Durham University
School of Applied Social Sciences

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Debt on Teesside: Pathways to Financial Inclusion

Research briefing

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THRIVE TEESSIDE

Church Action on Poverty

northern rock foundation

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1. Overview

Debt on Teesside was a two-year action research project, funded by the Northern Rock Foundation during 2011-13.

- The project was a partnership between Durham University's Centre for Social Justice and Community Action, Church Action on Poverty (CAP) and Thrive (a Teesside-based community organisation).
- The project worked with 24 low income households experiencing unmanageable debt in the Teesside area of North East England.

The aims of the project were to:

- explore the dynamics of household debt (through household-level research interviews and workshops).
- examine the potential for supporting positive change away from high cost credit towards more financially sustainable alternatives (through a community-based financial mentoring scheme).
- initiate community action and campaigns on issues related to financial exclusion (through a community organising approach).

Key findings and actions

- High cost credit is readily available and is regarded as 'normal' in many low income families and neighbourhoods.
- There was a low awareness of interest rates in participating households. People focused on the affordability of weekly repayments rather than the total cost of credit.
- One-to-one financial mentoring can be effective for some households in raising confidence in money management and enabling changed borrowing practices, but it is time-consuming. Group- and community-based schemes may be more sustainable.
- Community-based campaigns, which include people living in poverty giving voice to their experiences, can be successfully scaled up to national level. A Thrive-led campaign to reform lending practices in the rent-to-own sector of the high cost credit market was successful in achieving changes in policies and practices of three major private sector companies.

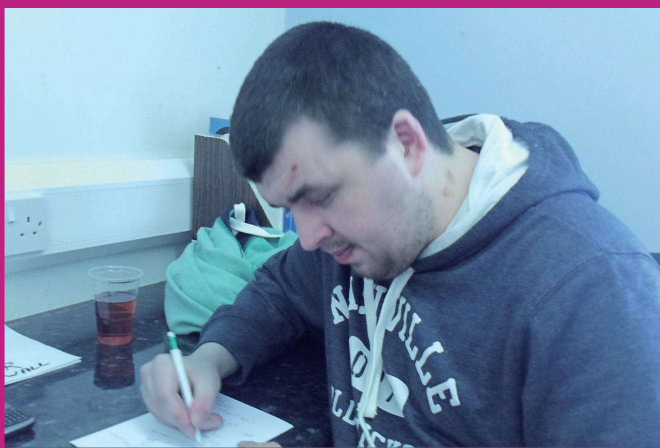
2. Background: financial exclusion

This project grew out of earlier work by CAP, Thrive and Durham University, which had highlighted household indebtedness, linked to the use of high cost credit sources, as a key issue for low income households in the Teesside area (Orr et al, 2006; Friends Provident, 2010). Such households can be described as experiencing 'financial exclusion', as they lack key financial products such as bank accounts, insurance, pensions and have little or no savings.

Poverty is a key aspect of financial exclusion, with particular groups such as lone parents, the unemployed and those in social housing most likely to be financially excluded (Devlin, 2005; Ellison et al, 2011; Patel et al, 2012). Although unable to access mainstream credit, many people on low incomes require credit to 'get by' and therefore turn to alternative lenders, generally high-cost credit sources, as well as borrowing from family and using Social Fund loans.

As the effects of the recession in the UK worsen – with rising food and energy costs, coupled with reductions in welfare benefits – the extent and severity of financial exclusion is increasing, along with high ratios of (often unmanageable) debt.

A number of studies document the nature of credit and debt in low income households and attitudes towards debt (for example, Dearden et al, 2010; Jones, 2010; Mathers and Sharma, 2010; Policis, 2008). However, the *Debt on Teesside* project has several distinctive features. It was an action research project working with a small number of households over time, involving the collection of data on household finances, alongside financial mentoring and community campaigns on emerging issues. It was also a community-university research partnership building on previous collaborative work between Thrive and Durham University, which involved staff and students of the University working alongside community members in several small action research projects (Beacon North East, 2011). Further details of the project can be found in the final report (Banks et al, 2013), two papers (Flaherty and Banks, 2012; 2013) and the project website **(www.durham.ac.uk/beacon/socialjustice/researchprojects/debt_on_teesside/)**



3. Methods

- Twenty four households were recruited in Stockton-on-Tees and Middlesbrough, from which detailed information on financial, health and social circumstances was gained through in-depth interviews and questionnaires. The criteria for involvement were that households should have a low income, were experiencing debt problems and were interested in participating in the mentoring scheme. Recruitment was mainly via door-knocking in targeted neighbourhoods.
- Sixteen mentors were trained, some of whom were community-based volunteers and others were employees seconded from local agencies. Mentors made regular visits to allocated households, supporting them with managing their money and recording progress.
- Two workshops were held to bring households together, two public assemblies highlighted issues of irresponsible lending, and community-based and national campaigns were organised linked to high cost credit.

4. The households and their finances

The households joining the project were financially vulnerable and generally were not in touch with debt advice agencies. Two households had a member in paid work, while all other households received their income from benefits or a mixture of benefits and tax credits. Just over half the households were lone parent families; nine had members experiencing mental health problems. Key financial characteristics of the households were:

a) ***Bank accounts*** **-** Seven participants had no bank account, whilst 13 had basic bank accounts.

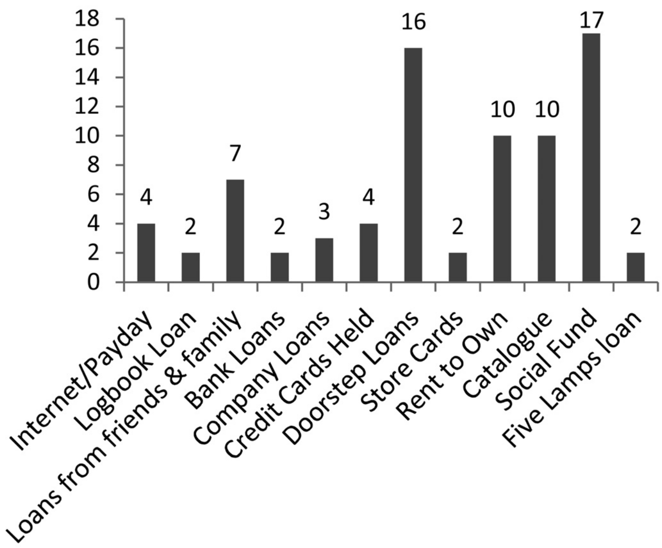
b) ***Savings*** **-** 23 households reported having no savings, while one reported £4 savings.

c) ***Total debt*** **-** Amounts of total household debt estimated by participants at the initial interview ranged from £340 to more than £10,000. Two did not know the amount of household debt.

d) ***Rent and tax arrears*** **-** A third of the participating households had rent arrears and three households had council tax arrears - priority debts that can cause eviction.

e) ***Credit sources*** **-** interest free loans from the government's Social Fund were used by 17 out of 24 households. Other popular sources were all from high cost credit providers, with APRs that can range from 437% to 3,113%: doorstep loans (16 households); rent-to-own companies (10); and catalogues (10). Awareness and use of third sector credit sources was low. Only two households had a loan from a community-based low cost alternative provider (Five Lamps).

Credit sources used by households



Case study: Household 14

Claire is a single parent with four children, one of whom is autistic. She is currently registered as a carer for her father who lives locally. She has a range of debts including: two rent-to-own debts, 25 doorstep loans with seven different companies, a logbook loan, catalogue debts and another sub-prime loan, all of which she thought totalled around £10,000 at the time of initial interview (although actual debts came to around £15,000). An example of excessive interest can be seen on her logbook loan, which was originally for £960.94. Total to repay came to £2,827.50 (78 instalments of £36.25 at a flat invariable interest rate of 129.48% and an APR of 503.7%).

5. Factors shaping and constraining financial choices: research findings

a) ***Need for credit -*** Having a low income and no savings means that credit is needed for coping with crises and major events, and in many cases for basic on-going living expenses.

b) ***Unavailability of low cost credit -*** Lack of savings and a poor credit record means many sources of third sector credit (e.g. credit unions) and mainstream credit (e.g. banks) are not available to poor households.

c) ***Ready availability of high cost credit -*** High cost credit is readily available, with few checks on affordability, and is frequently offered (e.g. by doorstep lenders) without being sought by households.

d) ***Normalisation of high cost credit -*** Use of high cost credit is accepted and normalised in certain communities - used by families, friends and neighbours (e.g. catalogues, rent-to-own companies, doorstep lenders).

e) ***Short term approach to money management -*** For many households, the main consideration in taking out a loan is whether the weekly repayment looks manageable, rather than the total cost of the loan over the repayment period.

f) ***Influence of consumer society -*** Immersion in a consumer society means material goods are highly valued and purchasing of relatively high cost items (smart phones, TVs, computer games) is one way people can exert a choice to socially include themselves and their families. Purchase of such goods for children in order to counter peer pressure or bullying was commonly mentioned by the households in the project.

6. Mentoring and campaigning: evaluation of the action programme

a) Mentoring

- During the course of the project, 64 mentoring sessions took place with 16 households. Some households received one session, whilst others received up to eight. By the end of the mentoring scheme (March 2013), six households were still receiving mentoring.
- Positive benefits for households included: provision of information about options or services of which participants were unaware; direct help with budgeting and making appointments at advice agencies; reduced levels of debt; improved psychological well-being, less anxiety and more confidence; increased financial awareness and 'thinking things through'.
- Arranging and delivering the mentoring sessions was challenging and time-consuming. Many households had complex problems, of which unmanageable debt was just one.
- Evaluation of the scheme suggests that individual mentoring is valuable, but requires a good structure of training and support for the mentors. Locating an individual mentoring scheme within a group- and community-based approach to developing financial capability would be more sustainable over the long term, and would also lead more easily into involving households in local collective actions and campaigns.

b) Community-based actions and campaigns

- Several local actions were initiated by the project in relation to doorstep lending (involving distribution of window stickers: 'No to uninvited traders') and incentivised saving (households saving £50 with the credit union, which would then be matched).
- The work of the project fed into a successful national action by Thrive and CAP with other partners and the Centre for Responsible Credit in 2012 to agree specific reforms to the rent-to-own sector of the high cost credit market. Work is now in progress on affordability of high cost credit and demands for data sharing between companies.
- A small number of households from the project have been involved in these actions to date. This reflects both the all-consuming nature of the struggle to survive in many households, as well as a lack of capacity within Thrive (with only a half-time equivalent post attached to this project) to develop and support volunteers, in addition to running the mentoring scheme.

Case study: Household 15

At the time of the initial interview Roy was living a very socially isolated existence, going out only to sign on, look for work and get his benefits. He had a high level of historic debt and was 'struggling to get by', commenting that: 'I get money one day and it is usually gone the next day'.

Roy valued the practical support and assistance offered by the mentoring scheme. It provided information on benefit entitlements, how to reduce debt repayments and access local food banks. This helped Roy get through some difficult times: 'It was good that the mentor came to sit in my house to talk to me. I got to know him and he actually listened to me. Before coming on the project, I was in so much debt and I just spent my money on something else. Now I think about paying my bills. It's him [the mentor] that has seemed to put a block in my mind – I don't just jump in now when I'm spending money'.

Roy has become a volunteer with Thrive and has spoken at several meetings. He is actively involved in the doorstep lending campaign and was an 'actor' in a video for the affordability campaign. Roy says his confidence is growing: 'I knew I needed to open myself up a bit … I got in to Thrive and it was like: "hang on I am doing something now"'.

7. Recommendations

a) ***Development of neighbourhood, group-based financial capability and mentoring programmes –*** one-to-one mentoring can be effective, but is time-consuming and does not necessarily connect households with each other. In addition to one-to-one mentoring, support should be given to groups of people in their local neighbourhoods, including professionally-delivered financial capability courses, leading to trained participants offering peer support locally.

b) ***Redeployment of staff to community-based work –*** advice agencies and housing providers might consider redeploying a small proportion of existing staff from casework to community-based debt advice and support projects.

c) ***Coordinated action by partner agencies on Teesside –*** many agencies in Middlesbrough and Stockton are already meeting together to work on financial inclusion, particularly in the context of welfare reform. The research findings should be presented to the Financial Inclusion Partnerships to discuss further coordinated action.

d) ***Research to monitor high cost credit use following welfare reforms –*** low income households have relied heavily on Social Fund loans. Follow-on research is recommended to monitor the effects of welfare reform, particularly the changes to the Social Fund, on the use of high cost credit in poor households.

e) ***Development of infrastructure for Thrive to support volunteers and community activists –*** the resources and administrative infrastructure needed to support community-based volunteers is significant. It is recommended that Thrive seeks funding for a project to develop and support community-based volunteers and activists over a three-year period, building an infrastructure of training, support, monitoring and evaluation.

f) ***Development of further low cost credit options for poor households –*** further work is needed with credit unions and other alternative credit providers to encourage and support greater accessibility and take-up of low cost credit options for poor households.

g) ***Greater state regulation of high cost credit providers –*** current regulations about pricing and advertising in the sub-prime credit market need to be enforced; new regulations, including requirements for data-sharing to ensure affordability of loans, should be introduced, and a legal cap on the total cost of credit.

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