

**Facing the squeeze:
A qualitative study of household finances and access
to credit in a 21st-century recession**

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Executive summary

The Money Advice Trust commissioned this short exploratory research project to provide a snapshot of the views and experiences of people on low and middle incomes in the face of a 21st-century recession. In particular, it set out to examine in detail the extent to which worsening economic conditions in 2008/2009 had resulted in changes to consumers' spending, borrowing and money management.

The research comprised face-to-face depth interviews with 35 householders in England, Wales and Scotland, all of whom were credit users. While quantitative survey data can inform us about the number of people who behave in a certain way or hold certain views, the real strength of qualitative research is that it allows us to better understand how and why people behave in the way they do or hold particular views. It is not, however, intended to be representative of the general population. The qualitative interview data collected in this research enables a depth of understanding about a range of coping responses people employ that it would be impossible for a quantitative survey to provide, not least because people's attitudes and behaviours are not always entirely consistent.

The main focus of this study was credit-users living in low or middle income households.¹ The people we interviewed were of working age and included mortgage-holders, private tenants, and tenants renting from a housing association or local authority. They were deliberately recruited to be credit users who did not report any arrears on household bills or credit commitments at the time of recruitment. However, the interviews subsequently revealed that a few of them were actually in arrears and several more had experienced debt problems in the recent past.

Household finances

Most of the 35 people we interviewed considered that their household finances had deteriorated in the previous twelve months. They fell into two groups, allocated according to the reason for this deterioration. One group attributed their worsened financial situation to a drop in household income caused by reduced working hours or job loss. Such drops in income had affected both low and middle-income households, different types of household (single people and couples, with and without dependent children), and mortgage-holders as well as tenants.

The second group comprised individuals whose financial situations had worsened primarily because of rising living costs, while their income remained largely unchanged. This group was predominantly made up of people living in low-income households, all of whom rented their home from a private or social landlord. Other research has highlighted the disproportionate impact of rising consumer prices on

¹ For the purposes of this project, 'low income' was defined as household income at or below 60% of median household income before housing costs. Middle income was defined as household income that fell between 90% of median and median household income before housing costs.

lower-income households, who spend a higher proportion of their disposable income on essentials such as food and utilities than better-off households.

A third, much smaller, group of participants reported that their household financial situation had stayed the same over the past twelve months, or had fluctuated but now seemed stable. These participants mainly lived in middle-income households and almost all were mortgage-holders.

Spending and money management

Many people reported a hardening of attitudes towards spending in the previous twelve months, either because their own household financial situation had worsened or because of indirect factors such as the influence of the media or the experiences of people they knew. As such, almost all participants reported cutting back on spending in some capacity, or had at least switched supermarkets, changed to cheaper brands, or generally found that they were shopping around for better-value products and deals. They included some people whose financial situation had not worsened, but who seemed nevertheless to be exercising ‘precautionary restraint’ in relation to their spending.

A small number of people reported cutting back on essentials, typically food (e.g. cutting back to the basics, buying less fresh food), heating and lighting. In almost all cases, this was in response to a worsened household financial situation, often due to a drop in income in the previous twelve months. Almost everyone who had reduced their consumption on essentials had made cutbacks across the board, including cutting back on discretionary purchases and switching supermarkets or brands. In other words, when faced with a worsened financial situation, people begin by being more mindful of their spending, then cut back on the things they feel they can manage without, and finally resort to cutting back on the essentials when times are at their most difficult.

Many of the people we interviewed either described themselves as good money managers or talked about how they actively managed their money. For some, this was a longstanding approach, for others it was a more recent development, made necessary by a worsened household financial situation. It was fairly common for these people to report having improved, or tried to improve, their budgeting, while more still said they had generally become more conscious of what they were spending or shopped around a little more. There was, however, a small group of participants who demonstrated little or no inclination towards money management. These were generally people living in low-income households who had experienced a worsened financial situation.

A small number of people had been actively saving during the previous twelve months (either formally in an account of some kind or informally). It was more typical, however, for people to have either saved in the past but not during the previous twelve months, or to have been drawing down their savings to supplement their incomes in recent times.

The interviews provided some evidence of the impact on personal well-being of a worsened financial situation. This included poor diet, a loss of social life and social interaction, and the stress and worry of trying to make ends meet in difficult financial circumstances.

Borrowing

Despite the fact that all research participants were credit users, some described themselves as being credit-averse. This seemed to reflect long-held views about credit, although those whose attitudes to borrowing and debt had hardened in the previous twelve months tended to have experienced recent debt problems directly. No-one reported having relaxed their attitudes towards credit, even though some participants had come to rely more heavily on the credit they had available to them to make ends meet in the previous twelve months.

It is important to bear in mind that people's behaviour is not always consistent with their reported attitudes when, for example, they experience situations they feel are outside their control or are going through phases of attitude change. There was evidence of this 'cognitive dissonance' among some participants, especially those who had relatively large amounts of outstanding borrowing but also stated that they were credit averse.

The people we interviewed typically had a number of unsecured credit commitments, the most common types being credit cards, arranged overdrafts, personal (mainly bank) loans and car finance. A small number of them had home credit loans and goods bought on credit from mail order catalogues. Given that people were deliberately recruited to the research on the basis that they were not behind with household bills or credit commitments, it was not surprising that most interviewees were managing to keep up with unsecured credit commitments and mortgage payments, albeit with a struggle in some cases. A small number were making late payments to at least some of their creditors, however, and a few were in arrears on payments to lenders and/or other creditors.

In terms of changes to borrowing behaviour over the previous twelve months, most participants fell into one of two groups. The largest single group of participants did not appear to have changed their borrowing behaviour in any significant way. In particular, they had not applied for any additional unsecured credit. This group comprised a mix of people in terms of income level and financial situation (some had experienced worsened situations, others had not). They were generally up to date with their credit repayments, and some expressed a conscious desire to maintain their current level of borrowing rather than increase it, as a means of ensuring that their existing unsecured debts remained manageable.

A similar-sized group of participants (again with a mix of household income levels) had increased their use of unsecured credit in order to make ends meet in the face of a worsened financial situation due to a drop in income or increased cost of living. This typically meant that credit cards and overdrafts were used more frequently, and for day-to-day spending such as food and household bills (in some cases to meet mortgage repayments) rather than the discretionary spending they had used to fund

previously. A few people had increased their overdraft facilities or the amount they borrowed in home credit to this end, but most simply made greater use of their existing credit facilities.

Informal borrowing from friends or family members was common among the people we interviewed living in low-income households whose financial situation had worsened over the previous twelve months. These people seemed to have lived on low incomes for some time, and the informal help they received was often longstanding. Nonetheless, it seems highly likely that the importance of this support would have increased given their worsened financial situations and the fact that they typically had limited alternatives to access money. There was no evidence that the informal borrowing described by participants constituted illegal money lending.

Access to borrowing

Overall, there were fairly mixed views regarding the ease with which credit could be accessed, which not surprisingly often reflected people's own experiences. However, there was general agreement that it was still relatively easy to access unsecured credit but that mortgage borrowing had become much harder to access.

There was very little evidence that lack of access to consumer credit had contributed to people's worsened financial situations or that the reduced availability of consumer credit led people to move (or consider moving) between credit markets, from the prime/near-prime to the sub-prime market. Those who had been refused credit in the previous twelve months generally did not try to borrow money from anywhere else.

Data from the depth interviews suggests a hardening of attitudes towards credit. So, even if people were unable to reduce their level of borrowing at the current time for practical reasons, this was an often-expressed desire. In addition, it was not uncommon for participants to express strong negative views about the types of lenders that operate in the sub-prime market.

There were several home credit users among the people that we interviewed. They all lived in low-income households and had experienced a worsening financial situation due to increased costs of living. In other words, they were already living on a low income when the recession began. They were either longstanding home credit customers, or gave no indication that they had experience of any commercial loans other than home credit.

How well were people coping?

The interview data demonstrated that, across the piece, people on low and middle incomes used a wide range of strategies in response to a worsening in their household financial situation, and individuals often employed a variety of strategies in combination.

By far the most common response to the economic downturn among the people we interviewed was to rein in their spending over the previous twelve months. Other common responses included changes to money management and patterns of savings, to draw on support from friends and family (including financial assistance and gifts in

kind) and to use unsecured credit. Perhaps unsurprisingly given the prevailing economic climate, very few people talked about income generation as a means to alleviate a worsened financial situation. In addition, few people had sought money advice. Some of those that did seek advice did not receive any, generally because they were unable to get through to an advice service to speak to an adviser.

For the most part, participants' coping strategies had been reasonably effective, at least up to the time of the interviews in June 2009. Most participants had managed to keep up with their household bills and credit commitments, despite the fact that their household financial situation had deteriorated over the previous twelve months. Moreover, there was fairly compelling evidence of a 'correction' to consumer attitudes and behaviour towards spending and borrowing, either in response to direct experience or to present and future uncertainty at the level of the household and the wider economy. In other words, some people who were as yet largely unaffected by the economic downturn were nonetheless exercising what might be termed 'precautionary restraint'.

Four main groups were identified in terms of how well people were coping, and these are described below.

People whose financial situation had not worsened in the previous twelve months

The relatively small group whose situation had not worsened over the previous twelve months was almost entirely made up of homeowners, most of whom were living in middle-income households. For the most part, these people were managing without any difficulties at the time of the interview. They were able to keep up with their household bills, mortgages (where relevant), and unsecured credit commitments. None of them had had to make any major cutbacks in spending in the previous twelve months, and some had seen their disposable income increase as a result of a drop in mortgage interest rates. They divided about evenly into those with money saved and those without.

Worsened financial situation: Just getting by

Although many were stretched financially, this group comprised people who seemed to be getting by without depending on consumer credit to make ends meet. Most were tenants on low incomes, and included people of different ages and members of a range of household types. The common factor among most of them was the comparatively modest amounts of unsecured credit that they owed. Although a few had successfully applied for credit in the previous twelve months, they were largely reluctant to borrow any more money. For the most part they had no formal savings to fall back on, and support from family and friends was relatively uncommon. Although they were getting by at the moment, several of them expressed serious concerns about their ability to manage in the future, not least because a few of them had already had to cut back on essentials.

Case study: Worsened financial situation but just getting by

Glyn is in his late 50s, and lives with his wife, Janis.² They are on a low income and finding it “pretty tight” financially at the moment. Glyn has been unable to work for some years due to poor health, and Janis has seen a sharp drop in her earnings as a self-employed hairdresser. Always good money managers, they now do their shopping at Aldi rather than Tesco to save money, and during last winter tried to economise on central heating. In the past, they were able to save small sums of money informally ‘for a rainy day’, but they admit this is much more difficult now. The couple are very anti-credit, and have neither a credit card nor overdraft: “We don’t want to go into any debt whatsoever because we can’t afford to.”

The only credit commitment they have is a loan taken out fairly recently to buy a smaller car for Janis, as she needs a car for work. They could only afford to do this because their adult children help out substantially with the loan repayments.

Worsened financial situation: Credit-reliant

This group of people seemed to be managing fairly well, and did not report being behind or late with any household bills or credit commitments. That said, most were using credit as one way to make ends meet since their financial situation had worsened, and some had also taken on additional credit commitments in the previous twelve months. They included people on middle incomes, as well as some on low incomes. Mainly in their 20s and 30s, most had children but the group included some young single people as well. Almost all of them were private or social tenants.

While use of consumer credit for everyday spending tends to be regarded as an indicator of financial stress, most of the people using credit in this way described their overall level of borrowing as manageable despite some relatively high levels of unsecured credit. They generally had ready access to further credit lines, in the form of unused credit card or overdraft facilities. While they often expressed a desire to avoid further credit use if at all possible, some recognised that this might not be possible if their financial situation did not improve.

Case study: Worsened financial situation and reliant on credit to make ends meet

Ed is a single man in his mid-30s, living in a rented flat. On a middle income, he works full-time as an operational manager for a courier company. His financial situation has got worse, he feels, because of a recent overtime ban at the company where he works. The rise in petrol prices has hit him hard as well, as he has a fairly long car journey to work. In order to keep his finances on an even keel, Ed has cut back on spending on food, and no longer buys from the ‘Finest’ ranges in the supermarket. He also socialises a lot less over the course of a month.

“I’m a single boy so I like to go out, that’s hampering me because the way I see it is if you don’t go out there you’re not going to meet anybody. And I was usually getting out on average sort of probably two, three times a month, now if I’m lucky, I’m budgeting for one good weekend out of the whole month now... it gets me down sometimes because I’m sitting in the house and all my friends, they’ve all got girlfriends and kids ...it’s no fun is it.”

Even with the cutbacks he’s made, Ed finds himself using his credit card much more often than he used to, and for things like food and petrol whereas in the past it was very much used for discretionary spending – such as designer clothes and things for the flat. His current

² All participants’ names have been changed in the case studies, as have some of their personal or family details.

credit card balance is around £500, and he tries to pay off more than the minimum each month. He has almost finished paying for furniture he bought on finance, and wants to use the extra disposable income to pay off his credit card if he can. Ed has managed to keep saving every month, but has reduced the amount he saves. He views this money as a safety net for the future.

Worsened financial situation: Struggling to manage

The people in this group were mainly on low incomes, and included some who had experienced a drop in income and others whose circumstances had worsened due to the rising cost of living. The group mostly comprised people in their 40s and 50s, some with dependent children and some without. Almost all of them were social housing or private tenants.

Most of the people in this group generally attributed their worsened financial situation to increased cost of living, suggesting that most had lived on low incomes for some time. While they were not in arrears, they described how they routinely paid bills or credit commitments after the due date, and in some cases paid reduced amounts that had either been agreed with the lender or had to be made up later on. This type of juggling was necessary to make ends meet, and is not uncommon in lower-income households. Most had no savings at all, or only small amounts saved informally. Once again, therefore, the financial help that most received from family or friends provided an important safety-net in the absence of ready access to credit (in the form of a credit card or overdraft) or savings.

Case study: Worsened financial situation and struggling to manage

Shona is a single mum in her late 40s, with three children at school. She works part-time as a cleaner, and the household lives on a low income in a housing association property, paid for partly through Housing Benefit. While she's never found it easy to manage, Shona feels her finances have worsened due to the rising cost of living. Like many other participants we interviewed, she has changed the way she shopped for food and cut back on non-essential spending. She tries to plan ahead for things like her children's after-school activities, but often finds herself having to borrow small sums of money from her family which she repays from her weekly pay packet.

Shona currently owes around £700 to a home credit company, for a loan she took out at Christmas, and around £800 to a number of mail order catalogue companies, from which she had bought clothes and household items in the past. Shona feels she has borrowed more than she can afford, and has had to negotiate reduced payments to the home credit and catalogue companies. Even so, she struggles to always pay on time. Likewise, she sometimes can't pay her rent (or all her rent) on time and either pays late or makes up the payments later on. Shona has never been able to save from her income, and feels she cannot afford to increase her working hours because of the resultant loss of Housing Benefit.

"... because if I changed my hours, I get so much paid to my rent so if I changed my hours I would need to pay full rent and I couldn't afford that."

The remaining few people in this group were already in some financial difficulty, being in arrears with payments on household bills and/or repayments on unsecured credit (although they had not presented as such when they were recruited). Their situation had invariably worsened due to a drop in earned income, and it was notable that they had experienced previous income shocks as well, either job loss or long-term sick leave from work. Although they had been using credit to make ends meet, at the

time of the interview they had reached the limits of the existing credit lines that were open to them. Apart from the financial help from family and friends which they received, they seemed to have few other resources to draw upon.

Looking forward

For most participants, the future was uncertain. Even though most were managing at the present time, it would be wrong to assume that this situation could continue over the longer term. Some of the modest credit users who were just getting by expressed concerns about their future ability to do so. Several had already cut back spending on essential items, and on the whole they had few resources to fall back on if things got any worse. And while those who were depending largely on unsecured credit to get by usually had unused credit facilities to draw on, they were generally well aware of the dangers of becoming more indebted when there was no clear indication of an improvement in their household finances on the horizon.

1 Introduction

From the 1980s, the UK experienced a consumer credit boom, with a dramatic growth in the range of credit products and credit providers in the market. We also saw an expansion of the UK sub-prime credit market, serving consumers with impaired credit records or a history of bad debt, albeit at higher cost and often with more punitive terms and conditions than mainstream lenders. As a result, access to consumer credit became widespread in the UK. Coupled with a buoyant labour market, rising incomes, and increasing expectations about standards of living, this fuelled a significant growth in consumer spending over the decade 1997 to 2007.

Like other major economies, however, the UK has since experienced a significant downturn in fortune. A crisis in the financial services sector, which started in 2007, resulted in some large banks becoming partly state-owned and also caused severe constriction in consumer and business lending. And, since early 2009, the UK economy has officially been in recession for the first time in eighteen years.

1.1 Consumer credit use: The boom period

Access to unsecured credit has become the norm among the UK population, with the two most common sources being personal loans and credit cards. In 2002, about three-quarters of the adult population had some unsecured credit facility, up from 61 per cent in 1989.³ Not all of those with credit facilities are active credit users, however. Analysis of the 2005 Baseline Survey of Financial Capability (BSFC) shows that only 47 per cent of individuals had a current credit commitment.

While the proportion of households and individuals with outstanding credit commitments has remained relatively stable over time, the amounts owed by credit-using households have increased significantly, particularly among a small number of heavy credit users. Recent research found that two per cent of the UK population were struggling financially, mainly because they were over-indebted; and a further six per cent were struggling mainly because they lived on a low income. Another group, comprising just less than one in ten of the population, was found to be showing signs of financial stress, such as always being overdrawn.⁴ Growing concerns about consumer over-indebtedness gave rise to the development of a cross-government advisory group on over-indebtedness, which publishes an annual action plan.

The BSFC data indicates that borrowing was most common among people between 20 and 50 years of age, when the financial demands of setting up home and raising a family are likely to be high. Other factors that are independently related to unsecured

³ Kempson E. (2002) *Over-indebtedness in Britain*. London: Department of Trade and Industry

⁴ Kempson E. and Atkinson A. (2006) *Overstretched: People at risk of financial difficulties*. Genworth Financial.

credit use included: owning a home with a mortgage, having modest savings, a change in income, and people's attitudes towards spending, saving and borrowing.⁵

As with unsecured borrowing, mortgage borrowing also increased significantly in the decade up to 2007. Gross mortgage lending reached a peak of £363.5 billion in 2007, a 200 per cent increase on the year 2000 (£119.8 billion).⁶ Secured loans account for a relatively small share of the overall market, however. Analysis of the 2005 BSFC found that 15 per cent of all mortgages taken out in the previous five years involved re-mortgaging to access equity, which represented two per cent of the general population that had borrowed in this way.⁷

1.1.1 Motivations for credit use

Several academic studies have examined the motives for consumer credit use, generally focusing on unsecured borrowing, and often based on research carried out in the US. In a review of the academic literature, Kamleitner and Kirchler (2007) identify four main motives for credit use. The first is a tendency for social comparison among individuals, which leads to a higher readiness to use credit. In other words, social identity is expressed and social relations maintained through credit-enabled consumption. Similarly, other research found that respondents assessed as highly materialistic had more favourable attitudes towards borrowing, were more likely to use instalment credit (i.e. personal loans), and to have higher-value loans than those assessed as less materialistic.⁸

Secondly, credit use can be a means of income substitution, deployed in order to maintain an existing lifestyle. This motivation for borrowing is particularly common among low-income families, who may use credit to make ends meet or as a mechanism for income smoothing.

Thirdly, optimism about future income means that consumers may use credit to translate their expectations about future income into effective demand in the present. Individuals with optimistic financial expectations have been found to hold significantly more personal debt relative to those with pessimistic financial expectations.

Finally, and perhaps unsurprisingly, consumer credit use is influenced by the availability of credit in terms of both credit limits and credit offers. Experimental and survey data both show that higher credit availability leads to increased spending.⁹

⁵ Finney A., Collard S. and Kempson E. (2007). *Easy come, easy go: Borrowing over the life-cycle*. Standard Life.

⁶ Council of Mortgage Lenders statistics, www.cml.org.uk. Total gross lending gives the total value of loans secured on dwellings that are newly advanced by institutions in the period. It therefore includes lending for house purchase and remortgaging.

⁷ Finney et al, 2007.

⁸ Watson J. (2003) 'The relationship of materialism to spending tendencies, saving and debt. In: *Journal of Economic Psychology*. Volume 24, pages 723-739.

⁹ Kamleitner B. and Kirchler E. (2007) 'Consumer credit use: a process model and literature review'. In: *Revue europeenne de psychologie appliquee*. Volume 57, pages 267-283.

1.2 From boom to bust: The background to this research

Events since 2007 have significantly changed the UK consumer financial landscape. The crisis in the financial services sector, which started in 2007, resulted in a sharp constriction of consumer lending. As unemployment began to rise, the ability of borrowers to repay what they owed was also adversely affected. This in turn has led to increased demand for consumer advice services, particularly money advice.¹⁰

To give some idea of the scale of the constriction in consumer lending, the net monthly flow of unsecured lending to individuals in April 2009 totalled £0.3 billion, compared with a monthly average of £1 billion in 2008.¹¹ Lenders anticipated further reductions in the availability of unsecured credit during 2009.¹² Despite falls in the Bank of England base rate to an historic low of 0.5% in March 2009, effective interest rates on overdrafts and personal loans fell by much less, and rates on credit cards remained largely unchanged. This was partly a reflection of heightened credit risk in the face of rising unemployment.¹³

Mortgage lending has also been severely curtailed. In May 2009, gross mortgage lending was estimated to be £10.3 billion, a two per cent decline from the previous month and down 58 per cent from May 2008.¹⁴ There has been some recent improvement, however. Lenders reported a slight increase in the availability of secured credit to households in the three months to mid-June 2009, with further increases in availability anticipated.¹⁵ In addition, some mortgage borrowers have benefited financially from decreases in standard variable mortgage rates, relative to other mortgage rates. Falls in house prices mean that other households no longer have sufficient equity to qualify for a new mortgage at a more competitive interest rate, however.¹⁶

The Labour Government has announced a range of initiatives to help consumers weather the economic downturn. These include funding of £15.85 million for increased provision of advice services in England and Wales and increased Legal Aid funding for debt and housing advice. Measures have also been introduced to help homeowners stay in their homes and avoid repossession. A UK-wide Homeowners Mortgage Support scheme aims to help borrowers who have suffered a temporary loss of income by cutting their mortgage interest repayments for up to two years. The Mortgage Rescue Scheme (in England, with separate schemes in Scotland, Wales and Northern Ireland) aims to assist homeowners who are having serious difficulties meeting their mortgage repayments and who are in danger of becoming homeless if repossessed. The help available through local authorities may include financial help as well as money advice. In England, the Housing Possession Court Duty scheme has been extended, with the aim of providing universal access to a court desk service.

¹⁰ Citizens Advice (2009) *Latest CAB figures show increasing demand for services*. Press release dated 10 June 2009, accessed from www.citizensadvice.org.uk on 13/07/09.

¹¹ Bank of England (June 2009) *Trends in lending*. Online publication

¹² Bank of England (2009) *Credit conditions survey: Survey result 2009 Q2*. Online publication

¹³ Bank of England (June 2009) *Trends in lending*. Online publication

¹⁴ Council of Mortgage Lenders (2009) *May gross lending still subdued*. Press release dated 18 June 2009, accessed from www.cml.org.uk on 10/07/09

¹⁵ Bank of England (2009) *Credit conditions survey: Survey result 2009 Q2*. Online publication

¹⁶ Bank of England (June 2009) *Trends in lending*. Online publication

1.3 Aims and objectives

This was a short exploratory research project, designed to provide a snapshot of the views and experiences of people on low and middle incomes in the face of a 21st-century recession. In particular, the research set out to examine the extent to which the worsening economic conditions resulted in changes to consumers' spending, borrowing and money management. The specific focus of the research was credit users who, at the time of recruitment to the research, did not report any arrears with household bills or credit commitments.¹⁷ While much research has focused on people already in financial difficulties, the generality of credit users have received far less attention.

The research sought to provide information on a number of specific issues:

1. Whether the constriction of the credit market seemed to produce a 'correction' to consumer attitudes and behaviours towards spending and borrowing that some commentators and policy-makers felt was necessary in order to avoid increasing levels of over-indebtedness and financial difficulties.
2. Whether the reduced availability of credit led consumers to move (or consider moving) between credit markets, for example from the prime/near-prime to the sub-prime credit market.¹⁸
3. Among mortgage-holders, whether there was any evidence of changes in attitudes and behaviour towards mortgage borrowing as a cheaper alternative to unsecured borrowing or as a means of consolidating unsecured debts.

1.4 Research methods

The main element of the research comprised face-to-face depth interviews with householders in England, Wales and Scotland. While quantitative data can provide a picture of how many people in the population behave in a certain way or hold certain views, qualitative research is not intended to be representative of the general population. The particular value of qualitative research is that it allows us to understand better how and why people behave in they way they do or hold the particular views they hold. The strength of depth interviews (as opposed to group discussions) lies in the ability to explore in detail individuals' circumstances, views and experiences.

A total of 35 people were interviewed. They were either on low or middle incomes and included mortgage-holders, private tenants and tenants renting from a housing association or local authority.¹⁹ They were all credit users of working age, who (as noted above) did not report any arrears on household bills or credit commitments at

¹⁷ This was based on their response to a standard question on keeping up with household bills and credit commitments. See Appendix 1 for details of the recruitment and fieldwork.

¹⁸ The prime credit market targets people who have a good credit history and generally offers the lowest-cost lending. The sub-prime credit market serves people who have a history of bad credit, e.g., late mortgage payments. Near-prime lending does not necessarily include the credit impaired, but rather refers to credit products that fall outside lenders' standard credit policy.

¹⁹ For the purposes of this project, 'low income' was defined as household income at or below 60% of median household income before housing costs. Middle income was defined as household income which fell between 90% of median and median household income before housing costs.

the time of recruitment. As we go on to discuss, the interviews revealed that a few participants were actually in arrears and several more had experienced debt problems in the recent past. Recruitment was carried out on-street in Cardiff, Glasgow and Leeds using a recruitment questionnaire (see Appendix 2).

A short literature review was also conducted, to provide contextual information for the project.

1.5 Report structure

Chapter 2 provides a description of the individuals we interviewed in terms of their household and financial circumstances. Chapter 3 explores their attitudes to, and patterns of, spending and money management, and any changes in the previous twelve months. Chapter 4 moves on to focus on consumer borrowing, including types of borrowing, amounts owed, and whether individuals' credit use had changed over the previous twelve months. Chapter 5 provides an overview of how people on low and middle incomes were coping in a recession and how they responded when faced with a worsened financial situation. The final chapter draws together the key findings from the research and outlines the policy implications that arise from them.

2 Household and financial circumstances

The first part of this chapter explores the household situations of the 35 people we interviewed. The respondents were recruited primarily on the basis of their level of household income and the fact that they were credit users of working age. They are not intended to be representative of all low and middle income households. The second part of the chapter provides an overview of respondents' household finances, and concludes by identifying and describing three main groups among the respondents.

2.1 Household situation

The 35 people who were interviewed in depth for this research included 20 women and 15 men. They were aged between 22 and 59, with roughly equal numbers of people in their 20s, 30s, 40s and 50s. About half of them lived in single or couple households with no dependent children, while the other half were either lone parents or couples with children.

The sample was designed to include rather more tenants than mortgagors. This was because tenants (and social housing tenants in particular) tend to be over-represented among those on lower household incomes. In addition, there is evidence that credit conditions have tightened more for borrowers with least collateral, such as renters.²⁰

Among the tenants we interviewed in depth, the rents they paid ranged from around £150 per month to £750 per month, with most paying between £200 and £400 per month. Several of them received Housing Benefit, which generally covered some but not all of their rent. The home-owners we interviewed generally had mortgage repayments of between £300 and £400 per month. A few had much higher payments, of £800 or more per month. Several mortgage-holders had recently benefited from reductions in the Bank of England base rate, in the form of reduced mortgage repayments.

The research was designed to include a mix of people on low and middle household incomes. For the purpose of the project, low income was defined as household income at or below 60% of median household income before housing costs. Middle income was defined as household income which fell between 60% and 90% of median household income before housing costs. Household composition was taken into account in determining low and middle household incomes. Full details of the sample design and recruitment are provided in Appendix 1. The recruitment questionnaire is provided at Appendix 2.

Not surprisingly, household income was closely related to employment status. As a result, all the respondents who were recruited as having a middle household income

²⁰ Hellebrandt T. and Young G. (2008) 'The financial position of British households: evidence from the 2008 NMG Research survey'. In: *Quarterly Bulletin 2008 Q4*. London: Bank of England.

lived in households with at least one full-time wage-earner. In most cases, the chief income earner in the household was also employed in occupations that were likely to be comparatively well-paid, such as managerial, professional or technical/craft occupations (e.g., telephone technician, train driver).

In contrast, having a full-time wage-earner was relatively uncommon among the respondents who were recruited as having a low household income. They tended instead to live in households with only a part-time wage-earner or no-one in paid work. In addition, the chief income earners in low-income working households were generally employed in manual or service occupations (e.g. drivers, cleaners, sales assistants) which were likely to be relatively low paid. Recent research has highlighted the fact that low earners work in sectors likely to be hit hard by the recession, such as retail and services; and that low earners also have lower skills than higher earners, making a quick return to work after job loss more difficult.²¹

2.2 Household finances: An overview

When asked to assess their financial situation, most of the 35 people we interviewed considered that their household finances had got worse over the past twelve months or so (i.e. between around June 2008 and June 2009). Among some respondents, this was attributed to the rising cost of living they had experienced, while their household incomes had remained largely unchanged. For others, it was largely due to a drop in earnings. These experiences are explored in more detail below.

A small number of individuals felt that their household financial situation had stayed more or less the same over the past twelve months or so. Their household incomes had remained stable and, while they had noticed the rising cost of living, this had relatively little impact on their financial situation.

In addition, a few people had seen their financial situation fluctuate over the past twelve months. Such fluctuations tended to be related to expenditure issues rather than drops in income. By the time they were interviewed (in June 2009), they generally felt that their household finances were on a more even keel. One self-employed man, for example, had struggled in early 2009 due to over-spending at Christmas. He managed to repay what he owed in consumer credit by taking on more work. Another couple had found it easier to manage in recent months since setting up a debt management plan with a fee-charging company. This had significantly reduced their monthly outgoings.

2.2.1 Worsened household finances: Drops in income

UK unemployment levels have been rising steadily since the early part of 2008. In July 2009, it was reported to be 2.38 million, up 753,000 on the year June 2008-June 2009. The jobless rate was 7.6 per cent, the highest in more than 10 years. And,

²¹ Resolution Foundation (2009) *Squeezed: The low earners audit*. Accessed on 15/07/09 from www.resolutionfoundation.org.

while average earnings (excluding bonuses) increased, the rise represented the lowest annual growth rate since comparable records began in 2001.²²

Among the people we interviewed who had experienced a drop in household income, slightly more reported that this was due to reduced working hours than job loss. This generally meant a reduction in the number of full-time or part-time hours worked, or a loss of overtime or commission. In a few cases, respondents (or their partners) had dropped from full-time to part-time working hours.

Several of the people we interviewed had experienced a more significant drop in household income, due to job loss. This either meant becoming a one-earner household when previously there had been two earners, or moving from being a working to a workless household. The Baseline Survey of Financial Capability indicated that large numbers of the adult population in the UK did not have adequate provision to deal with a substantial drop in income such as loss of the chief income earner.²³

2.2.2 Worsened household finances: Rising cost of living

The Consumer Price Index (CPI) is the UK's official macro-economic measure of consumer price inflation, and forms the basis of the Government's inflation target (two per cent).²⁴ The CPI rose steadily from September 2007 to reach a 16-year high of 5.2 per cent in September 2008. Since that time, the overall trend in the CPI has been downward. In the year to June 2009 it rose by 1.8 per cent, down from 2.2 per cent in the previous month.

Despite the downward trend, almost all the people we interviewed who had experienced a drop in household income also talked about the adverse impact of the rising cost of living on their household finances. There was another group of respondents, however, who attributed their worsened household finances primarily to the rising cost of living over the previous twelve months or so, while their household income had changed little, if at all.

Among the people we interviewed, the most commonly mentioned items in terms of rising living costs were gas and electricity charges and food prices. This is in line with official statistics, which show that gas prices rose by 23.5 per cent in the year to June 2009, while electricity prices increased by 6.8 per cent. In the same period, food prices rose by 5.4 per cent, with some of the largest rises recorded against basic foodstuffs such as coffee and tea, meat and vegetables. By way of comparison, the costs of other common items rose by smaller amounts or fell. Furniture and household goods, for example, rose in cost by 1.9 per cent in the year to June 2009, while the cost of clothing and footwear decreased significantly, by 8.1 per cent.

²² ONS (2009) *Labour Market Statistics Headlines: July 2009*. Accessed on 17/07/09. www.statistics.gov.uk/pdffdir/lmsbrief0709.pdf

²³ Atkinson A., McKay S., Kempson E. and Collard S. (2006) *Levels of financial capability in the UK: Results of a baseline survey*. Financial Services Authority.

²⁴ Unlike the Retail Price Index, the CPI does not take into account changes in housing and mortgage costs. Further information about the CPI is available at www.statistics.gov.uk/cpi

Several of the people we interviewed also mentioned petrol prices, which have continued to rise in 2009, albeit by less than in the previous year. The impact was felt particularly keenly by some respondents who were dependent on their car either to get to work or because of mobility problems.

2.3 A consumer typology

Bringing together the information from the previous sections, we can identify three main groups among our 35 respondents. Most of the people we interviewed fall into one of the first two groups, which are of roughly equal size.

The first group comprised individuals who reported a worsened financial situation in the previous twelve months because of a drop in household income. This group included a mix of families with children, couples without children and single people. The group divided about evenly into those who rented their home from a private or social landlord and those that owned their home with a mortgage. They generally reported that keeping up with their household bills and credit commitments was either a constant struggle or a struggle from time-to-time. In fact, a few had fallen behind with payments. It was notable that all those who faced a constant struggle to manage also talked about the impact of rising consumer prices. Those who faced a struggle from time-to-time tended to be couples or single people who did not have dependent children.

Individuals who had experienced a drop in income because of reduced working hours included those who lived in both low and middle-income households. In contrast, most of the people who had experienced a more significant drop in income through job loss lived in low-income households. Prior to this drop in income, at least some of these households would have fallen into the middle-income bracket; while others seemed to have been living on a low income even before their situation deteriorated.

Case study: Worsened household finances due to drop in income

Cheryl is a single woman in her late 20s who lives on a low income in a privately-rented flat.²⁵ Until recently, she worked full time as a receptionist for a large financial services company. In April 2009, she was given the option of reducing her working hours from 37 hours to 28 hours per week or being made redundant. Concerned about being able to find another job, Cheryl agreed to work part-time instead of full-time. This meant a reduction of £250 in her monthly pay packet, from £970 to £720 per month. She is struggling to manage and described how “*I’ve had to rob Peter to pay Paul*”. Despite juggling her payments from month to month she is not always able to meet them all, and at the time of the interview she had missed a repayment on a personal loan.

The second group comprised individuals whose financial situation had worsened primarily because of rising living costs, while their income had remained more or less the same. This group was largely made up of individuals living in low-income households who found it a constant struggle to keep up with their bills and

²⁵ All participants’ names have been changed in the case studies, as have some of their personal or family details.

commitments. Several of them talked about juggling payments or making late payments on rent, Council Tax or home credit loans. Like the first group described above, it contained a mix of different family types, although notably it included all the lone parents who were interviewed. All the people in this group rented their home from a private or social landlord.

Other research has highlighted the disproportionate impact of rising consumer prices on lower-income households. Low earners, for example, spend around 27 per cent of their disposable income on essentials such as housing, fuel and food, compared to 16 per cent among high earners.²⁶ Recent research on a minimum income standard for Britain found that the cost of a minimum household budget for low-income households had risen by far more than the general inflation rate for most families because they spend a greater than average proportion of their budget on food, domestic fuel and public transport, the prices of which have risen comparatively steeply.²⁷

Case study: Worsened household finances due to rising cost of living

William is a married man in his late 40s, with a teenage son. He has been a full-time carer for his disabled wife for more than ten years. They live in a housing association property, on a low income that mainly comprises state benefits. They find it a constant struggle to manage financially, and things have become particularly difficult as a result of rising food prices and increased gas and electricity charges.

... your weekly shop you notice, and it really irritates me because you see all these superstores advertising 'We've got 4,000 items cheaper than Tesco' or 'Tesco's got 4,000 cheaper than Sainsbury', but, pardon my French, but it's crap that you're not going to buy... the average food stuff is sneaking up 10%, 20%, 30%, you can see it. If you go for a bag of sugar you're not paying 69p you're paying 89p now. You go for a loaf of bread that's shot up amazingly.

The cost of running his wife's Motability car has also become more expensive, but without it she would find it difficult to get out of the house.

The third, much smaller, group comprised individuals who considered that their financial situation had stayed more or less the same over the previous twelve months. They included middle-aged couples with no dependent children, as well as younger families. The common factor was that they all lived in working households, generally with at least one full-time earner. As a result, most of them were classed as living in middle-income households. This group included the only respondents who said they were managing financially without any difficulty; while others in the group reported struggling to manage. In addition, as outlined in section 2.2 above, this group also included a few individuals whose financial situation had fluctuated over the course of the last year, but who seemed to be managing relatively well at the time of the interview. It is notable that almost everyone whose overall situation had stayed the

²⁶ Resolution Foundation (2009) *Squeezed: The low earners audit*. Accessed on 15/07/09 from www.resolutionfoundation.org

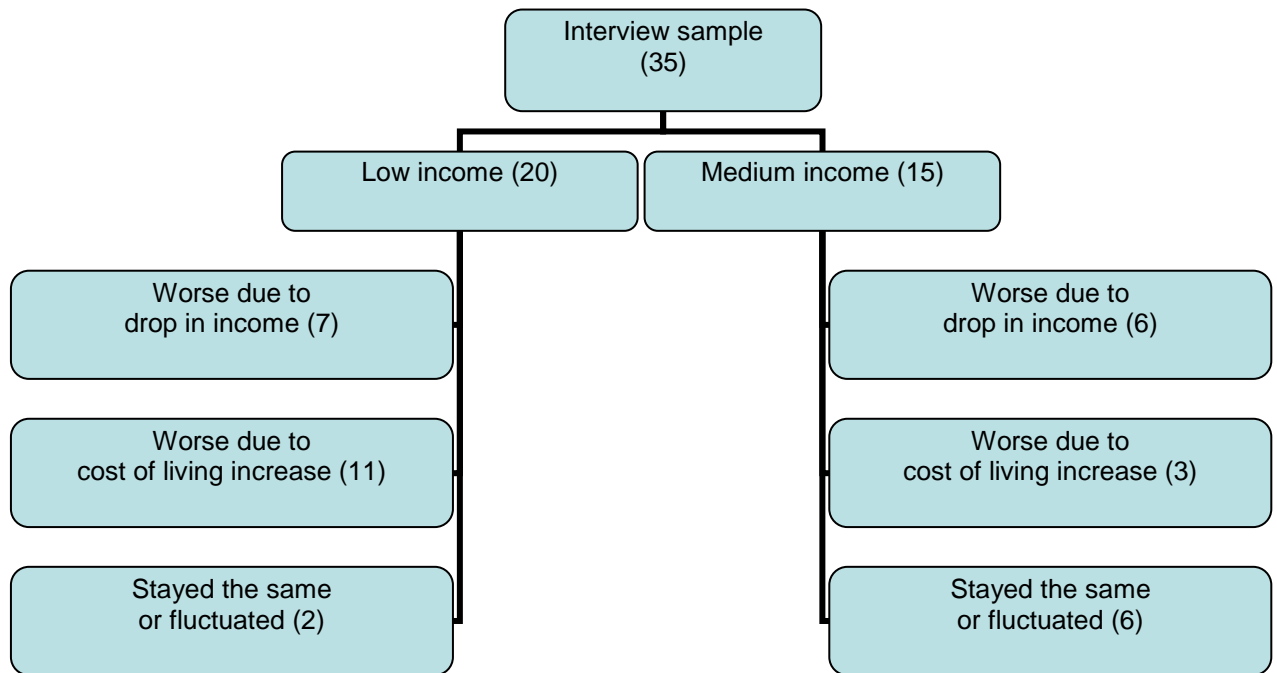
²⁷ Hirsch D., Davis A. and Smith N. (2009) *A minimum income standard for Britain in 2009*. Accessed on 15/07/09 from www.jrf.org.uk

same or fluctuated and since stabilised were mortgage-holders and that several of these had benefited from recent interest rate drops.

Case study: Household finances stayed the same

Jenny is in her early 30s, and lives with her partner and two children aged three and seven. They are a middle-income household, with income comprising Jenny’s part-time earnings as a teaching assistant and her partner’s full-time wages from his job as a retail manager. They own their home with a fixed-rate mortgage, which means they have not benefited from the recent falls in Bank of England base rate. Over the past twelve months, their income has stayed much the same and, while they have noticed rising food and utility costs, these have had little impact on their standard of living.

The extent to which someone’s household finances changed during the previous twelve months might be expected to have influenced their attitudes or behaviours towards spending and borrowing and their coping responses. The consumer typology described above therefore provides a useful categorisation of the sample for considering the findings of the research in the remainder of this report. As such, the following diagram shows the breakdown of the sample into these groups by income.



2.4 Summary

The 35 people interviewed for this project were primarily recruited on the basis of their household income (classified as low or middle) and the fact that they were credit users of working age. Most participants considered that their household finances had got worse in the previous twelve months, and fell into two groups based on the reason for this deterioration. One group attributed their worsened financial situation to a

drop in household income, because of reduced working hours or job loss. Such drops in income had affected both low and middle income households, different types of household, and mortgage-holders as well as tenants.

The second group comprised individuals whose financial situation had worsened primarily because of rising living costs, while their income remained largely unchanged. This group was predominantly made up of people living in low-income households, all of whom rented their home from a private or social landlord.

A third, much smaller, group of participants reported that their household financial situation had stayed the same over the past twelve months, or had fluctuated but now seemed stable. These participants mainly lived in middle-income households and almost all were mortgage-holders.

3 Spending and money management

While the attitudes to spending, borrowing and money management expressed by people we interviewed varied considerably, many described these attitudes as having hardened over the course of the previous year. Moreover, it was common for people to report having cut back on spending and to have tightened up their approach to money management. Notably, none of the individuals interviewed for this study reported having relaxed their attitudes or approaches to spending or money management.

This section begins by considering people's overall attitudes towards spending, borrowing and money management before looking at the changes people described. It then examines changes in patterns of actual spending and money management, before exploring the reasons people gave for any changes they had made. The section concludes with a brief consideration of the nature of the impact of these changes on individuals and their families.

3.1 Overall attitudes to spending, borrowing and money management

To help build a picture of participants' underlying attitudes towards spending (versus saving), borrowing and money management, everyone interviewed was asked to consider the relevance of a set of four attitude statements (shown in Appendix 3) to themselves. Almost all participants gave a positive indication of their attitudes in relation to one or more aspect.

Many described themselves as more of a 'spender' or 'impulsive' (or both). Although there was a slight tendency for people describing themselves in this way to live in low-income households, the group included people with a range of family and employment circumstances, and those whose situation had worsened in the previous twelve months, as well as others whose situation had stayed the same or fluctuated.

In contrast, only a small number reported being a 'saver'. This group included a mixture of people on low and middle incomes. All but one of these were people whose household financial situations had got worse over the previous twelve months. Nonetheless, it is not clear whether this played a role in encouraging a saving attitude or if being a saver pre-dated the tightening in circumstances they had experienced. Saving is discussed further in section 3.4.3.

An additional, small number of people reported that they were neither a spender nor a saver or that they simply could not afford to spend.

In terms of attitudes towards consumer credit, some people described themselves as being averse to using credit or getting into debt ('credit-averse'). They included people with low and middle household incomes and they tended to report a worsened

financial situation in the previous twelve months because of a drop in household income.

Despite this, only a few of the credit-averse individuals reported a hardening of attitudes towards credit in the previous twelve months, suggesting that most had held these views in the longer term. However, as we discuss in section 3.2, a number of people who did not consider themselves to be credit-averse also reported a hardening of attitudes towards credit in the last twelve months.

Finally, a substantial minority of people described being quite or very organised in their day-to-day money management, with a small but notable overlap with being credit-averse or a saver. These individuals included those whose situation had worsened over the past twelve months as well as those whose situation had stayed the same or fluctuated. As with attitudes to saving, we do not know whether good household management pre-dated or arose from deterioration in circumstances. Respondents falling into this category tended to be living in middle-income households.

3.2 Changes in attitudes in the previous twelve months

One of the main issues this research set out to explore was how people's attitudes towards spending, borrowing and money management had changed, if at all, in the previous twelve months, and the reasons for such change. Notably, no one reported having relaxed their attitudes towards credit use, spending or money management in the previous twelve months.

A small number of participants reported that their attitudes had not changed at all. These were mostly people on middle incomes who described themselves as organised at managing their money day-to-day, whose general financial situations tended to have stayed the same or fluctuated over the previous twelve months. Altogether, this suggests that these people's attitudes had not changed because their financial situation was fairly stable and under control.

Everyone else described how their attitudes towards spending, borrowing or money management had hardened over the course of the previous twelve months. This did not appear to be associated with levels of household income or the household's overall financial situation over the previous twelve months. This suggests that influences in addition to direct personal or household experiences were acting as drivers of this change (something we might expect during a well-publicised recession), an issue returned to in section 3.5. This group also included a mix of people in terms of their overall attitudes, whether spenders, savers, organised or impulsive.

Many of the people whose attitudes had hardened in some way felt they had become more cautious and prudent about their spending. Again, this was described by people from low- and middle-income households in about equal numbers and did not reflect a change in circumstances in any systematic way.

Others stated specifically that they had become more cautious or averse to using credit or getting into debt. Some of these individuals also described themselves as being ‘impulsive’ or ‘a spender’ (or both). It is possible that their tendency to be impulsive may have contributed to them becoming over-committed in the past, leading in turn to a tightening of attitudes to credit as a result. There is some evidence for this, as section 3.5 discusses.

Finally, a few participants reported that they were managing their money more closely now than in the past. All of these had experienced a worsening financial situation, mostly due to job loss, and most lived in low-income households. This may indicate that the changes they had made were brought about through experience and necessity, which again is borne out by the data (see section 3.5).

Case study: Hardened attitudes towards credit

Catriona is in her late 20s and lives with her partner and two children. They have a low household income and their financial situation has fluctuated quite a lot over the past year. She says she is impulsive and tends to buy things when she can't really afford them, *“I've always been the same, I can't help myself”*.

While her attitude to spending has not changed much in the past year, Catriona thinks her *“credit attitude is totally different I don't want credit anymore. I won't go back to that because it's very easy to be drawn into the credit world”*. Her views changed after realising around Christmas time that she had borrowed more than she could afford. She tried to apply for a debt consolidation loan but was referred instead to a fee-charging debt management company, and is now repaying her consumer credit debts through a debt management plan.

It is important to bear in mind that people's behaviour is not always consistent with their reported attitudes.²⁸ People's attitudes towards spending, borrowing or money management may not align with their behaviour when, for example, they are experiencing situations they feel are outside their control or during periods of attitude change. There was evidence of this ‘cognitive dissonance’ among some of the participants in this study, especially where people had relatively large amounts of outstanding borrowing but also said they were credit averse.

The following sections consider people's self-reported patterns of spending and money management and any changes in these in the previous twelve months, relating these back where possible to their attitudes.

3.3 Changes in patterns of spending

Another particular focus of this research was to gain an understanding of the ways in which and the extent to which people had changed their patterns of spending in the previous twelve months.

²⁸ See, for example, Hogg M.A., and Vaughan G.M. (2005) *Social Psychology* (4th Edn.). Harlow: Pearson Education Ltd.

Almost everyone provided some indication that they had cut back on spending in some capacity. Only a small number of people volunteered that there had been no major changes in their spending patterns, and these were generally individuals whose financial situation had stayed the same or fluctuated over the previous twelve months. Even so, many of them talked about becoming more conscious of the amount of money they spent and the things they bought. Notably, only one person talked about buying more in the previous twelve months. This middle-income family man, who was impulsive by nature, described being tempted by special offers into buying more things he didn't need. Nonetheless, he had made cutbacks in other areas and felt that he had not spent more overall.

Participants reported three main changes in spending behaviour. Most of the people we interviewed reported cutting back on spending on discretionary items (a finding that is supported in recent quantitative research).²⁹ Some of these had also switched to supermarkets that were perceived to offer lower-cost food and groceries, or now tended to buy own-brand goods rather than branded. Finally, as well as reducing spending in these ways, a small number of people also reported cutting back on essential expenditure.

3.3.1 Cutting back discretionary spending

Most of the 35 people we interviewed reported cutting back on spending on discretionary or non-essential items. They included people on low and middle incomes, and although most had experienced a worsened financial situation, it was notable that some people whose incomes had stayed the same or fluctuated were also exercising caution in their spending.

Typical items people mentioned cutting back on were socialising, drinking, and eating out (which people were doing less often or had stopped altogether), taking children or grandchildren for fewer day trips and/or cheaper days out (e.g., going to the park rather than the cinema) and, for some, cutting back on holidays. While we use the terms 'discretionary' or 'non-essential' (in part reflecting participants' own terminology), it is important to note that official deprivation indicators that are now reported alongside official poverty measures in the UK include an inability to afford these types of expenditure. Moreover, there was evidence from interview data of emotional and other impacts people experienced as a result of cutbacks of this nature (please refer to section 3.6).

Previous research has shown that parents living on lower incomes often report prioritising spending on their children in order to protect them from hardship, the stigma of hardship, or because they feel under pressure to do so.³⁰ In this research, a few participants, all of whom were from low-income households, stated explicitly that they had been cutting back only on their own expenditure, in order to avoid having to cut back on things for their children. Some middle-income parents, however, referred to cutting back spending on their children, typically mentioning things like buying

²⁹ Illuminas (2009) *Consumer attitudes and behaviours towards financial services: an overview*.

³⁰ See, for example, Finney A., Collard S. and Kempson E. (2007) *Easy come, easy go: borrowing over the life-cycle*. Edinburgh: Standard Life; Kempson E. (1996) *Life on a low income*. York: Joseph Rowntree Foundation; and Middleton S., Ashworth K. and Walker R. (1994) *Pressure on parents and children in the 1990s* London: CPAG Ltd.

fewer computer games or only buying them clothes that they needed rather than clothes that would be ‘nice to have’.

3.3.2 Smarter shopping

A considerable number of people who had cut back on discretionary spending also described switching to a cheaper supermarket, often to Lidl, Aldi, Farm Foods or Iceland from Morrisons, Tesco or Asda. They perceived products to be cheaper at these supermarkets or felt that the types of products stocked (such as frozen or tinned food) enabled better budgeting. A few parents also felt that there was less to tempt their children in budget supermarkets that ‘stacked high and sold cheap’.

The people who switched tended to live in low-income households that had experienced a worsening in their financial position. Notably, a few individuals reported that they had since reverted back to their original supermarket. This was either because the alternative supermarkets were not as cheap as they expected or their prices had increased over time, or because they could not get their (or their children’s) brand favourites.

In addition, some people mentioned looking out for bargains and special offers more than they had done in the past. This was in keeping with the general hardening of attitudes towards spending, borrowing or money management in the previous twelve months, reported earlier.

3.3.3 Cutting back on essentials

A smaller, but still sizeable number of the people interviewed reported cutting back on essentials in the previous twelve months, typically food, heating and lighting. In terms of food, this generally meant cutting back to the basics, buying less fresh fruit and vegetables or using up stocks of frozen food instead of buying fresh food. It was also not uncommon for people to report cutting back on heating the home, either by turning the heating off altogether when they would have preferred to have it on, heating only one room, or turning the thermostat down when they would have preferred not to. These are strategies that have previously been observed among people who are in fuel poverty.³¹

Some cited having reduced their petrol/diesel consumption, including a few people who reported having downsized their cars in an attempt to save money on fuel, insurance and other related costs, while others who were planning to do the same.

The group who had cut back on essentials comprised people with low and middle incomes in about equal numbers, a range of ages and a mix of singles and couples, with and without children. It was very common, however, for people in this group to have described a hardening of attitudes towards spending, borrowing or money management in the previous twelve months. This appears to reflect a necessity to adapt rather than a choice, given that in almost all cases their financial situations had worsened in the previous twelve months, mostly due to a drop in income. This provides the clearest evidence possible from a snapshot study such as this of the

³¹ See Gibbons D. and Singler, R. (2008) *Cold comfort: a review of coping strategies employed by households in fuel poverty*. London: Centre for Economic and Social Inclusion.

impact of deteriorating financial circumstances on the measures people take to make ends meet.

Case study: Reining in spending, reducing consumption

Barbara is in her mid-50s, married and with grown-up children and grandchildren. She finds it a constant struggle to keep up with bills and other financial commitments and she feels this has got worse in the last twelve months because of the increased cost of living.

In order to get by, Barbara and her husband have cut back on a range of things. They tried hard to cut back on their heating and electricity use last winter, turning things off whenever possible. Food is another area where they try to economise. Barbara used to do her weekly shop at Asda, but can't afford that now and shops at Lidl instead, buying cheaper brands and 'basics' ranges for food and washing powder. She and her husband no longer have a full cooked breakfast for a weekend treat like they used to, and now when she goes shopping in town she doesn't go to a café for lunch. She feels their diet has become monotonous "*and as I say it's baked beans on toast for lunch or we can skip lunch altogether*".

In addition, Barbara always used to keep £15 back every week to treat her grandchildren when they were out together, but she can no longer afford to do this.

Almost everyone who had reduced their consumption on essentials had made cutbacks across the board, including cutting back on discretionary purchases and switching supermarkets or brands. As we might expect, this suggests an evolution of adaptive responses to a worsened financial situation. In other words, people begin by being more mindful of their spending, then cut back on the things they feel they can manage without, and finally resort to cutting back on the essentials when times are at their most difficult.

3.4 Changes in patterns of money management

A significant number of people either described themselves as being organised (as discussed in section 3.2 above) or talked about budgeting and planning their expenditure. These included people who were already money managers twelve months previously, and either had not changed their approach or had tightened their approach further. The group also included people who were not previously money managers but who had tried to improve their approach to budgeting, with mixed success. A smaller group demonstrated little or no inclination towards money management, an attitude that seemed to be long-standing.

3.4.1 Money managers

Most of the people we interviewed reported being organised at managing their money day-to-day or described an active approach to budgeting and money management at the time of the interview. These divided into three groups roughly equal in size.

The first group described how they had always taken an organised approach to money management and, as such, reported little or no change to patterns of their money management in the previous twelve months. They included a mix of people in terms of level of household income and whether or not their financial situation had

worsened over the previous twelve months. However, no one reported having cut back on essentials in the previous year.

The second group were people who stated that they had been organised in their approach to money management previously, but had nonetheless tightened their approach during the course of the previous year, whether in direct response to their changing circumstances or due to the downturn more generally (as we consider in section 3.5). These tended to be people with middle household incomes, and almost all lived in households whose financial situation had worsened in the previous twelve months. Unlike the previous group, they included people who described having cut back on essentials in the previous year.

The third group indicated that, while they took an organised approach to money management now, they had only started to do so within the previous twelve months. In common with the participants described above who had tightened their money management, they included people who had cut back on essentials as well as those who had only cut back on non-essentials. More often than not, these people lived in households with a low income, and all had experienced a worsening of their general financial situation, which may well have played a role in encouraging them to start budgeting. Some recognised that they had further improvements to make, with one young single man reflecting that he found budgeting difficult and was "*still messing up*". As we discuss below, a few members of this group of were also trying to put a little money aside.

The techniques that people across these groups described to manage money reflect two domains of financial capability identified in previous research, namely 'making ends meet' and 'keeping track'.³² In the current research, the first of these commonly involved prioritising the payment of main household bills such as utilities, rent or mortgage and council tax at the start of their budgeting cycle, and allocating remaining money to grocery shopping, discretionary spending and in one case "*the washing*". Some people had increased their use of direct debits to help them plan their expenditure, while others had cancelled direct debits in preference for budgeting in cash. Of those who discussed budgeting carefully, two people (one on a low income and one on a middle income) were notable for micro-budgeting, whereby all expenditure was routinely planned down to the very last penny.

The techniques for keeping track that participants described included the frequent checking of bank account balances, routine checking of statements, and watching money to make sure it wasn't wasted. For example, rather than planning expenditure, one woman described how she actively juggled her and her partner's various accounts online "*practically every day*" to ensure that there were sufficient funds to cover any direct debits or other payments that would be going out that day.

³² Atkinson A., McKay S., Kempson E. and Collard S. (2006) *Levels of financial capability in the UK: Results of a baseline survey*. Financial Services Authority.

Case study: Migrating to budgeting in cash

Bob lives with his wife and three children. Although they are a middle-income household, he describes being “*on the edge*” financially, partly because of a drop in income.

While they used to be more relaxed about their day-to-day spending, Bob and his family now try to make savings wherever possible. Previously they could pay all the bills from his wages and were able to save as well. Bob’s wife used to look after all the money management in the household, but now he is more involved, discussing the fact that some bills are outstanding.

They recently cancelled several direct debits to enable them to juggle their payments and avoid penalty charges when there are insufficient funds in their accounts. They now pay their rent to their landlord by cheque and he also allows them some leeway in terms of the day on which they pay their rent. They have switched gas and electricity suppliers in order to get a better deal and now pay on receipt of the bills, the downside being that they don’t get the discount for paying by direct debit any more.

“... we just cancelled that [direct debit] because as I say they’re not helping us as well, you know, while you’re not paying the money on time and these already start costing you an extra £30, £35 for refusing direct debits. So, I had to cancel that one and some [utility] companies are not interested because they were giving you deals if there’s a direct debit. I mean if there’s not a direct debit then they charge you more, a different rate for it. So we are in Catch 22...”

3.4.2 Little or no money management

A small group of participants demonstrated little or no inclination towards money management. Some described a passive approach to money management, tending only to deal reactively to bills and other commitments as they arose. For example, one person reported how they would “*bounce from week to week*”, meeting expenses as they arose. All of these individuals were living in low-income households and most had experienced a worsening financial situation and, as such, most were also facing a constant struggle to keep up with bills and other commitments. Although they all reported hardened **attitudes** towards spending or money management, their passive approach to money management appeared to be longstanding and none of them said they had cut back on spending on essentials. One possible reason for this is that these people had little or no capacity to cut back; another is that they may have been able to draw on other resources (such as savings) first.

Others were rather non-committal about their attitude towards money management, and did not discuss money management techniques such as budgeting in any detail during the interview. Despite being on low incomes and having experienced a worsened financial situation, most did however report saving actively during the previous twelve months, albeit informally. This is unusual for the sample of participants as a whole, as the next section discusses.

3.4.3 Savings

The 35 people interviewed for this research divided about evenly into those who had formal savings to draw on (e.g., money saved in a bank or building society) and those who did not. There was no clear correlation between saving behaviour and level of income, except that a few people on middle incomes or older people saving for retirement tended to have larger amounts of money saved. The remainder of savers generally only had small sums saved. Some of those without formal savings saved informally, e.g., in a savings tin at home.

A substantial minority of people reported being able to save actively during the previous twelve months. They divided equally into those who were adding to their formal savings, including a few who were saving with a credit union, and those saving informally. Those saving formally were mostly people with middle incomes whose financial situations had **not** worsened in the previous twelve months. A few commented that they had always saved (regarding this as a priority) or would only consider drawing on their savings as a last resort. Others, however, reported saving less than previously, either reducing the amounts they put into their account or by saving less regularly.

Those who were saving informally described saving either small amounts at home or saving through *Kommittis* and as we might expect from previous research, these individuals tended to be on low incomes.³³ Nearly all were people whose financial situation had worsened in the previous twelve months because of the increase in the cost of living, and all had cut back on non-essentials at least. Some mentioned making a concerted effort to put more money aside (while also postponing larger purchases) during these difficult times as a buffer to meet short-term needs. Despite this, many also described themselves as impulsive or spenders at heart.

However, compared to active saving, the more common pattern was for people to say that they had either saved in the past but not during the previous twelve months or had been drawing down their savings to supplement their incomes in recent times. Again, these tended to be people living on low incomes, and most had experienced deterioration in their financial situation. They included some who considered themselves to be 'savers' when asked their overall attitudes to spending and money management. Many of those who had stopped saving indicated that they could no longer afford to do so, and some who had drawn on their savings described a degree of discomfort in having done so.

3.5 Reasons for change

The preceding sections have illustrated a great deal of change in the attitudes towards and patterns of spending and money management among the sample. While a fairly wide range of reasons was given for these changes, they divided clearly into two types of influences: those that reflected relatively indirect influences on the individual (such

³³ *Kommittis* are rotating saving and loan schemes, popular in Pakistani communities, which are operated and used by small groups of friends, relatives, or work associates. For more details on these and similar schemes, see Kempson E. (1998) *Savings and low income and ethnic minority households*. Personal Investment Authority.

as media reporting of the recession and friends or relatives having lost their jobs) and those that related to direct experiences by the individual or their household.

Notably, most of those reporting a hardening of attitudes towards spending or money management or who had tightened their approach to money management gave more than one reason for this change. Many reported a general sense of the deterioration in the wider economic environment (recession, or financial crisis/credit crunch) as a reason for their change in attitudes. The role of the media in “*feeding all this*” was mentioned by several of these. The influence of the media may also have played a part in explaining why a number of people had switched to cheaper supermarkets in the previous twelve months, including those who subsequently switched back (as discussed above).

For a number of people, a change in attitudes had been triggered by their own experience of loss of income (or anticipated loss of income) or the rising cost of living. For others, it was attributed to job losses or financial difficulties experienced by friends, family members or others known to them.

In contrast to those who indicated a hardening of attitudes towards spending and money management, individuals who reported only a hardening of attitudes towards credit in the previous twelve months provided a rather different and more limited range of reasons for the change. These people tended to say one of two things. First, some felt they could not afford to borrow more or might risk being unable to pay back what was owed in the future. This was generally either because they had already experienced a drop in income or were concerned about future job security. Secondly, other people felt they had borrowed more than was manageable in the past, and did not want to get into that situation again. While these people did not report having changed their attitudes to spending, they did nonetheless appear to have responded by cutting back on spending and improving their approach to money management.

Case study: The influence of the ‘credit crunch’

Faye is a lone parent in her early 30s, who works part-time and lives on a low income with her two young children. She says she is struggling financially and that her situation has got worse because of an increase in the cost of living. Faye says she used to buy things when she couldn’t really afford them, but is far less impulsive now. She used to shop at Morrisons, but has started going to Farm Foods in the last year because frozen food is cheaper there. She has cut down on eating out with the children, now only buys them clothes when they need them, and has already told them that they will be getting less for Christmas this year.

While Faye finds things harder because of increased prices it is other, indirect, influences that have encouraged her to spend less. The credit crunch gave her “*a fright, you know, and I had to cut back and also let the kids know they have to do it as well*”. This has been reinforced by people close to her losing their jobs, “*it just brings it home really that it can happen*”. While she considers herself “*terrible*” at managing money, she is learning “*slowly but surely*” to be more controlled to try and make sure there is enough for everything her family needs without having to borrow.

The reasons given by the subset of people who had cut back on essential spending (regardless of any change in attitudes or money management reported) focused almost exclusively on the direct influence of personal experience, typically in relation to

difficulties in meeting recent borrowing or bill payments, reduced or irregular income or increased expenditure. This is perhaps not surprising, since all of these individuals had experienced a worsening in their general financial situation in the previous twelve months, all but one due to a drop in income. Rather predictably, those who said they had cut back only on non-essential spending cited a broader range of reasons.

Finally, the small number of people who reported a change in attitude but no major change in actual spending (so far) all referred to concerns about their household's future financial situation, particularly in relation to known or anticipated redundancy in the near future. This suggests that changes in attitude may be an early indicator of future behavioural change, particularly when aligned with a prediction of future deterioration in circumstances.

3.6 Impacts of change on people and their families

Participants were asked specifically to consider whether the ongoing recession had impacted on their plans for the next twelve months. Several people felt it had, particularly in relation to holidays and home improvements. A small number of people volunteered that the changes they had made in the previous twelve months generally put strain on them in terms of their physical health and emotional well-being. This section considers the issues interviewees raised.

3.6.1 Impact on longer-term plans

When asked whether the ongoing recession had impacted on their or their family's plans for the coming months, a large majority cited one or more aspect of their lives that would be affected or which they expected to be affected. These people reflected a socio-economic mix from low and middle-income households, but were exclusively people whose general financial situations had deteriorated in the previous twelve months.

It was most common for people to say that they would have to go without a major, often discretionary, expense. Many reported that they had postponed or cancelled a holiday, including one woman who had a holiday abroad planned with friends but had postponed it for a couple of years because some of her friends had lost income, and because she was no longer prepared to borrow money for a holiday. Another had hoped to take the family on a cheap caravan holiday this summer but stated that that would not happen now, while one man had had to cancel plans to visit family in Pakistan. Most people who had cancelled or postponed holidays were living in a low-income household and had experienced a worsening situation due to cost of living increases.

Several other people, who tended to be people with medium household incomes, said they had to put off making home improvements, while a small number of people (all of whom had middle incomes) discussed postponing plans they had had to move house. These included one young man who wanted to move in with his partner but could not afford to do so, and an older man who could not afford any home improvements, not even to redecorate. Conversely, one woman said that circumstances may mean she might have to move into a house with cheaper rent.

While a few people said they would be cautious generally regarding any plans they made, other specific examples of plans that could no longer be met in the ongoing recession included one woman who had postponed taking a college course; one older man who had had to cancel plans to retire early; and one woman who thought that she and her partner might have taken a loan out to enable them to get married had circumstances been different. Finally, a few people mentioned that their priority was to focus on the short term, including one unemployed man whose focus was getting back into work.

3.6.2 Impact on personal well-being

Several people volunteered that the changes they had made in their spending patterns or their approach to money management had impacted on their physical or psychological well-being. Although these were a mix of people with low and middle household incomes, all had experienced a worsening of their general financial situation in the previous twelve months. A range of issues were raised, reflecting both material and psychological needs.³⁴ The nature of the effects they discussed is reminiscent of those observed among people living on a low income generally, and those of people with problem debt.³⁵

Poor diet was mentioned a few times. For example, one man spoke of having lost weight because of cutbacks in spending on food on himself, while ensuring that his children did not suffer in the same way. Another woman talked about being unable to afford to eat properly and was currently getting help to buy food from friends. She was unsure how she would manage in the longer term.

Meanwhile, a few people talked about how their enjoyment of life had been affected as they cut back on ‘non-essentials’. A young single woman, for example, reported feeling that she no longer had “*a life*”, an observation that was made by a number of other single people who could no longer afford to socialise as much as they used to. One of these people found this difficult because it meant he had less chance of meeting a potential partner, while another felt depressed because he had become alienated from his social circle.

Psychological well-being was also an issue among a significant minority of people who mentioned the stress of making sure all the bills were covered, or worry or depression about money matters. These people were almost all living on low incomes and had experienced a deterioration in their financial circumstances in the previous twelve months. One older woman, who had made a series of cutbacks and was still struggling to make ends meet, described feeling depressed because of her money worries, which had led to more frequent visits to her general practitioner: “*I’m on more tablets for my nerves*”. Previous research has found that being exposed to major financial stress greatly increases the risk of suffering debilitating levels of anxiety and depression.³⁶

³⁴ This is a distinction made in a recent paper on unmet needs in the current economic climate: Vale D., Watts B. and Franklin J. (2009) *The receding tide: understanding unmet needs in a harsher economic climate (the interim findings of the mapping needs project)*. London: The Young Foundation.

³⁵ Refer to, for example, MIND (2008) *In the red: debt and mental health* London: MIND and Kempson E. (1996, above).

³⁶ Starrin et al, 2008, reported in Vale D., Watts B. and Franklin J. (2009, above).

3.7 Summary

Many people reported a hardening of attitudes towards spending in the previous twelve months, mostly due to ‘indirect’ factors such as increased awareness of the recession and credit crunch through the media or because of the experiences of people they knew. As such, the vast majority of people reported having cut back on spending in some capacity or at least having switched supermarkets, brands or generally found that they were shopping around for better value products or deals.

Those who had cut back on essentials were more likely to be responding to more direct influences, such as having experienced financial difficulties or reduced incomes. Some who reported being credit-averse seemed to be reflecting long-held views about credit, although those whose attitudes to borrowing and debt had hardened in the previous twelve months tended to have directly experienced recent debt problems. No one reported having relaxed their attitudes towards credit, even though some discussed having come to rely on the credit they had available to them in the previous twelve months.

Equally, with the exception of one man who described having been tempted by special offers into buying more things in the sales, no one described having relaxed their attitudes or behaviours towards spending or money management in the previous twelve months. Those who said their attitudes had not changed tended to be people who already considered themselves to be organised at managing their money. Many reported having improved, or tried to improve, their budgeting while more still said they had generally become more conscious of what they were spending or shopped around a little more.

4 Consumer borrowing

The previous chapter indicated that it was not uncommon for the people we interviewed to describe themselves as credit-averse, even though they were credit users. In some cases, this was a longstanding view; others described how their attitudes to credit had hardened over the previous twelve months.

For the most part, people were able to manage their unsecured and mortgage borrowing, evidenced by the fact that they were up to date with their repayments. Although the people we interviewed were deliberately sampled to exclude anyone self-reporting as being in financial difficulties, a few people had, however, fallen behind with repayments or were making late payments (this is explored further in section 4.1.6). There was also evidence of past debt problems among a small number of participants. One woman, for example, had recently started repaying her credit commitments through a commercially-provided debt management plan, having struggled for some time to pay contractually-required repayments. She felt that her household financial situation had stabilised as a result. A few others had paid off unsecured credit commitments in the recent past, either by remortgaging, taking out a personal loan, or with financial help from family members. It was notable that, in all cases, these respondents' credit balances had since increased.

This chapter explores the borrowing behaviour of the people we interviewed: it outlines the level and type of unsecured credit they had, and provides information about mortgage borrowing and informal borrowing from family friends. We examine changes in people's borrowing behaviour over the previous twelve months, and their perceptions and experiences regarding the availability of unsecured credit and mortgage borrowing.

4.1 Unsecured borrowing

The people we interviewed typically had a number of unsecured credit commitments, the most common types being credit cards, arranged overdrafts, personal (mainly bank) loans and car finance. Small numbers of people had home credit loans and goods bought on credit from mail order catalogues. A few people had student loans, and one person had a loan from a credit union.

4.1.1 *Revolving credit: credit cards and overdrafts*

Credit cards were by far the most common type of unsecured credit mentioned by participants, and well over half the people we interviewed had at least one credit card. They included people on both low and middle incomes and while some had seen a worsening of their financial situation in the previous twelve months, others had not.

Most of them had outstanding credit card balances at the time of the interview, ranging from a few hundred pounds to over six thousand pounds.

The most frequently mentioned uses of credit cards were for emergencies or for occasional large purchases such as holidays or car insurance. In addition, several people talked about using credit cards for day-to-day discretionary spending, such as clothes and meals out, or for online shopping. Most of the people who used their credit cards in any of these ways had outstanding balances, and generally paid off more than the minimum payment each month. Some had no outstanding balance at the time of the interview however, quite often because they always tried to pay off their balance in full whenever they used their credit card.

Nonetheless, a significant number of credit card holders (including those on both low and middle incomes) seemed to be mainly using their credit cards to help make ends meet, which echoes the use of credit as a form of income substitution mentioned in Chapter 1. As we go on discuss in section 4.1.5, these participants had generally started to use their credit card (or use it more often) for this purpose, as a result of their worsened financial situation. This typically meant buying food, groceries and petrol on a credit card, although a few people also used their credit cards to access cash.

Almost all these people had outstanding credit card balances, and while most tried to pay more than the minimum amount owed each month, a few could only make minimum payments. It is worth emphasising that nearly all these participants (like those described above) had additional credit card facilities that they could access, either because they were not close to their credit limit or because they had other (as yet unused) credit cards. On the whole, they were reluctant to draw on these additional facilities, however.

There were rather fewer people with arranged overdrafts than credit cards, with authorised overdraft limits ranging from a few hundred pounds to £2,000. Most of those with overdrafts (including those with more than one overdraft available in their household) were using them regularly as a means of smoothing income over the course of a month, often needing to use close to or up to their limit. As with credit cards, some had come to rely more heavily on their overdraft since a drop in income or because of rising living costs. A few people were not currently using their overdraft and did so only infrequently, generally to meet unexpected expenses or emergencies.

4.1.2 Personal loans

About half the people we interviewed had some type of personal loan, most often a bank loan. Loans were mentioned by people on both low and middle incomes, and the amounts borrowed ranged from £1,000 to around £13,000. Loans were used for a range of purposes, including home improvements, but also in some cases to pay off credit commitments or to smooth income, for example to cover a period of long-term sick leave in the past. A few people had student loans.

A small number of the people we interviewed were repaying loans from a home credit company at the time of the interview. These generally seemed to be long-term users of home credit and all of them were people on low incomes, whose financial situation had got worse because of rising costs of living. The amounts they borrowed were fairly low (up to £700) and the money tended to be used to pay for events like Christmas, family birthdays, family weddings. It was notable that none of these

participants had revolving credit, in the form of credit cards or overdrafts; at least one of them did not have a bank account of any kind.

4.1.3 Other forms of unsecured credit

About a third of the people we interviewed were repaying finance linked to the purchase of goods (or their partner was), and they were generally people with middle household incomes. In most cases, this was finance linked to the purchase of a car. As a result, the amounts borrowed were fairly large, ranging from around £4,000 to £9,000. Some people had taken out smaller amounts to finance the purchase of furniture or home entertainment equipment, such as televisions.

A small number of the women we interviewed were making payments for goods bought on credit from a mail order catalogue. They were mainly lone parents, living on low incomes, who had experienced a worsening financial situation due to rising living costs. They typically bought clothes and household goods through mail order, and sometimes Christmas presents for children and grandchildren. The amounts they owed at the time of the interview varied widely, from £40 up to £900. This small group overlapped to a large extent with those who were repaying loans from a home credit company, discussed in section 4.1.2 above.

4.1.4 Informal borrowing

While some participants expressed strong views about their reluctance to borrow informally from friends and family members, others stated that this was a source of borrowing that they used on a fairly regular basis, with family members more likely to be asked for a loan than friends. In keeping with earlier research,³⁷ we found that informal borrowing was particularly common among people in low-income households, and who reported a worsened financial situation. It was not reported by any of the individuals whose financial situation had stayed the same or fluctuated.

People generally talked about borrowing fairly small sums of money informally (between £10 and £100), which would be repaid either once they had been paid or in instalments. These small informal loans were used to pay for things like swimming lessons for children and food shopping. Paying back informal loans was generally treated as a priority, whether because it was seen as an important moral obligation to do so in recognition of the kindness of the lender or because if loans were not paid back the lender would be unlikely to lend again. A few participants had borrowed much larger sums of money from friends or family members, which seemed unlikely to be repaid, at least in the short term, due to their worsened financial situations.

4.1.5 Changes in unsecured borrowing behaviour

We asked our participants to reflect on their use of unsecured credit over the previous twelve months, and to identify any changes in their patterns of borrowing. The picture that emerged was fairly complex, and there was some overlap between the different groups. Most participants, however, tended to fall into one of two groups: those who had not changed their borrowing behaviour and those who were borrowing more in order to make ends meet.

³⁷ Kempson E., Bryson A. and Rowlingson K. (1994) *Hard times? How poor families make ends meet*. London: Policy Studies Institute.

The largest single group of participants did not appear to have changed their borrowing behaviour in any significant way over the previous twelve months. In particular, they had not applied for any additional unsecured credit. They included a mix of people in terms of income level and financial situation (some had experienced worsened situations, others had not). They were generally up to date with their credit repayments and some expressed a conscious desire to maintain their current level of borrowing rather than increase it, as a means of ensuring that their existing unsecured debts remained manageable.

In contrast, a similar-sized group of participants (again with a mix of household income levels) had increased their use of unsecured credit in order to make ends meet in the face of a drop in income or increased cost of living (see case study below). In other words, they had experienced deterioration in their financial situation. This typically meant that credit cards and overdrafts were used more frequently, and for day-to-day spending such as food and household bills – in some cases to meet mortgage repayments – rather than the discretionary spending they had been used to fund previously. A few people had increased their overdraft facilities or the amount they borrowed in home credit to this end, but most simply made greater use of their existing credit facilities.

Case study: Using unsecured credit to make ends meet

Mary is 34 and lives with her husband and three young children on a low income. She is a full-time mum and her husband works at a local factory. His hours have recently been cut and his regular overtime stopped. Faced with a reduced income, the household's financial situation has got worse.

Despite cutting back their spending and switching to a cheaper supermarket, they are increasingly reliant on a bank overdraft and credit card to pay for food shopping and the household bills. Each month, they make the minimum possible payment on their credit card, by direct debit, and their current outstanding balance is around £300. They are overdrawn for most of the month, typically up to around £700 of their £1,000 authorised limit.

“Obviously the money comes in, then it [the overdraft] goes a bit down then we keep using it and then it goes up.”

Although Mary feels reluctant to extend their existing level of borrowing, there is still some capacity in both their bank overdraft and credit card if extra cash was required. In addition, Mary has four unused credit cards, but she does not intend to use them.

A small group of people on both low and middle incomes had successfully applied for unsecured credit in the previous twelve months or so, but these applications did not seem to be in response to a worsening of their financial situation. Rather, the reasons for applying included home improvements, to buy a car or to buy household goods. Indeed, some applications clearly pre-dated a drop in income. Most of the people in this group had not changed their pattern of borrowing in any other way. A few of these applicants were, however, also using credit to make ends meet at the time of the interview, as described above.

In addition, there were a few people who had applied for bank loans or overdrafts to repay existing credit debts or to help make ends meet because of a drop in income, but had their applications turned down. These participants did not seem to have changed their borrowing behaviour in any other way.

Finally, there was very little evidence among the people we interviewed of active attempts to reduce the overall amount they owed in unsecured credit. Among those who had made active attempts, one man, living in a middle-income household whose financial situation had remained the same over the previous twelve months, described how he had recently downsized his car and the car finance associated with it in order to reduce the running costs. A few people living on low incomes talked about their efforts to repay home credit or credit card debts while at the same time not spending on their cards or taking out any new borrowing. It was unclear, however, whether this was driven primarily by the economic climate or by a personal desire to become debt-free. Meanwhile, many others expressed a desire or commitment to reduce their overall borrowing but provided no evidence that they had been able to do so.

As noted above, informal borrowing from friends or family was most common among people living in low-income households who had seen their financial situation deteriorate due to rising living costs. This suggests that they had lived on low incomes for some time, and it was clear that the informal financial help they received was often longstanding. It seems likely, however, that the importance of this support would have increased given their worsened situations and in the context of their limited alternatives to access money.

4.1.6 *Managing unsecured borrowing*

When asked directly about their perceptions of the affordability of their own level of unsecured borrowing, most of the people we interviewed felt that it was about right, and they would not want to borrow any more. These participants generally seemed to be able to manage their unsecured borrowing (in many cases despite a worsened financial situation), evidenced by the fact that they were up to date with their repayments. They included a few people who had borrowed in order to pay off unsecured debts in the past, as well as one person repaying their debts by means of a commercially-provided debt management plan.

There was a sizeable minority of people, however, who felt that they had borrowed more in unsecured credit than they could really afford. Almost all of them lived in low-income households and had seen their household finances deteriorate due to the rising costs of living. They included a few people who were behind with payments to lenders or made late payments. One person had recently paid off a large proportion of her credit card debts with financial help from family members, but her credit card balance had since increased. Two others had applied unsuccessfully for loans to repay credit debts in the recent past.

Finally, a small number of people felt that they could afford to borrow more in unsecured credit if they wanted or needed to. These were generally people living in households with middle incomes, whose situation had got worse in the previous twelve months. All of them were managing to keep up repayments on their credit commitments at the time of the interview.

4.2 Mortgage borrowing

As mentioned in Chapter 2, the sample of people we interviewed purposely included rather more tenants than mortgagors (21 tenants compared with 14 mortgagors). It was notable that of the small group whose financial situation had stayed the same or fluctuated over the previous twelve months, almost all had a mortgage and, as noted, previously, most lived in middle-income households. The remaining mortgagors comprised people living in low and middle-income households, all of whom had experienced a drop in income in the previous twelve months, which had led to a deterioration of their financial situation.

For the most part, mortgage-holders were repaying mortgages on the property they lived in. A few, however, were paying mortgages on properties they did not live in, either because they were responsible for the mortgage on the home of an estranged partner, or because they had left their home to move in with a partner and were trying to sell their own property. There was no evidence of buy-to-let mortgages or second-charge mortgages among the homeowners we interviewed.

Some of the mortgagors we interviewed had small amounts outstanding to pay (typically less than £10,000) and envisaged being mortgage-free in the next few years. Others owed larger amounts ranging from £20,000 up to £140,000 and expected to pay their mortgage off over the next 10 to 20 years.

The repayment mortgage, which most of the participants had, is the most common type of mortgage used in the UK. A few had endowment or interest-only mortgages, and one person had an offset or 'all-in-one' account mortgage, which allows mortgage borrowing to be offset against savings. As he and his wife had a relatively large amount of savings and a small outstanding mortgage, this reduced their mortgage payments significantly, to less than £50 per month at the time of the interview. The other homeowners we interviewed generally had mortgage repayments of between £300 and £400 per month. A few had much higher payments, of £800 or more per month.

Several mortgage-holders had recently benefited from reductions in the Bank of England interest base rate, in the form of reduced mortgage repayments. These generally tended to be people whose financial situation had not worsened in the previous twelve months, and this may well have helped them weather the general economic downturn.

4.2.1 Changes to mortgage borrowing

Among the mortgage-holders we interviewed, there was very little evidence of any change in borrowing behaviour in the previous twelve months.

A few people had unsuccessfully applied to re-mortgage their properties, either because they had come to the end of a fixed-rate mortgage term (see case study below) or to release equity to buy out a share of the property from an ex-partner. In one case, the refusal was attributed to the constriction of mortgage lending, in the other to a drop in income.

Case study: Constriction of mortgage lending

With a standard variable rate repayment mortgage of £55,000, Sarah and her husband currently make mortgage repayments of £300 per month. Sarah feels this is a manageable amount and she considers that, if necessary, she could afford to borrow more. Their household income fluctuated during the past year, mainly because her husband was out of work for a period of time. They drew on their savings to tide them over, and she now feels that their financial situation is relatively stable.

Sarah and her husband recently came to the end of a fixed-rate mortgage deal, which saw their mortgage repayment increase by about £50 per month. This created few difficulties, however, as they had budgeted for an increase of £100. Even so, Sarah would like to have money available for home improvements and other spending. She applied to re-mortgage with her existing lender, but was unsuccessful. She tried one or two other high street mortgage lenders but was turned down by them as well.

“The problem I have is I can't re-mortgage, I'm struggling to find a half decent deal and I can't find anybody that is willing to lend.”

Sarah plans to re-apply once interest rates go up again, as she thinks this will signal an increase in the availability of mortgage lending.

Another person had successfully remortgaged (partly driven by a wish to pay off unsecured credit debts) but had wanted to borrow more than the lender was prepared to advance. She was unsure whether this had happened before or after their drop in household income. Finally, one participant whose financial situation had remained unchanged had successfully renewed her tracker mortgage during the previous twelve months.

4.2.2 Managing mortgage borrowing

When asked directly, most of the homeowners we interviewed felt that their level of mortgage borrowing was about right, and they would not want to borrow any more. On the whole, they were managing to keep up with their mortgage repayments, in some cases benefiting from lower repayments due to cuts in the Bank of England base rate, as mentioned above.

A few mortgage-holders who had experienced a loss of earnings in the previous twelve months were only able to keep up by cutting back in other areas of spending or by increasing their overdraft limit. One man, who had lost his job just over twelve months previously, had for some time used his credit card to cover part of his mortgage repayment. He had since reached his credit card limit, and had recently fallen into mortgage arrears.

4.3 Access to borrowing

Overall there were fairly mixed views regarding the ease with which credit can be accessed, which unsurprisingly often reflected people's own experiences. However, there was a general level of agreement that it was still relatively easy to access unsecured credit but that mortgage borrowing had become much harder to access.

4.3.1 Access to unsecured credit

Altogether about half the people we interviewed had applied for unsecured credit in the previous twelve months, and most of them were successful. In addition, a small number of people had successfully applied for credit but decided not to take up these offers, generally due to concerns about affordability. Almost all the people with revolving credit reported having unused credit facilities on credit cards and/or overdrafts, and a few people reported unsolicited increases to their credit card or overdraft limits.

It was perhaps not surprising, therefore, that a common perception among the people we interviewed was that unsecured credit remained fairly readily available. In some cases, this was based on their own experience, as outlined above. But where participants had not applied for credit, it was attributed to the seemingly continued high volume of adverts for personal loans seen on television and the unsolicited offers of credit that they received through the post or, less often, from home credit company representatives.

The personal experience of some participants was at odds with this view, however. These were mostly people who had had credit applications refused in the previous twelve months, or in a few cases people who felt that the credit checks carried out by lenders were now more rigorous than in the past.

There was very little evidence that any constriction of consumer credit led people to move (or consider moving) between credit markets, from the prime/near-prime to the sub-prime market. Those who had been refused credit in the previous twelve months generally did not try to borrow money from anywhere else. In addition, as discussed earlier, the data from the depth interviews suggests a hardening of attitudes towards credit. So, even if people were unable to reduce their level of borrowing at the current time for practical reasons, this was an often expressed desire. In addition, it was not uncommon for participants to express strong negative views about the types of lenders that operate in the sub-prime market.

There was only one instance where someone seemed to have switched to using a sub-prime lender. This was a middle-aged single man with a mortgage, who had experienced a significant drop in income. He was in arrears with his mortgage payments and some other household bills and was also making token or minimum payments on his two maxed-out credit cards. In order to generate additional income, he had recently sold some of his belongings to a sale-and-buyback outlet, which operates in a broadly similar way to a pawnbroker. This was apparently the first time he had used such an outlet, but he considered that he might have to sell further possessions in this way in the future. There seemed little possibility that he would be able to redeem the possessions he had sold.

As noted in section 4.1.2, there were several home credit users among the people that we interviewed. They all lived in low-income households, and had experienced a worsening financial situation due to increased costs of living. In other words, they were already living on a low income when the recession began. They were either long-standing home credit customers, or gave no indication that they had experience of any commercial loans other than home credit.

4.3.2 Access to mortgage borrowing

As we mentioned above, very few of the mortgage-holders we interviewed had tried to access additional mortgage borrowing in the previous twelve months. The few that had were largely unsuccessful.

Among other mortgage-holders, there was a strong sense that access to mortgage lending was now much more difficult and was likely to involve higher fees and charges, even if mortgage interest rates remained relatively low for those able to access them. These views were, unsurprisingly, fuelled by the extensive media coverage of the crisis in the housing market. Even so, some people who reported having substantial equity in their properties thought they would have little difficulty accessing mortgage borrowing.

Among people currently renting, there was little evidence of any intention to buy a home in the near future. This was driven primarily by a view that they simply could not afford to contemplate home-ownership in their current financial situation.

4.4 Summary

Participants tended to fall into two camps in relation to their unsecured borrowing over the previous twelve months. The first group comprised those who had not changed their borrowing behaviour in any significant way, which included some people whose situation had got worse and others whose circumstances had changed little. In contrast, the second group of people were borrowing more in direct response to a worsened financial situation and, moreover, borrowing in order to make ends meet in a way that they had previously not needed to. There was very little evidence to suggest that anyone was trying to pay down the total amount of money they owed. Aside from the small number of people who had had credit applications turned down, there was a general perception that unsecured credit was still widely available.

Apart from a few people who had applied to re-mortgage in the previous twelve months (largely unsuccessfully), the mortgage-holders that we interviewed had generally made few changes to their mortgage borrowing. There was a strong sense, fuelled by personal experience and the media, that mortgage borrowing was now far harder to come by than in the past.

Given that people were deliberately recruited to the research on the basis that they were not behind with household bills or credit commitments, it was not surprising that most interviewees were managing to keep up with unsecured credit commitments and mortgage payments, albeit with a struggle in some cases. A small number were making late payments to at least some of their creditors, however, and a few were in arrears on payments.

5 Consumer coping responses in a recession: an overview

In the previous two chapters of the report, we noted how individuals' attitudes and behaviours had changed in response to their worsened household financial situation. In some cases where people's financial situations had remained more or less the same over the previous twelve months, they nonetheless reported changes in attitudes or behaviour. These changes were largely driven by the perception of a need for financial caution in the economic climate or, in one case, because of an anticipated drop in household income in the near future.

Research indicates that, during a recession, consumers tend to react in three ways: by cutting back on non-essential spending and prioritising paying off debts and saving over spending.³⁸ While there was some evidence of all these responses among the people we interviewed, the qualitative data indicates that people on low and middle incomes also employ other responses to cope with a worsened financial situation.

This chapter looks in more detail at the practical responses that individuals employed to manage their financial situations. The interview data we draw on predominantly relates to those participants who had experienced a worsening in their household finances over the previous twelve months. We start by examining the range of responses that individuals employed. We then move on to take an overall view on how well people seemed to be coping and explore whether any of them had sought advice in the previous twelve months. The chapter concludes by looking forward, to examine how people thought they would cope with an unexpected large expense if it arose and, finally, to report on their views about their likely future financial situation.

5.1 An overview of consumer coping responses

By far the most common response to the economic downturn among the people we interviewed was to rein in their spending over the previous twelve months. It was rare, however, for this to be the only response that individuals employed, particularly among those whose own financial situations had worsened. Other common responses included making changes to money management and patterns of savings, drawing on support from friends and family, and using unsecured credit. These are described in detail in the following sections. It was not uncommon for individuals to have used several coping mechanisms, although there were no discernable patterns regarding the combinations of measures people had taken.

Perhaps not surprisingly given the prevailing economic climate, very few people talked about income generation as a means to alleviate a worsened financial situation. Where income generation was mentioned, it was in relation to working extra hours or

³⁸ Research carried out by Mintel (2009), cited in NS&I Quarterly Savings Survey, Issue 19, Spring 2009.

applying for tax credits, or in one case selling goods to raise cash. It was also notable that none of the people we interviewed who had experienced a drop in income mentioned payment protection insurance as a means of safeguarding their credit or mortgage repayments. As we go on to discuss in section 5.5, claiming on an insurance policy was mentioned by a few people who anticipated job loss or redundancy in the near future, however.

5.1.1 A return to austerity? Changes in patterns of spending

As noted in Chapter 3, almost all of the 35 people we interviewed reported adjustments to their patterns of spending in response to the worsening economic situation in the UK. They included people whose financial situations had stayed more or less the same, as well as those whose financial circumstances had worsened.

In addition, a significant number of the people we interviewed had actually cut back on spending in response to their worsened financial situation, and most of these lived in low-income households. This mainly involved cutting back on what might be considered non-essentials such as holidays and socialising. It is worth noting again, however, that these types of expenditures are now included in measures of material deprivation in the UK to reflect rising standards of living over time.³⁹

A smaller number of individuals reported cutting back on essential expenditure such as food, heating and lighting. This was most common among low-income households whose financial situation had worsened due to a drop in income. They included roughly equal numbers of families with dependent children and single people.

5.1.2 Looking after the pennies: Changes in money management

Previous research has highlighted the importance of money management skills in enabling people to weather times of financial stress.⁴⁰ As outlined in Chapter 3, a significant number of individuals whose financial situation had worsened over the previous twelve months talked about how they (or their partner) now managed their household finances much more tightly than in the past. This was true of people on low and middle incomes, regardless of the reason why their financial situation had deteriorated.

In practice, tighter financial management typically meant budgeting more carefully and/or changing the way in which household bills were paid. For some, increased use of direct debits provided a means to ensure that priority household bills and commitments were paid. For a few, switching from direct debits to cash budgeting provided greater flexibility in terms of juggling payments on bills and commitments.

5.1.3 Arrival of a rainy day: Use of saving

A recent survey found that regular savers in the UK were saving record amounts. Even so, more than half of these survey respondents said they could not afford to save any extra money each month because their outgoings prevented them from doing so.

³⁹ See, for example, McKay S. and Collard S. (2004) *Developing deprivation questions for the Family Resources Survey*. DWP Working Paper No. 13.

⁴⁰ Atkinson A., Kempson E. and Collard S. (unpublished). *Snakes and ladders: A longitudinal study of financial difficulty*. Undertaken for the Financial Services Authority.

About two-fifths of survey respondents said they would be less likely to save in the coming months.⁴¹

About half of the people we interviewed whose financial situation had worsened over the previous twelve months had formal savings, although not many of them were actively saving at the time of the interview. Some reported drawing on their savings in order to manage financially in the wake of increased living costs or a drop in income. A few who were saving regularly had reduced the amount they saved to help maintain their day-to-day standard of living. Others, however, had not drawn on their savings despite the deterioration in their financial situations. This seemed to be either because they had earmarked the money for another purpose (such as spending on children) or simply because they wished to maintain a financial safety-net for as long as possible.

Among those with no formal savings, a few people whose financial situation had worsened had stopped saving informally because they could no longer afford to do so. Conversely, a few others had started to put money aside informally to help meet short-term needs. Most of these individuals lived in low-income households.

Finally, a few people with worsened financial situations reported that they had stopped paying into a private pension in the previous twelve months. This was largely due to concerns about the value of investing in a private pension, rather than concerns about affordability per se. The pension contributions were either put into a savings account or used to increase the household's available income.

5.1.4 *With a little help....: Support from family and friends*

Informal peer lending of small sums of money is a well-reported coping strategy employed by low-income households, particularly women. Among the people we interviewed, it was common among low-income households who reported a worsened financial situation. It was not reported by any of the individuals whose financial situation had stayed the same or fluctuated. It is important to note that this type of financial support was often longstanding, and pre-dated the drop in income or rising living costs that had resulted in a worsened financial situation. Nonetheless, it was an important aspect of people's ability to manage in their current situation.

In most cases, the sums of money borrowed by the people we interviewed were fairly small, and were repaid. A few people, however, had borrowed or been given larger sums of money. There was no evidence that this type of informal borrowing constituted illegal money lending. Where the sums borrowed were repaid, there was no additional payment over and above the amount lent. Indeed, this was one of the main attractions of borrowing from family or friends.

There were also examples of people receiving other types of support from their family or friends, such as gifts of food or having meals with family members when money was tight. This was mentioned much less often, however.

⁴¹ NS&I (2009). *Quarterly Savings Survey*. Issue 19. Spring 2009.

5.1.5 'Credit crutch': Use of consumer credit

As noted in Chapter 4, applications for consumer credit in the previous twelve months were fairly common among people whose financial situation had worsened. In most cases their applications were successful. Where applications for credit were turned down, this was almost always because of a drop in household income. It was clear, however, that most of these recent credit applications were not in direct response to a worsened financial situation and the reasons for applying included home improvements, to buy a car or to buy household goods.

Where consumer credit **was** used to cope with a worsened financial situation, it almost always involved the increased use of revolving credit (credit cards or overdrafts) to fund day-to-day spending such as food shopping or to pay household bills, and in a few cases to meet mortgage repayments. This was a significant departure for the individuals involved (who included both some on low incomes as well as others on middle incomes), as they had previously not had to use credit in these ways. We discuss the use of consumer credit to make ends meet in more detail in sections 5.2.3 and 5.5.1.

Examining the sample of 35 people as a whole, there was very little evidence of people making a concerted effort to pay down either their unsecured credit commitments or their mortgage borrowing, over and above what they were usually able to pay. This is perhaps not altogether surprising, given that almost all of them had experienced a worsening of their financial situation in the previous twelve months.

Several people talked about trying to make more than the minimum payment on their credit card balances, but generally continued to use their credit cards for purchases. A few people were repaying (or trying to repay) their consumer debts through a debt management plan.

5.2 How well were people coping? An overall assessment

As described above, almost all the people we interviewed had employed one or more response to the economic climate, including everyone whose situations had worsened in the previous twelve months. Some seemed to be coping rather better than others, however.

We start by assessing how well the people whose financial situation had stayed more or less the same over the previous twelve months or had stabilised following some fluctuation were coping. We then consider those whose situations had worsened, who fall into three broad groups of roughly equal size. Members of the first of these groups was managing to get by relatively well despite the deterioration in their household finances and some concerns about how they would cope in the future. People in the second group were keeping up with bills and commitments, but were either using consumer credit to make ends meet or felt they were over-committed. Those in the third and final group were showing clear signs of struggling to manage, and were either in arrears with repayments on household bills or credit commitments, or were making late payments that were sometimes less than the contractually-agreed amount.

5.2.1 People whose financial situation had not worsened in the previous twelve months

As noted in section 2.3, the relatively small group whose situation had not worsened over the previous twelve months was almost entirely composed of homeowners, most of whom were better off and categorised as having a middle household income.

For the most part, these people were managing without any difficulties at the time of the interview. They were able to keep up with their household bills, mortgages where relevant and unsecured credit commitments. None of them had had to make any major cutbacks in spending in the previous twelve months and some had seen their disposable income increase as a result of a drop in mortgage interest rates. They divided about evenly into those with money saved and those without.

A few people in this group did, however, express some concerns about how well they were managing financially. This was either because they had until relatively recently been using credit to make ends meet, or because they felt they were over-borrowed. These people tended to have no savings or only small amounts saved, and in some cases had cut back on spending in the past year to help balance their finances.

5.2.2 Worsened financial situation: Just getting by

Although many were stretched financially, this group comprised people who seemed to be getting by without depending on consumer credit to make ends meet. Most of them were tenants on low incomes, and included people of different ages and a range of family types. The common factor among most of them was the comparatively modest amounts of unsecured credit that they owed, which generally amounted to a few hundred pounds at most. Although a few had successfully applied for credit in the previous twelve months, they were largely reluctant to borrow any more money. For the most part they had no formal savings to fall back on and support from family and friends was relatively uncommon. Although they were getting by at the moment, several of them expressed serious concerns about their ability to manage in the future, not least because a few of them had already had to cut back on essentials.

Case study: Worsened financial situation but just getting by

Glyn is in his late 50s, and lives with his wife, Janis. They are on a low income and finding it “*pretty tight*” financially at the moment. Glyn has been unable to work for some years due to poor health, and Janis has seen a sharp drop in her earnings as a self-employed hairdresser. Always good money managers, they now do their shopping at Aldi rather than Tesco to save money, and during last winter tried to economise on central heating. In the past, they were able to save small sums of money informally ‘for a rainy day’, but they admit this is much more difficult now. The couple are very anti-credit, and have neither a credit card nor overdraft.

“We don’t want to go into any debt whatsoever because we can’t afford to.”

The only credit commitment they have is a loan taken out fairly recently to buy a smaller car for Janis, as she needs a car for work. They could only afford to do this because their adult children help out substantially with the loan repayments.

We have also included in this group a few people who had rather higher levels of unsecured borrowing, as well as mortgages. Although their financial situations had worsened due to a drop in income, they nonetheless felt that their repayments were manageable and it was notable that they generally had relatively large amounts of money saved.

5.2.3 Worsened financial situation: Credit-reliant

This group of people seemed to be managing fairly well, and did not report being behind or late with any household bills or credit commitments. That said, most were using credit as one way to make ends meet since their financial situation had worsened, as discussed in section 4.1.5, and some had also taken on additional credit commitments in the previous twelve months. They included people on middle incomes, as well as some on low incomes. Mainly in their 20s and 30s, most had children but the group included some young single people as well. Almost all of them were private or social tenants.

While use of consumer credit for everyday spending has been identified as an indicator of financial stress,⁴² most of the people using credit in this way described their overall level of borrowing as manageable despite some relatively high levels of unsecured credit. They generally had ready access to further credit lines, in the form of unused credit card or overdraft facilities. While they often expressed a desire to avoid further credit use if at all possible, some recognised that this might not be possible if their financial situation did not improve. Indeed, a few had borrowed to pay off credit card debts or overdrafts in the recent past, but had since built up their balances again. Some had money put by in a saving account, typically the equivalent of a few months' household income at most. Others had no money saved.

Case study: Worsened financial situation and reliant on credit to make ends meet

Ed is a single man in his mid-30s, living in a rented flat. On a middle income, he works full-time as an operational manager for a courier company. His financial situation has got worse, he feels, because of a recent overtime ban at the company where he works. The rise in petrol prices has hit him hard as well, as he has a fairly long car journey to work. In order to keep his finances on an even keel, Ed has cut back on spending on food, and no longer buys from the 'Finest' ranges in the supermarket. He also socialises a lot less over the course of a month.

"I'm a single boy so I like to go out, that's hampering me because the way I see it is if you don't go out there you're not going to meet anybody. And I was usually getting out on average sort of probably two, three times a month, now it's I'm lucky, I'm budgeting for one good weekend out of the whole month now... it gets me down sometimes because I'm sitting in the house and all my friends, they've all got girlfriends and kids ...it's no fun is it."

Even with the cutbacks he has made, Ed finds himself using his credit card much more often than he used to, and for things like food and petrol whereas in the past it was very much used for discretionary spending – such as designer clothes and things for the flat. His current credit card balance is around £500, and he tries to pay off more than the minimum each month. He has almost finished paying for furniture he bought on finance, and wants to use the extra

⁴² Refer to, for example, Kempson E. and Atkinson A. (2006) *Overstretched: People at risk of financial difficulties*. Genworth Financial.

disposable income to pay off his credit card if he can. Ed has managed to keep saving every month, but has reduced the amount he saves. He views this money as a safety net for the future.

Also included in this group are a small number of people on low incomes who, although not using credit to make ends meet, were concerned about their level of unsecured borrowing in the face of increased living costs or a drop in income. They all owed upwards of £7,000 and had used unsecured credit in the form of personal loans and credit cards for discretionary spending, such as holidays, Christmas presents or to buy a car. They either had dependent children or adult children still living at home. One person had savings (albeit tied up for the long term) and was an owner-occupier; the other few were renters with no savings to draw on.

5.2.4 Worsened financial situation: Struggling to manage

The people in this group were mainly on low incomes, and included some who had experienced a drop in income and others whose circumstances had worsened due to the rising cost of living. The group mostly comprised people in their 40s and 50s, some with dependent children and some without. Almost all of them were social housing or private tenants.

Most of the people in this group generally attributed their worsened financial situation to increased costs of living, suggesting that they had lived on low incomes for some time. While they were not in arrears, they described how they routinely paid bills or credit commitments after the due date, and in some cases paid reduced amounts that had either been agreed with the lender or had to be made up later on. This type of juggling was necessary to make ends meet, and is not uncommon in lower-income households.

A few were using consumer credit to get by, but others had neither an overdraft nor credit card with which to finance day-to-day spending. In any case, they generally felt that they had either borrowed more than they could afford already or did not want to borrow any more. Most had no savings at all, or only small amounts saved informally. In a few cases, people had run down whatever savings they had in order to weather their financial downturn. Once again, therefore, the financial help that most received from family or friends provided an important safety-net in the absence of ready access to credit (in the form of a credit card or overdraft) or savings.

Case study: Worsened financial situation and struggling to manage

Shona is a single mum in her late 40s, with three children at school. She works part-time as a cleaner, and the household lives on a low income in a housing association property, paid for partly through Housing Benefit. While she's never found it easy to manage, Shona feels her finances have worsened due to the rising cost of living. Like many other participants we interviewed, she has changed the way she shopped for food and cut back on non-essential spending. She tries to plan ahead for things like her children's after-school activities, but often finds herself having to borrow small sums of money from her family which she repays from her weekly pay packet.

Shona currently owes around £700 to a home credit company, for a loan she took out at Christmas, and around £800 to a number of mail order catalogue companies, from which she had bought clothes and household items in the past. Shona feels she has borrowed more than she can afford, and has had to negotiate reduced payments to the home credit and catalogue companies. Even so, she struggles to always pay on time. Likewise, she sometimes can't pay her rent (or all her rent) on time and either pays late or makes up the payments later on. Shona has never been able to save from her income, and feels she cannot afford to increase her working hours because of the resultant loss of Housing Benefit.

“... because if I changed my hours, I get so much paid to my rent so if I changed my hours I would need to pay full rent and I couldn't afford that.”

The remaining few people in this group were already in some financial difficulty, being in arrears with payments on household bills and/or repayments on unsecured credit. Their situation had invariably worsened due to a drop in earned income, and it was notable that they had experienced previous income shocks as well, either job loss or long-term sick leave from work. Although they had been using credit to make ends meet, at the time of the interview they had reached the limits of the existing credit lines that were open to them. They had had credit applications turned down in the recent past and had no savings to draw on. Apart from the financial help from family and friends which they received, they seemed to have few other resources to draw upon. They were among the few respondents who had tried to generate additional income.

5.3 Advice

Although the vast majority of people interviewed for the study reported struggling to keep up with their bills and other commitments from time to time, if not constantly, only a small number described having actually spoken to a professional for money or debt advice. A similar number in addition to these had talked to a professional about taking out a financial product of some kind.

As such, most people we interviewed had had no contact whatsoever with a money or financial adviser, and many of these did not anticipate seeking advice in the following twelve months. They comprised people in a wide range of financial situations. A small core (including a few with backgrounds in the financial services industry) indicated that they felt confident in their ability to resolve any problems which might arise. Others indicated that they would not be inclined to seek advice because they

would be too proud to do so, or because they felt it was important to take responsibility for the debts they had accrued. In contrast, a few indicated that they would seek advice if they were to get into difficulties rather than letting the problems build up, although only some were clear about where they could go for advice.

5.3.1 Money advice

A small number of people reported having sought advice in relation to money problems or difficulties making ends meet in the previous twelve months. Almost everyone who had sought advice had experienced a drop in income, and most were living on low incomes. All reported having changed their attitude towards spending, credit or money management, although we do not know if this pre-dated or resulted from having received advice (where advice was received).

The circumstances in which people had sought advice varied considerably. Two people had spoken to advisers about the implications of a drop in income through reduced hours or redundancy on their ability to budget and make ends meet, while two others had approached an adviser for help with budgeting, having got into difficulties meeting household bills or credit commitments.

Others had sought advice in relation to more specific problems, such as rent, a demand for payment from a mobile phone company, and mortgage problems. Most commonly, people had approached or called a Citizens Advice Bureau (CAB) or other independent not-for-profit (NfP) advice service, although other instances included someone who had spoken to bank staff, and another who had called a free money advice service she found in the phone book but could not recall which organisation it was.

It was not uncommon, however, for people to have sought advice but not received any, generally because they were unable to get through to an advice service to speak to someone about their problems. They had not gone on to seek advice elsewhere. In addition, one young woman, who was receiving benefits and living with her parents, had initially approached an NfP advice agency for advice on making ends meet. She described being told by them that she should not need advice, however, given her circumstances. She subsequently received money advice over the phone from a company she found in a phone directory.

One person described having to wait six months for an NfP advice agency to see her about her debt problems because they were overstretched. However, the advice she received once she was eventually seen, and which was ongoing at the time the interview, was extremely helpful both in terms of finding a practical solution to her problems and giving her "*peace of mind*". In all other instances where advice was received, it was invariably found to be helpful, typically being described as practical or easy to understand.

Moreover, several people who had not sought advice had reflected on doing so, describing an unmet need for advice in each case. All had low incomes and most had seen their financial situation worsen in the previous twelve months. They ranged from someone with firm plans to seek advice to someone who thought it would be beneficial but had been putting it off. They also included someone who definitely wanted advice but did not know where to go to get impartial advice and in the

meantime was trying hard to sort her problems out. Another man described being “*worried sick*” about money, but when asked whether he would consider seeking advice from a bank or advice centre said he might do in the future, but thought it unlikely that he would qualify for help given that he and his wife “*are not up to our eyeballs in debt*”.

It is also worth mentioning here the group of people discussed in Chapter 4 who had existing debt problems that they had tried to resolve by applying for further credit or a consolidation loan at some point in the previous twelve months. Many of these people had been refused further credit, but had been managing their situations since then. However, it is notable that one such woman, although she had been refused a consolidation loan, was referred by the loan company to a fee-charging debt management agency, and had since been managing well with the help of the debt management plan.

5.3.2 Financial advice

A second group of people reported having spoken to a professional about purchasing financial products, invariably related to savings or investment or mortgages. Again, this was a relatively small group, but in contrast to those who had received money or debt advice, these were mostly people with middle household incomes. Examples included people who spoke to a financial adviser every one or two years about a private pension or mortgage renewal, while others spoke to an independent financial adviser (IFA), a financial adviser made available via their employer, or bank staff about how best to invest savings or disposable income.

5.4 Coping with an unexpected large expense

During the course of the interview, participants were asked how they would cope with an unexpected large expense. As we observed in Chapter 3, very few had sufficient available money or savings set aside that could be used in the event of a substantial outlay, such as a new boiler or car repairs. Moreover, those with larger amounts saved sometimes expressed a strong preference to preserve their savings if at all possible. As a result, most people felt that they would have to borrow more in order to meet such an expense. Unused credit capacity from credit cards or informal borrowing from friends or family were by far the most common sources of extra funds that people mentioned drawing on under these circumstances.

In addition, a few past and current home credit users perceived home credit as a likely option, primarily because they were confident of getting the money they applied for and because of the relative ease of the process. Others considered that they would apply for a bank loan, an increased overdraft or engagement with the *Kommitti* (or other informal rotating savings and loans scheme) of which they were a member.

Finally, a small number of people on low incomes felt that they would be at a loss to deal with an unexpected expense, because they had no resources at all they could easily draw upon. Doing without or mending broken items were offered as possible responses in this situation.

5.5 The future

Only a handful of the people interviewed knew with any degree of certainty what the future held for them over the coming twelve months. A few who had been made redundant in the previous twelve months had recently secured new jobs. While this would clearly improve their household's financial situation, they were still concerned about the future, either because they had taken a cut in salary or because they had over-borrowed in the past.

In addition, a few people were about to experience a drop in household income through job loss (either their own job or that of a partner). In one case, a woman whose husband had been out of work for several months was about to come to the end of her short-term employment contract. She was fairly confident that it would be renewed, however, and was prepared to continue to use credit to make ends meet if needs be. Another woman, whose household financial situation had remained the same over the previous twelve months, described how her partner was shortly to be made redundant. Again, she was fairly confident of their ability to manage on her full-time earnings and the money they had saved, particularly as they planned to claim on a mortgage payment protection insurance policy.

For the remaining respondents, the future was unclear. Most either thought that their financial situation would change little over the coming months, or else might well get worse. Several people expressed cautious optimism, based on the anticipation of obtaining better-paid work (e.g. on completion of training), a reduction in mortgage payments or a house sale.

5.5.1 Future borrowing

When asked about their likely use of unsecured credit use over the coming twelve months, respondents mainly fell into one of three camps. The largest group of people was emphatic in their intention not to borrow any more money than they already had and to keep their unsecured borrowing at roughly the same level. Some conceded, however, that they would consider using credit if a situation arose where they had little or no other option. This group included almost all the people who had not experienced any worsening of their financial situation in the previous twelve months, who tended to be on middle incomes. The rest were people whose situation had deteriorated in the previous twelve months, and who were modest credit users generally managing to get by on low incomes.

The second group was slightly smaller, and comprised people who felt they would have little option but to keep using unsecured credit over the coming twelve months, so that the amounts they owed would increase as a result. This group included equal numbers of people on low and middle incomes, and all had experienced their financial situation get worse over the previous twelve months. Some were managing to get by currently, but others were juggling commitments and making late payments to creditors or using credit to make ends meet.

The remaining respondents fell into a third group, about the same size as the second. These were people who expressed a desire to try and reduced the amounts of money they owed in unsecured credit. They seemed to divide about evenly into those that

thought this goal was achievable, and those that thought it was unlikely. Almost all this group had experienced their household financial situation deteriorate in the previous twelve months. This group included the small number of people who felt burdened by their over-borrowing, and the few people who were in arrears with their household bills and credit commitments.

Finally, when it came to mortgage borrowing, the respondents as a whole were generally very conservative in their views. Most mortgage-holders had no plans to increase their level of mortgage borrowing in the coming twelve months, clearly reflecting concerns about the availability of mortgage borrowing described in Chapter 4. A few said they would have to re-mortgage in the near future when a fixed-term arrangement came to an end. Similarly, most of those currently renting a property from a private or social landlord had no plans to buy a home in the next year. The few that expressed interest in possible house purchase were mainly on middle incomes.

5.6 Summary

Although reining in spending was by far the most common response people employed in the face of a worsened financial situation, it was by no means the only response. Participants generally employed a variety of other strategies as well, ranging from using credit, drawing on savings, using unsecured credit, and adapting money management practices. There was no discernable pattern in terms of the combinations of strategies that people used. Few people had sought money advice, and some of those that did seek advice did not receive any. The use of payment protection insurance as a means of coping with a worsened financial situation was even rarer.

For the most part, these strategies proved to be reasonably effective, and despite drops in income or rising living costs people had been able to keep afloat financially. A relatively small group of participants was struggling to manage. For those that had lived on low incomes for some time, the rising cost of living appeared to stretch their financial resources to the limit, so that they were making late payments or paying less than the contractual amount. A few had fallen into arrears, and for these people the most recent drop in income was not the first.

For most participants, the future was uncertain. While some were determined to maintain their existing level of borrowing without increasing it, others realised that increased borrowing was probably inevitable, given that no significant improvement in their financial situation was on the horizon.

6 Conclusions and policy implications

The qualitative interview data collected in this research enables a depth of understanding about people's coping responses that it would be impossible for a quantitative survey to provide, not least because people's attitudes and behaviours are not always entirely consistent. The interview data demonstrates that people on low and middle income not only use a wide range of strategies in response to a worsening in their household financial situation, but also often employ a variety of strategies in combination. It was notable that seeking money advice was a response that very few had used.

For the most part, these strategies seemed to have been reasonably effective, up to the time of the interviews in June 2009, at any rate. Most participants had managed to keep up with their household bills and credit commitments despite the fact that their financial situation had deteriorated over the previous twelve months. In some cases this seemed to be explained by fairly modest credit use or having other resources such as savings to fall back on. In other cases, credit was clearly being used to substitute for income. Other than this, there did not seem to be any easily-discernible pattern in terms of the relationship between particular strategies that people adopted and how well they were managing.

Even though most respondents were managing at the present time, it would be wrong to assume that this situation would necessarily continue over the long term. Some of the modest credit users who were getting by expressed concerns about their future ability to do so. Several had already cut back spending on essential items, and on the whole they had few resources to fall back on if things got any worse. While those who were managing, largely because of a dependence on unsecured credit, usually had unused credit facilities to draw upon, they were generally well aware of the dangers of becoming more indebted for as long as there was no clear indication of an improvement in their household finances.

A sizeable number of participants, however, were clearly struggling to manage financially. Most of the people in this situation were tenants on low incomes who were in a cycle of juggling repayments to lenders and other creditors, a common strategy used by people on chronically low incomes. They tended to be making late and/or reduced payments to their creditors but so far did not seem to be in arrears. In common with others on low incomes who were getting by, those struggling to manage seemed to be stretched to the limit, with few or no financial resources left to call upon but further borrowing from family or friends.

The few people who were already in arrears (despite reporting at recruitment that they had not fallen behind with any bills or commitments) were notable because they had experienced other income shocks in the past. It seems reasonable to assume that these prior income shocks had left a legacy of financial vulnerability which may have been masked by ten years of economic growth.

6.1 Specific research questions

The research sought to provide information on a number of specific issues:

1. Whether the constriction of the credit market seemed to produce a ‘correction’ to consumer attitudes and behaviours in relation to spending and borrowing that some commentators and policy-makers felt was necessary in order to avoid increasing levels of over-indebtedness and financial difficulties.
2. Whether the reduced availability of credit led consumers to move (or consider moving) between credit markets, for example from the prime/near-prime to the sub-prime credit market.⁴³
3. Among mortgage-holders, whether there was any evidence of changes in attitudes and behaviour towards mortgage borrowing as a cheaper alternative to unsecured borrowing or as a means of consolidating unsecured debts.

We address each of these in turn in the following sections.

6.1.1 *Is there evidence of a ‘correction’ to consumer attitudes and behaviour in relation to spending and borrowing?*

This research seems to provide fairly compelling evidence of an apparent correction to consumer attitudes and behaviour in relation to spending and borrowing, either in response to direct experience or to present and future uncertainty, at the level of the household and the wider economy. Whether or not there is a longer-term impact on social norms around spending and borrowing remains to be seen.

The sample was deliberately selected to include current credit users who did not present as having financial difficulties. Some participants nonetheless described themselves as credit averse, and the qualitative data indicated a perceptible hardening of attitudes towards unsecured borrowing among a considerable number of participants generally, including those who were not otherwise credit averse. There was also a commonly-expressed desire among the people we interviewed to try and maintain their unsecured borrowing at its current level, in order to avoid becoming further indebted. While some hoped to be able to achieve this, others felt it would be difficult to avoid further borrowing, given their worsened financial situation and little apparent prospect of improvement in the short-term.

In addition, almost all the people we interviewed had reined in their discretionary spending, even those who had not (or not yet) experienced a worsening of their personal and household finances. At least some people whose situation had stayed the same in the previous twelve months expressed greater caution regarding their spending due to future uncertainty, either at a household level (in the form of impending loss of earnings) or at the general level of the UK and global economies.

⁴³ The prime credit market targets people who had a good credit history and generally offers the lowest cost borrowing. The sub-prime credit market serves people who have a history of bad credit e.g. late mortgage payments. Near-prime lending does not necessarily include the credit impaired, but rather refers to credit products that fall outside lenders standard credit policy.

6.1.2 Have people moved downward (or considered moving downward) in terms of the credit market they use?

There was very little evidence to indicate that lack of access to credit had contributed to people's worsened financial situations, or that any of the people we interviewed had moved from the prime or near-prime credit markets to the sub-prime credit market. The one person who appeared to have done so was already in arrears with household bills and credit commitments due to a worsened financial situation following a drop in income. As we outlined in Chapter 4, he had sold possessions to a sale-and-buy-back outlet to raise cash, with seemingly little hope of buying back his goods. It seems reasonable to assume that, had our sample been designed to only include people in financial difficulties who had reached the end of their existing credit lines, the picture would have been different.

In addition, another participant who had experienced a fluctuating financial situation in the previous twelve months described looking for a debt consolidation loan on the internet to pay off her unsecured credit debts, which she was struggling to repay but was not in arrears with. It seems highly probable that the companies she applied to operated in the sub-prime market. In the event, she was offered a commercially-provided debt management plan, and decided to follow this course instead.

Several other people had been turned down for unsecured credit that they had intended to use to repay existing credit debts. It was notable that, in all cases, they had either applied for a bank loan or an overdraft from their current account provider. None of them decided to apply elsewhere following their unsuccessful applications.

6.1.3 Was there any evidence of changes in attitudes and behaviour towards mortgage borrowing as a cheaper alternative to unsecured credit?

The ten years of economic growth to 2007 were marked by significant increases in domestic equity values. Previous research has highlighted the increasingly common practice over that time of homeowners using mortgage borrowing as a cheaper alternative to unsecured borrowing, either to fund consumption or to repay other debts.⁴⁴ The homeowners included in this research clearly felt that mortgage borrowing was now far more difficult to access, based on the widespread media coverage of the issue and in some cases personal experience. There was little appetite among the participants to seek additional mortgage borrowing.

6.2 Policy considerations

The aim of this research was to provide a snapshot of the views and experiences of a range of different people on low and middle incomes in an economic downturn. As such, it is difficult (and arguably inappropriate) to suggest specific policy interventions based on the research findings. Nonetheless, the research seems to highlight two issues of relevance to public policy makers in the longer term.

⁴⁴ Refer to, for example, Finney A., Collard S. and Kempson E. (2007) *Easy come, easy go: Borrowing over the life-cycle*. Standard Life.

The first of these is financial vulnerability, which appears to be the single most important issue arising from this research and encompasses a number of dimensions:

- While most people had managed to cope with drops in income or increased living costs over the previous twelve months, it was unclear how long they could continue to do so. Such resources as they had, such as savings, were often small and/or being eroded. This resonates with analysis from the Baseline Survey of Financial Capability, which highlighted the domain of ‘planning ahead’ as a particular area of weakness among the UK adult population.
- There was very little evidence of participants who had experienced drops in income having or drawing upon payment protection insurance. The few who had such insurance tended to live in middle-income households.
- The reason why some mortgage-holders were able to manage as well as they were was due to reduced mortgage repayments because of the historically low Bank of England base rate. A rapid rise in interest rates might well pose a risk to the financial well-being of these households.
- Very few people had sought money advice, despite the fact that most had experienced deterioration in their financial situation over the previous twelve months. There seemed to be a number of reasons for this, including individuals’ overly optimistic assessments of their financial situation or a sense of fatalism. Perhaps of more concern was the small number of people who sought advice on money issues or problems but were unable to access an advice service. However, where advice had been received, it was generally viewed as positive and helpful.

The second issue is the challenge to public policy-making presented by consumers’ attitudes and behaviours, which can appear irrational or contradictory. For example, some of the people we interviewed expressed a desire to pay down what they owed, but continued to borrow. Others had paid off credit debts in full in the past, but had allowed their balances to subsequently increase. A few people were aware of free-to-client advice services but were reluctant to seek advice despite struggling to keep up with their household bills and credit commitments. Such inconsistency may have important implications where the effectiveness of policy depends on changes in personal behaviour that seem logical on paper, but may be difficult to influence in practice.

Appendix 1: Research methods

The sample comprised 35 depth interviews with credit users who were on a low or middle income, and who reported that they were keeping up with household bills and credit commitments at the time of recruitment.⁴⁵ The recruitment was carried out by ECOTEC Survey. The interviews were conducted face to face in central Cardiff, Glasgow and Leeds.

Number of respondents	
Location	
Cardiff	11
Glasgow	14
Leeds	10
Gender of respondent	
Male	15
Female	20
Age of respondent	
20-29	9
30-39	10
40-49	8
50-59	8
Household composition	
Single, no dependent children	10
Couple, no dependent children	7
Lone parent	6
Couple with dependent children	12
Household income	
Low income (at or below 60% median before housing costs)	20
Medium income (between 90% and median income before housing costs)	15
Housing tenure	
Own home with mortgage	14
Private or social tenant	21

⁴⁵ The median value was calculated separately for each possible combination of age and number of children. The recruitment questionnaire (see Appendix 2) therefore had to establish household composition before household income.

The topic guide was piloted and some changes made as a result. The main changes were to ask respondents to think about the previous twelve months or so, rather than the previous six months, and to ask about any experience of seeking/receiving advice in the previous twelve months. The final version of the topic guide is provided in Appendix 3. The data from the pilot interviews was analysed alongside the subsequent interviews that were conducted.

The interviews took between 20 minutes and an hour; the average interview length was around 40 minutes. The interviews were digitally recorded (with the respondents' permission) and fully transcribed for analysis purposes. The analysis was conducted using thematic grids designed for use with qualitative data.

Appendix 2: Recruitment questionnaire

Good morning/afternoon/evening. I'm from ECOTEC Research and Consulting Limited. We are inviting people to take part in one-to-one interviews about their views and experiences of the credit crunch and the downturn in the economy. The Money Advice Trust has asked us to conduct this research. The Trust is a national charity that promotes free advice services for people in financial difficulties.

The interview will take place on [DATE] at [LOCATION] and will last around 45 minutes. To say thank you for your time, we would like to offer you £30 in shopping vouchers, which you will receive at the interview.

Before I go any further I would like to assure you that absolutely no selling is involved, this is purely a research exercise. We are totally independent and the findings from the research will be anonymised before being passed to them. We are looking for particular types of people to take part in the research project, therefore I would like to ask you some questions about yourself. All information collected will be anonymised.

NOTE TO INTERVIEWER: Shaded area indicates that the respondent falls outside the scope of the research and therefore that the recruitment can be wrapped up.

Q1. Would you be interested in taking part?

A	Yes	1	CONTINUE
B	No	2	CLOSE

Q2. May I ask how old you are?

A	Under 18	1	CLOSE
B	18-29	2	
C	30-39	3	CONTINUE
D	40-49	4	
E	50-55	5	
F	Over 55	6	CLOSE

Q3.SHOWCARD Do you currently have any of the following types of consumer credit, either in your own name or held in joint names with someone else:

A	Loan from bank, building society (excluding mortgage)	1	
B	Loan from company that collects payments from your home	2	
C	Loan from a finance company (e.g. Norton Finance, YesLoans)	3	CONTINUE
D	Payday loan (e.g. from Money Shop, Payday Financial)	4	
E	Loan from a pawnbroker		
F	Goods bought in instalments from a mail order catalogue	5	
G	Goods bought on hire purchase or on credit (e.g. Brighthouse)	6	
H	A credit card that you do not pay off in full each month	7	
I	An overdraft that you are using	8	
J	Any other type of loan	9	
K	None of these types of credit	10	
L	Don't know/Refused	11	CLOSE

Q4.SHOWCARD Which of these statements best describes your current household financial situation (Please just read out the letter)

A	Managing without any difficulties	1	
B	Managing but it is a struggle from time-to-time	2	CONTINUE
C	Managing but it is a constant struggle	3	
D	Falling behind with some bills or payments	4	CLOSE
E	Having real financial problems and have fallen behind with many bills and payments	5	
H	Don't know	6	

Q5.SHOWCARD Which of these best describes your work situation?

A	Working full-time (30+ hours/week)	1	
B	Working part-time (under 30 hours/week)	2	
C	Unemployed – seeking work	3	RECRUIT TO QUOTA
D	Unemployed – not seeking work	4	
E	Stay at home to look after house/family	5	
F	In full-time education	6	CLOSE
G	Retired	7	
H	Don't know	8	

Q6.SHOWCARD How would you describe the composition of your household?
Please just read out the letter that applies (single code only)

A	Single, no children	1	
B	Couple, no children	2	
C	One-parent family, at least one child under 16	3	CONTINUE TO Q7
D	Two-parent family, at least one child under 16	4	

Q7.SHOWCARD Can you please tell if your total household income is above or below the amount shown on this card? (Please include take home pay from paid work or self-employment, social security benefits including Child Benefit, tax credits or any other regular income.)

A	Single, no children	£160 per week £670 per month	1	BELOW - RECRUIT ABOVE - GO TO Q8
B	One-parent family	£310 per week £1,300 per month	2	BELOW - RECRUIT ABOVE - GO TO Q8
C	Couple, no children	£270 per week £1,140 per month	3	BELOW - RECRUIT ABOVE - GO TO Q8
D	Two-parent family	£380 per week £1,580 per month	4	BELOW - RECRUIT ABOVE - GO TO Q8
E	Don't know/Refused		5	CLOSE

ASK Q8 IF ABOVE INCOME FOR HOUSEHOLD TYPE AT Q7

Q8.SHOWCARD Does your total household income fall into the band shown on this card? (Please include take home pay from paid work or self-employment, social security benefits including Child Benefit, tax credits or any other regular income.)

A	Single, no children	£225-£250 per week £945-£1,050 per month	1	YES - RECRUIT TO QUOTA NO - CLOSE
B	One-parent family	£450-£500 per week £1,890-£2,100 per month	2	YES - RECRUIT TO QUOTA NO - CLOSE
C	Couple, no children	£340-£380 per week £1,430-£1,600 per month	3	YES - RECRUIT TO QUOTA NO - CLOSE
D	Two-parent family	£560-£625 per week £2,350-£2,625 per month	4	YES - RECRUIT TO QUOTA NO - CLOSE
E	Don't know/Refused		7	CLOSE

Q9.SHOWCARD In which of these ways do you occupy your home?

A	Own it outright	1	CLOSE
B	Own it with a mortgage	2	
C	Rent it from a private landlord	3	RECRUIT TO QUOTA
D	Rent it from a local authority or housing association	4	
E	Live with your parents/grandparents/other family members	5	CLOSE
F	Have some other arrangement	6	
G	Don't know/refused	7	

Q10. CODE SEX (DO NOT ASK)

A	Male	1	RECRUIT TO QUOTA
B	Female	2	RECRUIT TO QUOTA

Q11. What is the occupation of the Chief Income Earner in your household?
WRITE IN AND CODE BELOW (FOR INFORMATION ONLY)

CLASS	
A	1
B	2
C1	3
C2	4
D	5
E	6

Contact Details

<u>Name</u>	
<u>Address</u>	
<u>Postcode</u>	
<u>Email address</u>	
<u>Telephone No</u>	
<u>Mobile No</u>	
<u>Best time of day to ring</u>	

INTERVIEWER DECLARATION

I have recruited this person to the criteria specified by this questionnaire and other briefing provided. Please explain that respondents may be called by telephone, to check that recruitment & booking procedure meet quality standards. Thank you.

NAME _____

SIGNED _____

DATE _____

Appendix 3: Interview topic guide

- Thank you for agreeing to speak to me.
 - I am a researcher from ECOTEC Research and Consulting/Personal Finance Research Centre. We have done a lot of earlier research on people's use of financial services and advice services.
 - We have been asked to carry out this research by the Money Advice Trust, a charity that promotes free advice services for people in financial difficulties. They are interested to hear people's views and experiences of the credit crunch and the economic downturn to establish whether these are causing people financial difficulties.
 - The interview should last around 45 minutes. Everything we discuss during the interview will be confidential. This means that the information you provide to us cannot be traced back to you, and your name will not be revealed to anyone else. So please be assured that you can be honest and open in talking about your views and experiences.
 - As a thank-you for giving up your time to be interviewed, you will receive £30 in shopping vouchers.
-

1. BACKGROUND

- Age, gender of respondent
- Living arrangements/household composition
- Housing tenure

2. EMPLOYMENT AND HOUSEHOLD FINANCES

- Employment situation of respondent (and partner)
- Current household income (SHOWCARD A)
- Do they feel their financial situation (own/household) has improved, got worse or stayed the same in the past 12 months or so? Why?
 - Probe for significant increases/decreases in household income and impact.
 - Increases e.g. new job, wage increase, increase in tax credits/benefits
 - Decreases e.g. job loss, drop in earnings/cut in hours, lower self-employed drawings?
 - Probe for significant increases/decreases in household outgoings (e.g. housing costs, utility bills, food, childcare costs) and impact

3. ATTITUDES TO SPENDING AND BORROWING

- SHOWCARD B Which of these statements best describes their attitude to spending and borrowing?
 - I am impulsive and tend to buy things even when I can't really afford them
 - I am more of a saver than a spender
 - I prefer to buy things on credit rather than wait and save up
 - I am very organised when it comes to managing my money day-to-day

- Have their attitudes to spending and borrowing changed in the last 12 months or so?
 - How have they changed?
 - What has prompted changes e.g. actual or anticipated changes to household circumstances, concerns generated by media coverage of recession? If several things, main driver?
- Any changes in patterns of spending over the last 12 months or so? What changes have they made and why? Impact of these changes?
 - Probe for essential spending (e.g. food, household bills), non-essential spending (e.g. going out, holidays), and spending on children
 - Probe types of changes: Cutting back, doing without, buying cheaper brands, putting off large purchases
- Any changes in way in which they manage their money over the last 12 months or so? What changes have they made and why? Impact?
 - Probe for changes in way they keep track of money and plan ahead e.g. for future bills and expenses

4. UNSECURED CREDIT USE

- SHOWCARD C Types of credit currently used (for each type, probe number of cards/loans etc), and why use these types rather than others
 - What is credit used for? E.g. discretionary, day-to-day essentials, emergencies/unexpected expenses, 'lumpy' items (eg, replacement white goods)
 - Total amount owed (excluding mortgage borrowing)?
 - How easy/difficult to keep up with repayments?
 - Late/behind with any payments?
 - Pay back minimum on any credit/store cards?
 - Any unused credit facilities e.g. overdraft, credit card that they have but don't use?
 - Reasons not used and whether any plans to use them?
 - Any informal borrowing e.g. from family/friends? Amounts, what money used for, whether expected to pay back/pay interest
-
- Any changes in borrowing behaviour over the past 12 months or so?
 - What types of behaviour change e.g. borrowing more/less, trying to pay off what they owe?
 - What has prompted change e.g. actual or anticipated changes to household circumstances, concerns generated by media coverage of recession? If several things, main driver?
 - Are changes temporary or likely to be longer-term?
 - SHOWCARD D Views about current level of borrowing – which statement best describes their current situation? What prompts these views?
 - I could afford to borrow more if I wanted or needed to
 - My level of borrowing is about right, I would not want to borrow more
 - I have borrowed more than I can really afford

5. ACCESS TO UNSECURED CREDIT

- Views about access to credit at the present time?

- About the same as when applied in the past, more difficult to access, easier to access? Why?
- What are these views based upon e.g. own experience, experience of others, media reports?
- Applied for any additional credit in the last 12 months (including increases to credit limit on existing credit/store card or overdraft)?
 - Reason for applying?
 - Applied to same lenders used before or new lenders? Why?
 - Outcome? If turned down, tried elsewhere – where and why? If accepted, is it noticeably more expensive than previously? Views about this?
- If needed to cover a large unexpected expense (e.g. car repairs, replace boiler), how would they find the money for this, e.g. use credit, draw on savings, pay from regular income, borrow from family/friends? Why?
 - If would consider using credit, what type of credit would they use e.g. put on existing credit card, take out a new loan? Why choose this type of credit?

6. SAVING

- Any money in savings/investments? How much and what are savings for (e.g. for specific purpose or for rainy day/emergencies)?
 - If no savings, why not? Ever had savings?
- Any changes in saving behaviour in the past 12 months or so? E.g. running down savings in order to manage, saving more because cutting back on spending, saving less because of low interest rates? What has prompted changes?

7. MORTGAGES AND SECURED BORROWING (SKIP TO SECTION 8 IF NO MORTGAGE)

- Main reason for buying – move from rented accommodation, got married/moved in with partner, bought as investment for future?
- What type of mortgage on main home? (e.g. repayment, endowment, interest-only with linked investment, interest-only with no linked investment)
- How much is currently outstanding on this mortgage/how many years left to pay?
- Amount of monthly repayment?
 - Any changes in past 12 months or so, e.g. decreased because of drop in interest rates, increased because came off fixed rate?
 - Impact of changes on household finances?
- How easy/difficult to keep up with repayments?
 - Late/behind with any payments in past 12 months? How dealt with? Any advice sought/received?
- Any other mortgages e.g. 2nd mortgage on main home, buy-to-lets, second home? Probe for details – number, type of mortgage, total mortgage borrowing, monthly repayments, how easy/difficult to keep up with repayments
- Any loans secured on home/other property? Probe for details – when taken out and why, monthly repayments, how easy/difficult to keep up with repayments

- SHOWCARD D Views about current level of mortgage borrowing – which statement best describes their current situation? What prompts these views?
 - I could afford to borrow more if I wanted or needed to
 - My level of borrowing is about right, I would not want to borrow more
 - I have borrowed more than I can really afford
- Views about access to mortgage borrowing at the present time?
 - About the same as when applied in the past, more difficult to access, easier to access? Why?
 - What are these views based upon e.g. own experience, experience of others, media reports?
- Applied for re-mortgage or additional mortgage in the last 12 months or so?
 - Reason for applying?
 - Applied to existing lender or another lender?
 - Outcomes? If turned down, tried elsewhere?

8. RENT PAYMENTS (SKIP TO SECTION 9 IF MORTGAGE-HOLDER)

- Amount currently paid in rent and views about this? Any increases/decreases in past 12 months? Impact?
- How easy/difficult to keep up with rent payments?
 - Late/behind with any payments in past 12 months? How dealt with? Any advice sought/received?

9. ADVICE-SEEKING

- Sought any advice about (other) financial matters in the last 12 months? E.g. from bank or other lender, financial adviser, free advice agency such as CAB, commercial debt management company?, solicitor, friends/relatives?
 - If yes, what about, where from, help/advice received, whether acted upon help/advice and outcomes?
 - i. Views about the help/advice received?
 - ii. Did they have to pay for the advice? Views about this?
 - If no, any financial matters about which they would have liked help/advice in the last 12 months? Why not sought advice? What did they do instead?

10. FEELINGS ABOUT THE FUTURE

- Views about their household financial situation over the next 12 months or so – likely to improve, get worse, stay the same? Why?
 - If likely to get worse, how do they think they will manage e.g. any savings to draw on, insurance they can claim on, cut back spending, get help from family/friends, use credit?
 - Any actions taken in anticipation of future problems e.g. taken out payment or income protection insurance, putting money into savings?
- Views about likely credit use over the next 12 months or so? E.g. likely to take out further credit or try and reduce existing level of borrowing?
- Views about likely mortgage borrowing over the next 12 months or so? E.g. likely to re-mortgage? Why?
 - If not currently a mortgage-holder, likely to apply? Why/why not?

- Has the recession affected their plans for the future in any way, e.g. have they postponed plans to move house/buy a house or change jobs?
- Anything else they would like to add about the impact of the economic downturn on their daily life or their financial situation?

SHOWCARD A: HOUSEHOLD INCOME

Roughly how much income do you (and your partner) have in total? Please include take home pay from paid work or self-employment, social security benefits including Child Benefit, tax credits or any other regular income. **Please just read out the letter that applies.**

	Per week:	Per month:
A	Less than £100	Less than £430
B	£100 - £199	£430 - £859
C	£200 - £299	£860 - £1299
D	£300 - £399	£1300 - £1719
E	£400 - £499	£1720 - £2149
F	£500 - £999	£2150 - £4299
G	£1000 or more	£4300 or more

SHOWCARD B: ATTITUDES TO SPENDING AND BORROWING

I am impulsive and tend to buy things even when I can't really afford them
I am more of a saver than a spender
I prefer to buy things on credit rather than wait and save up
I am very organised when it comes to managing my money day-to-day

SHOWCARD C: TYPES OF CREDIT/BORROWING

Loan from bank, building society (excluding mortgage)
Loan from company that collects payments from your home (e.g. Provident)
Loan from a finance company (e.g. Norton Finance, YesLoans)

Payday loan (e.g. from Money Shop, Payday Financial)
Loan from a pawnbroker

Loan from a credit union or other community-based lending organisation
Loan from friend or family member

Goods bought in instalments from a mail order catalogue
Goods bought on hire purchase or on credit (e.g. Bighthouse)

Credit card/store card
Overdraft
Other (please specify)

SHOWCARD D VIEWS ABOUT CURRENT LEVEL OF BORROWING

I could afford to borrow more if I wanted or needed to
My level of borrowing is about right, I would not want to borrow more
I have borrowed more than I can really afford



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