

An independent review of the fee-charging debt management industry

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Executive summary

A debt management plan (DMP) provides a means for people to repay their consumer credit debts in full. An affordable payment is calculated, based on an assessment of an individual's income and expenditure. The person in debt makes one monthly payment to a debt management provider, which is then distributed between their creditors on a pro rata basis, either electronically or by cheque. DMPs are provided by fee-charging debt management companies, which generally charge their customers a set-up fee and an ongoing monthly management fee. They are also provided by the Consumer Credit Counselling Service (CCCS) and Payplan, which are funded primarily by the credit industry and offer DMPs free of charge to people in debt.

Almost ten years since the first independent research into fee-charging debt advice and management, the Money Advice Trust commissioned this review to provide an update on the fee-charging debt management industry in the UK. The review included a telephone survey of 53 fee-charging debt management companies, telephone depth interviews with 10 credit industry representatives, and face-to-face depth interviews with 30 customers of fee-charging debt management companies who, between them, had experience of fourteen different fee-charging debt management companies.

The fee-charging debt management industry

An earlier review of the fee-charging debt management industry, published in 1999, identified fewer than 40 companies that provided debt management services to individuals for a fee.¹ In the course of this review, we identified over 150 companies that offered DMPs for a fee. While this is by no means a definitive figure, it provides some indication of the scale of the industry. Around 130 of these companies were direct providers of DMPs, the remainder acted as brokers or introducers to fee-charging debt management companies.

A telephone survey of 53 fee-charging debt management companies found that most provided largely telephone-based services on a UK-wide basis. They generally offered access to other debt remedies besides DMPs (e.g. IVAs, trust deeds), either provided in-house or, more commonly, by referral to another company.

Any organisation that provides DMPs, regardless of whether or not they charge individuals a fee, has to be licensed under the Consumer Credit Act 1974. The OFT Debt Management Guidance sets out minimum standards that have to be met by all debt management providers if they are to be judged fit to hold a consumer credit licence. In addition, there are three industry codes of practice that cover fee-charging debt management companies. The Debt Managers Standards Association's code of practice relates specifically to fee-charging debt management companies. The Debt Resolution Forum code of practice and the Debt Standard Code of Conduct refer to DMPs and other debt remedies that are provided by commercial companies.

¹ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

Debt management plans

Commercially-provided DMPs are generally marketed at people with debts of less than £15,000, with at least two creditors, and sufficient disposable income to make repayments. It was not uncommon, however, for the customers we interviewed to owe more than £15,000 in consumer credit debts.

Evidence from the telephone survey of fee-charging debt management companies indicated that DMPs were unlikely to run for the projected duration. Most of the companies surveyed stated that, on average, a DMP was projected to run for between 60 and 120 months. The average actual duration of a plan tended to be 36 months or less. The interviews with customers of fee-charging debt management companies highlighted a number of reasons why plans may not run to term: a change of circumstance that makes continued repayments unfeasible for the person in debt; deciding to pursue an alternative debt remedy; deciding to repay their creditors themselves; or the termination of a plan by the person in debt because of poor service.

Credit industry experiences of working with fee-charging debt management companies

Credit industry representatives described a mixed picture of working with the fee-charging debt management industry. They enjoyed good working relationships with companies that were generally larger and longer-established, which had efficient systems, processes and operations and were keen to work closely with the credit industry. While it is difficult to quantify the number of companies in this category, some credit industry representatives talked about having preferential data exchange agreements in place with between 10 and 15 companies.

On the other hand, credit industry representatives expressed concerns about smaller, more recently established firms. They feared that these companies did not always provide best advice to individuals, with the risk that some people might end up with a debt remedy inappropriate to their needs but profitable for the company. Other concerns included the considerable variation in the standard of financial statements received from fee-charging debt management companies and the fees and other charges that they levied.

Customers of fee-charging debt management companies

We estimate that somewhere in the region of 300,000 to 375,000 people are on a commercially-provided debt management plan. This is between two and three times as many as are repaying their debts through a debt management plan administered by a free-to-client provider such as CCCS or Payplan.

The customers we interviewed in depth had typically come into contact with a fee-charging debt management company by responding to a television or newspaper advert or by coming across the company on the internet. Some had been 'introduced' to a debt management company via a loan company after they had made an online loan application. Customers were attracted primarily by the fact that companies would reduce their debt repayments to an affordable, single monthly payment and handle all contact with their creditors on their behalf. Good customer service (at least initially) cemented their decision to sign an agreement with the company.

On the whole, customers reported that repayment arrangements were set up fairly quickly after their initial contact with a fee-charging debt management company. Most were aware from the outset that they would have to pay a fee for debt management, and felt they were given adequate information about this. Others were unhappy because they received information about the fees relatively late in the process. The customers we interviewed were generally paying between 15 and 18 per cent of their monthly repayment in fees. Most were happy with the level of charges they paid, although some who had completed a DMP queried whether the charges still represented value for money as time went on.

Customer outcomes

The customers we interviewed were not a representative sample of people who had used fee-charging debt management companies and therefore we cannot say what proportion overall was satisfied or dissatisfied. There were three main outcomes of using a fee-charging debt management company among the customers we interviewed: (1) those who were currently repaying debts through a DMP; (2) those who had terminated their plan due to poor service; and (3) those who had repaid their consumer credit debts.

The first group was currently repaying their consumer credit debts via a commercially-provided DMP. They generally felt their financial situation had improved since contacting a fee-charging company, and were keeping up with their plan payments and other commitments, although it was sometimes a struggle. As a result, they tended to be satisfied with the service they had received from the company they used.

Most of the customers in the second group had cancelled their agreement with a fee-charging debt management company because their creditors had not been paid or had received payments late. All of them had made at least three payments to the company, and a few had been on a DMP for several years. As a result, they were very dissatisfied with the service they had received. These customers were struggling to manage and felt themselves to be in a worse financial situation than before they contacted the company. In addition, a few customers in this group had either let their plan lapse because they could no longer afford to pay, or had switched to another debt remedy which proved unaffordable. They described themselves as having serious financial difficulties, and had fallen behind with household bills.

The third group comprised people who were no longer on a DMP because they had paid off all (or almost all) their consumer credit debts. This was achieved in one of three ways: repaying their unsecured debts in full through a DMP; repaying most of their unsecured debts by means of a DMP and then arranging to make the final payments direct to their remaining creditors; or paying via a DMP before reaching a full and final settlement agreement with their creditors. Most of the customers in this group felt they were significantly better off now than when they first contacted a fee-charging debt management company, were managing well financially and were optimistic about their financial future. They tended to be among the most satisfied of the customers we interviewed.

Policy considerations and recommendations

Fee-charging debt management industry

Although the customers we interviewed reported positive experiences of their initial contact with a fee-charging debt management company, there was evidence of poor service being provided to fee-paying customers by some companies. This centred on the non-payment or late payment of creditors well beyond the initial phase of a DMP, which exacerbated rather than alleviated people's debt problems. Some customers said they were only informed about fees and other charges once they had already committed to using a company, and credit industry representatives were also concerned about the amounts of money that customers paid in fees and charges and the way in which these were levied by some companies.

These issues give rise to questions about the regulation and quality standards that apply to the fee-charging debt management industry. Among the customers we interviewed who had terminated their DMP due to poor service, most had used a fee-charging debt management company that was not a member of any of the three industry codes of practice. The credit industry representatives that we interviewed, while welcoming the introduction of industry codes of practice, were keen to see initiatives such as an industry-wide kitemark. A need for comprehensive and robust compliance monitoring was also identified. Since the time of the research, the OFT has announced a further compliance review against its Debt Management Guidance, which is due to start in mid-2009.²

MAT recommendations:

- We welcome the OFT's forthcoming compliance review against its Debt Management Guidance, since it is six years since the OFT investigated the industry in depth, which has grown very significantly in that time. We also recommend that any future version of the Guidance should include a specific expectation that, in any form of promotion, fee-charging debt management companies are explicit that, beyond initial contact, their services are provided at a cost.
- Trade/membership bodies representing the fee-charging debt management sector should continue to actively promote the role and value of industry quality assurance standards and seek wherever possible to move towards greater convergence/commonality of content of individual quality frameworks.
- Given creditors' reports of variations in the quality of financial statements supplied by fee-charging debt management companies, the Money Advice Trust should extend its promotion of the Common Financial Statement further into the commercial debt management sector.

Credit industry

It was common among the lenders we interviewed for this research to have a specialist unit to deal with people in debt who may be working through a third party to try and resolve their financial difficulties. These units routinely referred people to free-to-client advice providers, including CCCS and Payplan which provide DMPs free of charge to people in debt.

² OFT (2009) *Financial Services Strategy: A consultation document*. OFT1077con

The interviews with customers indicated that information about free-to-client services was not always provided at a sufficiently early stage in the collections and debt recovery process. Several customers reported that they were only told about free-to-client services after they had committed to using a fee-charging company, by which stage they were reluctant to switch to a free service despite the cost saving.

One way of prompting creditors to make people in debt aware of free-to-client services would be to strengthen existing codes of practice, such as the Finance and Leasing Association's Lending Code and the Banking Code, to ensure that code members or subscribers proactively tell customers about free-to-client advice services at the earliest possible and appropriate opportunity. The customer interviews we conducted indicate that this should take place before the customer is referred to a lender's in-house money advice unit.

MAT recommendation:

- Creditors' staff training programmes should build on best practice to promote the role of and provide contact information relating to free-to-client services. MAT would welcome the opportunity to build on existing initiatives with creditors in this area.

Free-to-client advice sector

The interviews with customers indicate that CCCS and Payplan have a low visibility among debtors in the general public, relative to fee-charging companies that offer debt management and other debt remedies. One means of promoting awareness of CCCS and Payplan might be to encourage greater numbers of referrals from other free-to-client advice services (such as citizens advice bureaux which enjoy strong brand awareness), where this was considered appropriate for the person in debt.

People were attracted to use a fee-charging company for two main reasons, which might be used to inform the marketing and delivery of free-to-client debt advice services. First, these companies were highly visible to the general public through television, newspaper and internet advertising. Secondly, they delivered direct and simple marketing messages, namely that they could help people manage their debt problems, take away the anxiety of dealing with their unsecured creditors, and reduce their debt repayments to an affordable amount.

Once they had made initial contact with a fee-charging debt management company, the customers we interviewed were unlikely to speak to any other companies. They were attracted by the reassuring and sympathetic approach of company representatives and the fact that the company offered to 'deal with everything' for them. The idea that they might have to deal with their creditors themselves (albeit with advice, guidance and support) was generally off-putting.

MAT recommendations:

- Government should build on existing initiatives such as the money, tax, and benefits pages of the Directgov web portal, to further promote public awareness of free-to-client money advice services. By way of a good practice example, a recent Scottish government-sponsored television promotion of National Debtline led to a significant upturn in numbers of calls from Scotland-based clients.

A further recommendation to government

MAT makes a further general recommendation to all departments and non-departmental public bodies that have a formal role in the development and regulation of the commercial debt management sector.

MAT recommendation:

All relevant public bodies should work in partnership wherever possible to ensure that any debt management-related initiatives are designed and maintained with the needs of consumers as a central focus. For example, the statutory debt repayment scheme provided for by the Tribunals, Courts and Enforcement Act 2007 has the potential to provide an additional debt remedy to those who need it. However, the extent to which the needs of people in debt are met by the scheme will depend on the detail of how such a scheme is agreed and implemented. MAT would welcome the opportunity to work with government departments and others in designing initiatives that will assist the resolution of consumers' debt-related problems.

1 Introduction

The UK has a wide range of remedies available to individuals who are seeking to resolve their debt problems. Some of these are formal debt remedies, set out in legislation and administered through the courts. They are binding on creditors and, as long as the debtor complies with the terms, they offer legal protection to debtors from further debt recovery action. In the UK, formal debt remedies include bankruptcy, individual voluntary arrangements (England, Wales and Northern Ireland), trust deeds (Scotland), administration orders (England and Wales) and the debt arrangement scheme (Scotland). A number of other formal debt remedies (some of which are variants of existing remedies) are proposed for England and Wales in the Tribunals, Courts and Enforcement Act 2007. One of these, the Debt Relief Order (DRO), took effect on 6th April 2009.

There are also a variety of informal debt remedies available to individuals in the UK. In essence, these are agreements reached between the debtor and their creditors to try and resolve their credit debt problems. Most informal debt remedies involve some form of reduced repayment arrangement, whereby the creditor agrees to accept a monthly payment that is below the contractual minimum. These include debt management plans (DMPs), which are administered free of charge by agencies funded by the credit industry such as CCCS and Payplan, as well as by fee-charging debt management companies that charge individuals for the service they provide. Other types of arrangements include pro rata or token repayments to creditors. In exceptional circumstances, creditors may accept an offer of full and final debt settlement or agree to write-off an outstanding debt.

1.1 Context for this research

The broad context for this research is the significant upsurge of consumer credit use in the UK over the past 10 years, with a parallel increase in the debt remedy industry. In that period, individual insolvencies increased significantly, with particularly strong growth in individual voluntary arrangements (IVAs). This research was undertaken between July 2008 and February 2009, at a time when the UK was experiencing a deepening economic recession and had seen a significant tightening of the consumer credit market.

An earlier review of the fee-charging debt management industry, published in 1999, identified fewer than 40 companies that provided debt management services to individuals for a fee.³ Since that time, there has been an expansion and consolidation of the industry. As a result, there are now far more fee-charging companies offering DMPs (including some insolvency practitioners) and most of them offer access to other debt remedies as well. As we discuss in Chapter 4, there are no official statistics on the number of people on DMPs administered by fee-charging companies, but

³ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

industry figures estimate the total stock of cases in 2007 to be 375,000, an almost eight-fold increase on the total stock of cases in 2002 (50,000).⁴

The number of people on a DMP administered by creditor-funded free-to-client organisations has also increased over time. Recent statistics produced by CCCS, for example, show that at the end of December 2008 it had over 90,000 clients on a DMP, compared with 25,257 at month end January 2003.⁵

1.2 Aims and objectives

Almost 10 years since the first independent review of the fee-charging debt management industry, the Money Advice Trust (MAT) commissioned the Personal Finance Research Centre (PFRC) to conduct this review to provide an update on the industry in the UK. The specific objectives of the research were:

1. To provide an updated overview of the industry, including its size and nature, the services it offers and, if possible, the volume of clients that it deals with.
2. To explore how creditors respond to fee-charging debt management companies, and their views and experiences of dealing with these companies.
3. To explore consumer motivation and behaviour in seeking advice from fee-charging debt management companies, and in particular why some consumers choose commercial companies over free-to-client advice services.
4. To provide a baseline against which the impact of emerging developments such as statutory debt management schemes, DROs etc. can be assessed.

1.3 Research methods

The aims of the research were met using a combination of mainly qualitative research methods, to provide a balance of views between fee-charging debt management companies, their customers and the credit industry. Methods used included:

- Desk research to explore the size and nature of the fee-charging debt management industry
- Telephone depth interviews with ten credit industry representatives to explore credit industry responses to fee-charging debt management companies and their experiences of working with these companies to resolve people's debt problems
- A telephone survey of 53 debt management companies identified from the desk research, including 45 direct providers of debt management plans, and eight companies that acted as brokers or introducers rather than direct providers. The survey asked questions about how and where companies operated and the services they offered.

⁴ 'TDX Group launches new service aimed at improving standards in the debt management industry'. Press release dated 21/07/08, accessed on 27/11/08 from www.tdxgroup.com.

⁵ CCCS is one of two large organisations in the UK (the other being Payplan) that provide debt management plans and other debt advice services free of charge to people in debt. These figures are taken from the *CCCS Statistical Yearbook* for 2005 and 2008.

- Analysis of practitioner evidence collected by Citizens Advice Bureaux (CABx)
- Face-to-face depth interviews with 30 customers, which explored their views of and experiences of using a fee-charging debt management company. The sample was designed to include both satisfied and dissatisfied customers. The strength of qualitative interviews lies in the ability to explore fully individual's circumstances, views and experiences, and to examine the reasons *why* something has happened or *why* individuals behave in certain ways or hold certain views.

Full details of the research methods are provided in Appendix 1.

1.4 Report structure

Chapter 2 provides the context for this research, by offering an overview of the debt remedies that are currently available or proposed in the UK. Chapter 3 mainly draws on desk research and the telephone survey of fee-charging debt management companies to look at the size and nature of the industry, the debt remedy services they provide, how they are regulated, and the quality standards that exist in the industry.

In Chapter 4, we again draw on desk research and the telephone survey of companies to look at various aspects of commercially-provided debt management plans, including customer eligibility criteria, the duration of plans, and fees and other charges. We also look at the industry from the perspective of the credit industry representatives we interviewed in depth: how lenders and debt collection agencies respond to fee-charging debt management companies and their experiences of working with these companies to resolve the financial difficulties of people in debt. The final part of the chapter looks at how many people use fee-charging debt management companies and who they are.

We move on in Chapters 5 and 6 to explore in detail customers' experiences of fee-charging debt management companies, drawing on the qualitative interviews with 30 customers. Chapter 5 starts by outlining the types of financial difficulties people had and what steps they took to address them prior to contacting a fee-charging company. It then looks at how people came into contact with the company they used, and their experience of the debt management process. Chapter 6 explores the outcomes for customers of using a fee-charging debt management company, and customer satisfaction.

The final chapter draws together the key findings from the research and outlines the policy implications that arise from them, for the credit industry, the free-to-client advice sector, the fee-charging debt management industry, and government.

2 Debt remedies: the UK landscape

There is a wide range of debt remedies available in the UK to enable debtors to resolve their financial difficulties. This chapter outlines the formal and informal debt remedies that are currently available in the four administrations of the UK, and looks at proposals for extending the range of options that are available to debtors in England and Wales. The final section briefly examines the range of organisations that offer free-to-client debt advice, before moving on in the next chapter to explore the fee-charging debt management industry in detail.

Key findings

- There has been significant growth of individual voluntary arrangements (IVAs) in England and Wales, with a six-fold increase between 2002 and 2006. An IVA Protocol was introduced in 2008 to promote the efficient handling of straightforward consumer IVAs by standardising the process.
- The Tribunals, Courts and Enforcement Act 2007 contained provisions for the expansion of debt remedies in England and Wales, including DROs, amended administration orders, enforcement restriction orders, and a statutory debt management scheme (or schemes). While some of the credit industry representatives we interviewed were broadly supportive of these proposals, others questioned the need to extend the current range of remedies available to people in debt.
- In Scotland, the equivalent process to bankruptcy is sequestration. The introduction of a new route into sequestration for people with low income and low assets (LILA) in April 2008 has resulted in an increase in the number of sequestration orders made. In the first quarter of 2009, LILA accounted for around 60 per cent of all sequestration orders.
- A range of organisations provide debt advice in the UK. Free-to-client advice providers include not-for-profit agencies such as CABx, Law Centres and solicitors that operate at a local level and derive income from public contracts (e.g. Legal Aid) or service-level agreements, charitable grants and donations.
- National free-to-client services include National Debtline, which is funded by government grants and private sector donations and provides advice by telephone, email and self-help information. Two other national organisations (CCCS and Payplan) are funded primarily by voluntary contributions from the credit industry, and offer DMPs and IVAs.

2.1 Formal debt remedies

Formal debt remedies for individuals in the UK include bankruptcy (England, Wales and Northern Ireland), sequestration (Scotland), IVAs (England, Wales and Northern Ireland), trust deeds (Scotland), administration orders (England and Wales), DROs (England and Wales) and the Debt Arrangement Scheme (Scotland).

2.1.1 Bankruptcy and sequestration

Bankruptcy is one of the ways in which individuals in England, Wales and Northern Ireland can become formally insolvent. In England and Wales, the other mechanisms are a DRO or IVA. In Northern Ireland, the only alternative to bankruptcy currently available is an IVA.⁶

A creditor can petition the court to make an individual bankrupt if they are owed £750 or more and can demonstrate that the individual is unable to pay their debts. Alternatively, a person in debt can petition for their own bankruptcy, regardless of how much they owe, a process that currently costs around £500 in total (although there is scope for remission of the court fee element for certain low-income groups). Recent statistics for England and Wales indicate that the substantial majority of petitions (86 per cent) are from debtors.⁷ With a few exceptions, most debts are included in the bankruptcy proceedings.

Under bankruptcy legislation in England, Wales and Northern Ireland, the assets and liabilities of the person in debt are dealt with by the Official Receiver or an insolvency practitioner as trustee of the bankrupt's estate. If the person in debt has any assets (such as a house with equity) these are usually sold to pay creditors, and they may be obliged to make a contribution towards their debts from any income earned for a period of up to three years; otherwise the individual is usually released from their bankruptcy debts when they are discharged. There are a number of restrictions on the activities of bankrupts (e.g. in relation to credit applications and running a business), and bankruptcy adversely affects an individual's credit rating for six years.

Bankruptcy details are usually published in a trade paper, *The London Gazette*, and may also appear in the classified section of a local paper. Details of bankruptcies that are current or have ended in the last three months are also publically available via the Individual Insolvency Register maintained by the Insolvency Service. Changes to bankruptcy legislation, which were introduced in 2004, mean that most bankruptcies are now discharged after twelve months, compared with two to three years previously. Restrictions (under a Bankruptcy Restrictions Order or Undertaking) can be imposed for up to fifteen years, however, if a debtor's behaviour is considered dishonest or blameworthy.

In Scotland, the equivalent process to bankruptcy is sequestration. Although Scotland operates a separate legal system, the process and conditions of sequestration are broadly similar to those for bankruptcy in the rest of the UK.⁸ A recent major change to the Scottish legislation that distinguishes it from the rest of the UK, however, is the introduction of a new route into sequestration for people with low income and low assets (LILA), which came into force from 1 April 2008. The main advantage of this scheme for the person in debt is that, unlike the usual sequestration process in

⁶ There have been post-consultation discussions in Northern Ireland regarding scope to introduce a variant of the DRO which operates in England and Wales.

⁷ Insolvency Service Statistics Release dated 01/05/09, *Insolvencies in the first quarter 2009*. Accessed on 07/05/09 from www.insolvency.gov.uk

⁸ In Scotland, for a creditor to petition for bankruptcy the debtor must own £3,000 or more. For a person in debt to file a petition, they must have debts over £1,500. The current cost is £100, and there are no exemptions from this.

Scotland, they can petition for sequestration without having a court ruling against them or needing to have a creditor who has agreed to the sequestration. Since the introduction of LILA, the number of sequestration orders in Scotland has increased: from 1,444 in the first quarter of 2008 to 3,722 in the same period of 2009, a 158 per cent rise. LILA accounted for around 60 per cent of all sequestration orders in Scotland in the first quarter of 2009 (40 per cent of all personal insolvencies in Scotland).⁹

2.1.2 Individual voluntary arrangements (England and Wales)

IVAs were introduced as an alternative to bankruptcy in England and Wales under the Insolvency Act 1986. Originally intended mainly for small businesses, there has been a strong growth in the number of individuals applying for IVAs in recent years. In England and Wales, for example, the number increased six-fold from around 7,500 in 2003 to over 44,000 in 2006. The number of IVAs began to tail off in 2007, and in 2008 there was a total of just over 39,000 registrations.¹⁰ An IVA is generally only considered to be appropriate for people in debt who have a significant amount of available income or a realisable asset or lump sum.

An IVA may constitute either a scheme of arrangement or a composition in satisfaction of debts, for example a person in debt may come to an agreement with their creditors to pay a certain percentage of what is owed with the remainder being written off. To assist in putting together proposals for an IVA, an interim order may be sought from the Court, which has the effect of introducing a moratorium on proceedings against the debtor. Under changes introduced by the Insolvency Act 2000, an interim order is not a mandatory requirement to agreeing an IVA. Although there is no statutory time limit for IVAs, they generally run over a five-year period. An IVA generally has to be set up through an insolvency practitioner, and the IVA proposal must be agreed by over 75 per cent of the voting creditors (by value of outstanding debt). If this criterion is met, all participating creditors are bound by the IVA. In addition, IVAs may include an 'equity clause' where the person in debt's property must be valued after a certain number of years and a portion of the equity released into the IVA for the benefit of creditors.

Details of current IVAs are included in the Individual Insolvency Register, and IVAs are also recorded on credit reference files. If an IVA fails, the creditors or the insolvency practitioner may apply to the court for the debtor to be made bankrupt.

In January 2008, an IVA Protocol was introduced, which aimed to promote the efficient handling of straightforward consumer IVAs by standardising the process and thereby making it more transparent. The Insolvency Service subsequently withdrew plans to introduce a simplified IVA scheme by way of a regulatory reform order, on the basis that the IVA Protocol had resulted in improvements in the IVA market without the need for further legislation.¹¹

⁹ Insolvency Service Statistics Release dated 01/05/09, *Insolvencies in the first quarter 2009*. Accessed on 07/05/09 from www.insolvency.gov.uk.

¹⁰ Insolvency Service Statistics Release dated 01/05/09, *Insolvencies in the first quarter 2009*. Accessed on 07/05/09 from www.insolvency.gov.uk

¹¹ Insolvency Service statement dated 17/11/08, *Withdrawal of plans to introduce Simplified IVAs and Authorised Persons*.

2.1.3 Trust deeds (Scotland)

Trust deeds are voluntary arrangements in Scotland. They fulfill much the same role as IVAs, but there are important differences in the way they are set up and administered.

A trust deed is a formal agreement between a debtor and their creditors, by which the person in debt voluntarily transfers some or all of their assets to a trustee (who has to be a qualified insolvency practitioner) to administer on behalf of the creditors for the payment of debts. It usually includes a contribution from income for a specified period, typically three years, after which time the remaining debt is effectively written off. Once the trust deed is agreed by creditors, it is legally binding and no further interest or charges can be added to the debt. Creditors who do not agree to the trust deed can still take further action against the person in debt, however, including petitioning for sequestration.

Providing it meets certain conditions, a trust deed may be recorded in the Register of Insolvencies as a protected trust deed. The proposal for a trust deed to become protected is automatically agreed unless there are objections from a majority of the creditors (in number), or from creditors who hold no less than one third of the total debts.

A protected trust deed involves the transfer of all assets to a trustee and is binding on all creditors. As long as the person in debt complies with the terms of the protected trust deed, creditors can take no further action to pursue the debt or to make the person in debt insolvent. It also prevents the person in debt from applying for their own sequestration or a debt payment programme under the Debt Arrangement Scheme (see section 2.1.5).

Like sequestration, a protected trust deed is likely to affect a debtor's credit rating and may prevent them from being employed in certain jobs. If the person in debt does not co-operate with the trustee, the trustee can petition for their sequestration.

According to Insolvency Service statistics, in the first quarter of 2009 there were 1,971 protected trust deeds set up, which accounted for 35 per cent of all individual insolvencies in that period. In the same period of 2008, prior to the introduction of LILA, protected trust deeds accounted for 56 per cent of all personal insolvencies in Scotland.¹²

2.1.4 Administration orders (England and Wales)

An administration order is a county court order that covers credit debts and certain other debts. It is available to people in debt who have at least two debts; have a County Court or High Court judgment against them; and whose total debt is less than £5,000. In 2008, there were 2,808 administration orders registered.¹³ While people in debt can apply for an administration order themselves, it is more common for

¹² Insolvency Service Statistics Release dated 01/05/09, *Insolvencies in the first quarter 2009*.

Accessed on 07/05/09 from www.insolvency.gov.uk

¹³ Registry Trust Limited, *Quarter Four 2008 Statistics*

applications to be made via a free-to-client debt advice service such as a CAB or an independent advice agency.¹⁴

An administration order allows the person in debt to make a single monthly payment to the court, which the court distributes to creditors on a pro rata basis. Once in place, an administration order prevents any of the creditors listed on it from taking further action without first obtaining the court's permission. Interest and any other charges that were being added to the debts are stopped. There are no upfront fees for administration orders, but the court takes a handling fee of ten pence out of every pound paid by the person in debt over the course of the order. The fee is deducted from the debtor's payments to the court.

Debtors can also apply for a composition order, by which they only have to repay a proportion of the money they owe (e.g. 10 pence for every pound owed). This is usually paid over a period of three years.

Details of administration orders are recorded on credit reference files for a period of six years from the date of the order. The court can revoke an administration order if the debtor does not keep up their payments.

The Tribunals, Courts and Enforcement Act 2007 contained outline proposals for the reform of administration orders. These are discussed in section 2.3.2.

2.1.5 Debt relief orders (England and Wales)

Introduced in England and Wales in April 2009, DROs are aimed at debtors with little surplus income, few assets, and total debts of less than £15,000 who are unable to repay their debts.¹⁵ Individuals meeting the statutory conditions can apply for an order that results in their debts being discharged after one year and prevents creditors taking any further action to recover the debt in that time. It is anticipated that DROs will provide an alternative form of debt relief for people in debt who cannot afford to make themselves bankrupt.

There is a fee to apply for a DRO, which in April 2009 was £90. Applications for a DRO can only be made online to the Official Receiver through an approved intermediary. The same restrictions apply to individuals subject to a DRO as those that apply to bankrupts, and individuals that have acted dishonestly or are otherwise to blame for their position may be subject to a Debt Relief Restrictions Order/Undertaking which is similar in effect to a Bankruptcy Restrictions Order/Undertaking.

2.1.6 Debt Arrangement Scheme (Scotland)

The Debt Arrangement Scheme (DAS) is a statutory scheme introduced in Scotland in 2004. The DAS administrator, who is part of the Office of the Accountant in Bankruptcy, manages the scheme. To be eligible to apply, debtors must live in Scotland, have more than one debt and have some money left over after essential

¹⁴ E Kempson and S Collard (2004) *Managing multiple debts: experiences of County Court Administration Orders among debtors, creditors and advisors*. Department for Constitutional Affairs

¹⁵ As noted previously, discussions have taken place in Northern Ireland regarding scope to introduce a variant of the DRO that operates in England and Wales.

expenditure. Just over 900 DAS debt payment programmes were approved in the financial year 2008/09.¹⁶

Applications to the scheme have to be made through an approved money adviser and are automatically accepted where all the creditors have consented to it. The application can still be approved even if some creditors do not consent to it, provided that the DAS administrator considers it fair and reasonable to do so.

Under the DAS debt payment programme, the person in debt makes a single monthly payment to an approved payment distributor, who disburses the money to the creditors. As long as the agreed payments are made, creditors cannot take any enforcement action against the person in debt, such as sequestration or taking deductions from earnings. Interest and other charges are suspended once the debt payment programme is approved.

A debt payment programme can be revoked, the most likely causes being if the person in debt fails to meet the conditions of the programme, made untrue statements in their application, or misses three payments. Applications for a DAS are recorded on a DAS register, which is not available to the general public. Details of a debt payment programme may also be recorded on the person's credit file, which is likely to affect their ability to take out further credit.

2.2 Informal debt remedies

Informal debt remedies are agreements reached between the debtor and their creditors to try and resolve their credit debt problems. Unlike formal debt remedies, they are not legally binding and do not guarantee the cessation of further enforcement action or that interest and other charges will be stopped. Informal debt remedies include DMPs, pro rata or token repayments to creditors, debt moratoria, full and final settlement of debts, and debt write-off. Although debt consolidation loans are not a debt remedy, they are used by people in debt to try and resolve their financial difficulties. For this reason, we include them in this section.

2.2.1 Debt management plans

A debt management plan (DMP) provides a means for people to repay their consumer credit debts in full. An affordable monthly payment is calculated, based on an assessment of the individual's income and expenditure. If agreed by the creditors, this payment is distributed between them on a pro rata basis, generally based on the outstanding balance owed to that creditor.

DMPs are provided by creditor-funded free-to-client agencies, notably Payplan and the Consumer Credit Counselling Service (CCCS), as well as fee-charging debt management companies. The debt management process offered by these providers (whether fee or free) is broadly the same. They assess the debtor's income and expenditure, negotiate reduced monthly payments with creditors on behalf of the person in debt and administer and distribute the agreed payments to the creditors named on the DMP. Rather than having to make individual payments to each of their creditors themselves, the person in debt makes a single monthly payment to the DMP provider.

¹⁶ Accountant in Bankruptcy, statistics release dated 24 April 2009, *Scottish Insolvency Statistics*

As the DMP is an informal arrangement, creditors are not obliged to accept offers of reduced payment or to freeze the interest on the outstanding balance. The Office of Fair Trading (OFT) guidance on debt management states, however, that creditors must accept payments from any third party even in cases where the creditor has indicated that it will not negotiate with that third party.¹⁷ It could be argued therefore that once a payment has been made by a DMP provider to a creditor, a debt management plan is, de facto, in place. There is no time limit on payments, which mean some could continue for years, unless the circumstances of the person in debt change.

2.2.2 Pro rata or token payments

Offers of payment based on a pro rata distribution of available income are probably the most common remedy for credit debts provided by free-to-client advice providers such as CABx to people in debt, where a formal remedy is not appropriate. This means that creditors are offered a fair proportion of what the person in debt can afford to pay. Creditors are usually asked to freeze interest and other charges as well. There are no minimum or maximum levels of debt required to make pro rata offers.

As with other informal debt remedies, creditors do not have to accept pro rata offers or requests to freeze interest and other charges and there is no time limit on payments. In contrast to DMP arrangements, the person in debt generally has to distribute the payments to individual creditors themselves.¹⁸

If a person in debt has little or no available income, they may not be in a position to offer any payment to their creditors, and therefore might request a moratorium (a period of time when the repayments do not have to be made and creditors agree not to take any further action). Alternatively, they may choose to offer token payments (typically £1 per month) to their creditors. This can add up to a considerable sum in the case of multiple credit debts. As creditors tend only to accept a moratorium or token payments for a limited period of time, they do not represent a long-term debt remedy.

2.2.3 Full and final settlement of debts

If a person in debt has a lump sum available (e.g. through a windfall, sale of an asset or financial help from family or friends), they can offer their creditors a proportion of the outstanding balance owed in full and final settlement. In return for having a lump sum payment, the creditor agrees to write off the rest of the debt. If the lump sum payment has to be divided between several creditors, the usual way of doing this is to make pro rata offers.

A full and final settlement is generally only appropriate if the person in debt is in difficult circumstances that are unlikely to change for the better, and has no other assets or available income. Otherwise creditors are likely to reject an offer of lump sum payment in favour of further enforcement action. There are no minimum or maximum levels of debt required to make an offer of full and final settlement.

¹⁷ OFT (September 2008) *Debt Management Guidance*, OFT366.

¹⁸ Some CABx have an arrangement whereby Payplan will distribute payments to creditors on behalf of their clients.

2.2.4 Debt write-off

Creditors generally only consider writing off unsecured credit debts in exceptional circumstances, for example where the person in debt has no available income or assets and their circumstances are unlikely to improve, where it is uneconomic for the creditor to try and collect the debt, or where the person in debt has a long-term illness. Even if creditors do agree to write off debts, this agreement is not legally binding and there is no guarantee that the creditor will not take legal action in the future to recover the debt.

2.2.5 Loans for debt consolidation

Although they are not a debt remedy, loans for debt consolidation have become an increasingly common way for people in debt to try and resolve their financial difficulties. The idea behind a loan for debt consolidation is that it allows a person in debt to repay their outstanding debts in full. They can then make one smaller monthly loan payment rather than individual payments to multiple creditors. Unless they default on their consolidation loan, the individual's credit rating should not be affected.

Debt consolidation loans can only be an effective means for people to resolve their financial difficulties if all debts are consolidated and no further debt is built up and, crucially, they can afford the new loan repayments. The interest rate on the consolidation loan compared to the interest rate on the individual debts to be consolidated is also an important consideration, as is the length of the new loan term. A loan for debt consolidation can be secured on an individual's home, with the risk of repossession if the repayments are not maintained.

2.3 Proposed debt remedies

The Tribunals, Courts and Enforcement Act 2007 contained provisions for an expansion of debt remedies in England and Wales including amended administration orders (AOs), enforcement restriction orders (EROs) and a statutory debt management scheme (or schemes). This section briefly outlines these proposed remedies and the response of credit industry representatives to them.

2.3.1 Amended administration orders

In their current form, administration orders (AOs) have been criticised for their limitations, in particular the maximum total debt threshold of £5,000 and the fact that a judgment debt is required.¹⁹ The Tribunals, Courts and Enforcement Act 2007 outlines proposals for the reform of AOs, which include removing the requirement for a judgment debt and limiting the lifetime of AOs to a maximum of five years. It is anticipated that the maximum debt limit will be increased from £5,000 to £15,000. The Act also provides some clarification about the types of debts that can be included in the calculation of total debt, specifically excluding mortgages and secured loans, which have been included by some district judges in the past.

¹⁹ E Kempson and S Collard (2004) *Managing multiple debts: experiences of County Court Administration Orders among debtors, creditors and advisors*. Department for Constitutional Affairs

The Ministry of Justice consulted on aspects of the amended AO scheme (and the enforcement restriction order scheme, see below) in 2008. At the time of writing, a response to the consultation had not been published.

2.3.2 Enforcement restriction orders

Enforcement restriction orders (EROs) are intended to provide temporary relief (maximum twelve months) from enforcement for people in debt who are unable to meet their contractual payments. They will be enacted through the County Court. To qualify, an individual must have two or more qualifying debts, but there is no upper limit on the total amount of qualifying debt, and a judgment debt will not be required. Business debt and secured debt are excluded from the definition of qualifying debts.

An application for an ERO must be based on a sudden and unforeseen deterioration in the debtor's financial circumstances, with a realistic prospect that their financial situation will improve within six months of the order being made. These requirements (and the potential difficulties of evidencing them) may limit the usefulness of the ERO as a debt remedy. The debtor may have to make repayments if they have surplus income at the time the order is made.

The Ministry of Justice consulted on aspects of the proposed ERO scheme in 2008. At the time of writing, a response to the consultation had not been published.

2.3.3 Statutory debt management scheme

A statutory debt management scheme is proposed in the Tribunals, Courts and Enforcement Act 2007, which provides for applications for a debt repayment plan. Unlike debt management plans in their current form, it is envisaged that there would be compulsion on creditors to comply, with a right of appeal to the County Court.

The Act contained few details about the proposed scheme, which are subject to further consultation and the drafting of regulations. Regulations may require a fee to be paid (although it is not clear whether this would be paid by the creditor or the person in debt) and may provide for the removal of the obligation to pay interest, fees and charges during the lifetime of the plan. It is likely that consultation will take place during 2009, with a scheme anticipated to be introduced in 2010.

2.3.4 Credit industry views of proposed debt remedies

The interviews with credit industry representatives asked about their views of the proposed debt remedies.²⁰ Some were broadly supportive of the proposals, provided that they were administered and regulated effectively to prevent abuse. Others held less positive views, and questioned the need to extend the range of remedies available to people in debt. In their opinion, it would be better to improve the framework within which existing remedies operate (e.g. to increase public awareness about different options to resolve debt problems) than to introduce new remedies. In addition, several credit industry representatives voiced concerns about the element of debt write-off included in some of the proposals.

²⁰ Please note that the interviews took place in the summer and autumn of 2008, when details of the proposed remedies contained in the Tribunals, Courts and Enforcement Act 2007 had not been finalised. Also, credit industry representatives were interviewed in a personal capacity, not in the capacity of spokesperson for their company.

... I think the debt write-off element is a concern to us... it's a general change that there's a lot of solutions looking for write-off and somebody has to pay for that, it doesn't just disappear. (Credit card company)

One of the main questions raised in relation to the proposed statutory debt management scheme was who would administer it, and whether or not fee-charging debt management companies would be involved. One respondent felt strongly that, if it was introduced, the statutory scheme should replace rather than run alongside existing debt management plan provision.

...I think it would only really be beneficial if they brought it in and said, 'Right, this is a debt management plan. I think if they try and tack it on to existing debt management plan solutions, it's going to be neither here nor there really... if you're a fee-charging debt management company and you don't want to be regulated, you'll just say, 'We're not going to offer those, we're just going to offer what we've always offered'. (High street bank)

In order to encourage take-up by people in debt, and possibly compete against fee-charging debt management companies, it was felt that the scheme would have to be well-publicised.

The DRO (subsequently introduced in April 2009) was the other proposed debt remedy that attracted most comment. Some credit industry representatives acknowledged the need for an alternative to bankruptcy for people on low incomes with few or no assets, while others were concerned about potential abuse, of the scheme such as the misrepresentation of income or assets. There was a general view that processes would have to be put in place to check that applicants met the criteria for the scheme, which might include the validation of information provided by applicants about their circumstances.

... we just need to be absolutely clear that enough investigation is done to make sure that the customer circumstances really are as they say they are. (High street bank)

2.4 Who provides debt advice?

A wide range of organisations provide some form of debt advice to people in financial difficulties, which generally involves considering the options open to them to resolve their debt problems. These organisations can broadly be divided into those that provide services free of charge, and those that charge individuals for the services they provide – notably fee-charging debt management companies.²¹ Other organisations that may provide debt advice on a fee-charging basis include accountancy firms and solicitors.

The telephone interviews with credit industry representatives indicated that it was common for major lenders and debt collection agencies to have internal teams to deal with customers who were identified as being in financial difficulty, which sat outside their debt collection and recovery departments.

²¹ Over and above any fees that may be charged for specific debt remedies such as bankruptcy or IVAs.

In some instances, these internal teams provided advice to customers about resolving their debt problems, at least in relation to the lender's own debts. It was more common, however, for these internal teams to refer customers in financial difficulty to free-to-client services, particularly if they had multiple debts with several lenders. In most cases, it would be left to the customer to make contact with a free-to-client advice provider. A few lenders operated a system whereby (with the customer's permission) customers were put directly through to a free-to-client advice provider.

The remainder of this section provides a brief overview of free-to-client debt advice services. Fee-charging debt management companies are discussed in detail in the next chapter.

2.4.1 Free-to-client debt advice services

As well as providing advice about dealing with debts, free-to-client debt advice services generally aim to advise people in debt about methods of maximising their income, for example through claims for benefits or tax credits, and may assist with these applications. Where clients are facing other non-debt issues, such as housing or immigration problems, it is common for free-to-client services to refer such individuals to an appropriate source of help, which might involve an internal referral within their own organisation or a referral to an external agency.

There are two types of free-to-client providers that offer some form of debt advice. The first (and most numerous) are not-for-profit agencies that derive their income from public contracts or service-level agreements, charitable grants or individual donations. These include CABx, independent advice agencies, Law Centres, student welfare services, some Shelter Housing Aid Centres, community groups and solicitors.²² Some local authorities also employ debt advisers.

These free-to-client services generally provide debt advice face to face and by telephone, and their clients are typically people on lower incomes with little available income to repay their creditors. The nature of some funding for debt advice (notably Legal Aid) means that individuals above a certain level of income are not eligible to be taken on as clients.²³ As a result, they may only receive one-off advice, or be given self-help materials.

In addition, National Debtline provides debt advice by telephone, email and self-help information packs to enable people in debt in England, Wales and Scotland to negotiate with their creditors where possible.²⁴ National Debtline advisers also refer clients to the free-to-client debt management plan providers where appropriate. Part of the Money Advice Trust, National Debtline is funded by a combination of

²² Around 140 solicitor firms in England and Wales have contracts with the Legal Services Commission to provide debt advice free-of-charge to eligible clients (LSC Statistical Information 2007/08).

²³ Under contracts let by the Legal Services Commission, individuals have to be eligible for Legal Aid to be allocated a caseworker who will provide advice and help. Eligibility is determined by income and asset levels and established by way of a means test.

²⁴ In April 2009 the Department of Enterprise, Trade and Investment in Northern Ireland awarded a two-year contract to a private sector company, A4E, to provide telephone debt advice.

government grants and private sector donations, including financial support from the credit industry.

Secondly, as noted in section 2.2.1 above, there are two national organisations funded primarily by voluntary contributions from the credit industry, which enables them to offer DMPs to people in debt across the UK free of charge.²⁵ The Consumer Credit Counselling Service (CCCS) offer debt advice by telephone, email and face-to-face.²⁶ Payplan offers debt advice by telephone and email. As well as DMPs, both organisations also provide IVAs. As is the case with the customers of fee-charging debt management companies, individuals need to have disposable income in order to set up a debt management plan with CCCS or Payplan.

²⁵ In addition, Christians Against Poverty provides DMPs through its local centres and receives financial support from the credit industry in the form of voluntary contributions, as part of its wider funding profile.

²⁶ In Northern Ireland, CCCS works in collaboration with Limavady Community Development Initiative and operates as Debtline NI.

3 The fee-charging debt management industry

The first independent review of the fee-charging debt management industry published in 1999 identified fewer than 40 companies that provided debt advice and debt management to individuals for a fee. Since that time, there has been a significant upsurge of consumer credit use in the UK, and an increase in all areas of the debt remedy industry including fee-charging debt management. The widespread application of the internet in commerce has also had a considerable impact on the way debt management companies operate, with a rise in the number of new entrants to the industry that operate remotely on a relatively small-scale.

This chapter draws mainly on desk research and the telephone survey of fee-charging debt management companies to provide an overview of the industry in 2008. It examines the scale and nature of the industry, the services provided by fee-charging debt management companies, customer acquisition, and how the industry is regulated and standards assured.

Key findings

- Providing an estimate of the number of companies that offer DMPs for a fee is difficult. Since October 2008, the OFT has issued 1,396 licenses in the debt adjusting/debt counselling category. During the course of this review, we identified over 150 companies that offer DMPs for a fee.
- Our survey of fee-charging companies indicates that most tended to provide largely telephone-based services on a UK-wide basis. Companies typically offered access to other debt remedies besides DMPs (e.g. IVAs, trust deeds). These additional services might be provided in-house or, more commonly, by referral to another company.
- Internet advertising was widely used among the companies we surveyed, alongside more traditional forms of advertising such as Yellow Pages and national and local newspapers. Client acquisition through introducers such as loan companies was also mentioned.
- Any organisation that provides debt management plans has to be licensed under the Consumer Credit Act 1974. The OFT has published guidance on consumer credit licensing, as well as sector-specific guidance on debt management. A review of compliance with the Debt Management Guidance conducted in 2003 found that complaints about fee-charging debt management companies had dropped, although there were still some breaches, especially in relation to advertising.
- There are also industry codes of practice that cover fee-charging debt management companies, which aim to promote good practice and quality standards. One relates specifically to debt management, two others cover debt remedies more broadly.

3.1 Size and nature of the industry

It is difficult to estimate how many fee-charging debt management companies operate in the UK. All organisations that provide debt advice or debt management services are required to have a Consumer Credit Licence from the OFT. The main licence category that fee-charging debt management companies are likely to fall under is debt adjusting/debt counselling. Under the new consumer credit licensing regime that came into force on 1 October 2008, 8,667 licences have been issued or renewed, of which 1,396 (16 per cent) were in the debt adjusting/debt counselling category.²⁷ The consumer credit register does not include details of the main business activities of these licence holders, so it is not possible to identify what proportion of these licensees are involved in debt management.

During the course of this review, we identified over 150 companies that offer DMPs for a fee. This is by no means a definitive figure, particularly as our approach will have largely excluded companies that do not have an internet presence.²⁸ It does, however, provide some idea of the scale of the industry at the current time. Of these 150 companies, most (around 130) seem to be direct providers of DMPs. The remainder seemed to act as brokers or introducers to debt management companies, rather than as direct providers of DMPs.

A telephone survey of 53 fee-charging debt management companies indicated that most operated on a UK-wide basis.²⁹ The remainder generally focused their business activities on particular countries within the UK, although a few limited their activities to certain regions of England.

The companies we spoke to were generally small or medium-sized enterprises in terms of numbers of employees (i.e. they had fewer than 250 employees). Most had fewer than 50 employees (Figure 1). There was a small number of sole traders who had no employees at all, but these were brokers or introducers rather than direct providers of DMPs. By way of comparison, CCCS has around 650 staff.³⁰

Most of the companies we surveyed had been incorporated as businesses for five years or less. Only a few had been running for more than ten years. In keeping with this, the credit industry representatives who were interviewed commented on the

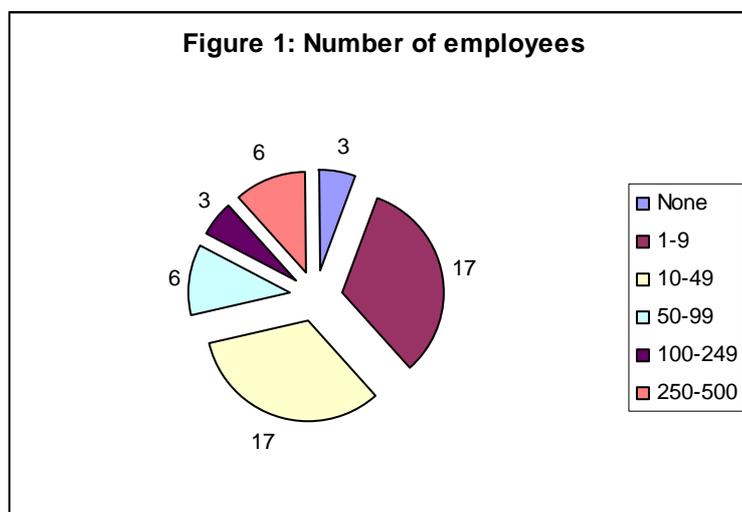
²⁷ According to the OFT, the total number of current licences (at 24 November 2008) was 116,542, of which 67,898 (58 per cent) were in the debt adjusting/debt counselling category. Prior to the new licensing regime, licensees were encouraged to apply for as many categories as they liked. As a result, it is likely that a large percentage of these licensees will not be carrying out any debt adjusting/debt counselling work. Under the new licensing regime, applicants are challenged if they request more categories than they need. As a result, the number of licences issued under the new regime is likely to give a more realistic indication of the proportion of licensees who actually carry out debt adjusting/debt counselling work.

²⁸ A search of the online directory yell.com using the term 'debt advice' produced over 600 companies. We carried out web searches of the companies listed to identify which of them provided DMPs. We also cross-checked the findings against the practitioner evidence and the customer interviews to identify additional debt management companies.

²⁹ Of the 53 companies that took part in the telephone survey, 45 were direct providers of DMPs and eight acted as brokers or introducers. One DMP provider stated that they did not charge any fees for setting up and managing a DMP, and we have excluded this company from our analysis.

³⁰ CCCS financial statements for year ended 31 December 2007 indicate that average monthly number of employees during 2007 was 651, of whom 418 provided counselling.

relatively small number of big, well-established companies that existed, compared with the large and increasing number of new entrants to the debt management industry over recent years.



Source: Telephone survey of fee-charging debt management companies (base all, n. 52)

During the course of the research, we identified a number of corporate groups comprising several companies that offer different debt remedies. One company in the group, for example, may offer DMPs, while another may offer IVAs or trust deeds, and a third may offer secured and unsecured loans to people with a poor credit history. It seems reasonable to assume that these companies would cross-refer customers to each other. In addition, we found instances of registered companies operating under a number of different ‘trading styles’ or names.

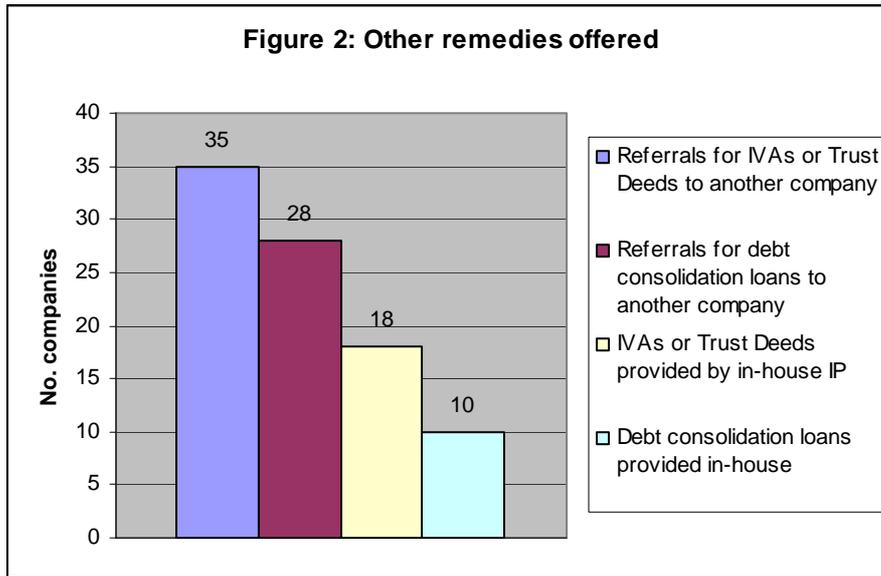
3.2 Services provided

According to the information provided on their websites, most of the 150 or so companies we identified offered access to other debt remedies besides DMPs, either as a direct provider or as a broker or introducer. The most common remedies on offer were IVAs and trust deeds, debt consolidation and bankruptcy advice. Some companies offered additional services as well, such as full and final settlement of debts; managed bank accounts; advice around repossession/eviction; and prepaid credit or debit cards. At least one company provided a package of services to people in financial difficulty, which included personal finance coaching, help to save money on household bills, and help to reclaim unfair bank charges or payment protection insurance premiums, as well as debt management.

In the telephone survey, it was more common for companies to say they referred customers to another company for IVAs or trust deeds and consolidation loans than it was for them to provide these remedies in-house (Figure 2). Some of these referrals may have been between companies within the same corporate group, as mentioned above. Although the sample of companies was small, there did not seem to be any clear correlation between the size of companies (in terms of number of employees) and the tendency to offer these remedies in-house.

Almost all the companies we spoke to said they provided advice about other debt remedies aside from DMPs and IVAs or trust deeds, such as bankruptcy advice. A

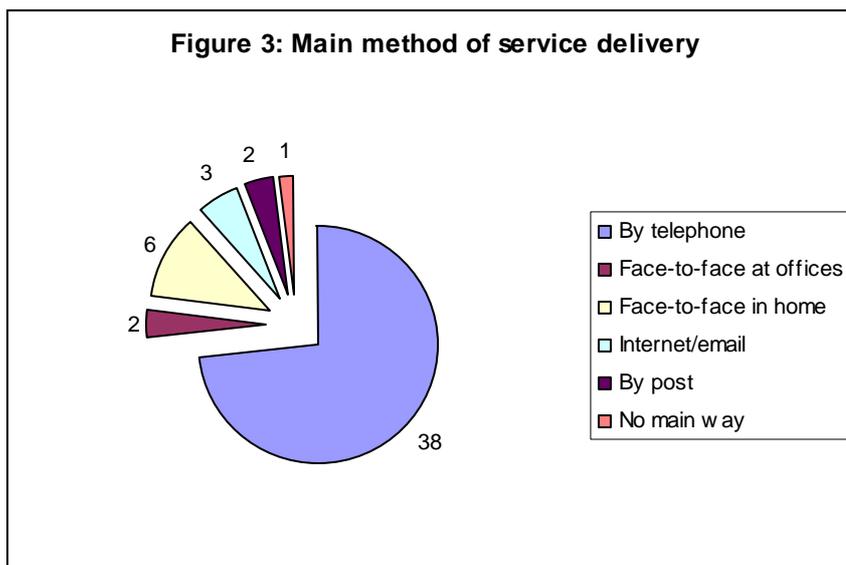
few offered other services including advice about court fines and Council Tax debt and advice about right-to-buy.



Source: Telephone survey of fee-charging debt management companies (base 52). Respondents could give more than one response.

3.2.1 Service delivery

Most of the companies that took part in the telephone survey said they delivered their services to customers in a range of ways, including by telephone, face to face at the company’s offices or in the customer’s home, by internet/email and by post. When respondents were asked to specify the main method of service delivery they used, “remotely by telephone” was by far the most common response (Figure 3). The small number of cases where face-to-face was the main method of delivering the service, tended to relate to companies with fewer than ten employees.



Source: Telephone survey of fee-charging debt management companies (base 52)

3.2.2 Advertising and client acquisition

Almost all the companies participating in the telephone survey reported that they undertook some form of advertising. The most common method was advertising on the internet through a website, and several companies reported internet advertising as the only form of promotion they undertook. It was more usual, however, for companies to advertise their services in a range of other ways as well, including in the Yellow Pages and other directories, and in local newspapers. Several companies said they advertised in national newspapers and while these tended to be larger operations with 50 or more employees, they included a few smaller companies as well.

Client acquisition by referral or networking activities was mentioned by a number of companies that were surveyed. In our search of company websites, we came across several instances of fee-charging debt management companies marketing to potential introducers, such as loan companies or other financial services providers. One company reports to have over 300 introducers registered to refer cases to it, including Independent Financial Advisers (IFAs) and mortgage brokers.³¹ The OFT guidance states that debt management companies must not accept referrals from credit brokers or lenders unless the customers has given informed prior consent for the referral. Cold calling by personal visit is also prohibited.³²

The telephone survey included a small number of companies (eight) that acted as introducers to DMP companies, rather than direct providers. Asked about the way they were paid for introductions, fixed fees (e.g. £30 per introduction) and commission based on the monthly DMP repayment were mentioned. A few said they did not charge fees, and one possibility is that these introducers receive referrals back from the DMP provider. In our review of company websites, another company cited fees to introducers ranging between £10 and £20 per referral.³³

Finally, some fee-charging debt management companies purchase lists of debtors with County Court Judgements and unpaid Magistrates' Court fines in order to target potential clients by telephone or letter.³⁴

3.3 Regulation of the fee-charging debt management industry

Organisations that provide DMPs (whether or not they charge for their services) are required to be licensed under the Consumer Credit Act 1974.

The OFT is responsible for licensing, and must be satisfied that applicants for a credit licence are fit to engage in the activities identified on the application before issuing a licence. Once granted, licence holders have to maintain the required standard of fitness.

³¹ 'Debt management on the up', news story dated 02/04/08 accessed from www.introducertoday.co.uk on 24/09/08

³² OFT (September 2008) *Debt management guidance*, OFT366. Paragraphs 2.7 (cold calling) and 2.9 (referrals) The guidance was first issued in December 2001 and updated in September 2008 to take into account reforms introduced by the Consumer Credit Act 2006. It applies to all consumer credit licensees involved in debt management.

³³ Information accessed from www.123debtsolutions.co.uk on 24/09/08

³⁴ Martin Delgado (26 April 2007) 'Government firm sells private details', article in the Mail on Sunday. Accessed on 07/08/08 from www.thisismoney.co.uk

The OFT publishes guidance on consumer credit licensing for licensees and applicants, which outlines the factors it takes into account when assessing fitness to hold a licence.³⁵ In the period April 2007 to March 2008, the OFT served 79 notices on applicants and licensees about their fitness to be granted or retain a licence. By way of comparison, the number of new licences granted in that period was around 15,500.³⁶

As well as this general guidance, in 2001 the OFT published sector-specific guidance on debt management. This was updated in 2008 to take account of reforms introduced by the Consumer Credit Act 2006.³⁷ The guidance sets out minimum standards that have to be met by debt management companies if they are to be judged fit to hold a consumer credit licence. These standards apply to advertising, marketing and promotion; contact with consumers; pre-contract information; contract terms; advice, and debt management services. As debt management companies are considered to operate in a high-risk credit sector, they are subject to greater scrutiny when they apply for a consumer credit licence to ensure that they comply with the Debt Management Guidance.³⁸

A review of compliance with the 2001 Debt Management Guidance was published by the OFT in 2003.³⁹ It found that, while complaints about debt management companies had dropped, there were still some potential breaches particularly in relation to advertising. A second compliance review is expected to start in mid-2009.⁴⁰

The credit industry representatives interviewed for this research commonly identified regulation of fee-charging debt management companies as an area where they felt improvement was needed. They suggested that this might include industry-wide monitoring of complaints and bad practice and annual audits of companies against the OFT's Debt Management Guidance.

3.3.1 Industry codes of practice

There are currently three codes of practice that cover fee-charging debt management companies, which aim to promote good practice and quality standards. One was set up specifically to cover debt management, the others cover debt remedies more broadly.

The Debt Managers Standards Association (DEMSA) was established in 2000 *to promote good practice in the debt management industry*. Its code of practice was approved by the Office of Fair Trading in 2008, under the Codes Approval Scheme. The code is described as an extension or addition to the OFT's Debt Management Guidance, and includes additional requirements in relation to issues such as staff training, the administration of client accounts, and the process of redress for

³⁵ Office of Fair Trading (January 2008) *Consumer credit licensing: General guidance for licensees and applicants on fitness and requirements*. OFT969

³⁶ Office of Fair Trading (2008) *Annual Report and Resource Accounts 2007-08. Annexe B: Consumer credit statistics for 2007 to 2008*.

³⁷ Office of Fair Trading (September 2008) *Debt management guidance*. OFT366

³⁸ Other high-risk credit sectors include commercial debt adjusting, commercial credit information services such as credit repair, and third-party debt collection agencies.

³⁹ Office of Fair Trading (November 2003) *Debt management guidance compliance review*. OFT684

⁴⁰ OFT (2009) *Financial services strategy: A consultation document*. OFT1077con

customers and lenders in the event of a company failure⁴¹. The code is monitored by regular checks on websites, advertising and promotional literature, monthly customer satisfaction surveys and annual compliance audits. Sanctions for members who breach the code of practice include written warnings, undertakings by members to improve or change their practices or procedures, fines, and suspension or expulsion from DEMSA. In 2009, the code was extended to cover individual voluntary arrangements as well as debt management plans

The Debt Resolution Forum was set up in 2006, *to promote professional standards of resolving debtors' financial problems*. It has a wider membership than DEMSA, drawn from the broader debt remedy industry. Its standards relate to a number of areas including training and qualification of staff, client funds, advertising and publicity, fees and charges and complaints.⁴² Its corporate governance standards state that compliance is normally subject to monitoring and inspection by its regulatory body (set up by the Insolvency Practitioners Association) on admission to membership and on a risk-assessed basis thereafter. Sanctions for members that breach its standards include warnings, fines, restrictions and removal from membership.

The Debt Standard Code of Conduct was established in 2008 to provide an independently-awarded quality mark to providers of debt management plans, IVAs and trust deeds. Approved providers are subject to regular assessment of their business and compliance with the code of practice.⁴³ The code includes provisions in similar areas to those mentioned above, such as staff training, advertising and public relations, fees and charges and complaint handling. Breaches of the code of conduct may result in disciplinary action including suspension or termination of membership.

The telephone survey of fee-charging debt management companies indicated high levels of awareness of DEMSA and the Debt Resolution Forum. Fewer companies were aware of the TDX Group, which established the Debt Standard Code of Conduct, perhaps explained by the fact that it had been introduced fairly recently. Most companies we surveyed, however, were not members of DEMSA or the Debt Resolution Forum, nor had they signed up to the Debt Standard Code of Conduct, at least at the time of the interview.

While the credit industry representatives we interviewed generally welcomed the introduction of these codes of practice, some wanted to see an industry-wide kitemark that was easily recognised by creditors and debtors.

⁴¹ See www.demsa.co.uk

⁴² See www.debtresolutionforum.org.uk

⁴³ See www.thedebtstandard.com

4 Debt management plans

A debt management plan (DMP) is an informal debt remedy designed to enable individuals to repay their unsecured credit debts. The person in debt makes a single monthly payment to a DMP provider (whether a free-to-client provider or a fee-charging company), which is then distributed to the creditors named on their DMP either electronically or by cheque.

In this chapter, we draw on desk research, the telephone survey of fee-charging debt management companies and depth interviews with credit industry representatives to examine various aspects of commercially-provided DMPs, including eligibility criteria, the duration of plans and the fees and other charges levied by companies. We also explore the debt management industry from the perspective of the credit industry in terms of how lenders respond to fee-charging debt management companies and their experiences of working with these companies. The chapter ends by looking at how many people use fee-charging debt management companies and who they are.

Key findings

- The information on fee-charging debt management companies' websites indicated that commercially-provided plans are generally marketed at people with debts of less than £15,000, with at least two creditors, and sufficient disposable income to make repayments.
- The credit industry representatives we interviewed reported that approaches from all third parties were assessed in the same way, regardless of whether the third party was a fee-charging company, a free-to-client service, or a friend or relative of the debtor.
- The main criterion for lenders to accept or reject a reduced repayment offer was whether or not it represented a reasonable offer, based on the customer's income and expenditure. It was uncommon for lenders to routinely agree to freeze interest once a DMP was in place.
- Unlike some debt remedies, there is no formal time limit on the duration of a DMP. The projected duration therefore depends on the level of consumer credit debt and the repayment amount. Whether or not interest charges continue to be applied will also have an impact.
- Evidence from the telephone survey of fee-charging debt management companies indicated that DMPs were unlikely to run to full term. Most of the companies surveyed stated that, on average, a DMP was projected to run for between 60 and 120 months. Most gave the average actual duration of a plan in practice as 36 months or less.
- The credit industry representatives generally enjoyed good working relationships with larger, longer-established fee-charging debt management companies, which had efficient systems and processes to cope with large customer volumes. The fact that most employed people in equivalent roles to the credit industry respondents (such as liaison or relationship managers) was also viewed positively.
- They expressed concerns about smaller, more recently established fee-charging

companies, however. These included a lack of operational transparency, an apparent unwillingness to engage with the credit industry, and a concern that they did not always offer best advice to their customers.

- They also reported considerable variation in the standard of financial statements received from fee-charging debt management companies generally, and concerns about fees and other charges, in particular increases in monthly fees, high upfront fees, and the retention of initial payments by companies to cover administration costs which meant a delay in creditors receiving any money.
- We estimate that somewhere in the region of 300,000 to 375,000 people are on a commercially-provided DMP. This is between two and three times as many as those repaying their debt through a free-to-client plan.

4.1 Eligibility criteria

DMPs offered by Payplan and CCCS generally have the following eligibility criteria:

- Total consumer credit debts of over £5,000
- The debtor should have a minimum of £100 available income per month
- The debtor should have three or more creditors.

An assessment of information provided on the websites of fee-charging debt management companies indicated that DMPs tend to be marketed at people with debts of less than £15,000 (which is generally considered to be the lower threshold for an IVA), with at least two creditors and sufficient disposable income to make repayments. As we go on to discuss in Chapter 5, it was not uncommon for the customers we interviewed to owe more than £15,000 in consumer credit debts and several of them had consumer credit debts in excess of £40,000.

Size of debt, the customer's ability to make payments, and number of creditors were also the three most commonly mentioned criteria for a DMP among fee-charging debt management companies that took part in our telephone survey. Where companies provided additional information on these criteria, it was in relation to the minimum monthly payments they required from debtors (which varied between companies from £29 to £135 per month); the minimum size of unsecured credit debt, which varied from £2,000 to £5,000; and a requirement to have at least two or three creditors.

A small number of companies in the telephone survey said they had no formal criteria for recommending a DMP to customers, or left it to the customer to decide. Only one respondent mentioned the ability to repay debts within a certain number of years as one of the criteria for a DMP.

4.2 Credit industry responses to DMPs

Earlier research published in 1999 indicated a range of responses from the credit industry to fee-charging debt management companies, including one lender that refused outright to accept any offer or payment from a fee-charging company.⁴⁴ Since

⁴⁴ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

that time, the OFT has issued guidance on debt management which stipulates that it is an unfair and improper business practice for creditors to operate a blanket policy of refusing to enter into negotiations with some DMCs.⁴⁵

In the telephone depth interviews with credit industry representatives for this review, respondents consistently reported that approaches from all third parties were assessed in exactly the same way, regardless of whether the third party was a fee-charging company, a free-to-client advice service or a friend or relative of the customer.⁴⁶ The main criterion for accepting or rejecting a reduced repayment was whether or not it represented a reasonable offer, based on an assessment of the customer's income and expenditure as set out in a financial statement. As we discuss in section 4.4.2, credit industry representatives expressed concerns about the quality of financial statements they received from some fee-charging debt management companies.

As well as negotiating monthly repayments that represent less than the contractual minimum, debt management companies (whether fee-charging or free-to-client) generally also request that lenders freeze the addition of interest on a debtor's outstanding balance for the duration of a DMP. If one or more creditors do not agree to freeze interest charges or only agree to do so temporarily, a debtor's outstanding balance will continue to increase if their monthly payments to the creditor via a DMP are lower than the monthly interest that is added.

The evidence from the interviews with credit industry representatives indicates that it is uncommon for lenders to routinely agree to freeze interest once a DMP is in place. Only one of the lenders who were interviewed said it was standard practice to implement a freeze on interest for all customers on a DMP. The remaining lenders either considered requests to freeze interest on a case-by-case basis, only in exceptional circumstances or not at all.⁴⁷

... we don't normally freeze interest if we get a proposal from someone who's in financial difficulty where the proposal is acceptable... we take the view that if the customer's in a position where they can make a reasonable offer then it's fair for everybody if they do pay contractual interest, so long as by doing so it doesn't mean that they're locked in for hundreds of years. (High street bank)

For debt collection agencies, the decision whether or not to continue to apply interest once a DMP had been set up was generally at the discretion of the original lender. As we go on to discuss in Chapters 5 and 6, in reality the situation in relation to interest charges is rather more complex than the interviews with creditors indicate. Some customers who were interviewed in depth reported that interest payments were frozen by creditors initially, but were sometimes re-introduced once the level of debt had been reduced.

⁴⁵ OFT (September 2008) *Debt Management Guidance*. OFT366

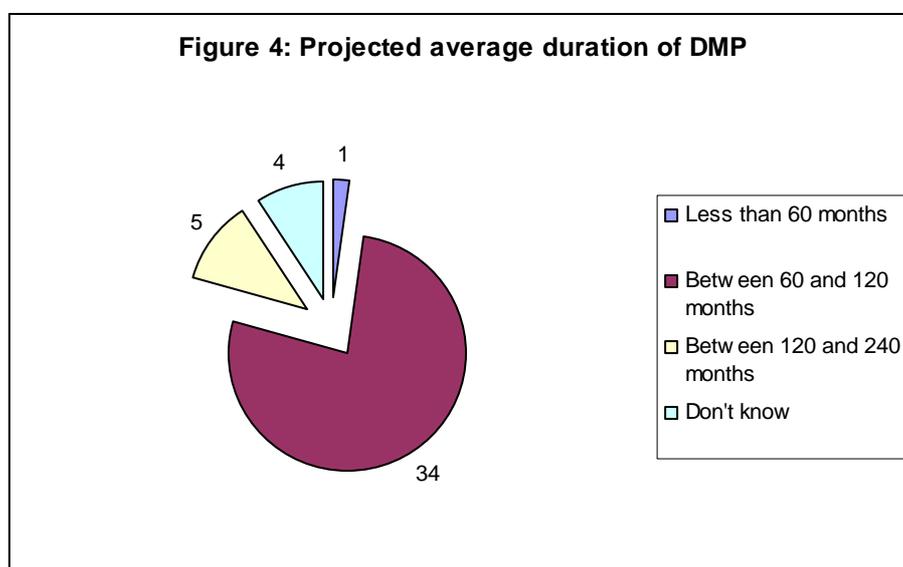
⁴⁶ Credit industry representatives were interviewed in a personal capacity, not in the capacity of spokesperson for their company.

⁴⁷ One lender refused to comment.

4.3 Projected and actual duration of debt management plans

Unlike some other debt remedies, there is no formal time limit on the duration of a DMP. The projected duration therefore depends on two main factors: the level of consumer credit debt and the repayment amount. Whether or not interest charges continue to be applied will also have an impact. Some lenders may take into account the projected duration of a plan when considering whether or not to accept an offer of reduced payment, but this was uncommon among the credit industry representatives who were interviewed.

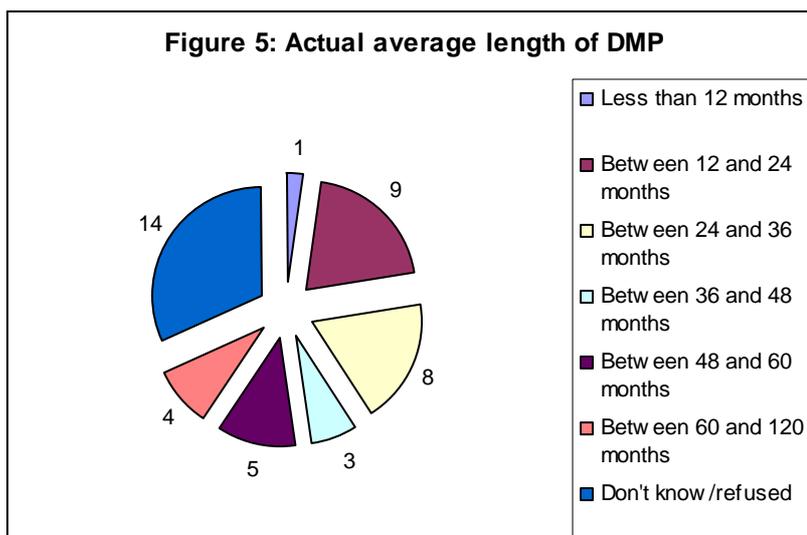
The telephone survey of debt management companies asked for the average projected length of a DMP if they provided them. Most DMP providers stated that, on average, the projected length of a DMP was between 60 and 120 months (five and ten years) (Figure 4). Figures produced by the industry indicate that the average term to repay debts through a DMP is 12 years.⁴⁸



Source: Telephone survey of fee-charging debt management companies, DMP providers only (base 44)

Evidence from the telephone survey indicates that many DMPs are unlikely to run to their full term. As Figure 5 shows, most of the companies that responded gave the average actual duration of a DMP as 36 months (three years) or less. Between 12 and 24 months (one and two years) was the most common response. A considerable number of companies (14) either did not know or refused to give an answer.

⁴⁸ 'TDX Group launches new service aimed at improving standards in the debt management industry'. Press release dated 21/07/08, accessed on 27/11/08 from www.tdxgroup.com. See also Chiltern Debt Monitor April 2008, accessed on 05/08/08 from www.chiltern.uk.com.



Source: Telephone survey of fee-charging debt management companies, DMP providers only (base 44)

Even taking into account the overlap in bands (e.g. some companies that projected the average length of DMP as between 60 and 120 months estimated the actual average duration as between 48 and 60 months), it was still the case that in most instances average actual duration of a DMP was considerably shorter than the projected length.

This view was shared by the credit industry representatives who were interviewed. Those who were prepared to estimate the actual average plan duration felt that plans tended to last 24 months (two years) at best.

And some commercial ones it's [actual DMP duration] hardly a year and a half in some instances. So I think it's just the fact that they just need to move on and build their base and that's my point, it's sometimes not always to the customer's benefit. (Debt collection agency)

There is no published data on the actual average duration of DMPs provided by creditor-funded free-to-client DMP providers. Some credit industry representatives felt that DMPs administered by organisations such as CCCS and Payplan tended to have a longer duration than those provided by fee-charging companies. This was attributed to the management of client relationships and a realistic reflection of income and expenditure in the financial statement. Others, however, felt there was probably little difference between the two sectors.

There are a variety of reasons why DMPs may not run to term. As we discuss in Chapter 6, some of the customers we interviewed decided to terminate their DMP and repay their creditors themselves, or had reached a full and final settlement with their creditors. Others cancelled their DMP because they were dissatisfied with the service they had received. A few had experienced a change in circumstances which made continued DMP repayments unfeasible.

4.4 Credit industry experiences of working with fee-charging debt management companies

The interviews with credit industry representatives revealed a mixed picture in terms of working with fee-charging debt management companies. At best, they enjoyed

good working relationships with companies, which over time had become increasingly open and transparent in their dealings with the credit industry. In terms of market segmentation, these companies were generally regarded to be the larger, longer-established players in the debt management industry.

I think there are some commercial [debt management companies] that are genuinely trying to open up their doors and encourage people to come in and have a look and are trying to keep a clean book where they're absolutely transparent. (Credit card company)

These companies had efficient systems, processes and operations that were well-managed and able to cope with high customer volumes. They were generally amenable to discussions with the credit industry about sharing management information and how to further streamline their operations.

... they are quite responsive to creditors' requests in terms of streamlining systems and in terms of innovative approach in the provision of MI [management information] where we ask for it, so they are keen to work with us to smooth the process because it translates into a reduced cost for them in many respects. (High street bank)

As one creditor noted, however, it was not always possible for fee-charging companies to meet the competing demands of lenders.

The fact that most of the larger fee-charging companies employed people in equivalent roles to the credit industry respondents (such as liaison or relationships managers) was also seen as a plus in terms of facilitating dialogue and resolving problems. Once a DMP was in place, it was felt that these companies were proactive in following-up missed payments from customers.

... in many respects the fee chargers act as almost a debt collection agency for creditors, they only get paid when their customer pays them, if a payment is missed they're going to be, in my view, pretty vigorous in following up on that, which may be slightly less of a focus and a priority for fair share companies [CCCS and Payplan]. (High street bank)

Some of the credit industry representatives talked about having data exchange agreements in place with between ten and fifteen of the larger or longer established fee-charging debt management companies. Such agreements generally meant that information like customer details and payment offers could be exchanged by email without the need for companies to repeatedly provide proof of authority that they were working on behalf of a customer. Under these agreements, companies were also able to submit shortened financial statements, on the basis that the lender or debt collection agency regularly audited their customer files.

These agreements were reported to work well by the credit industry representatives, with the benefits of a reduction in paperwork and a more efficient process of negotiation.

... it's just that there's probably more trust, so we don't scrutinise, with the main ones, the income and expenditure as much. We've obviously got the DPA agreements in place and we don't have to fill the consent, so it's just a better relationship. It's just taken out some of the red tape I think, just to make it a quicker process for everybody. (Debt collection agency)

At the other end of the spectrum, credit industry representatives expressed concerns about fee-charging debt management companies that, on the basis of their experience, they considered to be less reputable. These tended to be smaller, more recently-established firms, and the key issues were perceived to be a lack of transparency in their operational activities (including the fees they charged) and an unwillingness to engage with the credit industry.

... it's a complete mix between which debt management company it is. So some of them see real value in engaging with creditors, others won't engage with us at all, and others it depends on who is employed there at a particular time. (Credit card company)

A few credit industry representatives reported difficulties contacting some fee-charging debt management companies by telephone, and poor communication was a source of dissatisfaction among some of the customers we interviewed as well (see Chapter 6). As we go on to discuss in section 4.4.1 below, credit industry representatives also feared that these companies may not always act in the customers' best interests.

A recent development is the creation of the Debt Management Exchange (DMX), which aims to promote consistency of standards across the fee-charging debt management industry.⁴⁹ Creditors outsource the debt management process to the Debt Management Exchange, which processes debt management proposals from third parties such as fee-charging debt management companies on the creditors' behalf. There is a similar service available for the processing of IVAs.

The distinction that credit industry representatives drew in relation to their experience of working with fee-charging debt management companies was reflected in their views about the quality of advice provided by companies and the standard of financial statements they received from fee-charging companies. Consequently, their concerns were mainly directed towards the smaller, newer entrants into the fee-charging debt management industry than larger and longer-established companies.

4.4.1 Quality of advice

Earlier research (in 1999) outlined concerns among creditors and money advisers in the not-for-profit advice sector about the quality of advice provided by fee-charging debt management companies.⁵⁰ Two main issues were raised in this respect: first, unlike free-to-client services, fee-charging debt management companies are generally only set up to deal with a customer's unsecured credit debt even if they also have

⁴⁹ 'TDX Group launches new service aimed at improving standards in the debt management industry'. Press release dated 21/07/08, accessed on 27/11/08 from www.tdxgroup.com

⁵⁰ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

debts related to secured loans (such as a mortgage) or household bills such as utilities or Council Tax. Secondly, in relation to unsecured credit debts, there were concerns that fee-charging companies only discussed with customers the debt remedy (or remedies) that they offered or that were most profitable to the company, even when a more appropriate remedy might have existed.

These concerns were echoed by credit industry representatives interviewed as part of this review, ten years later. In particular they all feared that the advice provided by some fee-charging debt management companies was not always the best advice for the customer. As a result, there was a risk that the customer might end up with a debt remedy that was inappropriate to their needs.

... there's always this feeling that at the end of the day they're there to make money and they will guide their clients to the most lucrative debt remedy that there is. And if there was a choice between a debt management plan and an IVA and it could go either way, they would go to the one that makes them the most money, because they're commercial organisations. And I'm sure there are cases where that feeling could be justified. (High street bank)

It is important to note, however, that these fears were articulated mainly in relation to the newer, smaller companies in the industry rather than the larger, longer-established firms.

Our analysis of CAB practitioner evidence provides some examples of what CABx considered poor advice by fee-charging debt management companies.⁵¹ The most common example involved situations where fee-charging debt management companies had advised clients against bankruptcy, after this course of action had been recommended by a CAB adviser.

4.4.2 Financial statements

Broadly speaking, a financial statement details an individual's income, expenditure, assets and liabilities in order to calculate the amount of disposable income they have that could be used to repay their creditors. The OFT Debt Management Guidance states that: "*A realistic assessment of the financial circumstances of the consumer, including both income and outgoings, must be made before advice is given*".⁵² This includes verifying consumer income and taking reasonable steps to verify regular outgoings.

Credit industry representatives who were interviewed reported considerable variation in the standard of financial statements they received from fee-charging debt management companies. Where they had concerns about the information provided in financial statements, these again tended to relate particularly (although not exclusively) to the smaller, newer entrants to the industry. These concerns centred on three issues:

⁵¹ CABx collect evidence around social policy issues from their clients via electronic Bureau Evidence Forms (eBEFs), which are held centrally by Citizens Advice to inform its research and campaigns. Over 100 eBEFs from the period June 2005 to June 2008 dealing with commercial debt management companies were analysed for this review. These eBEFs referred to around thirty debt management companies.

⁵² OFT (2008) *Debt Management Guidance*. OFT366, paragraph 2.28

- Whether or not ‘trigger figures’ were being used correctly and consistently by companies⁵³
- Fears about the misrepresentation of income and expenditure by fee-charging debt management companies, for example understating actual income or overstating expenditure, and
- Doubts about the thoroughness with which companies assessed a customer’s financial situation, including whether or how companies validated the income and expenditure of individual debtors.

Some credit industry representatives suspected there were instances where financial statements were worked out around the total amount that a debtor wanted to repay or the level of fees charged by a debt management company, rather than based on the customer’s income and expenditure.

...what we've noticed lately as well is that, particularly with [company name], if they've got 15 creditors they'll offer £1.00 a month to each and it looks as if they're working backwards and then working out the financial statement so they can only offer £15.00, you know. (Debt collection agency)

While lenders or debt collection agencies generally challenged companies (and others) over financial statements that they had concerns about, according to some of the credit industry representatives that were interviewed this was not always a productive process.

... they'll send an income and expenditure in, you'll challenge it and write out and say we disagree with this that and the other. Three weeks later you get the same income and expenditure through and a week later you get a payment and you can't refuse the payment, you have to accept the payment, and by default it becomes a plan. (Credit card company)

One or two credit industry representatives felt that greater standardisation of financial statements was required among the fee-charging debt management industry. A Common Financial Statement has in fact been developed in the UK that provides a standard budgeting format and a set of pre-agreed levels (trigger figures) for certain areas of discretionary expenditure.⁵⁴ It is used widely by the not-for-profit advice sector, by the credit industry, and by some fee-charging debt management companies. It seems unlikely that standardisation of financial statements alone would address the concerns outlined above, however.

Concerns about the standard of financial statements drawn up by fee-charging debt management companies were also raised in the CAB practitioner evidence that was analysed for this research. In several cases, CAB advisers reported that commercial companies had (in their opinion) drawn up poor or unrealistic financial statements, for example not taking proper account of the client’s circumstances or leaving the client

⁵³ The trigger figures represent pre-agreed levels for certain areas of discretionary expenditure, namely telephone, travel, housekeeping and ‘other’ costs. If a financial statement includes items of expenditure that are either at or below the level of the relevant trigger figure, money advisers can expect that their payment offer should be accepted (from www.moneyadvicetrust.org).

⁵⁴ The CFS is currently sponsored by the Money Advice Trust, the British Bankers’ Association and the Finance and Leasing Association.

with little or no money to live on. Linked to this, there was evidence that some of the repayment plans drawn up by fee-charging companies were unaffordable for clients, who as a result were unable to maintain payments beyond a short period of time. Most cases of unaffordable repayments related to clients who were on means-tested benefits such as Income Support or Income-based Jobseeker's Allowance at the time the DMP was set up.

4.4.3 Working with the not-for-profit advice sector

The credit industry representatives who were interviewed were asked to reflect on their experience of working with the not-for-profit advice sector in comparison with fee-charging debt management companies. As in earlier research, the not-for-profit advice sector was generally felt to provide more comprehensive advice in relation to people's debt problems.⁵⁵ It encompassed priority debts such as rent/mortgage and Council Tax as well as unsecured credit commitments, and could also help maximise the income of people in debt or reduce their expenditure where appropriate. Unlike fee-charging debt management companies, not-for-profit advice providers were also well-placed to refer debtors for advice on other issues, such as employment or immigration.

In terms of day-to-day relationships, the credit industry representatives generally drew a distinction between dealing with CCCS and Payplan, which provide free-to-client DMPs (among other things), and the much larger number of smaller not-for-profit advice agencies that provide debt advice, of which CABx are the most well known.

On the whole, credit industry representatives felt they enjoyed good relationships with CCCS and Payplan, which in their view provided a high and consistent standard of financial statements. They tended to find it less easy to engage with smaller, individual advice agencies such as CABx. The limited availability of advisers was one reason for this, another was a feeling that a 'them and us' mentality persisted among some advisers. Dealing with numerous individual and autonomous agencies also meant that, in the opinion of some respondents, it was difficult for the credit industry to promote the widespread use of the types of standard working practices and policies that they had with fee-charging debt management companies and creditor-funded advice providers. A few respondents noted that the situation was improving, for example through the introduction by Citizens Advice of a creditor liaison officer.

4.5 Charges for debt management plans

There are two main funding models among the providers of debt management plans. CCCS and Payplan are funded by the credit industry, in the form of voluntary contributions from individual lenders (i.e. not all lenders make the contribution and so are effectively cross-subsidised by those that do). One commentator from the advice sector estimated the voluntary contribution made by individual lenders to be in the region of 10 per cent of the monthly repayment made by people on a debt management plan. Under this model, there are no charges to the customer.

⁵⁵ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres.

In contrast, fee-charging debt management companies charge customers directly for the services they provide. The OFT Debt Management Guidance sets out the information about charges that should be provided by debt management companies to consumers. It does not set guidance on the structure or level of charges levied by companies.

Both our review of company websites and the telephone survey of fee-charging companies indicate that by far the most common fee structure is for companies to charge an initial set-up fee and a monthly management fee. Some company websites provided information about the services included in the set-up fee, such as communication with creditors, preparation of a financial statement and reduced repayment proposals.

Almost all the companies that took part in the telephone survey charged an initial set-up fee to DMP customers. The most common form of set-up was for the fee-charging debt management company to retain the first monthly repayment rather than distribute it to the creditors listed on the DMP. In a few cases the set-up fee was capped, with upper thresholds ranging from £27.50 through to £150 and £500. Some companies retained the first two or three months' repayments as a set-up fee. Other forms of set-up fee included a percentage of the first monthly payment; and a flat fee, which varied from £100 to £250.

The monthly charges for DMPs levied by companies mainly comprised a proportion of the customer's repayment, which varied from 7.5 per cent to 17.65 per cent, with 15 per cent the most common amount charged. In some cases, minimum and maximum thresholds were applied to these payments. Where companies stipulated these minimum and maximum amounts, the minimum varied from £11.40 to £35 and the maximum ranged from £38.95 up to £160.

Charges were one of the main matters of concern among the credit industry representatives who were interviewed. Although there is no direct cost to creditors, the money paid to fee-charging companies by customers in the form of charges for debt management plans nonetheless represents money unavailable for the repayment of the customer's debts.

A number of issues were raised in respect of charges. First, credit industry representatives questioned the increasingly common practice of companies charging high set-up fees, which effectively extended the duration of the DMP. In the evidence from CAB practitioners, advisers provided examples of what seem to be high set-up fees for debt management plans (in some cases ranging from £2,500 to £4,500, paid in instalments). There were also instances of monthly management charges that exceeded the amount that was distributed to the client's creditors. In addition, concerns were raised about the scale of charges for additional services provided to customers alongside debt management plans, such as in the form of 'packaged deals' (see section 3.2). These additional services came at a cost over and above the cost of a DMP and further reduced the amount of money available to repay creditors.

Another issue raised by credit industry representatives was that, in some cases, fee-charging debt management companies retained the first two or three months' payments from customers as fees for setting up a debt management plan. It was felt to

be common practice among the larger fee-charging debt management companies to charge set-up fees equivalent to two months' payments to a DMP. This meant that lenders or debt collection agencies might not receive any payment at all for several months. The knock-on effect for customers was that lenders or debt collection agencies might continue to pursue them for payment in the intervening period.

I think there's a general trend towards higher levels of fees over a longer period, which therefore means that the customer's plan will take longer to work out, assuming it runs from beginning to end, which is a pretty big assumption. But if it did then it's going to be a longer plan than it would have been otherwise, and in the meantime there's the risk that creditors will quite legitimately keep on chasing for payment. (High street bank)

A number of credit industry representatives were also unhappy about recent increases in charges by several fee-charging companies, which had been applied retrospectively to existing as well as new DMP customers. This reduced the amount of money being repaid on existing DMPs, which could in turn lead creditors to decide that a DMP was no longer acceptable to them.

Other concerns raised by credit industry representatives included the wide variation in levels of charges between fee-charging companies and fears that their customers were using a credit card to pay set-up fees. In the evidence from CAB practitioners, advisers reported a small number of instances (all related to the same company) where clients had been advised to make payments to the debt management company either by credit card, or by withdrawing cash using their credit card. This generally seemed to relate to the payment of the set-up fees rather than the monthly repayment.

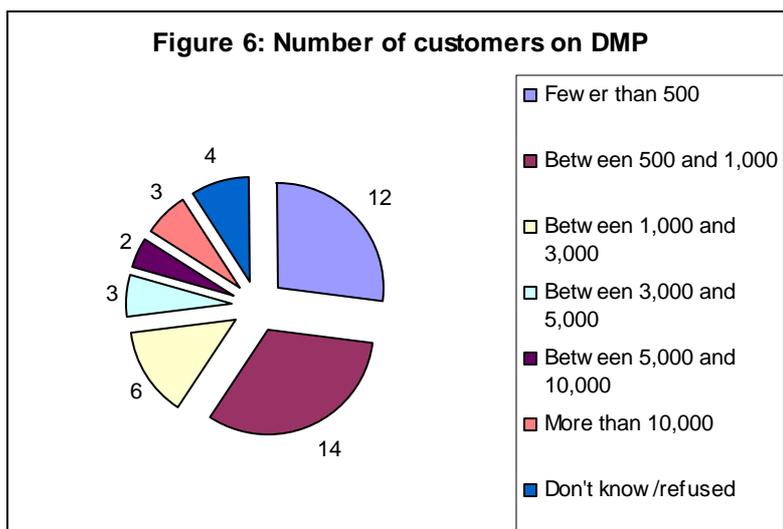
4.6 How many people use fee-charging debt management companies?

There have been various estimates of the number of people on a DMP. One recent survey estimates that around 600,000 people are on a DMP. The survey question did not distinguish between DMPs that are free-to-customers and those where customers pay fees, however.⁵⁶ Industry data indicates a total of 375,000 cases of DMPs among fee-charging companies in 2007.⁵⁷

In the telephone survey for this research, companies were asked to estimate the number of customers they had on a DMP at that time. Most companies said they had fewer than 1,000 customers on a DMP; a small number said they had more than 10,000 customers on a DMP (Figure 6).

⁵⁶ 'UK personal debt: additional 600,000 'missing debtors' not included in official statistics revealed for the first time'. Press release dated 25/09/08 from R3 (Association of Business Recovery Professionals), accessed on 26/09/08 from www.r3.org.uk

⁵⁷ 'TDX Group launches new service aimed at improving standards in the debt management industry'. Press release dated 21/07/08, accessed on 27/11/08 from www.tdxgroup.com.



Source: Telephone survey of fee-charging debt management companies, DMP providers only (base 44)

As we might expect, customer numbers were closely related to size of company in terms of number of employees. Almost all the companies with fewer than ten employees reported having fewer than 500 customers on a DMP, and the larger companies (with at least 250 employees) generally had 3,000 or more customers on a DMP at that time.

Taking the midpoint of the banded ranges used in the survey, we can estimate that the average number of customers on a DMP per fee-charging company is 2,453.⁵⁸ If we apply this figure to the number of known fee-charging DMP providers that we identified (around 130), we have a crude estimate of the number of people on a fee-paying DMP in the UK: a total of around 319,000. This is not dissimilar to the industry figures cited above.

The number of people repaying their debts through a free-to-client DMP is approximately 133,000. Added to the estimated number of people on a fee-paying DMP, we arrive at a total of 452,000 people on a DMP which is rather lower than the survey-based estimate of 600,000 cited above. This might be explained by the fact that the survey figure is based on self-reported DMPs and it is possible that participants may have confused a DMP with some other form of debt remedy.

Bringing this information together, we can estimate that somewhere in the region of 300,000 to 375,000 people are on a fee-paying DMP. This is between two and three times as many as those repaying their debts through a free-to-client DMP.

4.7 Characteristics of customers

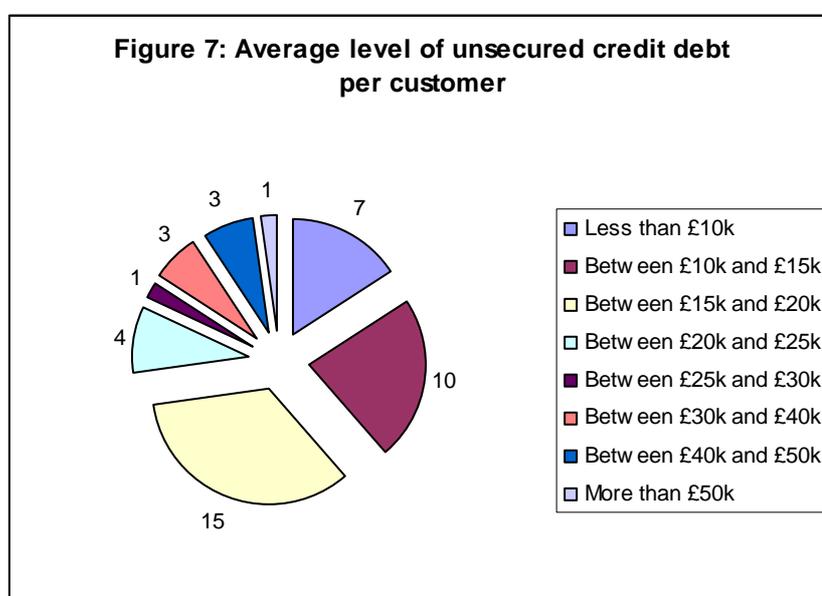
As we saw in section 4.1, disposable income is one of the three main criteria that determine whether or not a DMP is an appropriate debt remedy. As a result, customers of debt management companies (whether fee-charging or free-to-client) are

⁵⁸ We applied thresholds to the lower and upper ranges to produce a midpoint: 100 as the lower threshold where companies stated they had fewer than 500 customers; 20,000 as the upper threshold where companies said they had 10,000 or more customers. The total number of customers calculated in this way was divided by the number of companies that provided an estimate (40).

more likely to be in work and to have higher incomes than the generality of clients who use free-to-client debt advice services such as CABx.⁵⁹ Recent research found that half of CAB debt advice clients had less than £20 per month in total to offer to all their creditors, and of these around half were unable to offer any payment at all.⁶⁰

Secondly, as we observed earlier, DMPs are largely marketed at people with unsecured credit commitments under £15,000. The telephone survey of fee-charging companies indicates that most had customers with an average level of unsecured credit of £20,000 or less. Some companies, however, reported much higher levels of average unsecured credit debt among their DMP customers (Figure 7). On the whole, these tended to be smaller companies with fewer than ten employees.

By way of comparison, the average level of unsecured debt among CCCS clients who started a DMP in 2008 was around £28,000.⁶¹ Among CAB debt advice clients, the average non-priority debt (which includes most consumer credit debts) tends to be much lower, and in 2008 was around £14,000.⁶²



Source: Telephone survey of fee-charging debt management companies, DMP providers only (base 44)

The number of creditors is the third main criterion used to establish whether or not a DMP is an appropriate debt remedy, with most providers stipulating a minimum of two or three separate creditors. Almost all of the fee-charging companies that took part in the telephone survey stated that the average number of creditors for their DMP customers was between five and ten.

⁵⁹ Whyley and Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres

⁶⁰ *Deeper in debt: The profile of CAB debt clients*. CAB Briefing, May 2006

⁶¹ CCCS Statistical Yearbook 2008

⁶² *A life in debt: The profile of CAB debt clients in 2008*. CAB Briefing, Feb 2009

5 The experience of using a fee-charging debt management company

The previous chapters have explored in detail the size and nature of the fee-charging debt management industry and the services it offers. In the next two chapters, we draw on qualitative interviews with customers to explore their experiences of using a fee-charging debt management company, the outcomes that resulted, and their satisfaction with the service they received. We start by looking at the type of financial difficulties participants had, and the steps they had taken to resolve their problems prior to contacting a fee-charging debt management company.

We conducted 30 in-depth interviews with customers for this research, who ranged in age from 24 to 78 but were mainly under 50 years of age.⁶³ Most of the participants lived as a couple, divided about evenly into those with dependant children and those without. The rest were mainly people without partners or dependants, along with a small number of lone parents. As we might expect, given the criteria for debt management plans, almost all the people we interviewed lived in a household with an earned income at the time they contacted a debt management company. A few had experienced fluctuations in their financial situations over time, however.

Participants were asked their current net household income at the time of the interview, and respondents divided about equally into those that reported net household incomes below £300 per week (after tax, National Insurance Contributions and any other deductions), and those that reported net household incomes of £300 or more.⁶⁴ In terms of their level of income, and the types of commitments they experienced difficulties keeping up with (i.e. mainly unsecured credit commitments), the customers we interviewed more closely resemble the people who use free-to-client DMP providers such as CCCS and Payplan than the clients of other free services such as CABx.

Key findings

- The customers we interviewed in depth had typically accrued multiple consumer credit debts, generally owed to between five and ten creditors and totalling in the region of £10,000 to £20,000. Most had managed to keep up with their priority bills such as rent or mortgage and Council Tax.
- Some participants recognised they had a debt problem when their consumer credit commitments were simply no longer sustainable at their current level of income. Others experienced (or anticipated) a drop in income that meant their consumer credit commitments could not be maintained.
- Almost all the participants we talked to had taken steps to resolve their debt

⁶³ In four cases, joint interviews were held with both partners in a couple. The number of people interviewed was therefore 34 rather than 30.

⁶⁴ The median household take-home income in the UK in 2006/07 was £377 before housing costs were deducted (IFS, 2008). This means that half the population have household incomes below this figure, and half above.

problems prior to contacting a fee-charging debt management company such as applying for a debt consolidation loan, contacting their creditors to try and reduce their repayments, or seeking advice from a free-to-client service, usually a CAB.

- Most of those who had sought advice prior to contacting a fee-charging debt management company were unable to get an appointment from a free-to-client service such as a CAB when they wanted one. Where self-help advice and information was provided, participants either did not use it or were unable to come to affordable arrangements with all of their creditors.
- Common ways for people to come into contact with a fee-charging debt management company were to respond to a television or newspaper advert or to come across the company on the internet. Several participants were contacted by a company after they had made online loan applications, suggesting that the loan provider was acting as an ‘introducer’ for the debt management company. Others contacted a fee-charging company on the basis of a personal recommendation from a friend or colleague.
- Based on their positive first impressions of the company they chose to contact, very few participants contacted any other companies. They were attracted by the all-inclusive service that companies offered to deal with their debt problems and their creditors on their behalf, and to reduce their debt repayments into a single affordable payment.
- Having provided the necessary information to set up a DMP (income and outgoings, credit balances), participants reported that repayment arrangements were set up fairly quickly. Initial monthly repayments ranged from £80 to £790, the average being around £290. These were significantly lower than the amounts that participants had previously been required to pay their creditors.
- All the participants recalled paying a monthly fee that was automatically deducted from the payment they made to the fee-charging company. Most were paying between 15 and 18 per cent in monthly fees. About half were aware of paying other charges as well, such as a set-up fee, and it is likely that others also paid this type of charge even if they did not recall doing so.
- Most participants were aware from the outset that they would have to pay a fee, and felt they were given sufficient information about the fees they would have to pay at an early stage in the process. They generally considered the fees to be reasonable for the service they received, at least in the early stages of the debt management plan.
- Others were unhappy that they had not been given information about the fees they would be charged early on, and a few were shocked at the monthly amount and/or the set-up fee they would have to pay.

5.1 What type of financial difficulties did customers have?

In keeping with the findings from the telephone survey of fee-charging debt management companies reported in Chapter 3, the customers who were interviewed in depth had typically accrued multiple consumer credit debts, including personal loans, credit cards, store cards and overdrafts. A few participants had mail order catalogue and home credit debts. It was common for participants to have between five and ten creditors, but in a few cases the number exceeded twenty. Participants generally reported total consumer debts in the region of £10,000 to £20,000. Again, there were

examples of far higher levels of debt, and several participants reported total consumer debts in excess of £40,000.

For the most part, participants had managed to keep up with their priority bills such as mortgage or rent payments, Council Tax, gas and electricity bills. Indeed, this was one reason why they had fallen behind with consumer credit commitments. A small number of participants also had priority debts as well, however. These included several women whose partners had got into financial difficulties without their knowledge and had stopped paying priority bills as well as consumer credit commitments.

5.2 How had consumer credit debts accrued?

The most common reason given by participants for their consumer credit debts was over-spending on consumer goods and to enjoy a good standard of living. The ready availability of consumer credit in the 1990s and early part of the 21st century was often mentioned by participants, including frequent offers of credit and automatic increases in credit limits on store and credit cards. Several participants also admitted to poor money management as a factor in their financial difficulties.

Case study: Accruing consumer credit debts

Laura is 39 and lives with her partner in a rented flat.⁶⁵ Her debt problems dated back at least ten years, when she was single and worked on a basic salary plus commission. For three or four years, she used credit to live well beyond her means. This was manageable in months when she made good commission, but as her commitments mounted she increasingly found herself using credit to pay off debts. Her situation was compounded by the high rent she paid. Eventually, she got to a stage where she owed £45,000 in consumer credit debts, and was not able to make the minimum payments. As a result she received default notices and was threatened with bailiff action.

I took out ridiculous loans to pay off credit cards, didn't pay off the credit cards, spent the loan money. I just was given so much credit because I had, you know, a potential income of 60 grand a year and everyone was throwing credit at me. And at that point I was... living the high life, working seven days a week, you know, twelve hours a day. If I wanted to go to The Ivy for dinner why the hell shouldn't I, just because it wasn't my money I was spending. And I just, I was foolish and should have known better, but didn't.

Other reasons for over-indebtedness were mentioned far less often. A few participants had used consumer credit to finance business ventures. A small number of participants with families had used credit to finance everyday spending. One man had used credit to fund his gambling and alcohol addictions.

⁶⁵ All participants' names have been changed in the case studies, as have some of their personal or family details.

5.3 Recognising debt problems

As the levels of consumer credit debt and number of creditors indicate, people's debt problems had generally built up over the course of several years and it was not uncommon for participants to talk about 'burying their heads in the sand' in relation to their financial situation. Several participants had experienced debt problems in the past, which they had tried to resolve either by taking out a consolidation loan, re-mortgaging or having the debts paid off by a partner. Even so, they continued to borrow to the point where their debts again became problematic.

There seemed to be two main 'tipping points' whereby participants came to recognise they had a debt problem in the period prior to contacting a fee-charging debt management company. They either realised that their credit commitments were unsustainable, or else they had a drop (or anticipated drop) in income that meant payments on existing credit commitments could not be maintained. The same tipping points were identified in qualitative research with people on low-incomes who used free-to-client debt advice services.⁶⁶

The first tipping point occurred where participants' credit commitments were simply no longer sustainable at their current level of income. This generally came when they realised they could no longer afford to pay their creditors *and* cover day-to-day living expenses, or when they were struggling to make even the minimum payments on their credit commitments. Participants in this situation had often been juggling payments between creditors or using credit cards to pay off other credit commitments and household bills for some time.

The severity of people's situations varied in terms of the action that had already been taken by creditors. Some had already started to receive letters or phone calls from creditors demanding payment. In a few cases, participants had received default notices or were threatened with bailiff action.

Case study: Unsustainable credit commitments

Julie is in her late 20s, married with two young children. She works part-time and her partner is self-employed. Their financial difficulties began after the birth of their first child five years ago, when they moved several times in quick succession to find suitable accommodation, each time using credit to furnish and decorate their home.

I mean we just had a lot of credit cards and like every time we moved house obviously we got a loan to pay for the carpets and curtains, it's like everywhere you move nothing would fit.

They also used credit to buy things for their children, and bought a car on finance. Eventually, they got to the stage of using credit cards to pay other creditors, and were only able to make minimum payments to cover the interest charges. At this point, they realised they could not afford to pay their creditors and meet day-to-day living expenses.

⁶⁶ L Day, S Collard and C Hay (2008) *Money advice outreach evaluation: Qualitative outcomes for clients*. London: Legal Services Research Centre

... there were quite a few times where I sat and I cried as well... you just thought, God what a mess I'm in, and you don't see any way out of it.

The other main tipping point mentioned by participants was a drop in household income (or anticipated drop), which meant that existing credit commitments could not be maintained. This included a range of circumstances such as being given notice of redundancy, reduced income because of a cut in working hours, long-term sick leave, early retirement due to ill health and anticipated maternity leave. In some cases, participants had been managing to keep up with their repayments before this time. In others, they had already been struggling to manage, and had missed payments to creditors.

Case study: Drop in income

Sheila and Jim are in their 50s, and two children of their six children still live at home. Their debt problems built up over a long period of time, mainly attributed to the financial pressures of bringing up a large family, to the point where they owed over £35,000 to 10 different creditors. They had been juggling their financial commitments and '*pinching off Peter to pay Paul*' for some time.

The last straw came when Jim had to stop working altogether because of ill health. With a significantly reduced household income, they were only able to make minimum payments to their creditors, which did not even cover the interest charges. They found this situation distressing, as Sheila describes:

It was making my nerves really bad, I was feeling really at the end of my tether... we were no longer coping. It's like a drowning process, isn't it?

In addition to these two main tipping points, the debt problems of a small number of participants mainly related to increased expenditure, in the form of housing costs. Two people traced their difficulties to problems with their buy-to-let properties. In one case, this was due to a sharp increase in mortgage repayments when a fixed-rate mortgage came to an end. In another, it was due to erratic rent payments and the costs of repairing damage to properties caused by tenants. A third participant had found it increasingly difficult to repay his existing unsecured credit commitments when he also took on a mortgage following his divorce.

Finally, there was a small group of women (mentioned above) who were unaware that their partners had accrued consumer credit debts. It therefore came as a great shock to them to discover the extent of their household's financial difficulties. One woman only became aware of the situation after her husband had contacted a fee-charging debt management company. In other cases, the problems came to light when participants or their partners could no longer afford to pay household bills. Two of these women were still with their partners, two had divorced or separated.

5.4 How did people try and resolve their debt problems prior to contacting a fee-charging debt management company?

Regardless of the route by which they had got into financial difficulty, almost all the participants we interviewed had taken steps to try and resolve their debt problems prior to using a fee-charging debt management company. This typically involved looking for a debt consolidation loan, contacting their creditors, or seeking advice from a free-to-client service. The exceptions seemed to be two people who were both still managing to meet their credit repayments at the time they came into contact with a fee-charging debt management company.

5.4.1 Debt consolidation

Several people had sought to resolve their debt problems by means of a debt consolidation loan. While some of them only got as far as searching the internet for loan providers, others had applied for loans online. As we discuss in section 5.5, a few participants described how they were contacted by a fee-charging debt management company shortly after making an online loan application. Another participant came across the fee-charging debt management company she used while she was looking for a loan.

A few participants had got as far as taking out debt consolidation loans. One participant applied for a debt consolidation loan when she discovered her husband's debt problems (which included mortgage arrears as well as unsecured credit debts), but was turned down.

5.4.2 Negotiation with creditors

It was fairly common for participants to have tried to negotiate reduced payments with their creditors themselves, without any assistance or guidance from an advice provider. On the whole, they reported that creditors were not particularly helpful or sympathetic to their financial situation.⁶⁷ At best, participants managed to sort out reduced payments with some but not all of their creditors. Others reported that creditors wanted higher repayments than they could afford, or were not willing to consider any payment lower than the contractually agreed amount.

Where participants had not attempted to negotiate with their creditors, they had either not considered this possibility, or were apprehensive of talking to the organisations they owed money to.

I think the thing that stopped me from actually contacting them was, I think it was a fear, being scared... I thought, 'Well I'll be in trouble', I think it was more a fear of getting into trouble with people that I've got all the accounts with. (Man, 20s)

⁶⁷ It is worth noting that some of the participants were reporting events that had occurred several years previously. A number of steps have been taken in recent years to try and improve the way that creditors deal with customers in financial difficulty, including revisions to the Personal Banking Code and the FSA's Treating Customers Fairly initiative.

5.4.3 Seeking advice

Awareness of free-to-client advice services, and CABx in particular, was high among the participants we interviewed. They divided about evenly into those that went on to seek advice, and those that did not. In contrast, there was very low awareness of CCCS and Payplan in the period before they used a fee-charging debt management company. As we go on to discuss, only one person had contacted a free-to-client debt management company prior to using a fee-charging company.

Reasons for not seeking advice

There were a number of reasons why participants did not seek debt advice from a CAB even though they were aware that it was a source of free advice, and even though several of them had accessed advice for non-debt problems in the past.

A few participants with previous experience of using a CAB were put off by the knowledge that it could be difficult to get an appointment. One participant was also reluctant to discuss her financial difficulties face to face.

I just didn't feel comfortable enough going to say to them, Look I'm in debt can you help? You know, probably someone over the phone I'm not looking at their face so I can't see like disappointment if you get what I'm saying.
(Woman, 30s)

Others, both users and non-users, were unsure whether CAB dealt with debt problems, or what assistance a CAB might provide to someone in their situation. One participant thought he would only receive advice from a CAB, when what he really wanted was someone to sort out his debt problems for him.

I wouldn't have thought they could have helped too much, they wouldn't have solved the problem. They would only advise to see such and such, whatever... I didn't think they could do anything, that's why I never bothered going there, basically. (Man, 50s)

Finally several participants had become aware of the debt management company that they went on to use, and decided to pursue this route rather than contact a CAB.

Outcomes for advice seekers

Among the group that sought advice from a free-to-client service, the outcomes were mixed. Most of them did not manage to speak to an adviser, mainly because they were unable to get an appointment when they wanted one. One participant was offered an appointment in three weeks' time, but could not afford to wait this long as he was about to be posted abroad for work. Other participants waited in a CAB for some time, but were not able to be seen by an adviser on that day. They generally did not try again. A few of these participants were given self-help information by the advice service they contacted, which they did not use.

The small number of participants who did speak to an adviser were generally advised to negotiate with their non-priority creditors themselves. They were provided with information and standard letters to help them do this. They all reported only partial success at negotiating reduced monthly repayments.

I think I probably contacted them [creditors], contacted half of them and because I got nowhere I thought oh, you know, sod it I just won't bother, they don't care, you know. That's why I genuinely couldn't see a way out of it at all. (Woman, 30s)

While they were satisfied with the advice they had received, they did not think to go back to the adviser for further help when not all their creditors would accept reduced repayment offers.

I don't think the citizen's advice could do any more than what they'd done. (Man, 60s)

Finally, one participant who received face-to-face advice was referred to an Insolvency Practitioner, with a view to setting up an IVA. His fluctuating earnings meant that he was unable to commit to the £1,000 per month payments that would be required, however. He was subsequently referred to CCCS, who advised him that bankruptcy would be the most appropriate debt solution in his situation. He was unhappy with this advice, as bankruptcy would have jeopardised his job as a financial adviser.

5.5 Getting in contact with a fee-charging debt management company

The customers who were interviewed in depth clearly recognised they had a debt problem that they needed to resolve. Almost all of them had taken steps to try and sort out their debt problems prior to contacting a fee-charging debt management company, but with limited success at best. A few of them had already pursued other debt remedies.

When asked in the interviews how they felt about their debt problems, almost all the participants said they were worried and upset, and anxious to find a solution. Some were embarrassed about the situation they had got into, and often felt unable to discuss it with anyone. Others talked about their debt problems making them feel physically ill.

The most common way for people to come into contact with a fee-charging debt management company was to respond to a television or newspaper advertisement for debt solutions. This was particularly the case among participants who had been recruited for the research through a large debt management company. The main attraction of the adverts for participants was that the companies offered to sort out their debt problems, and to reduce the amounts of money they were repaying to their creditors by reducing their outgoings and/or reducing interest charges.

And like they said on the advert, you know, they will give you your life back... they will give you your life back because they reduce the payments as much as they can to a minimum that you are paying the minimum that actually you can actually live. (Woman, 30s)

The fact that companies offered an alternative to a debt consolidation loan was also part of the appeal for some participants.

Participants generally responded to an advert soon after seeing it. A few waited some time before making contact. One participant, for example, waited a few weeks before making contact, to assess whether her debt problems might be alleviated by a debt consolidation loan she had recently taken out. She telephoned the debt management company when it became clear that she could not keep up with the loan repayments. Another participant put off making contact for several months because she was considering selling her buy-to-let property to clear her debts. She eventually decided to phone the debt management company when the telephone calls from her creditors became unbearable.

The internet was also an important source of information for participants. Several people came across the name of the company they contacted on the internet when they were searching for help to resolve their debt problems.⁶⁸ As we saw in Chapter 3, some debt management companies acquire customers through ‘introducers’ such as loan companies.

A number of participants described how they were contacted by a fee-charging debt management company (by telephone or email) after they had filled in online applications either for a loan or to request help with their debt problems. In addition, one participant reported that he had been telephoned by a fee-charging debt management company completely ‘out of the blue’, and was at a loss to explain how this had come about. The telephone call did, however, prompt him to think about taking action to sort out his debt problems.

A number of participants were recommended to use a particular fee-charging debt management company by a friend or colleague who had already used the same company. Other less common methods of contact included finding a company in the Yellow Pages and getting a leaflet through the door. One couple were given the details of a fee-charging debt management company by its sister company, which provided IVAs, a route they had already tried unsuccessfully.

5.5.1 Deciding which company to use

There was very little evidence among interviewees of any ‘shopping around’ between different debt management companies before deciding which one to use. Instead, they tended to stick with the first company that they contacted (or were contacted by), for reasons that we discuss below.

Some participants, particularly those who had responded to a television advert, said they were unaware of other debt management companies at that time.⁶⁹ A few internet users had chosen a company with a name familiar to them from television adverts. Other participants were too busy to contact more than one company or did not want to waste time doing so. Perhaps unsurprisingly, participants tended to stick with companies that had been personally recommended to them.

⁶⁸ Participants described using search terms such as ‘debt management’ and ‘managing finances’.

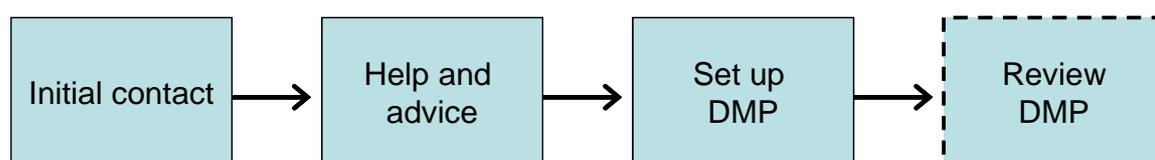
⁶⁹ These participants had generally contacted a fee-charging debt management company some years ago. A number of them commented on the appreciable increase in television adverts for debt management and other companies offering debt solutions since that time.

Only a handful of participants spoke to more than one company, generally two or three at most. They tended to make their decision based on cost: the company they chose either had a lower monthly fee or there were no upfront charges. Like other participants (described in section 5.6.1), they were also swayed by their first impression of speaking to the company.

I'd been on the internet but because [company name] seemed OK and it was a bit of a lifeline really, I thought, well I'm going to go with this. (Woman, 50s)

5.6 The debt management process

The process of debt management, as described by the participants we interviewed, can be broken down into the following stages:



At the initial contact stage, participants typically explained their situation to a company representative, outlined their income and outgoings and had the debt management process explained to them.

The help and advice stage was the time when possible options were discussed, along with advice about dealing with creditors. If a financial statement had not already been completed, it was done so at this point.

The next step involved the company producing a DMP, based on the customer's disposable income. The DMP outlined the reduced payments that would be offered to each creditor on a monthly basis, and the total monthly payment that was due from participants. Participants generally started to make payments to the company shortly after a DMP was drawn up.

Finally, some participants described how the company reviewed their debt management plan annually. Other participants did not recall having an annual review, or had terminated their plan before it had been running for that length of time.

The first three stages of this process (initial contact, help and advice and setting up a DMP) are described in detail below. It is important to note that, while they are presented as separate stages for the purposes of this report, in reality participants often received help and advice at the time of their initial contact with the company, and provided the necessary information for a DMP to start to be drawn up. The extent and nature of customers' contact with their debt management company once a plan was set up, including plan reviews, is discussed in the next chapter.

5.6.1 Initial contact

All the participants who were interviewed related very positive experiences of their initial contact with the fee-charging debt management company they went on to use. As a result, their expectations about the service the company would deliver were

generally high. This positive experience comprised two key elements: the debt management service that the companies offered, and the level of customer service that participants received at the outset.

At the time when they first contacted a fee-charging company, the main appeal for participants was undoubtedly the service that was offered. Debt management companies offered a means of reducing their debt repayments into a single and affordable monthly payment. They would also deal with creditors on the participants' behalf and put a stop to letters and telephone calls from creditors or their debt collection agents. Some participants talked about fee-charging companies having the credibility to negotiate with creditors, which they as individuals lacked. Most importantly from the participants' point of view, the company would deal with their debt problems on their behalf and relieve them of the burden.

I didn't go to them for advice, for them to tell me what I should be doing, I went to them for them to take it on and deal with it. (Man, 40s)

I was just wanting somebody else to take over, that was my feeling... I was that worried about it, I wanted somebody else to deal with it, that had got the confidence to deal with it, because I just hadn't. (Woman, 40s)

A few people initially expected to take out a loan to consolidate their debts or thought they had contacted a company that would offer them an IVA. Once the idea of a DMP was explained to them, however, they were happy to pursue this.

The second key element of participants' positive experience was the level of customer service that they experienced in their initial contact with the company. The company representatives they dealt with were helpful and professional, non-judgemental and reassuring, qualities that had been in short supply in some of the participants' dealings with their creditors.

After you spoke to them, you felt a little bit of relief because this could be a solution... they weren't like, 'You shouldn't have got yourself into that kind of trouble, you shouldn't have done that', you know what I mean, they were saying, 'We understand, this is what we can do for you'. (Man, 50s)

Some participants also valued the clear explanations that company representatives provided.

Participants mentioned the method of service delivery much less often than either of the factors described above. Almost all the participants received advice and help by telephone, but relatively few of them talked about this as a particular attraction of the company they used. Where it was mentioned, it was generally in relation to the fact that the companies' telephone helplines were open in the evenings and weekends, which meant that participants could discuss their situation in the privacy of their own home.

A few participants received an initial visit in their home, which was the standard procedure for the companies they used. They had preferred dealing with someone face to face rather than on the telephone. For one participant, this was an advantage over

the free-to-client service he had used previously, which had been a telephone-only service.

Case study: First impressions

Karl is a single man in his 20s, who lives at home with his parents. He had unsecured credit debts of around £13,000, the outcome of spending on credit cards, his overdraft and several personal loans. He started to panic when he realised that he could not afford to keep up his credit repayments and pay for essentials like his car insurance and petrol. He was daunted by the prospect of speaking to his creditors, and although he knew about the CAB he felt he should try and sort out his problems himself.

He was contacted by a fee-charging debt management company after he had made several online applications for a debt consolidation loan. The company representative explained the idea of a DMP to Karl, who was immediately attracted by the opportunity to reduce his repayments and have someone else deal with his creditors.

Well, the plan sounded brilliant... the magical figure they give me... They said they'd speak to the creditors, send letters off, they'd sort everything out, I didn't have to worry... well it sounded wonderful... so I seized the opportunity, as it were.

5.6.2 Help and advice

As earlier research has noted, fee-charging debt management companies provide a specific solution-focused service for dealing with unsecured credit commitments.⁷⁰ This is qualitatively different to the money advice delivered by free-to-client advice providers, who provide advice and help about repaying both secured and unsecured credit commitments, as well as other personal and household commitments, and take steps to maximise income where appropriate.

The participants who were interviewed in depth divided about evenly into those who recalled discussing other possible debt remedies (typically an IVA and/or bankruptcy) with a representative of a fee-charging debt management company and those who did not.

Of the participants who recalled discussing other debt remedies, several rejected the suggestion of bankruptcy, as a course of action they strongly opposed. In relation to the possibility of an IVA, one participant was told by the company representative that he was not eligible because of the amount he owed in unsecured credit (£14,000). Another recalled being told that an IVA was inadvisable given the assets she had (in the form of several buy-to-let properties that she was struggling to sell). Two participants had already unsuccessfully pursued the option of an IVA before contacting the fee-charging debt management company they spoke to.

⁷⁰ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: Federation of Independent Advice Centres

Among the participants who did not recall discussing any other options apart from a debt management plan, one woman admitted that she really wanted the company representative to guide her to the appropriate solution.

I sort of let them do the leading because I don't know anything about, didn't know what a debt management company were going to do really... I sort of let them take the lead and they tell me what I needed to do. (Woman, 30s)

A few participants, who had personal recommendations to the companies they used, were very clear when they contacted the company that they wanted a DMP. In those circumstances, it is possible they may have disregarded any other debt solutions that were mentioned.

Two other issues were commonly discussed with participants by company representatives. First, they were told that their creditors would continue to contact them while a DMP was set up, requesting payment for existing debts or because an account had gone into arrears once participants had engaged a debt management company and stopped making payments. The general advice to participants was to refer creditors to the debt management company, who would deal with them on the participants' behalf. Any correspondence from creditors should be forwarded to the company, with prepaid envelopes often provided for this purpose. The idea that they no longer had to have any contact with their creditors came as a great relief to participants.

The biggest thing they said to me was you haven't got to answer the phone... letters, just pass it on to them. (Woman, 40s)

Secondly, they were often advised to open a new bank account, if they had not already done so. This was to prevent their existing bank taking money from their account towards the payment of overdrafts or other credit commitments they held with the bank.

... [so] when your money goes in they don't just grab it and take it away. (Man, 50s)

Worryingly, one participant reported how he was advised by a company representative to 'max out' his bank overdraft, so it could be included in his DMP. While he was reluctant to do so, this was the only way he could afford the two months' charges that the company required at the outset of the agreement.

A few participants reported receiving other types of help from the fee-charging debt management company they used. One participant recalled being advised to re-contact her mortgage lenders, to try and negotiate reduced payments on her buy-to-let mortgages. She followed this advice, but was not able to come to any agreement. Another participant took up an offer of help to reclaim payments he had made on a payment protection insurance policy for a personal loan. He was referred to a claims management company by the fee-charging debt management company, and expected to pay a commission for the claims management service he received. As a result, he did not claim on the policy when he was made redundant as he anticipated a pay-out following the claim management firm's intervention.

5.6.3 Setting up a debt management plan

The participants we interviewed generally decided to pursue the option of a DMP on the basis of their initial contact with the company. Several of them talked about being 'accepted' or 'taken on' as a customer either at the end of the first contact or shortly afterwards, and subsequently receiving an information pack from the company.

It was common for companies to ask for three types of information to establish participants' eligibility for a DMP at the outset and then to draw up the plan. First, participants were required to provide information about their income and outgoings (including credit repayments), either over the telephone or by filling in a financial statement, which a few participants found onerous.

... by the time I'd got all my statements out and all my creditors letters and things and everything else, and I'd gone through it all, filled everything in, I thought, 'Well I've done it now so I might as well stick with it'. (Man, 30s)

Several participants appreciated the comprehensive and realistic approach that companies took when discussing items of expenditure.

I mean they went through everything, the smallest detail, do you know what I mean. Like I mean some people might be on medication and have to pay for the prescription so they went through all that and said, you know, 'What do you pay out every month?' ... They didn't leave you so you were scrimping and saving but you weren't splashing out on lavish things, they made it comfortable for you to live. (Woman, 50s)

Secondly, many participants recalled having to send bank statements, credit card statements, credit agreements etc. to the fee-charging debt management company. It could take participants a considerable amount of time to collect this information together.

Lastly, most reported being asked to send off several months' payslips to the fee-charging debt management company. Several participants, however, who had used different companies, said they had not been asked to supply this information.

I just told them what my income was and they believed me, so I didn't have to prove anything. (Man, 20s)

In a few cases they did not recall being asked to provide statements from their creditors either.

Most of the participants we interviewed recalled receiving terms and conditions from the debt management company they had decided to use, generally fairly soon after the initial contact. While a few said they read them carefully, others either scanned them briefly or did not read them at all.

I should have sat down and really looked through them, but to be honest it's just so stressed me out for months and months that I've just put it in a cupboard now, because I know they're dealing with it and you just let them get on with it. (Man, 30s)

Several participants (typically those who had repaid their debts) either could not remember receiving any terms and conditions or were not sure whether they had. A few participants (who had terminated their plans) were very clear that they had not received any terms and conditions, even after several requests. For one couple, this became an issue when they later challenged actions taken by the fee-charging debt management company.

5.7 Repayment arrangements

On the whole, repayment arrangements seem to have been set up fairly quickly after participants had contacted a fee-charging debt management company. Participants did not report any significant delays, and generally started to make payments to the company within a matter of weeks.

In the previous review of fee-charging debt advice, most customers who were interviewed in depth did not know the likely term of their debt management plan).⁷¹ In contrast, many of the customers interviewed for this research recalled being told by the debt management company how long they would be likely to have to pay in order to clear their debts, which was generally between five and eight years. A few people worked out the likely term themselves, while others simply thought they would be paying for a long time.

The monthly payments that customers make to their creditors through a debt management company varies according to the amount of unsecured debt included in the plan and the amount of disposable income they have available. Among the participants we interviewed, their initial monthly payments ranged from £80 per month (based on a total debt of £6,000) to £790 per month (based on a total debt of over £80,000). The average monthly payment was around £290. These amounts include the monthly fee to the company. As we go on to discuss in Chapter 6, in some cases monthly payments were increased or reduced because of changes in participants' circumstances.

These payments were significantly lower than the amounts that participants' had been required to pay creditors previously.

... we went from £750 or something like that that we had to pay out each month in debt, it dropped to something like £325 which was below half, plus the interest ended as well, which was fantastic. (Man, 40s)

Net of the debt management company's fees, the monthly payments to creditors reported by participants represented on average less than two per cent of the total unsecured debt included in their DMP.

Roughly half the participants who were interviewed knew or assumed that all the creditors included in their DMP had agreed to stop charging interest on their accounts following the intervention of a fee-charging debt management company. Most of the

⁷¹ C Whyley and S Collard (1999) *Fee or free? The role of fee-charging debt advice companies in money advice provision*. London: FIAC

remaining participants reported that some but not all of their creditors had agreed to this, with typically one or two creditors refusing.

In a few cases, the fact that one of their creditors was still applying interest to their account only came to participants' notice some time into a DMP. One participant was told by the debt management company that a particular creditor refused to deal with fee-charging companies. He was annoyed that he had not been warned about this at the outset. Another participant brought the matter to the attention of the fee-charging debt management company, which went on to negotiate a freeze in interest payments. Similarly, a few participants discovered towards the end of their DMP that some creditors had started to re-apply interest to their accounts.

As we go on to discuss in section 6.2, a few people who cancelled their DMP suspected that the company they had employed had not managed or even tried to negotiate with their creditors at all, either to reduce their repayments or to stop interest charges being applied.

5.8 Charges

As noted in section 4.5, the most common fee structure for commercially-provided DMPs is an initial set-up fee and a monthly management fee. All the participants we interviewed recalled paying a monthly fee which was automatically deducted from the monthly payment they made to the debt management company. Apart from a few people, they knew the amount they were required to pay, usually expressed in monetary terms (i.e. £30 of the £150 repayment) rather than as a proportion of the repayment. The amounts participants reported paying in fees ranged from £9 to £90 per month, the average being around £40 per month. Expressed as a proportion, monthly fees ranged from two per cent to 37.5 per cent of the repayment amount. Most participants were paying somewhere between 15 and 18 per cent in monthly fees.

In addition, about half of participants were aware of paying other types of fee. This typically meant that the first payment (or in a few cases the first two payments) was kept by the debt management company as a set-up or administration charge. It seems likely that other participants would also have paid this type of charge, even if they did not remember doing so.

A few participants, who had all used the same company, had been required to pay relatively large set-up fees (£1,000 and £3,000 respectively) which had been deducted from their monthly payments over a period of time. These payments seemed to be in addition to the monthly fee they paid, which was based on a proportion of the repayment amount.

Most of the participants we interviewed were aware from the outset of their contact with a fee-charging debt management company that they would be charged for any service they received. Indeed, several assumed this would be the case.

I think because you think somebody is dealing with your finances you think well there's got to be a charge, you know, people are not going to do it for nothing I suppose. (Woman, 30s)

They were also satisfied that they had received sufficient information about the fees they would have to pay at an early stage in the process.

Other participants felt they had not been made aware that the company charged or the charges that would apply at a sufficiently early stage in their discussion with the company they used. In some cases, they had been told about charges at the end of the initial discussion or had assumed it was a free service until they received paperwork from the company that indicated otherwise.

Admittedly I thought it was free, but then by the time they'd sent the forms and I'd read through them and said oh yes I'll go ahead with it and I'll send the forms back, because I'd given them all my details and everything, so I thought well I might as well just go ahead with it now. (Man, 30s)

Several participants knew they would be charged, but did not find out the amount until they received their first monthly statement. In a few cases, they were shocked to discover that the fees were much higher than they had expected and these were among the small number of participants who expressed wholly negative views about the fees they had been charged. All of them subsequently went on to cancel their DMPs because they were unhappy with the service they had received.

Most participants, however, considered the company's fees to be reasonable for the service they provided, at least in the early stages of the debt management process. The debt management companies had taken on the task of dealing with their creditors, and the repayment that participants had to make each month was greatly reduced. A few participants were in frequent contact with their debt management company in the initial stages of setting up a plan, and appreciated this aspect of the service.

Once a DMP was up and running, some participants questioned the value they received for the fee they paid. This was particularly the case among participants who had paid off their unsecured debts, who considered that the debt management company did little for their fee once a plan was in place. To them, the fee represented money that could have been used to repay their creditors more quickly. As we go on to discuss in section 6.3, some of these participants had terminated their DMP and made the final few payments to their creditors themselves.

Case study: Views about charges

Liam is a divorced man in his early 40s. He paid £325 per month to the debt management company he used, of which £57 was the company's fee. The company had also retained his first payment as a set-up fee. At the time when the DMP was set up, Liam was in the process of separating from his wife. His job also required him to work away from home for significant periods of time. In these circumstances, he thought the fees were reasonable for the service he received.

I thought it was quite fair actually, you know, they are a business it's not like they're in it for the fun... It was just so easy and I don't mind paying them £57 like I say because I didn't have the worry... most of the time it just wasn't even in my mind, it was gone at the beginning of each month, the money had gone, you know.

Once the plan was in place, however, he questioned what the company did in return for its monthly fee.

They don't do a lot, I don't think they do a lot. I think they do the initial set up and then they just, you send them the money by standing order and they just send it to them by standing order.

Having paid into the DMP for nine years and cleared his debts, Liam acknowledged that the fees he paid to the company could have been used to repay his debts more quickly. While he had thought about cancelling the plan several times and paying his creditors direct or using a free debt management service, he had not pursued this as 'life just gets in the way of your plan'.

5.9 Reaction from creditors

As they had been warned, many participants continued to receive letters and telephone calls from their creditors after they engaged a debt management company to act on their behalf, either continuing to chase outstanding debts or seeking higher repayments than the debt management company had offered.

Participants generally responded by referring creditors forwarding their letters to the debt management company they were using. Threatened with a charging order by one of his lenders (a credit card provider), one participant had decided to pay a higher amount to this creditor via his DMP than was originally offered by the debt management company. Contact from creditors generally ceased within a few months of participants engaging a debt management company, although one or two people reported still getting an occasional telephone call or letter more than a year later.

In addition, it was not uncommon for participants to report that they were given details of free-to-client DMP providers by one or more of their creditors *after* they had committed to a fee-charging company. Some participants were clearly frustrated by this.

I thought, 'Great I did speak to you at some time and say I was having difficulties paying', but they never mentioned it at the time. (Man, 40s)

In the event, none of these participants switched to a free provider (at least at that point in time), because they did not want to go through the debt management process again with another provider, because they were worried about disrupting the payment arrangements that had been set up or because they did not want to lose the set-up fees they had already paid to the company.

... they said to me, 'Why have you gone to those when you could go to [a free] one, and we'd get more money off you if you went to these?', and I said, 'Well I didn't know'. But because I've set it all up now I didn't want the hassle, I know I've got to pay, but I didn't want the hassle to start again ... So in the end I decided to stop where I was. (Man, 60s)

I said, 'Well great, I said, but it's cost me all this to set this up and it's all set up' ... the fact was that I couldn't really afford at that time to lose the £500 down payment. (Man, 40s)

A few participants were also unsure whether a free-to-client provider would offer the same level of service as a fee-charging company. As we discuss in the next chapter, some participants did go on to use a free-to-client debt management provider later on, after they had cancelled their DMP with a fee-charging company, including some who were prompted to do so by their creditors.

6 The outcomes of using a fee-charging debt management company

The sample of customers we interviewed was designed to include people who were likely to be satisfied with the fee-charging debt management company they had used, and people who were likely to be dissatisfied. It is not a representative sample of people who had used fee-charging debt management companies and therefore we cannot say what proportion overall was satisfied or dissatisfied.

The customers we interviewed reported a range of outcomes from using a fee-charging debt management company, and fall into three main groups. The first group were currently repaying their consumer credit debts by way of a DMP from a fee-charging company. The second group had started to repay their consumer credit debts by means of a DMP but the plan had subsequently been terminated, usually because they were dissatisfied with the service they received. The third group were no longer on a DMP because they had paid off all (or almost all) their consumer credit debts, typically within the past 12 months.

We explore the outcomes for each of these groups in detail in the following sections, and then go on to examine customer satisfaction with the fee-charging debt management company they had used.

Key findings

- The participants we interviewed fell into three main groups in relation to the outcome they experienced from using a fee-charging DMP.
- The first group were currently on a commercially-provided DMP, for periods ranging from nine months to around six years to date. They generally felt their financial situation had improved since contacting a fee-charging company, and were keeping up with their plan payments and other commitments, although it was sometimes a struggle. They looked forward to being debt-free within a relatively short period of time. A few, however, had missed several payments on their DMP and/or fallen behind with other household bills. This was because of either a drop in income or high housing costs.
- Most of the participants in the second group had cancelled their agreement with a fee-charging debt management company because their creditors reported they had not been paid by the company or had received payments late. For the most part, these were customers of fee-charging debt management companies that were not members of any of the three industry codes of practice. All of these participants had made at least three payments to the company and a few had been paying for several years. At the time of the interview, they were struggling to manage and felt themselves to be in worse financial situation than before they contacted the company.
- In addition, a few participants in this group had either let their plan lapse because they could no longer afford to pay, or had been persuaded to move to another debt remedy by the same company which proved unaffordable. These participants

described themselves as having serious financial difficulties, and had fallen behind with household bills.

- The third group comprised people who were no longer on a DMP because they had paid off all (or almost all) their consumer credit debts. This had been achieved in one of three ways. First, some participants repaid their unsecured debts in full through a DMP, over periods ranging from two to nine years. The second route was participants who had repaid most of their unsecured debts by means of a DMP. They decided to terminate the plan once the outstanding balances were low and only a few creditors remained to be paid, and arranged to make the final payments direct to the creditors. Finally several participants had made payments to a debt management company for a period of time (ranging from two months to seven years) before reaching a full and final settlement agreement with their creditors, funded by a lump sum such as a redundancy payment or the proceeds of a property sale.
- Regardless of the route they had followed, most of the participants who had completed their DMP felt they were significantly better off now than when they first contacted the fee-charging debt management company, were managing well financially and were optimistic about their financial future. A few participants, who tended to be on lower incomes, were struggling from time to time.
- Not surprisingly, customer satisfaction was closely linked to the outcomes that people had experienced. Broadly speaking, participants who expressed the most satisfaction were those who had paid off their consumer credit debts either partly or wholly through a commercially-provided DMP. Even so, some were unhappy about issues such as the continued application of interest charges to their accounts, and poor information over the course of the plan about the balances outstanding to their creditors. The least satisfied were those participants who had cancelled their DMP because they were dissatisfied with the service they received.

6.1 Currently on a commercially-provided debt management plan

Of the 30 participants we interviewed, six were currently repaying their consumer credit debts by way of a DMP. They represented customers of several different companies and the length of time they had been on a DMP ranged from nine months to around six years.

Most of these participants felt that their financial situation had improved considerably since contacting a debt management company. They were keeping up with their DMP repayments and other household bills without too much difficulty, although it was occasionally a struggle. Where participants had been on a DMP for more than a year, their financial situation had been reviewed either yearly or six-monthly by the debt management company. In one case, this had resulted in increases in the repayment amount over time, from £139 initially to £180 six years later. Those who had been on a DMP for less than a year anticipated a review by the company in the near future. These participants were generally optimistic about the future, and some of them were looking forward to being debt-free within a relatively short period of time.

Case study: Currently on a DMP

Jed is a single man in his late 20s, with a child who lives with his ex-partner. For the past 10 months, he has been paying £170 per month through a DMP. The company takes a fee of 15 per cent each month (about £26).

Jed has been keeping up with his repayments, and is confident that he can be debt-free in six years, as advised by the debt management company he is using. His financial situation has improved considerably because of the lower repayment he is making to the debt management company compared with the amounts he was previously paying to his creditors. He has even started to save a small amount each month.

I can just about live now, with the money I've got now I can pay my mum [housekeeping] and I can look after my son and take him to the cinema and pay for my car insurance.

Jed had been told about free-to-client DMP providers by one of his creditors after he started to make payments through a fee-charging company. He did not pursue this option.

I was just stressed out and I thought oh I've already sorted it out and I thought I can't be going through it all again.

In contrast, other participants were struggling to manage, and had missed several repayments on their DMP and/or fallen behind with other household bills. One young man started to have difficulties when he reduced his working hours from 20 to 15 hours per week in order to go to college. He intended to contact the debt management company he used to try and negotiate a reduced monthly repayment. Despite his difficulties, he was fairly optimistic about paying off what he owed in the next year.

Another man was financially over-stretched trying to keep up with his buy-to-let mortgage payments and his DMP, which had been running for around 18 months. He was already cutting back on expenditure and, with the imminent loss of the second job he had taken on, he feared he would not be able to maintain his DMP. In the longer term, he felt that an IVA might be the only way to repay what he owed within a reasonable period of time (five years).

6.2 Cancelled or terminated debt management plan

The second group were mainly recruited for interview through National Debtline (see Appendix 1 for details). These ten participants had started to repay their consumer credit debts by means of a DMP but had subsequently terminated the agreement, generally after less than twelve months (although in one case after sixteen years). This was usually because participants were dissatisfied with the service they received. Most had subsequently set up, or were in the process of setting up, alternative payment arrangements with their creditors, either through direct negotiation or by means of a DMP from a free-to-client provider.

6.2.1 Dissatisfied with service

Most participants in this group had cancelled their agreement with a fee-charging debt management company because their creditors reported that they had not been paid at all or had received late payments from the company. These participants had all made at least three payments to a debt management company by the time they cancelled their plan; a few had been making repayments for well over two years. In addition, one participant had cancelled her agreement because the debt management company took several partial payments over the course of a month from her debit card, rather than one payment for the full agreed amount as she had expected. The fact that participants had received very little information, often despite repeated attempts to contact the company, was also a source of concern.

At the time they were interviewed, almost all of these participants were struggling to manage. They considered themselves to be in a worse financial position than when they had first contacted the debt management company they used, not least because many were uncertain whether or not their creditors had been paid. A few now had County Court Judgements and charging orders against them, or were in arrears with credit debts where previously they had not been. While some were managing to keep up with their priority bills, others had fallen behind.

Most of these customers had used a fee-charging debt management company that was not a member of any of the three industry codes of practice. Only one of them talked about seeking redress from the fee-charging debt management company they had used. He had taken up the matter with the OFT and his local trading standards department, but did not know the outcome at the time of the interview. Other participants seemed resigned to the fact that they were unlikely to get back any of the money they had paid to the fee-charging debt management company.

Case study: Cancelled debt management plan

Jill and her husband are in their 40s, with two children. They recently cancelled their DMP after eight months when they discovered that some of their creditors had received payments late from the debt management company, and others had not received any payments at all. In addition, they had only just found out that the first two payments of £300 they had made were retained by the debt management company and not distributed to their creditors.

You've paid all them charges for nothing really, especially when they weren't sending the money on time.

Jill had written several letters to the debt management company asking for information, but received no reply. Concerned about what they should do, Jill contacted their local CAB, who referred them to National Debtline. They had subsequently been referred to a free-to-client DMP provider and were about to start making payments of £450 per month. In the meantime, Jill had negotiated repayments directly with some of their creditors, and they were paying what they could to others that would not agree to a reduced repayment. They had always prioritised their mortgage payments and other household bills and were optimistic about paying off their unsecured debts over the next three to five years.

All of these participants had subsequently contacted National Debtline and/or a free-to-client DMP provider. They had found out about these services in a number of ways, including a referral from a CAB, a personal recommendation from a friend or from one of their lenders. Some of these participants were now in the process of setting up a DMP with a free provider, others had negotiated repayments with their creditors themselves. They were generally optimistic about being able to pay off their debts once an arrangement was in place.

In addition, since terminating his commercially-provided DMP, one participant had petitioned for bankruptcy, with the likely outcome that he would lose his home. This was the course of action he had hoped to avoid by engaging a fee-charging debt management company, and as a result he had lost his job as a financial adviser. Perhaps not surprisingly, he was uncertain about the future. Another participant was considering his options, which included bankruptcy.

6.2.2 Other reasons for termination of debt management plan

A few participants had terminated their agreement with a fee-charging debt management company for other reasons, after less than a year of repaying their debts in this way. One participant was unable to keep up her payments following separation from her husband, and at the time of the interview she was negotiating payments directly with her creditors. Another participant had been advised by her debt management company to take out an IVA only a few months after starting to make repayments through a DMP. She and her self-employed husband found it impossible to keep up the IVA payments because of their fluctuating income, and were uncertain what their next steps would be. Both these participants had subsequently sought advice from National Debtline.

These participants described themselves as having serious financial difficulties, and had fallen behind with household bills. Even so, they were cautiously optimistic about being able to repay their debts over the longer term, although this was contingent on an improvement in their household incomes.

6.3 Repaid consumer credit debts

The third group comprised fourteen participants who were no longer on a DMP because they had paid off all (or almost all) of their consumer credit debts, typically within the previous twelve months. They had all used the same debt management company.

There were three main ways in which they had achieved this. First, some participants repaid their debts in full by means of a DMP, over periods ranging from two years to nine years. In other words, the plan effectively ran to term. They included one participant who repaid her debts more quickly than the debt management company had anticipated (in four years rather than five), by paying additional sums of money to some creditors outside her DMP (and unbeknown to the debt management company).

The second route to debt repayment was where participants had repaid most of their unsecured credit commitments by means of a DMP. They decided to terminate the plan when only a few creditors remained to be paid and the outstanding balances were

low, and paid off the remaining amounts themselves. Generally this was to avoid paying the debt management company's monthly fees on relatively small debts.

Apart from one participant who was still repaying a credit card debt, the rest were now debt-free. None of these participants mentioned being financially penalised by the debt management company for taking this course of action. However, one man whose plan ran to term decided against this course of action when he was told by the debt management company that he would forfeit his first payment of £300, which had been taken as a deposit and was used to make the last payment to his creditors.

Finally, several participants had made payments to a debt management company for some time (ranging from two months to seven years), before reaching a full and final settlement agreement with their creditors.⁷² This was mainly funded through lump sum payments, including a redundancy payout, a pension payout and the proceeds of selling property; in one case the money was raised by re-mortgaging a property. Most of these participants settled with all the creditors who had been included in the debt management plan. One couple could not reach agreement with one of their creditors, however, and instead arranged to pay the debt off at £5 per month, which they were managing to keep up.

In some cases, the debt management company had been involved in negotiating the full and final settlement, in other cases they had not. In addition, one participant had decided to settle his outstanding debts in full using an inheritance, having been told by a lender that repaying the full amount owed (rather than a proportion) would help his credit rating in the future.

The total amount of fees that these participants had paid to a debt management company ranged from £60, for a plan that was terminated after two months when the participant was able to sell her buy-to-let properties, to around £7,500 for a plan that ran for seven years before the participant used an inheritance to settle his debts in full. The average was around £3,000 paid in fees.

Case study: Repaid consumer credit debts

Lisa is in her early 40s, married with two children. She was on a DMP for six years, making a monthly payment of £325. Towards the end of this time, Lisa contacted the debt management company to find out what balances remained outstanding. As she only owed money to three of her original eight creditors, she decided to terminate the plan and arrange to pay off the outstanding amounts (totalling £600) herself, over the course of several months. Now debt-free, she and her husband enjoy a good standard of living, and are optimistic that this will continue. Lisa's recent move from part-time to full-time work has further improved their financial situation.

It's fantastic, yes, life's sorted out now... I've got everything I need and financially I'm sorted. It's taken a hell of a long time to do it but I'm fine now, it's good.

⁷² This is where debtors have a lump sum available and offer their creditors a proportion of the outstanding balance owed in full and final settlement. In return for having a lump sum payment, the creditor agrees to write off the rest of the debt.

They do not have any unsecured credit, and are strongly resistant to borrowing money in the future.

Regardless of the route they had taken to repay their consumer credit debts, these participants had generally been able to keep up with their DMP repayments. A few had negotiated reduced amounts with the debt management company when they experienced permanent or temporary drops in income. In addition, all of those who were on a DMP for longer than twelve months reported regular reviews of their financial circumstances by the debt management company. In several cases, this resulted in increases in the monthly payment amount, reflecting rises in the participants' household income.

Most of the participants in this group felt they were significantly better off now than when they had first contacted the fee-charging debt management company. They were managing well financially, and were generally optimistic about the future. Some expressed concerns about the economic recession on their employment prospects.

A few participants considered themselves to be better off now that they had repaid their unsecured debts, but nonetheless found it a struggle to managing financially, at least from time to time. This was attributed to factors such as having a large family, unexpected expenses such as car repairs, or difficulties keeping up with priority bills. These participants tended to have lower household incomes, and there was little or no prospect of any significant improvement in their income in the near future.

6.4 Attitudes to credit and credit use

The negative impact of debt problems on an individual's credit rating means that people who are on, or have been on, a DMP will experience restricted access to consumer credit, typically for six years. Among the participants interviewed in depth, use of unsecured credit was relatively uncommon. A few people had a credit card or overdraft facility that they did not use, or a credit card that they used sparingly and paid off in full each month, in one case to start building up a credit history.

We're in the position now that we can pay it off, as long as we're, you know, we keep to a limit and pay it off every month without any interest building on it. (Woman, 40s)

Many participants expressed strong views against credit use. They intended not to use unsecured credit in the future, or to avoid doing so unless absolutely necessary. Instead, they tried to live within their means, and some had started to save up for things they needed or wanted.

I'd never take out credit cards again and I definitely wouldn't have things like overdrafts and stuff, because I've learnt how to live within my means now. (Man, 30s)

Others were more pragmatic. For them, a credit card or a small overdraft facility was a convenience they would like to have in the future, to allow them to buy things

online in the case of a credit card or to avoid the risk of charges for going overdrawn on a current account in the case of an overdraft.

6.5 Customer satisfaction

The sample of customers we interviewed was designed to include people who were likely to be satisfied with the fee-charging debt management company they had used, and people who were likely to be dissatisfied. It is not a representative sample of people who had used fee-charging debt management companies and therefore we cannot say what proportion overall was satisfied or dissatisfied.

As we might expect, customer satisfaction was closely linked to the outcomes that people had experienced from using a fee-charging debt management company. Broadly speaking, participants who expressed the most satisfaction were those who had paid off their consumer credit debts, either partly or wholly, through a commercially-provided DMP. The least satisfied were those participants who had cancelled their DMP because they were dissatisfied with the service they received.

Customer satisfaction also changed over time. All the participants we interviewed expressed very positive experiences of their initial contact with the fee-charging debt management company they used. For those who went on to cancel their plan, these high expectations waned very quickly. Others remained relatively happy with the company they used over the duration of their DMP.

6.5.1 Satisfaction with service provided

Among the participants we interviewed, the main advantage of choosing a fee-charging debt management company was the offer of a service that would deal with all their unsecured creditors and reduce their commitments to one lower repayment. In most cases, this service had been delivered.

It was like a relief in one way because you knew then that every month your creditors were getting something. Whereas before it was oh god I can't pay them this month, I'll pay these and then I'll wait while next month and pay them, do you know what I mean, you'd got peace of mind knowing that it was being paid. (Woman, 50s, paid off debts)

There was, however, a high degree of dissatisfaction expressed by participants who had cancelled their DMPs, which centred on the non-payment or late payment of money to creditors by debt management companies. In a few cases, this resulted in further action by some creditors, in the form of County Court Judgements or charging orders. Participants in this situation were of the opinion that their fee-charging debt management company had deliberately stopped making payments to these creditors in an effort to get the debts passed on to a debt collection agency, which would be easier for their debt management company to deal with.

Several other participants, who had mostly paid off their debts, also raised concerns about repayment arrangements. In particular, they were unhappy that interest charges had not been frozen on some of their credit accounts or had only been suspended in the short term, which meant the amounts they owed continued to rise. A few participants reported how on at least one occasion their debt management company

credited their payment to the wrong account number, which resulted in letters from those particular creditors demanding payment.

6.5.2 Satisfaction with customer service

The participants who were interviewed divided about evenly into those who were satisfied with the customer service they received, and those who were not. Almost all the participants who were currently on a DMP felt they were well-informed although, as we might expect, contact with the company generally tailed off once the plan was up and running.

In contrast, participants who had cancelled their DMP were very unhappy at the lack of information they had received. This related to issues such as interest charges still being applied, but also the situation with their creditors, for example which creditors had or had not been paid and how much they had received. It was common for these participants to experience difficulties contacting the debt management company they had used, with emails, telephone calls and letters left unanswered or inadequate responses provided.

... you didn't know where you were with them, they were unreliable, they didn't, I don't know, just didn't bother to reply. (Woman, 30s)

Several other participants expressed frustration that, while the debt management companies generally sent monthly statements stating the creditors that had been paid and the amounts paid to them, they did not automatically provide information on the outstanding balances owed to individual creditors. Where participants had requested this information from the debt management company they had used, it was often slow to be provided and several months out-of-date when it did arrive. In addition, a few participants felt that they did not receive adequate information from the debt management company about the impact of a DMP on their credit rating.

6.5.3 Satisfaction with outcomes

On the whole, those participants currently on a DMP or who had repaid their consumer credit debts were satisfied with the outcome of using a fee-charging debt management company. For them, a commercially-provided DMP was an effective means of managing their debt problems, until such time that their debts were repaid according to the plan or they were able come to a full and final settlement with their creditors. This was also true of the small number of participants whose debt management plan had lapsed before their debts were repaid.

... it made me feel secure. And it made me feel that I could actually start moving forward because I'd got that sorted at least. (Woman, 50s, currently on a DMP)

In contrast, participants who had cancelled their plan because they were unhappy about the service they received generally felt that their financial situation had deteriorated significantly since they first contacted a fee-charging debt management company. In some cases they were also very unsure where they stood with their creditors.

6.6 Future use of advice services

In Chapter 5, we described participants' experiences of free-to-client advice services prior to using a fee-charging debt management company. We also saw that several participants had found out about national free-to-client services such as National Debtline, CCCS and Payplan from their creditors, when they were already committed to a commercially-provided DMP.

In addition, all of the participants whose commercially-provided DMP had been cancelled or lapsed subsequently contacted National Debtline and/or a free-to-client DMP provider. Overall, their early experiences of using these services had been positive. Several mentioned the comprehensive information they had received, which included information about priority debts (such as mortgage, rent, Council Tax) as well as unsecured credit debts.

When asked what they would do if they found themselves in a similar position again, these participants generally said they would either use a free-to-client service or try and negotiate with their creditors themselves. Perhaps not surprisingly, they would not recommend using a fee-charging debt management company. One participant, whose commercially-provided DMP had lapsed when she could no longer afford the payments, would use a free-to-client provider but only if it offered the same level of service as a fee-charging company.

Take care of the creditors, to stop the telephone calls and the letters coming... to stop them coming to knock on the door and ask for money... really what they need to be doing is representing me. (Woman, 30s, debt management plan lapsed)

Of the remaining participants, several of those who were currently on a commercially-provided DMP thought they would consider using a free-to-client service if they found themselves in a similar position again. Most, however, thought they would probably use the same fee-charging management company again. They would either recommend it to others in a similar situation or at least tell them to consider a fee-charging company as an option. These tended to be participants who had managed to pay off their consumer credit debts.

7 Conclusions and policy considerations

There are a wide range of debt remedies available in the UK to enable people in debt to resolve their financial difficulties. A DMP is an informal debt remedy that provides a means for people to repay their consumer credit debts in full. An affordable payment is calculated, based on an assessment of an individual's income and expenditure. The person in debt makes one monthly payment to a debt management provider, which is then distributed between their creditors on a pro rata basis, either electronically or by cheque.

Almost 10 years since the first independent research into fee-charging debt advice and management, the Money Advice Trust commissioned this review to provide an update on the fee-charging debt management industry in the UK. This final chapter draws out the main conclusions from the research and highlights the policy considerations arising from the findings. On the basis of these policy considerations, the MAT makes a number of recommendations with regard to the fee-charging debt management industry, the credit industry, the free-to-client advice sector and the government.

7.1 The fee-charging debt management industry

The first review, conducted in 1999, identified fewer than forty companies that provided debt management or debt advice to individuals for a fee. During the course of the current review, we identified over 150 companies that offer DMPs for a fee. While this is by no means a definitive figure, it does provide some idea of the scale of the industry.

Around 130 of the companies we identified were direct providers of debt management plans. The remainder acted as brokers or introducers to debt management companies. Our telephone survey of companies indicates that they generally provide telephone-based services to individuals across the UK. As well as DMPs, it is common for companies to offer access to other debt remedies including IVAs and trust deeds, debt consolidation and bankruptcy advice.

Any organisation that provides DMPs, regardless of whether or not they charge individuals a fee, has to be licensed under the Consumer Credit Act 1974. The OFT Debt Management Guidance sets out minimum standards that have to be met by all debt management providers (whether they offer debt DMPs for a fee or free of charge) if they are to be judged fit to hold a consumer credit licence. In addition, there are three industry codes of practice that cover fee-charging debt management companies. The Debt Managers Standards Association has a code of practice that relates specifically to fee-charging debt management companies. The Debt Resolution Forum code of practice and the Debt Standard Code of Conduct refer to DMPs and other debt remedies that are provided by commercial companies.

7.2 Debt management plans

Commercially-provided DMPs are generally marketed at people with debts of less than £15,000, with at least two creditors, and sufficient disposable income to make repayments. According to the credit industry representatives that we interviewed, the main criterion for them to accept or reject a reduced repayment offer was whether or not it represented a reasonable offer, based on the individual's income and expenditure.

Evidence from the telephone survey of fee-charging debt management companies indicated that DMPs were unlikely to run for the projected duration. Most of the companies surveyed stated that, on average, a DMP was projected to run for between 60 and 120 months (five and ten years). The average actual duration of a plan tended to be 36 months or less. The interviews with customers of fee-charging debt management companies highlighted a number of reasons why plans may not run to term: a change of circumstance that makes continued repayments unfeasible for the person in debt; deciding to pursue an alternative debt remedy; deciding to repay their creditors themselves; or the termination of a plan by the person in debt because of poor service.

7.3 Credit industry experiences of working with fee-charging debt management companies

The credit industry representatives we interviewed described a mixed picture of working with the fee-charging debt management industry. On the one hand, they enjoyed good working relationships with companies that were generally larger and longer-established, which had efficient systems, processes and operations and were keen to work closely with the credit industry. While it is difficult to quantify the number of companies in this category, some credit industry representatives talked about having preferential data exchange agreements in place with between 10 and 15 of the larger companies.

On the other hand, credit industry representatives expressed concerns about smaller, more recently established firms that, on the basis of their experience, they considered to be less open and transparent in their dealings with the credit industry. They feared that these companies did not always provide best advice to individuals, with the risk that some people might end up with a debt remedy inappropriate to their needs but profitable for the company. Even though these companies are likely to be dealing with lower volumes of customers than the larger, longer-established firms, this is nonetheless a serious source of concern, particularly in light of the poor experiences related by some of the customers we interviewed (see below).

Other concerns raised by credit industry representatives included the considerable variation in the standard of financial statements received from fee-charging debt management companies and the fees and other charges that they levied.

7.4 Customers of fee-charging debt management companies

We estimate that somewhere in the region of 300,000 to 375,000 people are on a commercially-provided debt management plan. This is between two and three times

as many as are repaying their debts through a debt management plan administered by a free-to-client provider.

The customers of fee-charging debt management companies that we interviewed in depth for this review had typically accrued multiple consumer credit debts totalling in the region of £10,000 to £20,000, and owed money to between five and 10 creditors. Almost all of them had taken some steps to try and resolve their debt problems prior to contacting a fee-charging debt management company, such as talking to their creditors to try and negotiate lower repayments or seeking advice from a CAB.

The customers we interviewed had come into contact with a fee-charging debt management company in a number of different ways, such as responding to a television or newspaper advert or coming across the company on the internet. Some appeared to have been 'introduced' to a debt management company via a loan company after they had made online applications for a debt consolidation loan. Customers were attracted primarily by the fact that the company offered to deal with their debt problems on their behalf: reducing their debt repayments to an affordable, single monthly payment and handling all contact with their creditors on their behalf. A high level of customer service (at least initially) cemented their decision to sign an agreement with the company.

Most of the customers we interviewed were aware from the outset that they would have to pay a fee for debt management, and felt they were given adequate information about this at an early stage in the process. Others were unhappy because they had only received information about the fees relatively late in the process. The customers we interviewed were generally paying between 15 and 18 per cent of their monthly repayment in fees. Most were happy with the level of charges they paid a fee-charging debt management company at the outset. Some of those who had completed their DMP queried whether the charges still represented value-for-money as time went on. Some were also aware of having paid set-up charges, others were likely to have paid set-up charges even if they did not recall doing so.

7.5 Customer outcomes

The sample of customers we interviewed was designed to include people who were likely to be satisfied with the fee-charging debt management company they had used, and people who were likely to be dissatisfied. It was not a representative sample of people who had used fee-charging debt management companies and therefore we cannot say what proportion overall was satisfied or dissatisfied.

There were three main outcomes among the customers we interviewed: those who were currently repaying debts through a DMP; those who had terminated their plan due to poor service; and those who had repaid their consumer credit debts. The first group were currently repaying their consumer credit debts via a commercially-provided DMP. They generally felt their financial situation had improved since contacting a fee-charging company, and were keeping up with their plan payments and other commitments, although it was sometimes a struggle. As a result, they tended to be satisfied with the service they had received from the company they used.

Most of the participants in the second group had cancelled their agreement with a fee-charging debt management company because their creditors had not been paid or had received payments late. As a result, they were very dissatisfied with the service they received. They were struggling to manage and felt themselves to be in worse financial situation than before they contacted the company. In addition, a few participants in this group had either let their plan lapse because they could no longer afford to pay, or had switched to another debt remedy which proved unaffordable. These participants described themselves as having serious financial difficulties, and had fallen behind with household bills.

The third group comprised people who were no longer on a DMP because they had paid off all (or almost all) their consumer credit debts. This was achieved in one of three ways: repaying their unsecured debts in full through a DMP; repaying most of their unsecured debts by means of a DMP and then arranging to make the final payments direct to their remaining creditors; or paying via a DMP before reaching a full and final settlement agreement with their creditors. Regardless of the route they had followed, most of the participants in this group felt they were significantly better off now than when they first contacted the fee-charging debt management company, were managing well financially and were optimistic about their financial future. As a result, they tended to be among the most satisfied of the customers we interviewed.

7.6 Policy considerations

The findings from this review highlight a number of policy considerations which relate not only to the fee-charging debt management industry but also to the credit industry, the free-to-client advice sector, and to government. MAT has made a number of recommendations in the light of these policy considerations.

7.6.1 *Fee-charging debt management industry*

The customers we interviewed experienced a range of outcomes from using a fee-charging debt management company, from being able to successfully clear their consumer credit debts and enjoy an improved financial situation to the breakdown and cancellation of plans, a resumption of debt collection and recovery procedures and a worsened financial situation.

Regardless of the outcome they experienced, the customers we interviewed reported positive experiences of their initial contact with a fee-charging debt management company, which often contrasted sharply with their attempts to negotiate with their creditors. And, on the whole, repayment arrangements were set up fairly quickly after their initial contact with a fee-charging debt management company.

There was, however, evidence of poor service being provided to fee-paying customers by some companies. This centred on the non-payment or late payment of creditors well beyond the initial phase of a DMP, which ultimately exacerbated rather than alleviated people's debt problems. Some customers we interviewed also reported only being informed about fees and other charges once they had already committed to using a company – they had either assumed that the service was free up to this point, or were aware they would be charged but were shocked at the actual amounts they would have to pay. Credit industry representatives were also concerned about the

amounts of money that customers paid in fees and charges and the way in which these were levied by some companies.

In turn, these issues give rise to questions about the regulation and quality standards that apply to the fee-charging debt management industry. Among the customers we interviewed who had terminated their DMP due to poor service, most had used a fee-charging debt management company that was not a member of any of the three industry codes of practice. From the size of membership of the industry codes of practice, it seems that most companies that offer fee-charging debt management are not currently covered by any of the three codes of practice.⁷³ Moreover, non-members are likely to include a disproportionate number of smaller, newer entrants to the fee-charging debt management industry, about which credit industry representatives expressed the greatest concern.

In addition, the credit industry representatives that we interviewed, while welcoming the introduction of the codes of practice, were keen to see initiatives such as an industry-wide kitemark that creditors, debt collection agencies and people in debt could recognise and have confidence in. While not mentioned specifically by credit industry representatives, it seems reasonable to assume that this would ideally be achieved through a rationalisation of the current codes of practice into one industry-wide code that covered debt management and possibly other debt remedies as well. A need for comprehensive and robust compliance monitoring was also identified.

Since the time of the research, the OFT has announced a further compliance review against its Debt Management Guidance, which is due to start in mid-2009. It also intends to take appropriate action to deal with misleading advertising, especially in relation to businesses not being clear about fees charged and effects of DMPs on the current and future standing of the person in debt.⁷⁴

MAT recommendations:

- We welcome the OFT's forthcoming compliance review against its Debt Management Guidance, since it is six years since the OFT investigated the industry in depth, which has grown very significantly in that time. We also recommend that any future version of the Guidance should include a specific expectation that, in any form of promotion, fee-charging debt management companies are explicit that, beyond initial contact, their services are provided at a cost.
- Trade/membership bodies representing the fee-charging debt management sector should continue to actively promote the role and value of industry quality assurance standards and seek wherever possible to move towards greater convergence/commonality of content of individual quality frameworks.

⁷³ DEMSA has four members (www.demsa.co.uk/members.htm, accessed 20/05/2009). The Debt Resolution Forum (www.debtresolutionforum.org.uk, accessed 13/05/09) has 34 members and three companies have signed up to the Debt Standard Code of Conduct (www.thedebtstandard.com, accessed 20/05/2009), although not all of these companies will provide DMPs. Caution should be exercised when comparing numbers of members of the two associations/fora, as these are not necessarily indicative of the total volumes of DMPs being administered by the membership of each association/forum.

⁷⁴ OFT (2009) *Financial Services Strategy: A consultation document*. OFT1077con

- Given creditors' reports of variations in the quality of financial statements supplied by fee-charging debt management companies, the Money Advice Trust should extend its promotion of the Common Financial Statement further into the commercial debt management sector.

7.6.2 Credit industry

Among the lenders we interviewed for this research, it was common to have a specialist unit to deal with people in debt who may be working through a third party to try and resolve their financial difficulties. These units routinely referred people to free-to-client advice providers, including CCCS and Payplan which provide DMPs free of charge to people in debt.

The interviews with customers indicate that information about free-to-client debt advice and debt management services was not always provided at a sufficiently early stage in the collections and debt recovery process. Several customers reported that they were only told about free-to-client advice services after they had committed to using a fee-charging company. By this stage, they were reluctant to switch to a free service despite the cost saving, as they feared any disruption to the repayment arrangements that were in place, and a resumption of telephone calls and letters from creditors.

One way of prompting creditors to make people in debt aware of free-to-client advice services would be to strengthen existing codes of practice. The Finance and Leasing Association is the main representative organisation in the UK for consumer credit, motor finance and asset finance sectors. Its Lending Code currently contains the following guidance for borrowers in financial difficulty:

*“Once you tell us that you are in financial difficulty, we will tell you about these [free-to-client] debt-counselling organisations **if you ask.**”⁷⁵ (emphasis added)*

Similarly, the Banking Code Guidance states that banks and building societies that subscribe to the Code “*should tell customers where they can get free money advice when the subscriber thinks the customer is in financial difficulties.*”⁷⁶

Based on the findings of this research, a more effective approach from the point of view of people in debt would be for FLA members and Banking Code subscribers to proactively tell customers about free-to-client advice services at the earliest possible and appropriate opportunity. The customer interviews we conducted indicate that this should take place before the customer is referred to a lender's in-house money advice unit.

MAT recommendation:

- Creditors' staff training programmes should build on best practice to promote the role of and provide contact information relating to free-to-client services. MAT would welcome the opportunity to build on existing initiatives with creditors in this area.

⁷⁵ Finance and Leasing Association, Lending Code 2006, section 1D.6

⁷⁶ The Banking Code: Guidance for subscribers, March 2008, paragraph 14.4

7.6.3 Free-to-client advice sector

The interviews with customers indicate that free-to-client debt management plan providers have a low visibility among debtors in the general public, relative to fee-charging companies that offer debt management and other debt remedies. The free-to-client debt management providers (CCCS and Payplan) appeared to lack a strong brand, evidenced by the fact that several people who were using one of these services could not recall its name in the interview. One means of promoting awareness of CCCS and Payplan might be to encourage greater numbers of referrals from other free-to-client advice services (such as citizens advice bureaux which enjoy strong brand awareness), where this was considered appropriate for the person in debt.

There seem to be two key features that attracted people to use a fee-charging company, which might be used to inform the marketing and delivery of free-to-client services. First, the customers we interviewed had generally become aware of the company they went on to use via an advert on the television or a national tabloid. Second, they had been drawn to the fee-charging companies they used by the direct and simple marketing messages delivered by the companies, namely that they could help people manage their debt problems, take away the anxiety of dealing with their unsecured creditors, and reduce their debt repayments to an affordable amount.

There seemed to be some confusion about the distinction between free-to-client and fee-charging debt solutions providers among the customers we interviewed. Several of them mentioned television adverts for free government advice services which they assumed referred to CABx or similar organisations. It seems more likely, however, that they were in fact adverts for commercial companies offering IVAs or debt management for a fee.

Once they had made initial contact with a fee-charging debt management company, the customers we interviewed were unlikely to speak to any other companies. They were particularly attracted by the reassuring and sympathetic approach of company representatives, at a time when they were often deeply concerned by their situation and having difficulty coming to any viable arrangements with their unsecured lenders. They seemed to require or desire a high degree of support and the fact that the company offered to ‘deal with everything’ for them was extremely appealing. The idea that they might have to deal with their creditors themselves (albeit with advice, guidance and support) was generally off-putting to these customers.

MAT recommendations:

- Government should build on existing initiatives such as the money, tax, and benefits pages of the Directgov web portal, to further promote public awareness of free-to-client money advice services. By way of a good practice example, a recent Scottish government-sponsored television promotion of National Debtline led to a significant upturn in numbers of calls from Scotland-based clients.

7.6.4 A further recommendation to government

MAT makes a further general recommendation to all departments and non-departmental public bodies that have a formal role in the development and regulation of the commercial debt management sector.

MAT recommendation:

All relevant public bodies should work in partnership wherever possible to ensure that any debt management-related initiatives are designed and maintained with the needs of consumers as a central focus. For example, the statutory debt repayment scheme provided for by the Tribunals, Courts and Enforcement Act 2007 has the potential to provide an additional debt remedy to those who need it. However, the extent to which the needs of people in debt are met by the scheme will depend on the detail of how such a scheme is agreed and implemented. MAT would welcome the opportunity to work with government departments and others in designing initiatives that will assist the resolution of consumers' debt-related problems.

Appendix 1: Research methods

The research methods employed on this project included desk research, a telephone survey of fee-charging debt management companies, telephone depth interviews with credit industry representatives and face-to-face depth interviews with customers of fee-charging debt management companies. The topic guide for the interviews with credit industry representatives is provided in Appendix 2, and the one used with customers in Appendix 3.

Desk research

The project began with desk research to explore the size and nature of the fee-charging debt management industry. A search of the online directory www.yell.com using the term 'debt advice' produced over 600 companies. Taking these search results as a starting point, we carried out web searches of the companies listed, in order to identify which of them provided debt management plans for a fee. We also cross-checked the findings against the practitioner evidence and the customer interviews to identify additional debt management companies (see below for details). Basic information about the companies was entered onto an Excel spreadsheet (including contact details, services provided, any information about DMP criteria and charges).

This initial phase of the research was also used to identify contextual information about the wider environment in which debt management companies now operate, compared with 10 years ago, such as the proposed reforms to debt remedies in England and Wales under the Tribunals, Courts and Enforcement Act 2007.

Telephone depth interviews with credit industry representatives

Telephone depth interviews were conducted with representatives from 10 major organisations in the credit industry. They included single-product lenders (credit card companies, home credit), multi-product lenders (high street banks) and debt collection agencies. The interviews were held with senior debt recovery and arrears management staff, most of whom were responsible for managing relationships with third parties such as fee-charging companies and not-for-profit advice providers.

The interviews explored the following broad topics:

- Responses to fee-charging debt management companies, and whether or not these had changed over time
- Experiences of working with fee-charging debt management companies compared with free-to-client advice services
- Views on the durability of DMPs set up by fee-charging companies compared to those set up by the free-to-client advice sector, and
- Views on emerging proposed debt remedies, such as statutory debt management schemes and DROs.

All the interviews were recorded (with the respondents' permission) and transcribed verbatim. Analysis was conducted using thematic grids designed for use with qualitative data.

Telephone survey with fee-charging debt management companies

A telephone survey was conducted with fee-charging debt management companies operating in the UK, which were identified from the desk research described earlier. Contact was made with 101 companies, and 53 interviews were achieved. Most of the companies surveyed (45) were direct providers of DMPs, the remainder (eight companies) said they acted as brokers or introducers rather than direct providers.

The survey was conducted with senior staff members and collected information about how the company operated, such as:

- Number of employees
- Geographical coverage
- Services provided
- Client acquisition strategies
- Charging structures
- Awareness/membership of trade bodies such as the Debt Managers Standards Association (DEMSA) and the Debt Resolution Forum.

The interviews ranged in length from around ten minutes to thirty minutes. Average duration was around fourteen minutes. The data were provided in the form of an SPSS dataset, which allowed tabulations to be produced, summarising the replies to all questions across all relevant variables (such as size of company). The limitations of the sample size precluded any detailed quantitative analysis of the data, but allowed us to produce a profile of the companies that were surveyed.

Analysis of practitioner evidence

Citizens Advice Bureaux (CABx) collect evidence around social policy issues from their clients via electronic Bureau Evidence Forms (eBEFs), which are held centrally by Citizens Advice to inform its research and campaigns. Over 100 eBEFs from the period June 2005 to June 2008 dealing with fee-charging debt management companies were accessed and analysed for this project. These "eBEFS" referred to around thirty debt management companies. The issues raised by bureaux referred to four broad areas: charges; terms and conditions; services and communication.

Face-to-face depth interviews with customers of fee-charging debt management companies

We conducted 30 face-to-face depth interviews between October 2008 and February 2009 with people who were (or had recently been) repaying credit commitments through a DMP that they paid for. The interviews were carried out face to face with customers, generally in their home. Between them, the customers we interviewed had experience of fourteen different debt management companies. Each respondent received £30 in shopping vouchers as a thank you for taking part.

The customers we interviewed were identified in one of three ways. First, National Debtline advisers identified and recruited 92 people who were (or had recently been)

on a DMP with a fee-charging company from the calls they received over a three-week period in September-October 2008. A total of twelve interviews were conducted with people recruited in this way.

Secondly, a large credit card company conducted a mail-out on behalf of PFRC in October 2008, to a sample of 200 of its customers who were repaying their debts through a fee-charging debt management company. The response to this mail-out was low: only six people in total replied, of whom three were interviewed.

Thirdly, a fee-charging debt management company carried out a similar exercise on behalf of PFRC, mailing out letters to around 400 of its customers inviting them to opt-in to the research. The mailout was conducted in two batches: one in December 2008, the other in January 2009. A total of 41 people responded to the mailout and 15 interviews were conducted.

The interviews ranged in length from 35 minutes to one hour and 13 minutes, with an average length of around 55 minutes. All the interviews were recorded (with the respondents' permission) and transcribed verbatim. Analysis was conducted using thematic grids designed for use with qualitative data.

The interviews were conducted in England and Wales. We had anticipated carrying out interviews in Scotland, but very few people from Scotland were identified, and we were unable to arrange any interviews.

We did not conduct any interviews with clients of free-to-client advice services as part of this study. In analysing and reporting the customer interviews, however, where appropriate we have drawn upon research carried out with clients of free-to-client advice services to compare their views and experiences.

Appendix 2: Topic guide used for interviews with credit industry representatives

Thank you for agreeing to speak to me.

- As you know from the email we sent you, the Money Advice Trust has commissioned the Personal Finance Research Centre at the University of Bristol to conduct an independent review of the commercial debt management industry (i.e. companies that charge customers to set up and administer debt management plans as opposed to those who generate revenue from charging the creditor).
- The research includes interviews with representatives from the credit industry (including a range of ‘original’ lenders and debt collection agencies), as well as a telephone survey of commercial debt management companies and interviews with customers of these companies.
- The interview should take **around 30 minutes**. Before we start, I would like to emphasise that everything we discuss during the interview will be treated as confidential. This means that any information you provide cannot be traced back to you or your company.
- I would also stress that we are interested in your personal views and experiences of dealing with commercial debt management companies, we do not expect you to be a spokesperson for your company.
- If it’s OK with you I will record the interview, the recording will be destroyed/deleted once the project has been completed.

Do you have any questions you’d like to ask before we start?

Background

1. Can I just check your job title and what you consider to be your main responsibilities?
2. What is the nature and extent of your contact with commercial debt management companies (DMCs) in the course of your work?
3. Any idea what proportion of your customers who are in financial difficulties are repaying their debts through commercial DMPs?
 - a. Any changes over time?
 - b. How does this compare with proportion of clients represented by free-to-client DMP providers such as CCCS and PayPlan?
4. Does your company have processes in place to offer free-to-client debt advice to customers in financial difficulty, either through an in-house service or through referrals to independent external agencies such as CCCS, CABx, National Debtline?
 - a. If yes, probe for details – if refer to independent external agencies, any particular agencies and why?
 - b. If no, probe for reasons

Responses to fee-charging debt management companies

5. Can you please describe how you would generally respond to a commercial DMC once they become involved in a customer's case? Probe for responses to:
 - a. Proposals for reduced repayments
 - b. Requests to freeze interest
 - c. Requests to cease further penalty charges
6. In your experience, is this a standard approach across your company to all commercial DMCs?
 - a. If it varies, how and why?
7. In your view, has your company's approach to commercial DMCs changed at all over time e.g. more/less willing to engage or negotiate with commercial companies?
 - a. If it has, how and why?
8. Does your company employ broadly the same approach in response to approaches from free-to-client DMP providers such as CCCS and Payplan or not?
 - a. If different, how and why?

Views and experiences of fee-charging debt management companies

9. In your experience, do different DMP providers seem to serve different segments of the market, e.g. are CCCS customers very different to the customers of commercial DMCs?
 - a. If yes, probe for details
10. What has been your general experience of dealing with commercial DMCs e.g. generally positive, negative, mixed?
 - a. Good things/bad things about dealing with them?
 - b. Any examples of good/bad practice?
 - c. How do they compare generally with free-to-client advice agencies?
11. In your experience, how much variation is there between different commercial DMCs in terms of the quality of service they provide?
 - a. Do you have any views about what might explain any variations, e.g. size of company, membership of trade bodies?
12. What are your views on the durability and general viability of debt management plans set up by commercial companies?
 - a. How do they compare with those set by free-to-client DMP providers such as CCCS and PayPlan?
 - b. What about compared with informal repayment plans set up by advice agencies where the customers make the payments themselves?
13. To the best of your knowledge, does your company monitor the performance of DMPs?
 - a. If yes, how and why? What action, if any, does the company take to address poorly performing DMPs?
14. Does your company have any aggregate statistics about breakage rates of DMPs that you would be able to share with us?
15. In your view, what are the advantages and disadvantages of commercial DMCs from the credit industry perspective? From the customer perspective?
16. Are there any changes or improvements you would like to see implemented across the commercial DMC industry?

Views of proposed debt remedies

17. As you may know, there are a number of proposed debt remedies in the pipeline that the government has been exploring and consulting on, including ‘regulated’ debt management schemes, debt relief orders and a new version of the administration order.

- a. What are your general views about these proposals, e.g. broadly positive/negative?
- b. What impact, if any, do you think these debt remedies would have on the commercial DMC industry if they were introduced?

Any questions or further comments?

Appendix 3: Topic guide used for interviews with customers of fee-charging debt management companies

Thank you for agreeing to speak to me.

- I am a researcher from the Personal Finance Research Centre at Bristol University. 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 using fee-charging debt management companies.
- 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
- Employment status of respondent (and partner)
- Housing tenure
- Can I just check, which of these ethnic groups do you consider you belong to?
SHOWCARD A

- Current household income (USE SHOWCARD B)
- Attitude to money – self and partner
- Satisfaction with standard of living? Any making do/trade-offs?
- Any significant changes to respondent or household in past 12 months or so, e.g. related to work (such as change of job, job loss), health or disability, income (such as changes to benefits or tax credits), household composition (such as children leaving home)?

2. Extent and nature of money problems at time when contacted fee-charging debt management company

- What sort of money problems did they have – type of problems (consumer credit, household bills) and estimated level of debt
- How felt about money problems – high priority to sort out or not? Why?

3. Dealing with money problems prior to contacting a fee-charging debt management company

- Tried to sort out their money problems themselves? If no, why not? If yes, how did they go about this? Probe awareness of free-to-client services e.g. CAB
- If sought advice from other sources, views and experiences of advice/help provided. Outcomes?
- If aware of free-to-client services but not accessed, why not?

4. Initial contact with a fee-charging debt management company

- How first heard about the debt management company and when?
- What made them decide to contact the company? Shopped around or not?
- What attracted them to the company e.g. easy to contact, opening hours, offered advice remotely, services they offered?
 - Most/least important factors?
- What did they hope the company would be able to do for them?
- Contacted straightaway or waited – if waited, why?

5. Experience of using a fee-charging debt management company

Initial contact

- How did they initially make contact e.g. phone, online enquiry form?
- Initial impressions of the company and what they could do to help
- Outcome of initial contact

Help/advice received

- How delivered - face-to-face in office, at home, by phone, by email/online. How comfortable discussing debt problems with staff?
- What options did the company discuss with them e.g. DMP, IVA, bankruptcy, debt consolidation? How decided on what course of action to take?
 - Any advice from company about dealing with creditors/debt collectors?
- Did they receive a contract/terms and conditions? When? Read them or not?
- Feelings about the help/advice received overall? Matched expectations or not?

Debts included/not included in DMP

- What debts included in DMP? All consumer credit debts or not? If not all, why not?
- What debts not included? Probe for mortgage/rent, Council Tax, fuel bills.
 - Did company provide any advice about dealing with these debts or not?

Steps taken by the company

- What information did they have to provide for the company to set up a repayment plan e.g. payslips? How easy/difficult to provide necessary information?
- Negotiation of reduced repayments with creditors
- Negotiation with creditors to reduce/freeze interest and other charges
- Any other services provided? e.g. advice about opening a new bank account

Repayment plan

- Amount/frequency of payment, method of payment, term of repayment
- How long have they been making repayments?

- Repayments distributed to creditors from the outset or was there a delay, e.g. first repayment/s taken by DMC as set-up fee, other delays
- Any reviews of their financial situation since repayment plan set up?
- Feelings about repayment plan

Charges

- How/when/how clearly informed about charges
- Charging structure e.g. set-up fee and monthly management fee
- Feelings about charges – higher/lower/about what expected? Do they know roughly how much they will pay in total over the lifetime of the DMP?

Keeping in touch

- Apart from any reviews already discussed, type and nature of further contact with the company
- Reasons for further contact
- Feelings about keeping in touch – kept informed or not?

6. Outcomes of using a fee-charging debt management company

Reaction from others

- Creditors/debt collectors
- Other people e.g. friends/family/other advice agencies if used

Current financial situation

- How well managing generally (USE SHOWCARD C)
- Better/worse than when contacted the company? Why?
- Managing to keep up with repayments to debt management company or not?
- Managing to keep up with payments on priority bills or not e.g. rent/mortgage, utility bills? More difficult since DMP or not? Why?
- Attitude to credit and current use of credit - taken out any further credit since started using debt management company?

Satisfaction with debt management company

- Advice/help received
- Customer service
- Outcome in terms of resolving debt problems e.g. views about repayment plan versus other possible solutions, what about debts not covered by DMP?
- Other outcomes e.g. relief from stress of dealing with creditors
- Changes over time?

Feelings about the future

- Length of time before debts repaid
- Views about ability to keep up repayments over time. Expect to make repayment for the duration of the plan or not?
- Views about financial situation – likely to improve, get worse, stay the same?
- Views about future use of credit

Views about fee-charging debt management companies

- Advantages/disadvantages of fee-charging debt management companies
- Comparison with other sources of advice/help (if used/aware)
- If same/similar service available for free, consider using it?
 - What are the main things it would have to offer to be attractive?
- Use again if in similar situation/recommend to other people with money problems?

SHOWCARD A: ETHNICITY

- A. White - British
- B. White - Irish
- C. White - other White background
- D. Mixed - White and Black Caribbean
- E. Mixed - White and Black African
- F. Mixed - White and Asian
- G. Mixed - any other Mixed background
- H. Asian or Asian British - Indian
- I. Asian or Asian British - Pakistani
- J. Asian or Asian British - Bangladeshi
- K. Asian or Asian British - other Asian background
- L. Black or Black British - Caribbean
- M. Black or Black British - African
- N. Black or Black British - other Black background
- O. Chinese

SHOWCARD B: CURRENT 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 C: HOUSEHOLD FINANCIAL SITUATION

Please read out the letter that best describes your current household financial situation

- A. Managing without any difficulties
- B. Managing, but it is a struggle from time-to-time
- C. Managing, but it is a constant struggle
- D. Falling behind with some bills or payments
- E. Having real financial problems and have fallen behind with many bills and payments



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