

The Effectiveness of Current Debt Solutions

PRESENTATION STRUCTURE

- **BACKGROUND:** Objectives and Methodology
- **SUMMARY:** Findings, Challenges and Opportunities
- **SECTION 1:** Pre-solution: Setting the Scene
- **SECTION 2:** Obtaining a Debt Solution
- **SECTION 3:** Being in a Debt Solution
- **SECTION 4:** Post-solution

BACKGROUND:

Objectives and Methodology

The debt solutions landscape has evolved over time, with new options added, and criteria and threshold levels changing the way in which people qualify for help.

At the same time, the types of debt problems reported have been changing. In recent years, the percentage of advice clients who are struggling with essential living costs and household bills has increased.

Given this changing landscape, the Money Advice Service is undertaking a review of the existing formal and informal debt solutions that are available, to understand the extent to which they meet the needs of over-indebted people. This review will consist of:

- **Literature review** – to understand what is currently detailed on this area in literature
- **Qualitative research** – to provide additional insight on the experiences of over-indebted people
- **Stakeholder consultation** – to understand the views of creditors, advice providers and other relevant parties
- **Final review & report** – to bring together the information from all three stages into final recommendations

This report details findings from **stage 2 (qualitative research)** which was conducted in March – April 2016.

QUALITATIVE RESEARCH OBJECTIVES

Provide insight on the experiences of over-indebted people in relation to debt solutions

Map clients' journeys through debt solutions - from the circumstances which create a need for a solution, through to sourcing, securing, implementing and eventual outcome (and beyond)

Identify barriers & problems experienced by clients at different points of their journey, and investigate the underlying causes of these

Investigate the extent to which solutions meet the needs and expectations of the client

Provide evidence-based findings to support the development of a series of recommendations regarding the debt solutions marketplace: in terms of potential changes and additions to the solutions themselves as well as how they are being communicated and implemented

METHODOLOGICAL OVERVIEW

- 47* in depth interviews carried out with individuals who had experienced or were in the process of experiencing six different debt solutions
 - Bankruptcy
 - Debt Relief Orders (DROs)
 - Individual Voluntary Arrangements (IVAs)
 - Debt Management Plans (DMPs)
 - Trust Deeds
 - Debt Arrangement Scheme (DAS)
- Broad geographical spread, covering six main geographical regions, with:
 - 26 interviews in England – to understand experiences of bankruptcy, DROs, IVAs, DMPs
 - 21 interviews in Scotland – to understand experiences of DAS, Trust Deeds and Scottish bankruptcy (sequestration)
- Interviews included debt solution journey mapping; discussion of financial documents and their hopes and ambitions for the future



*Plus two additional interviews with respondents who had made informal arrangements with creditors but wrongly believed they had a DAS – taking the total to 49

METHODOLOGY: DEMOGRAPHICS

Broad geographical spread, covering six main geographical regions (London, Birmingham, Manchester, Bradford, Glasgow and Edinburgh)

21 respondents in Scotland and 26 in England

All respondents aged between 27 and 68

Included a range of incomes with a skew towards those with annual income of >£15,000

36 respondents were women and 11 were men

Six respondents classified as BAME



METHODOLOGY: SAMPLING

The recruitment screener segmented respondents into quotas according to four different statuses of their solution: **(1) currently in (2) completed and taken out another solution (3) completed and not taken out another solution and (4) not completed solution.**

The sample also included a mix of those who were satisfied and dissatisfied with their solutions

All respondents had taken out their solutions within the last 5 years, apart from Bankruptcy and DRO respondents who had taken them out within the last 2-3 years

Solution	Currently in	Completed and not taken out another solution	Completed and taken out another solution	Not completed	Totals
Bankrupt	3	4	2		9
DMP	5	2	1	3	11
DRO	1	3	1	1	6
IVA	4	1		3	8
DAS	2	2			4
TD	4	4	1		9
Total	19	16	5	7	47

INSIGHTS FROM RECRUITMENT

The lived experiences of respondents were often a lot more complex than the recruitment quota allowed for:

‘Completed and not taken out another solution’ *did not necessarily mean* they were not likely to take out another solution in the near future

‘Non-completes’ for bankruptcies and DROs are a very small and specific group of people

Respondents often confused solutions (particularly DMPs and DAS) with informal and individual arrangements made with creditors

Respondents found it difficult to articulate whether they had a negative or positive experience – given that few had high expectations of their solutions

SUMMARY:

Findings, Challenges and Opportunities

KEY FINDINGS

Respondents largely sought help when they were under considerable duress and only when their debt problems had reached a 'critical point'. Many needed continued, repeated triggers to take action.

It was not uncommon for people to seek advice from only one provider or to know very little about the range of debt solutions available. Consequently, many relied on the recommendation of a single provider (or adviser).

Most respondents perceived their solution to have delivered against expectations; however people tended to have limited expectations other than immediate relief. This was often because people left seeking help until their debts had become completely unmanageable.

In some cases, the immediate relief of the solution masked future problems – such as an inability to meet repayments or unexpectedly high fees.

Where positive experiences were recorded this was largely the result of a thorough upfront affordability assessment, ongoing provider communication and a level of customer control – as well as a positive attitude and motivation to remain debt-free

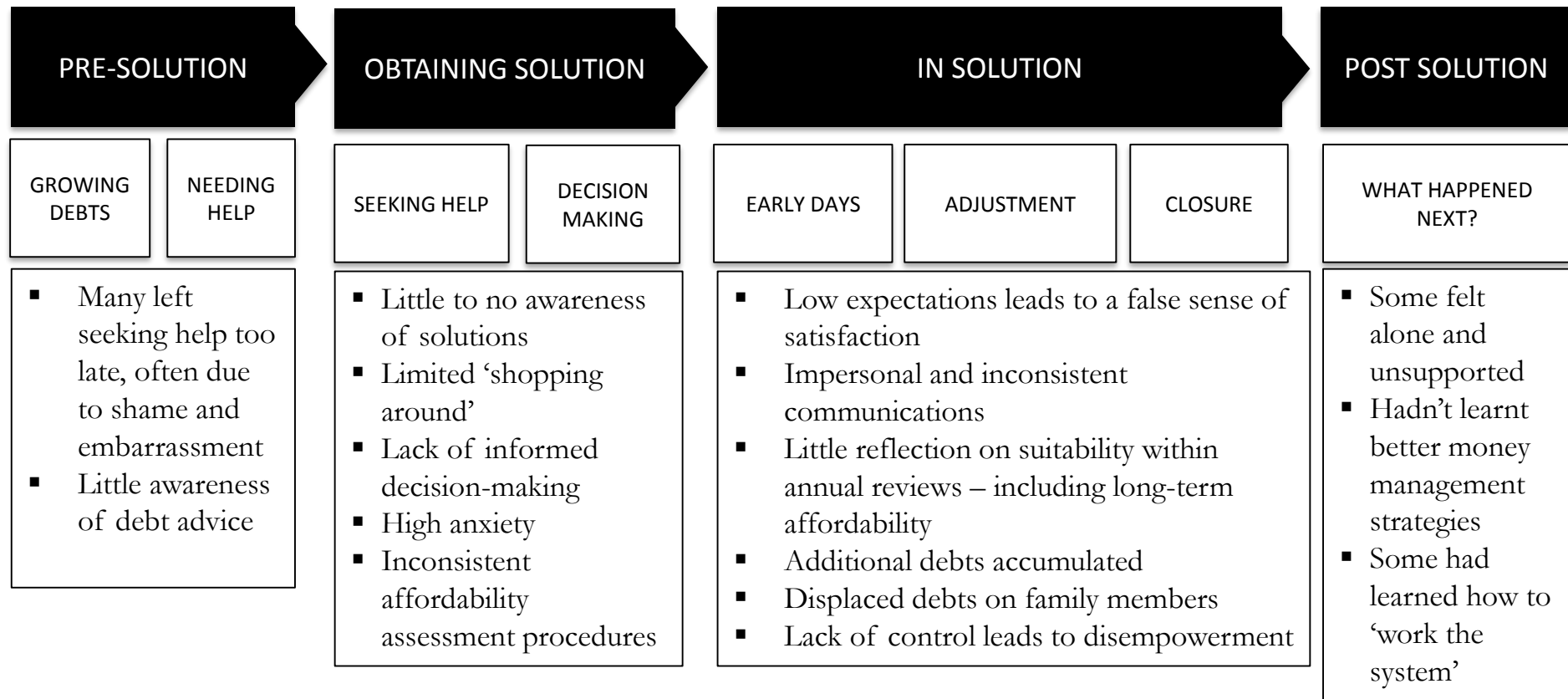
Insolvency options were effective in clearing a debt for people. However, with limited help given with building financial capability, some built up new debts whilst in solution, whilst others worried about how they would manage 'post-solution'.

Whilst many found being on their debt solution difficult, the default was to 'just keep going' rather than contact their providers for help. Many felt bound by the 'formal' nature of debt solution contracts and felt they had to suffer in silence.

A number of respondents 'didn't complete' their solution. Whilst often this was due to affordability issues, it could also be due to finding a solution that they perceived to be more appropriate

A small number of respondents amassed further debt while on their solutions and subsequently needed another. This meant that in some cases debt solutions had become part of a cycle of indebtedness

CHALLENGES ACROSS THE JOURNEY



KEY FINDINGS ON SOLUTIONS:

BANKRUPTCY AND DRO

- Effective in clearing a debt for people
- Restrictions imposed during solution can lead to:
 - Defaulting on other payments (e.g. utility bills, council tax)
 - Displaced debt onto partners/family members
- Some continue credit use - above the allowed limit
- Anxiety over how to manage post solution – especially after being ‘thrown back into society’

DMP

- Viewed as an informal opportunity to gain ‘breathing space’ from creditors
- Often ‘too long’ which decreases motivation
- Low awareness of provider fees or how creditors are being managed

IVA AND TRUST DEED

- Effective when assessments are done thoroughly
- Possibility of deferring payments delivers a ‘breathing space’ for some
- Can cause significant hardship and anxiety due to tight budget/unrealistic assessments
- Anxiety over how to manage post-solution, without structure and support
- Some are unable to meet repayments, leading to termination. This is often followed by bankruptcy

DAS

- Little to no awareness of solution prior to entering into it
- Delivers stability and structure
- Online portal enables greater control

RECOMMENDATIONS

- Develop a system whereby individuals showing signs of financial stress are identified earlier – including those who have been on more than one debt solution
- Ensure that a more consistent and thorough affordability assessment is used, which considers the whole household where appropriate
- Provide (and ensure customers are aware of) a ‘cooling off period’ to ensure customers are happy with their solution when they have had greater opportunity to reflect
- Ensure greater transparency over fees and solution characteristics and place greater emphasis on the individual’s need to engage with and compare the different solutions available to them
- Ensure that all providers are encouraging individuals to take the solution seriously and are not framing their relative benefits in relation to accessing further credit
- Provide ongoing support and aftercare to improve financial capability and ability to manage post-solution. This could include developing tools to improve overall capability rather than simply helping individuals ‘escape the pressure of debt’

SOLUTION SPECIFIC RECOMMENDATIONS

BANKRUPTCY AND DRO

- Ensure providers communicate the risks associated with breaking solution sanctions (e.g. continued credit use)
- Ensure providers engage in thorough discussion with clients about the impact the solution will have on their whole household
- Provide support or after-care at the end of the term for those who feel they are 'being thrown back into the world'

IVA AND TRUST DEED

- Ensure thorough income and expenditure assessments are delivered, across the whole sector
- Ensure users understand they are entitled to have a break from the solution
- Provide post-solution advice on financial management without a structured repayment plan

DMP

- Ensure that providers communicate T&Cs (e.g. fees & length) in a way that means clients fully understand them
- Ensure that clients attracted by the 'informality' of DMPs fully understand their implications
- Better support clients to disclose details of *all* their creditors during the set-up phase
- Ensure that all creditors receive (and acknowledge) communications when DMPs are set up
- Ensure DMPs are not too lengthy as this can lead to demotivation

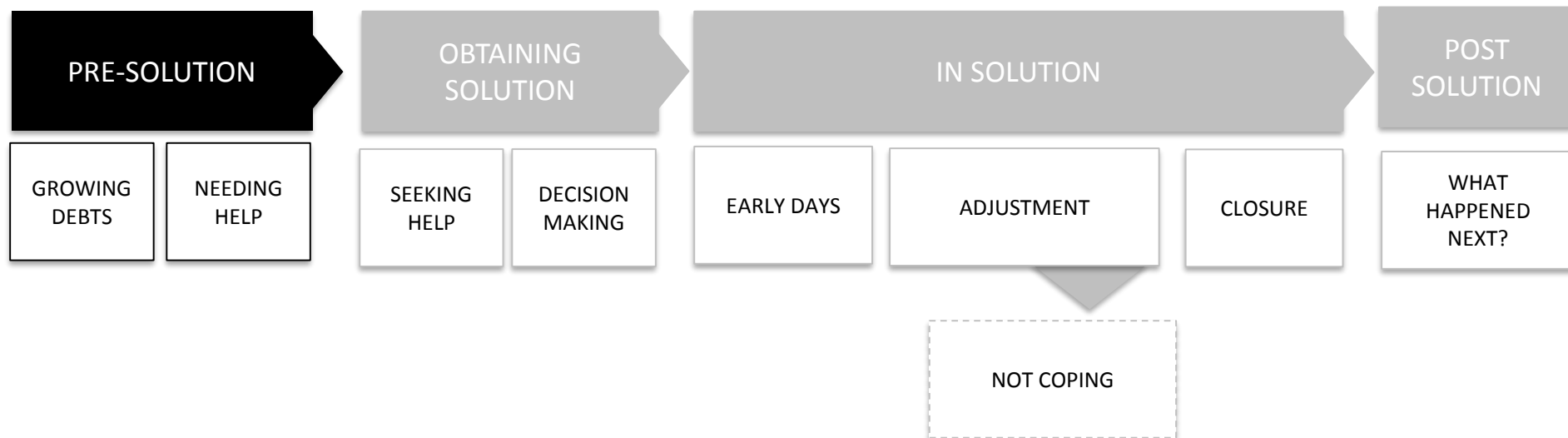
DAS

- Increase awareness and understanding of DAS in Scotland

SECTION I:

‘Pre-solution’ - *Setting the scene*

PRE-SOLUTION: *Growing Debts and Needing Help*



N.B. An individual's journey into and through a debt solution is a complex and often an un-linear process – with individuals moving in and out of the journey at numerous points. The above journey is therefore to aid presentation.

Respondents’ circumstances could be broadly clustered into four groups...

<div>INCOME SHOCK</div> <div>Unexpectedly indebted</div>	<div>STRUGGLING</div> <div>Arrears and credit 'only' way to cope</div>	<div>LEGACY DEBT</div> <div>Stuck in minimum repayment trap</div>	<div>LIFESTYLE DEBTS</div> <div>Debts accumulated over time</div>
<ul style="list-style-type: none">▪ Debt a result of 'income shock'– such as a serious illness or redundancy▪ Ashamed and embarrassed of debt▪ Want to repay debt quickly in order to 'return to normal'	<ul style="list-style-type: none">▪ Debt accumulated over long periods of time – often due to unemployment or low income▪ Dependent on debt to 'manage'▪ Frequently pursued by creditors and debt collectors	<ul style="list-style-type: none">▪ Debt is historic, compounded by years of minimum repayments▪ Have a short rather than long-term perspective about dealing with debt▪ Want to remove burden of managing payments to historic creditors	<ul style="list-style-type: none">▪ Debt accumulated after years of taking out credit for lifestyle purchases▪ Despite steady income, have become habitually indebted▪ Want to relieve pressure of managing multiple debts and creditors

HELEN, 39

INCOME SHOCK

Location: Glasgow

Income: £29k

Employment: Part-time
insurance worker

Household: Husband and
two children

Solution and status: DAS, currently in this solution

Debt amount pre-solution: £20k (credit cards,
store cards, personal loans)

Arrangement: £175 per month for four years

Debt now: Being repaid

“My husband and I were both made redundant at the same time, and I was pregnant too. It just happened all of a sudden.”

JACKY, 36

STRUGGLING

Location: Bradford

Income: £6.5k

Employment: Stay at home mother


Household: Two children, unemployed partner

Solution and status: DRO, completed, currently taking out another solution (DMP)

Debt amount pre-solution: £15k (credit cards, store cards, personal loans, unpaid bills)

Provider: Step Change

Debt now: £5k in debt (credit cards, water bills, council tax, CWP, contraventions)



“I’ve got two kids and a partner who’s been sanctioned for support. We haven’t got anything”

MARTIN, 46

LEGACY DEBT

Location: Glasgow

Income: £12-15k

Employment: Receptionist at events company

Household: Single

Solution and status: Trust Deed, completed

Debt amount pre-solution: £21k (personal loans, credit cards)

Arrangement: £100 per month for 3 years

Provider: French Duncan Associates (fee)

Debt now: No longer in debt

“I was making minimum repayments of £185 per month for 10 years. I had to give up acting. It was exhausting”

MAGGIE, 52

LIFESTYLE DEBT

Location: Glasgow

Income: £20k

Employment: Part-time cleaner


Household: Married, six children
(two live at home)

Solution and status: Bankruptcy, completed

Debt amount pre-solution: £21k (Credit cards, catalogue loans, store cards, gas and electricity bills)

Provider: Step Change

Debt now: approx. £10k in provident loans, council tax, credit union, government scheme



“Every year I take out a £3500 loan for Christmas. I’m also going to get another one from the provvy to send my kids to Florida.”

A variety of emotional barriers delayed respondents from seeking help

STRUGGLING

*Arrears and credit
'only' way to cope*

- Anxious about facing up to reality of situation - often wait until "breaking point" before seeking help

LIFESTYLE DEBTS

*Debts accumulated
over time*

- Pressure to maintain a certain standard of living
- Emotional pressure of keeping debt secret

LEGACY DEBT

*Stuck in minimum
repayment trap*

- Accept lifestyle constraints (due to legacy debt) as inevitable
- Social shame and embarrassment

INCOME SHOCK

Unexpectedly indebted

- Debt may be a lower priority than the shock itself
- Social shame and embarrassment

Prior to taking out their solution, most had little knowledge of debt solutions

X	TYPES OF DEBT SOLUTION	Majority of respondents had limited awareness and understanding of different types of debt solution (beyond bankruptcy)
X	TYPES OF PROVIDER	Majority had little awareness of debt solution providers and the differences between them, beyond a sense that ‘charitable’ options were available
X	FEES	Few had any knowledge of the range of fees/charging structures across different types of solution
X	SUITABILITY	Few understood the suitability of solutions in regards to who they are targeted at and what they involve – including protection and repayment

Even the most experienced respondents struggle to navigate the sector...

STRUGGLING

*Arrears and credit
'only' way to cope*

**LIFESTYLE
DEBTS**

*Debts accumulated
over time*

**LEGACY
DEBT**

*Stuck in minimum
repayment trap*

**INCOME
SHOCK**

Unexpectedly indebted

- More likely to have been on a debt solution before
More likely to give and receive advice about debt solutions
 - 'Knowledge sharing' often restricted to specific solutions – largely based on personal experience
- More likely to be in networks where debt is 'normalised' and there is more open discussion on solutions
- Debt is more secretive so less open discussion on debt solutions

- More likely to be 'first timers' to debt solutions
- Less likely to share experiences of debt or discuss solutions with peers – often because of shame and embarrassment

PRE-SOLUTION: *Differences by solution*

BANKRUPTCY

- Most widely known about 'solution' – but also carries most stigma
- In some ways, feels most easy & straightforward – debts are cleared

IVA

- Many had heard of it, but few understood the key characteristics
- Felt to be one of the more complex debt solutions

DRO

- Little awareness of solution across the board
- Limited understanding of the process and individual responsibilities

DMP

- Many understood the concept of a DMP, but didn't necessarily know this is what it is called
- Lots of confusion between DMPs and other informal arrangements with creditors

TRUST DEED

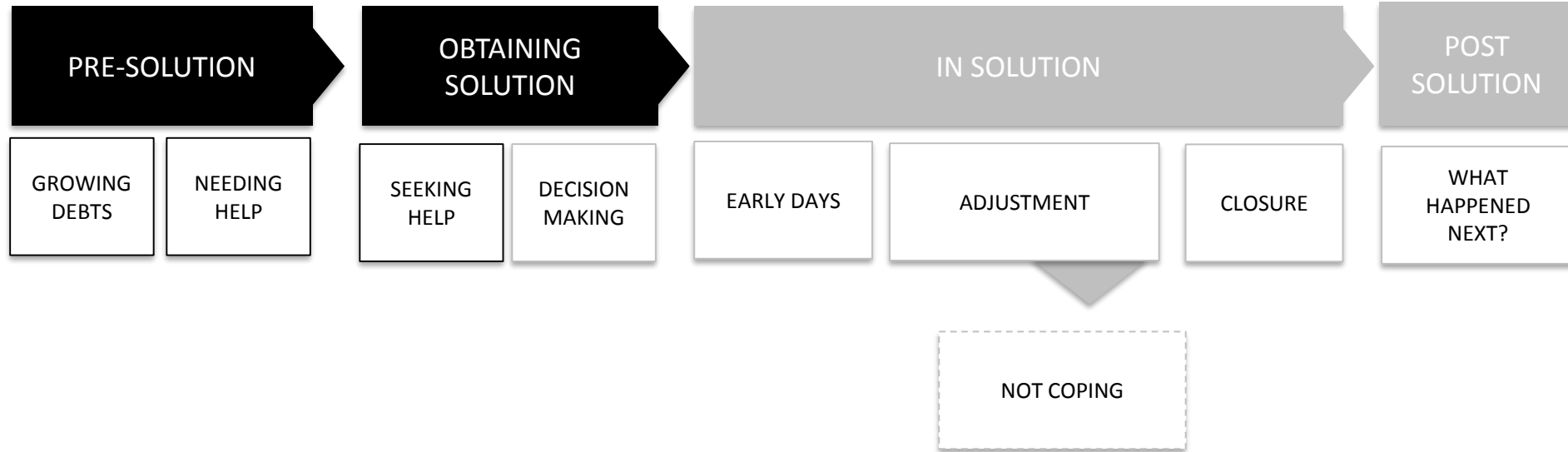
- Advertising had helped drive awareness in Scotland
- Detailed understanding of the solution was rare

DAS

- Limited awareness across board
- Name very confusing, especially for those with limited understanding of DAS

SECTION 2: *Obtaining a Debt Solution*

OBTAINING SOLUTION: *Seeking Help*



N.B. An individual's journey into and through a debt solution is a complex and often an un-linear process – with individuals moving in and out of the journey at numerous points. The above journey is therefore to aid presentation.

Respondents largely sought help when they were under considerable duress and only when their debt problems had reached a 'critical point'

'I had my head in the sand for years, it wasn't until I was pregnant with my second girl that I did anything about it.'
Jacky, DRO

'I was in such a blind panic at that point that as soon as I heard that there was a solution it was like a massive weight lifted off my chest, like being in a black tunnel with no light and then suddenly seeing that there might be a light at the end of the tunnel again.'
Peter, Trust Deed

Continual and repeated 'triggers' to take action were often required for an individual to take decisive action

PURSUAL BY
CREDITORS

BEING SERVED WITH
A COUNTY COURT
JUDGEMENT

FEELING OVER-
BURDENED

ENCOURAGEMENT
FROM FRIENDS AND
FAMILY

APPROACHED BY
SOLUTION PROVIDER

FEELING LIKE A
FAILURE

WANTING A FRESH
START

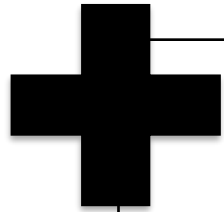
SEEING
ADVERTISEMENTS

REFERRED BY
GP/HCP/ CREDITOR

*'The debt was all too much.
After my suicide attempt,
my daughter pushed me to
get help'*
Lillian, Bankruptcy

*"The credit card company
was so nice in the letter.
They just said if I was
experiencing financial
difficulties I had options...
it made me feel like I
wasn't the only one."*
Karen, DMP

The tipping point for many was when the benefits of taking action outweighed the fear of seeking support



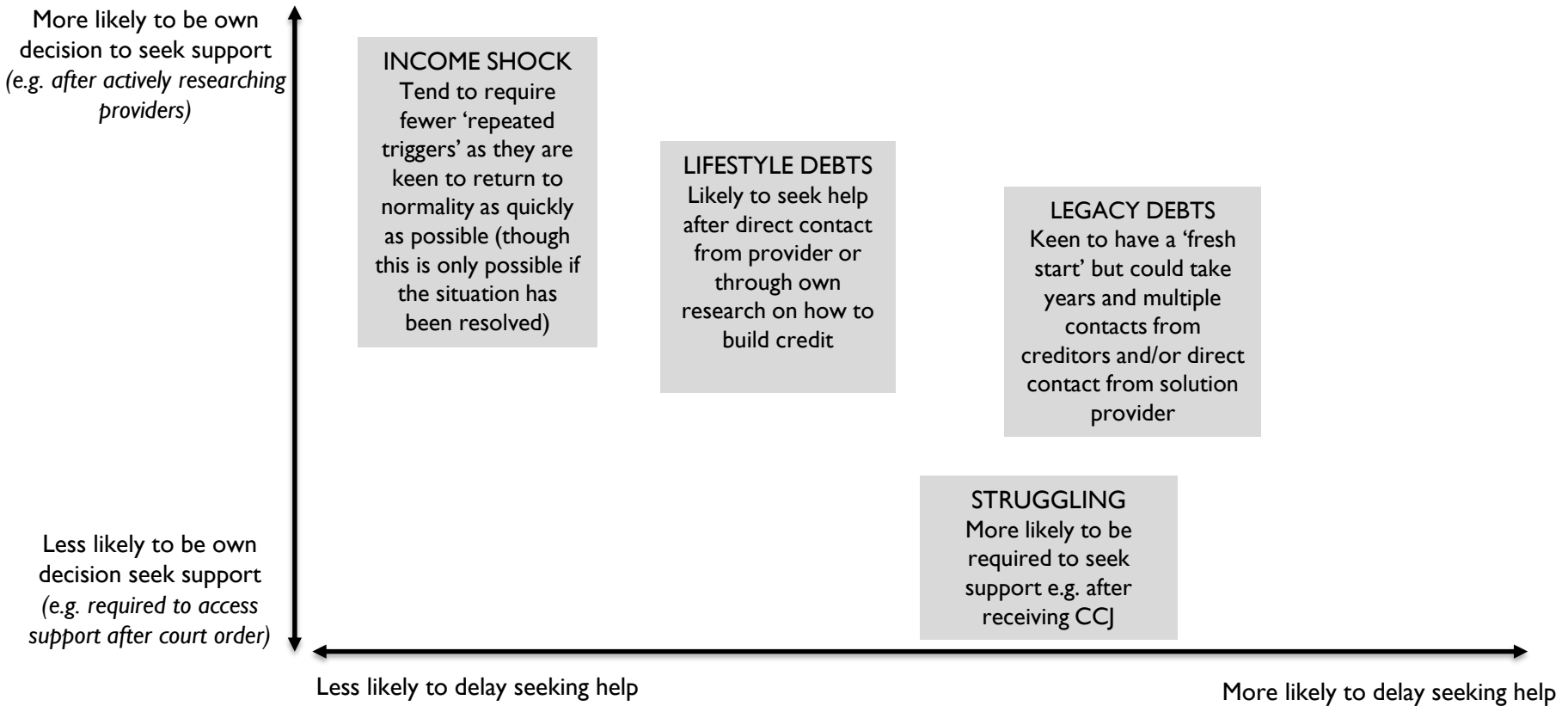
BENEFITS OF TAKING ACTION

- Wanting life back / to be able to move on (them and their family)
- Getting rid of phone-calls and home visits from creditors/bailiffs
- Being able to sleep at night/reduce stress
- The legal consequences were too great not to (e.g. CCJ)

FEAR OF SEEKING SUPPORT

- Impact on job/livelihood
- Fear of losing assets
- Fear about other people finding out
- Embarrassment asking for help/fear of being judged
- Worry about not being able to get credit in future
- Practical cost of getting a solution

The circumstance a person found themselves in could impact on when they sought advice & whether it was entirely their decision

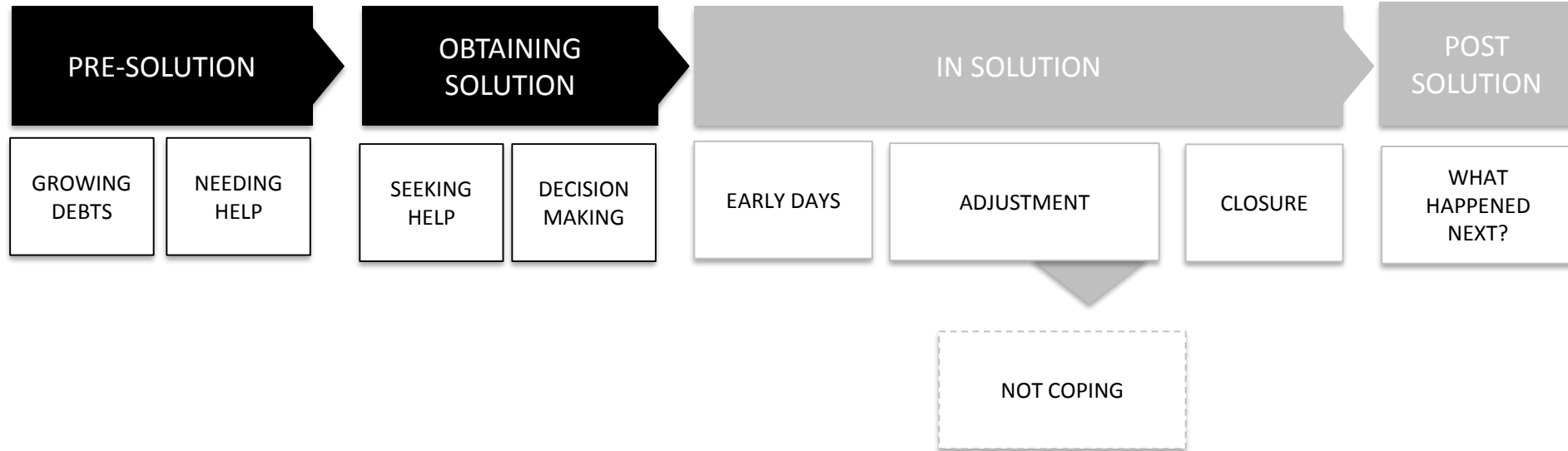


Circumstances also impacted where people sought advice from and the solutions they took out as a result

STRUGGLING	LIFESTYLE DEBTS	LEGACY DEBT	INCOME SHOCK
<ul style="list-style-type: none">▪ Likely to use free advice services, particularly face-to-face (this group are less likely to be working and perhaps more able to access support in working hours)▪ Due to low income & lack of assets they are more likely to be recommended a DRO	<ul style="list-style-type: none">▪ Likely to be in contact with both free and fee-charging telephone advice services▪ Due to having an income, tend to be recommended DMPs or select bankruptcies as a way to clear debt	<ul style="list-style-type: none">▪ Likely to be in contact with both free and fee-charging telephone advice services▪ Tend to be Trust Deeds or IVAs as they are keen to not continue long-term repayment of debt	<ul style="list-style-type: none">▪ Likely to use free advice services, particularly telephone▪ Likely to select DMPs – as they are keen to repay debt but avoid stigma or embarrassment of insolvency

N.B. These findings are from a cluster analysis of qualitative interviews and cannot necessarily be quantified

OBTAINING SOLUTION: *Decision Making*



N.B. An individual's journey into and through a debt solution is a complex and often an un-linear process – with individuals moving in and out of the journey at numerous points. The above journey is therefore to aid presentation.

Whilst the thoroughness of income and expenditure assessments varied, the most detailed (and personalised) led to greater affordability, support and control

SERENA, 36

Location: Birmingham
Income: £10-15k
Employment: Part-time accountant
Household: Two children

Solution and status: IVA, currently in this solution

Debt amount pre-solution: £26k (credit cards and overdrafts)

Arrangement: £300 per month for 5 years

Provider: PayPlan

Debt now: Currently repaying and has been able to save

‘They did such as good assessment while I had cancer, they even thought about stuff I never thought of like pads and taxis to the hospital.’

Whilst some were practically and psychologically unprepared for the detailed nature of affordability assessments, many found obtaining a solution surprisingly easy

I get so stressed and upset that I normally throw everything away so I didn't know what to give them or say really. When it came to what I had coming in and going out, I had no idea.'

Sam, Bankruptcy

'They set it up and were very helpful...but I had no idea they were taking such high fees!'

Julia, DMP

In general, third sector providers were associated with thoroughness (but also were more 'judgmental'); private sector were more 'sympathetic' and 'less invasive' with their questions and comments. Many expected this as they were deemed to be 'working for the customer' and not the creditor

The solution a person chose was dependent on both the recommendation of a provider *and* the motivations & prior knowledge of the person seeking help

'I'd never heard of it before and I didn't ask many questions. I think they just asked me what I owed and then they sorted it out for me.'

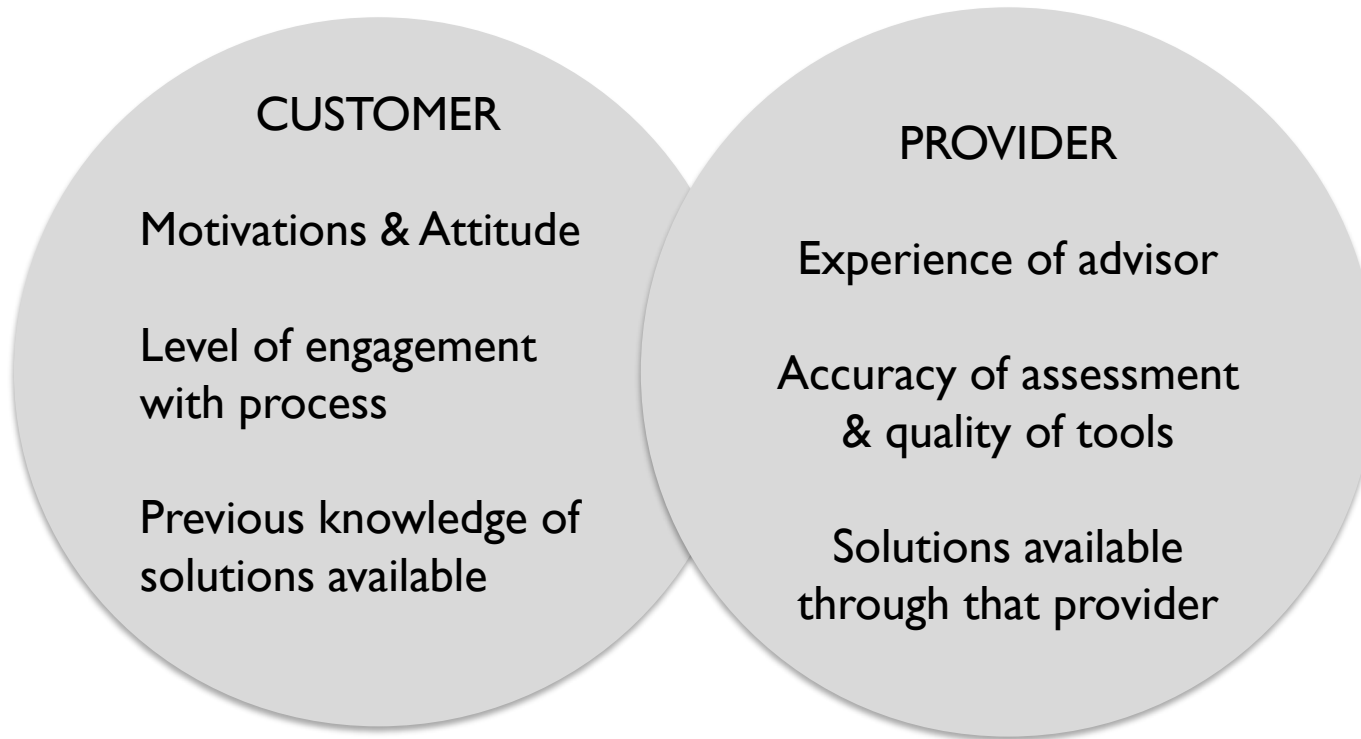
Ben, DMP

'My neighbour told me about bankruptcies. She said it was a good way to clear debt so I knew that was what would work best for me. I requested that when I went for advice.'

Lillian, 53

For those with limited knowledge, deciding on a solution was often a 'cloudy' process, sometimes dictated by the recommendations of a single provider

Choosing a 'suitable' solution was dependent on a combination of factors related to *both* the customer and the provider



There are 'two sides' to the story and not choosing the most suitable solution could either be the result of advisors recommending the wrong solution *and/or* people deciding on or resisting certain solutions

For a minority, debt solutions were seen as an 'easy' way of managing and clearing debts and for some weren't necessarily taken that seriously

LILLIAN, 53

Location: Glasgow

Income: £18k

Employment: Factory worker

Household: Single

Solution and status: Bankruptcy, still paying off fees

Debt amount pre-solution: £19k
(credit union, provident loan, rent arrears, court charges, council tax)

Provider: Citizens Advice Bureau

Debt now: £200

*'The debt was a massive burden but with bankruptcy it was all cleared in a heartbeat.
I recommend it to everyone.'*

LIFESTYLE DEBTS

OBTAINING THE SOLUTION: *Differences by Solution*

BANKRUPTCY

- Many were surprised they didn't have to go to court
- Costs of bankruptcy can be off-putting
- Some stories of individuals planning a 'second bankruptcy' (and encouraging others to do the same)

DRO

- Some evidence that individuals were manipulating their financial situation to become eligible for a DRO (sometimes encouraged by advisors)
- Difficulty of paying upfront fee could derail process
- Individuals weren't always told they could pay the fee in instalments

IVA

- Felt to be one of the more complex debt solutions
- Respondents were least clear about fees for IVAs
- Viewed as a structured and serious process of repayment

DMP

- Informality of a DMP can come across in the interactions – can feel temporary or less serious
- Some felt the process was less thorough (with some missed debts mentioned)

TRUST DEED

- Interaction with provider is highly formal
- Respondents on Trust Deeds took them very seriously and were keen to ensure they complied with the rules

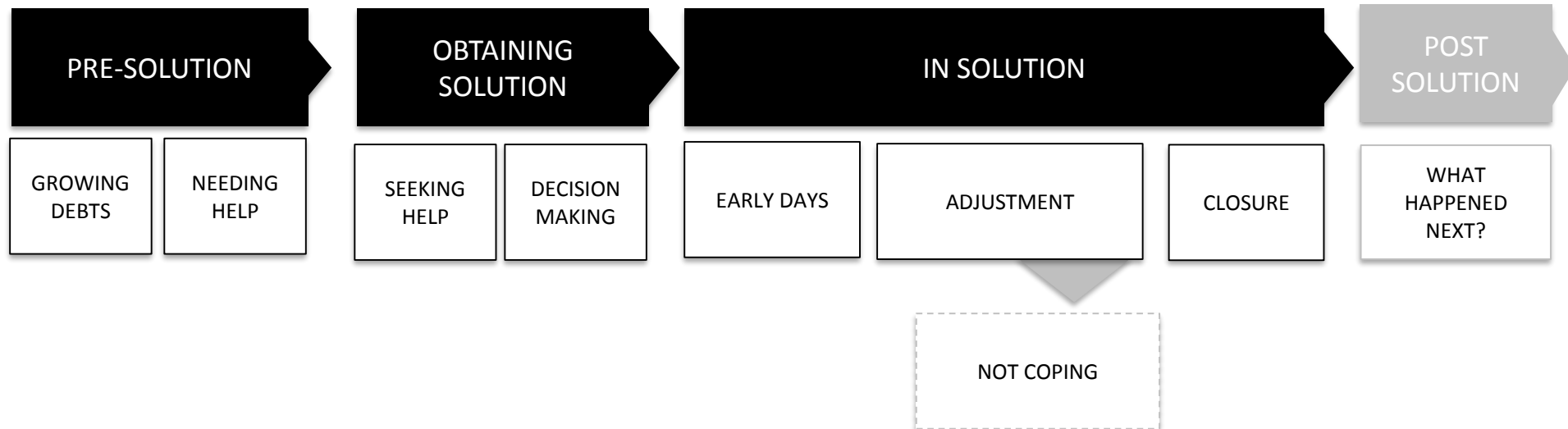
DAS

- Poor labelling left some people unaware they were on a DAS
- Little awareness of who provider actually was – whole process can verge on informal

SECTION 3:

Being in a Debt Solution

IN SOLUTION: *Early days, Adjustment and Closure*



N.B. An individual's journey into and through a debt solution is a complex and often an un-linear process – with individuals moving in and out of the journey at numerous points. The above journey is therefore to aid presentation.

Being in a debt solution brought immediate relief and a welcome break from worry – except in instances where creditors still contacted people

'The Trust Deed protected my home – and that was all I needed. It also freed me up from making minimum repayments every month.'

Sandra, Trust Deed

'At the beginning of the Trust Deed, I started getting chasing letters for the first time. It was weird. I didn't know what was happening.'

Adam, Trust Deed

Debt solutions were a welcome break – but for some the breathing space was not always used to help get finances in order

While initial experiences were generally positive, problems could arise later on

BANKRUPTCY AND DRO

- Defaulting on other payments (e.g. utility bills and council tax)
- Continued credit use above the allowed limit
- Displaced debt onto partners/family because of financial restrictions to bank accounts & impact on ability to obtain credit

IVA

- Significant hardship and anxiety due to tight budget / unrealistic assessment
- Some respondents unable to meet repayments and solution terminated

DMP

- Low awareness of fees and what these are for, as well as how creditors are being managed
- Frustration at length of plan
- Missed repayments due to poor affordability assessment and/or low motivation (often linked to plan length)

TRUST DEED

- Charges from some providers seen as unnecessarily large
- Being in the solution could feel very confining, with an impact on mental wellbeing and relationship with others

DAS

- Some were relatively unsure how the repayment process worked in practice and how they could be sure that creditors were being paid

REVEALING REALITY

Although most were satisfied with their experience, this was often due to low expectations

Whilst many found being on their debt solution difficult, the default was to 'just keep going' rather than contact their providers for help

I could have changed to a cheaper one but I was afraid of jumping into the unknown. I also didn't know what that would do to my credit score. I just ended up borrowing from friends and family.'

Michelle, 'Trust Deed

I felt like I was on a conveyor belt, being handed from one person to the next. Just form filling, no real questions about how I was or how I was planning to manage.'

Marion, Bankruptcy

Many felt bound by the 'formal' nature of debt solution contracts and felt they had to suffer in silence

A number of respondents 'didn't complete' their solutions

Factors behind non-completion:

No end in sight

Couldn't afford repayments

Had built up other debts/arears

Became aware of provider fees

Feel there might be a more suitable solution

Get bored of repaying

"There was no way I was going to be able to make those £300 repayments, my wife is disabled and I'm her only carer."

Patrick, IVA

The 'closure' phase brought a similar experience across all solutions, with many worried about how they would manage 'post- solution'

*"I'm worried about being thrown back into
the world."*

Mario, IVA

*"I used to cross out my payments in
my diary each month. And now
there's no structure, I feel a bit lost..
And I'm scared it will happen
again."*

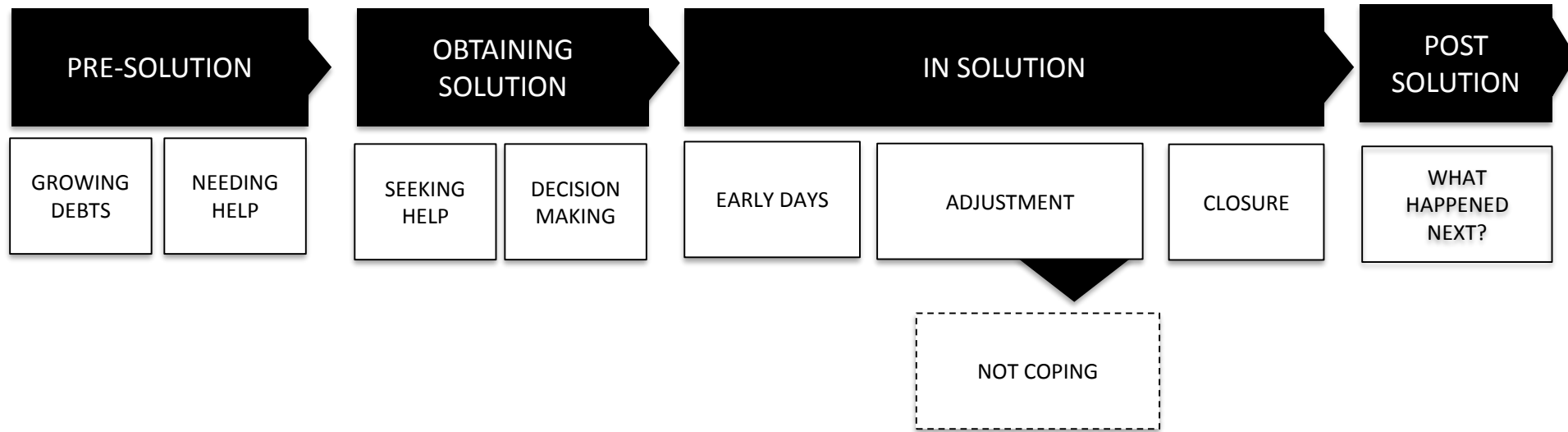
Martin, Trust Deed

The end of debt solutions are perhaps a missed
opportunity to help people "begin their new life"

SECTION 4:

Post-solution

POST SOLUTION: *‘What Happened Next?’*



N.B. An individual's journey into and through a debt solution is a complex and often an un-linear process – with individuals moving in and out of the journey at numerous points. The above journey is to aid presentation.

Future intentions differed according to groups – with struggling and lifestyle debt respondents more likely to intend to use credit again

STRUGGLING

*Arrears and credit
'only' way to cope*

LIFESTYLE DEBTS

*Debts accumulated over
time*

INCOME SHOCK

Unexpectedly indebted

LEGACY DEBT

*Stuck in minimum
repayment trap*

*'I want to get my credit score back up. I
need to buy a new couch '*

Karen, DMP

*'Fingers burned, lesson learned! And
never getting a credit card again!''*

Miruna, DAS

Confidence in ability to avoid entering into another solution varied by group

STRUGGLING

*Arrears and credit
'only' way to cope*

LIFESTYLE DEBTS

*Debts accumulated
over time*

INCOME SHOCK

Unexpectedly indebted

LEGACY DEBT

*Stuck in minimum
repayment trap*

Many felt they weren't in a position to be able to do anything differently post-solution (and that history was likely to, or already had repeated itself). Alternatively, they may have also begun to understand how the 'system works' and feel relatively comfortable with the idea of obtaining another solution

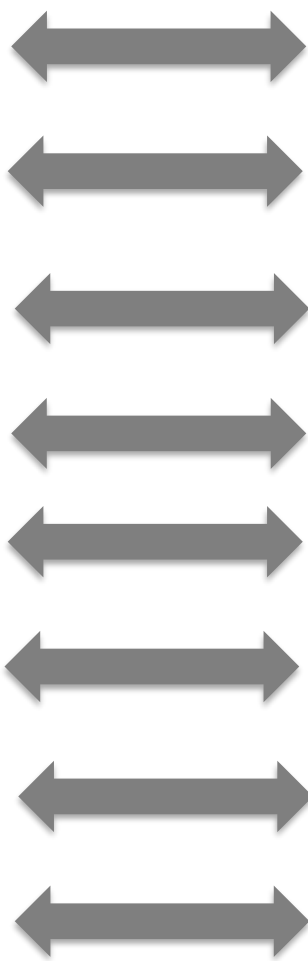
For those who saw their situation as a 'one off', the experience of being on a debt solution had been difficult. On the whole they expressed more commitment to avoiding repeating the situation.

NB. These groups were more likely to have shown higher financial capability pre-solution.

Factors that seemed to impact an individual’s confidence about avoiding future debt included:

HIGH CONFIDENCE

- Have a regular income/regular work
- Have a clear plan for household budgets
- Already saving/had a plan to save
- Have encouragement from friends and family
- Have ‘money management’ role models
- See their debt solution as a one-off
- Found solution hard going
- Took the solution seriously



- Struggling to make ends meet
- Want a lifestyle that is unaffordable to them
- Have already built up other debts
- Could be negatively influenced by friends and family
- Debt is normalised amongst peers
- See debt solutions as inevitable
- Wanted ‘easy’ way out
- Didn’t really engage with the seriousness of the debt solution

LOW CONFIDENCE

Several respondents had needed to take out another solution afterwards – and seemed to be trapped in a cycle of multiple ineffective solutions

MARY, 39

Location: London

Income: £30k

Employment: HR
Manager

Household:
Husband and two
children

Solutions:

1. IVA, not completed
2. Bankruptcy, completed
3. DMP, currently in this solution

Debt amount pre-solution: £17k (bankruptcy fee, 6 credit cards, 6 catalogue cards)

Provider: Debt matters (IVA), Private solicitor (Bankruptcy), Harrington Brooks (DMP)

Debt now: £3k, currently being repaid on DMP (payday loans, credit card taken out during Bankruptcy, utility bills)

“I got a credit card from Capital One during the Bankruptcy... that’s now gone into the DMP”

LIFESTYLE DEBTS

APPENDIX: Further Information

ROUTES INTO DEBT SOLUTIONS

Respondents tended to find a provider first – often without shopping around, and then entered into the solution which was recommended to them

Routes in included: word of mouth; contacting the provider themselves after seeing an advertisement online; being approached directly by the provider after entering their details into an online broke/debt information service; being referred by a charity or being referred by another professional or local advisor (e.g. GP, social worker)

Very few ‘first timers’ to debt solutions did any shopping around – more just trusted the recommendation (and they didn’t really know how they would make a choice – what characteristics make different providers better or worse, or how they might find out about these...)

Many of those who had more than one solution, also went back to the same provider to take out repeated products. For some, the first experience with a provider meant that they felt more able to shop around or do the process themselves

ROUTES INTO SOLUTIONS: CASE STUDY

Mario, 53

Declared bankruptcy after failing to complete his IVA. He explained that he was unable to afford his IVA after he had miscalculated how much income he had at the end of each month. Mario's journey into this solution began when he went to see his accountant after being rejected for a credit card application. His accountant informed him that he was in over £100k worth of debt and that as a result he would be referring him to a debt management provider. It was this fee-paying provider who carried out an affordability assessment and entered Mario into an IVA. However, after Mario was unable to keep up with his repayments he returned to his provider who explained to him that he would need to declare bankruptcy instead. At neither point did Mario shop around for a provider or a solution.

AFFORDABILITY ASSESSMENTS

Poor affordability assessments were often the result of both miscommunication from debtors and lack of detail/accuracy from the provider in response

By and large respondents had little knowledge of what 'good' looked like. Instead, a focus on the immediate relief afforded to them by the solution clouded their judgement regarding the initial affordability assessment. In fact, very few went into a process with any clear idea what they spent – both as an individual & household

Those who did articulate that they had a 'poor assessment' were amongst those who had not completed their solution because they felt they were unaffordable (In some cases, this could be to do with the individuals lack of willingness to live on the agreed budget per se)

A common problem cited was not taking into account 'sundry costs' – all the little things that accumulatively cost a lot. Or not accounting for unexpected costs such as breakdowns, bills, MOTs etc.

The providers who seemed to do affordability assessments well were extremely active in prompting respondents to think through lots of these more detailed expenses. Such as medical costs, taxis to hospital appointments, school trips etc. However, this level of detail was not always common.

AFFORDABILITY ASSESSMENT: CASE STUDY

Julia, 35

Decided to set up a number of her own direct debits with her creditors after deciding she was unable to keep up with her DMP payments. Julia felt that she had struggled after a poor upfront affordability assessment with a fee-charging provider – Baines and Ernst. In hindsight she realised that key expenses such as haircuts and school uniforms for her five children had not been included in her overall budget. She eventually opted out of her DMP after she discovered how much commission her provider was taking and after being made aware by a friend that free providers existed.

ACCESSING CREDIT WHILE ON A SOLUTION

Only a minority were accessing credit while on their solutions – of those that were, this was largely credit obtained from payday loan and high cost credit card companies. Many had built up arrears while other providers.

This behaviour tended to be observed amongst respondents whose debts had accumulated after years of using debt as a form of financial management and for whom the ability to access credit was a priority. As such, some were ‘testing’ different credit providers to see how their credit score had been impacted upon

While the amounts borrowed tended to be small, problems could arise when respondents had credit products that were either deliberately or accidentally excluded from their solution – which meant they had a credit line left open. In these circumstances, individuals sometimes maintained contact with creditors who were ‘unaware’ of their solution

More frequently, debtors simply asked partners or family members to access credit products for them – some taking out catalogues in different names, others asking family members to apply for credit cards or loans that were directly handed over to the person with the solution

Carl, 37

Had accumulated debt on a number of credit cards, un-paid bills and high-interest loans. Eventually he entered into a DRO in 2014. In that same year, he took out a credit card with Capital One which he didn't think he was eligible for given that a number of his debts were for unpaid Capital One credit cards. He explained; *"they definitely knew I was on the DRO. They didn't seem to think it was a problem."* At the same time, he asked his partner Sherry to take out her own Capital One credit card to support the family during this period of time. This was the first credit card Sherry had ever taken out.

EXPERIENCES OF THOSE ON 'INFORMAL SOLUTIONS'

Some had 'spoken to' their creditors, but it was often at a stressful/pressured time and they didn't feel able to communicate effectively or assert themselves clearly

For those who had complex debts with multiple providers, they found these conversations quite overwhelming (e.g. dealing with many different providers or keeping track of what different people were saying)

During these conversations with creditors (prior to entering into a formal debt solution), many respondents did not really understand how to negotiate with the provider or what it might be possible to achieve through discussion. Some felt guilty and ashamed (believing that they should be able to pay or didn't want to accept they had failed), others just saw the creditor as an adversary who was unlikely to give any ground.

The only respondents in our samples who had set up 'informal arrangements' with creditors, had done so post-formal solution. These respondents were often surprised at how straightforward it had been to do

The two respondents who had entered into a Token Payment Plan (provided by Step Change) prior to entering into their DMPs valued the 'breathing space' which it had provided them – despite not fully understanding their purpose or how they worked

Karen, 37

Became indebted after taking out a number of unmanageable high cost credit products, catalogue loans and falling behind on rent and council tax. After receiving a number of communications from her creditors she contacted Step Change who put her on a Token Payment Plan for six months - prior to entering into her DMP. While not fully understanding what it was, she spoke positively of this TPP, and of Step Change, because it offered her some breathing space and some 'time' to assess what had happened.