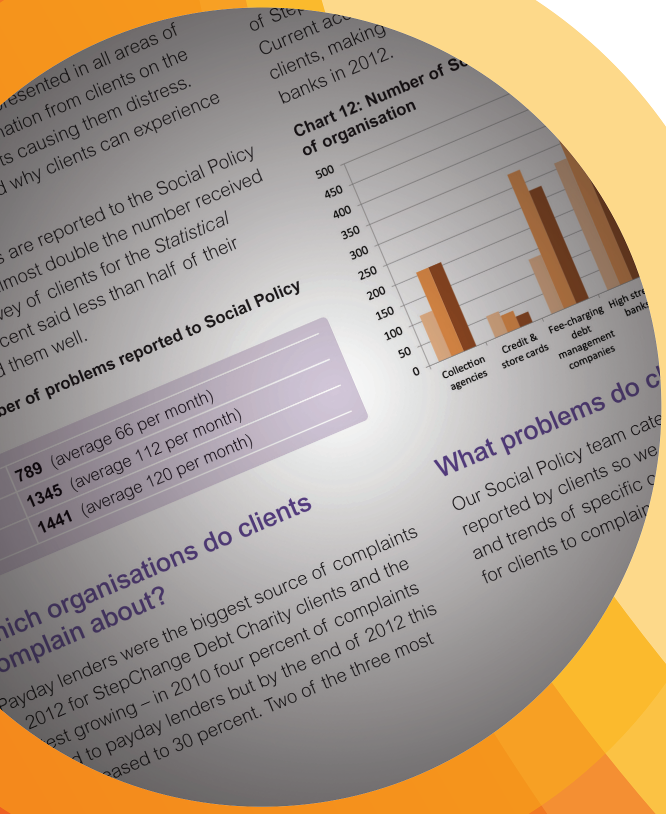
StepChange Debt Charity
Statistical Yearbook 2012



Our objectives

- Create greater awareness of, and access to, truly free debt advice and debt solutions
- Develop extensive relationships with other organisations to bring greater help and support to people with problem debt
- Provide new and improved products and services to meet the changing needs of people with problem debt
- Invest in our people, processes and systems to effectively deliver timely and high quality help and support
- Build a robust, stable and sustainable charity that can be relied on by all in society
- Champion the cause of people in or at risk of problem debt by influencing policymakers and campaigning for change
- Enhance peoples' financial understanding and capability so they can better manage their money and debts

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The data in the Statistical Yearbook is drawn from a warehouse containing the details of more than 14.5 million phone calls and 1.8 million clients. The 2012 data analyses around 200,000 clients advised last year.

Production team

Michael Agboh-Davison

Rosamund Greger

Mark Haslam

Ellen Peters

Ishani Ratnapala

Joseph Surtees

Main findings 2012

Demand

- There was an 11 percent increase in contact numbers in 2012, 1,100 people per day sought help from StepChange Debt Charity either online or via the telephone
- There has been a sharp rise in the proportion of clients living in rented accommodation, from 52 percent in 2010 to 61 percent in 2012

Debts

- Average debt has fallen from £25,664 in 2008 to £17,635 in 2012
- For 78 percent of clients, problem debt has undermined their self-confidence and ability to support themselves or their family
- On average self-employed clients owe £10,000 more than all other clients
- Over-60s have the highest level of unsecured debt (£22,435)

Payday loans

- 18.5 percent of clients have a payday loan. The average payday loan debt (£1,657) now exceeds average monthly income (£1,320) for clients with this type of high-cost product
- Over 65 percent of clients with a payday loan have contractual payments worth more than 100 percent of income, compared to 14 percent of all other clients
- The proportion of complaints to our Social Policy network about payday loans have increased from four percent in 2010 to 30 percent in 2012

Household arrears

- The proportion of clients with household arrears debt has increased from 27 percent in 2011 to 35 percent in 2012; over the same period average total arrears on household bills increased by £124 to £2,258
- 17 percent of single parents have Council Tax arrears, compared to 12 percent of all other clients; the level of Council Tax arrears for single parents is £150 higher than for any other household type
- Over the previous two years the proportion of clients with rent arrears have increased from 5.6 percent to 8.6 percent

Incomes and employment

- The average income of clients has fallen by 4.4 percent since 2009, if it continues to stagnate over the next three years 59 percent of clients will have a negative budget
- On average clients with children already have an income below the Joseph Rowntree Foundation Minimum Income Standard
- 36 percent of households where one member is unemployed have a negative budget, compared to 11 percent of households where both members are in full-time employment

Benefits

- 82 percent of clients in receipt of benefits find them very or quite important in paying for essentials

1. 2012 – a recap

The main findings for 2012 suggest that the nature of debt problems in UK households continues to evolve.

The average total unsecured debts of StepChange Debt Charity clients have fallen by nearly a third since 2008. Clearly a substantial part of this derives from the decline in mainstream consumer credit lending since the recession, but there are signs that lessons have been learnt. Lender initiatives such as the credit card industry voluntary rights package and pre arrears interventions are underpinning more responsible lending, suggesting that we will be in a better position to prevent another unsustainable credit boom in the future.

Nevertheless, difficulties remain: our clients still owe an average of £18,000, nearly the entire net household income for the average client. There is a massive overhang of unmanageable debt from the pre-recession years and the increasing demand for our service suggests this is growing, as financially vulnerable households struggle with their existing borrowing or borrow more because they are struggling.

This is the key story from our clients in 2012: incomes have fallen in absolute terms just as the cost of many essential household bills has continued to rise. Drops in average incomes for working households has contributed most to the fall. Tax credits and benefits have provided an important safety net for many clients, but not enough to prevent a sharp increase in the proportion with 'priority' debts on household bills like rent, Council Tax and fuel. Some households had turned to high cost credit to try and fill the gaps only to experience acute financial difficulties as a result. We have seen an increase in the proportion of clients with debts to home credit, catalogues and, most notably, payday lenders.

A recent outlook report from Office of Budget Responsibility is pessimistic about medium term growth prospects and cites a likely delay in real household incomes picking up[1]. At the same time, the government's programme of welfare reform and retrenchment may well affect people's abilities to service their debts. For instance, the National Housing Federation believes these changes could result in a million social tenants struggling with their rent and ending up in debt[2].

Debt overhang, recession, austerity - if we could look down on a dashboard of vulnerability to debt all the needles would be in the red. In 2013, the prospects for getting on top of household debt will be challenging.

2013: Key challenges

The data set out in this report broadens our understanding of the emerging trends in the debt landscape. It helps us develop our services to meet a wider range of needs over the coming year and it gives us a platform of evidence to advocate policy change.

1 *Economic and fiscal outlook December 2012. Office for Budget Responsibility*
2 *'Rent arrears could rocket over 50% under new welfare plans'. National Housing Federation, 23 January 2013*

It highlights the need for policy makers to prioritise action to support households in financial difficulty now and to develop strategies to reduce vulnerability to debt problems in the future. To take aspects of this forward over the next 12 months, StepChange Debt Charity will be concentrating on the following key issues:

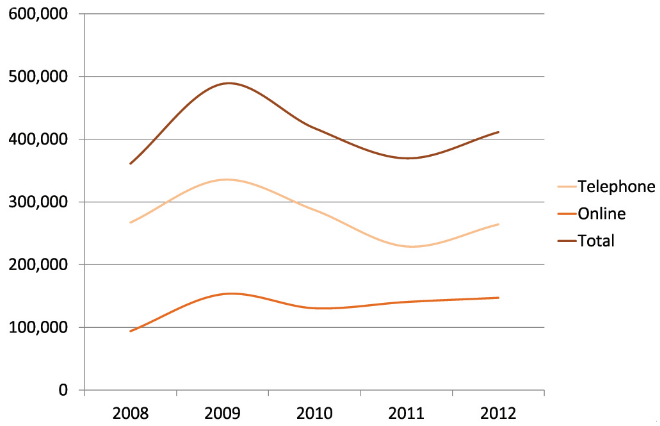
- **Consumer credit regulation:** The transfer of consumer credit to the Financial Conduct Authority provides a crucial opportunity to improve the debt landscape. Consumer credit has produced too much detriment for too long and with many households under financial pressure there is a pressing need to make sure these markets work well for consumers in the future. StepChange Debt Charity will use its evidence to help inform the development of an effective, robust and proportionate consumer credit regime.
- **Priority arrears:** This report highlights a marked increase in the number of clients falling behind on priority household bills. We will work with priority creditors to ensure people in financial difficulty get the help they need as quickly as possible. We will continue to make the case for effective oversight of bailiffs and better safeguards for financially vulnerable households facing enforcement action for Council Tax and other priority debts. We will undertake research to better understand the experience of our clients facing rent arrears and monitor developments in mortgage payment difficulties.
- **Insolvency:** StepChange Debt Charity Scotland will work with the Scottish government and other stakeholders to help ensure that the forthcoming Scottish Bankruptcy bill delivers a world class insolvency regime for Scotland. We aim to increase free-to-client access to the Debt Arrangement Scheme. In the rest of the UK, we will work with the Insolvency Service to maintain the success of the Debt Relief Order and support the implementation of debtor's petition reform for bankruptcy.
- **Welfare reform:** Welfare reform will have a significant effect for many if not most of our clients, but responding to a survey over half said that they were unaware of Universal Credit. We will monitor the debt consequences of welfare reform for our clients and continue to provide budgeting and benefits advice and support.
- **Self-employed and debt:** Our data highlights the self-employed and those giving business failure as the main reason for their debt problems as particularly vulnerable to large secured and unsecured debt problems. We will research the experience of this group in order to understand better the problems and possible solutions. The research will be published in the autumn.
- **Sustainable household budgets:** We have commissioned research looking at the likely drivers of future debt problems to 2025. The resultant scenario testing will aim to help policy makers understand the actions that might be taken now to deliver sustainable household budgets in the near future.
- **Developing free-to-client debt advice:** We will continue to make the case for free-to-client debt advice; working with the Money Advice Service and advice sector partners to deliver comprehensive, efficient and sustainable free debt advice. We will follow up the research we commissioned last year on the experience of working households with debt problems. This will explore ways to encourage people to seek earlier advice about financial difficulties. We will seek ways to build the financial resilience of households working through debt management programmes and build their capacity to plan effectively for future financial needs.

2. Demand

Key statistics

- In 2012 the number of people who contacted StepChange Debt Charity increased for the first time since 2009 by 11 percent
- In 2012 around 1,100 people contacted the charity every day
- Clients repaid £327 million through StepChange Debt Charity DMPs in 2012. The charity now helps more than 129,000 people to repay their debts in this way

Chart 1: Demand



People seeking help with problem debt

In 2012 StepChange Debt Charity was contacted by 411,263 people, an increase of 11 percent on the previous year and the first increase since the 2009 recession (Chart 1). On average, around 1,100 people sought our help to deal with serious debt problems every day.

This picture of rising demand for our service has both positive and negative aspects.

The effectiveness of debt advice was highlighted recently in a report for the Money Advice Service. People who sought debt advice were almost twice as likely to have their debt problems under control 12 months later than those that did not[3]. However, despite this, a recent survey found that only 37 percent of people who need debt advice seek help in adequate time[4].

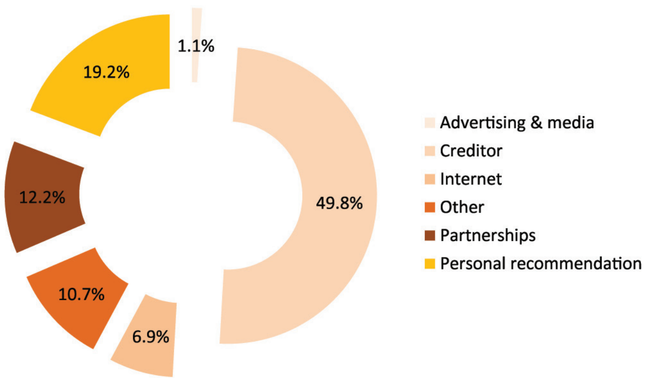
This helps us understand why out of 950 StepChange Debt Charity clients surveyed for this *Statistical Yearbook*, over 40 percent of respondents had struggled with mounting debts for a year or more before seeking help[5]. Research commissioned by StepChange Debt Charity on the debt problems experienced by working households found that although people tried to deal with their financial difficulties in a number of different ways, they continued on a downward slope to unmanageable debt[6]. Very often these responses involved more borrowing as people held on to the hope that they could sort it out themselves or 'because they were too embarrassed to admit otherwise'.

3. *The effectiveness of debt advice in the UK; Money Advice Service; 2012*
4. *Debt Advice in the UK; A report for the Money Advice Service by London Economics; 2011*
5. *See Appendix for full details of survey*
6. *Working Households experiences of debt problems; A research report prepared for StepChange Debt Charity by the Personal Finance Research Centre, University of Bristol; 2012*

Many of the survey respondents told us they felt overwhelmed by their debts by the time they sought our help. In three out of four cases, anxieties over unmanageable debt had undermined their confidence to support themselves and their families. Nearly 40 percent said their relationship with family and friends had been affected by their debt problems.

With this in mind, the increase in people contacting StepChange Debt Charity in 2012 can be seen as a good thing; more people are starting to take positive actions to get their debt problems under control. Chart 2 shows the key referral routes for our clients in 2012. Nearly half of our clients were referred to us by one of their creditors and another 12 percent by another partner organisation. This reflects the value the charity places on working in partnership to reach more people with a wider range of needs. We will build on these relationships in 2013 to help more people get to advice earlier – before their debt problems become a crisis.

Chart 2: Referrals



Our clients also come to us directly. The number of people who found us by searching online increased by 58 percent in 2012 and nearly one in five of our clients heard about the charity through a personal recommendation from family or friends. This is good progress, but to help more people, we need to continue to extend our reach. In January 2013, the charity began to advertise its services directly to the public for the first time.

Reasons for debt problems

The increase in client demand has a down side in that it points to more households becoming vulnerable to serious financial difficulties. This is explored in detail in the following chapters. However, the causes debt problems reported by our clients offers us insight into some underlying trends in household vulnerability to debt.

Table 1: Reasons for debt

Reasons for debt	2012	Change since 2011	
Unemployment/ redundancy	25%	0%	◀ ▶
Reduced income	19%	-4%	▼
Lack of budgeting	12%	2%	▲
Disability/injury/ illness	11%	1%	▲
Separation/divorce	10%	0%	◀ ▶
Used credit for living expenses	5%	1%	▲
Other	19%	0%	◀ ▶

Despite recent falls in the number of people unemployed, unemployment, job loss and reduced income remain key, accounting for 44 percent of the reasons for debt problems given by StepChange Debt Charity clients in 2012. This continues the trend established in previous *Statistical Yearbooks* and supports a line of research finding loss of employment income as a key driver of over-indebtedness[7]. Men continue to be more likely to give unemployment or redundancy as reasons for debt (29 percent) than women (21 percent). Across the UK, youth unemployment remains high (18.6 percent for 18 to 24[8]) – joblessness was more commonly given as a cause of problem debt among the under 25s than for any other age group.

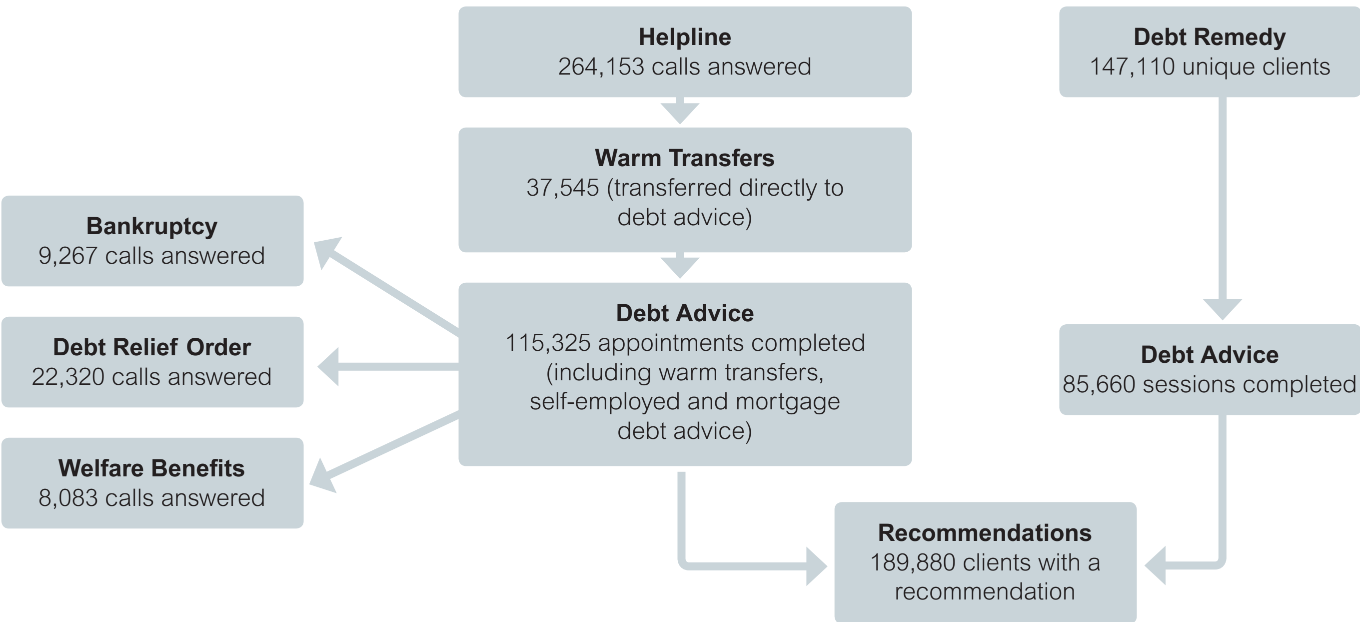
7. *Over-indebtedness in Britain; Kempson; 2002. Drivers of over-indebtedness; Disney et al; 2008.*
8. *Labour market statistics February 2013; data table AO6; Office for National Statistics*

Lost income through injury, disability and illness were cited as the main cause of debt problems for around 11 percent of clients in 2012. Seven percent of our clients told us they were in receipt of benefits because of incapacity for work. This group were especially financially vulnerable, with 30 percent showing a deficit budget even after advice. This situation may worsen as a result of the 12 month limit on receipt of contributory employment and support allowance introduced in 2012. The DWP estimates that this may affect up to 700,000 people by 2015/16, with an average loss of around £50 per week among those that lose income as a result[9].

The reasons clients gave for their debt problems in 2012 also point to increased pressure on household budgets. Nearly one in eight (12 percent) clients attributed their unmanageable debt to difficulty budgeting and another five percent said that their debt problems were mainly the result of using credit to meet essential living costs.

Debt advice process

StepChange Debt Charity continues to support the majority of our clients via the telephone. In 2012, around 265,000 people in financial difficulty called our free telephone helpline. Helpline advisers provide the initial 'triage' support, giving our clients the reassurance to explore their debt problems and understand their options. Callers then get help to work out a budgeting plan – a vital first step to regaining financial control. Once a complete picture of the debt situation has been established, our clients are offered a full debt advice session to determine the best options available and recommend a solution. In 2012, StepChange Debt Charity carried out a record number of telephone and online advice sessions – 200,985.



9. *Time limit Contributory Employment and Support Allowance to one year for those in the Work-Related Activity Group – Impact Assessment (2011), Department for Work and Pensions*

The number of people getting advice online from our web-based Debt Remedy is also growing steadily, increasing to 147,000 in 2012. Debt Remedy provides advice, budgeting help and decision logic that can deliver the same recommendations as our experienced debt advisors. While more people are becoming confident about seeking advice online, we believe it is still important to ensure that users of digital services like Debt Remedy can access help through other channels. In 2012, around one in eight people who used Debt Remedy were also supported with telephone advice.

Our core debt advice is supported by specialist teams dealing with specific remedies and advice issues.

- The specific debt advice needs of people in Scotland are supported by StepChange Debt Charity Scotland.
- Our debt advocacy team provides tailored support for clients who face additional barriers to dealing with their debts; explaining special circumstances to creditors, for example when someone is terminally ill.
- We provide specialist help on mortgage and rent arrears for people facing court action or eviction.
- Our team of authorised intermediaries helps clients to apply for Debt Relief Orders (DROs), a lower-fee alternative to bankruptcy. We also provide specialist help on bankruptcy and offer Individual Voluntary Arrangements (IVAs) through a wholly owned subsidiary.
- We deliver specialist advice to self-employed clients and people struggling with a failing business.
- Welfare benefits checks are provided to everyone contacting the charity. For people with an unclaimed benefit entitlement, the average uplift in income in 2012 was around £80 per month – enough to help some households get on top of their debts.

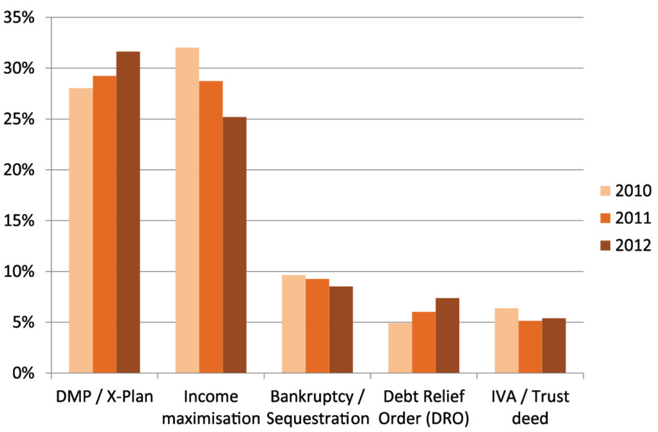
A survey of debt advice clients for the Money Advice Service showed clients of StepChange Debt Charity were overwhelmingly positive about the help they received[10].

Recommendations and solutions

Debt advice is, first and foremost, about getting people back in control of their finances to meet their essential needs or where possible other financial commitments. Budgeting support provided by StepChange Debt Charity puts many people in a position where they can meet their obligations without further assistance. In 2012, around one in ten clients were able to meet their contractual repayments as a result of budgeting advice, a trend which has remained relatively constant over time.

Where this is not possible, our advisors will recommend a solution for multiple debt problems, such as Debt Management Plans (DMPs) or formal insolvency options such as bankruptcy, DROs or IVAs.

Chart 3: Recommendations



10. The effectiveness of debt advice in the UK; Money Advice Service; 2012

Debt Management Plans (DMPs)

In 2012, 32 percent of clients were recommended to a DMP, roughly the same proportion as in 2011. Over the course of the year, 29,099 people started to repay debts through a StepChange Debt Charity DMP. Our DMP clients are offered on-going support by client aftercare which dealt with over 760,000 calls in 2012. At the end of 2012, the charity was helping more than 129,000 people to repay £327 million off their debts in this way with £3.8 billion in unsecured debts under management.

DMP clients tend to be in a slightly stronger position than the average person advised. After living expenses, on average they have £219 a month available to service debt repayments (compared to £55 for all clients counselled). In 2012, a greater proportion of DMP clients (38 percent) were unable to pay more than £100 per month towards their debts than in 2011 (30 percent).

Formal insolvency solutions

The number of personal insolvencies across the UK has been falling but the proportion of clients recommended to an insolvency solution in 2012 remained roughly unchanged, at 21 percent.

- **DROs** – The main development in personal insolvency in England and Wales in recent years has been the increasing use of DROs. Between 2009 and 2012, the number of new DROs in England and Wales has grown threefold to 31,027, although the rate of increase has slowed significantly in the last year. In 2012, around seven percent of StepChange Debt Charity clients were recommended a DRO and our authorised intermediaries helped 3,332[11] people to obtain a DRO, around 30 percent more than in 2011.
- **Bankruptcy and sequestration** – Around 16,000 clients were recommended bankruptcy or sequestration in 2012 (8.5 percent). The figures are down slightly on 2011, but markedly less than the national trend where the number of bankruptcy orders has fallen by more than half in England and Wales since 2009, and by around one third in Scotland over the same period.
- **Individual Voluntary Arrangements (IVAs)** – Around 10,000 clients were recommended to an IVA or Protected Trust Deed[12] in 2012 (5.4 percent). Our subsidiary IVA provider, StepChange Voluntary Arrangements helped 781 people to get IVAs accepted by creditors.

Income maximisation

Even after a full advice session many clients still have too little income to make any repayments to their debts and cannot access another suitable solution. In line with other free debt advice agencies we support these clients with advice on income maximisation and encourage creditors to show forbearance. In 2013 StepChange Debt Charity will be formerly launching a token payment service following an earlier pilot programme. This will make it easier for people with very limited disposable income to agree a temporary breathing space with their creditors.

11. This includes 78 in Northern Ireland
12. A Protected Trust Deed is the Scottish equivalent of an IVA. However, it is usually for a shorter term of two to three years.

3. Client profile

Key statistics

- Wage income for StepChange Debt Charity clients has decreased by seven percent since 2009
- Self-employed clients owe £10,000 more in unsecured debt than the charity average
- The proportion of clients who rent, rather than own, their home has increased from 52 percent to 61 percent in three years

Overview

In 2012 the charity advised a higher proportion of women and younger people than in previous years. The trend towards a younger client base was particularly notable, with the proportion of clients aged under 40 increasing from 44.8 percent in 2010 to 52.4 percent in 2012.

Tables 2-3: Gender and age

	2010	2011	2012
Female	51.4%	52.6%	53.4%
Male	48.6%	47.4%	46.6%

	2010	2011	2012
Under 25	8.2%	9.1%	11.3%
25-39	36.6%	36.0%	41.1%
40-59	46.1%	45.5%	40.9%
60 and over	9.1%	9.5%	6.7%

Data on household composition, included in the *Statistical Yearbook* for the first time, shows an increase in the proportion of clients who are single. Almost 55 percent of clients advised in 2012 were single, compared to 50.2 percent in 2010. More than 16 percent were single parents with dependent children, well in excess of the national average (11 percent)[13].

Table 4: Household composition

	2010	2011	2012
Couple without dependent children	20.1%	19.0%	17.9%
Couple with dependent children	29.7%	28.8%	28.0%
Single without dependent children	36.1%	36.9%	38.0%
Single with dependent children	14.1%	15.3%	16.1%

In 2012 the housing status of our clients has continued to return to the pre-2008 pattern, where renters were more common than owners. The proportion of those living in rented accommodation rose sharply last year to 61 percent of all clients. This may reflect both the easing of mortgage payment problems since 2008 and increasingly difficult conditions in the rental market. Rents have been rising by 2.3 percent since September 2009, while incomes have only been rising by 1.5 percent.

13. ONS Families and Households 2012: lone parent families with dependent children

Table 5: Client rent type

	2008	2009	2010	2011	2012
Housing association	17.8%	18.5%	18.8%	19.3%	20.3%
Local authority	17.0%	21.5%	21.9%	20.8%	20.7%
Private landlord	65.2%	59.9%	59.3%	59.9%	59.0%

Chart 4: Client housing type

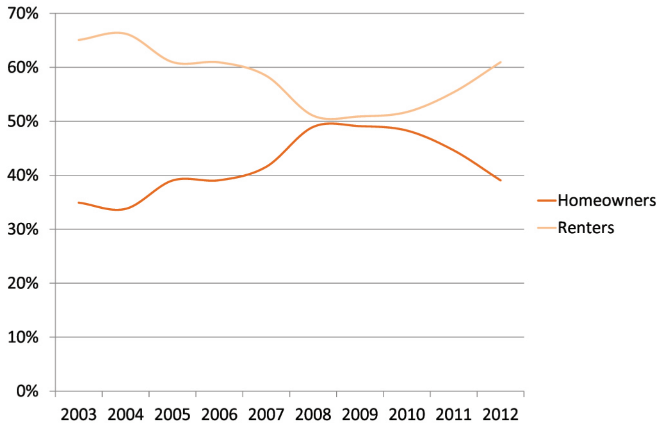
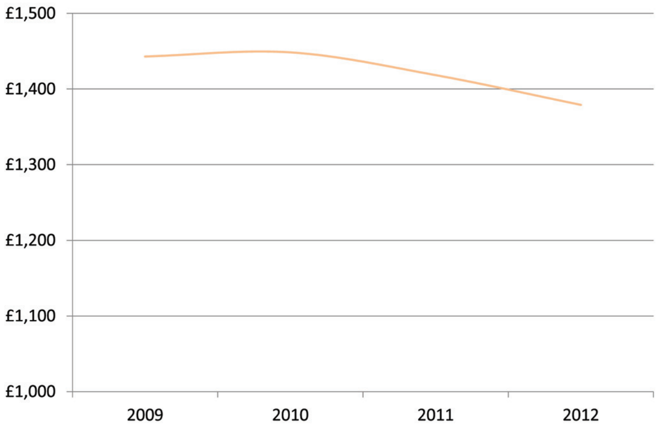


Chart 5: Client income



The majority (59 percent) of clients in rented accommodation have a private tenancy. However, trends since 2008 show debt problems may be increasing in the social rented sector. 41 percent of clients in rented accommodation now live in social housing, compared to less than 35 percent five years ago.

Total income

The increase in demand discussed previously appears related to falling income and unemployment.

Since 2009 the mean average income of clients has declined by 4.4 percent, from £1,443 per month to £1,379[14]. Overall, the proportion of clients with an income less than £20,000 a year is now 70 percent.

To put this into the context of low incomes, we estimate that around 43 per cent of our clients had net household incomes below the poverty line when adjusted for family size[15]. This figure would rise to 70 percent if contractual debt repayment were taken into account. As a result we believe that some 105,184 children live in client households with an income below the poverty line.

For most types of household, our clients' incomes compares unfavourably to the Joseph Rowntree Foundation Minimum Income Standard, which defines a level of income needed to achieve a minimum acceptable standard of living in the UK today (See Table 6). The shortfall for households with children may widen in future, as incomes are projected to fall further for those with children. The Institute for Fiscal Studies predicts income among households with children is set to fall in real terms by 4.2 percent between 2010/11 and 2015/16, greater than the projected fall in overall income for this period of 0.9 percent[16].

14. All income figures net of tax and National Insurance unless stated
15. Based on 60 per cent median income before housing costs published in 2010/11 Households Below Average Income
16. The Impact of Austerity Measures on Households with Children; Institute for Fiscal Studies/Family and Parenting Institute; 2012

Table 6: Minimum Income Standard

	Average client income	Minimum Income Standard
Single working-age person	£1,271	£1,365
Pensioner couple	£1,923	£1,379
Couple with two dependent children	£2,558	£2,756
Single person with one dependent child	£1,549	£1,846

The average surplus of our clients, the amount left over once all expenditure excluding debt servicing costs has been accounted for, was £55 in 2012. Table 7 shows the effect on surplus if CPI inflation remains at its current level (2.7 percent) over the next three years, while wage and benefit income remains broadly flat (either not rising or rising by one or two percent per year).

We estimate if income does not increase at all the average client will have a budget deficit of -£64, unable to meet everyday spending commitments. In this scenario the proportion of clients with a deficit budget would increase from the 26 percent it is currently to 59 percent. A one percent or 1.5 percent increase (the average since 2009) reduces average surplus to less than zero. Only a two percent year on year rise means average surplus for clients in 2015 would be positive, although it would still be 62 percent less than in 2012. Even in this scenario we estimate 45 percent of clients would have a negative budget, almost doubling the number of people unable to make ends meet, even after budgeting advice.

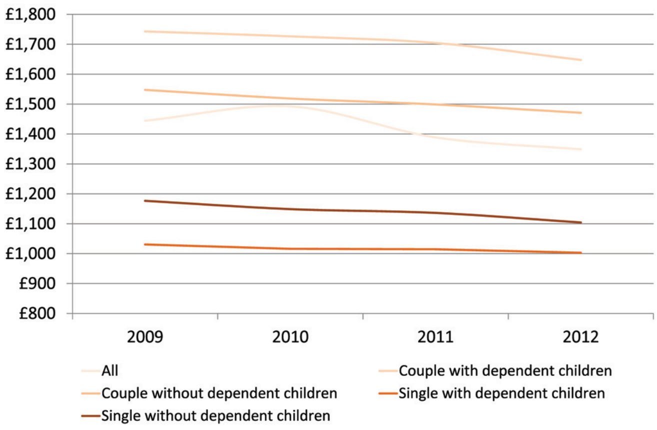
Table 7: Client surplus 2015

Income change	Average surplus	Proportion with negative budget
Current	£55	26%
0 percent	-£64	59%
1 percent	-£22	53%
1.5 percent	-£1	49%
2 percent	£21	45%

Wage income

The decline in total income appears largely due to falling wage income. Analysis for the charity by the Centre for economics and business research (Cebr) recently calculated that nationally incomes only rose by 1.5 percent a year between 2009 and 2012, well below the rate of inflation (3.7 percent) and therefore a real-terms fall. Over the same period, wage income for our clients declined in absolute terms by around seven percent, from £1,445 to £1,349 per month, with the largest drops in wage income suffered by households containing dependent children.

Chart 6: Wages by household type 2009-2012



This shows that employment does not always insulate people from debt problems. In 2012 the charity commissioned research from the Personal Finance Research Centre (PFRC) at the University of Bristol, which identified significant indebtedness among households with at least one employed member[17].

17. Working households' experiences of debt problems; Personal Finance Research Centre/StepChange Debt Charity; 2012

Over half of clients advised last year were in full-time or part-time employment, with those in full-time employment owing close to £20,000 in unsecured debt and those in part-time employment close to £15,000[18].

Benefit income

Overall in 2012, 55.7 percent of StepChange Debt Charity clients received one of the following benefits: Child Benefit, Child Tax Credit, Disability Living Allowance, Employment and Support Allowance (ESA), Income Support, Jobseeker's Allowance (JSA) or Working Tax Credit[19].

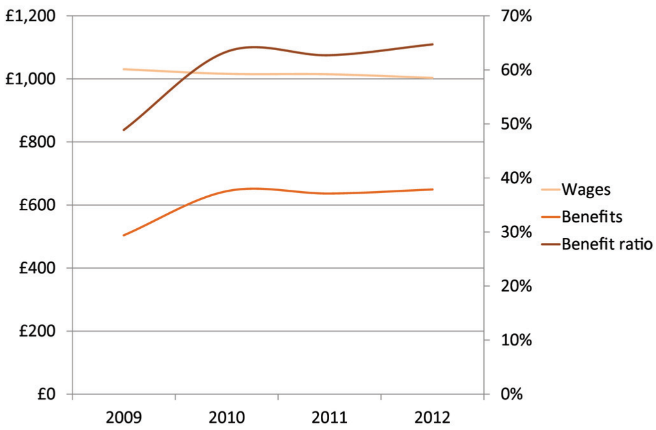
As income from wages has declined, the average household income from benefits has increased and become increasingly important in keeping up with day-to-day living expenses and debt repayments. Since 2009 income from benefits and tax credits has increased from £387 to £493 and now accounts for 21 percent of the total income of all StepChange Debt Charity clients. A survey carried out with clients for this *Statistical Yearbook* found that 82 percent of clients receiving benefits or tax credits found them either 'Quite' or 'Very' important in paying for essentials.

Clients claiming ESA and JSA are in the worst financial position of all StepChange Debt Charity clients, with significant monthly budget deficits even after an advice session. The average budget deficit of a client in receipt of ESA is -£15. Meeting day-to-day expenses is particularly difficult for clients receiving JSA, who have a monthly budget deficit of -£150, meaning that a sizeable proportion is unable to pay anything towards their unsecured debts.

The benefits ratio illustrates their growing importance to household finances. The benefits ratio shows the amount of benefits received by the average household as a proportion of income received from wages. For example, if a household receives £1,000 in wages and £250 in various benefits the benefits ratio is 25 percent.

Falling wages and rising benefit levels over the previous four years has meant that the ratio has risen sharply from 26.8 percent in 2009 to 36.6 percent in 2012. Single parents have the highest benefit ratio of all demographic groups (64.7 percent) and female clients have a much higher average ratio (42.5 percent) than men (28.9 percent). These findings suggest previous research carried out by the Fawcett Society, which argued that fiscal retrenchment would have a disproportionate effect on women[20] and single parents (79 percent of whom are female), may be correct.

Chart 7: Wages, benefits and benefit ratio – single with dependent child



Financial shocks

Two incomes

Over the last two years, the proportion of StepChange Debt Charity clients who are unemployed has increased from 27.4 percent to 30 percent, while the proportion of clients employed part-time increased from 15.9 percent to 16.7 percent. Research suggests that dual income sources are increasingly important for low-to-middle-income households[21]. Therefore a rise in the number of households where at least one member is unemployed or employed part-time is likely to mean an increase in vulnerability to debt.

A comparison of three types of dual client households shows how much finances can depend on both members of a household being in full-time employment.

18. Data on client employment status not captured prior to 2011
19. Data on Housing Benefit not captured
20. The Impact of Austerity on Women; Fawcett Society; 2012
21. The price of motherhood – Women and part-time work; Resolution Foundation; 2012

Table 8: Dual income households

	Average surplus	Proportion with negative budget	Contractual debt repayments worth more than 100% of income
Both in full-time employment	£269	11%	11%
One full-time, one part-time	£146	14%	9%
One full-time, one unemployed	-£58	36%	13%

Sue is currently an office worker and Brian is retired.

Sue and Brian were recommended to StepChange Debt Charity by their local Citizen's Advice Bureau.

"Helping our kids get onto the property ladder was our own doing - nobody asked us to - we just wanted to do something for them. We did it without them knowing where the money came from.

"As long as we could make the monthly payments it didn't matter that we had less and less money in our pocket each month."

The couple ran into difficulty when Brian had to undergo surgery and was unable to work again. The impact of only one pay cheque had a devastating effect on the couple's ability to meet the financial obligations.

"It was the worst day of our lives talking about the amount of debt we had and asking for assistance from an outside body.

"Not all creditors were sympathetic and some gave us a very hard time, but by following the instructions from StepChange Debt Charity we managed to deal with these problems. StepChange Debt Charity was always willing to be flexible with our monthly payment date if we found ourselves short of the required amount on that particular date."

Dual income households

- Both clients employed full-time
- One client employed full-time, the other part-time
- One client employed full-time, the other unemployed

On average dual client households where one client is unemployed have a monthly deficit of -£58. In comparison other dual client households have a monthly surplus (see Table 8). 36 percent of households where one member is unemployed have a negative budget, this falls to 14 percent for households where one member is employed part-time, and 11 percent for households where both clients are employed full-time. Households where one member is unemployed are also more likely to have contractual debt repayments more than 100 percent of income.

Single households

There is a similar correlation in single client households, depending if members are employed full-time, part-time or unemployed. On average, single unemployed clients have a negative budget (see Chart 8), compared to a budget surplus for other single households (albeit a small one for those in part-time employment). Overall, 36 percent of unemployed single clients have a negative budget, compared to 26 percent of those employed part-time and 15 percent employed full-time.

Over 30 percent of single unemployed clients have contractual debt repayments in excess of 100 percent of their income.

Chart 8: Surplus single households

Youth unemployment

Clients, under-25s are most likely to be unemployed and least likely to be in full-time employment (excluding 60-plus clients). This has left many unemployed under-25s in a precarious situation. The average monthly deficit of these clients is -£15, compared to £49 for all other clients, 26 percent have a negative budget and 30 percent have monthly contractual debt repayments greater than 100 percent of income.

The growing problem of payday loan debt is being felt more acutely by the under-25s than any other age group; 42 percent of our clients under the age of 25 have payday loan debts. In 2011, this was 25 percent and in 2010 only ten percent.

Youth unemployment has a long-term scarring effect on earnings potential. At ages 30-34 losses can be as high as £3,337 per year for men and £1,779 for women who experience the average amount of time not in employment, education or training (NEET)[22].

Table 9: Youth unemployment

	Average surplus	Proportion with negative budget	Contractual debt repayments worth more than 100% of income
Under-25 (unemployed)	-£16	26%	30%

Self-employed

Although the proportion of clients who are self-employed has declined slightly since 2011 (from 10.9 percent to 8.5 percent), our evidence shows the debt situation of this group is particularly severe. Self-employed clients have a far higher average unsecured debt (£27,739) than the overall charity average (£17,635), as do clients giving failed business as the primary reason for their debt problem (£45,292). Self-employed clients also have the highest Debt-to-Income (DTI) ratio (21:1[23]) of any employment group contacting the charity.

There are indications that clients who own their own business may be turning to secured lending to try to keep it afloat. The average level of secured debts (mortgages and secured loans) held by clients giving failed business as a reason for debt is £219,544, compared to £133,214 for all other clients.

Table 10: Debt and employment status

	2012
Employed full-time	£19,445
Employed part-time	£14,582
Full time carer	£13,658
Housewife/husband	£13,670
Retired	£17,839
Self-employed	**£27,739**
Student	£8,436
Unemployed	£11,888

In addition, a much higher proportion of self-employed clients have contractual payments in excess of 100 percent of their monthly income (26 percent). This may be because their average monthly wage income is lower than the charity average (£1,025). Incomes for the self-employed declined by the most of any group between 2011 and 2012, by £684.

22. Youth unemployment: the crisis we cannot afford; ACEVO; 2012
23. DTI ratio: Monthly income as a proportion of total unsecured debt

4. Debts

Key statistics

- Average unsecured debt has fallen by over £8,000 since 2008 to £17,635
- However, payday loan debts have continued to increase. Almost 19 percent of clients now have payday loan debts worth, on average, £1,657
- Levels of arrears are increasing – 35 percent of clients now have arrears on some type of household bill
- Single parent have the highest levels of Council Tax arrears

Table 11: Debt by volume

	2012
Catalogue	3.2%
Credit card	42.1%
Other	10.2%
Overdraft	7.8%
Personal loan	33.2%
Store card	1.1%
Home credit	0.7%
Payday loan	1.8%

Consumer Credit

Mainstream credit

The average unsecured debt of StepChange Debt Charity clients has fallen over recent years, from £25,664 in 2008 to £17,635 in 2012. The highest levels of debt are still on mainstream, long-term or rotating, forms of credit, credit cards (£10,006) and personal loans (£10,204). The levels of debt on other forms of credit are much lower, with overdraft debt, the next highest (£2,026), still almost £8,000 lower.

Because levels of debt are so much higher on credit cards and personal loans, over three-quarters of the total debt handled by the charity concern these products.

Analysis of our database also indicates serious problems with multiple credit card debts. Half of clients have two or more credit cards, while over one in ten have five or more. The total level of debt on credit cards increases at a much faster rate the more credit cards an individual holds. So, while somebody with two credit cards (£6,248) owes twice what an individual with one owes (£3,115), somebody with five or more owes almost nine times as much (£26,838).

However, debts have fallen sharply on both: by 24 percent on credit cards and 23 percent on personal loans (see Chart 10) and this fall in total debt has been matched by a long-term decline in the proportion of clients with a credit card or personal loan. Although credit cards remain the most commonly held form of debt among our clients, the proportion of clients with one has fallen from 81 percent in 2010 to 73 percent in 2012. The decline in the proportion of clients with a personal loan has been similarly steep, falling from 70 percent to 61 percent over the previous three years. There has also been a fall in the proportion of clients with an overdraft, but this has been less severe (from 72 percent to 67 percent) and levels of debt have declined much less steeply (five percent).

Chart 9: Multiple credit card debt

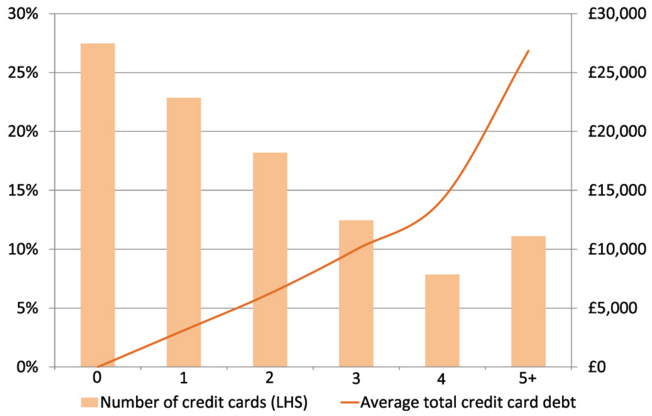


Chart 10: Mainstream credit

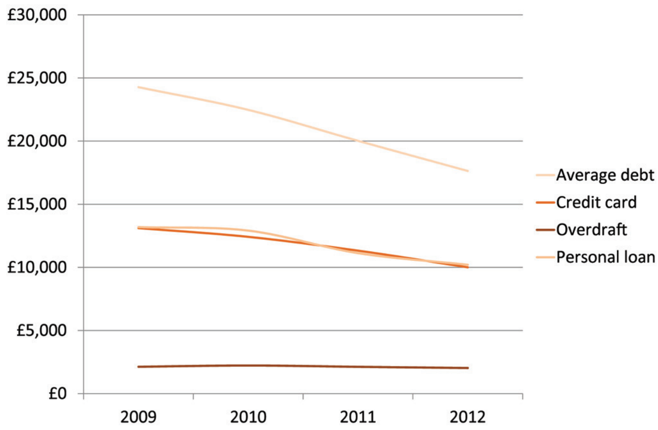


Chart 11: Debt by housing type

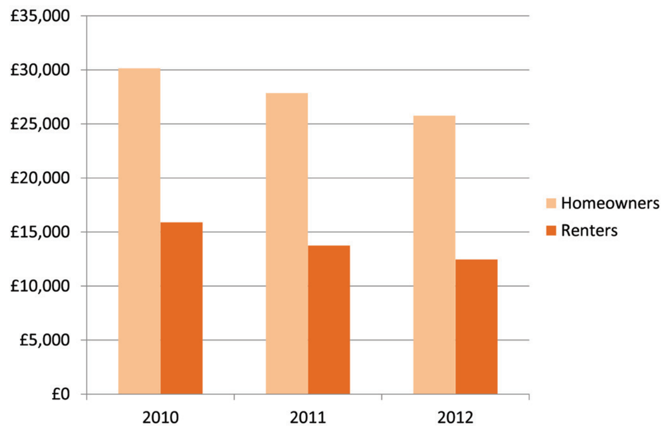


Table 12-13: Debt by household type and income

	2010	2011	2012
Couple without dependent children	£28,256	£25,059	£22,583
Couple with dependent children	£28,854	£25,910	£23,125
Single without dependent children	£16,911	£14,848	£13,143
Single with dependent children	£17,107	£15,149	£13,184
	2010	**2011**	**2012**
Under £10,000	£14,344	£12,129	£11,093
£10,000-£19,999	£19,294	£16,567	£14,801
£20,000-£29,999	£27,904	£25,431	£22,493
£30,000 and over	£44,216	£40,930	£37,257

Older and more affluent clients are more likely to have high levels of consumer credit debt, as are homeowners. Across all age groups over-60s hold the most unsecured debt (£22,435), while those who earn over £30,000 (£37,257) owe, on average, three times more than those earning under £10,000 (£11,093). Homeowners owe double the amount of renters. However, clients in the private rental sector are likely to have much higher unsecured debts and a correspondingly higher DTI ratio than those in the social sector. The data indicates this may be due to higher rental costs. As discussed below the level of their rent arrears are likely to be higher.

Among household groups the highest levels of unsecured debt are held by couples with children (£23,125), while single parents own £13,184.

High cost credit and help from family or friends

While debts on mainstream forms of credit have fallen, payday loan, home credit and catalogue debts are rising, significantly in the case of payday. Although debts on these types of credit tend to be lower the detriment they cause can be extreme due to high repayment costs. Over 65 percent of clients with a payday loan have contractual payments worth more than 100 percent of income compared to 14 percent of all other clients. This has led to a rise in the proportion of clients who have a contractual repayment amount greater than their monthly income. Last year one-fifth of clients were in this position.

Table 14: High cost credit

	2010	2011	2012
Catalogue	£1,501	£1,695	£1,808
Store card	£1,277	£1,341	£1,196
Home credit	£1,388	£1,309	£1,361
Payday loan	£1,220	£1,267	£1,657
Family or friends	£3,605	£3,488	£3,519

Payday loans

The average payday loan debt (£1,657) now exceeds the average monthly income of clients with this type of loan (£1,320). This rise has been matched by an increase in the average number of payday loan debts held by each client, almost doubling from 1.6 in 2009 to three in 2012, and a rise in the number of clients with payday loans. Almost 19 percent of StepChange Debt Charity clients had a payday loan in 2012 (equating to over £60 million worth of debt), compared to just over two percent in 2009 (£5 million). The more payday loans held by an individual, the higher their level of payday loan debt. A client with one payday loan will, on average, owe £686, those with five, £3,360. Evidence to the Public Accounts Committee in January indicated that repeat payday loan customers take out much higher loans than first-time borrowers.[24]

Our evidence further suggests that payday loans may be being provided inappropriately to those who are unlikely to be able to repay them. Clients giving *lack of budgeting* or *used credit for living expense* are more likely to have a higher number of payday loans. We are concerned that these findings indicate a significant amount of bad practice in the payday lending market, specifically:

Inappropriate marketing

Poor credit checking procedures

More intrusive statutory solutions may be necessary to effect successful change. In relation to the payday sector, the OFT has already stated "there appear to be higher levels of compliance where the statutory requirements placed on lenders are more prescriptive…in areas where lenders' obligations are mainly set out in guidance, compliance is lower."[25]

Table 15: Payday loans

	2009	2010	2011	2012
Clients with a payday loan	4,493	7,841	17,414	36,413
Proportion of clients with a payday loan	2.2%	3.9%	9.0%	18.5%
Average number of payday loans per client	1.6	2.1	2.3	3.0
Average value of payday loans per client	£1,188	£1,220	£1,267	£1,657

Other data shows lower-income consumers are more likely to access high-cost credit. Over a quarter of clients with catalogue or home credit debts have incomes lower than £10,000 a year, with a similar proportion of people with low incomes using payday loans.

24. Public Accounts Committee; Oral evidence on the effectiveness of consumer credit regulation; 16 January 2013
25. Payday Lending Compliance Review; Office of Fair Trading; 2012

Table 16: Debt type by income level

	2012			
	Under £10,000	£10,000-£19,999	£20,000-£29,999	£30,000 & over
Catalogue	25.0%	43.6%	21.9%	9.5%
Credit card	23.2%	41.2%	23.1%	12.5%
Overdraft	26.1%	40.9%	21.6%	11.4%
Personal loan	22.7%	41.3%	23.5%	12.5%
Store card	20.5%	41.0%	24.5%	14.0%
Home credit	28.4%	47.4%	19.6%	4.7%
Payday loan	23.7%	50.3%	19.3%	6.7%

Over-indebtedness is not only the presence of one significant consumer credit debt, often detriment is produced by a combination of debts causing financial vulnerability. Analysis of our clients' problem debts suggests an interesting interplay between products. We have created a series of 'debt cocktails'. These cocktails show how likely a client with one type of debt is to have another type and how levels of debt increase or decrease depending on the product matrix of an individual. For example, 60 percent of clients with a payday loan have an overdraft, owing, on average, £1,554 on this form of credit.

The debt cocktails reveal the following:

Clients with payday loans: less likely to have other forms of credit, but more likely to have borrowed from friends or family

Clients with a catalogue debt: on average, a higher number of personal loans and store cards

Clients with a credit card: very high personal loan and payday loan debts. They are likely to hold the highest number of payday loans

Clients with a store card: most likely to have every other type of debt, except for payday loan debt and debt to family or friends. On average they have the highest levels of catalogue and credit card debts

Tables 17-22: Debt cocktails

Clients with a payday loan	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt	34.2%	57.1%	60.2%	50.4%	10.6%		32.9%
Average number of debts	0.73	1.36	1.38	1.05	0.15	3	0.35
Average size of debt	£1,598	£3,543	£1,554	£6,115	£798		£2,577

Clients with a catalogue debt	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt		74.3%	66.1%	62.6%	21.7%	15.1%	24.9%
Average number of debts	1.94	2.72	1.38	2.02	1.49	2.96	1.01
Average size of debt		£6,919	£1,652	£7,999	£1,122	£1,549	£2,683

Clients with a credit card debt	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt	31%		71.9%	64%	17.7%	10.5%	21.8%
Average number of debts	1.93	2.78	1.37	1.80	1.45	3.17	1.01
Average size of debt	£1,800		£2,211	£10,440	£1,203	£1,735	£4,002

Tables 17-22: Debt cocktails (continued)

Clients with an overdraft debt	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt	30.1%	78.5%		65.1%	17.5%	12.3%	22.7%
Average number of debts	1.88	2.87	1.35	1.81	1.44	3.16	1.01
Average size of debt	£1,664	£10,463		£9,921	£1,163	£1,638	£3,761

Clients with a personal loan debt	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt	31%	76%	70.8%		16.9%	11.2%	22.2%
Average number of debts	1.91	2.78	1.37	1.84	1.45	3.15	1.01
Average size of debt	£1,682	£9,713	£2,086		£1,174	£1,641	£3,634

Clients with a store card debt	Catalogue	Credit card	Overdraft	Personal loan	Store card	Payday loan	Family or friend
Proportion with other types of debt	42%	83.6%	75.7%	67.3%		9.4%	23.6%
Average number of debts	1.98	3.10	1.41	1.87	1.44	2.91	1.01
Average size of debt	£1,821	£10,606	£2,005	£10,396		£1,523	£3,322

Kellie (20) is an office worker from the northwest. Her debt problems began when she left her job in the financial services sector due to a stress-related illness.

Prior to leaving her job, Kellie had an overdraft, credit cards and some catalogue debts, but was comfortably managing her monthly payments.

During the period she was unemployed her debts mounted and she turned to payday loans. She was soon taking out payday loans to pay off previous payday loans and before long she reached a point where all of her available monthly income was being used to cover interest payments.

By the time she came to StepChange Debt Charity Kellie owed over £6,000 on overdrafts, credit cards, catalogues and six payday loans. She is now on a DMP.

"I'd just turned 18 and it seemed that companies were falling over themselves to offer me credit.

"Initially I asked the bank for a small overdraft after a mistake with my wages. They wouldn't approve an overdraft but offered me a credit card instead.

"After leaving my job my debts got out of hand and I naively took out payday loans. If I had my time again I wouldn't make this mistake.

"By the time it reached crisis point, I couldn't really cope, I was miserable and hated myself a bit for the situation I'd got myself into.

"Since being with StepChange Debt Charity I feel far more comfortable and know exactly where I stand."

Arrears on household bills

While unsecured debt levels fell, levels of arrears on household bills, particularly on priority expenditure, are rising. Average total arrears on household bills rose from £2,134 in 2011 to £2,258 in 2012. Over the same period the proportion of clients with arrears on at least one household bill has increased from 27 percent to 35 percent. This is related to the continuing squeeze on family finances. Between 2009 and September 2012, nationally households lost an average of about 1.7 percent per year in real purchasing power.

Clients over 60 appear to be particularly affected with the highest overall levels of arrears. Single parents have the highest levels of rent, Council Tax and water arrears. Upcoming policy changes, concerning market rent levels, Council Tax relief and social tariffs may exacerbate difficulties in 2013.

Clients are more likely to have arrears on priority expenditure, in particular Council Tax, energy, mortgages and rent.

Table 23: Arrears by age

	2012			
	Under 25	25-39	40-59	60 and over
Average arrears	£457	£958	£1,453	£1,565

- **Council Tax:** The proportion of clients with Council Tax arrears increased from 8.7 percent in 2011 to 13 percent in 2012. The average level of arrears has increased by £65 over the same period to £782. In this context we are concerned that the government has reduced support for Council Tax relief and localised it. Analysis of the new locally designed Council Tax Support Schemes, in place from April 2013, indicates the 2.5 million people not in employment currently receiving full relief from Council Tax will now have to pay between £96 and £255 a year. The research identifies single parents who work part-time and are dependent on childcare as the most vulnerable[26].

StepChange Debt Charity data suggests that single parents are already caused most difficulty by Council Tax bills, owing £917 in Council Tax arrears, £150 more than any other household type. 17 percent of single parents advised by the charity have Council Tax arrears, compared to 12 percent of all other clients.

StepChange Debt Charity recently advised a client who was being chased by a debt collection agency, working on behalf of a large energy supplier. The agency has sent someone to her property six times and is constantly disputing the DMP budget. The collection process has inflated the original debt significantly. From August to September 2012 it increased by £297 and the current statement lists the balance as £1,598 plus costs. Debt began as a £750 gas bill.

- **Energy arrears:** Just under nine percent of clients have electricity arrears and 6.3 percent of clients gas arrears, the level of electricity arrears (£488) is higher than gas arrears (£455). For both forms of supply, there have been significant increases in the number of people with arrears and the size of those arrears. Around three percent of clients owe money to previous gas or electricity suppliers (£841).

A high proportion of clients appear to be in fuel poverty (26 percent). The situation is worse for the over-60s (41 percent), and single parents (33 percent).

For StepChange Debt Charity clients who have energy arrears, 38 percent have a negative budget. We are aware that the majority of suppliers are reducing their social tariffs in anticipation of the warm home discount scheme. Consumer Focus research shows this may result in households receiving less support than they did previously[27].

26. *No clear benefit; Resolution Foundation; 2013*
27. *Consumer Focus briefing on the Warm Home Discount Scheme; Consumer Focus; 2012*

Table 24: Energy arrears

	2011		2012	
	Proportion of clients with arrears	Size of arrears	Proportion of clients with arrears	Size of arrears
Electricity	6.5%	£440	8.9%	£488
Gas	4.9%	£408	6.3%	£455

Debt collection

The rise in arrears debt can be particularly problematic for households due to aggressive debt collection. The charity is very concerned about the way some debts are collected. In 2012 StepChange Debt Charity clients reported numerous instances of bad practice both by bailiffs and debt collectors, including:

Excessive charges

Threatening behaviour, including harassment and intimidation

Refusing to consider reasonable repayment offers

Misrepresentation of legal powers

A 26-year old woman told StepChange Debt Charity that a bailiff called at her house to collect unpaid Council Tax. The woman said she was threatened with prison unless she allowed the bailiff in the house. The bailiff asked if she wanted her two-year-old son to be taken from her when she went to prison. The woman had made several offers of payment to the bailiff firm but these were refused for being too low. The bailiff told her they would come back and take all her things unless she paid the outstanding amount.

A woman phoned StepChange Debt Charity in a very distressed state. She said that a bailiff collecting for Council Tax was being very intimidating and insisting he had the right to force entry into her home when he had no legal power to do so. The bailiff tried to bully the woman's teenage children into letting him into the property and tried to make them put pressure on their mother to pay the £350 per month payment he wanted but she could not afford.

- **Mortgages:** The proportion of clients with mortgage arrears has risen since 2011 (from 9.3 percent to 9.5 percent of clients). This finding appears out-of-step with national figures. Financial Services Authority (FSA) data has shown a decline in arrears over the previous two years[28]. It may be an issue that some consumers with high levels of unsecured debts are prioritising repayment on those over meeting housing costs.

  The average level of arrears has increased from £3,086 to £3,338, even though average monthly mortgage payments have declined. Higher levels of unsecured debts can make people more vulnerable to repossession. Previous research by Citizens Advice, AdviceUK and Shelter has indicated this is the case[29]. Levels of mortgage arrears are much higher for groups with high levels of unsecured debt, such as couples with children (£4,229) and the over-60s (£3,904). Research by the University of York has shown the former group is far more likely to have their home compulsorily repossessed[30].

28. FSA statistics on Mortgage Lending: December 2012 Edition
29. Turning the tide?; Citizens Advice; 2009
30. A qualitative study of voluntary possession and selling because of financial difficulties; Janet Ford/DCLG; 2010

- **Rent:** There has been a sharper rise in the proportion of clients with rent arrears than mortgage arrears. This is consistent with the narrative of 2012, which has indicated particular pressures on those in the rental sector leading to an increase in demand for debt advice. Over the past two years, the proportion of clients with rent arrears has increased from 5.6 percent to 8.6 percent.

  Again a breakdown of the rent data suggests greater difficulties facing clients in the private rented sector, who have much higher levels of rent arrears (£1,044) than those renting from local authorities (£641) or housing associations (£781).

  Rent arrears seem likely to increase in 2013.

  A recent YouGov survey for the housing charity, Shelter, reported almost two thirds of the population are struggling to pay their rent or mortgage, with almost one million people turning to payday loans to cover housing costs.

5. Social Policy

Poor creditor behaviour, unsuitable products and unscrupulous practices from debt management companies and debt collectors can cause great consumer detriment. It can exacerbate debt problems, negatively affect family life and do significant psychological damage.

The Social Policy team is represented in all areas of the charity. It gathers information from clients on the organisations and products causing them distress. This helps us understand why clients can experience difficulties.

Around 120 problems are reported to the Social Policy team each month, almost double the number received in 2010. In the survey of clients for the *Statistical Yearbook,* 49 percent said less than half of their creditors treated them well.

Table 25: Number of problems reported to Social Policy 2010-12

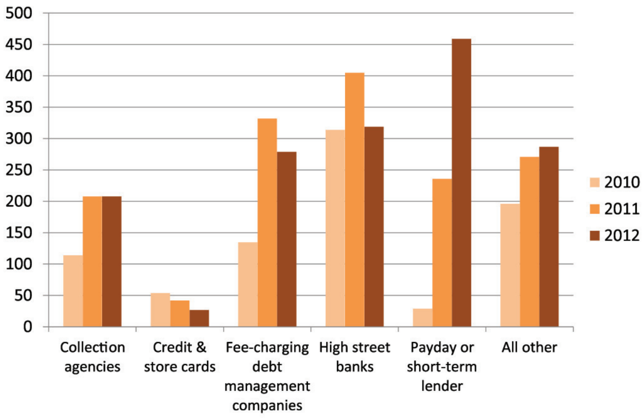
2010	**789** (average 66 per month)
2011	**1345** (average 112 per month)
2012	**1441** (average 120 per month)

Which organisations do clients complain about?

Payday lenders were the biggest source of complaints in 2012 for StepChange Debt Charity clients and the fastest growing – in 2010 four percent of complaints related to payday lenders but by the end of 2012 this had increased to 30 percent. Two of the three most complained-about companies were payday lenders, causing more problems for StepChange Debt Charity clients than much larger mainstream lenders.

In the same period we have seen a slight rise in the number of complaints about high street banks. They remain the second-largest source of problems due to the scale of their businesses and the large volume of StepChange Debt Charity clients with bank debts. Current accounts cause the most problems for our clients, making up 53 percent of complaints about banks in 2012.

Chart 12: Number of Social Policy complaints by type of organisation



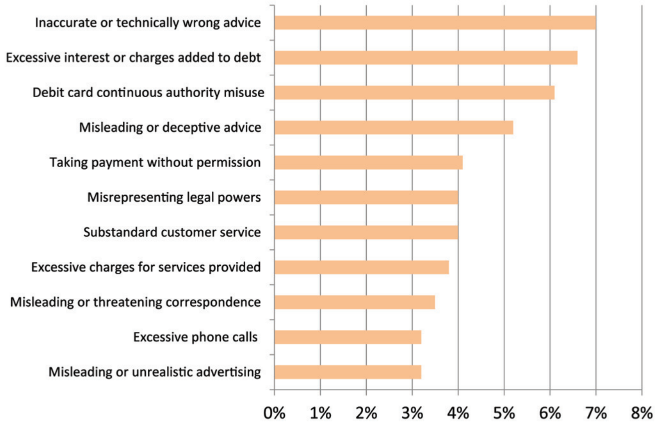
What problems do clients report?

Our Social Policy team categorise the problems reported by clients so we can measure the quantity and trends of specific complaints. The main reasons for clients to complain in 2012 were as follows:

Table 26: Main reasons for complaints by type of organisation 2012

Payday lenders	**1**	Excessive interest or charges added to debt
	2	Debit card continuous authority misuse
	3	Taking payment without permission
	4	Misrepresenting legal powers
	5	Misleading, threatening or inaccurate correspondence
High street banks	**1**	Inaccurate or technically wrong advice
	2	Debit card continuous authority misuse
	3	Substandard customer service
	4	Taking payment without permission
	5	Excessive interest or charges added to debt
Fee-charging debt management companies	**1**	Excessive charges for services provided
	2	Misleading or unrealistic advertising
	3	Providing misleading information about StepChange Debt Charity
	4	Misleading or deceptive advice
	5	Cold-calling
Debt collectors	**1**	Misrepresenting legal powers
	2	Excessive interest or charges added to debt
	3	Misleading, threatening or inaccurate correspondence
	4	Posing as bailiffs
	5	Excessive phone calls or calling at inappropriate times

Chart 13: Top ten reasons for complaint 2012



How do we advise clients?

Our debt advisors will always help a client with problems they report, or signpost them for specialist help with non-debt issues. We recommended 22 percent of the clients who reported problems to Social Policy in 2012 should contact the Financial Ombudsman Service if their complaint was not resolved by the creditor. This was an increase from 17 percent in 2011. In rare cases, we have advised clients to report serious complaints to the police or their MP, but these have decreased slightly from 0.9 percent of Social Policy reports in 2011 to 0.7 percent in 2012.

Themes of 2012

During 2012, our Social Policy team noticed several recurring issues in the reports from our clients which were occurring much more regularly than in previous years:

- **Misuse of continuous payment authority (CPA)**

  The use of stored debit card details to take payments is common among payday lenders. We have seen many cases where these lenders refuse to stop payments when clients are in financial difficulties, causing serious hardship. Since 2009, the law says CPA payments can be cancelled by clients contacting their own bank, but in 2012 our clients reported incorrect advice given about this by branch or call centre staff at every one of the high street banks. This was a major cause of problems for our clients throughout 2012.

- **Increase in high-pressure collection tactics**

  We have seen an increase in unfair collection tactics, especially from payday loan and sub-prime lenders. Examples include lenders using fake court forms, claiming to be bailiffs and misrepresenting their own legal powers. Several lenders are making unacceptable volumes of phone calls, disclosing personal information to family members and employers, and sometimes abusing or threatening clients.

- **The fee-charging debt management industry**

  Throughout 2012 clients have reported companies in the fee-charging debt management industry providing misleading information about StepChange Debt Charity and the free advice sector. We also see these companies cold-calling our clients and claiming to be linked to StepChange Debt Charity to entice these clients into unsuitable debt solutions. Many of these companies appear to offer very poor advice focused on selling the most profitable product.

  We are especially concerned to see several continuing to operate unsafe and unrealistic schemes where the bulk of a client's money is retained by the debt management company with the intention of offering lump-sums to creditors at a future date. We have seen a number of clients lose large amounts of money when schemes like this fail.

  Another concern is the increase in companies charging large amounts to advise clients on completing bankruptcy forms – in 2012 we saw costs up to £2,000 for a service that the StepChange Debt Charity bankruptcy support team provide free of charge.

- **Lack of affordability checks**

  We have seen many cases in 2012 of clients taking out multiple payday loans at the same time, which they could never possibly repay. This has included benefit claimants, students and recent bankrupts, indicating that many payday lenders take insufficient steps to confirm the affordability of their loans. In February 2012 we spoke to one couple who had 36 payday loans between them, which would have required repayments totalling almost £7,000 on their next payday.

Looking ahead: 2013

The data we collect through Social Policy can help us to notice emerging problems at an early stage. Based on the trends we have seen in 2012, we expect the following issues to grow into more significant sources of difficulties for StepChange Debt Charity clients in 2013:

- **Collection tactics from local authorities**

  As financial pressures on local authorities grow we expect to see greater emphasis on recouping Council Tax arrears and benefit overpayments. We have seen more county court actions taken during 2012 to collect overpaid housing benefit. We expect the benefit changes in April 2013 to result in more court and bailiff action as many people on benefit-only incomes become liable to pay some Council Tax.

- **Use of High Court enforcement officers for smaller debts**

  2012 has seen an increase in the use of High Court bailiffs to collect smaller personal debts such as water or mobile phone arrears. Historically High Court bailiffs were rarely used for personal debts. They add large costs to the debt amount and are difficult to stop, so their use causes great hardship and worry for clients. We expect to see more of this in 2013 as these bailiff companies actively promote their services for smaller debts.

- **Guarantor loans and other sub-prime products**

  Alongside payday loans, we have seen an increase in problems with other products aimed at the sub-prime market. Loans where a friend or family member acts as a guarantor can create serious problems where clients are struggling with financial difficulties while family demands to keep paying the guaranteed loan double the pressure. This is made worse where the guarantor was not fully aware of their liability for the loan. Guarantor loans are becoming more common so we expect to see more of the financial and family difficulties associated with them in 2013.

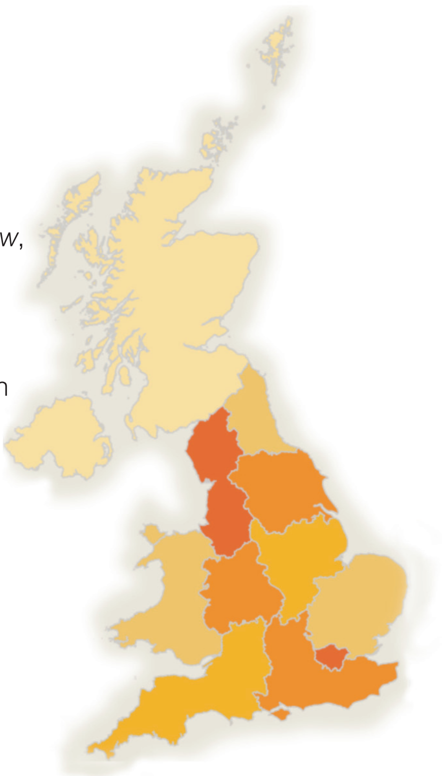
Andrew and Rachel had started an arrangement with a fee-charging debt management company in June 2011, paying £100 per month. In ten months, only one of their twenty creditors received a payment, and this was only £1.60. The company were retaining their funds, claiming they would be able to negotiate a reduced 'settlement' deal using this lump sum. By the time Andrew spoke to us, this company had £1,000 of their money. Due to receiving no payment or communication from the debt management company, one creditor issued a county court claim. When Andrew spoke to this creditor in April 2012, they suggested contacting StepChange Debt Charity instead and we helped them set up a realistic repayment arrangement.

John and Sarah are retired with health problems. They have almost £10,000 mortgage arrears, £3,000 utility arrears and £26,000 in other debts. Their monthly living costs were £800 more than their pension income, meaning their current situation is unsustainable and repossession was almost unavoidable. Two months before speaking to StepChange Debt Charity, they had contacted a fee-charging debt management company. Despite being fully aware of John's and Sarah's situation, including the arrears, this company set up a DMP at £138 per month, including a £35 monthly fee. This advice was unhelpful and unrealistic.

David contacted us in early 2012 after a marital breakdown and loss of job. He had accrued 23 debts including many payday loans, and our advisor recommended a DRO. David had taken out eight separate loans simultaneously with one payday lender totalling almost £9,000, suggesting there were no affordability checks in place. His mother tried to help by making a £50 payment to this company, but they stored her credit card details and took almost £6,000 without permission. Her bank arranged a refund but the payday lender went on to accuse David repeatedly of fraud. The same payday lender continued to add interest which took David's total debt to over £15,000. This meant the DRO we had initially advised was not possible, leaving David with no alternative but to go bankrupt in August.

Appendix A

StepChange Debt Charity collects granular data down to postcode level. *StepChange DebtView*, which breaks down much of the charity's data on a regional level, can be found on the charity's website **www.stepchange.org/debtview.** For further information on what regional data the charity can provide please contact **research@stepchange.org.**



Contact number, telephone and online

	Telephone	Online	Total
2008	267,180	93,979	361,159
2009	335,338	152,872	488,210
2010	287,120	130,472	417,592
2011	229,013	140,484	369,497
2012	264,153	147,110	411,263

Referral source[31]

	2011	2012
Advertising & media	1.2%	1.1%
Creditor	53.9%	49.8%
Internet	4.9%	6.9%
Other	10.0%	10.7%
Partnerships	11.9%	12.2%
Personal recommendation	18.1%	19.2%

Contact numbers, specialist advice

	2010	2011	2012
Welfare benefits	8,709	9,639	8,083
Mortgage debt advice	2,253	657	602
Bankruptcy	7,995	11,192	9,267
Debt Relief Orders (DROs)	12,424	15,419	22,320
Advice plus+	118,009	110,045	107,531
Web support	28,363	22,116	18,017
Client aftercare	818,679	765,207	760,070

Advice sessions

	2010	2011	2012
Quarter 1	54,110	53,937	57,199
Quarter 2	43,475	45,125	49,582
Quarter 3	47,775	47,438	47,398
Quarter 4	40,973	42,512	46,806
Total	**186,333**	**189,012**	**200,985**

31. NB: there has been a change in this analysis since 2011, meaning data is not directly comparable with Statistical Yearbook 2011

Recommendations

	2010	2011	2012
Token payments	4.3%	5.0%	5.0%
Realise assets	2.0%	2.2%	2.7%
Other	3.3%	3.8%	4.4%
Meets actual payments	8.9%	10.1%	9.2%
IVA/Trust deed	6.4%	5.1%	5.4%
Income maximisation	32.0%	28.7%	25.2%
Equity release	0.4%	0.5%	0.5%
DMP/X-Plan	28.0%	29.3%	31.6%
Debt Relief Order (DRO)	4.9%	6.0%	7.4%
Bankruptcy/Sequestration	9.6%	9.3%	8.5%

Debt Management Plans

Average unsecured debt

	2010	2011	2012
Quarter 1	£26,345	£25,119	£20,412
Quarter 2	£25,680	£23,643	£18,567
Quarter 3	£25,316	£23,058	£18,523
Quarter 4	£25,286	£21,382	£18,224
Average	**£25,671**	**£23,256**	**£18,907**

Average surplus

	2010	2011	2012
Quarter 1	£235	£238	£231
Quarter 2	£236	£237	£227
Quarter 3	£237	£235	£226
Quarter 4	£237	£234	£221
Average	**£236**	**£236**	**£227**

DMPs under management

	2010	2011	2012
Quarter 1	107,772	115,319	123,194
Quarter 2	110,174	116,954	125,623
Quarter 3	112,973	119,227	127,935
Quarter 4	113,401	120,477	129,470

Debt under management

	2010	2011	2012
Total debt in DMPs	£3,575,793,911	£3,710,632,968	£3,808,453,565

Debt repayment[32]

	2010	2011	2012
Repayment	£289,397,229	£311,786,808	£326,864,667

32. *Includes debt settlement*

Reason for debt[33]

Combined

	2010	2011	2012
Unemployed/redundancy	24.8%	24.9%	24.9%
Reduced income	23.3%	23.2%	18.9%
Lack of budgeting	5.4%	10.1%	12.3%
Injury/illness	8.6%	9.5%	10.3%
Separation/divorce	8.9%	9.7%	9.9%
Used credit for living expenses	2.7%	3.8%	4.7%
Irregular income	3.2%	4.0%	3.8%
Increased priority expenditure	2.7%	3.1%	3.3%
Failed business	2.1%	2.1%	2.1%
Pregnancy/childbirth	1.8%	1.9%	1.7%
Bereavement	1.2%	1.5%	1.6%
Reduced benefits	0.6%	1.0%	1.6%
Retirement	1.4%	2.0%	1.4%
One-off expense	1.0%	1.0%	1.2%
Change in employment	1.1%	1.0%	0.8%
Caring for relatives/friends	0.6%	0.6%	0.7%
Incapacity/disability	0.4%	0.6%	0.6%
Overcommitted on credit	9.9%	0.0%	0.0%

Gender

	2010		2011		2012	
	Female	Male	Female	Male	Female	Male
Unemployed/redundancy	20.2%	29.5%	21.1%	29.0%	20.9%	29.1%
Reduced income	22.5%	23.9%	22.6%	23.7%	19.4%	18.8%
Lack of budgeting	5.9%	4.9%	10.9%	9.3%	12.9%	11.7%
Injury/illness	9.1%	8.3%	9.7%	9.2%	10.3%	10.1%
Separation/divorce	11.8%	6.1%	12.5%	6.8%	12.4%	7.2%
Other	30.5%	27.3%	23.2%	21.9%	24.2%	23.0%

Income

	2009	2010	2011	2012
Income	£1,443	£1,448	£1,418	£1,379

33. 'Overcommitted on credit' no longer exists as an option

Income / Benefit ratio

All clients

	2009	2010	2011	2012
Wages	£1,445	£1,493	£1,389	£1,349
Benefits	£387	£471	£462	£493
Benefit ratio	26.8%	31.5%	33.2%	36.6%

Couples with dependent children

	2009	2010	2011	2012
Wages	£1,743	£1,727	£1,704	£1,648
Benefits	£359	£466	£451	£495
Benefit ratio	20.6%	27.0%	26.5%	30.0%

Couples without dependent children

	2009	2010	2011	2012
Wages	£1,548	£1,519	£1,499	£1,471
Benefits	£401	£438	£415	£436
Benefit ratio	25.9%	28.8%	27.7%	29.6%

Single with dependent children

	2009	2010	2011	2012
Wages	£1,031	£1,016	£1,015	£1,003
Benefits	£504	£644	£636	£649
Benefit ratio	48.9%	63.4%	62.7%	64.7%

Single without dependent children

	2009	2010	2011	2012
Wages	£1,177	£1,149	£1,136	£1,104
Benefits	£308	£315	£322	£340
Benefit ratio	26.2%	27.4%	28.3%	30.8%

Gender (2012)

	Wages	Benefits	Benefit ratio
Female	£1,258	£534	42.5%
Male	£1,471	£425	28.9%

Age (2012)

	Wages	Benefits	Benefit ratio
Under 25	£928	£461	49.7%
25-39	£1,354	£539	39.8%
40-59	£1,474	£464	31.5%
60 & over	£1,043	£383	36.7%

Employment

All clients

	Q2-Q4 2011	2012
Employed full-time	34.2%	33.9%
Employed part-time	15.9%	16.7%
Full-time carer	1.1%	1.2%
Housewife/husband	1.6%	1.6%
Retired	7.7%	6.8%
Self-employed	10.9%	8.5%
Student	1.2%	1.3%
Unemployed	27.4%	30.0%

Gender (2012)

	Employed full-time	Employed part-time	Full-time carer	Housewife/ husband	Retired	Self-employed	Student	Unemployed
Female	27.9%	24.8%	1.6%	3.0%	7.3%	4.9%	1.7%	28.9%
Male	40.1%	8.1%	0.7%	0.2%	6.2%	12.9%	0.9%	31.0%

Age (2012)

	Employed full-time	Employed part-time	Full-time carer	Housewife/ husband	Retired	Self-employed	Student	Unemployed
Under 25	30.3%	17.9%	0.5%	2.2%	0.0%	1.9%	4.9%	42.3%
25-39	38.5%	18.9%	0.9%	2.9%	0.0%	6.8%	1.7%	30.2%
40-59	36.7%	17.0%	1.6%	0.8%	0.7%	11.4%	0.5%	31.3%
60 & over	8.5%	6.7%	0.8%	0.1%	64.8%	7.5%	0.0%	11.6%

Benefits

Combined

	2010	2011	2012
Child benefit	36.2%	35.7%	35.7%
Child tax credit	25.9%	25.0%	23.2%
Disability living allowance	6.5%	6.7%	7.0%
Incapacity benefit	5.8%	6.7%	7.4%
Income support	6.4%	6.0%	5.8%
Jobseekers allowance	10.8%	10.4%	11.0%
Working tax credit	11.8%	12.1%	11.2%
Total	**55.4%**	**55.2%**	**55.7%**

Benefits (continued)

Jobseekers allowance (by region)

Channel Islands	16.2%
East Anglia	14.8%
East Midlands	14.7%
Isle of Man	18.8%
London	17.0%
North East	14.9%
North West	12.5%
Northern Ireland	12.8%
Scotland	14.2%
South East	13.9%
South West	14.2%
Wales	15.9%
West Midlands	16.3%
West Yorkshire	15.5%

Housing

	2010	2011	2012
Homeowners	48.3%	44.6%	39.0%
Renters	51.7%	55.4%	61.0%

Rental type

	2010	2011	2012
Housing association	18.8%	19.3%	20.3%
Local authority	21.9%	20.8%	20.7%
Private landlord	59.3%	59.9%	59.0%

Unsecured debt

Overall average

	2008	2009	2010	2011	2012
Overall average	£25,664	£24,274	£22,476	£20,023	£17,635

Product type

	2010	2011	2012
Catalogue	£1,501	£1,695	£1,808
Credit card	£12,392	£11,323	£10,006
Other	£5,248	£5,978	£5,368
Overdraft	£2,213	£2,121	£2,026
Personal loan	£12,938	£11,126	£10,204
Store card	£1,277	£1,341	£1,196
Home credit	£1,388	£1,309	£1,361
Payday loan	£1,220	£1,267	£1,657
Family or friend	£3,605	£3,488	£3,519

Gender

	2010	2011	2012
Male	£20,532	£17,804	£19,889
Female	£25,165	£22,449	£15,855

Debt levels

	2010	2011	2012
Under £10,000	34.1%	40.3%	46.6%
£10,000-£19999	25.5%	24.8%	24.2%
£20,000-29,999	16.1%	14.6%	12.7%
£30,000-39,999	9.6%	8.3%	6.9%
£40,000 and over	14.7%	12.1%	9.6%

Multiple credit cards

	Number of credit cards	Average total credit card debt
0	27%	NA
1	23%	£3,115
2	18%	£6,248
3	12%	£9,974
4	8%	£14,225
5+	11%	£26,838

Unsecured debt (continued)

Age

	2010	2011	2012
Under 25	£6,316	£5,443	£5,471
25-39	£18,398	£16,079	£15,628
40-59	£24,902	£22,391	£22,268
60 and over	£24,642	£22,330	£22,435

Income

	2010	2011	2012
Under £10,000	£14,344	12,129	£11,093
£10,000-£19,999	£19,294	£16,567	£14,801
£20,000-£29,999	£27,904	£25,431	£22,493
£30,000 and over	£44,216	£40,930	£37,257

Debt-to-income ratio

	2010	2011	2012
Under 10:1	40.0%	46.6%	53.0%
10:1 to under 20:1	32.1%	30.2%	27.1%
20:1 to under 30:1	13.5%	11.3%	9.3%
30:1 to under 40:1	5.6%	4.5%	3.9%
40:1 and over	8.8%	7.4%	6.7%

Contractual repayment levels

	2010	2011	2012
Under 25%	26.5%	29.8%	28.5%
25% - 50%	34.7%	33.3%	28.9%
51% - 75%	17.1%	15.5%	14.0%
75% - 100%	7.9%	7.4%	7.6%
Over 100%	14.0%	14.1%	21.0%

Household arrears

All (2012)

	Proportion of clients advised	Average arrears amount
Board payment	0.6%	£597
Charging order	0.1%	£8,431
Child maintenance	0.7%	£2,230
Council Tax	13.0%	£782
County Court Judgement	0.9%	£2,688
Electricity	8.9%	£488
Gas	6.3%	£455
Magistrates fines	0.7%	£855
Mortgage	9.5%	£3,338
Mortgage Endowment Premium	0.1%	£1,497
Other fuel	0.2%	£411
Rent	8.6%	£828
Secured loan	2.4%	£2,969
Service charge/ground rent	1.1%	£969
TV license	3.9%	£66
Water	10.3%	£786

Household arrears (continued)

Age (2012)

	Average arrears			
	Under 25	25-39	40-59	60 and over
Board payment	£367	£689	£945	£399
Changing order	£200	£5,736	£9,924	£6,783
Child maintenance	£756	£1,765	£2,889	£944
Council Tax	£528	£716	£889	£777
County Court Judgement	£1,061	£3,167	£2,515	£2,759
Electricity	£340	£485	£511	£573
Gas	£338	£445	£463	£690
Magistrates fines	£465	£868	£1,165	£309
Mortgage	£1,777	£2,376	£3,735	£3,904
Mortgage Endowment Premium	£807	£3,256	£1,099	£655
Other fuel	£285	£409	£424	£445
Rent	£688	£785	£919	£819
Secured loan	£1,537	£2,267	£3,245	£3,279
Service charge/ground rent	£486	£829	£979	£1,772
TV license	£77	£68	£60	£50
Water	£324	£1,146	£559	£458
Total	**£457**	**£958**	**£1,453**	**£1,565**

Survey results

This survey data is based on a poll carried out with 950 StepChange Debt Charity DMP clients.

Prior to contacting any debt advice charity was there anybody you had spoken to about your debt problems?	2011	2012
Close family/friends	25%	25%
Doctor/other medical professional	2%	1%
No one	23%	28%
Other	8%	7%
Partner	42%	38%

How long was it between starting to worry that your debt was a problem and seeking help from any debt advice provider?	2011	2012
1-3 months	15%	13%
4-6 months	17%	22%
7-9 months	11%	11%
10-12 months	12%	14%
Over a year	45%	40%

Household arrears (continued)

Household type (2012)

	Average arrears			
	Couple with dependent children	Couple without dependent children	Single with dependent children	Single without dependent children
Board payment	£1,134	£1,035	£516	£556
Changing order	£8,110	£4,772	£7,598	£9,131
Child maintenance	£2,404	£2,907	£1,651	£1,995
Council Tax	£786	£735	£917	£719
County Court Judgement	£4,391	£2,118	£1,641	£2,138
Electricity	£543	£494	£473	£439
Gas	£484	£487	£486	£386
Magistrates fines	£1,177	£583	£1,168	£602
Mortgage	£4,229	£3,145	£2,864	£2,667
Mortgage Endowment Premium	£1,463	£886	£1,762	£1,943
Other fuel	£432	£391	£466	£322
Rent	£810	£765	£959	£778
Secured loan	£2,655	£3,249	£3,338	£2,703
Service charge/ground rent	£786	£798	£1,075	£1,042
TV license	£60	£59	£73	£67
Water	£573	£531	£1,090	£890
Total	**£1,384**	**£1,317**	**£1,043**	**£993**

Survey results (continued)

If you are in a relationship, has being in unmanageable debt led to it:	2011		2012	
		Ex. NA		Ex. NA
About the same	29%	37%	25%	33%
Breaking up	9%	11%	8%	11%
Getting weaker	19%	24%	18%	24%
Growing stronger	16%	21%	15%	20%
Not applicable	22%	NA	24%	NA
None of the above	5%	7%	9%	12%

Have your debt problems had a negative impact on your relationships with friends and family?	2011	2012
Yes	31%	30%
No	34%	39%
I haven't told them	35%	31%

Survey results (continued)

How much has your debt problems affected your self-confidence/faith in your own ability to support yourself or your family?	2011	2012
A lot	47%	36%
Somewhat	35%	42%
Not at all	7%	12%
Hard to say/don't know	11%	10%

Do you believe that if you had received more financial education in school you would have avoided unmanageable debt?	2011		2012	
		Ex. NA		Ex. NA
Yes	46%	49%	42%	44%
No	21%	22%	22%	23%
Not applicable	5%	NA	3%	NA
Hard to say/don't know	28%	29%	32%	33%

Are you aware that Universal Credit will be introduced in October 2013? Do you feel suitably prepared?	2011	2012
Yes, aware and feel prepared	NA	3%
Yes, aware but feel unprepared	NA	8%
Don't believe Universal Credit will affect	NA	28%
Unaware	NA	52%
Hard to say/don't know	NA	9%

How important is help from benefits and tax credits in helping you pay for essentials?	2011	2012
Very important	NA	28%
Quite important	NA	7%
Don't receive any	NA	57%
Unimportant	NA	5%
Hard to say/don't know	NA	3%

Prior to seeking advice, would you say your creditors treated you well?	2011	2012
All did	NA	13%
More than half did	NA	17%
About half did	NA	21%
Less than half did	NA	29%
None did	NA	21%

StepChange Debt Charity

For more information about this report:
Call: 0207 3914598
Monday to Friday 8am to 8pm
Email: policy@stepchange.org
Online: www.stepchange.org

Write to StepChange Debt Charity London Office:
6th Floor, Lynton House,
7-12 Tavistock Square
London WC1H 9LT

For help and advice with problem debts:
Call: 0800 138 1111 Monday to Friday 8am to 8pm
and Saturday 9am to 4pm

Online: www.stepchange.org