

# Who is stuck in problem debt?

Consumer debt now stands at £200 billion. It is growing at its fastest rate since 2005 and is approaching its pre-financial crisis peak.

High levels of lending pose a risk to individuals and lenders when people take on debts they can't afford.

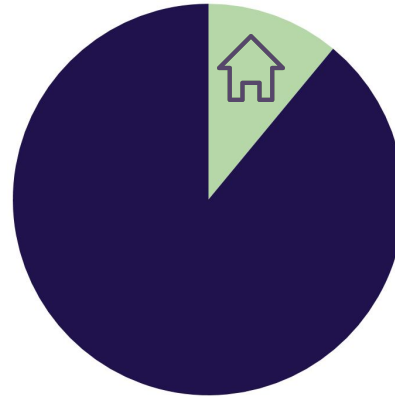
Citizens Advice sees the impact of unaffordable debt on individuals. Last year we helped 350,000 people to get their finances back on track.

The experience of people who struggle with debt isn't uniform. For most people it is a short-term experience. However, a significant minority get trapped in debt. Nearly a million people were still dealing with consequences of high levels of lending in the build up to the 2008 financial crisis nearly a decade on.

This is a short version of our research report, *Stuck in Debt*.

**citizens  
advice**

## How many people have problem debt?



**2.9 million** households were struggling with problem debt in 2016

## How many people get stuck in problem debt?

Most households who experience problem debt are able to get their finances back on track a year later. A significant minority get stuck in debt. Of the 2.9 million households struggling with debt in 2015, 1.4 million were still struggling a year later.

£

**1.4 million**

Households struggled with debt from 2015 to 2016



**800,000**

People struggled with debt from 2006-08 to 2012-14

For some, those debt problems last far longer. 800,000 people struggled with their debt from 2006-8 to 2012-14.

## What do we mean by problem debt?

A person is in problem debt if they are unable to afford their debt repayments.

We measured this by looking at people who said they:

- **are in arrears** on their outstanding debt obligations
- **are struggling** to meet their debt repayments
- say their debt is a **heavy burden**.

When somebody is in this situation for more than a year, we describe them as stuck in problem debt.

## Who gets into problem debt?

In 2012-14, 1 in 10 British adults was struggling with debt.

Different groups of people are more likely to get into problem debt including:

**1 in 3**

lone  
Parents



**1 in 5**

job  
Seekers



**1 in 9**

couples  
with  
children



## Why do people get stuck in debt?

**Credit cards keep people in debt.** Unlike a loan, they have no repayment plan. Between 2010-12 and 2012-14, 72% of over-indebted people with loans were able to reduce their loan debt, while only 60% of those with credit card debt were able to reduce their credit card debt.

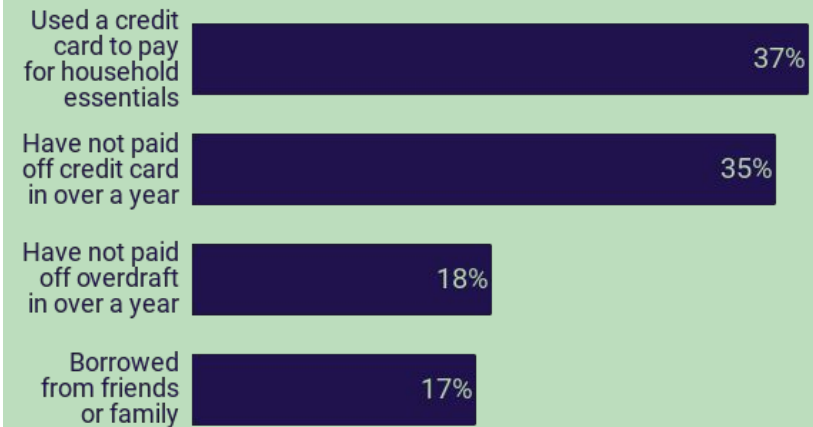
**People enter a debt spiral.** Half of people in problem debt take on even more debt; on average taking on £1,506 more over two years. Interest and fees increase the debt size, requiring further borrowing to repay.

**Lenders encourage bad behaviour.** Last year 18% of people in problem debt had their credit limit extended by their credit card lender without asking. 28% had paid credit card fees and 35% paid overdraft fees.

**Not enough people seek help.** Only 10% of people in problem debt sought debt advice last year.

**Debt solutions aren't good enough.** A survey of 272 Citizens Advice advisers found that Debt Management Plans are often expensive and simply don't work. 38% told us they had helped people who had debts enforced after they had set up a debt management plan.

## How do people cope when they're in problem debt?



### Joseph's story



Joseph has held the same job for eight years and earns £15,000. Over this time, his credit card limit has increased from £800 to £12,000 at his lender's initiation. After paying for living costs, Joseph is able to put £200 a month towards his credit card debt. At the current interest rate of 12.5% APR, it will take him nearly 8 years to pay off his debt. To minimise his debts, he applied for a 0% balance transfer card. He was unable to transfer the full £12,000 balance across - as no other major credit card provider thought he could afford a credit limit above £4,100.

## What needs to change?

In the run up to the financial crisis in 2008, consumer credit was growing by nearly 15% a year, peaking at £208 billion. It's now growing at over 10% a year and approaching its pre-crisis peak. Large numbers of people are still dealing with the consequences of that high level of lending a decade later.

To stop the current level of consumer lending pushing people into long-term problem debt, regulators and the government need to help people stay on top of their finances:

**Credit cards should not trap people in debt.** Lenders shouldn't be allowed to increase a credit limit without a customer's permission and should offer forbearance to customers stuck in problem debt.

**Lenders should scrap unarranged overdraft fees.** High fees push people further into debt.

**Money advice should be provided at key moments in people's lives.** More people would get help if it was offered to them.

**People should have a clear route out of debt.** Debt management plans should be legally enforceable.

## Sarah's story

Sarah came to Citizens Advice for help with debt. She had 5 credit cards with separate lenders and total credit card debts of over £28,000. Her credit card debts exceeded her annual income.

Sarah had managed to avoid arrears by borrowing money from her parents to cover repayments.

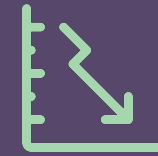
Despite having little income going into her bank account and holding multiple debts, lenders had increased the credit limits on Sarah's cards without any questions about her personal finances.

How did we reach our findings?

1. We analysed 2 waves of the Bank of England's NMG survey.
2. We analysed 4 waves of the Wealth and Assets Survey.
3. We conducted a representative poll of 2,116 adults.
4. We conducted a survey of 272 Citizens Advice advisers.

## What's next?

People get into debt for a number of reasons. In our research, two stand out:



People who have a drop in income are more likely to get into problem debt



People who have a sudden shock and quickly take on debt - having not borrowed before - are likely to get into problem debt.

Income drops and financial shocks caused by things like relationship breakdown are unavoidable. People need to be better placed to deal with them.

In the coming months we'll be looking at how unpredictable people's finances are and how they could be better placed to deal with instability.