

Facing the Squeeze 2011

**A qualitative study of household finances and
access to credit**

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Foreword

This research is unique in that it delves beneath the surface of the high-level statistics we hear almost daily on the state of the economy, which continue to dominate the headlines, and presents a picture of the human cost of the recession.

Although the UK's "technical recession" has ended, for many the "practical recession" is in full swing with households feeling the effects of the economic crisis more sharply than they were two years ago. Households have shown remarkable resilience in trying to manage their finances and a surprising level of creativity in efforts to cut spending. Despite this, a combination of high inflation and stagnating growth in earnings is pushing many to the brink.

Evidence presented in this report tells us that those experiencing the greatest levels of financial difficulties are those who were worse off to begin with. In short, the economic turmoil we have seen over the last few years is having the most detrimental impact on the poorest in society.

Many of those interviewed had not acknowledged how severe their financial situation was and didn't think that advice would help them beyond the measures they had already put into place. Some expressed concern that seeking support could damage their credit rating at a time when they were reliant on credit. This often meant that they cut back on expenditure to the point of deprivation, or continued to add to their debts.

The good news from this research is that - whilst only a few people interviewed had sought advice - those who had were able to improve their situation as a result of the advice they had received. The challenge is getting people to understand the value of advice and seek help earlier. Clearly, the earlier people identify a problem and adjust to a change in circumstances, the better able they will be to manage financially in the long term.

Greater public awareness of how families are coping with difficult economic conditions, and how seeking free, effective and independent advice can help resolve or alleviate the situation is essential, both to prevent more families reaching crisis point and to keep the UK economy afloat.

A handwritten signature in black ink that reads "Joanna Elson". The signature is written in a cursive style and is positioned to the left of a vertical red line.

Joanna Elson OBE CDir
Chief Executive, Money Advice Trust

Executive summary

From the late 1990s to the late 2000s the UK enjoyed a prolonged economic boom. Increased expectations about standards of living, supported by a dramatic growth in the mainstream consumer credit market and an expansion of the UK sub-prime market had helped to fuel a significant growth in consumer spending and borrowing. The global financial crisis that first emerged in 2007 heralded the end of this era and in late 2008 the UK entered recession for the first time in 18 years. Unemployment rose, inflation climbed to twice the Bank of England target rate and the UK saw a severe constriction in consumer and business lending. The UK came out of recession in late 2009 and since that time, the Bank of England base rate has stood at an historical low. UK households still faced a difficult macroeconomic climate in 2011, however, with unemployment and inflation remaining high and real incomes falling.

This qualitative study was undertaken in summer 2011 to explore the range of ways in which households on low and middle incomes have been affected, directly and indirectly, by changes in the macroeconomic situation of the UK and the strategies they have used to cope with these changes. The study had a particular interest in the role of attitudes towards spending, borrowing and patterns of money management and credit use in response to such changes as well as the perceived availability of unsecured and mortgage borrowing. Although the main focus was on how households' circumstances, behaviours and attitudes had changed in the previous 12 months, the study found that changes occurring more than 12 months previously continued to influence them.

Thirty depth interviews were undertaken, all with adults of working age who were using one or more unsecured credit products. Only those who self-reported keeping up with all their household bills and commitments at recruitment were invited to take part. They included people who said they were keeping up without difficulty and those who were keeping up but said that it was a struggle to do so. The study evidenced a diverse range of household financial circumstances and experiences, and despite self-reporting 'keeping up' several participants lived in households that were in fact in some degree of financial difficulty.

Households' overall financial situations fell into three broad groups: those who were managing, those who were stretched and those who were overindebted. Despite their apparent security, many of the households that were managing were, nonetheless, 'feeling the pinch' financially. Those who were stretched had struggled to meet some of their financial commitments or were relying increasingly on credit to do so. Some of them had temporarily delayed making certain payments, indicating that they were overstretched and in the early stages of financial difficulties. For the third group of households, those who were overindebted, their difficulties were evidenced by deprivation, structural arrears, or both.

The situations described by the study participants appeared in many respects to reflect a continuation, in real time, of the findings from a similar study undertaken in summer 2009.¹ This was most apparent in the changes participants' households had experienced in the previous 12 months and two to three years. Some had experienced multiple drops in income in that time (some large, some small), others had stabilised or even improved after a prolonged period of difficulty (including

¹ Collard, S., Finney, A., and Crosswaite, K. (2009) *Facing the squeeze: a qualitative study of household finances*

unemployment). It was also reflected in the near-universal perception of the rising cost of living, to the extent that some felt they were spending the same amounts as a year earlier despite cutting back on what they bought.

Participants had used a diverse range of strategies to adjust to their changing financial situations. At the forefront were strategies to cut back on spending, by shopping 'smarter' or cutting back on non-essentials. Unlike the 'precautionary restraint' observed in the 2009 study, the changes made by the 2011 participants were making were seemingly in response to recent or more prolonged reductions in their spending power. Nonetheless, these strategies, many of them signs of good money management techniques, appear to play an important role in explaining why households were able to manage reasonably comfortably.

Where households were cutting back on essentials, this included buying only basic foods, cutting back on car use and being conscious not to waste gas and electricity. More extreme examples included selling one or more cars (and instances of this leaving the household without any access to a car) and supplementing home-cooked meals with discards from work. Despite the circumstances in which households had taken these measures, some participants nonetheless described the approaches they were using in a positive light.

Cutting back on spending was often combined with closer money management techniques, such that some participants knew how every last penny would be spent. Although it was unusual for participants to describe having saved at all in the last 12 months, a few had started 'saving up' for particular things they would previously have paid for using credit. As a newly adopted approach, this might pave the way towards a saving habit for these households.

Despite widespread efforts to tighten their spending and money management, there was considerable evidence that households were continuing to rely on unsecured credit, and increasingly so in some cases. This was sometimes attributed to having made large one-off purchases, typically via a personal loan or finance. But it was more often because credit card and overdraft balances had crept up as a result of everyday expenses. While some participants were using credit cards, overdrafts and store cards with the same frequency and for the same reasons as they had previously, they were not clearing the balance as they had in the past. This was a source of frustration, and several acknowledged that they had not adjusted their spending and credit use quickly enough when their situations first changed.

Where households had reduced what they owed or avoided accruing more borrowing this often reflected considerable efforts to cut their spending, reduce waste and manage money closely, in combination. Some were relying on informal borrowing or help in kind and others were simply 'going without'. Sometimes these changes were the result of being credit-constrained (real or perceived). But equally, for others they reflected a self-imposed constraint, by cancelling credit facilities to limit spending power or by avoiding using credit for non-essentials, when they might previously have resorted to using credit for these.

While homeowners were generally keeping up with their mortgage payments, this reflected a tendency to prioritise housing costs over all other things. Where repayment amounts had fallen, this eased the difficulties some had previously experienced. Rather than being saved, however, the extra money had been used to meet other expenses or absorbed by the rising cost of living. As such,

households were not making provision for potential increases in repayment amounts, so that any future increase in cost would have to be funded from those same squeezed budgets. Furthermore, some of the mortgage holders appeared to be relying – indirectly at least – on the historically low Bank of England base rate in order to make ends meet. In contrast, the study evidenced the relative financial security afforded to households living in social housing, or those in receipt of welfare benefits and tax credits. For some participants, this feeling of security was tempered by their anxieties about losing eligibility for these benefits, however.

More generally, there was a widespread perception in 2011 that mainstream consumer credit was difficult to access and expensive. There was also a consciousness of – even concern about – the importance of credit ratings. This emerged in several ways: in the recognition that households' circumstances influenced access to and the cost of credit; in encouraging the active retention of unused credit; some participants being deterred from making new applications for fear that a refusal would damage their credit ratings; and others using the sub-prime market because they (perceived that they) did not have a good credit rating. It also deterred people from seeking debt advice.

The study findings strongly suggest there is a need for greater awareness of the signs of financial strain that are indicative of, or even risk factors for, financial difficulties among people with modest incomes. Similarly, there appear to be gaps in people's understanding about what money and debt advice services exist, what they can offer and to whom. In particular there is a need to address an apparent misperception that advice-seeking *per se* can damage someone's credit worthiness. Only with a clearer understanding, will people be in a better position to self-identify as being in or at risk of financial difficulty and able to benefit from advice – before they feel they have reached crisis point – and therefore self-refer to the advice services that are appropriate to them.

The evidence suggests that the earlier people identify and adjust to change the better able they are to manage financially, at least in the short to medium term. However, the longer-term sustainability of the strategies households employ to cope with these situations – whether increased reliance on credit, cutting back on spending or drawing down savings – remains unclear from the evidence. There appears therefore to be a greater role for advice services, working in partnership with other key organisations to provide preventative money and debt advice to those facing potential drops in income, whether large (redundancy) or small (reduced hours and pay cuts).

The evidence also points to the continued need for Government to provide the security that many low and middle income households currently rely on in order to get by. These include: welfare benefits, tax credits and social housing; low interest rates; and policies to increase lending to individuals. The strain described, almost universally by participants, from the increased cost of living underlines the potential role that fiscal policy could play in helping to relieve the chronic pressures many households are experiencing. Moreover, the evidence highlights the continued need for government support for free-to-client advice services through centralised funding.

1 Introduction

This report presents the findings from a study of UK household finances and access to credit in 2011. It updates an original study, commissioned by the Money Advice Trust in 2009, which provided a snapshot of how low and middle income households were managing in the face of the first UK recession of the 21st century.² From the late 1990s to the late 2000s the UK had enjoyed a prolonged economic boom. Increased expectations about standards of living, supported by a dramatic growth in the mainstream consumer credit market and an expansion of the UK sub-prime credit market, had helped to fuel a significant growth in consumer spending and borrowing.

By June 2009 – when the original *Facing the Squeeze* study was undertaken – households in the UK had just started to be exposed to the effects of the global financial crisis that first emerged in 2007. The UK was in recession – for the first time in 18 years – and an increase in unemployment, from 1.6 million in 2008 to 2.5 million in 2009, was starting to bite. There had also been a severe constriction in consumer and business lending as a result of the financial crisis. Mortgage lending was down 58 per cent in May 2009 from May 2008, and the net monthly flow of unsecured lending to individuals totalled £0.3 billion in April 2009 compared with £1 billion in 2008.³ Adding to the pressures on households, inflation had run at twice the Bank of England target rate of two per cent during the latter half of 2008 (as measured by the Consumer Prices Index (CPI)).

To ease these pressures, the Bank of England base rate was cut steadily from five per cent in July 2008 (following a recent peak of 5.75 per cent until November 2007) and stood at 0.50 per cent in June 2009. Existing variable rate mortgages fell in line with this, while the effective interest rates on unsecured borrowing fell by much less. CPI inflation fell back to 1.8 per cent in June 2009, and some households also benefitted from a net increase of just over one per cent in average income.

The first *Facing the Squeeze* study found that the majority of households in the 2009 sample had seen a worsening of their general financial situations in the previous 12 months, either as a result of increases in the cost of living or because of a fall in income or both. Households had used a wide range of coping strategies, often in combination, and there was fairly compelling evidence of a ‘correction’ to people’s attitudes and behaviour towards spending and borrowing.

Widespread reining in of spending and changes to money management and saving patterns had enabled many households to get by. Others, however, were only able to make ends meet by increasing their reliance on consumer credit, and some of those on low incomes were clearly struggling to manage: juggling bills, paying late or depending on help from family and friends. At the other end of the spectrum, the mortgagors were generally managing without difficulties, many of them having seen little change in their situations. Some of them, with variable rate mortgages, were starting to feel the benefit of the fall in the base rate.

In 2009 the general perception was that unsecured credit was still relatively easy to access, but that mortgage borrowing had become much harder. Nonetheless, there was no evidence that a lack of

² Collard, S., Finney, A., and Crosswaite, K. (2009) *Facing the squeeze: a qualitative study of household finances and access to credit in a 21st century recession*. London: Money Advice Trust.

³ Bank of England *Trends in Lending*, June 2009

access to credit had contributed to households situations or that it had led people to move from the prime (or near-prime) to the subprime market.

Facing the Squeeze 2011 explored the situations faced by low and middle income households in summer 2011.

1.1 Aims and objectives

Three years on from the start of the global financial crisis and subsequent UK recession, this study explored how people living on low and medium incomes are managing financially in summer 2011 and the factors influencing this. In keeping with the 2009 study, the specific focus of this study was on credit users who did not report any arrears with household bills or credit commitments.

Reflecting closely the objectives from the original 2009 study, the research sought to explore:

- The general financial wellbeing of households and how this was perceived by individuals;
- Attitudes towards spending, borrowing and patterns of money management;
- Patterns of credit use and perceptions of the availability of credit;
- Patterns and perceptions of mortgage borrowing;
- How well mortgage holders were managing to meet their mortgages; and
- Experiences and perceptions of money and debt advice.

Throughout the study there was a particular interest in how households' circumstances and individuals' financial attitudes and behaviour had changed over the previous 12 months and to what extent these changes reflected direct and indirect, internal and external influences on them. However, it also emerged that changes occurring more than 12 months previously continued to play an important role in how well households were managing.

1.2 Research and sample design

The study involved one-to-one depth interviews with people drawn from low and medium income households.⁴ A total of 30 depth interviews were undertaken in late May and June 2011.

Eligible participants were aged 18 to 55, active consumer credit users and self-reported to be keeping up with all household bills and other commitments. The sample was also designed to ensure a mix of participants by gender, age and employment status (of the respondent), household composition and housing tenure. Given the difficult macro-economic context prior to the 2011 fieldwork, further provision was made to ensure that a broad range of financial situations were represented, by recruiting participants from households with and without a major drop in income in the last year.⁵

The particular value of qualitative research is that it provides an understanding of the range of attitudes, behaviours and experiences that exist, and how and why people think or behave in the way they do. The results are not intended, however, to be generalised to all households in the way that quantitative research often aims to be.

⁴ Low income is defined as being at or below 70 per cent of the national median income; low-middle income is between 90 per cent median and median income. Participants' names (where given) have been changed.

⁵ Further details of the study methodology can be found in the accompanying Methodological Appendix.

2 The macroeconomic context

Since the time of the first *Facing the Squeeze* study in summer 2009, the UK has come out of recession, in the fourth quarter of that year. Even so economic growth has remained only weak at best and CPI inflation crept back up to 4.2 per cent in June 2011 from a low of 1.1 per cent in September 2009. Figures from the Office for National Statistics showed that real disposable income fell by nearly one per cent during 2010 and continued to fall in the first quarter of 2011, while unemployment remained more or less steady at between 2.4 and 2.5 million.

However, despite predictions – as recently as May 2011 – that the interest rate would start to be raised this year,⁶ the Bank of England base rate has remained at the historical low of 0.5 per cent. There were slight improvements in credit availability and prices during 2010,⁷ although the average interest rate for credit cards increased slightly.⁸ Bank of England statistics show that total outstanding unsecured borrowing to individuals fell from its peak in 2008 of £2.37 billion to £2.10 billion in June 2011, although the total outstanding on credit cards – and mortgages – was still rising.

The macroeconomic climate in the UK at the time of the 2011 study remained difficult for individuals and households, the low base rate providing the main source of relief

Looking forward from May and June 2011 when this study was underway, inflation was projected to increase further in the short term by the Bank of England. Meanwhile, the Office for Budget Responsibility had cut its forecast for GDP, the main indicator of economic growth, for 2011, disposable incomes were set to decline further and unemployment was forecast to rise. However, the slight easing in the consumer credit markets was expected to continue, and an increase in the base rate in 2011 was looking less likely.⁹

Altogether, the macroeconomic climate in the UK at the time of the 2011 study remained difficult for individuals and households, the low base rate providing the main source of relief, where this filtered through to any unsecured credit and mortgage borrowing they held. Looking ahead, the situation seemed set to remain uncertain.

2.1 Perceptions: people's views of the macroeconomic context

The situation described above was generally reflected in the views of the study participants. It was very common for the people we interviewed to mention that the rising cost of living had had an effect on their household budgets, with rises in food, petrol and utility costs being the most noticeable. This contrasts somewhat with the 2009 study, in which a few participants felt they had not been affected significantly by rising prices.¹⁰ One participant in 2011 who lived with her family on a middle income considered that increases in food prices alone was costing her £100 more each

⁶ See for example <http://www.oecd.org/dataoecd/41/27/47984570.pdf>

⁷ Office for Budget Responsibility's *Household debt in the Economic and Fiscal Outlook*, April 2011.

⁸ Credit Action *Debt Facts and Figures*, June 2011

⁹ See for example <http://www.guardian.co.uk/business/2011/jun/16/retail-sales-consumer-slump>.

¹⁰ Comparisons with the 2009 study are made tentatively as the 2009 and 2011 study participants were not the same people.

month than a year ago. Another man considered that “even if you are cutting down you're probably spending the same amount as you were a year ago”.

“Even if you are cutting down you're probably spending the same amount as you were a year ago”

Some, particularly those on low incomes, were also concerned about the effect that continued rising prices would have on their ability to manage over the coming year. One participant, for example, had heard “on the news that the gas was going up again... 20 per cent or something, oh my god... I'm never having the heating on”.

In relation to consumer credit, the prevailing view among the 2011 study participants, in contrast to 2009, was that credit was harder to access now than twelve months earlier.¹¹ Very few based their perceptions on direct experiences, however, instead forming views based on indirect information, from the media or anecdotal reports from friends and family. Most also perceived that the cost of (mainstream) credit was generally higher than it had been previously, and this was based on first-hand experience; in some cases it reflected where people had paid more attention to the actual cost of their current borrowing.

The prevailing view among the 2011 study participants, in contrast to 2009, was that credit was harder to access now than twelve months earlier

A number of participants perceived that changes in the availability and cost of credit differed depending on people's credit ratings. Some also distinguished between prime and sub-prime credit. While the higher cost of sub-prime borrowing was often acknowledged, the general perception was that it was easy to access. These perceptions were based either on the prevalence of TV adverts or the experiences of friends and family (not on direct experience). For example, one man in his 30s felt that credit from sub-prime lenders must be widely available “because you always see the adverts on TV and stuff”. Another man also assumed that it was harder for people to get mainstream credit because he had heard of friends using payday loans instead of credit cards.

Where current or prospective homeowners expressed views about mortgage borrowing, the general perception was also that this was either harder to access (or even “massively harder” according to one man) than a year or two previously or simply hard to access at the moment. Negative perceptions were founded on a mix of assumptions based on general market perceptions or reports from friends and family and personal experiences within the last one to two years.

Nonetheless, as with people's perceptions of consumer credit, the prevailing view was that the availability of mortgages depended on households' circumstances more than it had in the past, particularly their income and credit rating, as well as the size of the deposit:

I think it [the maximum mortgage] is actually three times your salary and that's it and I think they look at who you're working for, how realistic that salary is.

¹¹ Note a tendency among some participants, however, to generalise beyond the 12-month reference period.

3 How well were households managing financially?

The particular focus of this study was on credit users who were not in financial difficulty. People who self-reported having fallen behind with any household bill or other financial commitment in response to the screening questionnaire were not recruited. As such, all households were reportedly 'keeping up' with their financial commitments. An objective view of the households' financial situations – based on analysis of the interview data – adds greatly to this picture and demonstrates just how differently households were managing. As found in the 2009 study, it also became clear that some of the participants were in fact in some difficulty financially, despite reporting 'keeping up' at recruitment. They included a few who were in arrears on one or more commitments.

Many of those who were managing were, nonetheless, 'feeling the pinch', seemingly only able to maintain this by cutting back on their spending

Altogether, households' overall financial situations fell into three broad groups. First, there were those who were **managing** to maintain their general financial situation. This group included a mixture of households by income group, family type and housing tenure. Despite their apparent security, many of these households were, nonetheless, 'feeling the pinch', and were seemingly only able to maintain their overall situations by cutting back on their spending.

For this first group, cutting back on general expenditure – meals out, magazines, TV, phone and internet packages, and non-essential car journeys – and shopping around to get better value were evidenced. The savings they were able to make were sufficient to enable them to still get by reasonably comfortably. Prioritising mortgage or rent payments, which some found to be a burden, ensured they would not get into difficulty on these, although this meant they needed to adjust spending later in the budgeting cycle to stay within their means.

For the second group of households, efforts to cut back on spending – including on everyday essentials in some cases (see section 7.2) – did not seem to be sufficient to prevent them being **stretched** financially. Although they were drawn from both low and medium income households, these participants typically reported having experienced a major drop in household income in the last 12 months. For many of them the signs of being stretched were small and subtle, only emerging on close analysis. They were indicated by, for example, struggling to meet rent or mortgage payments or a gradual increase in reliance on commercial or informal borrowing that could, as yet, be maintained (for example by needing to "dip into our overdraft" more than ever before, or taking on the occasional new credit card or overdraft).

Those who were **managing**, even if they were 'feeling the pinch', had been able to adjust their spending in order to comfortably make ends meet.

Those who were **stretched** had struggled to meet some of their financial commitments or were relying increasingly on credit to do so. Some had temporarily delayed making certain payments and, as such, were overstretched and in the early stages of financial difficulties.

Those who were **overindebted** were persistently unable to meet all of their financial commitments or maintain a basic standard of living (or both).

Although the situations described by the stretched households were unlikely to be sustainable in the medium and longer term, most of them were managing to keep up with their commitments, so far.

A subset, however, showed more obvious signs of being at the limit of their finances and of already being in unmanageable situations. These included having already cut back on multiple areas of expenditure, delaying any essential lumpy expenditure until a credit card balance was low enough to enable the purchase and strategically delaying payments on certain (non-priority) bills a few days beyond the due date. These households were *overstretched* and in the early stages of financial difficulties.

While the second group of households was stretched financially, including a subset that was overstretched, the third group of households was showing clear signs of already being ***overindebted***.¹² As with the second group, these households had mostly experienced a drop in household income. All were living on a low income. The difficulties experienced by these households manifested themselves in a severe reduction in living standards (deprivation), structural arrears or both.¹³ These were evidenced in several ways, including cutting back on essential expenditure, raising additional income by selling belongings, dependence on friends and family for gifts in kind or occasional borrowing to meet housing costs, and structured debt repayment plans or lender forbearance.

¹² Use of the term 'overindebted' reflects the definition proposed to the European Commission, which describes over-indebtedness as: *a situation in which a household has insufficient income or other resources now and in the foreseeable future to meet all their household commitments without reducing their standard of living below the minimum accepted in their society*. See Anderloni et al (2008) *Towards a Common European Definition of Over-indebtedness*. Brussels: European Commission

¹³ See Anderloni et al (2008) *as above*

4 Changes in households' circumstances

This section considers the nature of the changes households had experienced in their financial circumstances, if any, and the bearing these changes had on how well households were managing overall at the time they were interviewed (as described in section 3). The study had a particular focus on changes in the last 12 months. It was clear, however, that some longer-term changes (typically up to 18 to 24 months previously) were still relevant to households' current financial wellbeing and these are also taken into account.

4.1 Positive and (mostly) negative changes

Based on an objective analysis of the interview data, households had been exposed to a wide range of factors that impacted on their financial situation. Some were positive influences, although most were negative; some related to changes to income and others to expenditure.¹⁴

A great many households in the sample had experienced a drop in income in the last 12 months. These included work-related income drops that had been imposed on individuals and households, principally job loss (redundancy or contract non-renewal), reduced hours and pay cuts. In some cases, increasingly infrequent employment had effectively led to lower earnings. In other instances, households had been affected by a drop in income through changes in eligibility for social security benefits or tax credits, the departure of an income-earner from the household or (in the case of one household) a loss of child maintenance when an absent father stopped making payments. There were also households in the sample whose incomes had dropped due to maternity leave.

Factors that impacted adversely on households' expenditure ranged from the most general and widely-experienced of reasons, namely the rise in the cost of living experienced through increased food, utility and petrol/diesel prices, to factors that were much more household-specific. The latter related to an increased number of dependents living in the household and increased housing costs (specifically among those living in rented accommodation, social or private).

Conversely, a small number of households had experienced an increase in one or more streams of income, for example, through a return of an income-earner to work after a period of unemployment, higher pay or through becoming eligible for (additional) social security benefits. Where study participants described reductions in expenditure impacting on their households, these were due to reductions in housing costs, through reduced mortgage costs (for example as one household moved from a fixed rate to a variable rate mortgage), or by moving into social rented accommodation from the private sector. These factors did not necessarily make households better off, however, because the apparent improvements were often offset, at least in part, by increases in other bills or ineligibility for social security benefits previously received.

4.2 The net effect

Looking across the changes that individual households had experienced the few households whose situations had got better overall (however slightly) in the last year were ones which had seen an

¹⁴ Note that quotas were set to ensure that the sample was not dominated households that had experienced a major drop in income (see Appendix 1).

increase in income in the last 12 months. Reflecting this, they were all managing to maintain a secure financial situation at the time of the study, although they were feeling the pinch – particularly due to the increase in the cost of living.

Notably, all of these households were living on middle incomes, and owned their home with a mortgage. Although some had experienced one or more drops in income – through job loss or unstable work – in the preceding months or years, the more recent increase in income helped to redress the balance. As such, it was not uncommon for these participants to report having struggled financially in the past. A reduction in mortgage costs from two years ago (due to the fall in the Bank of England base rate) had also eased the burden, implying reliance by some households on the historically low base rate to make ends meet.

Similarly, households that had experienced no change in their financial situations in the last 12 months were drawn from middle income households and were managing reasonably comfortably (as defined in section 3). Some were feeling the pinch, nonetheless, often having had to adapt to a drop in income that had occurred more than 12 months ago or increased cost of living.

Another group of households was worse off than a year ago. This group comprised a large proportion of the 2011 sample. The extent of the deterioration differed among them, however. They included a subset that was seemingly only *slightly* worse off. These households had experienced drops in income due to pay cuts, reduced hours or benefits or maternity leave, largely in isolation. For example, one man from a middle income family had seen his wife's hours cut involuntarily from 30 hours per week to 16, while he remained in full-time work. Most also described having seen an increase in the cost of living.

Despite being slightly worse off, these households were managing reasonably comfortably when they were interviewed (as defined in section 3). Two factors helped to explain why. First, all of them had the equivalent of at least one full-time earner. Second, some of them had also experienced an increase in income in the last 12 months – for example through increased tax credits – that had partly offset the larger, negative change they had experienced.

The remainder of this group were *markedly* worse off. They included all of the households that had experienced a drop in income due to job loss in the last 12 months. Several had lost income due to reduced hours; some had had pay cuts or unstable employment, or both. Some had experienced a change in household structure that affected their (disposable) incomes, such as the addition of a new child or step children or the loss of an earner through marital separation. It was typical for households in this subset to have experienced multiple episodes of drops in income, if not in the last 12 months then in the last 18 months to three years (i.e. since the start of the recession).

Those who were markedly worse off included some households that were managing relatively comfortably, some who were stretched financially and some who were overindebted. Many described the impact of the increased cost of living on their households. But this was true only of those who were not overindebted; as one man who was overindebted put it, he had not noticed the increased cost of living because his whole approach to spending had needed to change to adjust to his household's continued deterioration. In other words, the impact of the increased cost of living was hidden from view because his household's wider difficulties had led him to shop in different

places and for different things. (The strategies households used to cope with their declining situations are discussed further in section 7.)

Despite being markedly worse off, where drops in income were limited to a reduction in hours and a change in household structure or increases in the cost of living it seems that households managing relatively comfortably (albeit feeling the pinch). Although some of these households had lost one earner's income entirely in the few months prior to the last 12 months, they had subsequently been able to move back into some form of employment or become self-employed.

Where households had been affected by multiple drops in income, one compounding the other – whether in the last 12 months or longer-term – they were typically stretched or overindebted. For example, a participant living in a middle income couple household that was stretched financially had been subjected to two rounds of pay cuts following organisational restructures. What seemed to distinguish those who were stretched from those who were overindebted was that the former continued to have the equivalent of at least one full-time earner.

In contrast, those who were overindebted did not tend to have any permanent or full-time work at the time of the interview (or had only casual and very unstable income). As such all of these households were living on low incomes. One participant, a single man living in a private rented flat, had lost his job 12 months previously and had only had occasional work since then. Another, a married man with children, had been made redundant without pay 12 months earlier when the firm he worked for went into liquidation; in the six months prior to that he had gone without regular wages because his pay cheques had bounced. He had been unable to find work since being made redundant and his wife was unable to work due to a long-term illness. The compounding of these problems had clear implications for these households' ability to adjust in the difficult macroeconomic climate (despite efforts to do so, as discussed in section 7) and therefore to manage financially.

For a final group of households, the picture of change was particularly complex. On the one hand, these households had experienced a drop in one or more areas of their income in the last 12 months or so, for example through a pay cut or benefit reduction. They had also seen increases in the cost of living. On the other hand, they had seen an improvement in their financial situation in the same period, through a reduction in one or more key areas of expenditure (such as housing costs) or an increase in income.

For the households describing such a mixed picture of change it was difficult to assess what the net effect of these changes was: whether they were better off on the whole, worse off, or about the same. For example, a single man in his 50s had lost a well paid job two and a half years previously, and was unemployed for about 18 months. He accrued debts during that time and, although earning more now than when he was unemployed, he had taken a while to adjust to a less well paid job as well as the extra outgoings he became liable for, such as Council Tax, following his return to work. Reflecting the complexity of the changes they had experienced, these households (typically small families with medium incomes) comprised some who were managing fairly comfortably and some who were stretched financially (as defined in section 3).

Case study 1: Stability and security – and paying down credit

Angie and Mike live together in their council house with their school-age children.¹⁵ Mike is a warehouse attendant whose earnings are supplemented heavily with tax credits, and Angie is a full-time carer for their severely disabled son. Although Mike has had a modest cut in wages in the last 12 months, this was largely offset by an increase in tax credits and coincided with them starting to get Disability Living Allowance. Their total income has therefore remained largely unchanged, and they are *managing well financially, if feeling the pinch* due to increases in the general cost of living.

Angie and Mike have changed their spending habits to adjust to the increased cost of living. Six months ago they were “going to the same sorts of spots in the supermarket and getting the same things”. But now Angie is far more conscious of prices and has “downgraded” to cheaper brands. They do not run a car and are mindful not to waste heating and lighting. They also try to economise on day trips and evenings out, by tailoring their plans to take advantage of 2-for-1 vouchers and family discounts. For Angie, it’s not about making sacrifices, rather “I think it’s just about being more cautious and not having to keep up with the Joneses all the time”.

Angie and Mike are less inclined to spend “up to the limits” of their credit than they previously were, “because it would be harder to pay it back and I don’t want to 1) be in loads of debt and 2) not have something for emergencies, that’s really what the credit card is supposed to be for”. They have reduced their borrowing to £500 – across a credit card and a mail order catalogue – and are continuing to pay these down further each month. She has stopped using the catalogue altogether and, in the last 12 months, has cleared her overdraft and asked her bank to take the facility away, having found that she was constantly and needlessly overdrawn.

While Angie confesses to being impulsive – as a “mechanism to cheer yourself up” – she and Mike have been keen to keep their impulses in check. They now wait rather than buying non-essentials on credit: “We wanted a new TV last year so we saved until we could, whereas normally we would have just put it on a credit card or something”. They have bought second hand goods, something they would not have considered previously. Angie also keeps a close eye on her money and has “mapped the direct debits on a calendar” so she knows when they get paid.

Angie values the low rent but also the long-term security her council house gives her:

“I think we’d probably be entitled to Housing Benefit if we moved privately but it’s the [in]security of not being a secure tenant, anything can happen.”

Reflecting this, Angela’s main concern looking ahead relates to the welfare benefits they receive. She has to reapply for Disability Living Allowance every few years and is worried that the eligibility criteria may change. She is also concerned about their reliance on tax credits, again partly because she is worried that the rules may change. However, Angie is looking to re-train to get back into work in the long-term, and as a result feels positive about her family’s prospects.

¹⁵ Names and key details have been change to prevent disclosing participants’ identities.

5 Perceptions: how people felt about their situations

To a great extent, participants' perceptions of their households' general financial situations reflected the more objective analysis of their situations. In other words, those who were managing, stretched, and overindebted (as described in section 3), tended to see themselves as getting by reasonably comfortably, struggling somewhat, or finding their situations difficult, respectively.¹⁶ This was particularly so in relation to the changes they had experienced in the last 12 months, and the factors that made people *feel* worse or better off than a year ago also reflected the ones identified above (in section 4).

As such, the factors that made people feel worse off included major changes such as job loss and unemployment, arrival of a new child or additional dependent in the household, but also pay cuts, drops in hours and having drawn-down all previously saved money. The increase in the general cost of living was also mentioned in a number of cases and some people mentioned specific increases such as increased rents and Council Tax (the latter where they had moved house). Additionally, having to reimburse (over)payments of pay and social security benefits were also mentioned and one person described feeling that he was "spiralling into debt" because he needed to rely on credit to make ends meet.

Nonetheless, there were instances of apparent mismatch between people's financial situations as they perceived them and the more objective assessment of them. Several participants made reference to the 'difficulties' their households were experiencing. These were often the households that, by the objective measures, were either overstretched or overindebted.

However, a few of the participants whose households were managing, if feeling the pinch, described themselves as "struggling" financially; while some who were stretched (but as yet keeping up with their financial commitments) were "really struggling". These were typically people on middle incomes and their perception seemed to reflect that their situation had worsened somewhat. As such, their 'difficulties' were indicated to them through having had to cut back on areas of expenditure to maintain their overall living standard or that they had needed to increase the number of hours worked (as self-employees) to maintain a stable income. The compounding or accumulation of one factor with another seemed to heighten the sense of strain. For example, one woman described how her husband's daily rate had been reduced, leading him to work more hours, which in turn came with increased transport and parking costs.

It is the process of having to adjust to a worsening situation that leads people to feel they are struggling

The tendency for some people to describe themselves as struggling where they had experienced a worsening situation (regardless of their current material situations) suggests that it is the process of having to adjust to a worsening situation that leads people to feel they are struggling. A similar pattern emerged where major changes, such as job loss, had occurred more than 12 months prior to interview. There was some evidence that people tended to report change *in the last year* that had in

¹⁶ Note however that distinguishing people's actual situations from their perceptions of their situations was not always clear-cut, given that depth interviews rely greatly on self-report.

fact occurred longer than a year ago. This may have been due partly to the salience of these events, but also because they had continuing repercussions for households' financial wellbeing and a corresponding continued need to adjust.

In contrast, one participant who was classed as managing in section 3 also felt that her household was managing comfortably; but this was despite a slightly worsened situation within the last year. While acknowledging that her situation had worsened slightly, her sense of wellbeing seemed to reflect that her household had made all of the necessary adjustments to their spending habits early on "and it's been a lot easier since we've been living that way". Others were showing signs of strain but did not perceive this to be the case. For example, one woman living in a middle income household was overstretched by our objective assessment (reflecting an increased reliance on consumer borrowing) but did not perceive herself to be struggling. This seemed to reflect that her household had been able to maintain its spending power.

The small number of participants who felt *better* off than a year ago each attributed this to different issues. For example, one woman mentioned the benefits of returning to a stable income having been realised through a better "lifestyle". Another, living on a low income, described feeling better off than a year ago despite having experienced a de facto drop in income. She attributed this to having better "control" over her finances since separating from her husband and, in particular, having better managed to avoid getting into debt. These participants' perceptions that they were comfortable and in control financially corresponded with the objective assessment that they were managing reasonably well. Meanwhile, people who felt their situations had stayed the *same* often attributed this to stable and secure incomes, or increases in income having 'broken even' with increases in outgoings.

5.1 What the future holds

The people we interviewed were typically circumspect about their financial prospects over the coming 12 months. Only a few households expected their situations to get better, although many more *hoped* that they would. A small number expected their situations to get worse.

Those who *expected* their situations to get better based their assessments on a range of factors, including anticipating that a dependent would leave home, that they would continue to have secure work, an apparently realistic expectation that they (or their partner) would return to work or increase their hours (reflecting firm plans to do so), or that particular balances would be settled in the near future. These households were generally ones that were already managing reasonably well financially (if feeling the pinch), and all had been subjected to a worsening or mixed financial circumstance in the last year. Although they comprised a mix of low and middle income households, it was notable that several rented their homes from a social landlord.

The participants who *hoped* that their situations would get better tended to see improvements, again, as coming from a move back into employment, but also from taking on additional work (a second job) or moving to a cheaper home. Although these participants included people who were managing comfortably or who were stretched, notably they included most of the households that were overindebted at the time they were interviewed. The hopes that some of these households expressed came from a sense that things had been so difficult for them they could not possibly envisage their situations getting any worse.

A few participants saw their future situations as staying the same or being mixed – with an increase in hours offsetting increases in the cost of living for example – and these self-reported assessments appeared largely realistic. These were mostly households that were managing financially, though worryingly for two they were already stretched.

For the small number who expected their situations to get worse, this reflected a mix of anticipated increases in the cost of living and being without (sufficient) work to get by, sometimes in combination. They included households whose situations had worsened or that had got slightly better over the previous 12 months or so, and households that were already stretched (or overstretched) when they were interviewed.

Several of the participants that expected their situation to stay the same or get worse nonetheless hoped it would get better. These hopes reflected the possibility of having lower mortgage repayments by remortgaging, reducing credit card balances, moving to cheaper accommodation and, most commonly, increasing household incomes. Potential strategies for increasing the household's income encompassed finding work after a period of unemployment, increasing hours worked and, to a lesser extent, changing jobs. One young mother on a middle income also described having made tentative steps towards setting up a cottage industry to supplement her existing job. As implied, however, these reflected people's hopes rather than their expectations.

“It will probably get worse before it gets better, like most things”

These hopes were sometimes tinged with resignation however. For example, one family man who had lost his job a year earlier was clearly despondent, “it will probably get worse before it gets better, like most things”, and for another man, in his early 30s and in a low-paying job despite having gone through University (as he saw it), it was clear that he had resigned himself to his situation. He and his partner “both realise that we're really, unless things dramatically change with our careers, we're never going to have a lot of money” (see case study 2). Only one person of all those interviewed talked about increasing her pay in her current job (through promotion) in the near future, and even then it was an aspiration rather than an expectation, given the cutbacks currently being made at her workplace.

Conversely, for others, expectations of a secure financial future – which depended on maintaining current income levels – were tinged with worries. One man said explicitly that things would only remain manageable for his household so long he kept his job and a woman whose household was reliant on disability benefit received for her child raised concern about this potentially being taken away from the household (see case study 1).

Regardless of their overall perceptions of their households' future financial situations, several of the people we interviewed were concerned about the continued increase in the cost of living, through food and utility bills in particular. These included households that were feeling the pinch or were stretched financially. It was often the *cumulative* effect of these things that concerned people – “it's the same things I've mentioned isn't it, it's your gas, your electric, your food, car insurance probably” – with another observing that with increasing fuel costs “everything will go up slightly”. One man commented that he felt the increase in prices was inevitable “unless the government does anything about it”.

6 Attitudes to spending and money management

As in 2009, participants in 2011 expressed a range of attitudes towards money and many felt that their attitudes towards money had changed in the last 12 months or so.

Participants could be divided into two broad groups based on their overall attitudes towards money. One group comprised people who saw themselves as savers, credit-averse and organised (or combinations of these) and who felt that they had always been this way. The second group described a natural disposition towards spending or impulsiveness (or both) which had typically been moderated in recent times. Both groups comprised a mixture of households by demographic and socio-economic characteristics; in other words, people's attitudes did not vary according to their household or financial circumstances – or changes in these – in any notable or systematic ways.

Among the first of these groups several participants talked about having adopted their attitudes from influential parents and it was not uncommon for them to describe a pride or satisfaction in their approaches to money management – even when faced with financial difficulties, as some of them were. For others who were feeling the pinch but nonetheless managing, the fact that they had always been cautious with money in itself gave rise to concern: “this is not a good feeling, where I am at the moment, I'm having to be extra careful and I was careful anyway”.

For some of these participants, their behaviours did not appear to reflect their attitudes. For example, one young woman in the sample described how motivated she was to always have some savings in the bank and how much she disliked credit cards. Yet she and her husband had high levels of consumer credit, including revolving balances on multiple credit cards. She felt that her husband “wasted” more money than her “even though he doesn't think he spends”, a household dynamic that was reflected by other participants too. Another admitted resorting to credit in the past, against her preference. This reminds us of some of the reasons why individuals' attitudes may not always reflect household behaviour.

For a large number of the 2011 participants, a tendency towards spending or ‘impulsivity’ was the dominant self-reported attitude towards money. Notably, and reflecting a ‘correction’ in people's attitudes towards spending observed in the 2009 study, these participants felt they had become less impulsive over the last 12 months (or sometimes two to three years) in all but two exceptional cases (which we return to below). They included some people who, despite being impulsive, were credit-averse, and they included others who had become more organised in their approach to money management to try to reduce the strain and worry of tightening situations (see section 7; also the case studies).

People described avoiding using credit for the things they did not consider essentials, when previously they might have resorted to using a credit card

The restraint that some participants described having exerted over their impulsiveness was illustrated in a number of ways, including limiting non-essential purchases to things for their children and being impulsive on less expensive things, for example “going camping instead of going abroad”. In several cases people described avoiding using credit for the things they did not consider to be essentials, when previously they might have resorted to using a credit card. One woman described

deliberately not having a credit card to avoid the risk of her spending too freely as she had in the past.

The decline in individuals' impulsiveness appeared to reflect the more limited spending power people had, either as a result of reduced or unstable incomes or the more generalised increase in the cost of living. Some therefore talked about having known "better times" or not being able to "afford" to be impulsive anymore. As such, the caution people exercised over their spending and money management was not in most cases born of a change in attitude *per se*. With this, the implication was that people would revert to the more impulsive form of spending that reflected their natural disposition if and when their financial circumstances improved. One man, who was overindebted and whose spending power had been constrained for a long period (due to bankruptcy several years previously), described how "my attitude hasn't really changed really, again if I had the money then I'd go back to spending it how I used to".

The caution people exercised over their spending and money management was not in most cases born of a change in attitude per se

Those for whom genuine *attitudinal* change appeared to have occurred expressed either regret at having been impulsive spenders in the past, pride or new-found sense of responsibility in their new approach to money. For one man, it had arisen from the financial difficulties he was experiencing, and was accentuated in his advice to his children:

"It's changed my view and perception on saving, you know, I drum it now into all three kids [to] save it for a rainy day, save it for your future. I'm trying to teach them the actual value of money, the concept of money, because growing up I never got taught that."

Turning finally to the two people who were impulsive but not decreasingly so, one had become increasingly impulsive and another had stayed the same. The former appeared to reflect the corollary of the situation experienced by the majority above. She represented the only household in the sample that was managing and *not* feeling the pinch financially at the time of the interview. Her increased impulsivity had been precipitated by an improvement in her household's circumstances over the course of the previous year. She admitted that, a year earlier, she could not afford to spend £10 or £15 on things she spotted for her children, "I just didn't have the money to do that". In other words, this household could afford to be more impulsive in their spending. This was not the case for the remaining participant, who was overindebted (having fallen behind with one or more household bills) and whose spending was constrained only by a low and unstable income and restricted access to credit (see chapter 8)

7 Adjusting to changing situations

In section 4 we examined how and why households' financial circumstances had changed over the last 12 months and related this to how well they were managing financially at the time they were interviewed. We found that many households had experienced a drop in income and a near-universal increase in the cost of living; we also observed just how important it was to maintain the equivalent of at least one full-time earner for households to maintain financial security. Here we describe the day-to-day techniques households used to adjust to changing situations, and cope with a squeeze on disposable income. The strategies that people were using in 2011 were similar to those described by the 2009 sample. In 2009, they appeared to be more or less effective in keeping the participants out of difficulty. But in 2011 the picture was more mixed, perhaps as a consequence of the more prolonged and in some cases multiple and compounded factors impacting on their disposable incomes.¹⁷

The people we interviewed in 2011 described a range of strategies that they were using, some of them overlapping:

- Temporarily delaying payments;
- Informal borrowing or gifts in kind;
- Increased reliance on credit;
- Ad hoc income generation;
- Cutting back on spending;
- Closer money management; and
- Saving.

Only one of the people we interviewed lived in a household that was not taking any of these measures. The great majority of households were using a combination of strategies.

The delaying of payments temporarily (for example, rent by a few days), borrowing informally (or relying on gifts in kind) and increased reliance on credit (as discussed in section 8), by the minority who used these strategies, were taken into account in our overall assessment of how well the households were generally managing financially (section 3). As such, it is of little surprise that these households were all classed as being stretched (or overstretched; see case study 3) or overindebted.

Several households had sold one or more cars, in some cases leaving them without access to a car at all

The few participants who generated extra income on an ad hoc basis had done so in a range of ways such as casual work for friends and family and selling personal goods. Several in the sample had sold one or more cars, in some cases leaving the household without access to a car at all. Those who had sold goods were very often the households that were stretched or overindebted at the time they were interviewed, suggesting that these are rather last resort measures. Reflecting this, one man

¹⁷ Again, however, these comparisons are made tentatively as the 2009 and 2011 study participants were not the same people.

had taken the decision to sell his pets, in order to raise much needed cash but also to save on the ongoing expense of keeping them. Similarly, the decision to sell a car reflected a desire for both a temporary injection of cash and a reduction in running costs.

Cutting back on spending and taking a closer approach to money management were by far the most widespread techniques that households in the sample were using. Some were also saving. The rest of this section devotes attention to these broad and somewhat interrelated strategies.

7.1 Cutting back on spending

The 2009 study exposed the range of ways in which low and middle income households cut back on spending, whether in response to their own worsening financial situations or in anticipation of them based on the influence of the media or the experiences of people they knew ('precautionary restraint'). The methods evidenced among the 2011 sample reflected a similar range of techniques, falling into the same broad categories:

- Shopping 'smarter' to reduce costs;
- Cutting back on discretionary items; and
- Cutting back on essentials.

For some people who had been cutting back in the last year, this reflected a continuation or escalation of longer-term adjustments, while others had only started to cut back in the last few months. And some were evidently cutting back in more ways or to a greater degree than others, with some going without certain things altogether.

Shopping 'smarter' to reduce costs among the 2011 sample reflected two related approaches. As we saw in 2009, some had switched to shopping in 'budget' supermarkets or buying budget or own-brand groceries and some were more conscious of prices and shopped around for the cheapest price on goods and capitalised on deals, discounts and other offers (see case study 1). For example, one man described how he would now buy bulk-discounted foods opportunistically, because "I'm always thinking oh that's a good deal, I could make something out of that, a glut of tomatoes...oh yes tomato soup one day, pasta sauce another". Another felt she was taking "10 times longer" to do her shopping to make sure she found all of the bargains.

"I was always a fairly careful shopper but I was never to this degree"

It was often – though not exclusively – the participants whose households were stretched financially, or overindebted, who described using these techniques. But this is not to suggest that they had previously been profligate in their spending (although some who were adjusting to large income drops confessed to not realising how lucky they had once been). One participant commented how he "was always a fairly careful shopper but I was never to this degree".

These techniques were by no means limited to food shopping. Participants mentioned shopping around for electrical goods and insurance, and using vouchers to reduce the cost of going out (to the cinema for example; see case study 1). There were also examples of people shopping in budget clothes stores that they would never have considered in earlier, better times. This did not emerge among the sample interviewed for the 2009 study.

Cutting back on ‘non-essential’ expenditure received fairly widespread mention. Participants described cutting back in the last year or so by: going camping rather than “going abroad”; eating out in cheaper places; reducing spending on presents for children from £100-200 to £20-30; downgrading TV, broadband and phone packages; and renting rather than buying DVDs. Such cutbacks were evidenced by households from across the range – in terms of composition, income level and how well they were managing at the time of the interview.

A few households were cutting down on their non-essential expenditure by delaying making purchases until they had saved up enough money (see case study 1). Others still were ‘going without’ the non-essentials they had been accustomed to altogether. The items people typically referred to were holidays, meals out and everyday treats, such as DVDs and magazines, “even the ones that are £2 or £3, I’m like, no, obviously I’ve got to feed myself this week”. Other examples were gym memberships, car breakdown cover and a mobile phone contract. As mentioned above, some participants had sold their cars, and another household had gone without a washing machine for several weeks until the credit card balance was paid down enough to make the purchase (when previously they would have turned to another line of credit). Those who were ‘going without’ included several households that were stretched financially or that were overindebted.

Rather than ‘precautionary restraint’, the changes that households were making in their everyday spending reflected the recent or more prolonged changes in their spending power

Notably, there was little evidence among the people we interviewed in 2011 that their households were cutting back in anticipation of difficult times ahead (as we saw among the 2009 sample). So, rather than ‘precautionary restraint’, the changes that households were making in their everyday spending were seemingly in response to recent or more prolonged changes in their spending power.

Cutting back on essentials included cutting back on food by “sticking to the basics” or buying raw ingredients instead of pre-prepared meals. Although exceptional, one participant described taking discarded raw food home from his office canteen to supplement meals at home. Many people – from a range of household types – described cutting back on petrol or diesel consumption by leaving the car at home more and more often, opting to cycle, use public transport, or simply not going out to “make a tank of petrol last”. This led some households to question the value of keeping a car (in addition to those that had already sold their cars). The households evidencing these strategies were often stretched or overindebted.

People described being conscious not to waste gas and electricity and had used creative techniques to reduce it

Although not as pronounced as the 2009 study, some 2011 participants reporting having also cut back on heating and lighting, including some who had resorted to heating only the rooms they needed during the last winter.¹⁸ More typically, people described being conscious not to waste gas and electricity and had used creative techniques to reduce it. Examples included the man who had taken to buying in bulk described batch cooking to ensure that the oven was full if it was in use at all;

¹⁸ Interviews for each study were undertaken at the same time of year.

cooked and frozen meals could be warmed up efficiently in the microwave. He had also bought a slow cooker as a more efficient way of cooking. Another participant had bought a tool to monitor her household's electricity consumption.

In addition to these, it was very common for participants in the current study to describe cutting costs by reducing waste in other ways. Here there is a clear overlap with closer money management. Examples included meal-planning and writing shopping lists, shopping online to "avoid the temptations" or doing their food shopping more (daily) or less frequently (monthly) to limit what they would buy. Others made greater use of their freezers for leftovers or buying in bulk. An unintended benefit of giving up the car for one household was that they had been forced to cut back on their food shopping.

Although in many cases, the strategies people used to cut back on spending were born out of financial strain, the changes in themselves were not necessarily seen as a hardship. One man commented that cheaper food "tastes no different" and described a satisfaction from having learned, the hard way, that cheap non-brand clothes were "probably more comfortable" than the expensive ones he used to buy. Another participant took pride in taking a more frugal approach to shopping and cooking. And another yet saw incidental benefits in switching to public transport rather than using the car for longer journeys, such as being able to read. However, these may equally reflect attempts to maintain morale – or save face – in difficult situations.

7.2 Closer money management

Participants who described having managed money more tightly represented many different types of households – in terms of size, income group, housing tenure and in relation to how well they were managing financially and how their situation had changed.

In addition to checking balances several times a week and knowing these to the nearest penny, some even knew "where every penny is going"

Those who were managing relatively well financially described keeping better track of their money, typically by checking the balance on their bank accounts more often, to keep a "closer eye" and in some cases to avoid dipping into overdrafts or incurring overdraft charges. This typically involved using telephone or internet banking and was described by some as something they did almost daily or even "every morning". One of these participants (case study 1) described having mapped all of her direct debit payments onto her calendar and, as such, knew what was in her "account to the penny". Others in this group described having changed the way they budgeted, particular by prioritising their bills. This was done either through the use of direct debits or in cash, ensuring that these were paid right at the start of the budgeting cycle (i.e. immediately once income was received) and before any spending money was taken out.

Some who were stretched or in financial difficulty described adopting similar techniques to keep track or to budget more closely, including one participant (case study 2) who had recently set up a dedicated bill payment account (in order to physically separate out the money needed for regular bills) and another (case study 3) who had resorted to spreading the cost of some bills via PayPoint. These households stood out from the ones that were managing financially, however, in two key ways. First, in addition to checking account balances several times a week and knowing their

balances to the nearest penny, some even described knowing “where every penny is going”, adding up things put into the shopping basket “in my head” or taking a calculator into the supermarket.

Secondly, it was only those who were stretched or overindebted who reported having opted for paper billing rather than direct debit payments, to enable them to pay the bill – if possible – as soon as it arrives “because I know if it’s left the money won’t be there, it’ll just go on something else” or conversely to hold back a payment if necessary. It is not clear whether these techniques pre-dated the difficulties households were in or were a consequence of it. However, holding back payment was clearly contributing to the difficulties in some cases where payments were missed and charges incurred as a result.

The people who did not evidence a tightened approach to managing their money were typically from middle income households and those who were managing well financially. Except for this they were a mixture of households, and although they were not managing money more closely *per se* they had almost all cut back on spending in the last 12 months or so, spending cautiously and wisely, keeping an eye on bills and balances, or prioritising bills. In other words, there was no evidence that the participants were managing their money less closely and many of them were already using approaches that others who were also managing well had only recently adopted.

7.3 Saving

A small number of participants had started ‘saving up’ as a strategy to cope with their situations. They described waiting until they had saved up sufficient amounts of money to buy particular things that they felt they would have bought on credit in the past (see case study 1). All of them were managing financially (albeit feeling the pinch), suggesting that saving up for things was, to some degree, a choice rather than a necessity. As a newly adopted approach, this may well pave the way towards a saving habit for these households in the future.

The combination of a timely return to work and having savings to bridge the period of unemployment partly explained why one household was managing fairly well financially

Except for this, it was very unusual for the 2011 study participants to report saving,¹⁹ especially in terms of putting money into savings or building up bank account balances, and particularly *starting* to save. On the contrary, several people reported that they had stopped saving or drawn down much or all of their savings in the last 12 months (or both), with several more having done so in the year or so before this (reflecting when their households’ situations started to decline; see case study 2). This appears to reflect a continuation of the pattern we saw in 2009, when several participants were starting to draw their savings down and were concerned about the possibility of needing to draw them down completely. Although the participants in 2011 were a mix of savers and impulsive spenders attitudinally, they were very often the people whose households were stretched financially or who were overindebted when they were interviewed. They had, almost exclusively, seen a worsening of their household’s situations in the last year. Reflecting this, some of the self-confessed ‘spenders’ included people who had controlled their tendency to spend in recent months (as described in section 6).

¹⁹ Not including pension contributions, which some were continuing to make.

Being in a position to draw on savings is clearly a protective factor when households fall on difficult times. Nevertheless, several participants who had had savings prior to their worsening situations – including some who had planned specifically for an anticipated income drop (e.g. redundancy and maternity leave) – were stretched or overindebted when interviewed. For example, one had drawn down all of his savings (some £10,000) in the last year or so, which had built up prior to him losing his job. Now living in a workless household he was in particular difficulty financially. In contrast, another participant who had used up all of his savings following job loss had since returned to work. The combination of a timely return to work and having savings to bridge the period of unemployment partly explained why he was managing fairly well financially when interviewed. One woman commented that she had planned to save towards Christmas by giving money to a friend to look after, but that she would need to reconsider this as her monthly pension contributions had recently increased by £10.

Case study 2: Getting on top of borrowing – but not paying it down

Jonathan is *stretched*. In his early thirties, he lives in a flat which he rents privately with his girlfriend, Sayeeda. Jonathan has only been in his current telesales job for a couple of years, but 12 months ago his commission was restructured. Coupled with increasingly poor sales, he is now left with only his basic wage in most months; an effective drop in income. Sayeeda meanwhile is a trainee catering assistant and her income is “very, very poor”.

When Jonathan and Sayeeda first moved in together two years ago, their incomes had initially been supplemented by savings and credit:

“We had like savings and stuff and generally our bank balances were a lot healthier than they were now, so over that two year period it's obviously slowly, slowly gone down. Whereas now we're in a situation where we almost haven't got enough money to clear our debts”

Jonathan now realises that they had effectively been overspending in that time, even though he does not think the lifestyle they had been trying to maintain was unrealistic:

“I think it's a combination of not earning any more money, things going up and probably over spending when we didn't realise we were... You expect to be able to live a basic lifestyle when you're working full-time without going over the top, without having to struggle.”

Nonetheless, their main strategy in the last year has been to cut back on spending in as many areas as they can manage. They have been “much more aware”, finding cheaper things to do in the evening and economising on non-essentials, buying fewer clothes, DVDs, games and gadgets. He has stopped using his car as much as possible, by walking to work, and taking longer journeys by public transport. They are also buying cheaper groceries although Jonathan admits that there are some things that they still buy that “you might class as a luxury, but then to be fair a bar of chocolate and a pack of cookies shouldn't really be a big deal when you're working full time”.

Having incurred bank charges for failed direct debit payments, he has also streamlined his approach to money management in the past few months. He set up a ‘bills’ account to ensure that all direct debits, council tax, rent and basic food are covered. And, having previously juggled revolving balances across an overdraft and two credit cards, Jonathan has streamlined his borrowing with a view to paying it down. He transferred the balances from his overdraft and two credit cards onto one with an introductory 0% interest rate, and now moves £100 a month into a savings account to clear the £1,500 credit card balance off at the end of the 0% period.

In the short term, Jonathan is hoping to become debt free, but as yet he's struggling to make progress: “I'm putting £100 away and I'm an extra £100 overdrawn, essentially I'm not going anywhere”. He is not optimistic about the future either. Holidays are on hold and he is considering selling his car. Buying a home is a long-term ambition but he feels they will “never have very much money... maybe in five years' time we will be earning quite a lot more money. Then we may have kids by then and our expenditure will be a lot, lot higher, so I can't see it being easy to be honest”.

8 Unsecured credit

Study participants were recruited on the basis of having at least one active credit commitment excluding mortgage borrowing. Most, in fact, had more than one.

Credit card holding was widespread and it was not uncommon for households to have multiple credit cards. Where they had outstanding balances (which most participants did on at least one card) these ranged from £200 to over £5,000 per card. Many participants also had access to an overdraft facility, the majority of which were used on a regular basis. Overdraft balances typically totalled less than £500 at the time of the interview. Credit cards and overdrafts were used for a wide range of purposes. There was evidence that some people were using credit cards or overdrafts to fund day-to-day living costs with some large lumpy purchases being made on 0% interest rate credit cards.

Use of store cards and mail order catalogues – to buy clothes and household goods – was relatively common, in low and middle income households alike, and where balances were outstanding these were generally in the range of £100 to £200. Some participants had personal loans or finance agreements (rarely both) of up to £15,000, and these were used for larger items such as cars and home improvements.

As we also saw in 2009, a small number of people had used alternative forms of commercial credit in the last 12 months, including home credit, payday loans (including those accessible online) and one example of someone having used a pawnbroker. Some of these loans were still outstanding although many had been settled in full by the time of the interview. The households that had used these type of credit were a mix of low and middle income households, and were often (though not exclusively) managing financially, if feeling the pinch (as defined in section 3). These had been taken out for holidays or to make ends meet until the end of the month. Although there was no direct evidence of people having turned from prime to subprime borrowing (reflecting what we also saw in 2009), two of those who had used payday loans reported having poor credit ratings, and one had taken a payday loan to avoid incurring a bank charge.

8.1 Levels of borrowing

The overall level of borrowing among the households represented in the study ranged from a few hundred pounds to more than £20,000. Many of those with outstanding borrowing of over £5,000 included one or more ‘big ticket’ items such as a car or home improvements.

Those whose ‘creeping’ borrowing was predominantly credit card based were often stretched financially or overindebted

A considerable number of participants reported being more heavily indebted than 12 months earlier, some because they had made a major one-off purchase, mostly via a personal loan or finance agreement, but more often because they felt their credit cards or overdraft borrowing had ‘crept up’ as a result of everyday expenses (as illustrated in case study 3). There was evidence of concern about this, with participants whose levels of borrowing had increased often describing feeling that

they had borrowed more than they could afford.²⁰ Those whose 'creeping' borrowing was predominantly credit card based were often stretched financially or overindebted. Nonetheless, the level of borrowing was not in itself indicative of whether or not the household was keeping up with the repayments.

Very few of the households appeared to have reduced the amounts they owed in commercial borrowing over the last 12 months (case study 2). These included one participant whose commercial borrowing had been 'bought out' by an informal loan from a family member; as such he still owed a considerable sum, albeit informally. They also included another who had continued to make routine credit card repayments in the last 12 months for house renovations that had taken place several years earlier; the repayments had come to form part of his household's 'budget'. Only a minority had seemingly made a conscious decision to reduce their overall borrowing in the last 12 months, one in order to be better prepared in the event of redundancy or a further drop in income, and another (case study 1) in response to general increased strain.

While they were using credit cards, overdrafts or store cards with the same frequency and for the same reasons as they had been previously, they were finding that they were not clearing the balance as they had been in the past

Conversely, several participants were either making the minimum payments only, or were repaying at lower levels than they had been previously (see case study 3). A number of participants noted that, while they were using credit cards, overdrafts or store cards with the same frequency and for the same reasons as they had been previously, they were finding that they were not clearing the balance as they had been in the past. As such, a few were resigned to the possibility that their total borrowing might increase in the coming year.

Nonetheless, very few had accrued charges for late or missed payments on their unsecured credit commitments. This was seemingly because the repayments on fixed-term loans were generally prioritised, and virtually everyone with credit card borrowing was making at least the minimum payment. Where charges were being incurred these were for unauthorised overdraft use or failed direct debits. It was notable that one participant described taking a payday loan as a pragmatic decision to avoid overdraft charges and another had asked for her overdraft facility to be taken away.

There were also a few examples of people using one form of credit to pay off another, including borrowing from family to pay off commercial debt (amounting to £15,000 in the case of one man who had had a major deterioration in circumstances) and transferring balances from one credit card to another (taking advantage of 0% interest rates). Another participant was considering taking out a consolidation loan to replace her credit card, payday loan and pawnbroker borrowing.

Finally, informal borrowing (from friends and family) was frequently associated with those who felt that they had borrowed too much. One of the main identified benefits of borrowing in this way was the lack of a fixed timescale within which the money had to be repaid, if there was any real intention

²⁰ This reflected wording on stimulus materials used during the interview (see the accompanying Methodological Appendix).

to repay at all. Where some people had access to unused commercial credit but had nonetheless borrowed informally, they had done so either to avoid paying interest or to avoid potentially damaging their credit worthiness (as they perceived it).

8.2 Excess credit or credit-constrained?

The credit limits on cards and overdrafts were generally considerably higher than the outstanding balances on them. As a result, the majority of participants in the sample had some form of unused credit available to them, ranging from £100 on an overdraft to £5,000 or more on a credit card. As such, the majority of people in the sample were not evidently credit constrained. Crucially, this reduced the need for households to apply for new credit.

Some people implied that they were actively retaining unused credit due to uncertainty about whether they would be able to access new borrowing if and when they needed it

These were mostly historical facilities, that is, they had been taken out more than 12 months ago. They were derived in large part from credit limits that had been set by the creditors rather than requested by participants themselves. Unused balances and credit facilities were kept by households for two related reasons: either because they saw no reason to cancel it ('inertia'), or because they saw it as a safety net for use in "emergencies". In one extreme case, a woman in her 30s said that she and her partner kept two credit cards aside, one (with a credit limit of £8,000) which she saw as her "massive emergency back-up". This was even the case for people who said that, in the event of a major unexpected expense, they would *first* turn to family for financial help. Some implied that they were actively retaining unused credit due to uncertainty about whether they would be able to access new borrowing if and when they needed it. As we discuss below, such uncertainty may have been justified.

Some people described having a 'personal' limit, some way below the actual limit of their cards or overdrafts (or combinations of these), which they intended not to exceed except in an emergency; again this negated any perceived need to reduce the actual credit they had available. Another described how he "wouldn't be stupid enough" to use his full credit card limit, in recognition that it would be a lot of money for anyone in his modest situation to owe.

Nonetheless, and as described above, there was a tendency for balances to have 'crept up' over the course of the last year or so. It is possible that some households had already exceeded their self-imposed limits, or adjusted them upwards. In some cases this had involved using the facilities that people preferred to keep for emergencies. In an extreme case, a man whose family was in financial difficulty described revolving balances on several credit and store cards and an overdraft – that were previously intended only for use in one-off emergencies – to make ends meet day-to-day. A reliance on unused facilities as a safety net had proved to be misplaced for another household, whose unused credit card balance was summarily reduced by her lender (by three-quarters, to just a few hundred pounds), just as they were expecting to call on it.

In a few cases households had acknowledged the tendency for borrowing to creep up by constraining their own access to borrowing and decisively addressed it. One such household had cancelled multiple unused credit cards and another had asked the bank to remove an overdraft

facility, in both cases to avoid temptations to use them. Although this meant the former household had exhausted the balance on its one remaining credit card, the latter still kept one credit card for emergencies and had full confidence that “the facility is there if I need to ask for one” (case study 1). As we also saw in 2009, others expressed an intention to pay down borrowing but were struggling so far to do so (see case study 2).

About a half the households in the sample – regardless of how well they were managing – had made one or more credit applications in the last year. Reasons ranged from making specific purchases – such as buying a car or taking out a store card to benefit from in-store discounts – to general credit management, including consolidating loans and transferring a balance to a credit card with an introductory 0% interest rate. Applications were successful and unsuccessful in about equal measure, and not surprisingly it was those households that were stretched or overindebted that tended to have been unsuccessful. A few of those who had an initial application declined were eventually successful, but most did not pursue their applications elsewhere. One successful applicant noted that although his application was accepted without issue, the process had nonetheless been more “rigmarole” than in the past.

Those whose applications were turned down, especially those on middle incomes, were not always sure why. One who was overindebted and another who was stretched financially however suspected that it might have been due to their credit histories, the former had “missed a few payments” and the latter was not yet discharged from a bankruptcy that had been granted several years earlier. Another participant – who was living in a privately rented home on a middle income – enquired informally with her current bank about making a credit card application to avoid damaging her credit rating if she was declined.

Some of the most interesting examples were the few participants who were initially declined for credit but made a successful subsequent application. One extended their current fixed-term loan by several thousand pounds a month before it was due to complete. Two others pursued their credit card enquires (one with the same provider, the other with a different provider) and received higher credit limits than they had originally requested. One also received an unsolicited offer of a loan, which she declined. A higher than requested credit limit had also been received by someone who had been accepted on their first application. Notably, all of these participants lived in stretched households.

9 Mortgage-holding

By design, around a third of the people we interviewed owned their home with a mortgage. They included a mix of middle and low income households.²¹ Reflecting the trend towards repayment mortgages in recent years, most held a repayment type; with only two in sample holding endowment mortgages (both of these were towards the older end of the sample's age range). One other person, one of the youngest in the sample, had an interest-only mortgage. These households were at very different stages of their mortgage agreements: a few were due to repay in full within the next few months; some were around half-way; a few had taken out their mortgage (or remortgaged) during the peak of the housing boom between 2005 and 2007; and a several had taken out their mortgages since the start of the financial crisis.

Monthly repayment amounts, where stated, ranged from £300 to £920. It is often assumed that mortgage holders will have benefited from the historically low Bank of England base rate of recent times (which fell from a peak of 5.75 per cent in July 2007 to 0.50 per cent in May 2009, where it has since remained). Consistent with this, all of those who had variable rate mortgages when they were interviewed referred to a drop in the repayment amount in the last two years or so (including one in the last 12 months). However, these households represented only a half of the sample of mortgage holders, the remainder having fixed-rate mortgages.

As mentioned above, several participants had made a successful mortgage application within the last one to two years and did not highlight any issues in doing so. However, others had had difficulties, in each case due to a poor credit rating. One in fact was told that his bank would not lend to him because of his large car loan and a high, revolving credit card balance. He and his wife “literally had to beg for a mortgage” and were able to secure one eventually with the help of his friend and financial advisor. Another participant had assumed that she would not be able to get a mortgage, having become over-indebted on several unsecured credit commitments. She had called on help from her brother instead, who in turn had needed to take out a store card to build up a credit rating before taking the loan on her behalf. Even then, the brother had been unable to borrow the full amount, and the participant had called on her parents for additional capital.

9.1 Repayments

From an objective analysis, most mortgage holders appeared to be keeping up with their mortgage repayments. At least, none of the study participants was behind with their mortgage repayments at the time of their interview. However, several of them mentioned that their mortgage repayments were prioritised ahead of other commitments – as “that's the most essential thing” – and therefore protected. While this appears to reflect good practice (and is in keeping with standardised debt advice on ‘priority debts’), it may also hint at some underlying concern about the household's ability to meet its financial commitments on an ongoing basis.

It is worth noting that many of the households that were keeping up with their mortgage commitments had seen a significant reduction in their mortgage repayments over the last year or so.

²¹ Included here are two further households, both on low incomes: one where the participant co-owned his previous family home with his ex-wife; and another where the mortgage was held in the participant's brother's name because the participant and her partner had been unable to secure a loan in their names.

This typically amounted to £100 per month, either from a fall in their rate or because they had moved house. Some of the participants reflected that it had been a struggle to keep up with the repayments before the reduction, a few having borrowed informally to meet the commitment.

No one in the sample reported overpaying their mortgage, either in anticipation of future increased costs or in response to a reduction in the contracted repayment amount

It is perhaps of no great surprise then that no one in the sample reported overpaying their mortgage, either in anticipation of future increased costs or in response to a reduction in the contracted repayment amount. We also saw in section 7 that very few people we interviewed had been able to save money in the last year. Instead, the money freed up by the reduced mortgage payments had invariably been absorbed into every day budgets:

I don't know where it's gone to be honest. It's kind of saved [sic] in like, I don't know cell phones, those are things that have gone up recently, the extra £40.00 I suppose on the gas, that's kind of been eaten up by that. Things like life insurance, now that I have doggy pet insurance, that's gone up by like so much. (See also case study 3)

A few participants were showing clear signs of strain with their current mortgage commitments (as reflected in Section 3). One woman, whose brother had taken out the mortgage on her behalf, had also borrowed informally from him in order to keep up with mortgage payments. In another case, lender forbearance – an initial six month payment holiday followed by interest-only payments – had enabled one man and his family to manage in the medium term.

In keeping with this overall picture, most of the participants who expressed a view felt that their level of mortgage borrowing was manageable and 'about right' but that they would not want to borrow more.²² Again, this appears to be partly attributable to the recent reduction in mortgage repayment amounts that some had experienced; including the household receiving lender forbearance. Only one person we interviewed felt they could afford to borrow more if they wanted to, while another felt that "we've probably borrowed more than we can afford, but at the time we borrowed it we could afford it" despite currently benefitting from the low base rate .

9.2 Looking ahead: future mortgage borrowing

Very few of the mortgage holders we interviewed had plans to remortgage within the next 12 months. Among those who did, this was either because their fixed rate mortgage was due to come to an end, or because they were relying on re-mortgaging to consolidate otherwise unmanageable levels of unsecured credit.

No one expressed a view about their *expectations* for the future cost of their current mortgage commitments. Where views were expressed, they reflected a *hope* that the rates they were paying would remain static (for those on a variable rate) or fall (for those still on a fixed-rate deal). There was tacit acknowledgement by some that they could be under some strain if their mortgage interest rate were to increase. For example, the participant whose household had an interest-only mortgage

²² This reflected wording on stimulus materials used during the interview (see the accompanying Methodological Appendix).

acknowledged that she had benefited from a £100 drop in her monthly payments but at the same time felt that being on a variable rate was “not the best situation in the world”. Another person intended to fix their mortgage if an interest rate hike looked likely.

Among the people in the study who were currently renting their main home, whether from a private or social landlord, no one had any short to medium-term plans to buy a home. Some hoped to be able to do so over the long term, however, perhaps five or more years from now. A few people suggested that the current climate of economic uncertainty was putting them off buying a home for the foreseeable future. So while they might already have experienced some deterioration in their financial circumstances, there was a sense that other difficulties might be on the horizon and, with this, “everything is on hold”. For some there was also a perception that mortgage borrowing was not particularly accessible, given the continued (high) house prices and the high deposits needed to secure a mortgage.

10 Money and debt advice

The situations described by the study participants and reported in the preceding sections suggest that many of the low and middle income households could benefit greatly from money or debt advice. They include not only those who were already overindebted but also those who were stretched, whose situations did not appear to be sustainable. Some of those who were feeling the pinch, but nonetheless managing, would almost certainly benefit from money advice. As observed in the 2009 study, however, only a small number of participants in this study had sought money or debt advice over the last 12 months or so. Those who had included people drawn from a mixture of households, including in relation to how well they were managing financially.

It was primarily a perceived lack of need that meant most had not sought advice. However, some felt they did not need advice because they weren't "really struggling", despite showing signs that they were indeed stretched or even overstretched

Two participants had contacted a Citizen's Advice Bureau (CAB) when they realised they were "struggling" with their debt. In both cases the CAB helped them to successfully negotiate informal debt solutions. Another had contacted National Debtline over an historical debt he had not repaid. Others had sought information online. Those who had sought information or advice were generally satisfied with the help they had received. However, one man, in financial difficulty when he was interviewed, hadn't been able to access the advice he would have liked several years earlier when considering bankruptcy; moreover he wouldn't know where to look for help now.

It was primarily a perceived lack of need that meant most had not sought advice. However, some felt that they did not need advice because they weren't "really struggling", despite showing signs that they were indeed stretched or even overstretched. This suggests that some people misunderstand the role (and potentially the availability) of money and debt advice. Others preferred to deal with financial matters themselves, sometimes as a matter of pride: to "do it my own way and the hard way". Others, however, appeared to be aware of their difficulties but were already doing all they felt they reasonably could to manage a difficult situation. For example, they were managing their budgets closely and had only moderate levels of borrowing. For these households, any alleviation of the strain they were experiencing could – as they saw it – only come through an increase in income.

As previous research has consistently shown, when asked to consider how they would seek advice if they thought they needed it, many would rely on asking family and friends.²³ Some said they would approach individual creditors directly. However, others would be reluctant to do this due to a fear, based on experience or perception, that they would be encouraged to increase their borrowing. One participant mentioned specifically that she was reluctant to seek any form of advice for fear that it would affect her credit rating (see case study 3) and others that they would not want to have to default on their commitments.

²³ See for example, Atkinson et al. (2005) 'Baseline survey of financial capability in the UK: results of a baseline survey'. *Consumer Research* 47. London: Financial Services Authority

Finally, a number of people, from all types of households in the sample, had received unsolicited approaches from companies; by telephone and a few by email. These came from companies offering payday loans, 'instant' loans and consolidation loans, and solutions for mis-selling of endowments and payment protection insurance as well as 'debt solutions' and IVAs (Individual Voluntary Arrangements). Mostly, these approaches were not perceived to be targeted, were generally unwelcome and ignored. However, one participant had received a call about endowment mis-selling, and chose not to pursue it only after taking financial advice. Another reported having taken out a payday loan on the basis of an approach, and another still implied that she had not engaged with companies that had approached her, only because she felt her current circumstances were sound "but I suppose if I needed them they would be the right people, so I wouldn't be moaning".

Case study 3: Credit-reliant – and constrained

Lynn and Phil live with their two young children in the home they own with a mortgage. They are *overstretched*. With a middle income, Lynn works part-time as an administrator for a law firm and Phil is a self-employed electrician. Phil was forced – about a year ago – to drop his hourly rate to remain competitive. He is trying to work more hours to make up the difference, but with less money coming in and more being spent on parking and petrol, and the cost of food going up, they are struggling to manage their day to day expenses and mounting credit commitments.

Lynn and Phil now owe around £25,000 in unsecured credit, across several credit and store cards, overdrafts, finance agreements and mail order catalogues. Lynn thinks that over half the credit card debt has been built up over the last year, on day to day living alone: "we've probably run up since Christmas, probably about nearly £4,000 on, just on petrol, different things like that, petrol, shopping". This is despite seeing their mortgage repayments drop considerably earlier this year when their fixed rate deal came to an end.

A year ago they could service their borrowing comfortably, even managing to fully settle their credit card balances most months. Initially, they expected Phil's work situation to improve quickly, so continued to spend as they had done before: "we're still paying for last year's [holiday] even though we really shouldn't have gone last year, but we just thought oh no things will get better." But now they are "really struggling" even to make the minimum payment each month and occasionally going over their overdraft limits.

In response to their worsening situation, Lynn and Phil have cut back on their spending by going 'back to basics' on the types of food they buy, using their car less to save on petrol and going without some of the non-essentials (for example, a day at the zoo and the family holiday). Phil's mum has even helped out now and again by buying them their weekly shop, "packed lunch stuff and everything". Although they prefer not to put things they can't afford on the credit card, Lynn admits that even now she can still be impulsive although she tries to limit this to things for the children:

"I think like with the little ones, even if we can't afford it they need it so it has got to go on a credit card if we haven't got the money, so it's not like a case of not wanting to, it's we've got to."

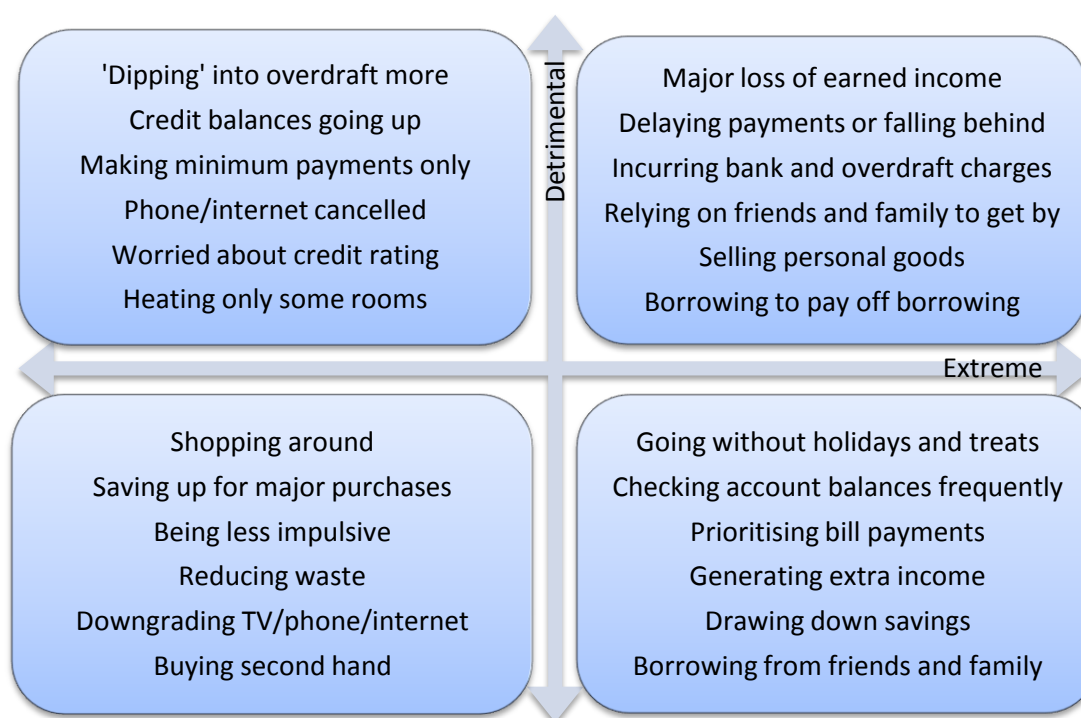
They have also changed the way they pay certain bills, by spreading the payments for gas and electricity using PayPoint. This means that they can make a payment as soon as they have the money "because I know if it's left the money won't be there, it'll just go on something else".

Overall, Lynn is very worried about the future. She can't see Phil's business "picking up", and they have used nearly all of their unsecured credit facilities. In addition, their bank recently reduced the limit on the last credit card they were keeping aside. Wary of debt solutions in case they affect her credit rating, Lynn is pinning her hopes on being able to re-mortgage to settle all of their unsecured borrowing. She estimates that this will leave them several hundred pounds better off each month. Unfortunately, their first application to re-mortgage was recently declined. They will try again but in the meantime, "I think we're just going to have to keep going the way we're going at the moment, just making sure things are paid on time".

11 Signs of strain

In the preceding sections we examined households' financial situations and approaches under discrete themes. Here, we change the emphasis to look at the evidence across those sections to consider the factors – experiences, behaviours and outcomes – that indicate financial strain within households. We reflect on two dimensions: how extreme the behaviour or outcome appears to be; and to what extent it is potentially detrimental to the household's longer-term financial, physical or social wellbeing. The interaction between these dimensions is represented schematically in the chart below along with examples of the behaviours and outcomes evidenced.

Indicators of strain



We start by considering the behaviours that, while being indicative of strain, are arguably moderate in degree and not detrimental to the households' basic wellbeing; indeed they may be signs of good money management. These were often the most widely reported indicators across households of different types. They included shopping 'smarter' – shopping around, using deals, discounts and vouchers – and changing shopping habits (shopping online or more or less frequently). Sometimes they involved cutting back, for example by downgrading a TV subscription. They also include saving up to make lumpy, non-essential purchases, or buying things second hand (see case study 1).

These behaviours often reflected participants' self-reported efforts to suppress impulsive tendencies, greater aversion to using credit or a more organised approach to money management (case studies 2 and 3), themselves additional indications that households were experiencing some strain. Also implicit to many of them was the intention to reduce waste, without 'going without'; other examples including making sure children turned lights off when not in use, using a device to monitor electricity consumption, cutting back on unnecessary petrol and diesel consumption, and buying a slow cooker for more efficient cooking.

Some coping strategies were symptomatic of greater financial strain, being more extreme even if they did not, in themselves, give rise to harm. Indeed some were seemingly practical and beneficial approaches – and in the case of drawing down savings reaped the benefits of previous financially capable behaviour. They encompassed reducing waste by batch cooking and making use of food scraps in cooking at home by one individual. They also included delaying lumpy expenditure until credit balances were paid down enough, going without foreign holidays, meals out and ‘little luxuries’ (case study 2), and generating extra cash from casual work or by selling goods that were no longer wanted or needed (including cars).²⁴ These more extreme approaches also extended to money management, such as: setting up bill payment accounts (case study 2); ensuring that direct debits were timed for the start of the budgeting cycle and frequent checking of bank balances. Other examples were adding up the groceries while shopping and occasional borrowing from family.

A third set of factors, while not particularly extreme in nature, were nonetheless of potential detriment to the households involved. Many related to patterns of unsecured borrowing, for example: finding that credit card balances were not being paid down as they once were, ‘dipping in’ to the overdraft more often or drawing on the ‘emergency’ credit card to meet everyday needs; or finding more generally that the amounts owed in unsecured credit were ‘creeping up’ (case study 3). Added to this was routinely making only the minimum payment due on credit cards and perceiving to have poor credit worthiness. Moving away from credit, another factor that indicated potential detriment to the household’s wellbeing was heating only specific rooms of the house in the previous winter, potentially leading to an under-heated home. Also included here is the cancellation of the household’s internet provision, as ‘access to the Internet within the home is part of a minimum acceptable standard of living’.²⁵

The final set of experiences, behaviours and outcomes are those that were both of potential longer-term detriment to households and appeared more extreme in nature. We observed in section 4 that a drop in income that leaves a household with less than the equivalent of one full time earner distinguished the overindebted from the stretched households. Other signs related to unsecured borrowing, including having spent up to the limit of all available unsecured borrowing, going over overdraft limits, and struggling to make even the minimum payments on credit cards (see case study 3). Other extreme examples were relying on friends and family for help with everyday essentials (such as food; case study 3), often as evidenced by those already overindebted, and borrowing (commercially or informally) to consolidate or pay off other debts, avoid incurring bank charges or meet housing costs. This is not to say that these are not appropriate or practical short-term measures, but they are nonetheless indicative of underlying and ongoing strain.

Potentially detrimental money management approaches included delaying bill payments (see case study 3) and – at its most extreme – defaulting on payments altogether. And they included selling goods of personal value to the individual or household. Attitudinal dimensions and expectation also appear relevant here as indications of strain, for example: relying on remortgaging in the future to ease financial pressures; being fearful about the impact of future changes on households’ disposable income; expecting the household’s financial situation to get worse (albeit hoping that it will get better); or feeling simply that ‘things can’t get any worse’.

²⁴ This reflects research which found that a car is not considered to be essential for a minimum standard of living: Davis et al (2010) *A minimum income standard for the UK in 2010*. York: Joseph Rowntree Foundation

²⁵ Davis et al (as above); p17.

12 Conclusions

Qualitative interviews with 30 credit users living on low and middle incomes in summer 2011 have evidenced a diverse range of household financial circumstances and experiences. Participants described an equally diverse set of behavioural and attitudinal responses and coping strategies to deal with these.

The picture painted by the people we interviewed in 2011 appeared in many respects to represent a continuation, in real time, of the findings from the similar study undertaken in 2009. This was most apparent in the changes that households had experienced in the previous 12 months and two to three years; some having experienced multiple drops in income in that time (some large, some small), others having stabilised or even improved after a prolonged period of difficulty (including unemployment). It was also reflected in near-universal perceptions of the rising cost of living.

The study found widespread reining in of spending and tightened approaches to money management among low and middle income households in 2011. For many of the people we interviewed, these responses appeared to have played a key role in enabling households to continue to manage reasonably comfortably, despite the adverse changes in circumstances they had faced. For others, however, there was considerable evidence that households were continuing to rely on unsecured credit, heavily and increasingly in some cases. This could be a source of frustration, and some acknowledged that they had not adjusted quickly enough when their situations first changed.

Where households had reduced what they owed or avoided accruing more borrowing this often reflected considerable efforts to cut their spending, reduce waste and manage money closely, in combination. Some were relying on informal borrowing or help in kind; others were simply 'going without'.

Sometimes changes to patterns of borrowing were the result of being credit-constrained (real or perceived). In other cases, however, it reflected a self-imposed constraint, by cancelling revolving credit facilities to limit spending power. Others still a new-found self-restraint by avoiding using credit for the non-essentials they would previously have turned to a credit card for. More generally, there was evidence that several households deliberately set themselves 'personal' limits that were some way short of their agreed credit limits, either to ensure a safety net or because they recognised the risks of becoming over-committed. A few had additionally started 'saving up' for lumpy non-essential expenditure, rather than paying for these items on credit as they would have done in the past.

Homeowners were generally keeping up with their mortgage payments, and this reflected a tendency to prioritise housing costs over all other things. Where repayment amounts had fallen, this had eased the difficulties some had previously experienced. Rather than saving the extra money, however, it had been used to meet other expenses or absorbed by the rising cost of living. As such, households were not making provision for potential increases in repayment amounts, so that any future increase in cost would need to be funded from those same squeezed budgets. Meanwhile, the 2011 study has evidenced relative financial security afforded to households living in social housing, or those in receipt of welfare benefits and tax credits albeit tempered by some anxieties about losing eligibility for them.

More generally, there was a widespread perception in 2011 (unlike in 2009) that mainstream consumer credit was difficult to access and expensive, and in many cases a consciousness of – even concern about – the importance of credit ratings. This emerged in several ways: in the recognition that households' circumstances influenced access to and the cost of credit; in appearing to play a role in the active retention of unused credit; some being deterred from making new applications for fear of damaging their credit ratings by being turned down; and others starting to use the sub-prime market because they (perceived that they) did not have a good credit rating. It also deterred people from seeking debt advice.

The study findings strongly suggest there is a need for greater awareness of the signs of financial strain that are indicative of (or even risk factors for) financial difficulties among people with modest incomes. Similarly, there appeared to be gaps in people's understanding about what money and debt advice services exist, what they can offer and to whom. In particular there is a need to address an apparent misperception that advice-seeking *per se* can damage someone's credit worthiness. Only with a clearer understanding of these, will people be in a better position to self-identify as being in or at risk of financial difficulty and able to benefit from advice – before they feel they have reached crisis point – and therefore self-refer to the advice services that are appropriate to them.

The evidence suggests that the earlier people identify and adjust to an adverse change in their financial situation the better able they are to manage financially, at least in the short to medium term. However, the longer-term sustainability of the strategies households employ to cope with these situations – whether increased reliance on credit, cutting back on spending or drawing down savings – remains unclear from the evidence. There appears therefore to be a greater role for advice services, working in partnership with other key organisations (such as employers, Jobcentre Plus and Business Link for the self-employed), to provide preventative money and debt advice to those facing potential drops in income, whether large (redundancy) or small (reduced hours and pay cuts).

The evidence also points to the continued need for Government – through their social and monetary policies – to provide the security that many low and middle income households are currently relying on to get by. These include welfare benefits, tax credits and social housing; low interest rates; and policies to increase lending to individuals. The strain described, almost universally by participants, from the increased cost of living underlines the potential role that fiscal policy could play in helping to relieve the chronic pressures many households are experiencing. Moreover, the evidence highlights the continued need for government support for free-to-client advice services through centralised funding.

Appendix 1: Research methods

The study comprised 30 depth interviews with credit users who were on a low or middle income, and who reported that they were keeping up with household bills and credit commitments at the time of recruitment. A low income was defined as being at or below 70 per cent of national median income and a middle income was defined as being between 90 per cent of the median and the median.²⁶

The design and fieldwork materials were based closely on those used the first *Facing the Squeeze* study, undertaken in 2009.²⁷ Recruitment of participants to the study was carried out by Jennifer Kington, a professional freelance recruiter, in Bristol (South West England) and the surrounding towns and villages. Participants were screened into the study using the recruitment questionnaire shown in Appendix 2.

The screening ensured that all eligible participants were aged between 18 and 55, had one or more active credit consumer commitments and were not self-reported to be falling behind with household bills or other financial commitments. Primary quotas ensured that participants reflected a mixture of low and middle income households (as defined above) and housing tenures (private sector tenants, social sector tenants and mortgage-holders). Soft quotas were also applied to ensure a mixed sample by gender, age and employment status (of the respondent), household composition, and self-reported major drop in household income. Although no quotas were set on ethnicity, the sample comprised people from a range of ethnic backgrounds including minority ethnic groups.

All interviews were conducted face to face in central Bristol in late May and June 2011. Five pilot interviews were undertaken; no changes needed to be made to the recruitment questionnaire, topic guide or stimulus materials. The topic guide is shown in Appendix 3. The data from the pilot interviews was analysed alongside the subsequent interviews that were conducted.

Participants received a £30 shopping voucher as a thank-you for taking part in the study. The interviews lasted between 30 minutes and one hour ten minutes; the average interview length was around 45 minutes. The interviews were digitally voice recorded (with the respondents' permission) and transcribed in full. Analysis was conducted using thematic grids designed for use with qualitative data.

²⁶ Calculation of the threshold values took into account household composition and was based on the figures and methods published in the 2011 Household Below Average Incomes Report: http://research.dwp.gov.uk/asd/hbai/hbai2010/pdf_files/full_hbai11.pdf

²⁷ Collard, S., Finney, A., and Crosswaite, K. (2009) *Facing the squeeze: a qualitative study of household finances and access to credit in a 21st century recession*. London: Money Advice Trust: <http://www.bris.ac.uk/geography/research/pfrc/themes/credit-debt/facing-the-squeeze.html>. This report incorrectly described using 60 per cent median income as the upper threshold for a low income.

Sample characteristics

A breakdown of the characteristics of the sample, as defined at recruitment, is given in the table below. Participants comprised 10 men and 20 women and ranged in age from 23 to 54, the median age being 37. Three were living with a partner without children, three were lone

Sample characteristics	Number of respondents
Gender of respondent	
Male	10
Female	20
Age of respondent	
18-29	5
30-39	14
40-49	9
50-59	2
Household composition	
Single, no dependent children	7
Couple, no dependent children	3
Lone parent	3
Couple with dependent children	17
Household income (equivalised, before housing costs)	
Low income (at or below 70% median income)	13
Medium income (between 90% and median income)	17
Respondent work status	
Full-time (employee or self-employed)	11
Part-time (employee or self-employed)	14
Unemployed, seeking work	3
Not working, not seeking work	2
Housing tenure	
Own home with mortgage	14
Private tenant	7
Council or Housing Association tenant	9
Major drop in income (self-reported)	
Yes	13
No	17

parents and seven were single (although living with non-dependent children or other adults in two instances). The remaining 17 households comprised couples with children, five of which were families with three or more dependent children (including one family with two children and 13 step-children).

Thirteen participants were living in a household with a low income and 17 were in a medium income household. Thirteen reported at recruitment having experienced a major drop in household income in the last year, including seven of those on low incomes and six on medium household incomes.

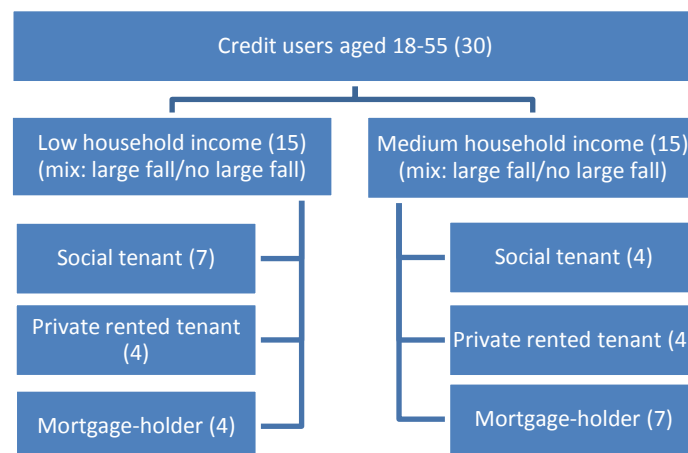
Thirteen participants were working part-time and 11 were working full-time (whether as an employee or self-employed). Three were unemployed and looking for work, the remaining two being non-working and not seeking work (including one full-time carer). Of those with partners, 14 of the partners were working full-time (including several who were self-employed), three were part-time, and one was not working and not seeking work; six were unemployed.

Altogether, most households had at least one full-time earner. Three households (all with low incomes) had no earned income and another three were dependent on earnings from one part-time income. A range of occupations were represented, including technical and managerial, and manual and service occupations. There were no notable variations in the occupations of chief income earners by income group.

Appendix 2: Recruitment questionnaire

Notes to recruiter

We are aiming to recruit participants for interviews, to make a total of 30 as follows:



Household income is based on household composition (Q6), and asked at Q7 and Q8.

- People who have household incomes below the amount shown in Q7 for their relevant household composition are defined as being on low income (below 70 per cent median)
- People who have household incomes in the band shown in Q8 for their relevant household composition are defined as being on medium income (between 90 per cent median and median income)
- Housing tenure is asked at Q9
- A fall in income is asked in Q10

Shaded areas indicate that the respondent falls outside the scope of the research.

Recruiter introductions

Good morning/afternoon/evening. My name is Jennifer Kington and I'm a professional recruiter for market and social research. We are working with a research team at the University of Bristol to ask people to take part in one-to-one interviews about their views and experiences of the economic situation in the UK. The Money Advice Trust has asked us to conduct this research. The Trust is a national charity that helps people across the UK to tackle their debts and manage their money well.

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

Before I go any further I would like to assure you that absolutely no selling is involved, this is purely a research exercise. We are totally independent and the findings from the research will be anonymised before being passed to the Money Advice Trust.

We are looking for particular types of people to take part in the research project, therefore I would like to ask you some questions about yourself. All information collected will be anonymised.

Q1. Would you be interested in taking part?

A	Yes	1	CONTINUE
B	No	2	CLOSE

Q2. May I ask how old you are?

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

Q3. **SHOWCARD** Do you currently have any of the following types of consumer credit, either in your own name or held in joint names with someone else? Please include any car finance.

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

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

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

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

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

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

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

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

A	Single, no children	£190 per week £830 per month	1	BELOW - RECRUIT ABOVE - GO TO Q8
B	One-parent family	£380 per week £1,520 per month	2	BELOW – RECRUIT ABOVE - GO TO Q8
C	Couple, no children	£290 per week £1,240 per month	3	BELOW - RECRUIT ABOVE - GO TO Q8
D	Two-parent family	£470 per week £1,890 per month	4	BELOW - RECRUIT ABOVE - GO TO Q8
E	Don't know/Refused		5	CLOSE

ASK Q8 IF ABOVE INCOME FOR HOUSEHOLD TYPE AT Q7

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

A	Single, no children	£240-£270 per week £1,060-£1,180 per month	1	YES - RECRUIT TO QUOTA NO - CLOSE
B	One-parent family	£480-£540 per week £1,940-£2,350 per month	2	YES - RECRUIT TO QUOTA NO - CLOSE
C	Couple, no children	£360-£410 per week £1,580-£1,770 per month	3	YES - RECRUIT TO QUOTA NO - CLOSE
D	Two-parent family	£600-£680 per week £2,430-£2,930 per month	4	YES - RECRUIT TO QUOTA NO - CLOSE
E	Don't know/Refused		7	CLOSE

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

A	Own it outright	1	CLOSE
B	Own it with a mortgage	2	

C	Rent it from a private landlord	3	RECRUIT TO QUOTA
D	Rent it from a local authority or housing association	4	
E	Live with parents//other family member/friends	5	CLOSE
F	Have some other arrangement	6	
G	Don't know/refused	7	

Q10. In the last 12 months, has your household suffered a LARGE drop in income, for example due to job loss, reduced hours or pay or separation from a partner? (NOTE: it is the respondents perception of large that matters here; code small drops as 'No')

A	Yes	1	RECRUIT TO QUOTA
B	No	2	RECRUIT TO QUOTA

Q11. CODE SEX (DO NOT ASK)

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

Q12. What is the occupation of the main earner in your household? WRITE IN AND CODE BELOW (FOR INFORMATION ONLY)

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

Contact Details

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

INTERVIEWER DECLARATION

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

NAME _____

SIGNED _____

DATE _____

Appendix 3: Interview topic guide

INTRODUCTION

- Thank you for agreeing to speak to me.
 - I am a researcher from the University of Bristol. We have been asked to carry out this research by the Money Advice Trust, a charity that promotes the provision of free and independent money advice through National Debtline and Business Debtline to people who are in financial difficulty. They would like to understand people's experiences of the changes in the economic situation in the UK, regardless of whether people are finding things difficult financially at the moment.
 - 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 will be used for research purposes only, cannot be traced back to you, and your name will not be revealed to anyone else. So please be assured that you can be honest and open in talking about your views and experiences.
 - As a 'thank you' for giving up your time to be interviewed, you will receive £30 in shopping vouchers.
-

1. BACKGROUND

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

2. EMPLOYMENT AND HOUSEHOLD FINANCES

- Employment situation of respondent (and partner)
- Current household income (SHOWCARD A)
- Do they feel their financial situation (own/household) has improved, got worse or stayed the same in the past 12 months or so? Why?
 - Probe for significant increases/decreases in household income and impact in the last 12 months and any longer term major impacts.
 - Increases e.g. new job, wage increase, increase in tax credits/benefits
 - Decreases e.g. job loss, drop in earnings/cut in hours, lower self-employed drawings?
 - Probe for significant increases/decreases in household outgoings (e.g. housing costs, utility bills, food, childcare costs) and impact
 - If financial situation got worse over past 18 months, what strategies have they used to cope with this?
 - How effective do they feel strategies have been?

3. ATTITUDES TO SPENDING AND BORROWING

- SHOWCARD B Which of these statements best describes their attitude to spending and borrowing?
 - I am impulsive and tend to buy things even when I can't really afford them
 - I am more of a saver than a spender
 - I prefer to buy things on credit rather than wait and save up
 - I am very organised when it comes to managing my money day-to-day
- Have their attitudes to spending and borrowing changed in the last 12 months or so?
 - How have they changed?
 - What has prompted changes e.g. actual or anticipated changes to household circumstances, concerns generated by media coverage of recession? If several things, main driver?
- Any changes in patterns of spending over the last 12 months or so? What changes have they made and why? Impact of these changes?
 - Probe for essential spending (e.g. food, household bills), non-essential spending (e.g. going out, holidays), and spending on children

- Probe types of changes: Cutting back, doing without, buying cheaper brands, putting off large purchases
- Any changes in way in which they manage their money over the last 12 months or so? Probe for changes in way they keep track of money and plan ahead e.g. for future bills and expenses
 - What changes have they made and why?
 - Impact of these changes?

4. UNSECURED CREDIT USE

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

5. ACCESS TO UNSECURED CREDIT

- Views about access to credit at the present time?
 - About the same as when applied in the past, more difficult to access, easier to access? Why?
 - What are these views based upon e.g. own experience, experience of others, media reports?
- Views about cost of unsecured credit at the present time?
 - About the same as when applied in the past, more costly, less costly?
 - Changes in the past 12 months?
 - What are these views based upon e.g. own experience, experience of others, media reports?
- Applied for any additional credit in the last 12 months (including increases to credit limit on existing credit/store card or overdraft)?
 - Reason for applying?
 - Why did they choose this type of credit over other options? Did they consider any other credit options at the time? If so, how far did they look into these?

- Applied to same lenders used before or new lenders? Why?
- Outcome? If turned down, tried elsewhere – where and why? If accepted, is it noticeably more expensive than previously? Views about this?
- If needed to cover a large unexpected expense (e.g. car repairs, replace boiler), how would they find the money for this, e.g. use credit, draw on savings, pay from regular income, borrow from family/friends? Why?
 - If would consider using credit, what type of credit would they use e.g. put on existing credit card, take out a new loan? Why choose this type of credit?

6. SAVING

- Any money in savings/investments?
 - How much (use show card with banded amounts)
 - What are savings for (e.g. for specific purpose or for rainy day/emergencies)?
 - If no savings, why not? Ever had savings?
- Informal savings?
 - How much (estimate)
 - What is this money for (e.g. for bills, shopping, rainy day/emergencies)?
- Any changes in saving behaviour in the past 12 months. Probe for amounts saved and ways in which money saved. E.g. running down savings in order to manage, saving more because cutting back on spending, saving less because of low interest rates?
 - What has prompted changes?
 - Impact of these changes?
- Any personal or occupation pension provision?
 - Any changes to pension provision in past 12 months e.g. paying in more/less, changes to employer pension provision?
 - Reasons for changes?
 - Impact of changes?

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

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

- SHOWCARD D Views about current level of mortgage borrowing – which statement best describes their current situation? What prompts these views?
 - I could afford to borrow more if I wanted or needed to
 - My level of borrowing is about right, I would not want to borrow more
 - I have borrowed more than I can really afford
- Views about availability of mortgage borrowing at the present time?
 - About the same as when applied in the past, more difficult to access, easier to access? Why?
 - Changes in the last 12 months particularly
 - What are these views based upon e.g. own experience, experience of others, media reports?

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

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

9. ADVICE-SEEKING

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

10. FEELINGS ABOUT THE FUTURE

- Views about their household financial situation over the next 12 months or so – likely to improve, get worse, stay the same? Why?
 - If likely to get worse, how do they think they will manage e.g. any savings to draw on, insurance they can claim on, cut back spending, get help from family/friends, use credit?
 - Any actions taken in anticipation of future problems e.g. taken out payment or income protection insurance, putting money into savings?
- Views about likely credit use over the next 12 months or so? E.g. likely to take out further credit or try and reduce existing level of borrowing?
- Views about/plans for likely mortgage borrowing over the next 12 months or so? E.g. likely to re-mortgage, change deal (variable-fixed)?
 - Why? What has influenced this?
 - If not currently a mortgage-holder, likely to apply? Why/why not?
- Has the recession affected their plans for the future in any way, e.g. have they postponed plans to move house/buy a house or change jobs?
- Anything else they would like to add about the impact of the economic downturn on their daily life or their financial situation?

THANK AND CLOSE

SHOWCARD A

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

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

SHOWCARD B

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

SHOWCARD C

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

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

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

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

Credit card/store card
Overdraft

SHOWCARD D

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