Facing the squeeze:

A qualitative study of household finances and access to credit in a 21st-century recession

Executive Summary

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Executive summary

The Money Advice Trust commissioned this short exploratory research project to provide a snapshot of the views and experiences of people on low and middle incomes in the face of a 21st-century recession. In particular, it set out to examine in detail the extent to which worsening economic conditions in 2008/2009 had resulted in changes to consumers' spending, borrowing and money management.

The research comprised face-to-face depth interviews with 35 householders in England, Wales and Scotland, all of whom were credit users. While quantitative survey data can inform us about the number of people who behave in a certain way or hold certain views, the real strength of qualitative research is that it allows us to better understand how and why people behave in the way they do or hold particular views. It is not, however, intended to be representative of the general population. The qualitative interview data collected in this research enables a depth of understanding about a range of coping responses people employ that it would be impossible for a quantitative survey to provide, not least because people's attitudes and behaviours are not always entirely consistent.

The main focus of this study was credit-users living in low or middle income households.[1] The people we interviewed were of working age and included mortgage-holders, private tenants, and tenants renting from a housing association or local authority. They were deliberately recruited to be credit users who did not report any arrears on household bills or credit commitments at the time of recruitment. However, the interviews subsequently revealed that a few of them were actually in arrears and several more had experienced debt problems in the recent past.

Household finances

Most of the 35 people we interviewed considered that their household finances had deteriorated in the previous twelve months. They fell into two groups, allocated according to the reason for this deterioration. One group attributed their worsened financial situation to a drop in household income caused by reduced working hours or job loss. Such drops in income had affected both low and middle-income households, different types of household (single people and couples, with and without dependent children), and mortgage-holders as well as tenants.

The second group comprised individuals whose financial situations had worsened primarily because of rising living costs, while their income remained largely unchanged. This group was predominantly made up of people living in low-income households, all of whom rented their home from a private or social landlord. Other research has highlighted the disproportionate impact of rising consumer prices on lower-income households, who

[1] For the purposes of this project, 'low income' was defined as household income at or below 60% of median household income before housing costs. Middle income was defined as household income that fell between 90% of median and median household income before housing costs.

spend a higher proportion of their disposable income on essentials such as food and utilities than better-off households.

A third, much smaller, group of participants reported that their household financial situation had stayed the same over the past twelve months, or had fluctuated but now seemed stable. These participants mainly lived in middle-income households and almost all were mortgage-holders.

Spending and money management

Many people reported a hardening of attitudes towards spending in the previous twelve months, either because their own household financial situation had worsened or because of indirect factors such as the influence of the media or the experiences of people they knew. As such, almost all participants reported cutting back on spending in some capacity, or had at least switched supermarkets, changed to cheaper brands, or generally found that they were shopping around for better-value products and deals. They included some people whose financial situation had not worsened, but who seemed nevertheless to be exercising ‘precautionary restraint’ in relation to their spending.

A small number of people reported cutting back on essentials, typically food (e.g. cutting back to the basics, buying less fresh food), heating and lighting. In almost all cases, this was in response to a worsened household financial situation, often due to a drop in income in the previous twelve months. Almost everyone who had reduced their consumption on essentials had made cutbacks across the board, including cutting back on discretionary purchases and switching supermarkets or brands. In other words, when faced with a worsened financial situation, people begin by being more mindful of their spending, then cut back on the things they feel they can manage without, and finally resort to cutting back on the essentials when times are at their most difficult.

Many of the people we interviewed either described themselves as good money managers or talked about how they actively managed their money. For some, this was a longstanding approach, for others it was a more recent development, made necessary by a worsened household financial situation. It was fairly common for these people to report having improved, or tried to improve, their budgeting, while more still said they had generally become more conscious of what they were spending or shopped around a little more. There was, however, a small group of participants who demonstrated little or no inclination towards money management. These were generally people living in low-income households who had experienced a worsened financial situation.

A small number of people had been actively saving during the previous twelve months (either formally in an account of some kind or informally). It was more typical, however, for people to have either saved in the past but not during the previous twelve months, or to have been drawing down their savings to supplement their incomes in recent times.

The interviews provided some evidence of the impact on personal well-being of a worsened financial situation. This included poor diet, a loss of social life and social interaction, and the stress and worry of trying to make ends meet in difficult financial circumstances.

Borrowing

Despite the fact that all research participants were credit users, some described themselves as being credit-averse. This seemed to reflect long-held views about credit, although those whose attitudes to borrowing and debt had hardened in the previous twelve months tended to have experienced recent debt problems directly. No-one reported having relaxed their attitudes towards credit, even though some participants had come to rely more heavily on the credit they had available to them to make ends meet in the previous twelve months.

It is important to bear in mind that people's behaviour is not always consistent with their reported attitudes when, for example, they experience situations they feel are outside their control or are going through phases of attitude change. There was evidence of this 'cognitive dissonance' among some participants, especially those who had relatively large amounts of outstanding borrowing but also stated that they were credit averse.

The people we interviewed typically had a number of unsecured credit commitments, the most common types being credit cards, arranged overdrafts, personal (mainly bank) loans and car finance. A small number of them had home credit loans and goods bought on credit from mail order catalogues. Given that people were deliberately recruited to the research on the basis that they were not behind with household bills or credit commitments, it was not surprising that most interviewees were managing to keep up with unsecured credit commitments and mortgage payments, albeit with a struggle in some cases. A small number were making late payments to at least some of their creditors, however, and a few were in arrears on payments to lenders and/or other creditors.

In terms of changes to borrowing behaviour over the previous twelve months, most participants fell into one of two groups. The largest single group of participants did not appear to have changed their borrowing behaviour in any significant way. In particular, they had not applied for any additional unsecured credit. This group comprised a mix of people in terms of income level and financial situation (some had experienced worsened situations, others had not). They were generally up to date with their credit repayments, and some expressed a conscious desire to maintain their current level of borrowing rather than increase it, as a means of ensuring that their existing unsecured debts remained manageable.

A similar-sized group of participants (again with a mix of household income levels) had increased their use of unsecured credit in order to make ends meet in the face of a worsened financial situation due to a drop in income or increased cost of living. This typically meant that credit cards and overdrafts were used more frequently, and for day-to-day spending such as food and household bills (in some cases to meet mortgage repayments) rather than the discretionary spending they had used to fund previously. A few people had increased their overdraft facilities or the amount they borrowed in home credit to this end, but most simply made greater use of their existing credit facilities.

Informal borrowing from friends or family members was common among the people we interviewed living in low-income households whose financial situation had worsened over the previous twelve months. These people seemed to have lived on low incomes for some time, and the informal help they received was often longstanding. Nonetheless, it seems highly likely that the importance of this support would have increased given their worsened financial situations and the fact that they typically had limited alternatives to access money. There was no evidence that the informal borrowing described by participants constituted illegal money lending.

Access to borrowing

Overall, there were fairly mixed views regarding the ease with which credit could be accessed, which not surprisingly often reflected people's own experiences. However, there was general agreement that it was still relatively easy to access unsecured credit but that mortgage borrowing had become much harder to access.

There was very little evidence that lack of access to consumer credit had contributed to people's worsened financial situations or that the reduced availability of consumer credit led people to move (or consider moving) between credit markets, from the prime/near-prime to the sub-prime market. Those who had been refused credit in the previous twelve months generally did not try to borrow money from anywhere else.

Data from the depth interviews suggests a hardening of attitudes towards credit. So, even if people were unable to reduce their level of borrowing at the current time for practical reasons, this was an often-expressed desire. In addition, it was not uncommon for participants to express strong negative views about the types of lenders that operate in the sub-prime market.

There were several home credit users among the people that we interviewed. They all lived in low-income households and had experienced a worsening financial situation due to increased costs of living. In other words, they were already living on a low income when the recession began. They were either longstanding home credit customers, or gave no indication that they had experience of any commercial loans other than home credit.

How well were people coping?

The interview data demonstrated that, across the piece, people on low and middle incomes used a wide range of strategies in response to a worsening in their household financial situation, and individuals often employed a variety of strategies in combination.

By far the most common response to the economic downturn among the people we interviewed was to rein in their spending over the previous twelve months. Other common responses included changes to money management and patterns of savings, to draw on support from friends and family (including financial assistance and gifts in kind) and to use unsecured credit. Perhaps unsurprisingly given the prevailing economic climate, very few people talked about income generation as a means to alleviate a worsened financial situation. In addition, few people had sought money advice. Some of those that did seek advice did not receive any, generally because they were unable to get through to an advice service to speak to an adviser.

For the most part, participants' coping strategies had been reasonably effective, at least up to the time of the interviews in June 2009. Most participants had managed to keep up with their household bills and credit commitments, despite the fact that their household financial situation had deteriorated over the previous twelve months. Moreover, there was fairly compelling evidence of a 'correction' to consumer attitudes and behaviour towards spending and borrowing, either in response to direct experience or to present and future uncertainty at the level of the household and the wider economy. In other words, some people who were as yet largely unaffected by the economic downturn were nonetheless exercising what might be termed 'precautionary restraint'.

Four main groups were identified in terms of how well people were coping, and these are described below.

People whose financial situation had not worsened in the previous twelve months

The relatively small group whose situation had not worsened over the previous twelve months was almost entirely made up of homeowners, most of whom were living in middle-income households. For the most part, these people were managing without any difficulties at the time of the interview. They were able to keep up with their household bills, mortgages (where relevant), and unsecured credit commitments. None of them had had to make any major cutbacks in spending in the previous twelve months, and some had seen their disposable income increase as a result of a drop in mortgage interest rates. They divided about evenly into those with money saved and those without.

Worsened financial situation: Just getting by

Although many were stretched financially, this group comprised people who seemed to be getting by without depending on consumer credit to make ends meet. Most were tenants on low incomes, and included people of different ages and members of a range of household types. The common factor among most of them was the comparatively modest amounts of unsecured credit that they owed. Although a few had successfully applied for credit in the previous twelve months, they were largely reluctant to borrow any more money. For the most part they had no formal savings to fall back on, and support from family and friends was relatively uncommon. Although they were getting by at the moment, several of them expressed serious concerns about their ability to manage in the future, not least because a few of them had already had to cut back on essentials.

Case study: Worsened financial situation but just getting by

Glyn is in his late 50s, and lives with his wife, Janis.[2] They are on a low income and finding it "*pretty tight*" financially at the moment. Glyn has been unable to work for some years due to poor health, and Janis has seen a sharp drop in her earnings as a self-employed hairdresser. Always good money managers, they now do their shopping at Aldi rather than Tesco to save money, and during last winter tried to economise on central heating. In the past, they were able to save small sums of money informally 'for a rainy day', but they admit this is much more difficult now. The couple are very anti-credit, and have neither a credit card nor overdraft: "*We don't want to go into any debt whatsoever because we can't afford to.*"

The only credit commitment they have is a loan taken out fairly recently to buy a smaller car for Janis, as she needs a car for work. They could only afford to do this because their adult children help out substantially with the loan repayments.

Worsened financial situation: Credit-reliant

This group of people seemed to be managing fairly well, and did not report being behind or late with any household bills or credit commitments. That said, most were using credit as one way to make ends meet since their financial situation had worsened, and some had also taken on additional credit commitments in the previous twelve months. They included people on middle incomes, as well as some on low incomes. Mainly in their 20s and 30s, most had children but the group included some young single people as well. Almost all of them were private or social tenants.

While use of consumer credit for everyday spending tends to be regarded as an indicator of financial stress, most of the people using credit in this way described their overall level of borrowing as manageable despite some relatively high levels of unsecured credit. They generally had ready access to further credit lines, in the form of unused credit card or overdraft facilities. While they often expressed a desire to avoid further credit use if at all possible, some recognised that this might not be possible if their financial situation did not improve.

Case study: Worsened financial situation and reliant on credit to make ends meet

Ed is a single man in his mid-30s, living in a rented flat. On a middle income, he works full-time as an operational manager for a courier company. His financial situation has got worse, he feels, because of a recent overtime ban at the company where he works. The rise in petrol prices has hit him hard as well, as he has a fairly long car journey to work. In order to keep his finances on an even keel, Ed has cut back on spending on food, and no longer buys from the 'Finest' ranges in the supermarket. He also socialises a lot less over the course of a month.

> "*I'm a single boy so I like to go out, that's hampering me because the way I see it is if you don't go out there you're not going to meet anybody. And I was usually getting out on average sort of probably two, three times a month, now if I'm lucky, I'm budgeting for one good weekend out of the whole month now… it gets me down sometimes because I'm sitting in the house and all my friends, they've all got girlfriends and kids …it's no fun is it.*"

[2] All participants' names have been changed in the case studies, as have some of their personal or family details.

Even with the cutbacks he's made, Ed finds himself using his credit card much more often than he used to, and for things like food and petrol whereas in the past it was very much used for discretionary spending – such as designer clothes and things for the flat. His current credit card balance is around £500, and he tries to pay off more than the minimum each month. He has almost finished paying for furniture he bought on finance, and wants to use the extra disposable income to pay off his credit card if he can. Ed has managed to keep saving every month, but has reduced the amount he saves. He views this money as a safety net for the future.

Worsened financial situation: Struggling to manage

The people in this group were mainly on low incomes, and included some who had experienced a drop in income and others whose circumstances had worsened due to the rising cost of living. The group mostly comprised people in their 40s and 50s, some with dependent children and some without. Almost all of them were social housing or private tenants.

Most of the people in this group generally attributed their worsened financial situation to increased cost of living, suggesting that most had lived on low incomes for some time. While they were not in arrears, they described how they routinely paid bills or credit commitments after the due date, and in some cases paid reduced amounts that had either been agreed with the lender or had to be made up later on. This type of juggling was necessary to make ends meet, and is not uncommon in lower-income households. Most had no savings at all, or only small amounts saved informally. Once again, therefore, the financial help that most received from family or friends provided an important safety-net in the absence of ready access to credit (in the form of a credit card or overdraft) or savings.

Case study: Worsened financial situation and struggling to manage

Shona is a single mum in her late 40s, with three children at school. She works part-time as a cleaner, and the household lives on a low income in a housing association property, paid for partly through Housing Benefit. While she's never found it easy to manage, Shona feels her finances have worsened due to the rising cost of living. Like many other participants we interviewed, she has changed the way she shopped for food and cut back on non-essential spending. She tries to plan ahead for things like her children's after-school activities, but often finds herself having to borrow small sums of money from her family which she repays from her weekly pay packet.

Shona currently owes around £700 to a home credit company, for a loan she took out at Christmas, and around £800 to a number of mail order catalogue companies, from which she had bought clothes and household items in the past. Shona feels she has borrowed more than she can afford, and has had to negotiate reduced payments to the home credit and catalogue companies. Even so, she struggles to always pay on time. Likewise, she sometimes can't pay her rent (or all her rent) on time and either pays late or makes up the payments later on. Shona has never been able to save from her income, and feels she cannot afford to increase her working hours because of the resultant loss of Housing Benefit.

> "*… because if I changed my hours, I get so much paid to my rent so if I changed my hours I would need to pay full rent and I couldn't afford that.*"

The remaining few people in this group were already in some financial difficulty, being in arrears with payments on household bills and/or repayments on unsecured credit (although they had not presented as such when they were recruited). Their situation had invariably worsened due to a drop in earned income, and it was notable that they had experienced previous income shocks as well, either job loss or long-term sick leave from work. Although they had been using credit to make ends meet, at the time of the interview they had reached the limits of the existing credit lines that were open to them. Apart from the financial help from family and friends which they received, they seemed to have few other resources to draw upon.

Looking forward

For most participants, the future was uncertain. Even though most were managing at the present time, it would be wrong to assume that this situation could continue over the longer term. Some of the modest credit users who were just getting by expressed concerns about their future ability to do so. Several had already cut back spending on essential items, and on the whole they had few resources to fall back on if things got any worse. And while those who were depending largely on unsecured credit to get by usually had unused credit facilities to draw on, they were generally well aware of the dangers of becoming more indebted when there was no clear indication of an improvement in their household finances on the horizon.