DEBT ON TEESSIDE: PATHWAYS TO FINANCIAL INCLUSION NEWSLETTER, NOV. 2012

The Project

The Debt on Teesside: Pathways to Financial inclusion project is a partnership between Thrive/Church Action on Poverty and Durham University's Centre for Social Justice and Community Action. Funded by the Northern Rock Foundation, it is a two-year action research project that works with low income households experiencing unmanageable debt. The project collects data on household debt; matches households with volunteer mentors; and works on campaigns linked to the research.

"I'm just managing to pay what I've got to pay. By the time I've paid out, I've got no money to pay the debt - so just the interest and not even then…"

- Wonga, the leading payday lender in Britain, saw earnings after tax increase from £12.4m to £45.8m in 2011.
- A two-seater sofa from BrightHouse, a high street rent to own store, offered at the (overinflated) cash price of £865.84, paid at the weekly rate of £9.99 (including service cover) over 156 weeks adds up to a total of £1,558.44.

Findings to date

- High cost credit from rent to own companies, such as BrightHouse, PerfectHome, Buy as You View and home credit companies are often the only credit sources low income households can access.
- In 9 out of the 24 low income households in our project that had high cost credit such as doorstep loans (Provident, Greenwoods and others) the householders we had contact with had mental health problems such as depression.
- Amounts of total household debt ranged from £340 to more than £10,000.
- Of the 16 households that had doorstep loans, 11 had more than one doorstep loan, and one household had 25 loans.
- Some people were paying a third of their income out in high-cost credit repayments.
- One household comprising a lone parent with two children with disabilities had repayments of nearly half her weekly income.

Campaigns

'Beware the doorstep lender' - Many of these loan companies get their business by visiting people's homes and offering them credit, which they can't afford. One action people can take is to stop these companies from calling in the first place. It is possible for people to stop 'cold callers' by sticking a notice on their doors saying 'No Uninvited Traders. Please don't knock. Just Leave and Don't Return. Failure to do so is a criminal offence'. During the next month we will be giving out notices to anyone who would like one to put on their door. Please contact us at Thrive if you would like one: 01642 769570

Affordability – Many of these companies take little or no account of whether people taking out loans can afford to pay them back. They should check not just on household income, but also how many other loans people have. Thrive is working with the Centre for Responsible Credit and other bodies to push for data sharing and a cap on the total cost of credit. Interest rates and service charges can often reach a staggering 1,000% APR. Many countries have a cap on the total cost of credit, yet attempts to get legal changes in the UK have failed. It is important that we keep up the pressure to outlaw these exploitative lending practices in the UK.

Household case studies:

HH 14: GB is a female lone parent with 4 children. The eldest boy aged 9 has Aspergers, asthma and some behavioural problems and the youngest boy, aged 3 is being tested for similar difficulties. Weekly income is around £400 (£270 per week is paid out to a number of doorstep loan companies). GB has one current cash card bank account, but has received a number of penalties for late payments on direct debits. GB has a range of debts including 25 doorstep loans, a logbook loan and catalogues. GB thinks total debt is around £10,000, although actual debts calculated by our project come to around £15,000.

With the support of her mentor GB went to Citizen's Advice and got her repayments reduced and refused any more doorstep loans. Her income has massively improved by £200 pw and she feels confident that she can get on top of her debts.

HH19: JJ is a young single man in his early 20s living alone and has some mental health issues. He is in receipt on Disability Living Allowance and Employment and Support Allowance. Total debt is between £300-£500. His main reasons given for getting into debt are a contract mobile phone bill which got out of hand and his benefits being stopped 'for ages'. This meant he was left with unpaid utility bills. He has a social fund loan of £400 and pays back £10 every fortnight. He has a two-year gym membership contract he pays every month although he doesn't go.

JJ's DLA was stopped and income went down but he has managed with the help of his mentor to budget the reduced income. Also with her support he has freed himself from the gym membership contract, thus increasing income. He is now using a savings tin and file box to keep all mail and paperwork in order. When he needs some emergency cash he uses cash convertors, which he feels is more controllable than doorstep loans.

HH 12: TL is a widow with a son of 18 living at home, currently at college. She is in private rented accommodation. She has bipolar and other health problems and has been on sickness benefits for 12 years. Estimated debt is £3,000, although individual debts add up to more - debts that are 4-5 years old. She has one doorstep loan with Greenwoods of £1,720, catalogue debt of around £1000 and owes more than £1,990 on water rates.

TL attended Citizen's Advice and prevented a court summons by contacting debtors. Her repayments have been reduced. She has moved house feels on top of debts and says she has some money to go to the car boot to get things for the house. She reported being pleased the doorstep lenders couldn't access her new place.

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