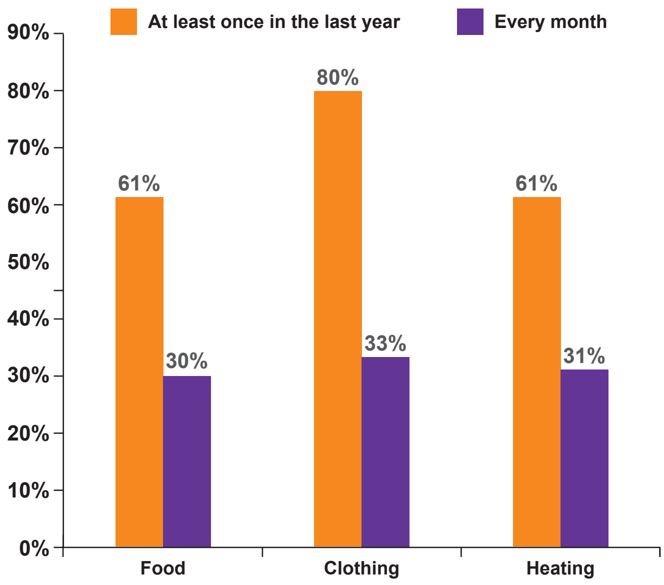
For some families, this juggling act continues for months or years on end. However, eventually parents are often forced to cut back on spending on their children as well. Nine in 10 parents in arrears on at least one household bill or credit commitment have cut back on necessities for their children within the last 12 months, to make a debt repayment. Six in 10 have cut back on food, six in 10 have cut back on heating and eight in 10 have cut back on clothing.

'We've sold our bikes […] We had to find some money and so we had to look at what was the most expensive thing. I know some people talk about, you know, people living in the designer houses where they have the designer jeans and they're not being able to pay the gas or something, but we literally sold everything of any high value. I think the only thing left is [my husband's] computer that he uses for work.'

'It was really, really horrible […] I was crying myself to sleep sometimes thinking I could be down to the last £1 in my purse so to speak and then the kids would be like 'Can we go here, can we do…'

Around a third of families in problem debt say they cut back on food within the last month, with a similar proportion saying they cut back on heating, and on clothing for themselves and their children, every month in order to keep up with repayments.

Table 7: Families in problem debt cutting back on essential spending for their children to satisfy credit commitments



n=358

We are concerned that this often detrimental behaviour may be driven in part by the actions of creditors and service providers. Too much pressure may be being placed on parents to repay debts, often by taking out further credit, over attending to the needs of their children. Analysis of the Money Advice Service *Indebted Lives* survey[31] shows indebted parents with dependent children under 16 are more likely to be willing to take on a new credit commitment to pay off their debts, if they have been subject to service provider or creditor recovery action (letters or phone calls, court summons, bailiff action, threatened with eviction, or threatened with termination of electricity, gas, or water supply). Around 39% of indebted parents subject to such action would consider new credit, compared to 29% of those who have not.

Unfortunately, children are frequently aware of the problems their parents face in paying for their needs. Almost 54% of children with families in arrears said that their family did not have the money to buy all the things they need. This compares to 22% of those in other families.

'I understood it more when I needed clothes because I'm at a stage where I was sort of growing up loads. And it was really annoying… I'd ask Mum if I could get a new pair of school shoes and she's like 'You're going to have to wait for now because we […] can't afford it at the moment but I'm sure we can afford it by the end of the month.' So I sort of realised when I had to start waiting to get stuff.'

'Like sometimes I want Lego toys but I can't really have them, and sometimes I want more clothes but I can't really have them either.'

In fact in many cases children emphasised that they would hold back from asking their parents for things that they need, or not put too much pressure on them, because they do not want to add to their stress.

'A lot of the time I don't really ask for, like, to go on school trips or, like, I don't really ask for clothes very often either.'

'I try to resist if I want something. If I want something really bad then I'll ask my mum and if she says no then I'll be okay.'

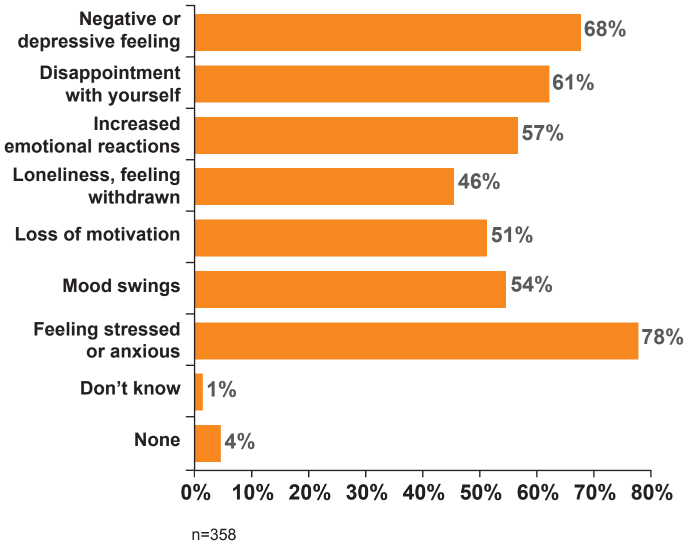
'I know they haven't got much money but if I really want something I will go and ask them and if they say no I leave it at that.'

The emotional impact of problem debt

The pressure associated with such financial challenges can cause emotional problems for parents and children alike. Almost all (95%) parents in arrears said that their financial situation caused them emotional distress – seven in 10 said it left them feeling stressed and anxious, while half said it resulted in loss of motivation, commitment and confidence.

'I was having panic attacks and not sleeping and, you know, all the classic things that you see on the adverts for people with debt worries and things like that. And, you know, it was sort of fairly stressful because I suppose you couldn't plan to do anything and I was constantly thinking, 'Oh, what if the kids wanted to do something with her friends? Could I afford for them to do it?' […] I just seemed be surrounded, you know, with money, really.'

Table 8: Parents in problem debt experiencing emotional distress (by nature of distress)



'I am not going to lie to you, it made me depressed […] It got, it just, it upset me that I felt like I was letting my children down. I felt like I was an embarrassment to them.'

'If it wasn't for the insurance policies that actually don't pay out if you commit suicide, I think, you know, probably…'

The action of creditors and service providers may be contributing to this emotional distress (an issue which is further explored in section 6). One mother recounted her anger at the judgemental attitude of a young man that she spoke to on the telephone when she could not afford to pay a bill in full.

'I'm a professional. I've worked all my life. I've worked since I was 18. I said I pay my taxes. I've never taken any benefits. I said I'm earning, you know, a reasonable amount, I said, but I am struggling and I'm struggling hard. […] I don't have holidays. I don't buy expensive clothes. I don't go on an expensive night out. I'm just basically trying to make ends meet. I said, 'How dare you judge me.' And when I was explaining this [to a Stepchange Debt Charity adviser at a later date], I got quite emotional and I got quite upset and I burst into tears, and I think it was because it was all that pent up frustration and all that anger and shame.'

However, the impact of problem debt was not limited to parents. In many cases parents said it caused emotional distress for their children as well.

'[My son] has also seen me at times when I've been upset and he doesn't cope well [when I'm] upset. So I think […] sometimes he probably doesn't talk about things because he doesn't want to see me getting upset.'

Around half of parents (47%) in arrears, said that their financial situation caused their children emotional distress, with a quarter saying that it resulted in their children feeling stressed or anxious and 19% saying that it contributed to them having mood swings.

When we asked the children in families in problem debt for their perspective, 58% reported feeling worried about their family's financial situation. This compares to 31% of those not in arrears.

Similarly, children interviewed also showed a keen awareness of how debt was impacting their family:

'It can control your life.'

'I hate it when my mum cries. It's the worst thing in the world'

'It just makes me feel stressed because sometimes she puts it onto me […] Like she will get angry at me for silly little things, little things.'

'I would rather not know the details. I would rather just help my mum get through it'

Table 9: Parents in problem debt who think their financial situation has caused their children emotional distress (by nature of distress)

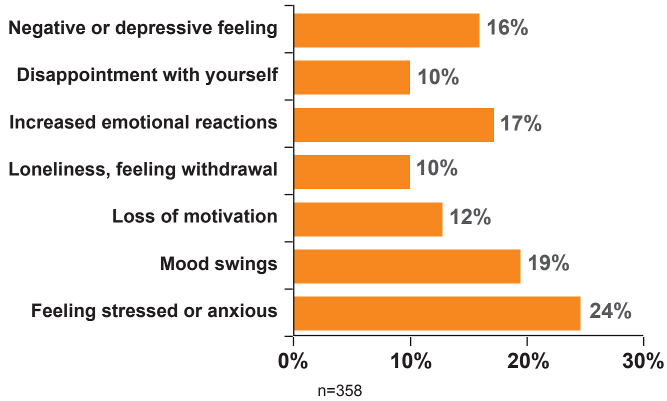
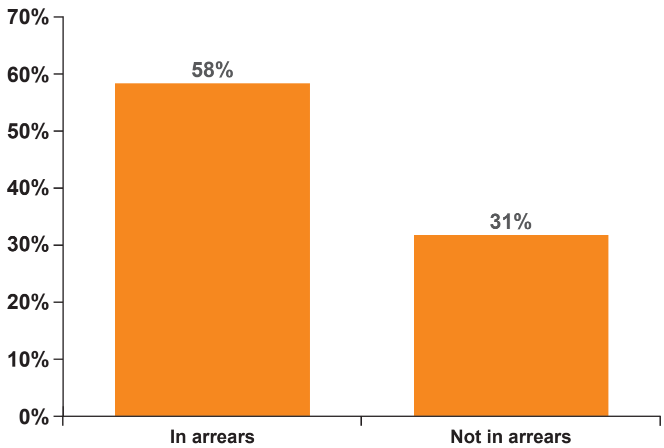


Table 10: Children (aged 10–17) who 'often worry' about whether their family has enough money



The impact of problem debt on relationships with family and friends

Problem debts can have a severe impact on family relationships. Of parents currently in arrears on one or more bills, 57% said that their financial situation had led to their current or most recent relationship being put under strain, with 7% saying it led to their most recent relationship breaking up.

'I think you become much more introvert because you are so concerned with the immediate problems of, you know, 'Can I find another pay day company tomorrow morning at 2 o'clock?' […] and yes, it does affect your family, your relationship.'

Some parents interviewed did highlight positive as well as negative aspects of financial problems on relationships – highlighted by the survey finding that 17% of parents felt that their relationships had become stronger as a result. However, many described how tightly constrained budgets affected their ability to spend time together and socialise with friends.

Children themselves saw the impact of debt on family relationships. Almost 47% of children in families in arrears said that lack of money caused arguments in their family, compared to 21% of those not in arrears.

Family debt can also have a significant impact on children's relationships with their peers. Interviews suggested that this was particularly caused by children being unable to afford the things that were normal for others. For example, they mentioned difficulties affording the costs of transport and of social activities:

'If money was no object then one thing I would happily, I would love to get is a bus pass […] I haven't got one, so I am just stuck in [name of town] twenty-four seven […] I think it's a £100 now for a bus pass […] Every single one of my friends have a bus pass.'

'A couple of friends can go to the cinema quite often and some can go ice skating quite often. And I have loads of friends who do a lot of sport, like figure skating stuff […] and I've come to realise that you do need to pay quite a lot of money to do that. It's like I've never really been able to do those things […] It does make me quite jealous a lot of the time but I know that there's nothing I can do about it.'

Table 11: Parents in problem debt – the impact of personal financial situation on their current or most recent relationship

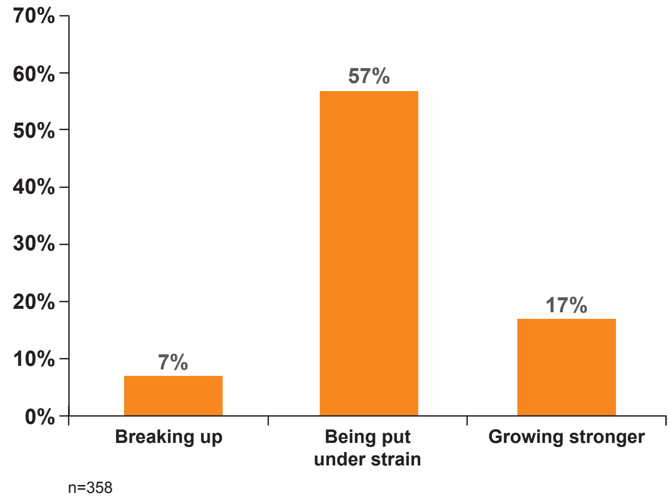
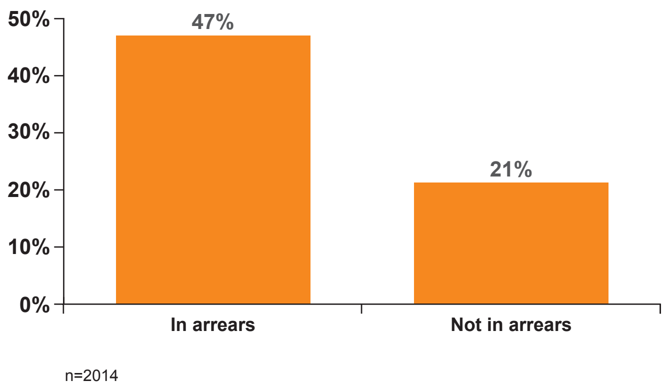


Table 12: Children's views on whether lack of money causes arguments in their family (by whether or not family is in problem debt)



Around 51% of children (aged 10-17) in families in arrears said that that had felt embarrassed because they did not have the same things their peers had, compared to 26% of those not in arrears. Similarly, 19% of children in families with problem debts said that they had been bullied for this reason, compared to 9% of those not in problem debt.

There is strong evidence about the links between bullying and children's well-being. One ONS study found that children aged 10-15 that were happiest with their lives reported being bullied the least. Nearly 55% of those reporting the lowest levels of life satisfaction had been bullied in the six months prior to completing the survey.[32]

Table 13: Children aged 10–17 reporting bullying/embarrassment as a result of lacking the things their peers have (by whether or not family in problem debt)

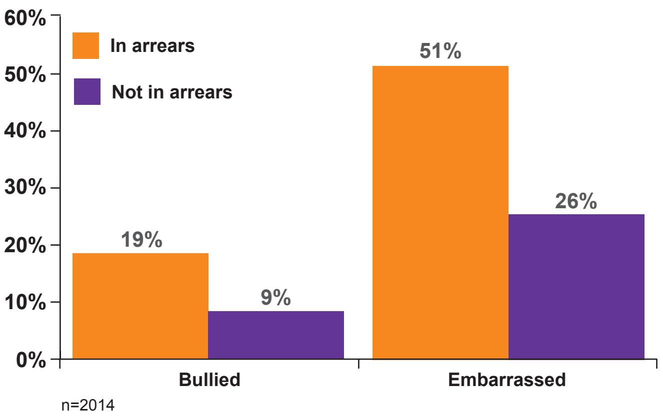
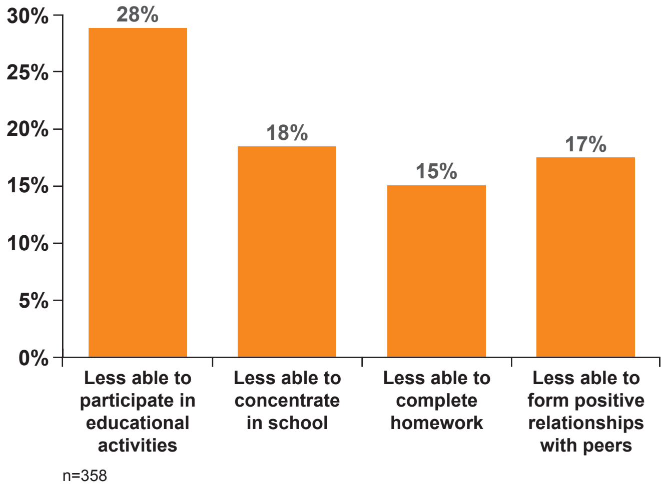


Table 14: Parents in problem debt – views on the impact of their financial situation on their children's school experience



Impact of problem debt on children's school experience

These reductions in standards of living and emotional impacts can have a detrimental wider effect on both parents and children.

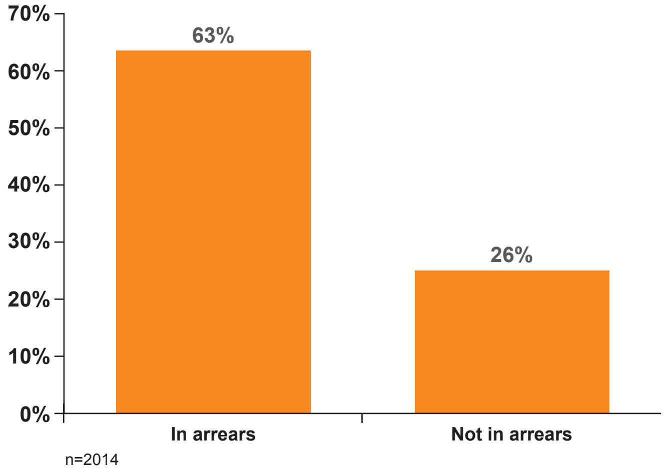
The experience of debt can have an impact on children's school life, either because their family cannot afford the items they need to get the most out of school, or because worries about debts affect their learning.

'I hate [school]. Because my mum and dad can't afford the trousers so I have to wear trackies. But my head of my college, I always really annoy him. He goes 'You got to get your trousers sorted out''

Over a quarter (28%) of parents with problem debts said that they thought that their financial situation made it harder for their children to participate in educational activities. Around one in five (18%) said they thought it made it harder for them to concentrate in school, 15% that it made it harder for them to complete their homework, and 17% said it meant they were less able to form positive relationships with their peers.

Much of the reason for this is likely to be associated with the difficulties families in problem debt have with paying for the costs of education. Nearly two thirds of children in families with problem debts said that they found it hard to pay for school activities or educational materials at least sometimes – compared to one in four other families.

Table 15: Children's views on whether their family find it hard, at least sometimes, to pay for school activities or educational materials (by whether or not family in problem debt)

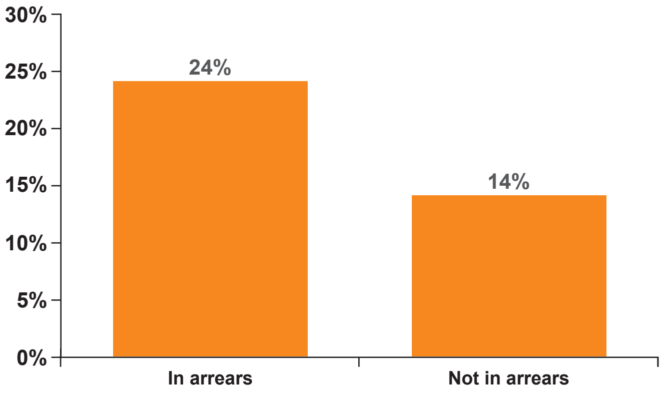


Interviews with children reflected these concerns:

'When I first got into secondary school, it's got progressively more tough because of the requirements, and we need to pay for things like my sketch books for art and tech […] the money was being stretched quite far, and, like, I started realising then that I couldn't keep asking for those things.'

'I've sort of stopped asking for my art supplies as well now. Because it's like as much as I like to do my arts and crafts, we can't really afford it now so […] I would rather the family get the food and necessities rather than me get my own things for my benefit. Because I feel like I'm being selfish then.'

Table 16: Children saying they are unhappy[33] about their school 'in general' (by whether or not family is in problem debt)



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This results in an important relationship between problem debt and children's feelings towards their school experience. A quarter (24%) of children in families with problem debt were unhappy with their school in general, compared to 14% of those not in problem debt.

We are concerned that this may do long term harm to children. Previous research has found links between childhood poverty and poor educational outcomes. For example, young people from low-income households end up leaving school earlier and are around six times more likely to leave without qualifications than those from higher-income households.[34] Other research cites a lack of resources that diminishes the ability of families to support young people with educational material, as a contributory factor.[35]

The pressures of maintaining debt repayments places children with indebted parents in a similar position. We have established that the pressure of maintaining repayments on debts contributes to 45% of parents cutting back on educational materials for their children. Around 84% of parents have cut back spending on social activities for their children over the previous 12 months due to having to maintain credit payments.

We believe that this issue merits further research, to establish whether problem debt, as our findings suggest, does result in long term damage to children's educational outcomes.

Impact of problem debts on children's social life and leisure activities

Alongside the impact on their school experiences, it was clear that problem debt has an impact on children's ability to participate in social and leisure activities. Interviews with their parents made this clear.

'She knows we've got no money […] Because we have to say to her 'No, sweetheart you can't go to this soft play, no, sweetheart we can't go there. We can't do that, we can't buy you things, we can't buy you that.' We try and make a joke of it […] We say 'No, because Mummy hasn't got paid yet, Mummy hasn't got any pennies yet.'

'Last week when I'd forgotten about half term and my wife was saying well we've got to have money for this and that and the food and all of it, you know the children pick it up and one of the children who is very sweet came and said 'Oh I don't want to go to the cinema […] I know it's going to cost money and we have not got any money.'

Children similarly talked about not being able to take part in social activities because of the cost of transport, activities and food and drink while they are out.

'I like to go out with my friends quite often, and to do that I need a fiver or something to get on the bus home, and maybe some food while I'm out. But I've sort of like stopped going out with my friends quite recently because a fiver is bread and milk money.'

'[My friends] are doing things more often [than me]. Like the other week I went to Nando's with my mates from school because it was her birthday. I did go there, but then they went, they wanted to go to Nando's next week, I can't do it.'

'Ice-skating. I'd love to skate more, but we can't afford it.'

'[My little sister] once went to karate for a bit […] but we couldn't afford to keep her there, so she didn't do it. And like her friends have clubs and stuff that she can't go to.'

One of the greatest regrets of parents and children alike was not being able to afford to do things as a family. Parents described spending a lot of time at home as a result, and how limiting that can be:

'We don't go anywhere. We don't do anything. We've got the full package on Sky [...] because we don't do anything. We literally have no money to go to the cinema, we can't go swimming. Because there are so many of us. We can't get the petrol to go anywhere. […] We used to just drive around fish shops just to look at the fishes, and they were cheap […] But we can't even afford the petrol to do that now. Also, I don't drive anywhere in case the car breaks down. I can't afford to get it repaired and bring it home again.'

'Most of what we do in terms of socialising, it tends to be in the house, we don't tend to go off to museums or go to the cinema or that kind of stuff. And they tend to only ever go out on trips where we've sort of saved up many months to go.'

The children that we spoke to wished that they could afford to do more things together as a family, including going on day trips, which they were rarely, if ever, able to do.

'We don't really get to go out as a family very often. Like, the most we go out as a family is just for little walks down the river […] There's an ice cream [van there but it's only] the boys who go […] the rest of us are like 'better not have an ice cream because…'

'I would like to go with the whole family to places like Thorpe Park and Disneyworld and we all, like, enjoy that sort of thing but we can't go. […] And there's also the Harry Potter one as well. I would like to go to that as well, because my brothers and I […] we absolutely love Harry Potter. […] And it would be such a really good experience but, like, I imagine it costs quite a lot even for one person. Like, even if it is free for little children, we still need the adults to go with us. So, we can't really go out to all these special places as much as, like, some other people, maybe.'

'We used to have like family meetings like once a month or something and then we planned to go out like cinema. But we don't really do that anymore.'

Many children spoke of how they wished they could go on holiday with their family, but that they could not afford to.

'We don't really go on holiday very often and we'd all definitely like to, even if it's down to Devon or something.'

'A lot of my friends have gone abroad with their family and then come back and they've been really happy and they've had a really good time. It's like, yes, if it's done that much to you, I want to go.'

Keeping up with debt repayments has meant that 84% of parents have cut back spending on social activities for their children over the previous 12 months due to having to maintain credit payments. And 32% have found themselves having to do so every month.

Children are likely to perceive the difficulties faced by their parents paying for social activities. Almost three-quarters (63%) of children whose parents are currently in arrears said that their parents found it hard to pay for their social activities. This is compared to 27% of those whose parents are not in arrears.

The effect of this appears to have a worrying impact on a child's life. Around 25% of those who have perceived their parents cutting back spending on their social activities are likely to agree they 'wish they had a different kind of life', compared to 8% of those who do not believe their parents have cut back.

The adults and children that we interviewed stressed that Christmas and birthdays are particularly difficult times of year because of the added pressure that these events place on family budgets. Some described taking out loans to pay for presents and food for the family, while others talked about 'horrendous' Christmases when all they could afford were 'token presents' for the children.

'If we needed something for Christmas, ie presents for the kids, we went and got a [doorstep collected] loan that was £100. So you pay back that and then, you know, next Christmas or Easter or, you know, summer holidays are coming up, we'd get another loan so we could take the kids out somewhere.'

'[On your birthday] your parents just want a special day and want you to have, want you to be happy so they will end up […] spending more and need more money like to spend on you and so end up like borrowing loans.'

Barbara's story

'Every night I wouldn't sleep thinking I was going to lose the house'

Barbara is a divorced, single mother with two children, living in her own house, with a mortgage. She is currently living on benefits, with a monthly income of around £1100, although she is actively pursuing paid work. Before having her second child, Barbara had juggled work and study, first training as a teacher and working full time, then working in schools while she studied for higher degrees. She stopped working when she had her second child because her job at the time involved a lot of travel.

Barbara first got into debt in 2008, when she and her ex-husband took out a £5000 bank loan to pay for their wedding. They also took out a £2000 bank loan to buy bedroom furniture. Both loans were in Barbara's name and she and her husband were working at the time and repaying their loans. When Barbara had their daughter in 2011 and stopped working, things got a bit trickier financially, but they were still managing on the money that her husband was earning, and Barbara always intended to return to work.

In 2013, Barbara's husband woke her up one morning and informed her that he was moving out. Once the initial shock had subsided, Barbara began dealing with the emotional fall out from her husband's sudden departure, both hers and her children's, as best she could. She also began taking steps to manage her finances; she sold her car and applied for benefits and help with the mortgage.

'I was so scared about losing the house […] after he had gone […] and so my priority was to pay the mortgage and then like set up some arrangements with the gas, electricity and other things and pay bit by bit because I didn't want to lose the house.'

There was a significant delay in her benefits coming through, and the £12 a month help with her mortgage repayments did not come until several months down the line. She defaulted on her loan repayments, struggled to keep up with the mortgage repayments and all this, of course, gave her a poor credit rating.

Barbara's family live abroad, and she was reluctant to tell them what had happened because she did not want to worry them. So she relied on the staff at the children's centre where her daughter went.

'I didn't go to the food bank, [the children's centre] organised some food parcels for me and they brought it here for me, […] I didn't know there was something like that.'

They also referred her to a counsellor whom she saw a number of times as the stress, lack of sleep and worry about losing their home, mounted.

It was during a phone call with her mortgage company that Barbara was first told of StepChange Debt Charity. She contacted them, and they helped set her up on a debt management plan, showing her how to budget and drafting letters to her creditors asking permission to make reduced repayments. Even with this help, after mortgage repayments, insurance and utility bills, Barbara is left with £50 per week for food, clothes and toiletries for herself and her two children.

'I've just been trying to cut back on a lot of things. Like I had to explain to [my son] that certain things he couldn't have any more and we buy basics, I look at bottom shelves and look for bargains and things.'

Barbara still hopes to get some supply teaching work and, in the longer term, she dreams of becoming a lecturer and living debt free.

Creditor behaviour

During this research, respondents were asked questions about how their creditors behaved when they got into difficulty with repayments. We found that too often, families with problem debts are treated badly by their creditors and are not getting the support that they need to address their problems.

Our survey asked parents who had struggled with or been in arrears on different bills or credit commitments over the last year, how their service provider or creditor was treating them. Up to 42%, depending on type of debt, think they are being treated ‘badly’ or ‘very badly’, with payday lenders most likely to be treating vulnerable parents negatively.

The vast majority of families with problem debts (84%) felt that they would have liked to have received more support, or to have received support at an earlier stage (nearly two thirds (64%) responding yes to each individually).

‘All this time I’m dealing with creditors myself and, actually, if I’d just gone to StepChange then, they would have just taken off a lot of the pressure off me, because I was just trying to hold it all together. And up to this point as well, you know, it’s just me talking to all the creditors.’

Table 17: Parents struggling with payments or in problem debt treated ‘badly’ or ‘very badly’ by creditors

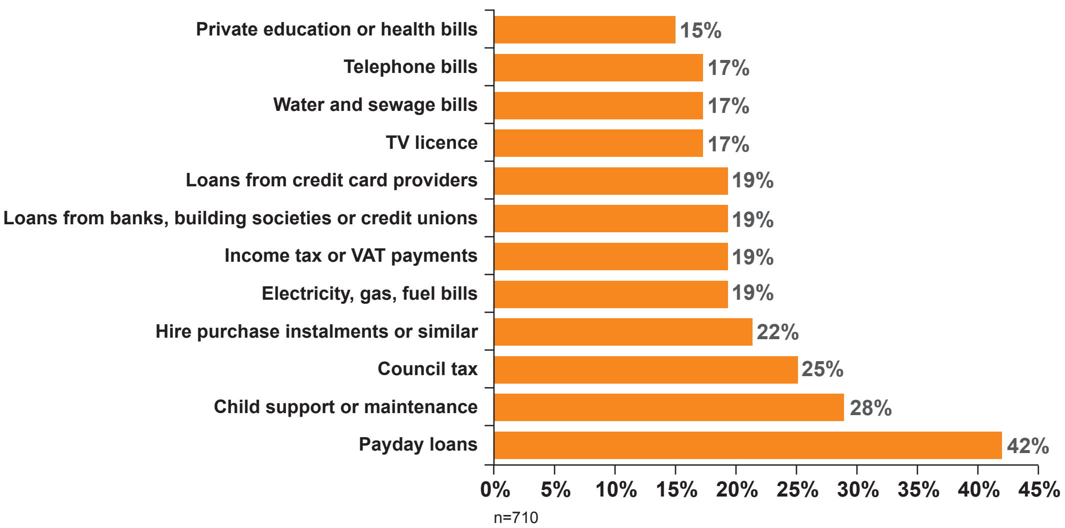


Table 18: families in problem debt over the last year, who have sought help – the proportion saying this was 'not helpful at all' (by source of support)

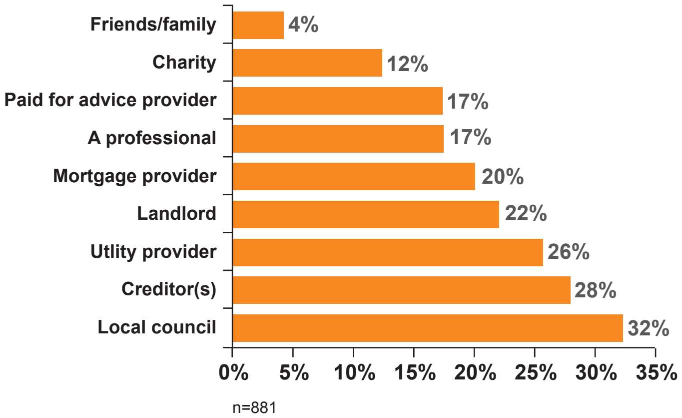
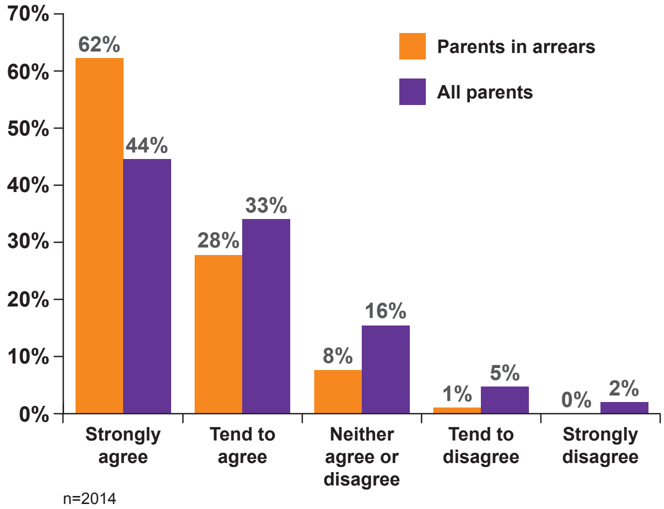


Table 19: Parents' views on whether creditors should have to consider the presence of children in the household when deciding how to collect repayments



Those who do look for support often received a sub-standard service, particularly from creditors and local councils. As shown in Table 18, of those who have sought help from their council, a third (32%) found this 'not helpful at all', while 28% of those seeking help from a creditor or creditors said the same. The most helpful sources of advice were friends and family, followed by free advice providers.

Reflecting survey findings, interview responses also indicated that council tax departments were one of the creditors that families felt were most intransigent when they were struggling to meet their payments. One of the parents that we spoke to, who had complex health problems and issues with short-term memory, explained that he received little understanding when he accidentally missed a council tax payment.

'I forgot to pay the council tax one month, they sent a letter saying you haven't paid it, this is the only warning you will have, if you miss another payment we will take you to court. I rung them up and I said well do you have a facility where you could remind people, I said because I have very bad memory loss. Well they said 'Can't you set up by Direct Debit?' I said 'I don't have a bank account' […] Don't you have a policy to help people with special needs?'

'I didn't have to pay [council tax] while I was unemployed. And then I got a job, but of course then you've got like a month before you get your salary. And then I got that first wage and of course I had to pay quite a lot of people back who I had not been able to pay whilst I was unemployed [And then the council] wanted all the [council] tax for the previous year all in one go. So I had to find, I think it was about £600 for that, which I didn't have...'

Three quarters of parents (77%) thought that creditors should have to consider the presence of children in the household when deciding how to collect debts, with 44% strongly agreeing with this. This feeling was even stronger among parents with problem debt, with 90% believing that creditors should have to consider the presence of children in the household, and nearly two thirds strongly agreeing with this.

The types of heavy-handed behaviours that contributed to families' stress included constant phone calls, threatening letters, visits from bailiffs and court action being threatened.

'I developed [high] blood pressure […] So when I had the debt I was scared to open letters […] I was scared. When I was living in the property I used to have the bank coming to knock at my door.'

'We have an open door policy here, you know anyone could come in. […] and of course when you are busy and someone knocks, 'Oh come on in, you have to wait a minute', so again, came down and he says 'Well thank

you for inviting me in, while you were busy I've done an inventory of what you have. Because I am from the courts.''

'[A letter] arrived on a Wednesday and said unless you pay £18,000 by 4pm on Friday we will send the bailiffs in or we will take legal action against you. […] These companies, I mean, do they really think that somebody who has got financial problems in 2 days will raise £18,000?'

More needs to be done to ensure families in financial difficulty have the breathing space needed once they have fallen behind with payments to seek advice and support to get back on their feet.

Another issue that families faced was irresponsible lending and mistakes by creditors. One mother described having sought advice and discovered that she could consider options like insolvency, but when she went to the bank to talk to them about it they persuaded her to take on a further consolidation loan instead.

'When I went to the bank to tell them I was doing an IVA, they talked me out of it. They said you'll never get a mortgage again in your life. Nobody will touch you if you go into an IVA. We'll give you another loan. So they gave me another loan […] by this time, I had got up to £13,000.'

'[When we were] trying to get the interest frozen, it took them months. And then when I complained it took them months, their system, and it was very much '[The] computer says', and like, 'Well, actually, no, your computer is wrong'. […] I mean, I think I ended up in tears back then. I'm actually much stronger now.'

The presence of dependent children in a household makes it more vulnerable. Available income is stretched much more thinly, and cutting back can have a longer-lasting effect. Government should ensure service providers and creditors take account of the presence of children in their operating standards, and are prohibited from behaviour that would have a harmful effect.

Conclusion and recommendations

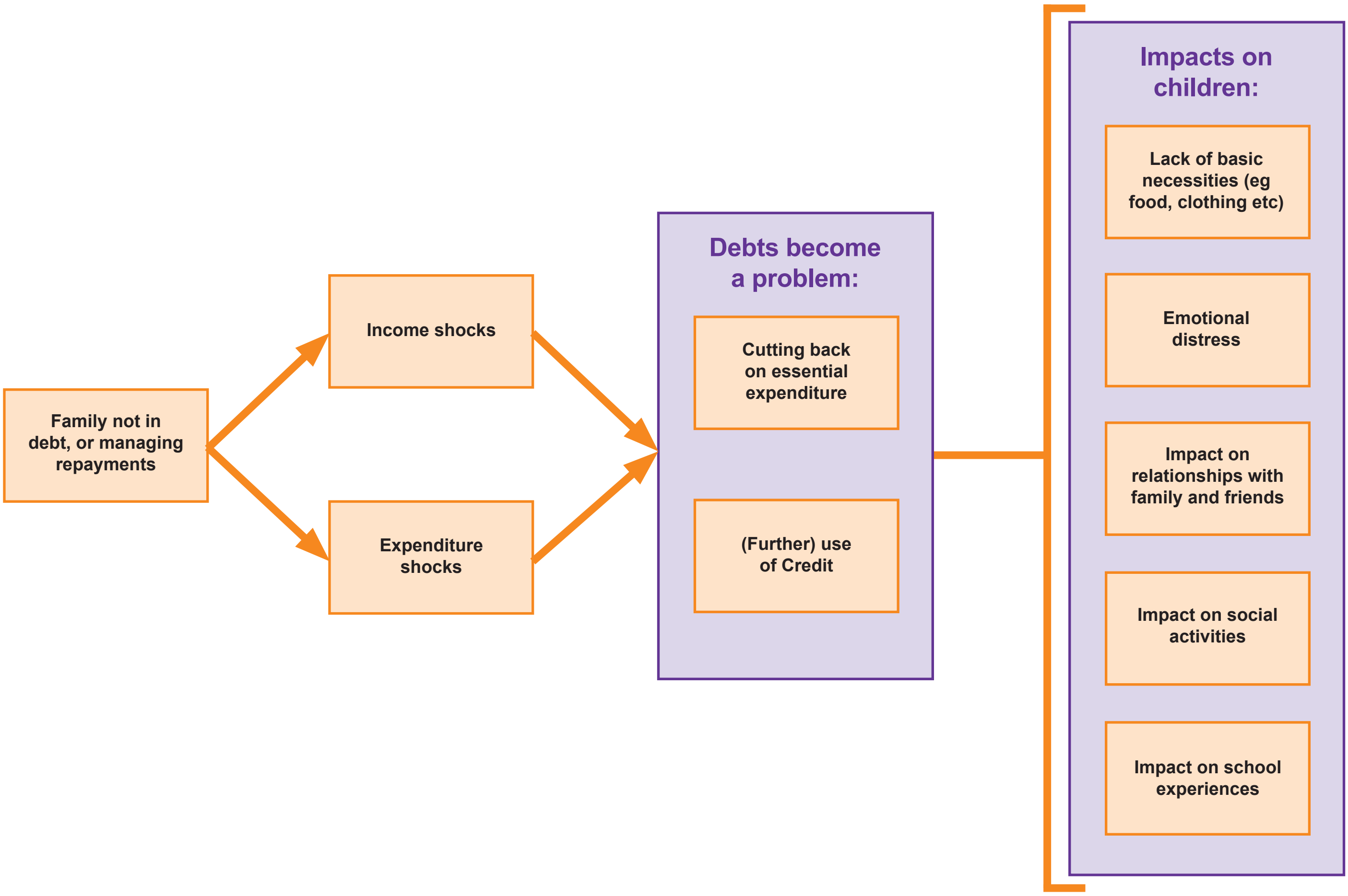
This report presents compelling evidence that factors contributing to problem debt for children and families can be all too easy to develop, and the impact truly disastrous. Even for families who appear to be financially secure, a substantial fall in income or increase in expenditure can lead to the use of credit, and difficulties in repayments, that can cause major financial problems. An unexpected 'shock' such as long-term illness or death can lead to family finances spiralling out of control.

This has consequences not only for the ability of families to meet their basic needs, but also the potential for long term impacts on children, including effects on relationships with family and peers, and their ability to make the most out of their education and to take part in social activities.

Table 20 shows this process of the development of problem debt. It traces this from families who are either not in debt (or who are managing the repayments on their debts) through facing income and/or expenditure shocks, the response of families by cutting back on essential expenditure or using credit (or more credit), to the impact on children's experiences and outcomes.

Too many parents are facing a stark economic choice with no good outcome. Many parents felt that using credit was the way they could maintain an adequate standard of living for their children. But the cost of

Table 20: The drivers and impact of problem debt on children and families – summary



keeping up with credit repayments placed further pressure on household budgets. Do you take on further credit or cut expenditure to the bone?

Our research uncovers how this debt trap is having devastating effects.

- We found families in problem debt are struggling to meet even basic needs and saw how the pressure of this financial detriment put both parents and children under intense emotional stress.
- We found that children in indebted families are experiencing the sharp effects; feeling isolated from their friends, unhappy at school and being more likely to be bullied.
- Too many parents told us that their creditors had offered no help when they needed it. Worse still, we saw evidence of creditors behaving in a way that made debt problems worse – giving credit inappropriately or chasing payment too aggressively when people are in financial difficulty.

Some of the changes suggested by the findings of this report can help to break this pattern.

1. Reducing the harm to children caused by problem debt

Providing 'Breathing Space' for families with problem debt – too often, when families are struggling with repayments, the response from creditors is unhelpful. ***The government should work with creditors and the free debt advice sector to develop a breathing space scheme*** giving struggling families an extended period of protection from default charges, mounting interest, collections and enforcement action. This would help families adjust and recover from income shocks and may help lone parents in particular.

Every local authority should have a debt collection strategy which includes measures to address the impact of collection on children – We know that some local authorities have worked hard on good debt collection practice, but our survey shows that still far too many families in arrears feel poorly treated. Given that local authorities are central to delivery of policy and services aimed at child well-being, this should be a priority for change.

The government should work with third sector organisations such as The Children's Society and StepChange Debt Charity to review the adequacy of protection for families with children against debt enforcement – including reviewing protections for children from harm caused by evictions, bailiffs and court action. For instance, while homelessness law would generally treat families with children as in priority need for re-housing, there is little additional legal protection against debt related eviction for private tenants with children.

2. Reducing the impact of problem debt on families

Creditors and service providers need to have 'early warning systems' in place to identify potential problem debts – 84% of families in problem debt said they would have liked access to more or earlier support with their debts. If families get the right support as soon as debt begins to become a problem, this can help to minimise the impact on their children. Service providers and creditors should have to demonstrate to regulators that they have 'early warning' systems in place to ensure they are aware when customers are facing financial difficulty and offer free and high-quality advice and support.

Families should be able to 'opt in' to alternative payment arrangements for Universal Credit – monthly benefit payment periods, and payment of housing costs direct to social rented sector claimants put considerably more emphasis on families to take responsibility for managing their money. However, alternative payment arrangements will be available for some families who would struggle with this. We believe that families should be able to opt in to these arrangements for themselves, where they believe they would otherwise be at risk of falling into problem debt.[36]

The government needs to develop a strategy for improving access to affordable credit for families. Families were twice as likely to have borrowed from a high interest money lender than from a credit union, to pay for essentials like food and fuel. We need to ensure that families have access to credit which is affordable when they really need it. The government should work to bring together local welfare assistance schemes, credit unions and high street banks, to improve access to affordable credit for low income families.

3. Early interventions to prevent problem debt

The government should review the case for tighter restrictions on loan advertising seen by children - Only one in five children aged 10-17 thought that their school had taught them about money management and debt, and yet more than half of the same group of children said that they saw advertising of loans often or all the time. Children and young people should learn about borrowing, credit and debt from their school and family, not from lenders advertising on television.

Piloting savings accounts for children via credit unions or other providers - local authorities in both Glasgow and the London Borough of Haringey are providing secondary school children with 'seed money' in a credit union account to get them saving. The government should establish a wider trial of credit union accounts, including linking this in to financial education in schools, to establish the effectiveness of this approach in promoting savings to young people.

Much more can be done to reduce the likelihood of families being caught in a debt trap. But this will require a concerted action from government, regulators, creditors and advice providers to address every stage of the development of problem debt for families. This means limiting the likelihood of families getting into difficulty and giving them the help they need to escape if they do.

Notes

1. For this paper, the phrase 'problem debt' is used to describe households currently in arrears on a household bill or credit commitment. The list of household bills and credit commitments families were asked about is included in Appendix 1. Our methodology for calculating this figure is set out in section 4. We understand differing definitions of problem debt are used in other contexts.
2. Unemployment on the ILO measure increased from 1.6 million in early 2008 to just under 2.5 million by June 2009, at which level it steadied through to January 2011. It has subsequently been on a downward trend, and in November 2013 stood at just over 2.3 million, still some 700,000 higher than at the beginning of 2008.
3. The number of mortgage repossession actions in the county courts of England and Wales peaked in 2008 at just under 143,000. By the end of 2012, the number had reduced to just under 60,000.
4. For example, credit card write-offs rose from 5.8% of outstanding balances in 2008 to 7.6% the next year (PWC, 2011, p.10).
5. Personal insolvencies grew from around 25,000 in 2007 to just over 35,000 in 2009.
6. In January 2014 the Office for National Statistics (ONS) reported that household real wages falling for the longest sustained period since at least 1964.
7. London Economics (2012). 'Audit of the supply of debt advice services across the UK: final report'.
8. www.moneyadviceservice.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt
9. See, for example, the Low Commission indicatat that there is a £100m per year shortfall in advice services funding.
10. Kempson, E (2002) Over-indebtedness in Britain, Personal Finance Research Centre, University of Bristol; Barnes et al (2008) analysis of data from the Families and Children Study (FACS).
11. Barnes et al (2008) analysis of data from the Families and Children Study (FACS).
12. StepChange Debt Charity (2014) 'Life on the Edge'.
13. Surveyed families all contained a child aged 10-17. The survey was commissioned by The Children's Society and administered by Research Now in February 2014.
14. Across 14 families.
15. For a full list of household bills and unsecured credit commitments included in this calculation, please see appendix.
16. Based on latest child benefit statistics showing 7.55 million families receiving child benefit with 13.11 million children in, an average of 1.74 children per household.
17. www.ons.gov.uk/ons/rel/elmr/an-examination-of-falling-real-wages/2010-to-2013/index.html
18. Dominy, N and Kempson, E (2003), Can't pay or won't pay? A review of creditor and debtor approaches to the non-payment of bills, Personal Finance Research Centre, University of Bristol.
19. StepChange Debt Charity *Life on the Edge* (2014).
20. Online survey of around 4400 British adults commissioned from YouGov Weighted sample. Fieldwork: 17-20 December 2013.
21. Hirsch, D (2013), The cost of a child in 2013, Child Poverty Action Group, London.
22. Online survey of around 4400 British adults commissioned from YouGov Weighted sample. Fieldwork: 17-20 December 2013.
23. Families borrowing money for basic essentials (such as food, clothing or heating) from one of the sources listed in Table 3.
24. StepChange Debt Charity Stats Yearbook 2013.
25. Online survey of around 4400 British adults commissioned from YouGov Weighted sample. Fieldwork: 17-20 December 2013.
26. Online survey of around 4400 British adults commissioned from YouGov Weighted sample. Fieldwork: 17-20 December 2013.
27. Lane, P, Davies, M, Small, L, Riley, T, Schendel, R and Helleren, S (2013), Jobs not careers: A three-year longitudinal study of 80 mothers in London who have been searching for work, Timewise Foundation, London.
28. 42% of all families.
29. www.moneysavingexpert.com/news/loans/2013/11/payday-loan-ads-should-be-banned-from-kids-tv-moneysavingexpert-com-says
30. www.moneysavingexpert.com/news/loans/2013/11/payday-loan-ads-should-be-banned-from-kids-tv-moneysavingexpert-com-says
31. www.moneyadviceservice.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt-press-office
32. www.ons.gov.uk/ons/dcp171766_283988.pdf
33. Attributing a ranking of one to four out of 10 from 'very unhappy' to 'very happy'.
34. Griggs, J and Walker, R (2008), The costs of child poverty for individuals and society, Joseph Rowntree Foundation, York.
35. Raffo, C, Dyson, A, Gunter, H, Hall, D, Jones, L and Kalambouka, A (2007), Education and poverty: A critical review of theory, policy and practice, Joseph Rowntree Foundation, York.
36. We note a similar recommendation from a recent inquiry from the Work and Pensions Select Committee – House of Commons Work and Pensions Committee (2014) 'Support for housing costs in the reformed welfare system' page 49: 'We recommend that the government allow vulnerable tenants to opt in to having their housing costs support paid direct to their landlords if this is their preference, at least for the first few years of a UC claim.'

Appendix

Categories of household bill and credit commitment – families in arrears on payments classed as in ‘problem debt’

1. Mortgage / rent
2. Council tax [Rates in Northern Ireland]
3. Electricity, gas, fuel bills
4. Water and sewerage bills
5. Telephone bills (including mobile phone, broadband)
6. Income tax or VAT payments
7. Hire purchase instalments or similar (mail order catalogues, car finance, interest free credit etc.)
8. Payday loan
9. Loans from banks, building societies or credit unions
10. Credit card payments
11. Loans from friends or family
12. TV licence
13. Private education or health bills
14. Child support or maintenance
15. Other loans/bills

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