Which? works for you

Credit Britain

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Credit Britain

Making lending work for consumers

Contents

Millions of consumers are feeling the impact of a rising cost of living in the UK. The recession is squeezing household budgets and putting our personal finances under greater strain. This is harming the financial resilience of consumers. With any existing savings being depleted, a growing number of people are turning to credit to pay for daily essentials like rent, food and utilities. And, while credit can be a useful tool, over-reliance on credit is risky, especially when products are designed to exploit borrowers' behaviour or the consumer has little room for manoeuvre should something unexpected happen. Where household budgets are already stretched to their limits, a financial shock like urgent car repairs or a broken down boiler could tip them over the edge.

Widespread poor practice in the payday loan sector has attracted a significant amount of attention, resulting in the Office of Fair Trading's (OFT) welcome proposal in March of this year to refer the sector to the Competition Commission. Indeed many consumers only turn to high-cost credit when they have exhausted all other mainstream options. For many borrowers, problems with credit start further up the slope with mainstream credit, including credit cards and overdrafts. To address the problem of unmanageable debt, it is necessary to take an approach that encompasses the whole credit market and covers the whole consumer journey, from initial credit decisions before there is any discernible issue through to dealing with problem debt.

Our new research indicates that problems with debt often start when borrowers are young and using mainstream credit products. But, as mainstream credit has become less widely available in recent years, the market for high-cost credit such as payday loans has grown in size.

Over-reliance on high-cost credit places the borrower at risk of falling into a vicious circle where they end up spending an increasing proportion of their income servicing debt. This is not only bad for the long-term financial prospects of individual consumers, it's also damaging to our economy. Servicing debts uses up spare income, meaning people have less to spend in the short term. It also stores up problems for the future as consumers are unable to build a savings fund, whether that is for the deposit on a home, protection against financial emergencies or pension savings for their retirement.

Consumers have a responsibility to use credit sensibly, but the evidence Which? has gathered highlights a range of problems stacked against them, including sky high fees and irresponsible lending practices. There is an imbalance of power between lenders and borrowers, leading to a market that fails to function effectively for consumers, and it must be put right.

A competitive, well-regulated credit market can play an important role in helping people to manage their budgets and put consumers back in control of their credit decisions. It should be easy for consumers to see the costs and consequences of taking on more credit. The OFT's action and the government's proposals for regulatory change are a welcome first step, but more needs to be done if the credit market is to work for both consumers and lenders.

With responsibility for regulating credit being transferred to the new Financial Conduct Authority (FCA) next year, there is a golden opportunity to bring rules up to date and end the practices that have pushed many consumers into a spiral of debt. This market needs the FCA to act as a strong, open and proactive regulator. It should take the initiative on credit by using its powers to make new rules that have real teeth. Consumers need a proper watchdog to clean up the credit market, not a lapdog to the lenders.

At the beginning of March, the government launched its first consultation on the transfer of consumer credit regulation to the FCA and how the FCA plans to exercise its new powers. **Which?** has set out five challenges for the FCA to meet to clean up credit for consumers and send a clear message to irresponsible lenders:

Ban excessive default fees and charges

The FCA should use its new powers to prevent lenders levying excessive charges by introducing a cap on the level and total cost of default charges. The cap should be fair and reflect lenders' actual costs.

Crack down on irresponsible lending

We want strong rules for affordability assessments on all credit products that consider the borrower's income, expenditure and ability to repay the debt in a sustainable manner. This must include any outstanding credit commitments, particularly where credit is being taken out to repay existing debt.

Put people in control of their credit

The FCA can give more power to consumers by ending unsolicited increases in credit limits and requiring them to opt in to unauthorised overdraft facilities. We also want to see the number of times a payday loan repayment can be rolled over limited to three.

Give consumers clear and transparent information

The cost of credit as well as all fees and charges associated with the product should be clear. For high-cost credit it should be clearly displayed in ££s per £100 borrowed over 30 days. This would enable consumers to compare the cost of credit products at a glance, giving them a clearer understanding of their commitments before proceeding. Credit products should come with clear health warnings explaining the consequences of missed payments, and all costs and charges should be transparent.

Swift and early intervention for people in financial difficulty

The FCA should replicate the existing rules for mortgages to other credit products to help borrowers struggling with repayments. This should include limiting default charges, preventing lenders from charging interest on high-cost loans beyond 30 days; and requiring leaders to refer struggling borrowers to free independent debt advice.

Lenders don't need to wait 12 months for the FCA to take on its new powers. They can show they are responsible lenders by acting now to put their own house in order. In this report we show how, and why, this needs to be done. For full details of our recommendations, see p23-25.

The evolution of the consumer credit market in the UK can be divided into two distinct periods. For the ten years from 1997-2007, readily available credit, combined with falling interest rates, delivered a credit feast for both consumers and lenders. The financial crisis exposed banks' unsustainable business models and there has been a subsequent reduction in the availability of consumer credit and an increase in costs.

Our research

To find out how people are using credit, and how they feel about it, Populus, on behalf of Which?, surveyed 4,031 GB adults aged 18+ online (of which 3,195 were credit users) (Which? Credit Britain survey, Aug 2012). Results have been weighted to the profile of all GB adults. We followed up the survey with in-depth telephone interviews in Dec 2012 and Jan 2013. For our Quarterly Consumer Report (QCR) research, Populus, on behalf of Which?, interviewed 2,060 UK adults online between 4 and 7 Jan 2013.

The picture that emerged is complex. Some consumers are using credit confidently and to their advantage. But a significant number are using it at best to get by and, at worst, drowning in unmanageable debt. In many cases borrowers were distrustful of lenders' motives and behaviour.

Credit feast 1997-2007

Consumer credit was readily available and there was rapid growth in unsecured consumer lending in the 10 years after 1997. The total amount borrowed increased from £77 billion in 1997 to £190 billion at the start of 2007. Total personal loans by banks more than doubled from £28 billion in 1997 to £66 billion in 2007.

Falling interest rates on all forms of unsecured debt, including credit cards, loans and overdrafts, meant that monthly payments became more affordable, with consumers feeling confident to take on more debt and lenders showing themselves willing to lend (See Appendix 2, chart 1). Rising house prices meant that homeowners who did find it difficult to manage unsecured debts could extend their mortgage or take out a secured loan. Lenders had even more incentive to lend as they were able to increase their short-term revenues by mis-selling expensive and unsuitable PPI policies on the back of this credit boom.

Credit famine 2007-2013

Banks had been over-optimistic in their business models and their ability to fund unsecured lending. Having previously used the wholesale markets to fund their lending, banks were now unable to access this source of funding to the same degree. Profits had been significant during the earlier period, but rather than retaining these for the economic downturn, banks distributed them in bonuses and dividends. This, coupled with a requirement for banks to hold more capital, led to a substantial reduction in the availability of consumer credit.

Government subsidies and bail-outs increased the market power of the largest banking groups, with fewer providers in the market. This led to a reduction in effective competition. Despite the base rate being cut dramatically after 2007, interest rates for unsecured lending actually increased. Even now, interest rates on overdrafts, credit cards and smaller personal loans are higher than they were in January 2007 (See Appendix 2, charts 1 and 2). There were also substantial increases in the cost of authorised overdrafts as banks moved away from charging interest and towards daily fees.

The credit landscape today

At the end of 2012, outstanding consumer credit stood at £157 billion (excluding mortgages), equivalent to around £3,000 per UK adult. And yet, this total disguises a widely disparate consumer experience of credit. While a quarter (22%) of credit users in the Which? Credit Britain survey have no unsecured debt at present, a third (34%) owe up to £2,000 and a further quarter (26%) owe between £2,000 and £15,000. One in ten credit-using households owes more than £15,000. The same proportion of borrowers either don't know when they'll pay off their debts, or expect never to be debt-free, raising major questions about the credit system.

Managed well, credit and related products can be useful tools, allowing consumers to spread the cost of major expenditure, reschedule existing debt at a lower interest rate or enjoy additional protection on purchases. However, while many consumers are able to manage credit both responsibly and comfortably, many others are struggling to repay, particularly in difficult economic conditions where prices are rising faster than household income.

Recent research by the Office for National Statistics (ONS) shows that net household incomes have fallen by 13.2% in real terms since the onset of the recession in 2008. With average wage growth expected to be about 2.5% in 2013 and the increase in working age benefits capped at 1%, pressures on household incomes are likely to continue.

How often does your household tend to run out of money before the end of each month?
(By product ownership. Consumers may be represented in more than one column due to multiple product ownership)
Sample sizes in brackets

	Payday loans (205)	Unauthorised overdraft (152)	Catalogue (337)	Credit card (excluding full-payers) (1,089)	Personal loan (490)	Authorised overdraft (1,129)
Every month	53%	48%	36%	31%	30%	30%
Every 2-3 months	20%	27%	19%	17%	20%	19%
Never	7%	6%	18%	20%	21%	19%
Percentage of GB adult population using each type of product						
	5%	4%	8%	27%	12%	28%

Consumers vulnerable to income shocks

The Which? QCR research reveals that one in five people have no savings, meaning they have little or no buffer to counter unexpected events or to maintain existing credit commitments when these events happen.

This lack of a savings buffer was more widespread among payday loan and unauthorised overdraft users, our Credit Britain survey found. 55% of these users have no savings at all, while a further quarter have savings of £2,000 or less.

Consumers with limited or no savings are vulnerable to even small changes in their financial circumstances, whether from income shocks like redundancy and ill health or unexpected expenditure like funerals or car repairs.

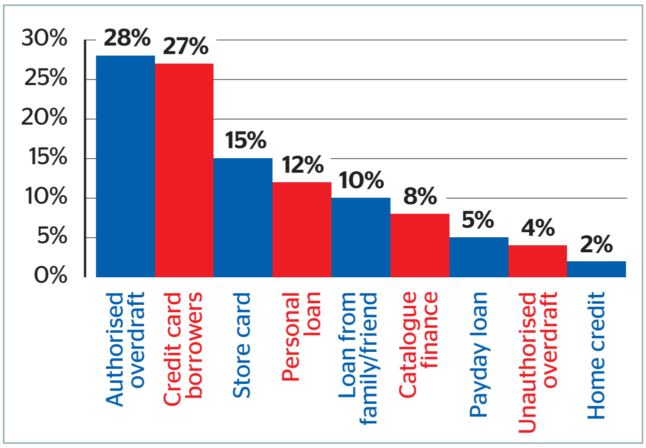
When borrowers incur disproportionate charges from their lender due to small financial mistakes (such as repaying a loan late or underpaying by a small amount), this can also cause or worsen the financial situation of these consumers without a safety buffer.

Household savings among users of different credit products (Credit Britain survey)
(Individual consumers may be represented in more than one column due to multiple product ownership)
Sample sizes in brackets

	Payday loans (205)	Unauthorised overdraft (152)	Catalogue (337)	Credit card (excluding full-payers) (1,089)	Personal loan (490)	Authorised overdraft (1,129)
No saving	55%	54%	43%	32%	32%	31%
£1 - £2k	25%	27%	30%	28%	28%	24%
£2k - £15k	8%	6%	15%	20%	19%	20%
£15k - £50k	2%	4%	4%	8%	7%	10%

Early signs of debt problems: Squeezed budgets and missed payments

Already, credit problems are hitting a sizeable minority. According to Which? QCR research, almost one in 10 people (8%) defaulted on a loan, bill, mortgage or rent in January alone, while 4% used a payday loan or unauthorised overdraft. Almost a third of all people were feeling the squeeze in January – at a minimum cutting spending on essentials. Across all credit users in our Credit Britain survey, a significant minority are using debt to fund housing costs, household essentials and repayment of existing credit. Those credit card users who borrow on their card rather than paying it off in full each month are likely to use their card to pay for essentials like food and fuel, holidays, big ticket household items and emergencies.



Alternative forms of credit, such as payday loans and unauthorised overdrafts, are used by fewer people but are often used for similar day-to-day purposes, despite the high cost. Around a third of users of payday loans and unauthorised overdrafts use the money borrowed to pay for essentials, regular household bills and emergencies. A quarter of payday loan users also use the money to repay existing debt, as is the case with 19% of authorised overdraft users and 13% of those using an unauthorised overdraft.

People with payday loans and unauthorised overdrafts have higher than average numbers of credit products overall, suggesting that they're more likely to be juggling different products to make ends meet. The average number of products held across all credit users is 2.6 products per person, while users of payday loans and unauthorised overdrafts have an average of more than four products each.

> I regret that I built up my credit card debts so quickly before I was 25 and I regret that I have carried that lump of debt around with me for the last 10 years.

How money borrowed through each type of credit is spent (Credit Britain survey).
Sample sizes in brackets

	Payday loans (205)	Unauthorised overdraft (152)	Catalogue (337)	Credit card (excluding full payers) (1,089)	Personal loan (490)	Authorised overdraft (1,129)
Regular household bills	32%	28%	3%	18%	8%	35%
Emergencies/ unexpected expenses	34%	31%	2%	44%	11%	27%
Rent/ Mortgage payments	20%	11%	2%	8%	6%	21%
Essentials (eg. food/fuel)	38%	32%	4%	41%	10%	45%
Holidays	11%	7%	2%	43%	15%	13%
Entertainment (eg. cinema/ restaurants)	10%	13%	3%	28%	6%	21%
Big ticket household items (eg. fridge)	10%	9%	32%	37%	19%	10%
Repaying other credit	24%	13%	1%	14%	24%	19%

Consumer attitudes to debt

Having taken on more debt to deal with day-to-day household bills, many borrowers then struggle to manage this credit. Borrowers' attitudes to debt are complex and varied. On the whole, they don't like being in debt, but most see it as necessary. Only 8% of borrowers are happy using credit, but 62% do not like having to use it yet see it as either necessary or sometimes necessary. Around a third of all credit users say that they have regretted taking out credit in the past, while one in 10 either didn't know when they would pay off all their debts, or expected never to be debt-free

It was so easy to get, credit cards and loans and store cards. It was so easy to get it on the never never...They did just throw money at people...I will never get a credit card again, its such a slippery road...

Which of the following statements best describes your attitude to debt? (Shown by product usage) Sample sizes in bracket	Payday loans (205)	Unauthorised overdraft (152)	Catalogue (337)	Credit card (excluding full-payers) (1,089)	Personal loan (490)	Authorised overdraft (1,129)
Debt is a necessary part of my life and I'm happy to use it	12%	10%	12%	10%	12%	9%
Debt is a necessary part of my life but I don't like having to use it	50%	50%	46%	52%	51%	44%
I avoid having to go into debt but sometimes it's necessary	28%	35%	34%	31%	31%	36%

Low-income borrowers in particular felt that it was their first step into indebtedness that caused their current financial predicament. If they had been made more aware of the potential problems of debt at the start, they say that they might have acted more warily. Instead, their realisation often did not come until they could not make their repayments and were already dependent on borrowing.

The borrowers we spoke to revealed a range of feelings about debt: those still in heavy debt used words like 'terrifying' 'horrified' and 'mortified' to describe how they felt about their borrowing, while those who are now in a better situation have mixed views, either recognising that credit can be useful if treated with care, or seeing it as something to avoid entirely in the future. Analysis of our survey responses identified four key consumer groups struggling with debt in different ways:

- Middle-income strugglers
- Low-income strugglers
- Low-income catalogue users
- Low-income in crisis

These four groups, totalling around 12 million people or a quarter of the adult population, are described below. We also identified a further group, of debt-averse low-income copers, who make up 20% of the population, and are described below.

The description of the four key groups struggling with credit paints a picture of widespread credit dependency and, in some cases, financial crisis. Whatever their differing circumstances and the different types of credit products they use, members of these groups are reliant on borrowing to repay existing debt, and few are optimistic about being able to escape it soon. With pressures on household budgets increasing and incomes failing to keep up, increasing use of debt gradually reduces borrowers' access to further mainstream credit. As the cost of borrowing therefore rises, debt problems risk becoming ever more acute.

- See Appendix 1 for case studies of middle-income strugglers, low-income copers and low-income in crisis

Middle-income strugglers

At a glance: Around 5.3m people fall into the heavily-indebted group of 'middle-income strugglers' (14% of credit users, 11% of the adult population). Middle-income strugglers tend to have good education levels and above-average incomes, often have children, and most own their own homes with a mortgage. Despite good incomes, they are reliant on mainstream credit (credit cards and authorised overdrafts) to make ends meet. On the surface, this group makes limited defaults and looks like it is coping financially, but this is largely due to a high and often increasing level of credit dependency. This group is vulnerable to income and expenditure shocks.

While half have a household income of more than £34,000 and 15% more than £62,000, this group's debt levels are also high - nearly two thirds owe more than £2,000 and over a quarter owe more than £10,000. They spend a significant proportion of their income each month repaying their debts: 69% are making payments of more than £100 per month and 14% are paying over £500. Despite this, nearly three quarters of people in this group (72%) are using a credit card and not repaying the full amount each month. As many as half of this group are using credit to repay existing credit.

The effects of increases in the cost of living and largely static incomes mean that people in this group are struggling to maintain their current lifestyle on income alone: 46% are finding it 'difficult' or 'very difficult' to cope on their current income; 33% run out of money every month and 19% every two to three months; one in seven (14%) have missed at least one credit payment in the last year. Their current financial conduct often also shows a further slide into debt: in just the last month, 41% have used an authorised overdraft and 8% have taken out a new credit card or store card, well above the average for all credit users. An income shock or sudden expenditure rise (such as an unexpected bill or job loss) could result in this group sliding into severe financial difficulty.
In general, these consumers show lower default levels than the low-income indebted groups. Their continued access to credit enables them to maintain their current financial commitments, so, that, on the face of it, it looks like they are coping. However, this is often only achieved by increasing further their use of credit – 40% of this group report an increase in debt in the past year.
Their reliance on credit is borne out by their stated response to a financial emergency: while many would cut back on luxuries (60%) and essentials (33%), an equally high proportion would take out a loan or use a credit card (61%) and half would use overdraft facilities (53%). Only three in ten (31%) have savings they could use. In an emergency, many of this group would simply resort to taking on even more debt.

Low-income strugglers

At a glance: Low-income strugglers make up 5% per cent of credit users and 4% of the GB adult population, approximately 1.9m people. Predominantly female, often single or divorced and with dependent children, this is a low-income group where more than half have a household income of less than £21,000 per year (54%). Nearly half own their own home (with or without a mortgage), but their levels of renting (50%) significantly exceed the national average. This group relies heavily on mainstream credit and has high levels of debt in relation to income: nearly three-quarters owe more than £1,000 (72%) and a quarter owe more than £10,000.

While this group uses predominantly mainstream consumer credit products, they also borrow from family and friends (19%). Their use of higher-cost options like unauthorised overdrafts (9%) and payday loans (14%) exceeds average levels. Each month, they spend a large proportion of their already modest incomes on repaying debt. The majority of this group are making payments over £100 per month (56%) and for one in 10 this rises to over £500 a month (13%). In a quarter of cases, these repayments are at least part funded by other credit.
They are reliant on credit to cover their day-to-day living

costs and are not financially resilient: few have savings and nearly all (97%) would find it hard to survive a financial emergency. Already, this group is showing signs of sliding further into debt, with half reporting that their debt has increased over the past year and a quarter that it has stayed the same. They are trying to keep on top of their debt, but for most it is a constant struggle to make ends meet, with 59% running out of money every month and a further 16% every two to three months.

This group's financial difficulties are demonstrated by its level of missed debt repayments and problems with affordability:

- 40% of these consumers have missed at least one repayment in the past year
- 39% have incurred missed payment charges
- More than one in 10 have taken out credit they knew they couldn't afford (13%)
- Nearly half have taken out credit it turned out they couldn't afford (42%).
- A quarter of this group have been contacted by a debt collection agency in the last 12 months (28%) and 15% have sought debt advice.

This group is pessimistic about its prospects of being debt free. Half believe it will take them over a year to get out of debt (50%), one in five that it will take more than five years and 15% believe they will never be out of debt.

Low-income catalogue users

At a glance: Low-income catalogue users make up 5% of credit users and 4% of the population (1.9 million people). Two thirds of this group are women and likely to be either married or co-habiting (71%). This group has low household incomes and high levels of catalogue debt. On a day-to-day basis, this group seems to be managing better than the other indebted low-income groups, but is juggling multiple credit products.

41% of low-income catalogue users live in social housing and nearly half have a household income of less than £21,000. Despite relatively low incomes, this group shows high levels of debt: three-quarters owe more than £1,000 (74%). Over half make payments of more than £100 per month and over a quarter repay more than £300 per month.

This group displays a high use of payday loans, using high-cost credit products to keep their head above water. In around a third of cases, they are using credit to repay existing debt. This group uses more credit products than most others, with a quarter having five or more products.

54% of this group are finding it difficult or very difficult to cope financially. A third run out of money every month (35%) and a further third (29%) run out of money every two to three months.

A high proportion of this group struggles with the affordability of credit: nearly a fifth have taken out debt they knew they could not afford to repay (17%) and a third have taken out debt it later turned out they couldn't afford to repay (32%). Two thirds have regretted taking out a loan (60%). These problems with affordability are reflected in the fact that a third have missed a payment in the last year (31%), 34% have incurred penalty fees and 17% have been contacted by a debt collection agency.

If faced with a financial emergency, few in this group would be able to get by without resorting to borrowing. Only a fifth have savings they could use (17%) and the most common response would be to cut back on essentials (31%). A quarter would ask friends and family to help, one in five would use a credit card or take out a loan and one in 10 would use an overdraft.

The attitudes to debt of this group are predominantly negative, but few are able to translate their dislike of debt into action: half say debt is necessary, although they don't like using it, and a third say they try to avoid using debt, but it is necessary sometimes.

Low income in crisis

At a glance: 7% of credit users (5% of the adult GB population) fall into the 'low-income in-crisis group', representing around 2.5m people. This group is hit particularly hard by credit problems and is no longer financially self-sufficient. Typically employed in low-paid jobs, this group has high debt levels and its current expenditure outstrips its means. A substantial proportion of its income is used to service outstanding debt, often built up through major personal events like bereavement, divorce or having children. At the same time they continue to borrow from wherever they can.

This group's financial problems mean they are locked out of mainstream credit and locked into a cycle of debt servicing. For the majority, their main financial coping mechanism is to borrow extensively from family and friends.

More of this group is single (40%) than is married or co-habiting (36%), a higher than average number have dependent children (43%) and they're more likely to rent a property (51%) than have a mortgage (34%). A fifth of this group have no formal education, far higher than the national average. Two-fifths live on less than £21,000 (41%).

There are some similarities between the low-income strugglers and this 'in crisis' group, but the low-income in-crisis group shows a much higher degree of reliance on high cost credit or friends and family, probably due to the fact that they can often no longer access mainstream credit. Where the low-income strugglers are trying to keep on top of their debt and to find a way out of it, the low-income in-crisis group seems to have given up.

An indicator of their marginal financial status is that, while they have mainstream credit products, their use of credit cards is lower than average (50%), but their use of authorised and unauthorised overdrafts far exceeds the norm: over half use authorised overdrafts (56%) and 40% use unauthorised overdrafts. They also have high usage of payday loans (33%). By far the biggest category of debt for this group is borrowing extensively from friends and family (75%). This appears to be because they are unable to borrow enough elsewhere to cover their expenditure.

This group has low incomes, but six in ten are spending more than £100 per month repaying debt (60%). Their problems with repayment show the extent of their financial trouble: in the past year, nearly half have missed payments (45%). Half of this group is using debt to repay debt (49%) and, considering that this is often coming from high cost sources, indicates a rapidly escalating problem.

Nearly half of the in-crisis group runs out of money every month (46%) and an additional third (37%) run out of money every two to three months. The resort to non-traditional high cost credit is not surprising given that 43% of this group have been turned down for credit at least once in the last year. The financial desperation of the group is evidenced by the fact that more than a quarter have taken out credit they knew they could not afford (28%) and nearly half have taken out credit it turned out they could not afford (44%). Nearly half increased their debt levels in the past year (46%), while a quarter have been contacted by a debt collector (27%) in the last 12 months.

Coping in a financial emergency is largely beyond this group. Few have savings they could use (10%). The most common responses to an emergency would be to ask friends and family for help (57%) or to cut back on luxuries (47%). A third would cut back on essentials (37%). For a third, their strategy would be to delay paying bills. They have very limited options for surviving a financial emergency.

The people in this group told us they took on too much debt, too young and now find themselves in serious financial trouble. Their journeys into debt started with being offered credit (usually by credit card companies or sometimes doorstep lenders), often at a time when they did not need it. More offers of credit, which they saw as 'free money' at the time, led to a greater accumulation of debt. Now they only make minimum debt repayments, if they make them at all. There are very few options for people in this situation, with neither sufficient income to meet their ongoing repayment obligations, nor the access to affordable credit that could help them. Their use of high-cost credit is not a sustainable solution to the situation these people find themselves in.

An alternative story – low-income copers

The Which? Credit Britain research revealed another group of low-income credit users, who, despite finding it a struggle, usually manage on their current incomes and are not in unsustainable debt. This group of low-income copers represents 26% of credit users and 20% of the adult GB population, around 9.8 million people.

This group is older than the indebted groups and is less likely to have children under 18 (28%), more likely to be retired (22%) and more likely to own their home outright (31%), than the indebted groups. Their incomes are generally low: 41% have an income of less than £21,000.

The main consumer credit product used by this group is the credit card, with 29% using a credit card for borrowing. They also use mainstream credit products like authorised overdrafts (28%), store cards (13%) and personal loans (11%). Their use of payday loans, unauthorised overdrafts and catalogues is negligible.

Despite low incomes, this group largely manages on its current income (70%) and rarely runs out of money on a monthly basis (11%). They are debt-averse and tend to avoid the use of credit. 29% 'avoid getting into debt at all costs'. In a crisis, they would most frequently cut back on luxuries (52%) or use savings (50%).

The members of this group fall into two main categories:

- Financially-aware consumers who avoid high debt, but use credit to their own advantage.
- Debt survivors who have had a bad debt experience in the past and are now avoiding it, while paying off past debts.

They think credit is far too easy to get and do not trust either mainstream or non-traditional lenders to look out for their customers' interests. Nonetheless, they have a strong sense of personal responsibility and feel that people should pay back their debts.

> People aren't told how to get out of debt once they get into it...I know that there are millions of people sitting there thinking 'what am I going to do?'

Section 1 outlined the economic conditions that have contributed to consumers' struggles with debt, progressing from mainstream credit like authorised overdrafts, personal loans and credit cards to high-cost alternatives such as payday loans and unauthorised overdrafts. Lenders have contributed to the creation and continuation of these problems, both in their lending practices and the design of their products.

Only three in ten credit users find credit products easy to understand (29%).

Application and repayment stages

While consumers have a duty to borrow responsibly, lenders' practices can also contribute to consumer over-indebtedness. Despite the contraction in the credit market since 2008, over half of borrowers still felt that it is too easy to get access to credit.

When conducting affordability assessments, the OFT's Irresponsible Lending Guidance (ILG) gives lenders a high degree of leeway in deciding the tests to apply, and only stipulates that affordability tests should be conducted when credit is taken out or increased significantly. A number of permitted lender practices risk causing consumer detriment:

- A failure to conduct full affordability assessments or to share data with credit reference agencies (CRAs) means consumers could take out more credit than they can afford to repay without setting off lenders' alarm bells. For example, the OFT's investigation into the payday loan market found lenders failing to conduct adequate affordability assessments before lending or before rolling over loans.

- Inappropriate marketing entices consumers to take on debt that may be inappropriate for their circumstances. For example, Which? research last year found payday loan companies advertising loans for nights out or even 'to put in the bank for emergencies'.

- A lack of transparency over additional charges exploits consumers' over-confidence about their ability to repay their debt in full and on time, pushing the true cost of credit above the headline interest charge for many borrowers.

- Unsolicited increases in credit limits, whether on a credit card, overdraft or payday loan facility, could encourage consumers to take on more debt than they intend and discourage consumers from making conscious decisions about their finances. Payday lenders encouraging rollovers have a similar effect.

Charging structures

The people we spoke to on low incomes and struggling with debt commonly stated during our interviews that their focus when taking out debt is the amount of the monthly repayment, rather than the APR and the overall cost of the credit. One interviewee referred to the 'horrible disparity' between the amount that is repaid each month and the amount that this reduces the outstanding debt.

Payday loans and unauthorised overdrafts rightly attract significant media scrutiny, but more people use catalogues than either of these options and catalogues are not always sufficiently clear about the total cost of credit. Rather than show the total cost of credit next to an item, the weekly cost of catalogue purchases often takes priority. For example, one catalogue website states 'From 65p a week' next to an item, but does not show the cost of credit on that page.

Catalogue finance also exploits consumers' over-confidence in their ability to repay. For example, one firm offers a 'Buy now pay later' option under which no interest is charged if full repayment is made within 12 months, but if this 12-month point is passed, interest is backdated to the date of purchase at a representative APR of 34.9%.

Charges for authorised and unauthorised overdrafts can also be very high and disproportionate to the amount borrowed. Interest rates on authorised overdrafts are the highest since records began in 1995, with RBS, for example, charging as much as 19.89% on its accounts and Lloyds TSB charging up to 19.94% APR, in addition to a monthly usage fee of £6. A number of banks have also introduced monthly maintenance fees or replaced interest with daily fees. Using an unauthorised overdraft for just two days a month could cost around £50 a month with Nationwide and Norwich & Peterborough BS, and £75 with Yorkshire and Clydesdale Banks.

Complex charging structures for overdrafts make comparison of these costs between different current account providers very difficult, distorting competition. Rather than charging you for each transaction you make, some lenders now charge you a fee for every day you use your overdraft. While this can work out cheaper for consumers who only use their overdraft for a limited number of days per month, daily charges mean consumers already in authorised or unauthorised overdraft cannot avoid additional fees by not making further transactions on their account. There are few caps applied to these fees, meaning that they can end up being disproportionate to the amount initially borrowed. The fear of high overdraft fees was cited in our Credit Britain interviews as a reason why some consumers resort to payday loans.

Consumers are also unable to make a cost-free choice of opting-out of having an unauthorised overdraft, by instead having transactions rejected. Only two high street banks and one building society offer consumers the cost-free ability to opt-out of having an unauthorised overdraft. However, the building society, Nationwide, charges exactly the same £15 penalty fee for a rejected transaction as it does for a paid transaction above your authorised overdraft limit. Other banks charge customers who want to opt-out. Lloyds TSB, for example, charges £10 a month for the Control option on its Classic current accounts, which prevents you going into unauthorised overdraft.

In the United States, rules have been introduced meaning that the default position is that consumers are opted-out of having an unauthorised overdraft, with certain transactions only processed if consumers have given their written consent.

Late payment and default fees

Consumers are often over-optimistic about their ability to repay, particularly when they are under financial pressure. While some borrowers may take out loans in desperation, others take out debt believing they can repay it in full and on time. Only later does it become apparent that this is not the case. While a third (29%) of payday loan users in our survey have taken out credit that they knew they couldn't repay, half (48%) of payday loan users have taken out credit in the past that it turned out they couldn't afford to repay. Unauthorised overdraft users aren't far behind at 44%, followed by catalogue users at 29%.

A 2008 study found that default generally occurs after borrowers have repaid or serviced five payday loans. If consumers correctly predicted that they would default in the future, they might not choose to continue 'rolling over' the loan but rather default sooner. This also suggests that lenders are not doing enough to assess affordability before granting, increasing or extending a loan.

Lenders' business models exploit consumers' over-optimism that they'll repay on time, for example by imposing penalty charges in excess of the actual costs incurred by the lender when a borrower defaults or makes a late payment. As a result of their over-confidence, consumers may compare loans based on headline rate, ignoring the ancillary charges many of them will end up paying. When Which? examined payday loan companies' charges in June 2012, we found charges of up to £30 for failed payments.

By using the excessive penalty fees paid by borrowers in difficulty to drive down the headline interest rate or boost their profit margins, lenders both distort competition and encourage consumers to under-estimate the true cost of credit.

We noted above that insufficient affordability assessments could lead borrowers to over-extend themselves financially, taking on more debt than they can realistically repay. Even where an affordability assessment is completed, the exclusion from this calculation of default fees could still result in inappropriate borrowing levels.

The risk is greatest for high-cost credit, where default and arrears fees affect a large proportion of the total customer base. Our survey found that one in five users of payday loans were hit by 'unexpected' charges and that, in the last 12 months, more than half of payday

The table below shows how many users of each type of credit have been unable to repay at least one of their wider credit commitments. Sample sizes in brackets

	Payday loans (205)	Unauthorised overdraft (152)	Catalogue (337)	Credit Card (excluding full-payers) (1,089)	Personal loan (490)	Authorised overdraft (1,129)
I have taken out credit that I knew I couldn't afford to repay	29%	23%	14%	11%	9%	8%
I have taken out credit that it turned out I couldn't afford to repay	48%	44%	29%	21%	20%	18%

I know with the wages I earn that I'm not really making ends meet. Every time the gas and electricity go up I worry about it a lot.

loan users had incurred charges because of missed or bounced repayments. The business model of some lenders appears to be based on the unsustainable default charges incurred by borrowers. The OFT's payday sector review found, for example, one lender that applies an average of £179 in charges during the 35-day period following the repayment due date.

In parallel markets, regulators have found that consumers do not take additional charges into account when making decisions. The Financial Services Authority (FSA) found during a review of the mortgage market that 'many consumers focus on initial payments or headline rates at the expense of other product features such as fees or charges.' It found that this was 'particularly the case where charges may only apply in certain circumstances and are incurred post-sale.'*

The costs identified by the OFT when it set a price cap of £12 for arrears charges for credit card debt are a useful guide to the appropriate administrative costs that should be recovered from arrears charges. In reaching this cap, the OFT concluded that the relevant sources of costs that might be recovered through additional credit card charges are: staff costs; premises; telephone; letters and postage; IT systems; depreciation of assets related to running collection systems pre default notice; IT support; and other central services such as human resources.

*Vivid Economics report on additional fees for consumer credit products. Prepared for Which?, January 2013.

Problems with product design are not unique to the high-cost credit market. The terms and conditions of credit card providers, for example, allow for the withdrawal of an entire 0% deal if the borrower is late making a repayment or underpays one month. In this case, the borrower is likely already to have paid a balance transfer fee of around 3% and may now face paying the lender's standard APR on the full transferred balance, with limited opportunity to switch elsewhere as repeated applications for credit are likely to damage their credit rating and lead to a higher likelihood of being rejected by new lenders.

Debt problems

When problems do arise it is important that there is early intervention. A good measure of how a lender approaches its duty to lend responsibly is its treatment of customers who get into financial difficulty. For example, some lenders currently charge interest for the first 60 days after a customer defaults, which we believe is excessive. Borrowers are already charged penalty fees for default or late payment, so charging interest for more than a month on top of this is likely to exacerbate a struggling borrower's financial position.

That some borrowers have told us that their lender demanded full repayment when they approached them for help is further evidence of a market failing to treat struggling customers fairly. The OFT's payday loan market review also found lenders not treating borrowers in financial difficulty with forbearance, and criticised some lenders for using aggressive debt collection practices.

Conclusions

Need for a whole-system approach

There is a need for a whole-system approach to consumer credit policy. Many consumers only turn to high-cost credit when they have exhausted all other mainstream options, and for many borrowers problems with credit start further up the slope with mainstream credit. Measures must therefore address the whole lending market.

The people we spoke to in our telephone interviews had few illusions about high-cost credit - they knew they were expensive options, but felt they had no choice but to use them. Half of people who had used a payday loan or unauthorised overdraft had been rejected for credit within the past year. Once they have run out of mainstream lending options, or have been excluded from mainstream credit, it can also be difficult for consumers to find their way back.

Not only is it necessary to consider all sectors, it is also important that the FCA addresses every stage of the consumer journey, from irresponsible marketing and checking the affordability of lending before there is any discernible issue through to dealing with problem debt. Early intervention and strong action is imperative, both to help those already struggling with credit and to provide support and protection to the wider group of consumers using credit products in a difficult economic environment. Regulatory action is also needed on unfair product design, particularly around excessive charges for default and late payment which exploit consumers' tendency to over-estimate their ability to repay debts in full and on time. Business models that rely on consumers' inability to repay their debts are both unfair and unsustainable.

Our interviewees felt let down by lenders, both in terms of being sold a product that was too expensive in the first place and due to the lack of support they are given when they start to experience difficulties. This reflected a general mistrust of banks and other lenders, with lenders not trusted to act in the interests of consumers. The suggestion that lenders might take steps to help consumers with problem debt was met with scepticism from our telephone interviewees, reinforcing the work lenders need to do to rebuild consumer trust.

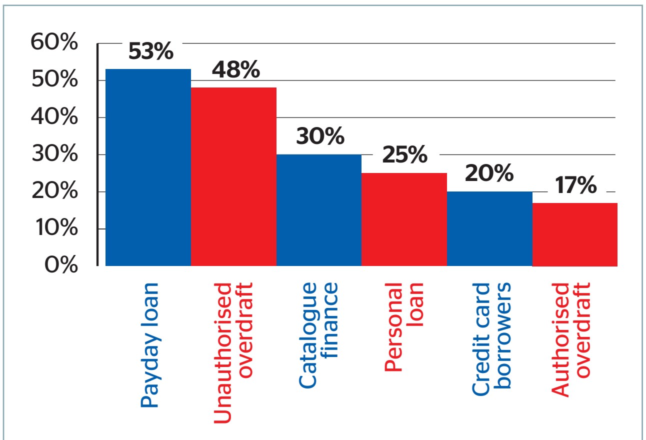
In contrast, debt advice has been a key component in the recovery of some indebted consumers from a bad debt experience. Only 10% of the credit users in the Which? Credit Britain survey have ever used a debt advice organisation, but in our interviews those who had used one always spoke positively of them.

Need for a strong, proactive regulator

Existing regulation and enforcement are failing to address the numerous problems in the operation of the consumer credit market. Our research shows how these problems are affecting consumers at a time of widespread financial strain. Regulation of the consumer credit industry currently takes place through the issuance of credit licences by the Office of Fair Trading (OFT). Although the OFT has recently made some improvements, the existing system still has the following limitations:

Credit licensing: The application is a largely paper-based process with little scrutiny except in certain high-risk cases. Licences were issued indefinitely. The fee is exactly the same for all firms regardless of size, the amount lent or the risk of the business to consumers.

Limited supervision and monitoring: After issuing the licence, credit businesses are not routinely audited. Action only takes place in response to complaints or other intelligence about the operation of the firm.



Percentage of holders of each type of credit who were turned down for some form of unsecured credit in the last 12 months

The OFT has never been resourced appropriately to supervise the industry. It does not currently collect comprehensive market data on different types of lending, levels of charges or the amounts lent by different licence holders.

Weak enforcement: 65,000 consumer credit licence holders currently trade in the UK. In 2011-12, just 13 firms had requirements imposed on them and 27 firms had their licence revoked. The maximum fine the OFT can impose under the Act, in relation to a breach of a requirement placed on a firm, is £50,000. To date, however, the OFT has proved unwilling to use this power.

The transfer of consumer credit regulation from the OFT to the Financial Conduct Authority (FCA) in 2014 offers both opportunities to improve the regulation of consumer credit and the risk that consumers could lose out during the transitional process.

It's vital that the FCA acts as a strong, open and proactive regulator. It should take the initiative by making sure that the new rules and powers it's given have real teeth - creating tough new rules on credit, and making sure they are properly enforced. The next section explores our recommendations on how this should be achieved.

> As long as they feel they will get the money back from you one way or another, they don't care at all about you as a person...I understand that a business is a business but I do think there should be more of a social and moral compass there.

Which? has set out five challenges the FCA must meet to clean up credit for consumers. These are:

- **1** Ban excessive default charges and fees
- **2** Ensure that lenders provide clear and transparent information
- **3** Crack down on irresponsible lending
- **4** Put people in control of their credit
- **5** Ensure that lenders provide swift, early and effective intervention for people in financial difficulty

It's too easy to get credit, if you make two payments on time they say, 'ok then you can have five hundred more quid'.

Implementation of these recommendations would put consumers back in control of their finances. Our recommendations do not place onerous additional burdens on lenders. Rather they put into place rules that responsible lenders should already be adhering to.

1 Ban excessive default charges and fees

Providers must develop products that are fair and transparent. Business models must not depend on a significant number of consumers defaulting on their debt. The market-distorting effect of charges, together with consumers' inability or unwillingness to shop around, are, in our view, greater barriers to an efficient market than high APRs.

1a. Lenders should set their additional charges and penalties at a fair level that reflects the actual administrative costs they incur. They should not be able to profit from consumers in financial difficulty.

The FCA should exercise its power to cap default charges and fees. A cap on default charges is already implemented in the credit card and mortgage markets and extending this to all credit would prevent borrowers spiralling into debt when they enter default or arrears.

1b. In order for a cap on charges and penalties to work it must:

- be updated regularly to keep in line with the market
- be set by the FCA
- apply across all credit products including overdrafts (although the level of charges may vary between different types of credit product, depending on the costs involved).

2 Ensure that lenders provide clear and transparent information

2a. The cost of all high-cost credit, including both authorised and unauthorised overdrafts, should be shown in ££ terms per £100 borrowed over 30 days, as well as showing the APR. Some products such as payday loans already do this but it should be included in the FCA rules.

2b. Costs and charges should be transparent, enabling consumers to compare across products and make decisions that are appropriate to their financial circumstances. This should include unauthorised overdrafts, which have become harder to compare. All fees and charges, including default charges, associated with the loan must be displayed clearly, with clear links from every page of an online application. This should be included in FCA rules.

2c. All, not just high-cost, credit products should come with clear health warnings regarding the consequences of not making timely repayments. This should be based on the warning notice that appears on all pages of the mortgage application under the Mortgage Conduct of Business (MCOBS) rules.

2d. When someone is rejected for credit, simply telling the applicant to 'Check your credit file' is not a sufficient response. The lender should give a useful reason for refusal, together with practical action points. This might include, for example, explaining that the application has been turned down as the borrower was not on the electoral register and recommending that the borrower take action to remedy this.

3 Crack down on irresponsible lending

When granting, extending and renewing credit, providers have a duty to ensure that the product is suitable and the borrower can afford to repay. Full affordability assessments are currently not always carried out, while additional fees are too often not displayed transparently by credit providers, potentially inhibiting competition and causing over-borrowing.

3a. The FCA rulebook must set out minimum standards for the affordability assessment. This would help prevent borrowers taking on unmanageable debt and should include income, expenditure, the ability to repay in a sustainable manner, existing credit commitments, credit history, personal circumstances, and value and duration of the loan.

3b. The formation of a live database across all types of regulated credit should be explored further by the FCA, lenders and all three credit reference agencies. All lenders should, as a first step, be required by the FCA to share 'negative' lending data, such as defaults, with all three credit reference agencies. This must include payday lenders and catalogues.

4 Put people in control of their credit

Consumers should not be encouraged by the lender to take on additional borrowing. The FCA must take action to enable consumers to take active decisions about their own borrowing:

4a. Ban unsolicited credit increases: providers of rolling credit (mainly credit cards) should not be allowed to increase credit limits without an active opt-in by the borrower, rather than an opt-out.

4b. A limit on rollovers: there should be a limit on the number of times a high-cost loan can be rolled over (three times), as well as a limit on the number of loans that can be taken out with one lender in each 12-month period (four loans of 30 days, including rollovers). Borrowers refused a loan or rollover under this limit should be signposted to independent debt advice (see below).

4c. Opt-in on overdrafts for all consumers: all unauthorised overdrafts should be opt-in and consumers should be able to opt in or out at no extra cost.

4d. Consumers should not be penalised for shopping around for credit. Where a potential borrower is comparing deals, it must be compulsory for lenders, brokers and price comparison sites to use a 'quotation search', already widely available in the mortgage market. This would prevent a full application footprint being left on your file and still give you a good idea of whether your application would be accepted, as well as what interest rate you'd be charged.

5 Ensure that lenders provide swift, early and effective intervention for people in financial difficulty

5a. The existing MCOBS rules offer a blueprint for the regulation of high-cost credit. FCA rules must include a requirement for lenders to take measures to assist consumers in difficulty before taking action to recover the debt. Lenders should be prevented from levying default charges on borrowers shown to be in financial difficulty.

5b. Interest on high-cost loans should not be charged beyond 30 days after the borrower defaults.

5c. Lenders should prioritise repayment of the amount borrowed before repayment of default charges.

5d. Lenders should freeze charges for borrowers in financial difficulty.

5e. Lenders should be obliged to refer consumers in difficulty for independent debt advice. This is already covered under voluntary schemes such as the Lending Code and payday loan guidance, but should be applied to all lending through FCA rules.

5f. Where an applicant is refused credit, or where a borrower shows behaviour indicative of repayment problems (such as late payments, repeated use of an authorised or unauthorised overdraft or consistently only making the minimum repayment on a credit card), lenders should intervene to discuss repayment options and tell borrowers explicitly about free debt advice organisations. FCA rules should include this requirement.

Case study 1
Low-income in crisis

Sarah is a 35-year-old single mother living in a council property in Birmingham with her two children. She is a full-time mother and the family survives on a very low income of less than £7,000 per year, putting her in the bottom 10% of the UK's population. Relative to this meagre income she is very heavily indebted, owing about £5,000 on credit cards, catalogue loans and doorstep credit; she also owes money to friends and family.

Sarah's story is typical of approximately 2.5 million low-income people Which? identified who take out mainstream credit, accumulate too much debt and subsequently rely on high-cost credit. She first went into debt 10 years ago when she took out a car loan. Over the next few months and years she took out more credit, particularly on credit cards. It didn't feel like a big deal to her, she says, as 'they [the lenders] made it really easy.' Initially she found the repayments manageable although she tended to repay only the minimum every month. This led to her building up quite high levels of debt and, after her second child was born, she did not return to work and then began to miss repayments. Rejected for credit cards, she was now turning to doorstep credit. Most of the products she has had have followed the same pattern of being repaid initially but later not. Now the letters demanding repayment for the older loans go unread. Sarah can't face opening them as she cannot see a way out of her situation, the interest repayments are too large for her to afford to repay. Ignoring the letters is Sarah's way of coping with an unmanageable situation: 'I know it sounds stupid but I just file the letters away and ignore it.'

Being in this situation makes her feel 'terrible. I wish I'd never had it. I shouldn't have had it.' She doubts she will ever pay off her debts completely but does make an effort to repay her most recent loans. She feels like people like her are targeted by lenders, particularly doorstep credit providers, who know that she won't be able to repay the loan. She does not plan to take out any more credit, but honestly said she couldn't ensure this was the case as she may need it for something, or simply give in to the temptation of 'easy money.' She regrets taking on so much debt and blames herself but when asked what would have made a difference, she alluded to the pressure she felt lenders put on her and joked that the only thing that would have helped would have been 'being in a boarding school in the middle of

> I had people ringing me up pressurising me to make repayments, asking me if I could borrow money from elsewhere to make payments. It was horrible... I remember a woman ringing me up and telling me I shouldn't have got pregnant, which was just horrendous.

Case study 2
Middle-income strugglers

Adam is a 52 year-old man living in Liverpool. Divorced, he lives with his partner and teenage children in a mortgaged house. Despite having an income in the region of £50,000 per year, putting him in the top 25% of earners, Adam is part of a large group of people who are reliant on credit and living on the edge. His expenditure is substantial, paying for both his own and his ex-wife's mortgage and he has large debts of over £30,000 spread over a number of credit cards and bank loans.

Until the age of 38, Adam did not have much use for credit. He would pay for things with cash or cheque. He initially got into debt because he needed a credit card to pay for a holiday: 'so I applied for one, and it's probably the worst thing I ever did...now it's far too easy [to go further into debt]'.

He now has bank loans as well, which he has taken out to pay off some credit cards. He is an active user of credit, often moving balances between credit cards and avoiding going into his overdraft as much as possible.

While initially he used credit for specific purchases such as holidays and for large purchases, he now tends to use it for everyday expenditure. He cites the ease with which he can access credit and society's insatiable thirst for new products, as well as rising prices and squeezed incomes, as his reasons for this. This slide from targeted credit to everyday debt is something that our research reveals is widespread, something Adam also said: 'most of the people I know now are living on credit.'

Like some of the people we spoke to, Adam is aware of the situation he is in. He doesn't like debt but says that, because of stagnant incomes and price rises, it's a 'necessary evil.' He sometimes worries about it, but the fact that his credit record is good, and he has never missed repayments means that he has access to more credit should he need it: 'It's a worry sometimes. [But] sometimes I think if I keep paying it, does it matter? Other times it becomes a worry - because I owe that much money. I wouldn't say you become flippant about it, but it's something that's become just a part of everyday life now.'

But in today's economic climate Adam, who works in the construction industry, has found overtime harder to come by: whereas it used to make up 40% of his salary, it now contributes only about 15%. This has led to an increase in his debt levels rather than a reduction in his expenditure. When asked if his debt has ever been unmanageable, he replied 'not yet'. In response to how he would cope without access to credit: 'I would flounder'. Adam does plan to pay off his debts, but in the current climate he struggles to see how he can do that - without a larger income he cannot continue to service the increasingly large interest payments and continue to have the standard of living that he has

> Ultimately debt is a necessary evil...It's one of these things I've learnt to live with.

> I was turned down...they didn't tell me why, still don't really know why...I was really upset because I don't know why I was turned down, I'd never missed a payment, I was a safe bet in that sense.

Case study 3
Low-income copers

Ian is a 47 year-old man living in a small village near Leeds. Separated from his wife of 10 years and their five teenage children, he lives in a small property with a mortgage. With only intermittent work, and heavily reliant on overtime to make ends meet, Ian's earnings put him in the bottom 40% of earners in the UK. He describes life as 'very difficult' on his current income and he currently holds about £3,500 worth of debt. However, unlike Sarah, Ian is managing to pay down his debts – they have decreased significantly in the last few years and he aims to be debt-free within another year or two.

Ian is part of a group of people on low income who are relatively debt-averse. While some of the people we interviewed had always had this attitude, others, such as Ian, have developed it through their experiences with credit products. Like Sarah, Ian built up a lot of debt when he was younger, but he has taken active steps to remedy his situation in the last few years. Last year he completed the payments on an Individual Voluntary Agreement (IVA), which allowed him to pay down a significant portion of his debt. Since then he has taken on more debt as a response to his fridge breaking down, but he is steadily paying this off and hopes to be able to avoid taking on any more credit.

However, Ian describes this as a 'real struggle'. He has to budget very carefully and says that after his priority payments - his mortgage, utility bills and loan repayments – he is left with as little as £20 per week. He says that when he doesn't manage to get overtime, he sometimes goes without food and plans his journeys to the mile to save on petrol costs. While he does take some satisfaction from being in control of his outgoings, it is hard: 'Sometimes I wish I could just go home at normal time, sit down and turn the heating on.'

Given Ian's income, he cannot build up a savings buffer and so is constantly living on the edge of real financial difficulty. This means that the temptation to take out debt is always there and he described having to constantly delete marketing emails from payday loan companies and throw away catalogues before they become too much of a temptation. He recognises in himself society's obsession with new things and has to stay vigilant to avoid taking out credit: 'Everyone wants the best of everything and when you see someone else getting it you think you've got to get it too. And when you get an option chucked in your face which is so easy, you take it and before you know it you're out of control.'

If Ian continues the way he is, he will be debt-free within a year or two. Yet his life is a daily struggle to keep up with regular bills, repay the debts he has and to avoid the temptation to take out more debt. He has 'learnt his lesson' about credit the hard way, he says, and is sympathetic to others in trouble. Going into the IVA changed his life around, he says, and his advice to others in trouble would be 'first of all to not to get any more credit and then to try to get yourself financially sorted, because it never gets better. And never ever put it off.'

Chart 1: Credit card and overdraft interest rates

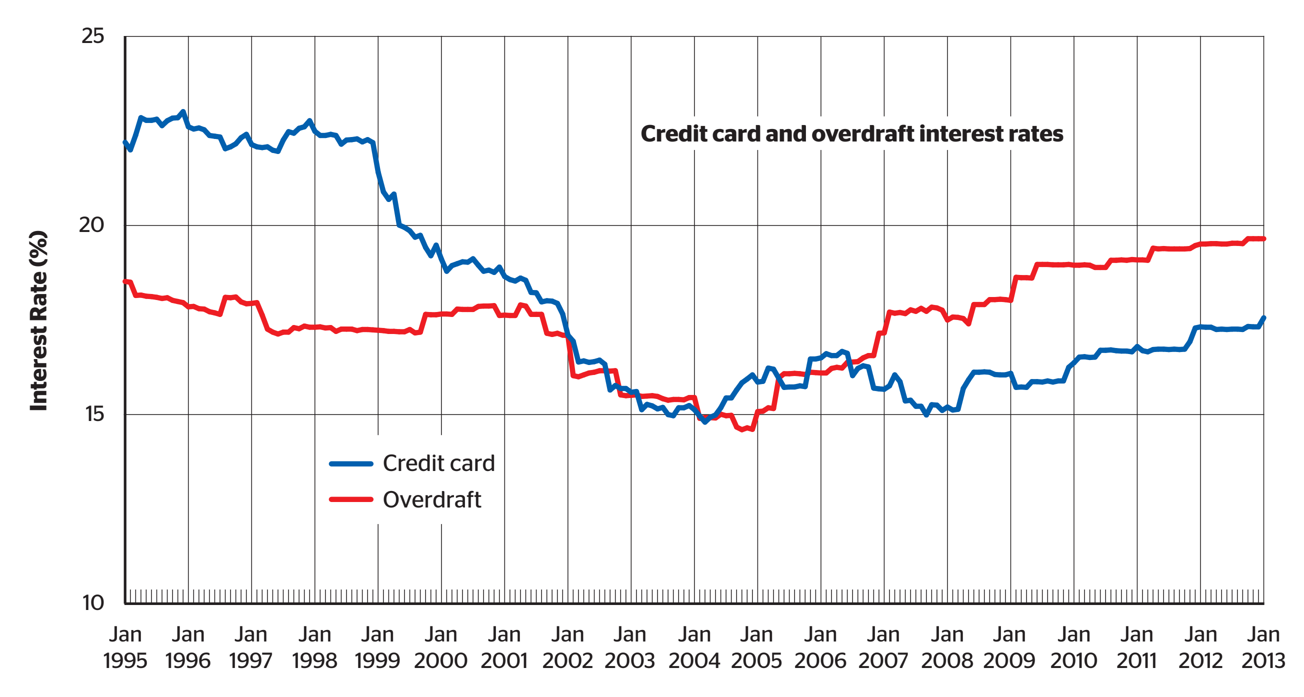


Chart 2: Unsecured lending rates – spreads over Bank of England base rate