

## **Extreme Debt: the experience of CCCS clients**

A report from the Foundation for Credit Counselling

January 2005

## **Extreme debt: a closer look at CCCS clients**

### **1. Introduction**

Richard Cullen, a self-employed mechanic from Wiltshire, committed suicide on January 10 2005. He had built up a debt of £130,000 on 22 different credit cards. Until just before his death, Mr Cullen had been using one card to pay off another, so no problems were reported on his accounts until the situation had got beyond his control.

Dereck Rawson had left a suicide note in May 2004 citing debt as the reason for taking his life. He had run up debts of £97,822 and owned 16 different credit cards. This was despite taking home only £340 a week from his job as a forklift truck driver.

The coroner in the case called for better sharing of data so lenders could see the amount of debt a person had, and make informed decisions about lending. Currently many lenders share only default information, so people like Mr Rawson and Mr Cullen, who made only a minimum payment each month, would not be picked up by the system.

## **But how widespread is the problem?**

The Consumer Credit Counselling Service is Britain's largest debt charity and exists to help all borrowers in difficulty. It has examined its client database in order to gauge the prevalence of extreme debt. Three sets of clients were examined whose criteria matched those of Mr Rawson:

- debts of more than £100,000
- debt:monthly-income ratios of more than 66:1
- more than 16 credit cards

The sample base used for the study was clients who had received financial counselling from CCCS, nearly half of whom were on a debt management plan<sup>1</sup>. This base yielded 60,468 clients with enough information held on file for the investigation, of whom:

- 815 had debts of more than £100,000
- 2,322 had a debt:monthly-income ratio of more than 66:1<sup>2</sup>
- 178 had 16 or more credit cards

All clients included in this investigation were helped by our counsellors between April 2002 to September 2004.

---

<sup>1</sup> A debt management plan (DMP) is a service offered by CCCS to clients who have money available from their monthly pay packet after having budgeted for priority debts and living expenses. If the client agrees to the debt management plan, he or she will pay their excess salary to CCCS each month, and CCCS will distribute it pro rata amongst the creditors to whom the client owes money.

<sup>2</sup> The debt to income ratio is calculated on debt:net monthly income. This figure may overstate normal levels, as many people are forced into debt by job loss, which means their income falls dramatically.

## 2. Extreme debtors - the profile

### Clients with debts of more than £100,000

There were 815 clients with debts over £100,000 (1.35 percent of the CCCS client base.) The median total debt of clients in this category was £113,493. The highest debt found was £958,179 (though much of this seemed to be trade debt – a third was owed to one creditor).

One of the concerns in the Dereck Rawson case was that he lived in a council property and had no assets to back up his borrowing. The investigation into extreme debt looked at the housing situation of clients who owed more than £100,000 (where this information was available - 477 cases):

<b>Housing type</b>	<b>Number of clients</b>	<b>%</b>
Buying	312	65%
Own	41	9%
Rent	80	17%
Other	44	9%
<b>Total</b>	<b>477</b>	<b>100%</b>

Seventy four percent of clients had assets to back up their debt purchases, although it is unclear from the information whether the value of the clients' houses would be enough to cover their debts.

## Clients with a debt:monthly-income ratio of more than 66:1

Dereck Rawson had a monthly net income of £1,473. His debt level was £97,822, which gives a debt:monthly-income ratio of 66:1.

There were 2,322 CCCS clients with a debt:monthly-income ratio of 66:1 and above (3.84 percent of the client base). The median debt:monthly-income ratio for these 2,322 clients is 79:1, with the maximum ratio being 1,414:1. Often clients lose their jobs, which pushes their income down to below prudent borrowing levels, so increasing alarmingly the debt:monthly-income ratio. This may also explain why there is a relatively higher proportion of the population in this category when compared to the other two extreme debt categories.

Renters figure more highly in this client group than in the group who owe more than £100,000. This is because people on lower incomes do not generally have the financial capacity to obtain a mortgage.

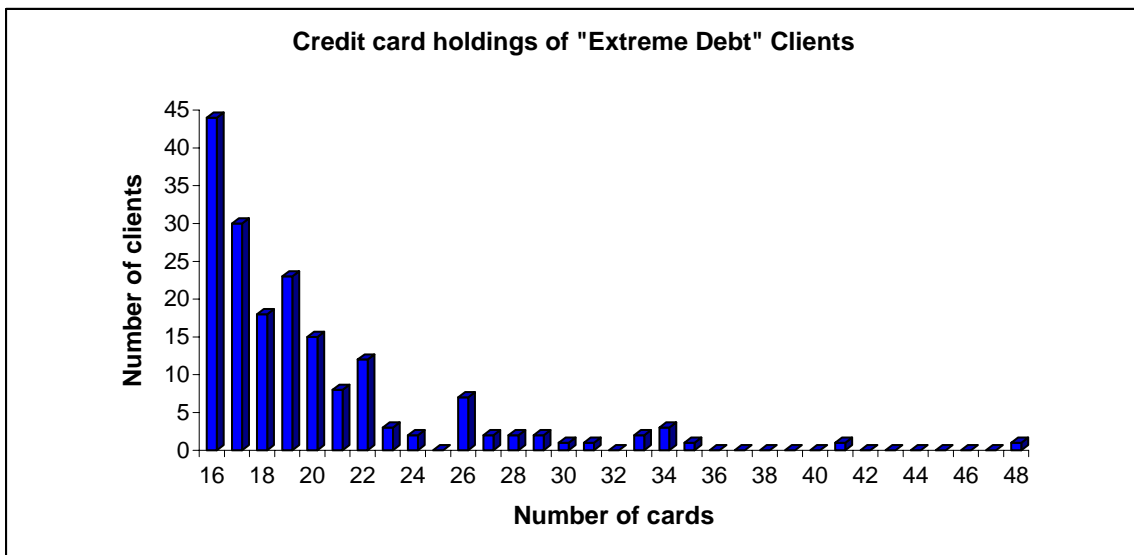
<b>Housing type</b>	<b>Number of clients<sup>3</sup></b>	<b>%</b>
Buying	231	40%
Own	63	11%
Rent	162	28%
Other	118	21%
<b>Total</b>	<b>574</b>	<b>100%</b>

---

<sup>3</sup> CCCS does not have housing information for all clients.

## Clients with 16 or more credit cards

There were 178 clients with 16 or more credit cards (0.29 percent of the CCCS population). However, of clients who fulfilled the criterion, the mean number of credit cards was 20, the median was 18 and the highest number was 48. The graph below illustrates the credit card holdings of clients with more than 16 credit cards.



As to the housing status of those holding more than 16 credit cards, buyers and owner-occupiers make up sixty percent of the number, with renters and others making up the remaining forty percent.

## Is "extreme debt" a growing problem?

As a proportion of clients counselled in a year, clients with debts of more than £100,000 were:

- 1.04% in 2003
- 1.44% in 2004 (to Sept 04)

And as a proportion of clients counselled in a year, clients with a debt to income ratio of more than 66:1 were:

- 2.9% in 2003
- 3.8% in 2004 (to Sept 04)

The last category, clients who have more than 16 credit cards is less significant, being only 0.3 percent over the two years.

The reasons for this growth are unclear. CCCS has grown rapidly over the three years, together with its ability to take more calls. There is some possibility that the client base of CCCS has shifted and the counsellors are now dealing with more difficult and extreme cases. These factors aside, it is probable that extreme debt is rising rapidly. Another possibility is that we are seeing the emergence of a more severe debt repayment environment, caused by over-borrowing in a period of low inflation against a background of rising interest rates and improved access to credit.

### **Clients fulfilling all three criteria**

Twenty-six clients being counselled by CCCS had more than 16 credit cards, debts of over £100,000 and a debt:monthly-income ratio of over 66:1. These clients had:

- a median debt of £168,467
- a median debt:income ratio of 99:1
- a median number of 19 credit cards

There are only 26 clients in this category, which is not enough to support any more detailed conclusions in their case.

### **3. Conclusions**

"Extreme debt" appears to be a growing problem. Suicides are mercifully rare but the number of highly vulnerable people may be increasing rapidly. It is only prudent to take the warning signs seriously.

Each case of extreme debt highlights the urgent need for more data sharing between credit card providers. Many providers only inform credit reference agencies when a customer has defaulted on the minimum payment for three consecutive months. There has been a move in recent months toward full data sharing, but this needs to be extended across the industry to make sure that the cases highlighted in this report remain exceptional.

We have not at this stage examined credit application forms or the exact details of what was known to lenders at the time of decision. However it is probable from these statistics that not enough information had been shared among lenders for some grossly inappropriate decisions to have been avoided.

CCCS is urgently continuing its research into extreme debt.

**January 28 2005**