

NATIONAL
DEBTLINE

MONEY
ADVICE TRUST



At the sharp end

A spotlight briefing on the
impact of Covid-19 on

National Debtline clients

29th June 2020

Foreword

The Covid-19 outbreak has reached into almost every area of people's lives, and the financial consequences for millions of households has been severe. More than 600,000 people have lost their jobs since lockdown began, and 2.8 million people are now claiming work-related benefits – an increase of 126% since the beginning of lockdown.

For people who were already struggling or dealing with problem debt, the financial repercussions of the outbreak are of particular concern.

This short briefing offers insight into the experiences of people at this 'sharp end' – people who were already either in or recovering from financial difficulty going into the Covid-19 crisis – as well as a snapshot of what we have been hearing at National Debtline service over the first three months of the outbreak.

Advisers at our National Debtline service – which provides free, impartial debt advice by phone, webchat and online – have been on the frontline of the Covid-19 crisis, providing crucial advice to people whose finances have been hit by the outbreak.

As might be expected, an increasing number of people who contact National Debtline are citing Covid-19 as the main reason for their financial difficulty. There has been a change in the nature of calls our service receives – more people are now getting in touch about single issues and with queries on dealing with the immediate challenges they are facing. At the same time, fewer calls are driven by creditor action as a result of the temporary relief measures that have been introduced to support households through the outbreak.

After a fall in demand in the first two months of the crisis as a result of these trends, demand for advice is beginning to rise again. Like all debt advice agencies, we are expecting a significant increase in demand as temporary support measures are withdrawn, collections activity resumes and unemployment rises.

As the full economic impact of the outbreak becomes felt, we will continue to share insights from National Debtline – as well as insights from our Business Debtline service, which will be the subject of a separate briefing¹.

In the meantime, we look forward to continuing to work with our partners – old and new – to ensure that many more people receive the free debt advice they need at this extraordinarily difficult time.

Jane Tully
Director of External Affairs and Partnerships
Money Advice Trust

¹ For more information visit www.moneyadvicetrust.org

The impact of Covid-19 on recent National Debtline callers

During May 2020, we conducted a survey of National Debtline callers who had contacted us between January 2019 and March 2020². The survey helps to paint a picture of people who were already in or recovering from financial difficulty and had engaged with debt advice, how they have coped with the Covid-19 outbreak to date, and the challenges they may face in the future.

Already dealing with debts

Before Covid-19 a third of respondents were already behind with their bills, a quarter had been in touch with their creditors to negotiate repayments or request they hold action and 17% had or were in the process of setting up a debt solution. A third (32%) were up-to-date with their repayments before Covid-19 struck.

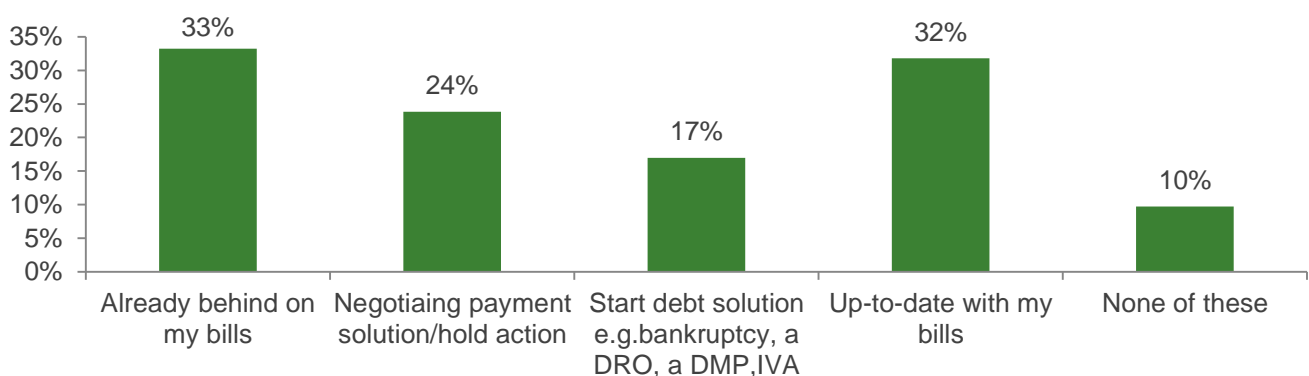


Figure 1. *The picture of household finances before Covid-19 (Base 277).*

Nearly half have seen their income fall

Almost half of respondents have had a drop in income caused by Covid-19. The most common reason was a drop in income to 80% of pay as a result of being furloughed, followed by job loss or a reduction in hours. Of those whose income had dropped, 28% experienced a drop of up to a quarter but 21% had experienced a drop of 50-75%, and 8% had experienced a 100% drop in household income.

² **Methodology:** We invited 13,400 recent National Debtline clients (people who had contacted us between January 2019 and March 2020) by email to take part in an online survey in May 2020, and received a total of 370 responses (base sizes for questions vary and are shown when cited). While our sample was therefore self-selecting, the population of respondents had broadly similar characteristics to National Debtline clients as a whole.

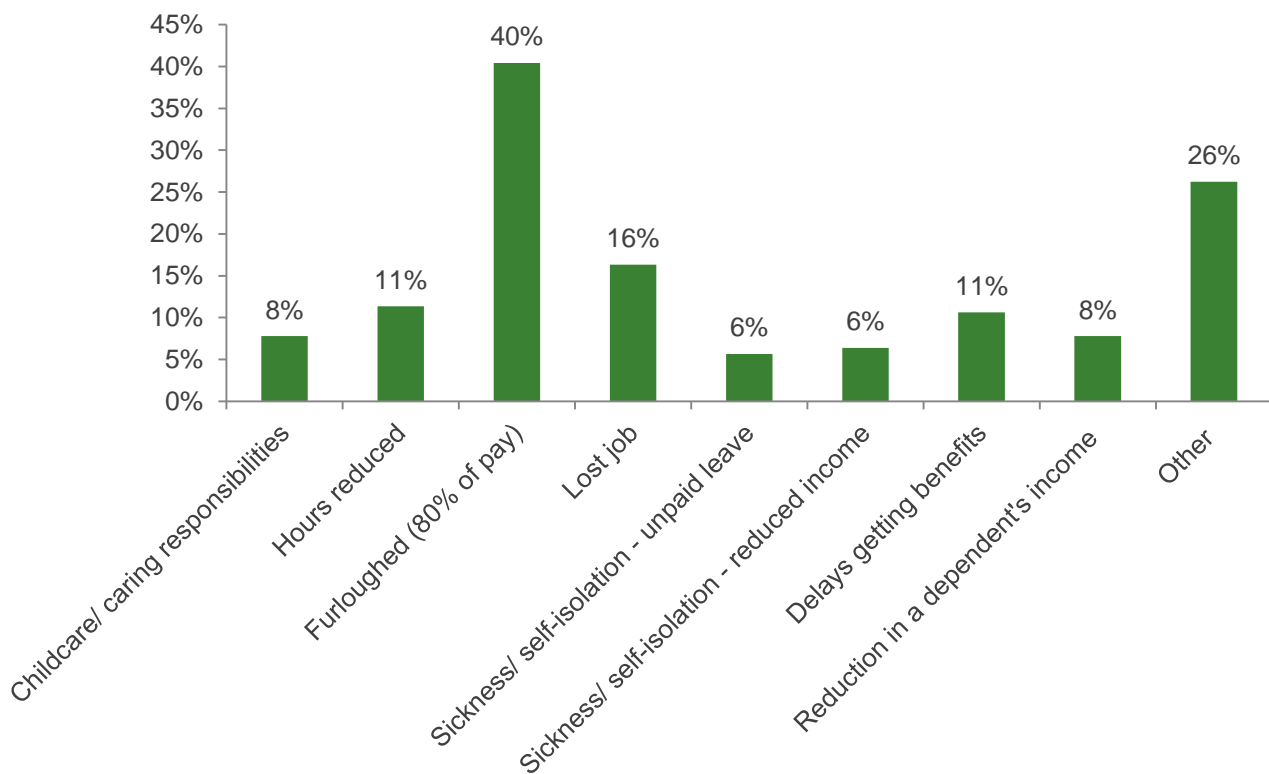


Figure 2. *Reasons for a drop in household income (Base 141 – those who had experienced a drop in income).*

Most have no savings to fall back on

People who use our services are typically on low incomes, with 70% having a household income of less than £20,000. Unsurprisingly, 90% have no savings to protect them against the impact of an income drop and a quarter of respondents with savings had already used them to help with lost income due to the Covid-19 outbreak.

Many are accessing support from government and creditors

Of those who responded to our survey, 46% have used Universal Credit to help cope with the impact of Covid-19, 13% sought help from an energy supplier and a further 13% requested a break in repaying credit debts. One in three respondents with a mortgage had requested a mortgage payment break³. Only one person in our sample reported receiving a rent payment break, which remain at the discretion of landlords – this is significant given that 65% of respondents were renters.

‘I am still behind with debt, but creditors have been very supportive during this time.’

³ UK Finance has reported that 1.82m people, or one in seven mortgage holders overall, have been granted a payment break.

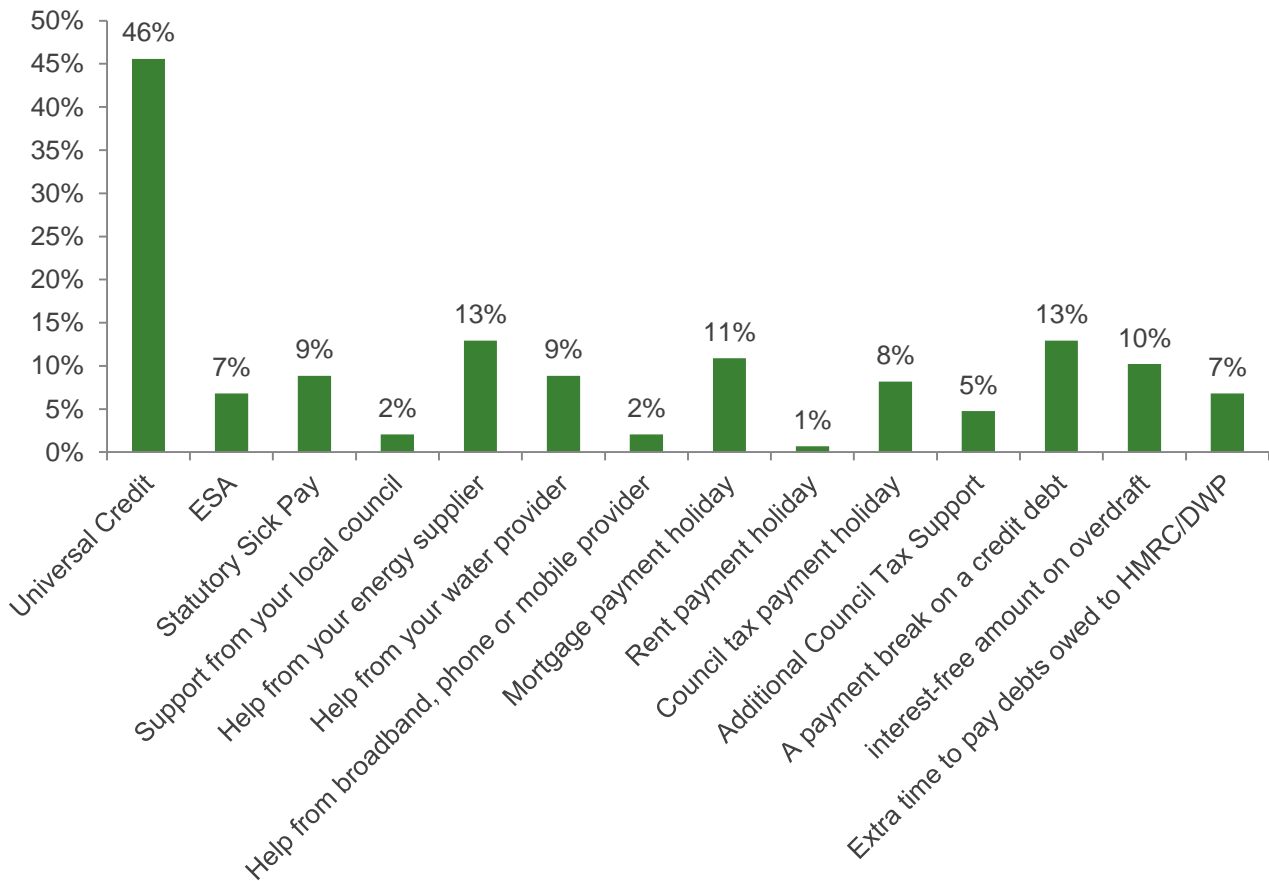


Figure 3. Support received due to impact on Covid-19 (Base 147).

Falling behind with household bills

Half of respondents reported falling behind or further behind with household bills as Covid-19 impacts their finances. Council tax arrears – one of the main debts we see at National Debtline – continues to be a concern for 37% of respondents and remains one of the key areas we would like to see further action on from government. Of those who have fallen behind on bills, 36% missed energy payments and a quarter (26%) missed water bills.

While we have seen the proportion of calls relating to priority debts fall since the start of the outbreak, this has been driven by temporary pauses on collections activity and in the case of council tax arrears, the government’s temporary ban on bailiff visits has been a particular factor. Although much of the focus has been on finance related debts, we have long been concerned about the growing living costs challenge many people, and in particular our client group, face. There is no doubt that the Covid-19 outbreak will exacerbate this and many clients will continue to struggle with these costs when collection activity resumes.

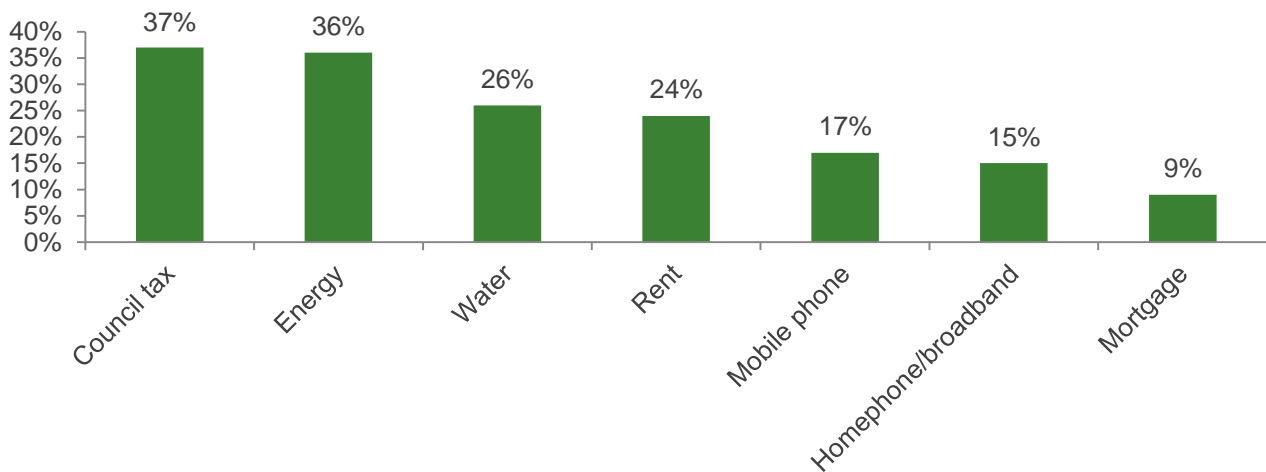


Figure 4. *People falling behind with household bills as a result of the impact of Covid-19 (Base 182).*

Of those with a mortgage, about a third reported missing mortgage payments. Almost a third of all respondents reported falling behind on credit commitments. Over 43% of those have missed credit card payments and more than a quarter have fallen behind with personal loan payments. Around one in eight respondents (13%) had used an agreed extended overdraft and 11% have gone in to an unarranged overdraft.

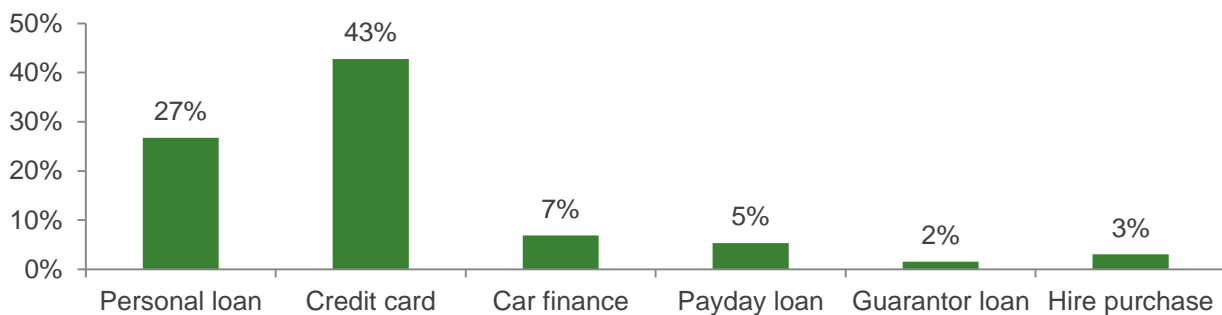


Figure 5. *People falling behind with credit repayments as a result of the impact of Covid-19 (Base 131).*

The lockdown has brought unexpected costs

While some people reported having more income now due to payment breaks, many, already on stretched budgets, have found that the lockdown itself has brought additional living costs. This was a common thread in responses.

‘I have less money as I have to buy in online shops that deliver and are so much more expensive.’

‘My son also lost his job and cannot contribute to household bills whilst he lives with us so [there is an] extra strain on household bills such as food’.

‘Staying home 24/7 means we use more water, gas and electricity.’

More than half have no plan, and few are considering debt advice

Worryingly, 55% of respondents said they had no recovery plan for how they will get their finances on track. Of those with a plan, many of the proposed solutions may not be enough alone to get them back on track. Just under a third intend to draft or re-draft their budget, 27% intend to find ways to make their money go further such as shopping around, 16% intend to cut back on breaks and going out and 13% intend to sell household items. Only 11% plan to get further debt advice.

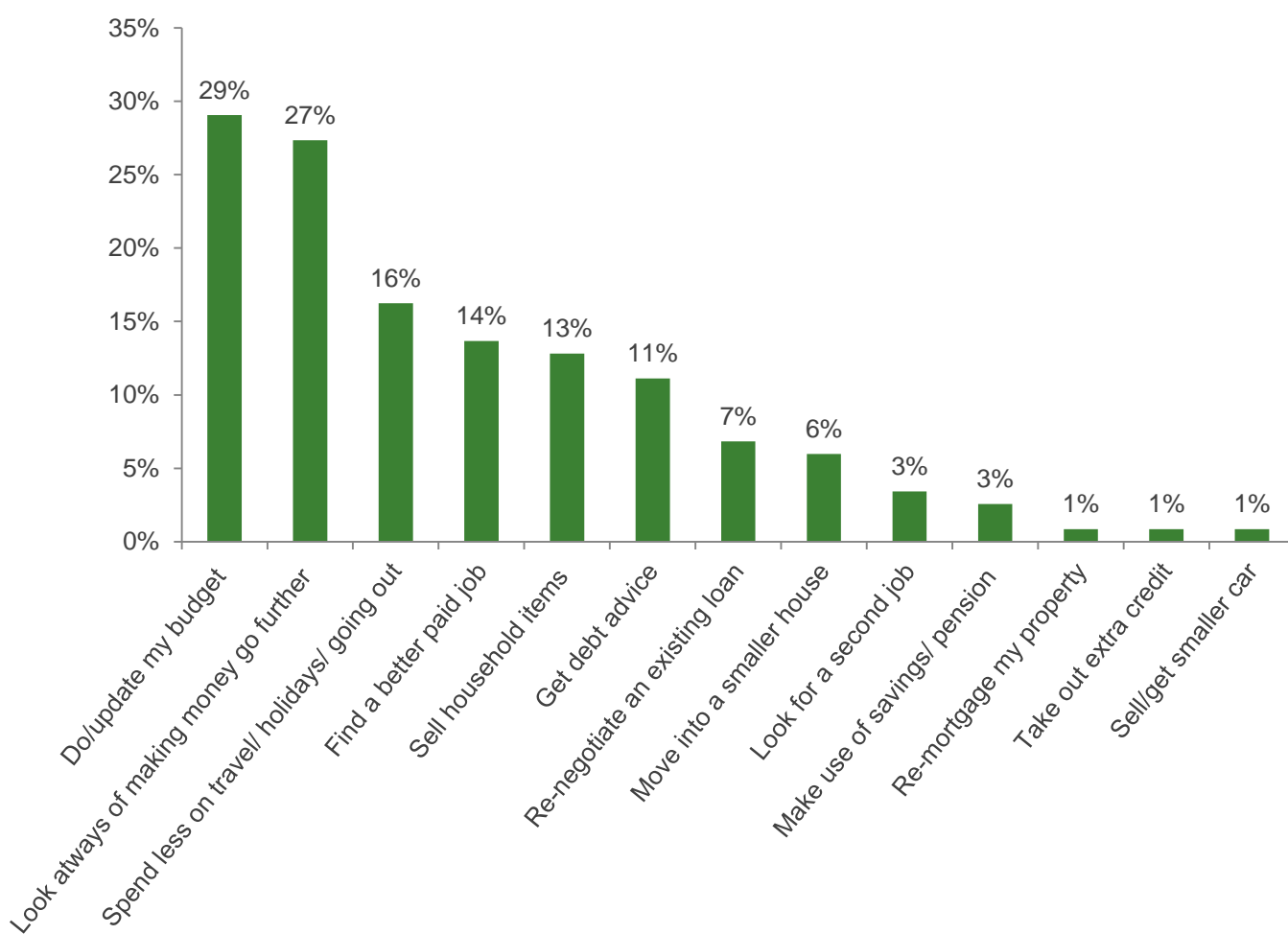


Figure 6. *Plans to get finances back on track (Base 117)*

Existing debt arrangements have been affected

For those who already had arrangements or solutions in place, some have been unable to keep up with repayments or have had their applications put on hold due to the closure of advice agency offices.

'Delays in payment plan agreement, due to no travelling and solicitors not open'

'I was in the process of a DRO, and it has all been out on hold'

'I've not been able to stick to agreed repayments'

People are anxious about the future

Our callers are concerned about a range of issues going forward, including the fear of this situation occurring again, the removal of support and forbearance and a return to a perceived 'punitive' approach by creditors. The risk of redundancy, being unable to pay essentials such as rent and council tax, being unable to buy food and fear of being cut off are all real worries that many are facing. Similarly, many are nervous about taking longer to pay debt back and the prospect of being unable to save. Others have wider concerns over children returning to school, and having to use public transport to return to work.

'Being able to get a job once this is over. Many people have lost their jobs and stores are closing down.'

'I am 67 and am concerned that I might not be able to return to my job because I am vulnerable to Coronavirus. We have lost our home and most of our money. I don't know what will happen.'

What our advisers are hearing

In this section we present a snapshot of what our advisers at National Debtline have been hearing during the first three months of the Covid-19 outbreak⁴.

Demand for debt advice expected to surge

The numbers of people contacting National Debtline began to drop below the seasonal norm in late March, after a few busy weeks of ‘crisis demand’ when there was a peak of uncertainty around the potential impact of Covid-19 on household finances (and before the announcement of the Job Retention Scheme, in particular).

Demand remained broadly consistent throughout April and May, but we have seen an increase in calls and webchats since the beginning of June. Subsequent sections give a sense of how the advice we have provided has also needed to change in response to clients’ changing circumstances.

It is worth noting that more people have contacted us in need of advice in recent years than we have been able to help, meaning that in ‘normal’ times not all calls or webchats were able to be answered. That has changed over the past few months due to the lockdown, with a reduction in debt collection and enforcement activity and significant government and creditor support.

However, given the economic outlook, a surge in need for debt advice is widely expected, as temporary relief measures come to an end, debt collection activity restarts and unemployment rises. We are preparing to help significantly more people in the second half of the year and 2021.

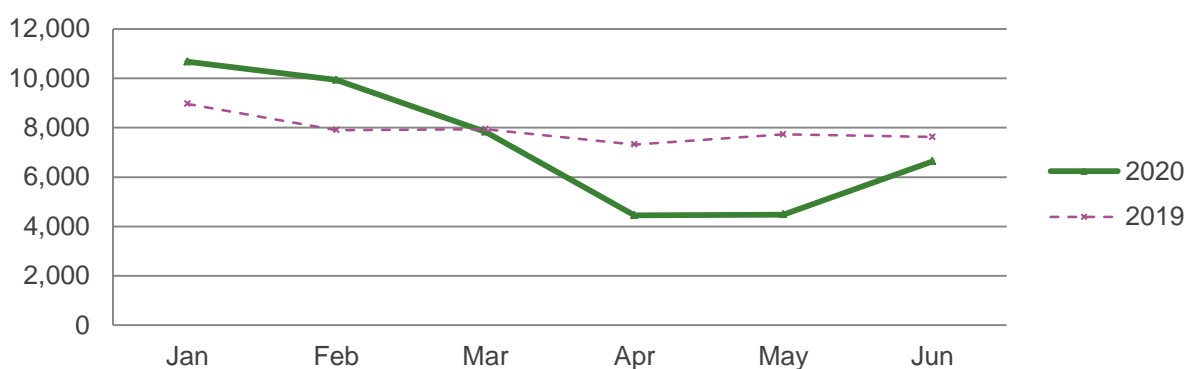


Figure 7. National Debtline clients helped by phone

Note: 2019 figures show the usual seasonal trends, whereby advice services are busiest in January, which the tails off as the year progresses. Other factors will also impact on numbers year-to-year such as staffing levels and changes in service design. June 2020 figures are proxy, based on the actual figures for the first three weeks of the month.

⁴ The data presented in this section is based on analysis of National Debtline client records

Reasons for financial difficulty are changing

We have seen growth in the number of people saying Coronavirus is the main cause of their financial difficulty, peaking at almost a quarter of the calls to our service at the beginning of April (this was a new flag added to our reporting system in March).

At the same time we have seen the number of people currently able to afford their debts (solvent callers) increase. This reflects the increase in the number of people we are supporting who are just managing to afford their bills but are concerned about the impact of Covid-19 and enquiring about the steps they should take to avoid potentially spiralling into debt in the near future. We have also seen a drop in the number of people citing mental ill health, relationship breakdown and illness or disabilities, as the impact of Covid-19 continues to dominate people's lives.

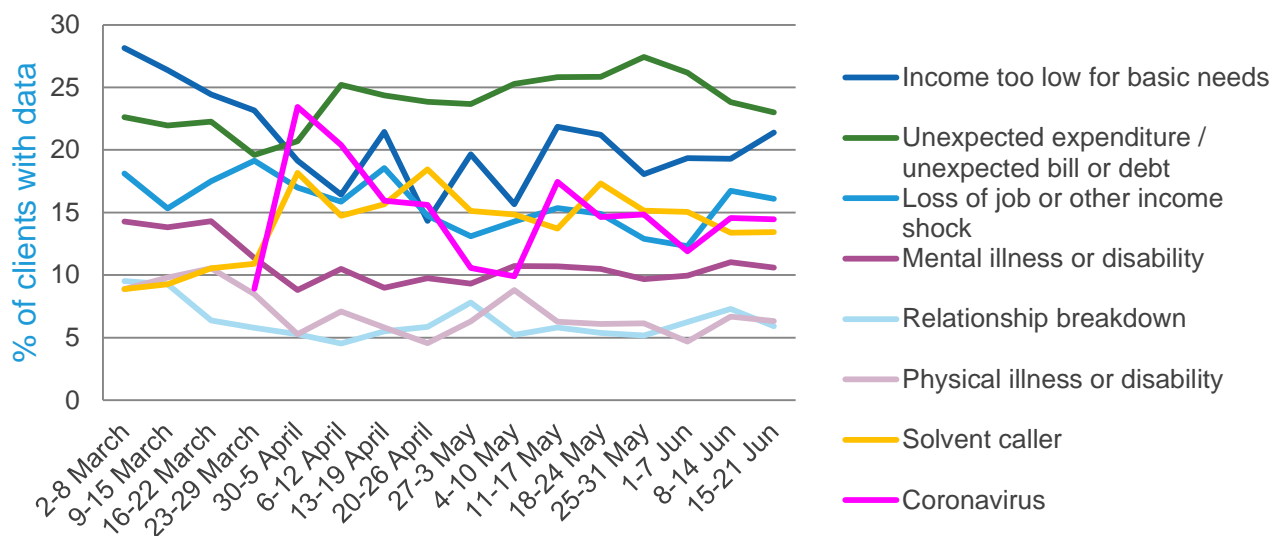


Figure 8. *Main reasons for financial difficulty (Coronavirus added in mid-March)*

The nature of support needed is changing, too

We initially saw a significant shift away from discussing longer-term debt management solutions such as negotiating repayments with creditors, DMPs and DROs as creditor forbearance gives people a temporary cushion from their debts. Whilst insolvency solutions such as bankruptcy and DROs have continued to remain low, some solutions-based advice, such as negotiating informal repayment arrangements (either themselves or through a DMP), are starting to rise again, although not to pre-Coronavirus levels.

We have seen a reduction in longer-term solutions-based advice, we have seen an increase in other forms of advice (other recommended courses of action) to support people through the specific impacts of the Covid-19 outbreak.

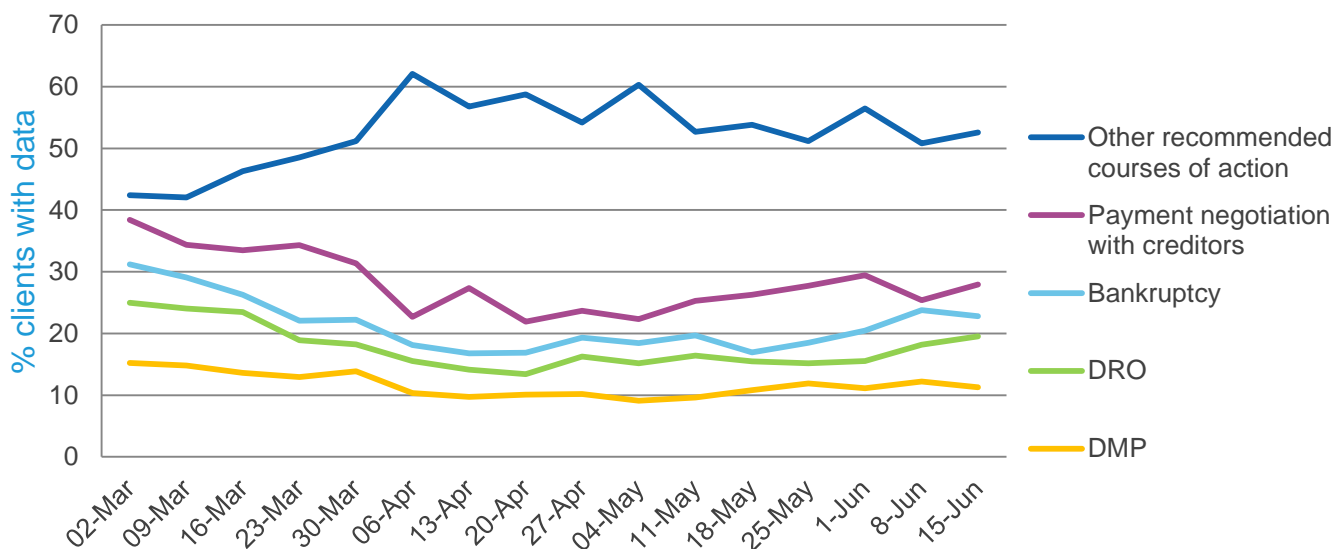


Figure 9. Solutions discussed with people (top 5)

At the start of the pandemic we saw a large shift to advising people on asking creditors to hold action and how to make a complaint, although this has fallen as the impact of creditor forbearance and government support measures kicked in. There has also been a steady decline in the number of people seeking support to deal with court action. However, we have seen significant growth in the number of people we are speaking to about disputing their debt, rising from 11% at the start of March and peaking at 20% at the start of April, before falling back to 17% by the end of May.

We initially saw an increase in people asking for advice on how to maximise their money in March. However, the clear package of support made available to employed people has meant that we have subsequently seen a dip in the number of people needing money maximisation advice as the package of measures was rolled out.

Clients and their debts

The employment and accommodation statuses of clients has remained broadly similar since the beginning of the outbreak. While there has been a slight increase in the number of people saying they are unemployed, it is too early to say whether this is a Covid-related trend or just a small variance in the data.

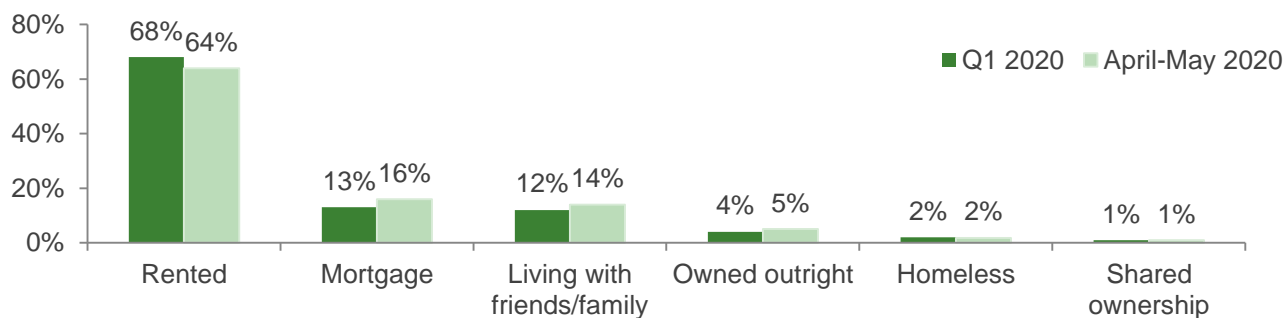


Figure 10: Accommodation status (2020 callers)

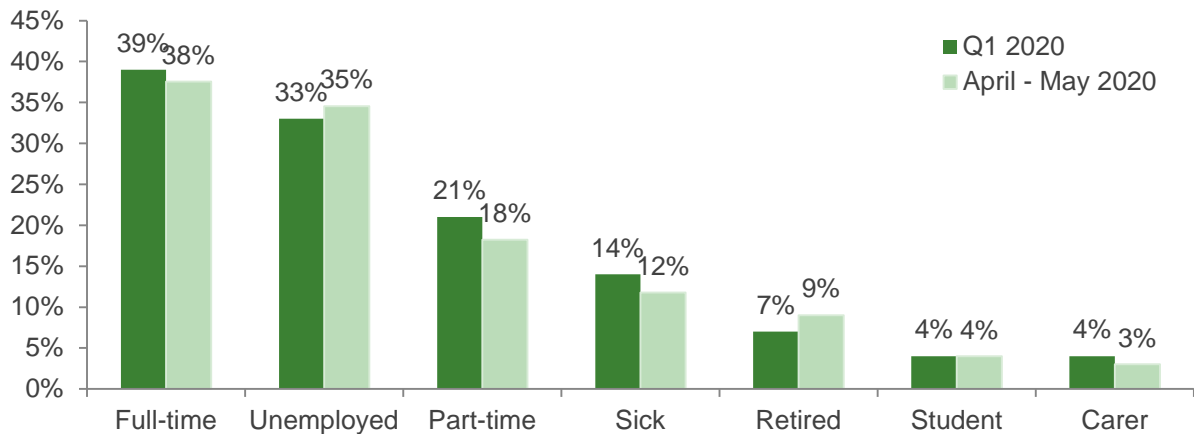


Figure 11. *Employment status (2020 callers - multiple selections possible)*

We have seen a drop in calls about many **priority debts** – most noticeably a drop in council tax – as temporary forbearance measures kicked in during March. A significant proportion of calls around council tax are typically driven directly by the action of council and enforcement agents, and the government’s temporary ban on bailiff visits is a significant driver of this trend.

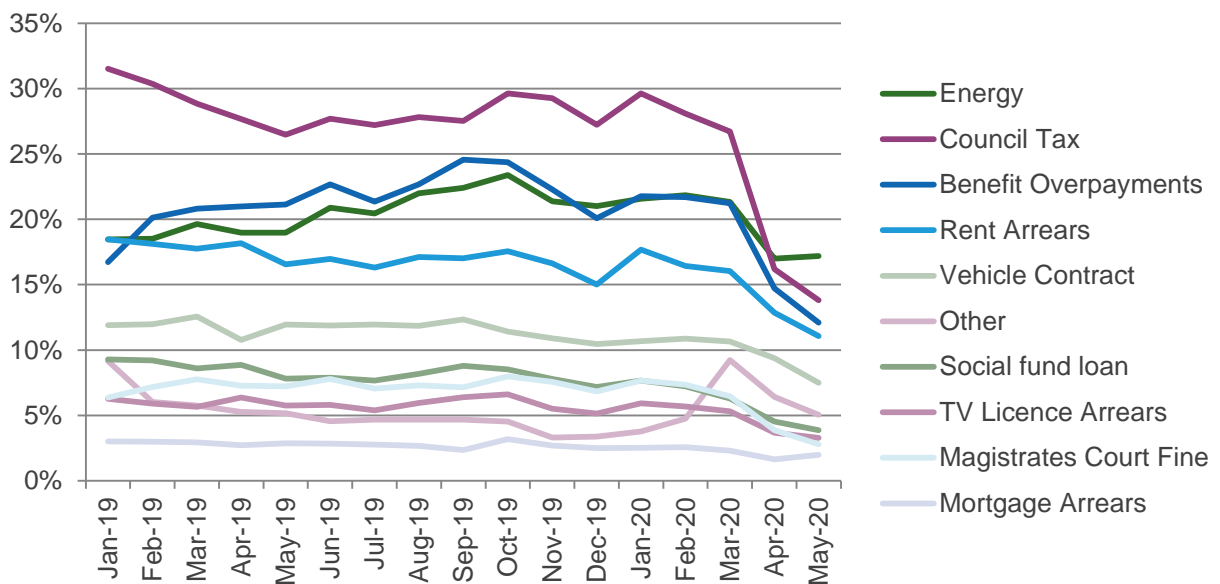


Figure 12. *Priority debts (January 19-May 2020 callers)*

We have similarly seen a fall in the numbers of callers speaking to us about **non-priority debts**, again coinciding with the forbearance measures many creditors have put in to place. In particular calls about credit cards, overdrafts and loans have fallen dramatically. Advisers are reporting that many of these callers are experiencing problem debt but that creditor forbearance is providing temporary relief from this. These clients are likely to be need longer term advice and debt solutions in the

future. At the same time advisers are reporting an increase in single issue calls – often about disputed debts - as people have more time to contact advisers and persevere with disputes.

Worryingly, our advisers report that some clients are not always aware that with payment breaks they will still be expected to pay back the money they owe at a future date, which will likely increase the repayment amount, or extend the term of the debt.

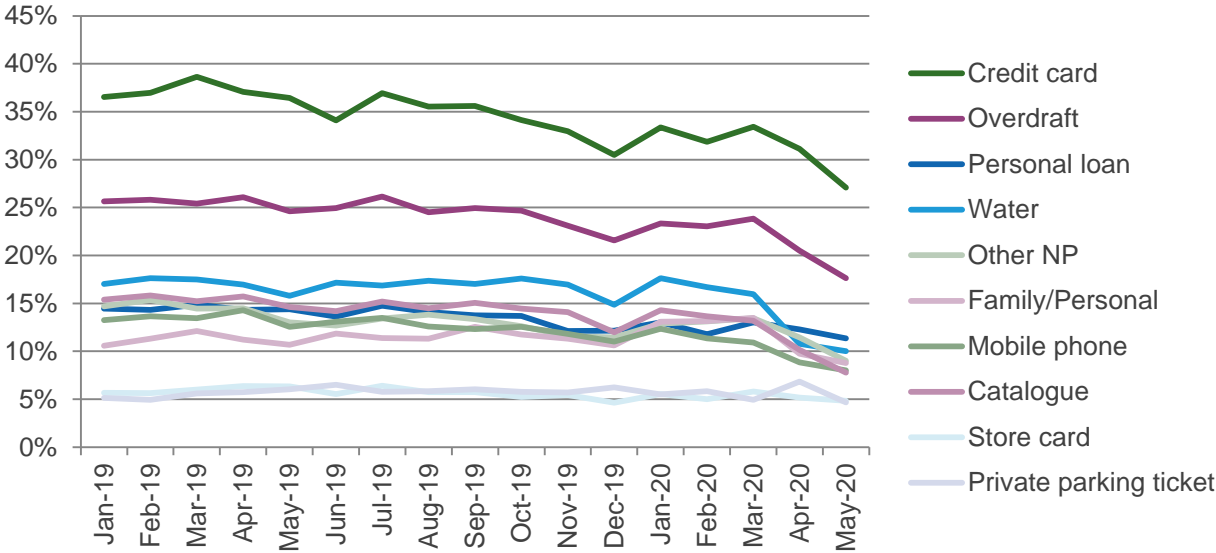


Figure 13. Non-priority debts (January 19-May 2020 callers)

In line with the growth in the number of clients calling us with a single problem (such as a disputed debt or parking fine), we are seeing a corresponding increase in clients with just 1 to 2 debts – otherwise general trends have remained steady.

While we have seen some fluctuations in the numbers of clients with debts below £5,000, the general trends in debt levels have similarly remained steady.

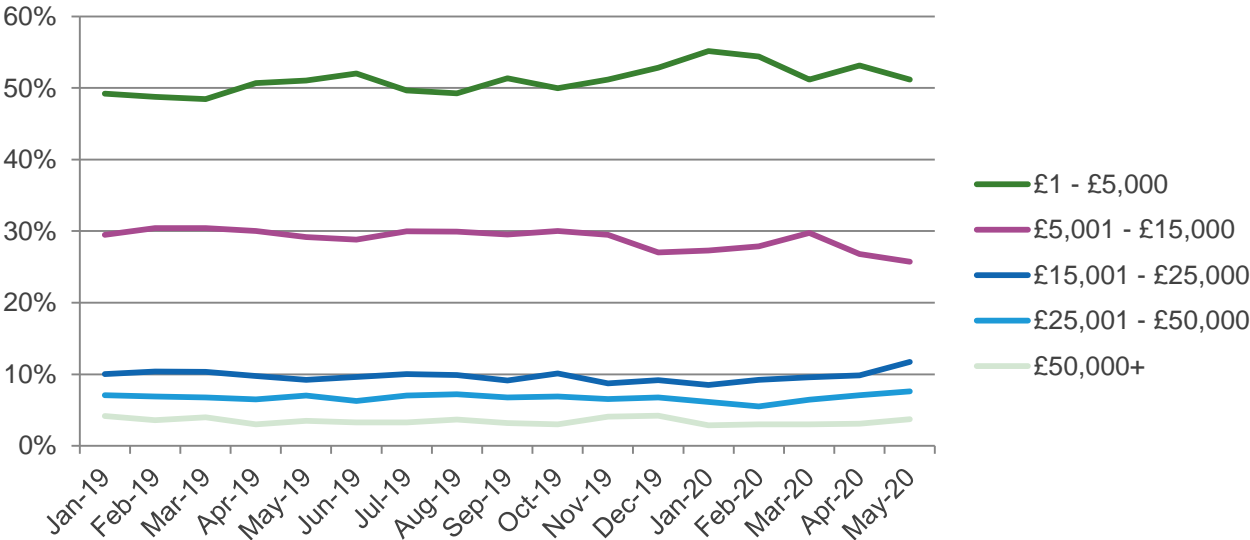


Figure 14. Amount of debt (January 19-May 2020 callers)

The Money Advice Trust

The Money Advice Trust is a charity formed in 1991 to help people across the UK tackle their debts and manage their money with confidence.

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