

DEBT AND THE FAMILY

CCCS RESEARCH SERIES

Introduction

Dealing with the existing legacy of personal debt in the UK will be one of the most difficult public policy challenges over the coming years for policymakers, financial regulators, the financial services industry, consumer groups, debt advice charities, and, of course, consumers. However, the changing economic environment means that life is likely to get even worse for many vulnerable consumers, large numbers of whom will already be at risk of over-indebtedness. The financial health of these vulnerable consumers will be shaped by a range of socio-economic factors such as high inflation, reduced real household incomes, and the impact of deficit reduction measures (see Perfect Storm for vulnerable households, overleaf¹).

Without the right support and advice, over-indebtedness can be devastating for people leading to serious financial and psychological distress. But, over-indebtedness has a wider impact on households too. It affects their living standards, ability to save and build up assets, provide for a pension, afford insurance or get on the housing ladder.

As the UK's leading debt advice charity, protecting and improving the financial health of vulnerable consumers by making sure they get the help they need, developing the necessary policies to protect their interests and, importantly, ensuring their plight is not forgotten is the Consumer Credit Counselling Service's (CCCS) priority.

Central to this mission is good research to identify who is most at risk. The impact of over-indebtedness and changing economic conditions will be felt in different ways by specific groups of consumers. The two main categories that seem most obviously vulnerable are:

- benefit dependent households; and
- lower to medium income households (sometimes called the 'working poor' or the 'squeezed middle').

But, if we are to target interventions to greatest effect, it is important that more is known about which specific groups of consumers are likely to be worst affected by changing economic conditions.

The regular contact CCCS has with thousands of people means the charity has unrivalled access to invaluable data on how debt is affecting vulnerable households. It intends to leverage this research to raise the profile of some of the most vulnerable households and communities, stimulate debate and influence the policy agenda.

Therefore, it has asked The Financial Inclusion Centre (The Centre) to produce a series of three major linked reports on the theme of Debt and The Family.

The Debt and The Family series will consist of the following specific reports:

- **Debt and household incomes** - to be published in June 2011
- **Debt and the generations** - to be published in September 2011
- **Debt in the regions** - to be published in December 2011

In each report The Centre will look at debt and gender given the impact of deteriorating economic circumstances on women.

This pamphlet introduces the Debt and The Family series and explains what we are setting out to do in each report (see Structure of the Debt and Family Series, overleaf).

1 For a fuller assessment of the economic conditions see CCCS Statistical Yearbook 2010, Economic Overview.

Perfect storm for vulnerable households

For many households in the UK, the full effects of the great financial crisis which began in 2007 are only now starting to be felt.

Three distinct phases of the financial crisis can be identified – a financial crisis, an economic crisis (the recession) and a personal financial crisis for households. What started off as a seemingly arcane crisis in the global financial markets rapidly turned into an economic crisis in the form of a major recession (where the UK economy fell by 6.4 percent from peak to trough by the time the recession had finished – a deeper recession than in the 1980s and 1990s). The cost of dealing with the crisis may now result in a wider personal financial crisis affecting many of the most vulnerable households in the UK.

The huge bill for rescuing the banks, keeping the financial system working and heading off the risk of a full scale depression has now arrived. The direct costs of these

financial interventions amounted to some £50 billion. On top of this, there have been huge indirect costs to the economy in the form of the recent recession and lost future economic output. The net result is that the UK was left with a huge public finance deficit.

To tackle the deficit, the Government announced in the emergency budget in June 2010 and the Comprehensive Spending Review (CSR) in November 2010 a package of deficit reduction measures consisting of a combination of increases in taxes, reduced public sector spending and welfare benefits.

The record levels of personal debt as we entered the financial crisis meant that many commentators feared large scale over-indebtedness resulting in increased mortgage arrears and repossessions. Thankfully, these did not materialise as expected.

The DEBT AND THE FAMILY series

The Centre will use a combination of existing socio-economic and commercial research and CCCS's own data (such as the 2010 Statistical Yearbook) to evaluate how each of the main at-risk groups are likely to be affected.

REPORT 1: DEBT AND HOUSEHOLD INCOMES

This report will investigate how households with different levels of income are affected by existing personal debt and changing economic conditions. The report will:

- provide a synopsis of how different households are affected by existing levels of over-indebtedness;
- assess availability of fair and affordable credit (mortgage and unsecured) for different households;
- focus on groups most exposed to the changing financial environment, in particular, welfare dependent families, and lower-medium income households (the 'squeezed middle'/ 'working poor');
- include a special focus on single parent families;
- be 'cut' along gender lines to highlight the financial position of women;
- examine the attitudes of these groups to debt; and
- assess the role of debt advice in helping these households deal with financial problems.

REPORT 2: DEBT AND THE GENERATIONS

This report will investigate the personal debt and wider financial position of younger and older generations in the UK. The report will examine:

- differences in the way younger and older generations use credit;
- the level of over-indebtedness amongst the two groups;
- the impact of the wider economic situation on the two groups;
- specifically, the impact of student debt;
- the wide variations of experiences within the older population - there is a high risk of falling into poverty in retirement in the UK but at the same time large groups of comparatively wealthy older people;
- the role of equity release for asset rich, income poor/ over-indebted older groups;
- the existence of intergenerational transfers – to what extent have older people benefitted from the expansion of credit at the expense of younger generations (ie. the transfer of wealth from younger generations to older generations via the property market);
- specifically, the barriers to home ownership for younger generations;
- intergenerational lending 'The bank of Mum and Dad'.

Seriously higher levels of arrears and repossessions have been averted through a combination of unprecedented, concerted interventions by the government, regulators and Bank of England (at the macro-economic level through sustained low levels of interest rates - The Bank of England base rate has been at 0.5% for 23 months), quantitative easing, and micro-level through various schemes to protect borrowers (such as the Support for Mortgage Interest scheme which has now been changed²) and, of course, welcome forbearance by lenders.

However, there is no room for complacency. Even relatively small increases in lending rates could have a serious impact on the personal finances of many households. Moreover, the impact of the spending cuts and subsequent expected job losses will not be spread uniformly across the country or households.

Furthermore, to make matters worse, most households enter 2011 with their rates of pay failing to keep up with the cost of living. The scale of the 'big squeeze'

was highlighted recently by the Governor of the Bank of England, Mervyn King, who explained that, as a result of low wage growth and higher than expected inflation, real wages in 2011 are likely to be no higher than they were in 2005.³ The last time real wages fell over a period of six years was back in the 1920s. Again, the effects of inflation are not felt uniformly across different households.

In addition, credit conditions remain tight, house prices appear to be falling once more and unemployment is starting to rise again.

The perfect storm of events will disproportionately affect specific regions of the country, groups of consumers/categories of household. This suggests that policymakers, regulators, the financial services industry and debt advice charities will have to focus their efforts on targeting interventions on these groups.

This research series is designed to allow interventions to be targeted effectively on the right households.

Partnership

CCCS and The Centre are keen to engage with other charities and consumer groups who have expertise in the areas covered in the research series to ensure that the research data is comprehensive and to develop the most effective policy recommendations.

We will be holding a series of roundtables with experts in the fields covered in the reports. For further information about the Debt and The Family series, please contact:

THE CENTRE

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REPORT 3: DEBT AND THE REGIONS

It is already clear that the effects of changing socio-economic conditions are not being felt evenly across the UK. Large parts of the country seem to be comparatively unscathed but certain regions and local communities are badly affected.

This report will:

- investigate levels of over-indebtedness in different regions;
- investigate how external economic and environmental factors will impact on particular regions;
- assess the availability of debt advice in the regions; and
- where possible, identify regions which should be a priority for intervention.

2 The reference rate for the SMI scheme was reduced from 6.08% to 3.63% from October 2010. This means that many households with mortgages especially those on sub-prime mortgages will have to make up the shortfall themselves.

3 <http://www.bankofengland.co.uk/publications/speeches/2011/index.htm>

Structure of the reports

Each of the reports will have the following three sections:

SECTION 1: SETTING THE SCENE

This would set the scene for each report and (depending on available data) produce debt and financial profiles of each of the subject groups. This would summarise the key facts on how the specified groups are affected by existing debt problems and changing economic and environmental trends, market practices and relevant consumer protection regimes.

This would be based on external environmental research and enhanced primary analysis of internal data, including surveys of CCCS clients.

The initial research undertaken for the Debt and The Family series could provide a baseline for regular 'debt watch' series.

SECTION 2: CONSUMER DETRIMENT/ FINANCIAL HEALTH ANALYSIS

In this section, The Centre will:

- identify the existing and potential financial detriment experienced by specified groups as a result of over-indebtedness, changing environmental trends, and adverse market practices such as the behaviour of commercial debt management firms, sub-prime lenders and so on;
- examine the impact of debt on financial behaviours; and
- evaluate the consumer protection measures available to vulnerable, over-indebted consumers.

SECTION 3: POLICY RECOMMENDATIONS

Producing a detailed impact assessment of how vulnerable groups are affected is important in its own right. However, this is not enough. We need to develop workable policy recommendations to deal with the consumer detriments identified above.

These policy recommendations would consist of:

- general consumer protection measures;
- an action plan with targeted recommendations aimed at the specific groups covered in each report.

Where applicable, each of the reports will make recommendations on the need for further research.

About CCCS

CCCS is the UK's largest debt charity whose purpose is to assist people in financial difficulty by providing free, impartial and realistic advice.

Last year it provided telephone and online advice, help and counselling to 500,000 people.

CCCS also provides free mortgage support, debt management plans, welfare benefit checks, bankruptcy support, specialist counselling for self employed, equity release advice and debt relief order applications.

For further information on CCCS's work please see: www.cccs.co.uk

About the Financial Inclusion Centre

Financial Inclusion Centre is an independent research and policy innovation think-tank dedicated to promoting financial inclusion and fair, efficient, competitive and accountable financial markets.

For general information on the Centre's work please see: www.inclusioncentre.org.uk

