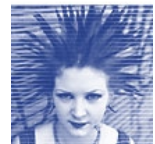




Ireland 2004

Money Advice and Budgeting Service

Comment Paper,
United Kingdom





Background Information on the UK Consumer Credit Market

The Consumer Credit regime in the UK is both developed and complex. Around 70% of households are homeowners and total lending in the UK is now running at more than a trillion pounds.

In 2003 68 million credit cards were in circulation in the UK, accounting for more than half of the credit cards in Europe and almost two-thirds of the total value of transactions. There were 114 million credit, debit and store cards in circulation. This is equivalent to 2 cards per man, woman and child.

Traditionally, over-indebtedness in the UK attracted little political and academic interest. One of the key reasons for this seems to be that those with debt problems have been those on low incomes or who have had a change of circumstances. However, it has now been acknowledged that the massive growth in consumer debt now extends to all income brackets and all sections of the community, and as a result there is a massive amount of political interest.

The UK is enjoying a sustained period of strong economic growth and consumer credit has contributed to this. However, there are fears that many have over-committed themselves and that if there was a small economic downturn (with the resultant rise in interest rates and job losses) many could find themselves in a spiralling debt situation.

Research commissioned by the DTI in November 2002 found that 75% of households have credit facilities and 50% have outstanding debt. 7% of households had 4 or more credit commitments, 5% were spending a quarter or more of their household income on consumer credit repayments and 6% were spending half or more of their income on paying their mortgage and credit commitments. More than half of households that are over-indebted have incomes of less than £7,500 per year. Those in employment and with savings are less likely to fall into arrears.

Citizens Advice research of its clients found that over-indebtedness disproportionately affected low income households, and that certain types of debt in particular were linked to poverty such as catalogue and loans from high interest door to door moneylenders.

The main three reasons cited for financial difficulties are change of circumstances, low income and over-commitment.



The Government issued its White Paper 'Fair, clear and competitive – the Consumer Credit Market in the 21st Century' in December 2003, setting out its vision for reforming consumer credit law, preventing and dealing with those in debt. One of the key objectives was to review the Consumer Credit Act to make it more relevant for today's consumer society. Other key aims included taking a more preventative stance, encouraging financial literacy and improve transparency in contracts to enable consumers to make informed choices when choosing credit products. It highlighted the need for co-ordinated action across the Government and industry regulators (e.g. Financial Services Authority, Office of Fair Trading). It also identified the need to work closely with the credit industry, voluntary sector and consumer groups to tackle the issue of debt.

An over indebtedness task force was created with cross cutting Government involvement. Citizens Advice and other not for profit agencies are heavily involved here.

June 2004 saw the launch of the Governments Overindebtedness Action Plan, which outlines its proposals for reform.

The summary of aims:

To get to a position where consumers have the capability and information they need to make informed choices about borrowing and where lenders make responsible decisions about whether and how much credit they grant.

We want to ensure that where borrowers do get into difficulty, they do seek help at the earliest possible opportunity. We want there to be easy access to free advice to help them out of debt, sympathetic treatment by creditors and legal support to resolve problems quickly and effectively.

Some of the key aims of the strategy are to educate and inform consumers and to extend sources of affordable credit to those most in need. Initiatives to tackle 'loan sharks' have been launched and the laws relating to extortionate credit are also being reformed.

The Social Fund (a loan and grant scheme administered by the Department of Work and Pensions) is only available to some groups (mainly those on welfare benefits) and is limited in its ability to address the credit needs of many. The social fund is currently being reviewed but it is unlikely that this will ensure access to affordable credit for all those who need it.



The Treasury announced its commitment to funding face-to-face money advice and to develop a 'financial inclusion fund' in the recent spending review. We should have more detail of this in the near future and it is unclear whether credit unions will be assisted here.

Provision of Debt Advice in the UK

Advice to those with financial difficulties in the UK was developed in the late 1970's as a reaction to a growing need identified by local charities, in particular Citizens Advice Bureau and independent not for profit advice agencies. A model was developed which still forms the basis of today's money advice. This involved income maximisation, drawing up a personal budget, negotiating and dealing with priority debts, and negotiating payments to non-priority debts with any money left over. Delivery of Debt Advice services has until relatively recently remained with the voluntary sector, and has developed to meet the growing needs of an ever more complex system. Money Advice is now a highly specialist area and a trained money adviser will advise and assist on the whole range of issues and options, from working out a clients budget and advising on expenditure, to complex assistance with bankruptcy, county court representation and legal defences. Many specialist Money Advisers are funded by the Legal Services Commission (Legal Aid) and have to meet specific contract hours and conform to rigorous standards, in a similar way to solicitors. The sector has therefore become far more professional.

By far the largest provider of Money Advice is the Citizens Advice Bureau Network. CABs operate in over 3,200 venues (includes outreach). All CABs can advise on debt, but not all to the same level of specialism. There are 5617 paid staff and 20,973 volunteers running the services.

There are also a large number of independent money advice services, often supplying money advice to specific parts of the community (e.g. Lone parents, disabled). There are also many Local Authorities who have a money advice or Welfare Rights Unit attached to them.

Telephone advice has evolved rapidly over the last few years and is seen to be a cost effective and accessible way to impart advice and information to those who are able to act for themselves (although there are some telephone case-work services).



Many not for profit debt advice agencies report being unable to fully meet the demand for debt advice services in their community due to lack of resources, and few can promote their services for fear of being unable to cope with demand.

The commercial sector now also has a role to play in the delivery of money advice. A relatively new development in the provision of advice is the Debt Management Providers. There are two free Debt Management companies and a number of fee charging ones. Debt Management Companies operate by the telephone. Their service involves working out a budget and negotiating with creditors. The client then makes one payment to the Debt Management Company who distributes it to their creditors. The funding for the two free debt management companies comes from the credit industry and is completely free to the client. The fee charging companies, however, charge a fee, which is sometime substantial.

Insolvency Practitioners are needed to set up and administer a form of insolvency called an Individual Voluntary Arrangement. This is a formal alternative to bankruptcy that allows those in debt to enter an arrangement to pay off their debts from income and assets. Composition is common to allow the debts to be repaid in the time period. There will be a bigger role to play for Mortgage brokers/advisers as recent Financial Services Authority regulation means that they will have to consider and advise on alternatives when approached for advice on consolidating debts by a re-mortgage.

Credit Unions in the UK

Credit Unions (CUs) are an invaluable service to the community in the UK. They enable those in the community who may otherwise be financially excluded to save, and have access to affordable credit. They offer a good alternative to high interest moneylenders though, who may be the only other source of available credit in the area for some groups, typically those on low incomes, with poor credit ratings etc.

There are 594 credit unions in England and Wales and although Credit Union membership has grown, the number of credit unions has dropped by 13% in the past year. This is in part due to mergers of smaller Credit Unions, and many are struggling to survive, even though the average saving rate has increased.



Merger could undoubtedly lead to issues of access to the service and lack of the intimate, local relationship, which is one of the strengths of the CU service.

Despite many CUs closing or struggling, membership continues to increase with there now being over 500,000 credit union members. Government and consumer groups agree that they offer a valuable service to the community, but sustainable funding to enable further development and growth has been lacking on a national basis. CUs have a statutory duty to provide financial education and if coupled with Money Advisers could provide a holistic service. They are close to their members and community (in a similar way to local advice centres) and so can adapt to the needs and demands of the community. There would seem to be an organic link between credit unions and money advice.

ABCUL (The Association of British Credit Unions) recently announced that many credit unions are struggling to grant loans as there are not enough funds, and have asked for a review of the rules in relation to saving before borrowing to encourage more people to join the CUs.

Credit Unions only make up a very small part of the banking and credit sector in the UK and they do not exist at present within a co-ordinated infrastructure. There is not an even spread of credit unions geographically, with about 25% alone being situated in the North West. There are some large credit unions linked to major employers (e.g. Police force) but many remain small local concerns to service the community.

In the UK many high street lenders offer better deals on credit for those able to access it and therefore credit union loans may not be attractive to all consumers. Access to high street bank accounts has become a priority and the governments aim is to have a high number of consumers 'banked' and the recent initiatives to encourage more to save and asset build are also part of the overall picture.

Very few projects similar to MABS exist at the moment in the UK. There is a MABS project in Liverpool and a similar service in Birmingham that also includes energy advice in its services. They both combine the positive aspects of belonging to a credit union (saving, access to low cost loans etc). with a money advice service to assist customers to deal with their debt situation. They also have a bill payment and energy advice service. The Birmingham scheme 'factor 4' have shop fronts in Birmingham and are funded by various fuel companies



and Barclays Bank. They are in the middle of a 2 year pilot phase. They launch of a 'community banking partnership' project in December 2004, which will commence 8 pathfinder projects across the country. The long term aim is to expand the project nationally. However, we are aware that there have been previous similar models that have failed due to lack of sustainable funding.

There are also a number of financial literacy projects run by Citizens Advice Bureau which are connected to Credit Unions using referral systems and partnership working to access each others services.

Summary

It would seem that the Irish MABS system could go some way to assisting some consumers in debt in the UK. This would assist them in the short term by resolving and stabilising any debt situation and giving them access to a repayment plan and could assist them to be more financially literate, encouraging savings and access to affordable credit and preventing the debt situation re-occurring. This would be particularly useful for those with difficulty accessing main stream credit and could go some way to help the Government meet its financial exclusion targets.