Debt on Teesside: Pathways to Financial Inclusion

Summary of launch event, 21st October 2013

On Monday 21st October, the Wolfson Research Institute for Health and Wellbeing hosted the launch of Debt on Teesside: Pathways to Financial Inclusion. The event showcased the findings of an action research programme conducted in partnership between Durham University's Centre for Social Justice and Community Action, Thrive Teesside and Church Action on Poverty, who have been working with low income households experiencing high levels of debt in Middlesbrough and Stockton-On-Tees. The research team invited attendees to support a Charter to Stop the Payday Loans Rip Off and improve regulation of organisations providing high cost credit.

Keynote Address: Damon Gibbons, Director, Centre for Responsible Credit

Damon highlighted the timeliness of Debt on Teesside launch, in the context of wide political debate about the regulation of high cost credit providers and the multiple challenges disproportionately experienced by financially excluded families, such as increases in the cost of living, rising energy prices and stagnant wages. High cost lenders have caused an exponential increase in the debt problems experienced by low income households. In some cases the effects of this are stark, with households expected to repay more than they earn in a month to high cost credit companies.

The Charter to Stop the Payday Loans Rip Off has attracted broad support from many organisations working in the sector, and has been signed by representatives of every party in the House of Commons. Damon called for greater public policy intervention to regulate high cost lending, on the basis that the financial difficulties it causes often lead to wider impacts on living conditions and mental and physical wellbeing. In particular, he highlighted:

- the need for the Financial Conduct Authority (FCA) to regulate for the use of a regulatory database to encourage responsible lending and facilitate targeted support for those struggling with debt
- the importance of accountability measures to ensure that high cost lenders undertake affordability checks before providing credit, putting an end to a risk-based business model which is predicated on high levels of default.

Damon asked attendees to consider how we can develop a better, more coordinated approach to meet the scale of the challenge.

Overview of Debt on Teesside research findings: Professor Sarah Banks, Durham University

Households involved in the study primarily accessed credit through sources such as catalogues, doorstep loans, rent-to-own schemes, payday loans, the Social Fund, informal loans and (in a small number of cases) illegal lending. Households reported that they take out high cost credit because there is little alternative, and because the normalisation of debt is prevalent within many families. It is often difficult for households to address their financial difficulties because they are facing multiple, complex issues in addition to their debt.

The research recommends the further development of neighbourhood financial capability mentoring programmes (and redeployment of staff from advice agencies and housing providers to support this), improved coordination of partner agencies and better infrastructure to support volunteers and activists, more widely available sources of low cost credit, and increased regulation of high cost credit providers.

Financial Mentoring: Tracey Herrington (Thrive Teesside), Rob (mentoring programme participant)

The Debt on Teesside project aimed to develop a sustainable programme of household mentoring on money management to support families experiencing high levels of debt in poor households on Teesside. Tracey identified the importance of long term investment in such programmes, as well as the value of peer mentors who have local knowledge and are able to build the trust of the households they work with. Rob highlighted the benefits of having somebody to help him improve his ability to budget, manage his incoming and outgoing expenses, and encourage him to save money with a Credit Union.

Drowning in Debt: Greg Brown (Thrive Teesside)

Greg introduced the Drowning in Debt campaign which sets out to highlight the unscrupulous practices of high cost lenders and the impact this has on over-indebted families. The campaign identifies the need for high cost lenders to share data with credit reference agencies more effectively and recommends:

- the introduction of a real-time database to improve transparency of high cost lending
- regulation to ensure that no more than a third of household income should be spent on repayment of high cost loans
- strengthening of the Office of Fair Trading guidelines on irresponsible lending.

Panel Discussion

- **Ian Bartlett (Stockton and District Advice and Information Service)** argued that reliability of income, rather than low income, is at the heart of many families' financial difficulties. Ian called for stories of those affected by debt to be collected and presented to policy makers.
- **Tom Hodgson (Thrive mentor)** argued that the policy landscape is exacerbating debt problems in the UK, and that current measures cannot match the technological advances of large companies such as Wonga. Tom called for Credit Unions to provide a national, rather than regional, response.
- **Graeme Oram (Five Lamps)** argued that the debt advice sector is hugely under-resourced and called for greater support to: educate families about the impact of high cost credit; prevent banks take a non-predatory approach to lending, and recognise the key role of housing providers in supporting financial inclusion.
- **Rob MacDonald (Teesside University)** argued that debt is implicated in a public health crisis which affects the most vulnerable in our society. He highlighted the problems of a 'low pay, no pay' cycle, which make it difficult for households to reduce their debt, and called for agencies to address the causes rather than the symptoms of financial inclusion.

Open Discussion

There was wide discussion amongst attendees, which addressed the following key points:

- **Should the individual have freedom of choice to take out high cost credit or should the state intervene?** There are numerous tensions within the policy direction of this area, but political influence has a role to play in reducing the wider structural factors affecting individuals' ability to tackle their debt.
- **Should the solution change people or policies?** Action to change policy and restrict to access to high cost financial products is more effective in the short-term than effecting behavioural change in borrowing practices. However, financial capability education should be offered at an early age to reduce the normalisation of debt. Many professional organisations have a role to play in this.

- **How can we use our knowledge about what works to effect change?** Attendees provided several examples of how they have effectively address financial inclusion within their communities. Charities and advice agencies may need to coordinate their efforts to make a local and national difference.
- **Can we hold the banks to account?** The banking system supports the high cost credit industry by funding lenders and reducing options for low income families to access alternative sources of credit. Should we be asking banks what they are doing to support financially excluded people in our communities?