Personal Debt, Poverty and Public Policy in Ireland

The Impact of the Money Advice and Budgeting Service on Over-indebtedness among those in Poverty

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Abstract

This is a study of the long-term impact of the Irish Government's main policy response to over-indebtedness among those in poverty, namely the Money Advice and Budgeting Service (MABS). The main objectives of MABS are to enable people to cope with their immediate debt problems and become financially independent in the long term and to this end, MABS works closely with the Irish credit union movement. There has been no academic evaluation of the impact of MABS services on both over-indebtedness and poverty. Nor is much known about whether those in poverty are more likely to experience debt problems, whether their problems are different from those of others, and what causes them.

The present study has two main objectives. Firstly, to identify the relationship between over-indebtedness and poverty in Ireland; secondly, to examine the effectiveness of public policy in this area by evaluating the long-term impact of MABS. It uses two existing datasets to address the first research objective, namely a series of annual poverty surveys (the Living in Ireland Surveys 1994-2001) and administrative data gathered by MABS on its service clients. To fulfil the second research objective, and to gather information on the causes and consequences of over-indebtedness, new data was sought by way of an interview survey of a sample of MABS clients.

The conclusions are threefold. Firstly, that there is a strong relationship between over-indebtedness and poverty in Ireland and that people in poverty experience different and more severe debt problems than others. Secondly, debt problems are triggered predominantly by things that happen to people rather than things that are done by people. Thirdly, although MABS has a significant and highly valued impact in helping people cope with debt problems, the model itself is primarily a residual or conservative one that helps poorer people to manage their debts and their poverty, but not to become financially independent in the long term. A more strategic, multi-dimensional approach is therefore required, particularly in the light of worsening debt problems as a consequence of the current economic downturn.

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LIST OF ABBREVIATIONS[1]

CBFSAI: Central Bank and Financial Services Authority of Ireland.

CSO: Central Statistics Office.

CIB: Citizens Information Board.

CIC: Citizens Information Centre.

CWO: Community Welfare Officer.

CCA: Consumer Credit Association.

DSFA: Department of Social and Family Affairs.

ESRI: Economic and Social Research Institute.

ESB: Electricity Supply Board.

FÁS: Foras Áiseanna Saothair.

FLAC: Free Legal Advice Centres.

HSE: Health Services Executive.

IBF: Irish Banking Federation.

ICB: Irish Credit Bureau.

ILCU: Irish League of Credit Unions.

IMC: Irish Mortgage Council.

IRCHSS: Irish Research Council for the Humanities and Social Sciences.

ISSDA: Irish Social Science Data Archive.

MABS: Money Advice and Budgeting Service.

NCA: National Consumer Agency.

OSI: Office for Social Inclusion.

OPEN: One Parent Exchange and Network.

RTE: Radio Telefís Éireann.

SVP: Society of St Vincent de Paul.

SEI: Sustainable Energy Ireland.

VPSJ: Vincentian Partnership for Social Justice.

WHC: Women's Health Council.

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[1] A description of the remit of each of these organisations is given in Appendix 10.

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Chapter 1

INTRODUCTION

This is a study into the long-term impact of the Irish Government's main policy response to over-indebtedness among those in poverty, namely the Money Advice and Budgeting Service (MABS). For the purpose of this study "over-indebtedness" is defined as a situation "*where net habitual maximised income, including realisable assets, is so inadequate on a persistent basis, that households are unable to meet both living expenses regarded as essential by Irish society generally, and deferred payments as they fall due, without recourse to extra borrowing, charity or gifts*".[1]

MABS was initially established on a pilot basis in 1992 as a response to the problems associated with moneylenders. It has since been developed and expanded by the Government as a nationwide response to debt problems particularly among poor people. The main objectives of MABS are to enable people to cope with their immediate debt problems and in the long term, become financially independent. It represents an innovative response to debt problems. Budgeting advice is provided in partnership with other services, in particular those available through the credit union movement. The involvement of credit unions provides MABS clients in theory with both debt repayment and savings facilities in addition to a potential source of low cost credit for the future. The MABS service is held in high esteem by policymakers both in Ireland and internationally.

There have been two internal evaluations of the MABS service (1993 and 2000), both of which were commissioned by the Department of Social and Family Affairs, the Government department that provides the funding for the services (the department responsible for the provision of social welfare services). Both evaluations focused on value for money issues, service structures and short-term impacts. However, there has been no independent, academic evaluation of the impact of MABS services. In particular the long-term impact of MABS in helping to tackle both over-indebtedness and poverty is unknown and the relationship between over-indebtedness and poverty has received little attention. There are various unanswered questions in this regard, such as: Are those in poverty more likely to experience debt problems? Do those who are poor experience different types and levels of debt problems compared to those who are not? Are the causes of debt problems among those in poverty related to factors beyond people's control or have they more to do with behavioural factors, such as money mismanagement? To what extent is MABS an appropriate and effective response to over-indebtedness and to poverty? Each of these questions is addressed in this study.

This study has two main objectives. Firstly, to identify the relationship between over-indebtedness and poverty in Ireland. Secondly, to examine the effectiveness of public policy in this area by evaluating the long-term impact of the main policy response to over-indebtedness among those in poverty, namely MABS. Two main data sources, identified as being particularly relevant to the first objective, are used to determine the extent, characteristics, severity and nature of over-indebtedness among those in poverty in Ireland. These are: (i) a set of surveys on poverty in Ireland, namely the *Living in Ireland Surveys* (LIIS), conducted by the Economic and Social Research Institute (ESRI) between 1994 and 2001; and (ii) administrative data on clients collected by MABS services nationwide and collated electronically in a database referred to as 'MABSIS'. Both sets of data are analysed to identify whether there are any significant differences between those in poverty and the remainder of the general population in relation to over-indebtedness. In relation to the second objective, data are gathered through a survey of a random sample of long-term MABS clients undertaken during the summer of 2007. Although primarily designed to identify how MABS services are impacting on clients' lives, the survey is also used to identify the causes and consequences of over-indebtedness among MABS clients.

This study begins by examining the emergence of over-indebtedness as a social policy issue in Ireland, how it is viewed and dealt with by policymakers, and how MABS has emerged as the cornerstone of the Government's response to over-indebtedness among those in poverty (Chapter 2). This distinctive approach is then compared with other approaches to over-indebtedness adopted throughout Europe and the findings of national and international research literature on the causes of over-indebtedness (Chapter 3). Chapter 4 outlines the objectives of the study and describes why two data sources in particular were chosen for analysis as being relevant to the research objectives. The process used to design and carry out a national survey of a sample of long-term MABS clients, and the objectives of this survey, are also described. The findings of the research are then presented in Chapters 5, 6, 7 and 8. Chapter 5 describes the extent and characteristics of over-indebtedness among those in poverty and how these differ from the general population. Chapter 6 deals with the severity and nature of over-indebtedness among poor people in comparison with the remainder of the population. In Chapter 7, the causes and consequences of over-indebtedness, as identified by respondents to the interview survey, are examined. Chapter 8 focuses on the long-term impact of MABS, with reference to the objectives set for it by the Government, and on its effectiveness in dealing with its clients' poverty and their over-indebtedness.

Notes

[1] This definition is based on the core components of previously suggested definitions applied to an Irish context (discussed in more detail in Chapter 4). "Over-indebtedness" is distinguished from "indebtedness" which may be described as 'owing money or being in debt to' (Sykes, 1988, p.508). Thus a person or household may be "indebted" if they have an outstanding credit commitment or utility bill for example but are not "over-indebted" unless they are persistently unable to meet the associated repayments and essential living costs.

Chapter 2

OVER-INDEBTEDNESS AS A POLICY ISSUE IN IRELAND AND THE EMERGENCE OF MABS

2.1. THE EMERGENCE OF MONEYLENDING AS A SOCIAL PROBLEM

Moneylending[1] re-emerged as a social problem in Ireland in the late 1960s. The first major public debate about the issue took place in 1969 on foot of a current affairs' documentary transmitted by the Irish national television service Radio Telefis Éireann (RTE). The programme ("Seven Days") dealt specifically with the issue of illegal or unlicensed moneylending. The claim made by the programme's producers that the problem was a widespread one, and the methods they used to gather information, led to the establishment of a Tribunal of Enquiry to investigate the issues raised by the programme. The Tribunal found the claim to be exaggerated, the sources used to be unreliable and the scale of the problem likely to be far less than the programme had suggested. It concluded that the documentary as a whole was unreliable (Stapleton, 1974, p.28). Moneylending and the debt problems associated with it subsequently disappeared from the policy agenda for the next twenty years. It took a Government commissioned report in the late 1980s to bring these related issues back into the policy arena.

The next time moneylending appeared on the social policy agenda was in 1988 when a groundbreaking piece of research was undertaken by the Combat Poverty Agency, a statutory body set up in 1986 to advise the Government on issues related to poverty. The study was entitled "Moneylending and Low Income Families", and explored among other things how and why people fall into debt to moneylenders, and how they manage their debts (Daly and Walsh, 1988). The study identified customers of moneylenders as being predominantly families with young children, on a low income, struggling to survive from week to week. It revealed that borrowing was taking place for essential goods and living expenses rather than for luxuries, that the credit involved was expensive, that those borrowing from moneylenders became dependent on them, and that this dependence resulted in default on household bills. The authors recommended a series of policy changes to reform the way moneylending was regulated, and to provide access to more affordable credit and to money advice (Daly and Walsh, 1988, p.103 - 121).

The Government's 'Action Plan on Moneylending'

The Government initially responded to the issues raised in the Combat Poverty Agency study by devising an "*Action Plan*" to deal with moneylending specifically and the debt problems associated with it (Dáil Éireann, 1991). The "*Action Plan"* represented a policy shift from a reliance predominantly on the regulation[2] of moneylending to a more multi-dimensional approach dealing with the consequences of reliance on moneylenders. It contained commitments to review existing legislation and to implement an outstanding European Consumer Credit Directive (Council of the European Communities, 1986). The Plan also contained commitments to review the way debt was recovered by public utility companies and to put in place advice, information and education programmes in relation to debt and money management. Finally, to assist people to deal with debts owing specifically to moneylenders, the Government established what it referred to as a "Loan Guarantee Fund".

The 'Loan Guarantee Fund'

The Loan Guarantee Fund was set up by the Minister for Social Welfare[3] in April 1990 and amounted to IR£200,000 (Dillon and Redmond, 1993, p.3). The Fund was administered on a day-to-day basis by the Society of St. Vincent de Paul, a voluntary, Catholic charity, in partnership with the Irish credit union movement.[4] Those seeking to avail of the scheme applied to the local "conference" or branch of the Society. The Society then sought or negotiated a "settlement" figure with the moneylender concerned. Once this was achieved, a loan was advanced to the applicant through the credit union for the purpose of repaying the loan in full. The applicant thus now had a debt to a credit union instead of the moneylender. This credit union loan was guaranteed by the state, so that in the case of default, the credit union was reimbursed from the Loan Guarantee Fund. The Fund was "revolving" in that repayments made by borrowers went back into the Fund to be re-loaned as more applicants came forward. Fifty per cent of the Fund was set aside to guarantee settlement of existing debts to moneylenders and the remainder used to guarantee future loans (Dáil Éireann, 1991). This was the first example of state-backed social lending[5] in Ireland. Only half of the Fund was provided by the Government. The other half was provided by the banks through the Irish Banks' Standing Committee (Dillon and Redmond, 1993, p.3). Take-up of the Fund was greater than envisaged and as a result of insufficient funds, letters of guarantee were extensively used. Concerns about this practice, problems obtaining reliable information about its operation and use, and lack of promotion led to a subsequent decision to terminate the Fund (Dáil Éireann, 1991).

There were also problems with other elements of the Government's Action Plan. The Consumer Credit Directive was not for example fully implemented until the Consumer Credit Act came into force on May 13th 1996, some five years later. There is no evidence that the information and education programmes originally envisaged were ever implemented. However debt recovery practices used by utility companies were addressed to some degree. In 1994 a "*Code of Practice on Fuel Debts*"[6] was put in place by the Department of Social Welfare in partnership with the electricity and gas companies and the Community Welfare Service of the Health Board. There was, however, one element of the Action Plan which was fully implemented and has come to define the Irish Government's approach both to moneylending and more generally to the problems of over-indebtedness among poor people: the provision of advice on debt, budgeting and money management.

2.2. THE EMERGENCE OF MABS

The MABS Pilot Schemes

In 1992 the Minister for Social Welfare announced a new initiative to deal with moneylending (Minister for Social Welfare, 1992). Five pilot projects at a cost of £IR260, 000 were established in various parts of the country, designed specifically to tackle the problems of moneylending and more generally the issue of indebtedness among low-income families (Dillon and Redmond, 1993, p.3).[7] The policy emphasis was now placed more on money management, advice and budgeting through a "one to one" casework-type service in contrast to the "quick-fix" approach embodied in the loan guarantee scheme.

> *The experience has been that giving money to clear existing loans can leave the client in a position where s/he can find it impossible to resist going back to the moneylender for a new loan. Very quickly a person can find him/herself in the same position again* (Minister for Social Welfare, 1992).

The five projects operated under different names but were overseen by a National Steering Committee under the auspices of the Department of Social Welfare, which provided the funding for the projects (Dillon and Redmond, 1993). The projects subsequently became known as "Money Advice and Budgeting Services" (MABS) from the name used by the first of these projects in Cork.[8] The primary beneficiaries of the scheme were described as "*social welfare recipients and other low income families"* (Minister for Social Welfare, 1992). The projects went beyond mere advice and budgeting. Most worked in partnership with local credit unions which provided a special (client) account to enable clients both to save and to repay their debts, but not all credit unions agreed to provide such facilities. The Government made a new loan guarantee fund available directly to the projects so as to provide an alternative source of credit to moneylenders by way of the credit union. Partnership between the voluntary sector (the Society of St Vincent de Paul and the credit union movement), and the statutory sector (the Health Boards[9]), was a key element of the new initiative. Each of the pilot projects had an independent management committee comprised of representatives of these and other relevant agencies.

A related initiative was the provision of a bill-payment scheme for social welfare recipients via direct deductions from their benefit payments. This scheme, referred to as the Household Budget Scheme, was introduced in 1994 and still exists. It enables social welfare beneficiaries to opt to have up to 25% of their weekly payment deducted at source and paid to certain specified creditors, namely local authorities and utilities (Department of Social and Family Affairs, 2007). Budgeting and money management, in conjunction with the credit union movement, had therefore by the mid-1990s come to be seen by the Government as key to resolving the problems of moneylending and associated debt problems among low income families in Ireland. The number of MABS projects was increased as a result of the findings of an evaluation of the pilot projects carried out in 1993 (Dillon and Redmond, 1993). A national co-ordinator was subsequently appointed with overall responsibility for the projects, a Workers' Forum was established to represent the interests of staff employed by the projects, and a regional coordination structure was created. A number of specific objectives were set for MABS at this time and remain to this day. These are as follows:

1. To provide an independent, free and confidential MABS to the target group to facilitate them to cope with their immediate debt problems and become financially independent in the long-term.
2. To facilitate the target group to develop the knowledge and skills required to avoid getting into debt, and to deal effectively with debt situations that arise.
3. To identify sources of credit, which can best meet the needs of the target group and facilitate them to access these sources
4. To work in partnership with other support agencies to provide an integrated system of supports which can be accessed by the target group as appropriate to their needs

5. To facilitate the target group to be involved in the planning and implementation of MABS to ensure that it is responding effectively to their needs
6. To ensure that the target group have equal access to MABS regardless of geographic location
7. To highlight changes in policy and practice which need to be implemented at local and/or national level in order to eliminate poverty and over-indebtedness (Eustace and Clarke, 2000, p.22-23).

MABS and illegal moneylending

Government policy clearly saw MABS as a key part of the answer not just to "legal" (licensed) moneylending but to "illegal" (unlicensed) moneylending also.[10] In 1994, projects were given long term funding to enable them to plan ahead and a number of new projects were announced which brought the total to eighteen. Part of the reason for this was that they were seen as successful in dealing with the "scourge" of illegal moneylending (Minister for Social Welfare, 1994a). MABS projects were consulted on legislation then in preparation to curb the activities of moneylenders, seen as crucial in complementing the work of MABS.

> *The Government's strategy is two-fold. We are strengthening the law against illegal moneylending and reinforcing the rights of credit consumers in the Consumer Credit Bill, which is before the Oireachtas[11] at present. We in the Department of Social Welfare are at the same time resourcing voluntary and community groups to come together with statutory agencies in doing something very practical to help their neighbours who are in this situation* (Minister for Social Welfare, 1994b).

The relevant legislation, the *Consumer Credit Act*, was enacted in 1995. The legislation granted extensive powers to the Irish police service, An Garda Síochána, to prosecute instances of illegal moneylending and severe penalties were prescribed for those found to be engaged in such activities. Powers to licence and monitor the activities of (legal) moneylenders were given to a statutory body, namely the Office of the Director of Consumer Affairs (in 2003 this responsibility, together with responsibility for the financial services sector in Ireland generally, was re-assigned to the Irish Financial Services Regulatory Authority, now referred to as the Financial Regulator). The role of MABS in tackling illegal moneylending was subsequently re-evaluated amid concerns over the safety of staff, and a MABS code of practice was put in place recognising that this is a matter not for MABS, but for the Garda Síochána alone (MABS National Development Limited, 2006, section 10, p.43).

The extension of MABS into a nationwide service

The number of MABS services has continued to increase year by year since the mid-1990s to the extent that there are now 53 MABS services providing money advice in 65 locations throughout Ireland. These services received funding of €17.6 million from the Government in 2007 (Minister of State with Responsibility for Older People, 2007). Each service is now managed by a company limited by guarantee with a Board of Management consisting of community, voluntary and statutory representatives. Services continue to have direct access to a Loan Guarantee Fund. The Fund is however little used. Figures provided by MABS show that only 24 new loans were guaranteed during the first six months of 2007 and only 88 during the whole of 2006. Concern has been expressed that the Fund is not being used as widely as it should be and that it has the capacity to provide access to credit to considerably more MABS clients than avail themselves of it (Quinn, 2005; Edwards, 1999).

All services are now linked by an integrated computerised records and payment system, known as 'MABSIS'. This system is supported and managed by MABS National Development Limited (a separate MABS company, established to provide amongst other things, technical support and assistance to MABS projects throughout the country). It facilitates the processing of (special account) payments made by individual clients in relation to their debts and ongoing bills. The MABSIS system also enables data on service clients to be aggregated for publicity and social policy purposes. MABS National

Development Limited has also assumed responsibility for the training and development of staff from the Citizens Information Board[12] (formerly the National Social Service Board) who had held this responsibility from 1996 to 2005. A small proportion of money advisers have completed a third-level Diploma in Money Advice at the University of Limerick but otherwise training remains unaccredited (Brown, 2002). There are however no licensing requirements for money advisers in Ireland in contrast to the situation in the UK.[13] A *Good Practice Manual for Money Advisers*, written by practitioners, is used as a resource in training programmes and by money advisers in their casework (MABS National Development Limited, 2006). The process used by money advisers in Ireland is described in detail within this Manual (p.9). The key components of this process are threefold. Firstly, research into, and assessment of, the client's situation, including the identification of any unclaimed rights and entitlements; secondly, the planning and implementation of a debt repayment programme in partnership with the client; and thirdly, the monitoring and reviewing of the client's progress.

Internal reviews

Despite the significant expansion of MABS over the last 16 years, research evidence as to its impact over the long term is scarce. Two small-scale local studies into the experiences of clients, carried out by individual MABS services in Dublin in the mid to late 1990s, concluded that MABS has significant limitations. Both came to very similar conclusions namely that although MABS alleviates crises and helps clients to budget, its overall effect in cases of low income is often merely to help people 'manage their poverty' (Hogan, 1998, p.40) or 'cope with their situations a little better' (National Social Service Board, 1996, p.28). A large-scale internal national evaluation, commissioned by the funding department (Social and Family Affairs) and conducted in 2000, came to a more positive overall conclusion (Eustace and Clarke, 2000). The evaluation, based on the views of the various MABS stakeholders, including staff, management and service clients, concluded that overall the service was good value for money (on a cost per client basis), although reform of the internal structures within which services operated was required.

As part of the evaluation, a review was undertaken of the seven national objectives set for MABS by the Department of Social and Family Affairs (see above). Two of these objectives, namely target group involvement (objective 5) and social policy change (objective 7), were found to be the least important of the seven objectives from the perspective of the staff and management committees of the various MABS services. Although other objectives were being addressed to varying degrees, MABS had clearly developed into predominantly a casework-oriented service in line with its first objective. The purpose of the evaluation was to assess whether MABS overall was value for money and whether it was structured to operate effectively. It included some reservations about the impact of the service, but the authors noted that the long-term impact of MABS was impossible to quantify given the limited aims of the research. Nonetheless, the report contains some observations in this regard. For example, only 15% of creditors interviewed reported that MABS intervention had enabled them to recover debts more successfully (p.31). Creditors also reported that MABS was dealing with less than 1% of the total debt owed to them. The evaluators noted that this seemed “low” but that they were unable to make any international comparisons (p.39).

The evaluation also considered the short-term and long-term effects of MABS. Short-term benefits such as peace of mind, increased confidence, better budgeting skills, and help in dealing with crises were noted. However, long-term benefits were difficult to identify for a number of reasons. In particular, there was a tendency for services to focus on quantitative rather than qualitative outcomes, and there were no formal feedback, review or evaluation structures. Some indications of the limitations of the MABS service in the long-term were however noted. A fifth of money advisers did not believe that clients were able to provide nutritious meals for their families as a result of MABS (p.38). The report also noted that of the clients interviewed, significant numbers reported no “quality of life” benefits such as increased participation in social, community and sporting activities, increased confidence in seeking employment, or being better able to deal with family matters (p.38). Finally, in relation to the clearance of outstanding debts, it was noted that it was not possible at that stage to track the trend of arrears over time using the then MABS database, but it was estimated that although the amounts of outstanding debt owed by clients was declining gradually, only 11% of the cumulative case load had cleared all their arrears (p.75). Nonetheless, over 90% of clients interviewed found the service to have been "very helpful".

Recent developments

The Government has continued to extend and expand MABS services since the evaluation was completed, and MABS continues to be very highly regarded both nationally and internationally. It is regarded by both Government and opposition parties as being an excellent service and of great assistance to people at all income levels (Dáil Éireann, 2008). Several visits have been made to Ireland with a view to replicating the MABS model in the UK and elsewhere. Korczak (2004) who subsequently undertook a "peer review" of MABS for the European Commission in 2004, concluded that it had proved to be a very effective, practical, client-based response to social exclusion and that the MABS model was transferable, at least in principle, to other European countries.[14] This is a view shared by representatives from other countries who took part in the review (European Commission, 2007b).

Demand for MABS services has continued to grow year by year. Over 14,000 new clients used MABS services in the first nine months of 2008 compared to 11,000 for the whole of 2005 (MABS National Development Limited, 2008b). The recent economic downturn has resulted in a 33% increase in demand for MABS services (MABS National Development Limited, 2009, p.1). In recognition of the increased complexity associated with a growing number of these queries, a Technical Support Panel, consisting of lawyers and experts in consumer and social welfare issues, was established in 2000 to provide specialist advice to money advisers on these issues on a case-by-case basis.

The main emphasis of the MABS service however, is on helping its clients to budget their income. A Freephone MABS Helpline established in 2007 carries the number "1890 BUDGET".[15] The focus on budgeting as the main answer to debt problems has recently been emphasised independently by two Government Ministers. The Minister launching the Helpline stated the main role for MABS "is reaching out to people in debt, or in danger of sliding into debt, and helping them adjust and manage their budgets" (Minister of State with Responsibility for Older People, 2007). The then Minister for Social and Family Affairs made a similar statement in order to explain the reason for the decision to abolish a discretionary supplement paid to certain MABS clients, referred to as a "MABS Supplement", used by some services to supplement the income of social welfare clients and in effect, to replace the amount they were paying out in debt repayments in a *quid pro quo* arrangement: -

> *The decision to discontinue this supplement was based on the fact that these supplements had become a long-term arrangement and effectively a subsidy for creditors. The withdrawal of the supplement will encourage creditors to accept more realistic repayment arrangements, which the debtor will be in a position to meet* (Dáil Éireann, 2004).

Policy continues to focus mainly on those on lower incomes. In February 2002, the Minister for Social, Community and Family Affairs announced that MABS, including its specified target group, would be placed on a statutory basis (Dáil Éireann, 2002). This commitment was reiterated in the National Action Plan for Social Inclusion, which assigns a key role to MABS in combating financial exclusion (Office for Social Inclusion, 2007, p.71). MABS has not yet been placed on a statutory basis, but as part of Budget 2008, responsibility for MABS services was assigned to a statutory agency, the Citizens Information Board. In 2007, a proposal was put forward by the Minister for Social and Family Affairs that MABS would be given a statutory role in relation to the licensing of moneylenders. Its specific role would be to make representations about the practices of moneylenders applying to the Financial Regulator for a licence (National

Consumer Agency, 2007). Again, nothing has come of this proposal. The Government is beginning to use MABS to address over-indebtedness among those on higher incomes also. The MABS National Helpline, referred to above, was launched to support the work of the various services and to provide self-help assistance and materials to those for whom such assistance is seen to be more appropriate, such as those with higher levels of literacy and income. This response was driven by the changing profile of the MABS client base:

> *There are a growing number of people in good employment getting into financial difficulty mainly due to a change in life's circumstances impacting on their ability to maintain their heavy borrowing commitments. These clients' borrowings make up the greater portion of the € 79 million owed by new Clients presenting to MABS in 2006. Over €60 million would be owed to financial institutions* (MABS National Development Limited, 2007a).

2.3. OVERALL GROWTH IN PERSONAL DEBT IN IRELAND

Concerns that it is not just low-income families who are at risk of experiencing debt problems are not confined to MABS. Debt problems among poor people are increasingly considered to be merely one part of a much wider problem. The economic boom which began during the mid to late 1990s, (sometimes referred to as the "Celtic Tiger"), brought with it a dramatic increase in the extension of consumer credit that has resulted in Irish households at all income levels carrying larger amounts of consumer debt than ever before. This trend has been noted by the Central Bank in a series of reports. The Table below, derived from figures published by the Bank in quarterly bulletins from 1999 to 2008, shows that there have been significant increases in the amounts outstanding on residential mortgages, term/revolving loans and credit cards.

TABLE 2.1: AGGREGATE AMOUNT OUTSTANDING TO CREDIT INSTITUTIONS IN RESPECT OF IRISH RESIDENTS 1999-2008 (€MILLION)

Type of credit	**January 1999**	**April 2002**	**August 2005**	**February 2008**	**%Change (1999 to 2008)**
Residential mortgages	20,213	36,268	85,944	124,888	+517.8%
Instalment credit/ Hire Purchase / leases	2,258	4,026	3,632	3,855	+70.7%
Term/revolving loans	21,817	53,078	89,576	142,251	+522.0%
Overdrafts	5,754	6,054	6,489	8,604	+49.5%
Credit cards	547	1,255	2,106	2,919	+433.6%

Source: Central Bank Quarterly Bulletins – June 1999; Winter 2002; August 2005; April 2008

The growth in personal indebtedness has also been noted in a number of surveys prompted by concern about the levels of outstanding personal debt in Ireland. In a national survey into people's views of their financial situation, conducted on two separate occasions as an addendum to a regular monthly survey used to identify consumer sentiment in Ireland[16], two prominent economists (Hughes and Duffy 2004; 2005) highlighted an increase both in the numbers of people borrowing, and the amounts of money being borrowed. They also noted increases in levels of personal debt, non-paid mortgage debt and in the numbers perceiving their levels of debt to be a heavy burden. The authors concluded by sounding a note of warning: - "we reckon that 100,000 - 150,000 Irish adults would face significant strains if borrowing costs rose sharply" (Hughes and Duffy, 2005, p.6). These concerns have been echoed by both the Deputy Head and Chief Economist of the Central Bank's statistics department: -

> *Lending to the personal sector in Ireland has been growing substantially faster than personal disposable income in recent years. By end-September 2004, the amount of personal debt outstanding was close to €85 billion and had risen to well above 100 per cent of estimated disposable income in 2004. The rapid*

build-up of debt by Irish households over the past decade has attracted attention to all aspects of personal borrowing. While most of the increase in debt has come from residential mortgages, borrowing for consumption has also risen steadily. (Kelly and Reilly, 2005, p.85)

The 2004 figure of €85 billion was nearly six times greater than the corresponding figure for 1995. Similarly, the relationship of personal debt to disposable income had increased significantly from 48% in 1995 to 113% in 2004. This latter percentage was a landmark in that this was the first time that household indebtedness had exceeded income.[17] The figure is now estimated to be as high as 160%. Irish households are therefore now highly indebted compared with most other European countries. Concerns about debt levels have also been expressed by Ireland's leading stockbrokers (O'Leary, 2005; Davy Stockbrokers, 2007) and by the Irish Central Bank, who have warned that Ireland has the second largest ratio of personal-sector credit to GDP, and the largest ratio of personal sector credit to GNP, of the countries in the Euro area (Central Bank of Ireland 2007, p.5). In the region of 80% of this debt relates to the accumulation of housing debt secured by way of mortgages, and this is in contrast to the EU average of 60% (Duffy, 2005, p.94; Central Bank of Ireland 2007, p.6). The Irish economy is thus particularly exposed to a downturn in the housing market or a sharp upturn in interest rates. Such a downturn is taking place at the time of writing. Property prices are falling[18] and are forecast to fall still further.[19] Interest rates that have been at historically low levels in Ireland for some time have been rising.[20] The Irish economy is officially in recession.

These are clearly uncertain economic times and it is difficult to predict the full effects on Ireland of international crises such as the still unfolding "credit crunch" and "sub-prime lending" controversies. What is clear from the above data is that Ireland has undergone an unprecedented credit boom, which appears to be over, at least for the time being. However, apart from MABS, little has been done by way of a policy response to the credit boom. It is of no surprise therefore to find more and more people from a range of income groups resorting to MABS services and to find that these services are struggling to cope.[21] In a recent study, 37% of consumers reported at least some difficulty keeping up with bills and credit commitments (Financial Regulator, 2008a, p.8). The main response of the Government to this boom has been the provision of information to credit consumers on their rights, responsibilities and options. An example of this response is the series of guides produced by the Financial Regulator on different types of consumer credit (Financial Regulator, 2007). The Government view overall seems to be that information is preferable to intervention, that the market should be allowed to correct itself, and that there will be a "soft-landing" as this correction takes place. This remains to be seen. The consequences of a "soft-landing" will in all likelihood involve increased repossessions, voluntary surrender of property and possessions, and legal proceedings. Aside from the human costs of these things, the Irish legal system is ill prepared for such consequences according to a barrister who specialises in this area (Joyce, 2003; Free Legal Advice Centres, 2009).

2.4. MABS IN THE CONTEXT OF THE GOVERNMENT'S RESPONSE TO POVERTY

Poverty came onto the national agenda as a policy issue at around the same time as moneylending. The first study into poverty in Ireland was undertaken in the early 1970s (Ó Cinnéide, 1972). The first major national survey into poverty was carried out in the late 1980s[22], again around the same time that the seminal study on moneylending was being undertaken by Daly and Walsh (1988). Since then, a number of national studies into the extent and nature of poverty have been carried out in Ireland. A statutory body responsible for advising the Government on policy issues to do with poverty, namely the Combat Poverty Agency, was established in 1986 (and abolished in 2009). There is a strategic approach towards dealing with poverty in Ireland underpinned by two national strategies: the National Anti-Poverty Strategy 1997 and its successor, the National Action Plan for Social Inclusion 2007-2016. A number of targets have been set within these strategies in relation to consistent poverty,[23] unemployment, income adequacy, educational and urban disadvantage, and rural poverty (National Anti-Poverty Strategy, 1997; Office for Social Inclusion, 2007). The key target is to reduce the number of those experiencing consistent poverty to between 2% and 4% by 2012, and to eliminate consistent poverty entirely by 2016 (Office for Social Inclusion, 2007, p.13). Ireland also has an official definition of "poverty": -

> *People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living, which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources, people may be excluded and marginalised from participating in activities, which are considered the norm for other people in society* (National Anti-Poverty Strategy, 1997, p.3).

The available evidence as to the extent of poverty, derived from national surveys conducted by the Central Statistics Office each year as part of the EU Survey on Income and Living Conditions (EU-SILC), suggests that consistent poverty levels in Ireland have now become fairly static at around 5-6%, having declined significantly during the 1990s (Whelan *et al.*, 2003; Central Statistics Office, 2007; 2008). Another indicator of whether poverty is increasing or decreasing is what is referred to as the 'at risk of poverty' figure. A household or person is said to be 'at risk of poverty' if their net income is below 60% of the national median. This figure has also declined over time but now appears to be declining more slowly: from 18.5% in 2005 to 17% in 2006 and to 16.5% in 2007 (Central Statistics Office, 2007; 2008).

The Government's main way of dealing with poverty in recent years has been to increase social welfare rates for those on the lowest incomes. In a recent paper, a leading poverty analyst (Walsh, 2008) describes how considerable increases in unemployment, pension and child welfare payments have all combined to significantly reduce rates of poverty in Ireland during the 1990s and more recently. For example, in comparison with the UK where a similar system exists, Walsh notes that Irish social welfare payments are 160% higher in respect of "Jobseekers Allowance" (formerly "Unemployment

Assistance"), 94% higher in respect of state pensions, and 60% higher in the case of children's allowances. The basic safety-net payment for Irish households, namely Supplementary Welfare Allowance (SWA) has also increased significantly, by 40% in real terms over the last four years. The SWA scheme contains provision for discretionary payments or grants to be made to enable recipients to cope with essential "once-off" expenses, referred to as "exceptional" or "urgent needs" payments. An example of where such a payment may be made is where utility bills are exceptionally high or where a household appliance is in need of repair or replacement. The system differs from a similar scheme in the UK, as the focus in Ireland is exclusively on grants and payments and there is no provision for the granting of loans (Buck and Smith, 2003).

The SWA scheme also contains provisions for rights-based payments to be made in particular circumstances. One such example is a supplement to help social welfare[24] recipients with the interest portion of their mortgage repayments. Another, is an allowance to help recipients cope with the costs of clothing and footwear when children return to school. Such once-off payments are designed to avoid the need for claimants to have to borrow the money for such costs, possibly from moneylenders. The main focus of anti-poverty policy has thus been on the provision of additional cash income or once-off grants and payments, rather than on the provision of services such as childcare. Walsh also notes that the cost of living in Ireland is also significantly higher than the UK, and that there is no free, universal health care system in Ireland as there is in the UK.[25] Thus these income increases need to be considered in terms of what they will enable a person to consume. Recent rises in fuel and food costs have largely wiped out the effect of such increases.

Inequality in Ireland

Although the strategies and policies pursued by the Irish Government have had a significant impact in reducing levels of poverty in Ireland, inequality has not been reduced and may have increased. For example, the Government has spent considerably more on tax-concessions than on social welfare increases over the past ten years (Walsh, 2008). The most recent data available show that there is a wide gap between those on the lowest incomes and those on the highest; for example by 2006: "the equivalised income of the top 20% of the population was five times that of the lowest income quintile" (Central Statistics Office 2007, p.9). A useful measure of income inequality is the "Gini coefficient" (a measure of the inequality of income or wealth distribution in a population, 0 representing perfect equality and 100%, perfect inequality). The most recent figure for Ireland (32%) has remained largely unchanged since 1999 (Nolan, 2006). The economic boom has therefore had little impact overall on levels of income inequality in Ireland,[26] which remains relatively high, compared to other OECD countries (Nolan, 2006). So whilst Government policy has had a significant impact in reducing poverty, it has been much less successful in tackling income inequality.

2.5 MABS AND POLICY RESPONSES TO OVER-INDEBTEDNESS

There are a number of pieces of Irish legislation that relate to over-indebtedness, a number of bodies that play various roles in addressing it, and a number of specific initiatives that have been put in place to address different aspects of the problem. Thus MABS is not the sole policy response to over-indebtedness in Ireland; it is, however, by some distance, the most important. The main piece of relevant legislation, the Consumer Credit Act 1995, makes no direct reference to over-indebtedness and is more concerned with regulating the activities of credit providers and their agents, making sure that prescribed documentation is provided to consumers, and that proper procedures are followed in relation to the recovery of outstanding credit debts.

The evidence suggests that the legislation is failing to protect the most vulnerable consumers. Certain moneylenders are being licensed by the Financial Regulator (the Government Agency responsible for enforcement of the Act's main provisions) to charge interest rates[27] approaching 190% APR. An investigation, carried out for the RTÉ current affairs programme 'Prime Time Investigates', found little evidence of successful prosecution activity under the Act's provisions and 'sub-prime' lenders to be largely unregulated (Lydon, 2006). A Consumer Protection Code, issued by the Financial Regulator in August 2006, contains provisions preventing lenders from offering unsolicited, pre-approved credit facilities and from increasing credit card limits without request; it also states that lenders must have procedures in place for dealing with cases of arrears (Financial Regulator, 2006, p.23). Concerns were subsequently expressed that the Code did not cover non-deposit taking sub-prime lenders who are authorised in other jurisdictions and as a result, the most vulnerable consumers remained the least protected (MABS National Development Limited, 2007). This deficiency has since been rectified, arguably after most of the damage had been done.

Other relevant legislation focuses on procedures for the recovery of civil debts and in particular, on the options available to creditors rather than on the protection of debtors. The *Enforcement of Court Orders Act* 1926, amended in 1940, sets down the process to be followed by a creditor wishing to legally enforce a judgment s/he has obtained in respect of a specific debt. Controversially, the Act provides that a debtor, in 'culpable neglect' or 'wilful refusal' of an Instalment Order made by the Court, may be committed to prison (*Enforcement of Court Orders Act* 1926, Section 18). Thus in Ireland, in contrast to most European countries, a person may be committed to prison as a consequence, albeit indirectly, of owing a *civil* debt (Laws and Mansfield, 1999; Joyce, 2003). There were 276 such cases in 2008.[28] In the recent "McCann" case, the High Court ruled the Act's provisions in this regard to be unconstitutional (see footnote 38 below). The debt, however, is not discharged as a result of any committal. Legislation to prevent the harassment of debtors[29] and the use of unfair contract terms in consumer contracts such as housing loan agreements[30] is largely unused. Bankruptcy legislation introduced in 1988[31] is rarely used in cases of personal or consumer debt as a result of the stigma associated with bankruptcy in Ireland and the lengthy time period involved (twelve years) before a "bankrupt" can be discharged (Joyce, 2003). There are no informal bankruptcy procedures or arrangements available in Ireland such as Individual Voluntary Arrangements (IVAs) that are an alternative to bankruptcy in the UK.

There is no central credit register in Ireland. There is a members-only database in the form of the Irish Credit Bureau (ICB)[32], the main credit reference agency in Ireland. Its activities are regulated by the *Data Protection Acts* 1988 and 2003. The purpose behind the legislation is to ensure that accurate information on the credit history of potential borrowers is available to member credit institutions, and there is a general right for consumers to have inaccurate information held about them, corrected. As regards financial education, there have been some attempts to introduce more targeted materials and modules into the core curriculum for national and secondary schools in Ireland, although the evidence is that these initiatives have been somewhat piecemeal and *ad hoc* (O'Loughlin, 2006, p.53).[33] Some years ago, MABS called on the Government to introduce a community education strategy focused specifically on young people and at risk groups (Cullen, 2000). However, such a strategy has not been adopted at Government level although there has been some progress in encouraging community education initiatives at local level.

In terms of Government policy in relation to the related issue of financial exclusion, little progress has been achieved (Corr, 2006). Ireland continues to have above-average levels of financial exclusion (Honohan, 2006) and no right of access to a basic bank account (Combat Poverty Agency, 2008). Concern has been expressed that Government policy is hindering rather than helping the provision of affordable credit. The regulatory burdens imposed on credit unions, following the creation in 2003 of a Registrar for Credit Unions[34], have been severely criticized as placing a heavy burden on a voluntary movement and impeding its efforts to make low cost loans available to members (Weston, 2006).

2.6. CONCLUSION AND KEY QUESTIONS

This chapter gives a historical account of how the Irish Government has responded to over-indebtedness. The focus of policy shifted from legislation to regulate moneylending enacted in 1933, to a strategy to tackle the problems perceived to be associated with it in the late 1980s, to the establishment and development of a service-based response to over-indebtedness among those on low-incomes, namely the Money Advice and Budgeting Service (MABS), which continues to this day. This policy focus has continued throughout a period of rapid credit and economic growth amid concerns that over-indebtedness is becoming a major problem across all income groups in Ireland, and that MABS has some significant limitations. In particular, MABS deals with over-indebtedness among those in poverty. MABS is not the only response to poverty in Ireland but in terms of over-indebtedness, it is by some distance the principal one. On the basis of this account, a number of generalisations can be made. *The main one is that over-indebtedness is seen by policymakers primarily as a problem of budget mismanagement and lack of access to credit among those on low-incomes.* The Government's various initiatives in relation to moneylending, the specification of a distinct target group for MABS ('social welfare recipients and other lower income families') and its key objectives ('to facilitate "the target group" to cope with their immediate debt problems and become financially independent in the long-term' and 'to identify sources of credit, which can best meet the needs of the target group and facilitate them to access these sources'), all point strongly towards this being the prevailing view.

The Government's response to over-indebtedness can be seen as threefold: -

> Firstly, to enable people on low incomes to *budget* (hence the establishment of a network of services to provide advice on money management).[35]
>
> Secondly, to facilitate those on low incomes to have *access to affordable credit* (through the credit union network and the provision of a fund to guarantee loans).
>
> Thirdly, to *educate* people to make the best use of their money and to become more aware of their rights and entitlements.

The approach of the Irish Government to over-indebtedness may thus be summarised as follows: - *helping individuals, and in particular those on low incomes, to help themselves*. A great deal of responsibility is also placed on voluntary organisations, in particular the credit union movement and the Society of St Vincent de Paul: little responsibility appears to be placed on the private sector and in particular, on mainstream financial institutions such as the clearing banks. These institutions have however undertaken some initiatives of their own. Codes of practice for dealing with arrears have been put in place (Irish Banking Federation, 2000), educational programmes have been developed, and other initiatives have been undertaken as described earlier in this chapter.[36]

The Irish Government's response raises a number of questions. Firstly, is this response appropriate i.e. does it focus on the most at risk group? Secondly, is it realistic in the light of the types of debt problems poor people face? Thirdly, does it adequately address the factors that give rise to over-indebtedness in the first place? Finally, is this response effective i.e. does it work as a response to poor people's debt problems and to their poverty? It is these key questions that this study sets out to address in the following chapters.

TABLE 2.2: SIGNIFICANT SOCIAL POLICY DEVELOPMENTS RELATING TO OVER-INDEBTEDNESS IN IRELAND, 1926 TO DATE

Year	Development
1926	Enforcement of Court Orders Act enacted
1933	Moneylenders Act enacted
1940	Enforcement of Court Orders Act amended
1958	First credit union established in Ireland
1960	Irish League of Credit Unions formed
1969	RTE "7 days" documentary on moneylending aired
1971	Report of the "Seven Days" Tribunal of Enquiry published
1988	Bankruptcy Act enacted
1988	Combat Poverty Agency study into moneylending published
1989	Government Action Plan on moneylending drawn up
1990	Loan Guarantee Fund established
1992	MABS Pilot schemes established
1993	MABS pilot schemes evaluated
1994	Household Budget Scheme implemented
1995	Consumer Credit Act enacted
1995	Unfair Terms in Consumer Contracts Regulations enacted
1996	Money Advice Training Unit established
1996	Accredited Diploma in Money Advice first offered
1997	First MABS National Conference held
1997	Non-Fatal Offences Against the Person Act enacted
1999	Government first proposes to make MABS a statutory body
2000	National evaluation of MABS services undertaken
2000	Technical Support Panel for money advisers established
2001	Debt Settlement Programme piloted
2003	Financial Regulator established
2004	MABS Supplement abolished
2004	European 'Peer Review' of MABS undertaken
2004	MABS National Development Company established
2005	MABSIS integrated computer system launched
2005	Debt Settlement pilot discontinued
2005	National Traveller MABS established[37]
2006	Consumer Protection Code issued by the Financial Regulator
2006	Changing (higher income) client profile noted by MABS
2007	National MABS Helpline launched
2008	Schools Transition Year money education programme launched
2009	High Court finds civil debt committal provisions unconstitutional.[38]

Notes

[1] Moneylending in Ireland, regulated since 1933, involves the lending and collection of money at relatively high interest rates on a door-to-door basis.

[2] Up to 1995, moneylending in Ireland was regulated by specific legislation (*Moneylenders Act* 1933). This legislation was subsequently repealed and succeeded by the *Consumer Credit Act* 1995.

[3] The Department for Social Welfare was the former name of the Department for Social and Family Affairs, the Government department responsible for the provision of income maintenance and support services in Ireland.

[4] Credit unions in Ireland are mutual societies involving groups of people who save together and lend to each other at reasonable rates of interest. They are a significant provider of loans and other financial services to members in communities throughout Ireland who live or work within a common bond. There are currently 521 credit unions in Ireland affiliated to the Irish League of Credit Unions. These credit unions have a combined membership of nearly 3 million people and an asset-base, in the form of members' savings, of over €13 billion (Irish League of Credit Unions 2008, p.24).

[5] 'Social lending' is a term used to refer to alternative, usually low cost, ways of meeting the financial needs of low-income households and communities (Walsh, 1997, p.43). The purpose of social lending is for social as opposed to commercial or profit reasons. Credit unions are a prime example of social lending: the motto commonly used to express this concept is "For People Not for Profit" (Caherdavin and District Credit Union, 2007).

[6] The Code is aimed at people in receipt of social welfare payments who cannot pay their electricity or gas bills on account of 'exceptional circumstances' (Department of Social and Family Affairs, 2005). The Code provides that in such circumstances, a discretionary payment may be made by the Community Welfare Service of the Health Service Executive (formerly the Health Board) under the Supplementary Welfare Allowance (SWA) scheme, which is the basic income safety net provision in Ireland.

[7] The MABS pilot projects were located in Cork City, West Clare, Limerick City, Dublin (Cherry Orchard) and Waterford (Ballybeg).

[8] The pilot scheme was initially referred to as a "Pilot Moneylending Programme". The name 'MABS was subsequently adopted in recognition of the work of the Cork pilot project, referred to as Cork MABS, and its founder, Brendan Roche (Ryan, 2001).

[9] Health Boards, now re-constituted as the Health Services Executive (HSE), are statutory bodies responsible for the provision of health and personal social services throughout Ireland.

[10] Moneylender licences were issued by the local District Court in accordance with a specified legal procedure from 1933 to 1996 (*Moneylenders Act* 1933, Section 5). Issuing of licences then became the responsibility of Director of Consumer Affairs from 1996-2003 and since 2003, the issuing of licences to moneylenders has been the responsibility of the Government-appointed Financial Regulator. Applicants must satisfy certain legal requirements that are laid down by legislation and must furnish details of proposed interest and collection charges to the Regulator, who effectively determines whether these rates are reasonable or not (*Consumer Credit Act* 1995, Part VIII). There are currently 55 licensed moneylending companies operating in Ireland (Financial Regulator, 2008b).

[11] The Irish Parliament or legislature.

[12] The Citizens Information Board (CIB) is the national support agency responsible for supporting the provision of information, advice and advocacy in relation to social services in Ireland. The CIB carries out this function by amongst other things resourcing and supporting a national network of Citizens Information Centres (CICs) throughout Ireland. A separate Unit within its training service provided training for MABS staff and management committees up to 2006.

[13] A Group Debt Counselling Licence is required by organizations that provide money advice as part of their work in the UK. The provision of such licences is the responsibility of the UK Office of Fair Trading.

[14] The purpose of a peer review is to examine the possible transferability of models used to tackle social exclusion in certain Member States, to other Member States. The "peer review" of MABS was the seventh in a series of such reviews, instigated by the European Union under its "Open Method of Co-ordination" initiative, to encourage best practice in the promotion of social inclusion. The countries that took part in the peer review of MABS were Denmark, Germany, Hungary, Luxembourg, the Netherlands, Slovenia and the United Kingdom (Edwards, 2005).

[15] The number is 1890 283438 and the last six numbers correspond to the letters B, U, D, G, E, T, on the keypad of mobile phones.

[16] These monthly surveys are used to compile the monthly IIB Bank/ESRI 'Consumer Sentiment Index'.

[17] 'Debt levels exceed incomes for the first time'. *Irish Times*, 2nd February 2005.

[18] 'Dublin house prices fell by 10% last year'. *Irish Times*, 22nd January 2008.

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[19] 'Property market approaching critical point'. *Irish Times,* 18th January 2008.

[20] 'Bank of Ireland increases variable and tracker rates'. *Irish Times*, 18th January 2008.

[21] 'MABS in crisis due to economic downturn'. *Leitrim Observer*, 23rd July 2008.

[22] The 'Survey of Income Distribution, Poverty and Use of State Services 1987', carried out by the Economic and Social Research Institute.

[23] Persons or households are considered to be in "consistent poverty" if (i) their income is below 60% of national (median) average income and (ii) they experience deprivation in relation to a specified list of deprivation items (Office for Social Inclusion, 2007, p.93). These items are described in Chapter 4.

[24] 'Social welfare' is the term used in Ireland for income maintenance services provided by the Department of Social and Family Affairs (DSFA), previously called the Department of Social Welfare. Some of these services, such as Supplementary Welfare Allowance (SWA), are delivered through Community Welfare Officers (CWOs) employed by the Health Service Executive (HSE).

[25] Social welfare recipients and others on a low income who satisfy a means test are however entitled to free GP visits, prescriptions and other services by way of a medical card.

[26] A relatively small number of those at the very top of the income distribution are however thought to have made hugely disproportionate gains (Nolan, 2006).

[27] Banks and other credit institutions are however exempt from the Act's provisions with regard to excessive interest rates, thus these rates cannot legally be challenged by consumers under the legislation (s.47 *Consumer Credit Act 1995*).

[28] 'Courts jail 276 people for debt default', *Irish Examiner*, 30th January 2009.

[29] *The Non-Fatal Offences Against the Person Act* 1997.

[30] *The Unfair Terms in Consumer Contracts Regulations* 1995.

[31] *The Bankruptcy Act* 1988.

[32] The ICB is a privately funded body with a stated aim as follows: "to assist in lowering the cost of credit, enable faster decision in the provision of credit, aid in the avoidance of over-indebtedness of its member customers and to assist with fraud prevention" (Irish Credit Bureau, 2006).

[33] There are signs that a more targeted approach may be emerging. A national programme, "Get smart with your money" aimed at Transition Year students, has recently been launched by the Financial Regulator in partnership with MABS (MABS National Development Limited, 2008a). Transition year is an optional year, which may be taken by students, aged 15-17 who have completed their Junior Certificate examinations, which are the equivalent of GCSEs in the UK.

[34] The Registrar operates under the auspices of the Financial Regulator.

[35] It is worthy of note in terms of the emphasis on budgeting that in the mid-1990s, some MABS services employed specific "Budget Support Workers" to assist clients identified as needing particular support in this area, and there were calls for an increased role for

such workers within MABS during this period (McKeown, 1995). However, such posts were subsequently phased out and many such workers became money advisers.

[36] Principally through the part-financing of the first Loan Guarantee Scheme and part-funding of a Diploma in (Community Development) Money Advice when it converted to a 'distance- learning' format in 2002 (Brown, 2002). The Irish Banking Federation (IBF) was also involved in a pilot "debt settlement" scheme in partnership with MABS and the Free Legal Advice Centres in 2001. Debt settlement schemes are discussed in Chapter 3.

[37] National Traveller MABS is a specific service, within the national network of MABS Services, that offers advice and support to members of the Traveller Community (an indigenous, nomadic people) who are experiencing financial difficulties.

[38] *McCann (Applicant) and Judge of Monaghan District Court, The Commissioner of An Garda Síochána, The Chief Executive of the Irish Prison Service, The Minister for Justice, Equality and Law Reform, Ireland and the Attorney General (Respondents) and the Human Rights Commission, Monaghan Credit Union (Notice Parties), 2009.*

In "McCann", the High Court found Section 6 of the Enforcement of Court Orders Act 1940 to be unconstitutional. As a result of revised legislation enacted as a consequence, the onus of proof will in future be on the *creditor* to establish that failure to pay court-ordered instalments on a debt is due to 'wilful refusal' or 'culpable neglect'; imprisonment of the debtor *cannot* be ordered in their absence; finally, *legal aid* must be provided by the State to enable people to defend their position.

Chapter 3

OVER-INDEBTEDNESS IN IRELAND IN A COMPARATIVE PERSPECTIVE

3.1 CAUSES OF OVER-INDEBTEDNESS

There are two key policy differences between Ireland and other European countries in terms of over-indebtedness. The first difference concerns the social group on which the discussion is focused. The second, is that the policy focus in Ireland is on personal responsibility and irresponsibility, whereas policy in other countries is based on a much broader, multi-dimensional view, which results in a more multi-dimensional approach to tackling the problem. As discussed in Chapter 2, policy in Ireland has traditionally focused, and continues to focus, on a particular social group, namely those in poverty or on low income. Poverty and related factors, such as employment status, status in relation to ownership of assets and tenure status, are all strongly associated with over-indebtedness.

Over-indebtedness and poverty

In the international literature, over-indebtedness is strongly associated with low income (Berthoud and Kempson, 1992; Kempson, 2002; Kempson *et al.,* 2004; Parker, 1986; Hutton, 1986; Department for Social Justice and Regeneration in Wales, 2005; Woods, 2006). People who are not in employment such as those who have been made redundant, are unemployed, are in ill-health, or have a disability, are at particular risk (Kearns, 2003; Berthoud and Kempson, 1992; Kempson, 2002; Ford, 1991; Parker, 1986; Department for Social Justice and Regeneration in Wales, 2005). The lack of a savings "buffer" to tide people on low income over difficult times has also been found to be strongly linked to over-indebtedness (Berthoud and Kempson, 1992; Kempson *et al.,* 2004).

Over-indebtedness can be both a cause and a consequence of poverty. People may be able to manage on low incomes for a short period, but are unable to do so adequately over the longer-term as a result of the continuous demands placed upon them. The combination of these two factors, namely lack of resources and recurring demands, makes it difficult for people to cope with unexpected occurrences or even relatively modest demands on an ongoing basis.

> *Low income led to indebtedness through the week-to-week budgeting problems it caused, rather than because poor people persisted in buying consumer goods they could not afford* (Berthoud and Kempson, 1992, p.179).

> *Low and inadequate income were generally the key factors in clients' indebtedness. Ordinary or extraordinary events or circumstances per se were not to blame, rather clients' financial situations did not permit them to deal with any change in circumstance or everyday event which were manageable for other sections of the population at large* (Conroy and O'Leary, 2005, p.93).

A recent UK study has found that a significant number of people, and in particular those on lower incomes, do not have provisions or resources in place to cope with a substantial drop in income; further, that the making of such provision is strongly associated with those on higher, as opposed to lower, incomes (Atkinson *et al.,* 2006, p.65). Lack of income and resources is also closely associated with an inability to access low cost or affordable credit and as a result, people can find themselves with little alternative but to use more expensive sources for essential borrowing.

> *It should be remembered ...that poverty is the underlying reason why some people lack access to suitable, low cost credit. The improved provision of social*

lending schemes will be a help but, to some extent, these schemes will just be papering over the cracks of the much more fundamental problem of poverty (Rowlingson, 1994, p.166).

Impoverishment was not a result of borrowing in most cases [...] rather low income forced most people to borrow in the first place (Daly and Walsh, 1988, p.101).

Tenancy status, and in particular social tenancy[1], has also been found to be closely associated with over-indebtedness. The consensus within the literature is that the principal reason for this is that social tenants in general have lower resources than other householders (Bridges and Disney, 2004; Kempson 2002; Hutton, 1986; Kempson *et al.,* 2004). The relationship between low-income and social tenancy is summed up by Bridges and Disney:

Tenants are much more likely to be in arrears on debt than homeowners in almost all dimensions except informal loans. This arises largely because tenants have lower incomes than homeowners (2004, p.24).

Age, and in particular young adult age, has also been found to be strongly associated with over-indebtedness (Berthoud and Kempson, 1992; Kempson, 2002; Kempson *et al.,* 2004; Department for Social Justice and Regeneration in Wales, 2005). A relationship between over-indebtedness and particular compositions of households such as lone parents, families with children, and younger families in particular, is also noted in the literature in the UK (Berthoud and Kempson, 1992; Kempson, 2002; Kempson *et al.,* 2004; Department for Social Justice and Regeneration in Wales, 2005) and Ireland (Kearns, 2003). The presence and number of children within such households has been found for example to increase the risk of over-indebtedness (Ford, 1991; Berthoud and Kempson, 1992; Kempson *et al.,* 2004). As with social tenancy however, the consensus appears to be that it is the combination of low income and family composition that leads to a greater risk of experiencing over-indebtedness (Bridges and Disney, 2004; Kearns, 2003).

> *The combination of low income with family responsibilities makes lone parents the population group at greatest risk of debt, alongside unemployed families with children* (Berthoud and Kempson, 1992, p.182).

The evidence shows however, that over-indebtedness is not solely confined to those on low incomes. People at *all levels of income* become over-indebted for a variety of reasons to do with circumstances both within, and outside of, their control (Berthoud and Kempson, 1992; Kempson 2002; Department for Social Justice and Regeneration in Wales, 2005). In some cases people on relatively higher incomes experience more severe problems of over-indebtedness when things go wrong. A survey of European Community Household Panel (ECHP)[2] data, conducted in 2001 by OCR Macro, concluded that debt problems were not found to be particularly associated with low income; further that in relation to loans, problems were more related to those on *higher* incomes (Betti *et al.,* 2001, p.73). These findings were based on people's subjective feelings about their financial situation.[3]

In Ireland too, there is a growing recognition among poverty analysts that over-indebtedness is a much broader issue. In recent work involving a multi-dimensional analysis of poverty, the ESRI suggest that the time has come to revise the consistent poverty measure it has pioneered, and specifically, the list of 'basic deprivation' items it has developed as part of this measure.[4] The ESRI argues that one of these items, the 'debt indicator', is no longer valid as an indicator of basic deprivation, and therefore as a measure of consistent poverty. The reason given for the need to drop the debt indicator is that it is being reported more and more by people on incomes *above* the poverty line, and is therefore no longer a reliable indicator of consistent poverty (Maitre *et al.,* 2006; Whelan, 2008, p.19). The Office for Social Inclusion has taken account of this viewpoint, and the 'debt indicator" is no longer officially an indicator of basic deprivation or poverty in Ireland. The focus of these debates has been on poverty (and how to measure it accurately) rather than on over-indebtedness. Nonetheless, the inference that may be drawn is that over-indebtedness is now being seen, albeit indirectly in Ireland, as a broader issue rather than one that is almost exclusively related to poverty.

Over-indebtedness and personal responsibility

As discussed in Chapter 2, the policy focus on money management in Ireland implies that the root cause of over-indebtedness is viewed as the failure of people to plan, and manage, their finances properly. The view that an inability to manage money causes problems among those in poverty ("the feckless poor") is still widespread. There is evidence that over-indebtedness is sometimes caused by a lack of personal responsibility. Examples of this are poor budgeting and money mismanagement (Daly and Walsh, 1988, p.91; Berthoud and Kempson, 1992, p.127; Elliott, 2005); heavy use of credit and over-borrowing (Berthoud and Kempson, 1992, p.135; Mannion, 1992, p.51; Elliott, 2005); over-spending (Webley and Nyhus, 2001); negative attitudes towards paying bills (Elliott, 2005) and unwillingness to pay debts (Caplovitz, 1974, p.86; Dominy and Kempson, 2003). In other cases, behavioural factors such as these, although not the root cause, have been identified as compounding debt problems (Hinton and Berthoud, 1988, p.31).

There is also, however, a body of evidence that shows that over-indebtedness is often caused by things that are not behavioural, and that happen outside of an individual's control. These causes include unemployment and redundancy (Berthoud and Kempson, 1992, p.109); domestic violence and relationship breakdown (Ford, 1991, p.54; Kempson, 2002, p.32); illness or disability (Balmer *et al.,* 2005; Department for Social Justice and Regeneration in Wales, 2005, p.6; Kempson, 2002, p.31; Edwards, 2003, p.58); unexpected increase in needs or demands (Daly, 1989, p.31; Ford, 1991, p.73; Conroy and O'Leary, 2005, p.93); and business failure due to economic circumstances (Mannion, 1992, p.51; Edwards, 2003, p.61).

These causes may be grouped into two categories, namely *behavioural* factors and *force majeure* factors. These two types of factors correspond to a distinction that is made within the French system for dealing with over-indebtedness, based on the reasons why over-indebtedness has occurred. The French system distinguishes between *'active'* over-indebtedness, where the debtor is at fault to some degree, through for example over borrowing or poor money management, and *'passive'* over-indebtedness, where external factors such as loss of income or unemployment, have occurred (Huls *et al.,* 1994, p.63). The latter circumstances imply an absence of control on the part of the debtor or consumer i.e. things happen *to* them unexpectedly. In contrast, behavioural factors such as money management, budgeting and over-borrowing imply at least some element of control on the part of the debtor i.e. things are done *by* them. The evidence suggests therefore that money mismanagement is but one of a range of causes of over-indebtedness.

Lack of access to affordable credit has also been identified by the Irish Government as a factor associated with over-indebtedness, as indicated by its decision to provide a loan guarantee fund to MABS to facilitate people to get access to lower cost credit. Those on higher incomes and particularly those owning or purchasing their homes, have been consistently found to have much greater options in terms of access to credit (Bridges and Disney, 2004; Bridges, Disney and Henley, 2006; Cairney and Boyle, 2004). The consequence of this is the paradox that in general, in Ireland as elsewhere, the poor pay more for their credit (Daly and Walsh, 1988; Conroy and O'Leary, 2005; Quinn and McCann, 1997; Rowlingson, 1994).

However the relationship between lack of credit access and debt problems is a complex one. Firstly, although people may be excluded as a result of the practices of the financial institutions themselves (Corr, 2006; Leyshon and Thrift, 1994; Leyshon and Thrift, 1995), they may also choose not to *use* particular sources for various reasons (Gloukoviezoff, 2007; Kempson *et al.,* 2000; Kempson and Whyley, 1999). Thus lack of access may be a behavioural issue as well as an institutional one. Recent research in Ireland shows that people often choose to use a particular source (for example moneylenders) for reasons of convenience and familiarity, even though that may not necessarily be the cheapest source (Byrne, McCarthy and Ward, 2005; Quinn and Ní Ghabhann, 2004; O'Loughlin, 2006).

Whether lack of access to credit leads *directly* to over-indebtedness is not at all clear. Two pieces of research suggest that it is more accurate to view it in general as more of a contributory or compounding factor, in that it is in fact *low income* that leads to financial exclusion, and thereby to over-indebtedness (Daly and Walsh, 1988; Rowlingson, 1994). A similar conclusion is reached by an Australian study which found that de-regulation of the financial services market had little impact on over-indebtedness in Australia, whereas demographic factors, in particular household composition, ethnicity and associated low income, did (Worthington, 2006).

Evidence also exists that in some instances, financial institutions lend too much (Elliott, 2005) and that this leads to over-indebtedness. Irresponsible lending may be viewed as the institutional flipside of individual over-borrowing. Elliott's analysis suggests that where a consumer takes on excessive credit, it is generally as a result of a combination of these two things. In addition to credit institutions, legal institutions, and in particular legal systems, have also been associated with debt problems. The evidence is clearer in this regard in that such institutions are more likely to contribute to an increase in the extent of debt problems rather than to cause them directly. Research into the relationship between levels of over-indebtedness and the legal sanctions available in various European countries has concluded for example that the adequacy, or more accurately inadequacy, of legal sanctions is a contributory factor in increasing the incidence of default on credit repayments, although not the primary cause of default (Duygan and Grant, 2006). Analysis by Joyce concludes that a legal system inadequate for dealing with over-indebtedness, such as the Irish system, hinders rather than assists in the resolution of debt problems by leading to an increase in costs and interest and, as a result, increased levels of outstanding debt (Joyce, 2003; Free Legal Advice Centres, 2009).

Taken together, the causes of debt problems emphasised by Irish policymakers, namely money mismanagement and lack of access to credit, appear to be only two aspects of what is a much more complex and wide-ranging problem. In order to make sense of these disparate aspects, academics have focused on grouping the various factors that give rise to over-indebtedness, discussed above, into three main categories. The first category is *structural* factors, defined as those arising from socio-economic processes such as labour market failure and inequality of opportunity (Braucher, 2005; Watson *et al.,* 2005). The second category is *individual* factors, or those factors which occur at the level of the individual or household, such as changes in circumstances, attitudes, money management or mismanagement, and borrowing (Ford, *et al.,* 1995; Duhaime, 1997). The third category is *institutional* factors, relating to the way financial institutions operate and the way the legal system functions, sometimes referred to as *systemic* factors (Duygan and Grant, 2006). In some cases two categories of factors interact to produce over-indebtedness; for example, structural and individual factors (Webley and Nyhus, 2001; Zhu and Meeks, 1994; Stone and Maury, 2006).

The relevance of this previous work is that responses to over-indebtedness should directly relate to the factors that give rise to it in the first place. Thus, responses based on helping individuals to modify their behaviour will only work successfully if errant behaviour was the cause in the first place. If a combination of structural and individual factors caused over-indebtedness to occur, an appropriate combination of structural and individual policy measures are required to resolve it.

Irish policymakers appear to take the view that over-indebtedness is caused predominantly by individual "behavioural" factors. This somewhat narrow view manifests itself in a narrow policy focus, centred primarily on enabling poor people to manage and plan their personal finances better. Policymakers in other countries however, appear to take a broader view of the causes of over-indebtedness that include structural, individual and institutional factors. This more wide-ranging view manifests itself in a more multi-dimensional approach taken by other countries towards dealing with over-indebtedness.

3.2. POLICY RESPONSES TO OVER-INDEBTEDNESS IN OTHER EUROPEAN COUNTRIES

Policy responses to over-indebtedness vary considerably across Europe. The principal reasons for this are the absence of an "official" definition of over-indebtedness at European level and the lack of a common way of measuring the extent and nature of the problem. (Ferreira, 2000; European Commission, 2002; European Commission, 2007a).[5] Thus there is a lack of an evidence-base upon which to base co-ordinated policies (European Commission, 2008). As a result, countries have put in place different measures based on how each view the problem (Huls, *et al.,* 1994). Many have chosen to take a much more multi-dimensional response than Ireland. A useful way of categorizing different responses to over-indebtedness is to classify these as either "preventative" or "curative" measures (Berghman, 1997). The main categories of "curative" measures are debt settlement and money advice.

Preventative measures

The most common preventative measures put in place in European countries are consumer protection, information and education. Some countries however go further and provide facilities for social lending, community banking and saving schemes. Most countries, including Ireland, place a high emphasis on the provision of information to consumers on their rights and responsibilities as consumers of credit (Bohan, 2001). Most focus to a lesser extent on the provision of education or skills programmes in schools or to "at risk" adults, as is the case in Ireland (European Commission, 2008). In relation to consumer protection, EU-Directives that have been implemented in member states, including Ireland, have resulted in a legislative focus on documentary and procedural requirements with regard to the way credit is advertised, provided and recovered, rather than on dealing with over-indebtedness.

In most countries, responsible lending is largely left to the credit industry to self-regulate, although there is a notable exception in the rigorous procedure required of lenders in Belgium who are required both to consult a central credit register, and to collect full, and precise information, about potential borrowers' ability to repay (European Commission, 2008, p.68). Ireland is one of several countries that do not have a maximum interest rate, although there is effectively a ceiling, in practice, if not in law: moneylenders are licensed by the Financial Regulator to charge up to the maximum interest rate specified in their licence. Other countries such as Austria, Germany and France, do have specified interest rate ceilings (European Commission, 2008). These contrasting approaches reflect the fine line that policymakers have to tread between preventing "usury" whilst at the same allowing companies to charge a rate that enables them to continue to trade, and that avoids driving such companies out of business, thereby consigning their customers to the services of illegal and unregulated lenders.

The policy emphasis on dealing with the individual in Ireland, contrasts with a number of countries that also focus on the "social" and "community" aspects of over-indebtedness. Social and community banks[6] for example have been developed in both France and the Netherlands for this purpose. The Dutch model of municipal banks incorporates a facility to make social loans available to people who may not be able to avail of commercial banking facilities (Norder, 2006). There is also a strong emphasis on community banking in the United States. An example that has proved particularly successful, is the South Shore Bank in Chicago. The *Community Reinvestment Act* 1977 in the United States, is an example of how legislation can underpin such an approach by requiring financial institutions to meet the credit and financial services needs of low and moderate-income communities; banks have provided more appropriate services and supported community development initiatives as a result of this legislation (Federal Reserve Board, 2007). Recent initiatives involving the Irish banking sector in promoting the idea of a basic banking account or *"universal account"* (Corr, 2006, p.117), pale somewhat in comparison.

Often linked with community banking is the idea of social lending, or lending on a not for profit basis, a particularly successful model being the network of "municipal banks" in the Netherlands referred to above. The Irish credit union movement is by far, the most advanced model of this type in Europe. However, the idea of credit unions is taking root in the UK, and the indications are that the UK government is considering measures to encourage the expansion of the movement throughout the country as a response to the so-called "credit crunch".[7] One of these measures, the proposed easing of the regulatory burdens on credit unions, contrasts starkly with the concerns expressed in the previous chapter that the regulatory burdens on Irish credit unions are increasing.

In recent years, an innovative approach to the re-distribution of assets in the form of savings to those on low incomes, a concept referred to as *"asset welfare",* has developed in the UK (White, 2008; De Wispelaere, 2008). Examples of asset welfare schemes are the *Child Trust Fund*[8] and the *Savings Gateway*[9]. These schemes have been found to be successful in enabling those on low incomes to build up assets in the forms of savings which can among other things, prevent, and tide people over, periods of financial difficulty (Kempson, McKay and Collard, 2005). Ironically, the only similar scheme which was provided in Ireland benefited those on *higher* incomes more than it did those on lower incomes. The Special Savings Incentive Accounts (SSIA), a government-backed scheme which ran from 2001 to 2007, with the aim of taking money out of the economy to prevent it over-heating, encouraged people to save up to €254 per month with a range of financial institutions for a five year period. In return, the Irish Exchequer contributed 25% of the savings made, payable by way of a lump sum after five years. Many on higher incomes, who were able to save the maximum permitted, benefited hugely from this scheme whereas those on lower incomes who could not afford to save, did not. A proposal for a parallel savings scheme, aimed specifically at low-income MABS clients, was not accepted by the government (Corr, 2006, p.125-6). When compared with the range of preventative measures that have been adopted elsewhere, the Irish response to over-indebtedness appears to be a very narrow one indeed.

Curative measures (i): Debt settlement and personal insolvency schemes

There are also considerable differences between Ireland and other European countries, and other northern European countries in particular, in terms of the way over-indebtedness is dealt with once it has occurred i.e. in the implementation of "curative measures". No other country places the same overriding emphasis on money management and budgeting as a response to over-indebtedness as is the case in Ireland. What is most notable is the difference in approach between Ireland and the Scandinavian countries, such as Sweden and Norway. In these countries, along with France, Germany, the UK and others, a significant responsibility for dealing with debt is placed on the lending *system* and legal *institutions,* as well as the borrower. Examples of systemic or institutional ways of dealing with over-indebtedness are judicial, and non-judicial (or amicable), settlements. Typical of these types of settlement is a procedure referred to as "debt settlement". Debt settlement is in effect a legally-backed process that operates as a practical alternative to bankruptcy in many countries, and in Scandinavia in particular (Nykvist, 1996; Rokhaug, 1998). The process enables a person, who has little realistic hope of ever repaying his/her debts in full, to apply for a legally binding arrangement to pay a composition or part payment in accordance with their means over a realistic period, commonly five years. In some countries, a protected earnings limit is set. In Norway for example, this is set at 85% of the level of the minimum pension. At the end of the pre-determined settlement period, the person or debtor effectively is given a "fresh start", and the opportunity to become a user of credit again with a clean slate. Evidence from the Netherlands shows that the majority of those who undertake debt settlement programmes complete these programmes, and are able to make a fresh start (Von Bergh *et al.,* 2006).

Ireland remains one of the few European countries which has yet to put in place such a system for the repayment of problem debts (Joyce, 2003). The result is that the Irish system, by and large, continues to treat individual debts owed by the same person as a series of stand-alone problems whereas the Scandinavian system views these as part of the same problem i.e. it is more "holistic" and focuses on the *person*, rather than the debts. A voluntary "pilot" scheme based on the same principles, and incorporating many of the features of the Scandinavian system, was introduced in Ireland in 2001 as a result of intensive negotiations between the Irish Banking Federation, MABS and the Free Legal Advice Centres. However this scheme was discontinued in 2006 and there are no plans to extend or even evaluate it. The cessation of this pilot scheme contrasts starkly with the success of similar "amicable" or "out of court", schemes in the UK and elsewhere. In Belgium, competency for settling debt issues was transferred to the Labour Court in 1999, which was, and is, considered to be better placed to comprehend the "social reality" of over-indebted people.[10] One well-used scheme in England and Wales involves debtors agreeing "Individual Voluntary Arrangements" (IVAs) with creditors, whereby part-payment of the total debt is made by way of a formal, legally-binding agreement. Such agreements are drawn up, and administered, by certified insolvency professionals or practitioners (normally accountants), outside of the legal process (European Commission, 2008). A more recent provision is that of a "Debt Relief Order", introduced in England and Wales in April 2009, aimed at those with little income and few, or no, assets (The Insolvency Service, 2005).

Curative measures (ii): Money advice or debt counselling

Ireland also differs from other countries both in the emphasis placed on money advice, and in terms of the structure within which such advice is delivered. Ireland has chosen to prioritise money advice as its main social policy response, whereas other countries have developed services in conjunction with other measures, such as debt settlement and social banking (European Commission, 2008). In most countries therefore, money advice services *complement* other measures rather than being the main measure, and national funding of money advice by central government is also rare. Services are generally universal and not targeted at any specific social group unlike Ireland. Most focus solely on advice rather than providing access to financial services as well, although a loan guarantee fund operates in Finland (Valkama *et al.,* 2002).

In other European countries, money advice services may be described as less targeted, more universal, less well-funded and arguably more fragmented than in Ireland. In the UK for example, such services are provided through a range of agencies such as local authorities, Citizens Advice Bureaux[11], independent advice centres and charitable organisations, and funded from various sources such as credit institutions, local government and registered charities (Young, 1990; Money Advice Trust, 1999; Burrows, 2000; Department for Work and Pensions, 2006). In Finland, money advice is provided through a combination of local authorities, private and voluntary agencies (Aatola, 1997), whilst in other parts of Scandinavia, state and municipal authorities are the main providers (European Commission, 2008).

In Germany, money advice services are provided through both specialist and generalist services run by public and private institutions, whereas in the Netherlands, they are provided mainly through a network of municipal banks under the auspices of local authorities (Huls, *et al.,* 1994, p.87-98). In France and Belgium, and in southern European countries such as Spain and Italy, the evidence suggests that money advice is somewhat under-developed (Bohan, 2001). Many countries (unlike Ireland) regulate the activities of money advice agencies and practitioners through a licensing system, but few require advisors to be certified or accredited (European Commission, 2008).[12] The Irish approach to money advice provision is thus both distinctive and focused in comparison with that taken by many other European countries. However, the process used by money advisers elsewhere in Europe in assisting clients to become aware of their options, to exercise their rights and to draw up realistic repayment proposals, is broadly the same as the process used in Ireland (Child Poverty Action Group, 2008; Money Advice Scotland).

The available research from the UK suggests that the Irish policy emphasis on money advice provision, albeit by way of a distinctive "targeted" model, has significant limitations as a response to over-indebtedness among poor people. It has been identified more as a short-term than a long-term measure. Money advice has been found to be effective in easing the pressure on people and in helping them to manage their immediate crises, or put another way, for "acute" or "urgent" financial problems (Williams, 2004, p.18). An analysis of 542 housing repossession cases by Watts (1987), found that when a respondent was represented (by a money adviser), the likelihood of a possession order being granted by the court declined from 22% to 4%. Similar short-term success is indicated by an analysis of a UK Business Debtline[13] which found that 85% of people who used the service in its first 15 months continued trading, even though most were at risk of going out of business at the time of initial contact (Business Debtline, 1994). Another study also found that money advice tends to bring early relief, but that this tends to be followed by growing concern regarding the length of repayment programmes (Jones, Wainwright and Doling, 1993). Research undertaken on behalf of the Money Advice Trust[14] confirms that short-term relief through the renegotiation of more affordable repayment arrangements, is often followed by a struggle to maintain regular payments because of unexpected demands and expenses, and by a periodic need to seek help from advice agencies when such demands arise (Money Advice Trust, 1999, p.51)

In general therefore, money advice has been found to have significant limitations. It appears that money advice actually works better in relation to those on higher incomes who have more money to manage or re-distribute, and that for those on low-incomes, it merely manages or contains money problems rather than resolving them (Mannion, 1992). Hinton and Berthoud (1988) paint a similar picture although they note that their survey does not provide a sound basis for longer term analysis as the clients sampled were relatively new money advice clients at the time they were interviewed. They conclude that money advice has severe limitations when it comes to those on low incomes in comparison to those on higher incomes.

> *Debtors in work tended to have larger debts but they were often able to offer a programme of payments from which creditors could hope eventually to recoup their money; and the client's family would still have enough to live on. But supplementary benefit*[15] *claimants could often afford to offer little more than token repayments, and even these would have pushed their standard of living below the national minimum* (Hinton and Berthoud, 1988, p.70).

Two further pieces of research add weight to this view. Williams (2004) concludes that there is little evidence that counselling, whether in a money advice or health context, improves people's ability to deal with chronic problems such as low income, although he argues that it does help address short term problems or crises which he refers to as 'symptoms'. Kempson (1995) also notes that the long-term impact of money advice services is doubtful, as most studies tend to focus on relatively new clients.

There are, therefore, at the very least question marks over the efficacy of money advice as a response to over-indebtedness, particularly among those who are poor. These limitations are remarkably similar to the concerns expressed in the reviews of MABS services referred to in the previous Chapter. It appears that the Irish government's main policy response to over-indebtedness may therefore have significant limitations.

3.3 MODELS OF OVER-INDEBTEDNESS

How does the Irish approach to over-indebtedness compare with other countries? Groth (2000, p.9) distinguishes between four main models of how the problem is viewed in different countries. He refers to the first of these models as the *liberal economic model*. In this model, an example being the system in the United States, an over-extended debtor is seen as an entrepreneur who needs to be rehabilitated as a solvent credit consumer as quickly as possible. Hence fast-track bankruptcy procedures such as "Chapter 13 bankruptcies" are provided.[16] No such procedures are available in Ireland.

Groth refers to the second model as the *French model*. Here, the system is designed to be so complex and unwieldy as to encourage both parties (creditor and debtor) to come to a voluntary arrangement, although the emphasis is on repayment of the debt in full. Ireland again has no such provisions.

The third model, referred to as the *liberal social model*, sees debt problems as being largely the result of an unforeseeable, and adverse change in financial circumstances. The emphasis is on the provision of a system, supported by advice where required, which rehabilitates the debtor by enabling him or her to come to an affordable settlement with their creditors over a reasonable period. This in essence is the Scandinavian model of 'debt settlement' described above. Another example is the principle of 'social force majeure', proposed by Wilhelmsson (1990) with reference to Nordic consumer law, to protect debtors from legal sanctions where payment default is the result of an unforeseen change of circumstances detrimental to the debtor concerned.[17] Linked to this approach, is the concept of "fresh start" which enables people in Germany who have completed a debt settlement programme to be given a clean slate or clear credit rating (European Commission, 2007b). There are no such provisions or principles in Ireland.

In the fourth and final model, the *conservative social model*, debtors are viewed as the authors of their own downfall and creditors as the wronged parties. Thus, the system is designed to "punish", rather than rehabilitate the debtor. This is the model, which most closely corresponds to the Irish system. Unlike the U.S and Scandinavian models, the Irish system offers no easy solutions and in the extreme, can involve imprisonment even for *civil* debt, as discussed in the previous chapter. Even where imprisonment occurs in relation to a civil debt, the debt is still owed upon completion of the prison term (Joyce, 2003). Irish money advice services can do little more in such circumstances than help people offer to discharge these liabilities at a rate they can afford.

These models bear some similarities to those proposed by Esping-Andersen (1990) for the purpose of categorising different welfare states. Again, the Scandinavian or Nordic model is distinguished from other models. In this re-distributive citizenship or social democratic model, services are available to all or are universal across the social divide. It is, thus, an integrated welfare system based on equality. In comparison, the second type of model, the corporatist, stratified or German conservative model, entitlements are identified with class and status in society. People in good employment are entitled to good benefits and pensions and the State remains on the periphery, intervening to help those in lesser circumstances who are unable to succeed through no fault of their own. In the third model, the "residual" model, minimal assistance is provided to those people in the lower echelons of society. A largely means-tested or means-based system is used in contrast to universalism. "Poor services" are provided for poor people who are viewed as being at the bottom of society, are treated as such and therefore largely remain in this position.

What, then, is the Irish model for dealing with over-indebtedness? The designation of a specific target group for MABS, namely social welfare recipients and other low-income families, strongly suggests that over-indebtedness is seen as a "residual" problem in Ireland. The over-riding emphasis on money management is indicative of a largely one-dimensional response. The community and voluntary sector has long expressed concerns that the way over-indebtedness is dealt with in Ireland is both conservative, and inadequate. In their submission to the National Anti-Poverty Strategy (NAPS) in 1996, the Credit and Debt Policy Group[18] voiced concerns that a multi-dimensional approach is needed to deal with over-indebtedness. The Group proposed a variety of measures such as social lending and community banking initiatives, and a mediation service to deal more appropriately with problems relating to personal debt in general (Credit and Debt Policy Group, 1996). The use of mediation to deal with debt related matters in a housing context has also been proposed by an Irish housing-rights group (Threshold, 1996). More recently, the use of budget standards[19] has been advocated as a response to debt problems among those on low incomes, caused by increased costs of living. The budget standard approach is that social welfare rates should be set to meet the consumption needs of different households in contrast to the current system, where people are provided with a set amount and expected to manage on it (Vincentian Partnership for Social Justice, 2004; 2006). In terms of the way debt is dealt with by the legal system in Ireland, the Free Legal Advice Centres (FLAC) has consistently called for a root and branch reform of the system for dealing with cases of civil debt (Joyce, 2003; Free Legal Advice Centres, 2009). In short, the Irish community and voluntary sector views the government's response to over-indebtedness as a narrow and inadequate one. This is a view shared by policy analysts elsewhere; Ireland is classified along with Southern European countries such as Greece, Italy, Portugal and Spain, as having limited policy interest in the area of over-indebtedness (European Commission, 2008, p.58).

3.4. CONCLUSION

Public policy in Ireland in relation to over-indebtedness is distinctive when compared with public policy in other European countries. Firstly, it focuses on a specific social or residual group, namely *those in poverty or on low income*, whereas other countries view the problem as one that affects people at all income levels. Secondly, the policy focus in Ireland is on *personal responsibility and irresponsibility*, whereas a broader, more multi-dimensional, approach is taken by other countries. These contrasting views are reflected in the adoption of a more universal, multi-dimensional approach towards dealing with over-indebtedness in other countries compared with the narrow, more one-dimensional approach, in Ireland. Most countries see money advice and debt management services as a complementary measure whereas in Ireland, it is the main measure. Only in Ireland are such services targeted specifically at those on low income. Another key difference is the Irish policy emphasis on helping the individual, as opposed to focusing on the system for dealing with debt problems, as is the case in the Nordic countries, France, Germany and the UK, for example. There is also little focus on social or community measures in Ireland in contrast to some other countries, and on building up the assets that those on low incomes have at their disposal. In short, Ireland has put in place an individual-based response to what is perceived to be an individual, "behavioural", or residual problem.[20]

The available research referred to above, suggests that the emphasis placed by the Irish Government on money advice services as being the best way of addressing over-indebtedness among those in poverty may be misplaced, in that money advice has been found by academics in the UK to be more of a crisis, short-term response than an empowering, long-term solution (Hinton and Berthoud, 1988; Mannion, 1992; Kempson, 1995).

Notes

[1] Social tenancy refers both to local authority and housing association tenancies.

[2] This was a survey into living conditions in member states that was co-ordinated by Eurostat (the statistical office of the European Communities), and was conducted annually from 1994 –2001.

[3] The subjective measure used in this study was based on whether people reported the repayment of debts, other than a mortgage, to be a "heavy burden" or "somewhat of a burden" (Betti *et al.,* 2001, p.71-72).

[4] Basic deprivation was defined until recently as an enforced lack of at least one of the items from the following list: - new not second hand clothes; a meal with meat, fish or chicken every second day; a warm, waterproof overcoat; two pairs of strong shoes; a roast joint or its equivalent once a week; having to go without heating during the last year through lack of money; having had a day in the last two weeks without a substantial meal due to lack of money; experienced debt problems arising from ordinary living expenses (Whelan *et al.,* 2003, p.55).

The Office for Social Inclusion, on the advice of the ESRI in particular, has now revised the list of items that make up the basic deprivation index. Persons or households lacking two or more items from what is now referred to as the (revised) Consistent Poverty Deprivation Index, are considered to be in consistent poverty. The revised index reads as follows: - new not second hand clothes; a meal with meat, fish, chicken (or vegetarian equivalent) every second day; a warm, waterproof overcoat; two pairs of strong shoes; a roast joint or its equivalent once a week; having to go without heating during the last year through lack of money; keep the home adequately warm; buy presents for family or friends once a year; replace any worn out furniture; have family or friends for a drink or meal once a month; have a morning, afternoon or evening out in the last fortnight for entertainment (Office for Social Inclusion, 2007, p.93).

[5] An operational definition of over-indebtedness, applicable to the EU as a whole, has recently been proposed in a report undertaken for the European Commission (2008). The EU-Survey on Income and Living Conditions (EU-SILC) includes a module on over-indebtedness and financial exclusion in its annual survey for 2008. The results of this survey should be available towards the end of 2009 (Corr, 2006).

[6] 'Community banking' may be defined as 'a means of using mainstream financial resources to provide economic opportunities for marginalised individuals, businesses and communities' (Walsh, 1997, p.46). This approach, predicated on applying the financial viability of a commercial bank to the provision of lending and banking services for social purposes, is well developed in the United States.

[7] 'Government to relax credit union rules'. *The Guardian*, 30th June 2008.

[8] The Child Trust Fund consists of a lump sum provided by the UK Government to a child at birth, which is only accessible when, that child reaches 18. Money can be added to the account over time, up to a maximum amount.

[9] The UK Savings Gateway is aimed at providing an incentive for low-income households to save. Regular savings made by individuals into a specific savings account are added to by the Government.

[10] Workshop on "Over-indebtedness Prevention", Cagliari, 13th February 2009.

[11] Citizens Advice Bureaux are a national network of free information and advice centres throughout the UK (Edwards, 2003).

[12] Exceptions are Austria, where debt counsellors require “certification”, and the Netherlands, where an advanced vocational qualification is required.

[13] Business Debtline is a registered UK charity established in 1991 to provide free, independent advice to small businesses experiencing financial difficulty. It now operates as part of the Money Advice Trust.

[14] The Money Advice Trust was formed in 1991 to increase the availability and quality of free, independent money advice services throughout the UK. The Trust supports the work of such services through the provision of training, specialist support, fundraising and research (Money Advice Trust, 2006).

[15] Supplementary benefit was a basic means tested payment available in the UK up to 1988 when it was renamed ‘Income Support’. The equivalent payment in Ireland is referred to as ‘Supplementary Welfare Allowance’ or more commonly by its acronym, ‘SWA’.

[16]Chapter 13 bankruptcies are a legal procedure available to debtors in the United States with little or no hope of ever repaying their debts in full. Repayments at a set rate are deducted from wages, usually for a three to five year period, before a debtor is released from their outstanding debt (U.S Courts, 2008).

[17] There are four elements to Wilhelmsson’s proposal. The principle of ‘social force majeure’ would only apply as a principle for the protection of consumers or debtors where all of these elements are applicable. Firstly, a consumer must have been affected by some unfavourable change in circumstances such as ill-health or unemployment; secondly, this occurrence must have caused the default, for example where there has been a reduction in income as a result of this occurrence; thirdly, the occurrence must

have been unseen or unexpected by the consumer; finally, the consumer must not have been at fault in some way (Wilhelmsson, 1990, p.54).

[18] The Credit and Debt Policy Group was a voluntary body consisting of representatives from a range of community and voluntary groups concerned with credit and debt issues from a low-income perspective. The Group subsequently re-constituted itself as the Credit and Debt Policy Coalition before it disbanded in 2004.

[19] A budget standard represents what a particular household, living in a particular place at a particular time, needs in order to reach a specific standard of living (Saunders, 2004, p.1). The amount of money required to sustain a particular living standard is calculated according to the current costs of various household items and expenses. This approach has been pioneered in Ireland by the Vincentian Partnership for Social Justice (Vincentian Partnership for Social Justice, 2004).

[20] The Irish Government's approach towards over-indebtedness may also be viewed as a "service model" approach as opposed to one based on a more "strategic" model. A practical example of the distinction between these two approaches is given by Whyte (2002) in an analysis of government provision of legal services to those on low incomes. In their purest form according to Whyte, service models refer to the assisting of individual clients to resolve their own difficulties, while strategic models seek to tackle the social problems confronting communities as a whole (Whyte 2002, p.280). Whyte concludes that the Government is pursuing the first of these models (i.e. the service model) in terms of its provision of legal services to those in poverty.

The analysis in this Chapter suggests that a similar model is being followed in the case of over-indebtedness among those on low incomes. The focus is placed primarily on a service approach to assist an individual to deal with a specific debt problem that has arisen, rather than on a "strategic" approach to tackle the underlying causes which give rise to debt problems in the first place.

Chapter 4

METHODOLOGY AND RESEARCH METHODS

4.1. INTRODUCTION

As described in the previous two chapters, over-indebtedness is both viewed and dealt with in a particular way in Ireland that differs from other European countries. However, a number of things remain unknown about over-indebtedness and its relationship with poverty in Ireland, and about MABS. Firstly, it is unclear whether people in poverty in Ireland are more likely to experience over-indebtedness and if so, whether the particular types of problem they experience are unique to them. Secondly, it is unclear whether MABS is the answer to these problems either in whole or in part and how exactly it helps. In order to address these issues, the study has two main objectives. These are:

(i) To identify the relationship between over-indebtedness and poverty in Ireland i.e. the extent, characteristics, severity, nature and causes of over-indebtedness among those in poverty in Ireland.

(ii) To examine the effectiveness of public policy in this area (and to this end, to identify the consequences of over-indebtedness among those in poverty in Ireland and the long-term impacts of MABS in relation to these consequences, their over-indebtedness and their poverty).

In order to achieve these objectives, two key issues had first to be addressed. Firstly, how over-indebtedness might most appropriately be measured. Secondly, how the impact of a money advice service such as MABS might best be evaluated. This chapter begins by dealing with each of these issues (it is more convenient in relation to what follows to deal with these two topics in reverse order). It then goes on to describe the selection of data sources appropriate to the specific objectives of this study, the methods used to analyse the two sets of data identified as being most appropriate and the gaps in these data relative to the research objectives. The chapter concludes by describing the methods used to collect new data to address these specific gaps by way of an interview survey of a sample of MABS clients.

4.2. EVALUATING THE IMPACT OF MONEY ADVICE SERVICES

Measuring or evaluating the impact of money advice services can be done in a number of ways. Firstly, one can ask the clients or beneficiaries how money advice has or has not helped them. This approach, sometimes used in assessing the impact of counselling services (Silverman, 2000), has been adopted in most of the evaluations that have been carried out on individual money advice services or groups of services (Hogan, 1998; National Social Service Board, 1996; Hinton and Berthoud, 1988). Secondly, one can seek the views not just of service clients, but also of stakeholders such as creditors, community groups and management committees about the impact of the service from their various perspectives (Dillon and Redmond, 1993; Eustace and Clarke, 2000). Thirdly, one can adopt a more comparative approach which involves contrasting the experiences of money advice service users with non-service users, preferably over the longer term (Williams, 2004).[1] Mannion (1992) uses such an approach based on the idea of matching the payment performance of different types of account holders who have received money advice with those who have not.[2]

It was decided to use the first of these approaches. With regard to the second, the views of other ‘stakeholders’ in MABS in Ireland, staff, management and creditors are already well documented (Dillon and Redmond, 1993; Eustace and Clarke, 2000), and the third would require more time and resources. The MABS service is a countrywide service with standard rules and procedures. This presents an opportunity that would not otherwise be available to identify a sample of service clients for interview that reflects that of the overall client base, and it was decided to undertake an interview survey of MABS clients.

Most previous evaluations of money advice services have tended to focus on the impact of money advice on the more recent service clients for reasons of practicality and confidentiality. This study is, however, interested in the longer-term impacts. The literature indicates that a "honeymoon period" of initial relief for clients tends to have ended about six months after they first sought advice (Jones, Wainwright and Doling, 1993; Money Advice Trust, 1999; Hogan, 1998; National Social Service Board, 1996). Thus a decision was taken to focus on only those clients of MABS that had been with the service for between six and twelve months, and to compare their experiences before they approached MABS with their experiences after such a period had elapsed.[3] Specific impacts to be measured were identified from the literature. These were the impacts on people's over-indebtedness (such as their debt balances, ability to repay debts and stress levels), and on their poverty (such as their ability to make ends meet, cope with future crises, to borrow and on their morale).

4.3. MEASURING OVER-INDEBTEDNESS

But first, how can over-indebtedness be measured? There are broadly speaking four approaches to measuring over-indebtedness. Firstly, it can be measured *objectively* by the use of pre-determined indicators. Examples of such indicators are the amount of arrears in payments and the ratios of outstanding debt to disposable income (Ferreira, 2000). Over-indebtedness can also be measured *subjectively* from the perspective of individuals or households. Examples of subjective indicators are reported difficulties in making ends meet, repaying debts or coping with unexpected expenses (Betti *et al.,* 2001). A third approach involves measuring over-indebtedness by reference to administrative records on court judgements, bankruptcies and credit refusals (Korczak, 2004). Some authorities and researchers use a range of different sources and indicators. This is the approach used in practice in the UK (Department of Trade and Industry, 2004; 2005) and is generally referred to as a '*basket of indicators*' approach (Kempson, 2002; European Commission, 2007a).

It became apparent at a very early stage of the research that administrative data relating to over-indebtedness were either unavailable or inadequate for the purposes of this study. It was decided to use an *objective* approach to the measurement of over-indebtedness for a number of reasons. Firstly, most analysts who have proposed definitions of over-indebtedness (listed below) take the view that the concept should be defined objectively. Secondly, given that the relationship between poverty and over-indebtedness was to be explored, and given that poverty is measured in Ireland through the use of pre-determined indicators, it made sense to approach the measurement of over-indebtedness in the same way.

In terms of measuring the extent and particular features of over-indebtedness in Ireland, and in particular its impacts on those in poverty, a decision was taken to focus on five key aspects. These five aspects or components are common to most of the definitions of over-indebtedness that have been put forward. Some of these definitions were proposed for the purpose of research (Berthoud and Kempson, 1992; Reifner, 1998; Betti *et al.*, 2001; Edwards, 2003; Department of Trade and Industry, 2004). Other definitions were suggested by those working in the money advice and consumer credit fields, and by policy analysts (Laws, 2001; Murray, 1997; Ferreira, 2000; Joyce 2003; San José, 2003; Jentzsch, 2003; Oxera, 2004).

The five key aspects were as follows. Firstly, the *household* was used as the most appropriate unit of analysis for the study given that it is already well established in Ireland in the context of research into poverty (Whelan *et al.,* 2003, p.9). Secondly, the term *debt* was construed broadly as a 'deferred payment' to encompass household bills as well as loans, revolving credit and mortgages. Thirdly, *resources* available to a household to discharge outstanding debts were taken to include both net disposable income and realisable assets in the form of savings. Fourthly, in terms of other expenses that have to be paid in addition to debt repayments, only those expenses that might be conventionally considered to be *essential* such as food, fuel and clothing were considered. Fifthly and finally, it was decided to focus on the *persistency* of debt problems over time and to examine the extent to which debt problems are of an ongoing or once-off nature. These aspects are all incorporated into the definition of over-indebtedness used for the purposes of this study (Chapter 1). They are also very much in line with the key elements of over-indebtedness identified in a recent report for the European Commission (2008, p.3).

Three options were considered in terms of measuring these various aspects of over-indebtedness to satisfy the first research objective. The first option, to carry out a national survey, was ruled out as being not practical or feasible on resource grounds. A second option, to insert questions into a forthcoming or ongoing national survey relating to over-indebtedness, was also ruled out as those responsible for carrying out the only potentially relevant survey (the Central Statistics Office who administer the EU-Survey on Income and Living Conditions or EU-SILC), had already decided on questions to include in a module on over-indebtedness within their EU-SILC survey for 2008, which meant that the first results from this survey would not be available until the end of 2009 (Corr, 2006). The third option, to use existing data sources to measure over-indebtedness among those in poverty and to identify its specific features relative to the research objectives, was therefore chosen as the most practicable option.

4.4. DATA SOURCES

Courts Service data

The Irish Courts Service keeps records of legal proceedings related to over-indebtedness. These data, published each year in annual reports issued by the Service, are not, however, particularly useful in relation to the specific objectives of this study. These data are based on the number of suits, affidavits, summonses, judgements and orders issued rather than individuals or households. It is impossible to tell from the data the amount of people who are the subject of these various proceedings, as there may be several processes in train against just one person where this person has multiple creditors for example. Again, no distinction is made between actions against individual consumers and non-consumers such as businesses, which are beyond the remit of this study. In any case, the available data do not include details about the income of the persons concerned hence it is impossible to relate the data to the issue of poverty. Previous researchers have also identified difficulties in attempting to use data from Irish legal records in the context of over-indebtedness (Redmond, 2002; Joyce, 2003).

Local Authority Data

The annual reports of local authorities in Ireland contain two sets of data that relate specifically to over-indebtedness. The first set of data relates to the amount of rent and housing loan repayments collected as a percentage of the total amounts due in respect of each of these. As with the Courts Service data, the figures do not relate specifically to individual persons or households. The second set of data relates to the length of time individual rent and housing loan accounts have been in arrears. Slightly different periods are used in respect of each type of account: 'weeks' in the case of rent arrears, and 'months' in the case of housing loan arrears. There are 39 major local authorities, in the counties and main cities, but only twenty of them published such data in their annual reports for 2004. These data are useful in terms of providing an indication of the extent and severity of default among those in rented and local authority-purchased accommodation, and the relevant findings of this piece of research are presented in the following chapter. However, these data cannot be related to income and therefore to poverty and thus again are inadequate for the main purposes of this study.

Creditor data

No published data were found to be available in relation to the extent of over-indebtedness among commercial or private credit institutions because of market-sensitivity. Requests for relevant data were made to a number of creditor representative bodies: the Irish Bankers Federation (IBF), the representative body for the banking and financial services sector; the Irish Mortgage Council (IMC), the representative body for mortgage lenders affiliated to the IBF; the Irish League of Credit Unions (ILCU), the representative body for the vast majority of credit unions in Ireland; the Irish Credit Bureau (ICB), the principal credit reference agency in Ireland; and finally, the Consumer Credit Association (CCA), the representative body for licensed moneylenders in Ireland. These requests elicited little information. The overall response indicated that such data were either not collated, in the case of the IBF for example, or were confidential to members only, as in the case of the ICB.

Some data were, however provided by the IMC in relation to the extent of mortgage default in Ireland. These data were gathered between 1995 and 2001 when the organisation was known as the Irish Mortgage and Savers Association (IMSA). This practice had subsequently been discontinued for reasons that were not given. Members of the IMC (then the IMSA) accounted for approximately 65% of the market during this period. These data relate to the percentage of accounts that were in arrears at the end of each year from 1995 to 2001, the total value of these arrears at the end of the year as a percentage of the total mortgage portfolio, and the number of months that accounts had been in arrears at the year-end. As with local authority data, these data are useful in terms of providing an indication of the extent and severity of default among account holders, but of little use in relation to poverty.

The Living in Ireland Surveys (LIIS)

The Living in Ireland Surveys (LIIS) consist of a series of eight panel surveys or 'waves' that were conducted by the Economic and Social Research Institute (ESRI), between 1994 and 2001, as the Irish element of the European Community Household Panel Surveys (Whelan *et al.,* 2003, p.5). The basic aim of the surveys is to measure and monitor poverty trends in Ireland. The surveys are based on a random, representative sample of private Irish households and the results "weighted" to the population as a whole (p.1). The set of households followed each year was supplemented in 2000 to address the decline in the overall sample size which had occurred due to attrition since 1994. A total of 4,048 households were successfully interviewed for the first wave in 1994, whilst 2,865 households were successfully interviewed for the eighth and final wave conducted by the ESRI in 2001 (p.6).

The surveys use a lengthy household questionnaire to gather information on, among other things, income, savings, demographic characteristics, experience of financial hardship, arrears, and deprivation (Watson, 2004). The surveys thus contain a significant amount of information that is directly relevant to over-indebtedness and enables it to be related to poverty.[4] The raw data itself, that is to say coded responses to the various questionnaires, is lodged by the ESRI with the Irish Social Science Data Archive (ISSDA) at University College Dublin (UCD) from where it is available to researchers on request. The LIIS was one of two available sources of data related to the objectives of this study, for the specific purposes of identifying the extent and characteristics of over-indebtedness among those in poverty and the severity and nature of the problem.

Money Advice and Budgeting Service (MABS) data

A nationally networked, computerised payments and recording system has been used by all MABS services nationally since 2005 and is referred to as 'MABSIS'. It serves two main purposes. Firstly, the system enables each local service to keep a record of the profile of each individual client and the debts that they owe, and of each contact between the client and the service. Secondly, the system facilitates the making of payments to creditors through the special (client) account scheme. Each service is connected to a central network and various records can be collated nationally. This is one of the functions of the national company established in 2005, MABS National Development Limited, which also maintains the MABSIS database.

There are three sets of data kept on the MABSIS system. Firstly, data is kept on all service clients in relation to gender, first and other sources of income, marital status, age group, types of creditor, types of debt and amounts of debt. Secondly, the system contains a set of data that relates solely to those clients repaying their debts through the special (client) account scheme as described earlier in Chapter 2. The only additional pieces of information kept in relation to this group are their current outstanding debt balances, adjusted each month in line with the payments being made. Thirdly and finally, there is a set of data on the system that relates to another sub-group of clients. These are clients in respect of whom additional details are kept with regard to income and expenditure. This information is sometimes required either in a legal context, or by particular creditors, in the form of a financial statement to justify repayment proposals that may be less than the original contractual instalments or agreed amounts (MABS National Development Limited, 2006, section 6, p.1-11). MABSIS data are therefore useful in terms of identifying the characteristics, severity and nature of over-indebtedness among MABS clients and, in the case of data that relate to special accounts, the impact of MABS in terms of the extent to which clients' outstanding debt balances are reducing.

4.5. DATA ANALYSIS

The LIIS and MABSIS datasets were subjected to further analysis.[5] Each of these datasets was provided as a result of a written request. The LIIS data were provided by ISSDA in June 2005 and the MABSIS data by MABS National Development Limited in January 2007. LIIS data were provided in SPSS format on a CD-ROM that contained a number of data files relating to each year of the LIIS.[6] MABSIS data were provided on Microsoft Excel spreadsheets encrypted for reasons of confidentiality. Different methods were used to maximise the value to this study of each set of data.

LIIS analysis

The most recent LIIS survey, the eighth one, which was conducted in 2001, was relied on, but relevant data from previous waves were drawn to supplement the 2001 data. "Over-indebted" households were identified from the answers given to six *objective* questions.[7] These were questions as to what actually happened or not in relation to different categories of arrears and debt during the previous twelve months. Five of these questions ask whether the household experienced a specific category of arrears in payments at any time during the previous year in relation to rent, mortgage, utility bill, hire purchase or credit card, and/or a hospital or medical bill; the sixth question asks whether the household had to go into debt for ordinary living expenses during this period (the actual questions used are listed in Appendix 1).

Households that had answered "yes" to at least one of these six questions were therefore identified as being "over-indebted" for the purposes of this study on the basis that a "yes" answer was an (objective) indicator of over-indebtedness. There were 184 such households identified in the 2001 survey. These households are referred to as the "over-indebted sample". Applying the respective individual 'weights' assigned to these households by the ESRI enabled both the proportion and number of over-indebted households within the population as a whole to be estimated. Relevant data in relation to the profile and experiences of each of the over-indebted sample households were extracted from the relevant LIIS data files, re-coded and an 'Over-indebted Households' Database' (OIHD) created that consisted only of these households. Wherever possible, the characteristics of the over-indebted sample were compared with those of the population as a whole using the most recently available Census data at the time, namely that for 2002 (Central Statistics Office, 2003). Appropriate statistical tests were used to ascertain whether any differences between the sample and the population were significant or not.[8] The null hypothesis for analysis of the LIIS data was that there was presumed to be no relationship between poverty and over-indebtedness. The risk of certain categories reporting over-indebtedness was also calculated in accordance with the method used by the ESRI in their analyses of poverty.[9]

The experience of basic deprivation among those in the over-indebted sample was ascertained by identifying those households that had reported a lack of at least one of the items in the original deprivation index discussed in the previous chapter (Office for Social Inclusion, 2007, p.93). Data with regard to the 'substantial meal' indicator was omitted from the 'household' data file provided by ISSDA. Given that the 'debt indicator' has already been categorised as one of the six indicators of over-indebtedness, the remaining six indicators were thus used to identify the experience of deprivation among the over-indebted sample.[10] Again a comparison was made with the proportion of the population as a whole that reported deprivation in the same year, 2001.[11]

The extent of persistent over-indebtedness was ascertained firstly by identifying those households within the over-indebted sample that had also reported at least one of the six objective over-indebtedness' indicators in the previous survey (the 2000 LIIS), as the vast majority of the sampled households were found to have participated in both of these surveys. Longer-term persistency was examined by identifying the number of waves in which the sampled households had been reporting these indicators since they first entered the LIIS. It was decided that the most effective way to analyse the panel data would be to work backwards from 2001 to 1994 (the year the LIIS commenced), rather than the conventional approach of working forwards from 1994 onwards. There were three reasons for this decision.

Firstly *sample attrition*: it transpired that a substantial number of households had fallen out of the study by 2000, and the sample had to be substantially supplemented that year as a consequence. Secondly, *late entry*: analysis revealed that a substantial number of the (2001) over-indebted sample had only entered the LIIS the previous year i.e. in 2000. Furthermore, only around half this sample had been interviewed for 5 waves or more (the analysis in this regard is, thus, based on a sub-sample of the OIHD consisting of 102 households). Thirdly, *relevance*: at the time of analysis in 2005-6, data pertaining to the mid-1990s would be extremely dated given that this period preceded the onset of the "Celtic Tiger" economy. Given all of this, it was decided that it would be more appropriate to take the panel of over-indebted households at the most recent point in time (2001) and see how they got there, as opposed to identifying over-indebted households at the start of the LIIS and following them through.

The LIIS was of limited use in determining the nature of over-indebtedness. As previously discussed, the six indicators chosen represent different categories of debt but are very broad. For example, 'hire purchase instalments and credit card debts' are two entirely different things but are combined in one of the arrears questions. It was however possible to identify the number and nature of the specific indicators reported by each household that comprised the over-indebted sample. This was not of much use in itself, but became more useful as part of the next stage of analysis of the LIIS data, namely the drawing of a distinction between "poor" and "non-poor" over-indebted households, and subsequent comparison between these two groups.

Identification of "poor" and "non-poor" over-indebted households among the sample

The issue of how to determine a "poverty line" has always been keenly contested. There are two main kinds of definition of poverty, subsistence definitions and relative definitions (McCashin, 2004; Holman, 1978). The latter approach is now favoured in Ireland, and throughout the EU as a whole. The consensus is that poverty exists where there is an inadequacy of resources to meet conventional, or customary, needs at a given point in time (Townsend, 1979; Mack and Lansley 1985; Ringen

1988). Attempts were made in the 1970s to identify a "Holy Grail" in the form of an actual point or poverty line on the income distribution where deprivation began to increase markedly (Townsend, 1979, p.57). In Ireland, the ESRI, who have led the way in research in this area, take the view that there is no "Holy Grail" or totally reliable method for calculating such a poverty line.

> *Poverty is a rather loose and ill-defined term… searching for a unique, objective, scientific measure of poverty on which everyone can agree is not likely to be fruitful and has certainly not been successful anywhere else.* (Nolan and Callan, 1994, p.9).

In terms of measuring poverty in practice, the ESRI has developed the concept of a combined income and deprivation measure referred to as the "consistent poverty" measure, already discussed in previous chapters of this study. Although the Institute does not specify a preferred poverty line, the most commonly used is *60% of median income.* This is the poverty line used to facilitate comparison between European countries (Whelan *et al.,* 2003) and to determine those "at risk of poverty" in Ireland (Central Statistics Office, 2007). This is therefore the threshold that is used as the poverty line for the purposes of this study.[12]

The specific poverty line for households of different sizes and compositions was derived separately for each household in the over-indebted sample, using the concept of equivalised or individualised income (Townsend, 1979, p.262-267). The scale used for this study is the one most commonly used namely: - 1.0; 0.66; 0.33. Thus 66% of household income was assigned to each extra adult within it, and 33% of household income to each child under 14. Where individualised or equivalised income was below the threshold, the household was considered to be in poverty or "poor". If individualised or equivalised income was found to be above the threshold, the household was considered to be not in poverty or "non-poor". Comparisons could then be made between two groups of households that comprise the over-indebted sample: those who are "'poor" (OIP) and those who are not (OINP).[13] A statistical test using the concept of "odds ratios"[14] was applied to the results of such comparisons to ascertain the significance of any differences between the two groups.

MABSIS data analysis

Given that the MABSIS system had only been fully operational since 2005, a decision was taken (as with the LIIS analysis) to concentrate the analysis of MABSIS data on a specific year, in this case 2006, the most recent year for which data were available at the time this analysis was carried out. Data were sought and provided therefore only in respect of clients who were registered as having a start date between 1st January and 31st December 2006 i.e. clients that were "new" that year.[15] Many of the individual client records contained no reference to any outstanding debts. Given that the focus of this research is on over-indebtedness, only clients who had approached MABS and were recorded as having at least one outstanding debt were selected for analysis, on the basis that this is indicative of a debt problem. There were 4,212 such clients identified and this is therefore the "MABSIS sample". There were also two sub-sets of clients that were identified from within this group. The first set consisted of 1,340 clients who had opted to repay their debts via the special account scheme. These clients are referred to as the "special account sample". The second set comprised 1,430 clients in respect of whom financial statement or budget details were kept. These are referred to as the "financial statement sample".

The MABSIS sample was subjected to a number of analyses to identify the various *characteristics* of MABS clients in pursuance of this research objective. Straight counts were undertaken in respect of the following profile categories: gender, income source, marital status, tenure type and age group. Additional work was also carried out in relation to the financial statement sample. Average incomes were calculated and equivalised in line with the numbers of adults and children recorded on MABSIS. This enabled comparisons to be made with the corresponding figure calculated for the LIIS 2001 over-indebted sample.[16]

In terms of *poverty*, the amounts of income that members of the financial statement sample were spending on fuel each week were compared with net income in order to identify the extent of fuel poverty among MABS clients. This issue has been highlighted as being of great concern both in Ireland and the UK (Boardman, 1995). Fuel poverty is defined as a situation where a household spends more than ten percent of its weekly income on fuel costs (Sustainable Energy Ireland, 2003). There is some debate about whether housing costs should be deducted from income before this calculation is applied but within this study, no such deductions were made. Thus a MABS client household is deemed to be in fuel poverty for the purposes of this study, if it is spending more than ten percent of its total net income on fuel; 'fuel' being the sum of 'gas', 'electricity' and 'other fuel costs', the three headings used in relation to fuel costs within the MABSIS database.

In pursuance of the research objective relating to *severity*, the data were analysed as follows. Firstly, the difference between net income and essential expenditure was calculated for each client and the extent of any surplus identified. These surpluses, more commonly referred to as disposable income, were then related to the amount of debt outstanding to determine the "depth" of over-indebtedness among MABS clients. The relationship between disposable income and household debt, expressed as a "debt to income ratio", is one possible measure of over-indebtedness advocated in a recent report on behalf of the European Commission (2007, p.6).

In relation to the *nature* of the debts owed by clients, straight counts were carried out in respect of the following: firstly, the different types of creditor to whom clients owed money; secondly, the different types of debt in respect of which money was owed; and thirdly, the number of different debts involved in each case. The amounts of debt owed overall by clients, and in respect of each individual type of debt were also identified. Given the fact that there was a huge difference between the highest and lowest amounts of debts owed by individual clients, the median was used to ascertain the average amount of debt owed among the sample.

Finally, in terms of the research objective that relates to the long-term *impact* of MABS, analysis was carried out on the special account sample in July 2007. Outstanding balances at that point were compared with the original balances owed at the time of initial presentation to MABS during 2006 and the difference between the two figures calculated in order to identify the extent to which debts were reducing among this group over time.

Identification of "lower" and "higher" income MABS clients

The majority of the MABSIS data did not contain details on the actual amounts of client income and hence clients were divided into income groups on the basis of income source. A working assumption was made, on the basis of the preliminary results coming through from the LIIS analysis, that *in general* MABS clients in receipt of social welfare payments as their only recorded source would be on the lower incomes, whereas those recorded as being in receipt of a wage plus a second source of income would *in general* be on the higher incomes.

To test this assumption, the only set of clients on whom income details were recorded (the financial statement sample) was divided into four groups and their average incomes compared. The four groups were: those in receipt of a social welfare income only (referred to as "social welfare only"); those in receipt of a social welfare income as their first source but who also had another source of income either themselves or through a partner (referred to as "social welfare plus other"); those who were in receipt solely of a wage (referred to as "wage only"); finally those who were in receipt of a wage plus other income (referred to as "wage plus other").

The average net and equivalised incomes were then calculated for each group. As shown in Table 4.1 below, the data support both the initial LIIS data findings and the working assumption to divide MABS clients into income groups. The data confirm that *on average* or *in general*, incomes rise across the four groups. The four groups were therefore used for the purposes of comparing the different characteristics and experiences of debt between lower and higher income MABS clients.

TABLE 4.1: AVERAGE NET AND EQUIVALISED INCOMES OF MABS FINANCIAL STATEMENT CLIENTS BY FIRST INCOME SOURCE, 2006

Group of MABS Clients (n=1430)	**Average Net Income**	**Average Equivalised Income**
Social welfare only	261.10	169.55
Social welfare plus other	366.42	194.91
Wage only	502.83	326.25
Wage plus other income	659.03	328.65

Source: MABSIS

4.6. INTERVIEW SURVEY OF MABS CLIENTS

The LIIS and MABSIS data were useful in addressing certain specific research objectives, namely identification of the extent, characteristics, severity and nature of over-indebtedness among those in poverty in Ireland. However a number of gaps remained in relation to the remaining research objectives, namely the causes and consequences of over-indebtedness among those in poverty, and the long-term impacts of MABS. The interview survey of a random sample of 36 MABS clients, chosen to reflect the profile of the MABS client-base and undertaken in the summer of 2007, was designed to address these remaining objectives. The survey would not have been possible without the cooperation received from the individual MABS services involved, and most importantly from those service clients who were willing to be interviewed about very sensitive matters. Ethical approval was sought for this survey from the University's Ethics' Committee in November 2006, in accordance with the ethical policy laid down for this type of research (National University of Ireland, Maynooth, 2006). Approval was subsequently granted by the Committee (see Appendix 2).

Sample design

The objective of the sample design was to obtain a sample of long-term money advice clients in Ireland (i.e. clients of MABS) that reflected the overall client profile. The target sample was between 30 and 50 clients (Kane, 1985, p.97). In terms of the sampling frame from which the final sample would be drawn, it was decided to take a targeted approach and to focus on five MABS services that could be said to be broadly reflective of all MABS services nationally, a process referred to as 'cluster sampling' (Frankfort-Nachmias and Nachmias, 1997, p.190). The sampling frame thus consisted of clients from these services with a start date at least six months prior to the drawing of the sample: more recent clients were excluded from the sampling frame as they might be considered to be more short-term clients.

The five services were selected from a list of all 51 services provided by MABS National Development Limited in March 2007. The full list of services, and the number of new clients who used each service in 2006, are detailed in Table 4.2 below. Services were first categorised as either 'rural' (32 services or 63%) or 'urban' (19 services or 37%).[17] Three of the five services (60%) were thus selected from the rural group and two (40%) from the urban group to reflect these percentages.[18] The five services were also chosen to represent a geographical cross-section of services across the country.

The services selected were (i) Finglas/Cabra MABS, which covers the Finglas and Cabra areas within North Dublin City; (ii) Bray MABS, which covers parts of South Co. Dublin and Co. Wicklow; (iii) Kerry MABS, which covers the whole of Co. Kerry in the south west of the country; (iv) Laois MABS, which covers Co. Laois in the Midlands; (v) South Mayo MABS, which covers the southern part of Co. Mayo in the west of the country. As described in Chapter 2, each MABS service is managed by an independent board or management committee. The cooperation of each of the five services was sought by way of an explanatory letter sent to the management committee of each service in January 2007. A copy of this letter is included in Appendix 3. All five services responded positively by return.

TABLE 4.2: NUMBER OF URBAN AND RURAL MABS SERVICES AND CLIENTS, 2006

Rural Services (32)	**New Clients**	**Urban Services (19)**	**New Clients**
Arklow	205	Ballymun	237
Athlone	166	Bray	355
Carlow	374	COMAC	157
Cavan	207	Clondalkin	208
Charleville	140	Cork	762
Clare	326	Dublin 12	213
Cork North	264	Dublin North City	316
Cork West	187	Dublin North East	312
Donegal North	249	Dublin South East	246
Donegal South	56	Dun Laoghaire	262
Donegal West	53	Dundrum	200
Drogheda	206	Fingal	234
Dundalk	158	Finglas	297
Galway North	231	Galway South	312
Kerry	523	Greater Blanchardstown	268
Kildare	460	Liffey South West	219
Kilkenny	93	Limerick	60
Laois	224	Tallaght	200
Leitrim	80	Waterford	476
Longford	112		
Mayo North	105		
Mayo South	168		
Meath	259		
Monaghan	133		
Mullingar	158		
Offaly	153		
Roscommon	164		
Sligo	160		
Tipperary North	168		
Tipperary South	355		
West Waterford	116		
Wexford	243		
Total	6496 (55%)	Total	5334 (45%)

Source – MABS National Development Limited

Drawing the final sample

Anonymised[19] data files (encrypted) were provided on request in respect of all clients who comprised the sampling frame i.e. that had a start date within 2006, but not within the previous six months. These anonymised data files were then divided into two groups or strata, an 'urban' stratum and a 'rural' stratum, and an appropriate number of clients or 'sampling units' (55% rural, 45% urban) drawn at random relative to the population size of each stratum, a process referred to as "*stratified random sampling*" (Frankfort-Nachmias and Nachmias, 1997, p.189). Contacts with the clients selected for interview were made by the client's money adviser for reasons of confidentiality. A guidance note was provided to each service that advisers were to read out to potential interviewees (see Appendix 4). Responses citing the clients' reference number, whether s/he was willing to be interviewed or not and the reason if not, were communicated on an ongoing basis by the relevant money advisers. Where clients indicated that they were willing to participate, at least in principle, they were asked by their money adviser if they would agree to their first name and phone number only, being passed on to myself for the making of all future contacts.

There were a large number of potential respondents (128 in all) identified from the anonymised data who did not participate in the survey for various reasons. These reasons are listed in Table 4.3 below. The response rate was therefore very low, 22% or 36 out of 164, which reflects the sensitivities encountered in attempting to carry out research on such a delicate subject. The process used provided a number of opportunities for clients to withdraw consent to interview. In one case a client indicated during the initial contact by the money adviser that they would be prepared to participate, but then had second thoughts and withdrew when attempts were made to schedule the interview. In three cases it was not possible to schedule a suitable time for interview (it appeared that the clients in question were having second thoughts, so no further contacts were made). In two additional cases, the client did not appear at the scheduled time and location for interview.

TABLE 4.3: REASONS GIVEN BY MABS SERVICES FOR NON-PARTICIPATION OF CLIENTS SELECTED FOR INTERVIEW SURVEY, 2007

Reasons	Mayo South	Bray	Finglas	Laois	Kerry	Total
Couldn't be contacted/no response	7	16	8	5	8	44
Refused/unwilling	2	5	9	4	4	24
Money Adviser felt not suitable[20]	3	8	4	3	13	31
No debts		1		5	9	15
Referred to another MABS				1		1
Money adviser not available			6			6
No show		1	1			2
Change of mind			1			1
Agreed but couldn't schedule		2	1			3
Dummy client					1	1
Totals	12	33	30	18	35	128

In addition to the stratification of clients into urban and rural pools, there were also other features of the MABS overall client base that were important in relation to the drawing of a reflective sample. These features were gender, income source, marital status, tenancy and age group. Data again supplied by MABS National Development Limited for 2006 made it possible to identify these features and to monitor the profile of the sample as it was building up relative to the overall MABS client profile. By the time the number of consenting clients had reached 36, two things were becoming clear. Firstly, the sample broadly matched the overall client base. Secondly, the goodwill and cooperation of the staff in each service was beginning to wane as a result of the significant number of contacts that they were being asked to make with clients, due to the large number of refusals and people who could not be contacted.

Thus a decision was taken to finalise the sample at that point. The final sample and its profile relative to the overall MABS client base are shown in the following Table.

TABLE 4.4: COMPARISON OF INTERVIEW SAMPLE AND OVERALL MABS CLIENT BASE, 2006

Feature	**Final Sample (36)** Percentage	**MABS Client Base (12,395)** Percentage
Urban	42	45
Rural	58	55
Female	61	64
Male	39	36
Social welfare income[21]	69	70
Families with children	69	57
Tenants	53	52
Purchaser/owner	31	26
Age 26-65	89	84

The Research Instrument

The approach best suited to the eliciting of information sought in the interviews is that of "semi-structured" interviewing (McQueen and Knussen, 2002; Kumar, 1996). The key feature of this approach is that although based on the use of specific questions or a 'script', there is some flexibility to diverge from the script if particular points or issues arise which are relevant. This method would thus provide an opportunity to seek information in relation to more personal issues such as the consequences and causes of financial difficulties, as well as in relation to specific impacts of MABS. It would also provide scope for respondents to elaborate about MABS or other issues to do with their experiences of over-indebtedness if they wished to do so. A questionnaire was designed as the research instrument most suited to the needs of this survey, and for the purpose of recording and collating the subsequent responses (Cresswell, 2003, p.157). An initial draft of the questionnaire was piloted in April 2007 with a MABS office that had not been selected as one of the five services[22]. Four clients of differing profiles were interviewed to test among other things the clarity of the questions and the order in which they were put. As a result of piloting, a number of amendments were made to the final questionnaire. A copy of the final questionnaire used is attached as Appendix 5.

The final design incorporates a number of features. An introduction was incorporated to set the tone for the interview, and to ensure that interviewees felt comfortable about the confidentiality and independence of the interview. The questionnaire was designed to flow and links between questions were used to try as far as possible to approximate a conversation. Care was taken in the ordering of questions. The more sensitive questions, around the causes and consequences of over-indebtedness, were placed towards the end to try and ensure that these questions were only put once a rapport had been established with the interviewee. Sensitive questions such as these were prefaced appropriately. The same questions were asked of each interviewee in the same way, and in the same order, to ensure that each respondent received the same stimuli and that responses would therefore be comparable. Bridges were built as far as possible between the questions used and those used in previous surveys. For example, questions used in previous surveys into over-indebtedness and money advice were used or adapted where appropriate (Caplovitz, 1974; Hinton and Berthoud, 1988; Mannion, 1992). Questions used in the LIIS and EU-SILC poverty surveys were incorporated in some cases again for the sake of comparison.[23] Where appropriate, questions were pre-coded to facilitate the subsequent analysis of responses to the various questions.

Fieldwork

The fieldwork was undertaken during May–July 2007. Interviews were arranged at times and places that suited the respondents and they lasted on average between twenty minutes and one hour. They took place in a variety of locations, such as clients' homes or cars, MABS offices, public houses, hotels, cafes and community resource centres. In two cases, for personal reasons, clients asked to be interviewed over the phone at a pre-arranged time. In such cases, consent forms were sent via the MABS office and interviews took place only when the relevant forms had been signed and returned. The use of a consent form is in line with the principle of "informed consent", a key component of the University's Ethics Procedure discussed earlier. Interviews only commenced once respondents had given their written consent in this way. The form contains information about such things as storage of data, withdrawal from the survey and complaints procedure: a copy of the consent form used is included in Appendix 6. The responses to the small number of open questions (which related to the more personal issues such as the causes and consequences of over-indebtedness) were transcribed as respondents spoke and the recorded responses were then read back to the client to make sure that these reflected what they meant, a process referred to as *respondent validation* (Bryman, 1992).

It was initially proposed to tape-record the interviews with respondents and to ask more probing questions to achieve a greater depth of response, but on balance respondent validation was considered to be more appropriate for three main reasons. Firstly, *confidentiality concerns*: all respondents were *ongoing* clients of the various Money Advice and Budgeting Services at the time of interview. Respondents' money advisers were asked their feelings about the proposed taping of interviews. The replies indicated considerable unease around the taping of interviews, the consensus being that asking clients to have their very personal stories, sensitivities and voices recorded may intrude on the crucial confidential relationship between service and client. Secondly, there was a reticence to ask clients to go through *in-depth* interviews, as all respondents had already told their stories in some depth, and in confidence, to these services, in many cases only after plucking up great courage to do so. There were fears that asking in-depth, probing questions may re-open wounds, lead to distress for the respondents and more work for the services. Finally, the main purpose of the interviews was, in any event, to ascertain the *long-term effectiveness* of MABS itself. Thus, it was decided to use a semi-structured, focused, questionnaire that kept sensitive questions to a minimum, mostly towards the end.

The completed questionnaires and signed consent forms were stored in a locked filing cabinet in the University. A thank you card was subsequently sent to each interview participant via the relevant MABS offices. A Microsoft Excel Database was created for the purpose of analysing the responses given to the various questions contained within the questionnaires.

4.7. CONCLUSION

The research agenda led to the identification of two key datasets, namely the LIIS and MABSIS, which were used to assess the extent, characteristics, severity and nature of over-indebtedness among those in poverty in Ireland. However, these datasets were inadequate in terms of addressing the research objectives relating to the causes and consequences of over-indebtedness among those in poverty and the impact of the MABS service on existing clients, and original research in the form of an interview survey was carried out to address these specific objectives. The chronology of the completed research as a whole and the methods used, are described in Table 4.5 below. The "staged" plan based on the use of a mixed methodology by and large worked out as hoped, although there was more of a gap than envisaged between stages one and two, and some overlap between stages two and three due primarily to data access issues. The grant of an Irish Research Council for the Humanities and Social Sciences (IRCHSS) Government of Ireland Research Scholarship from October 2005 to October 2007 enabled the research to be progressed more expediently than would otherwise have been the case. The research findings are now presented in the following chapters 5, 6, 7 and 8.

TABLE 4.5: CHRONOLOGY OF THE RESEARCH

Objective	Primary Data Source(s)	Research Method	Stage in Research	Type of Method
Extent	LIIS	Secondary data analysis	One (June 05-06)	Quantitative
Characteristics	LIIS	Secondary data analysis	One (June 05-06)	Quantitative
	MABSIS	Administrative data analysis	Two (Jan–July 07)	Quantitative
Severity	LIIS	Secondary data analysis	One (June 05-06)	Quantitative
	MABSIS	Administrative data analysis	Two (Jan–July 07)	Quantitative
Nature	MABSIS	Administrative data analysis	Two (Jan–July 07)	Quantitative
Causes	MABS Clients	Interview survey	Three (May-Dec 07)	Qualitative
Consequences	MABS Clients	Interview survey	Three (May-Dec 07)	Qualitative
Impact of MABS	MABS Clients	Interview survey	Three (May-Dec 07)	Qualitative

Notes

[1]This approach has been used for the purpose of evaluating the benefits of providing services in the UK to those described as NEET i.e. 'Not in Education, Employment or Training' (Williams, 2004, p.22).

[2] Mannion evaluated the impact of money advice on local authority tenants by matching an experimental group of 100 tenants in arrears who had received money advice, with a control group of 100 similar tenants in arrears who had not. He then analysed the payment performance of each group of tenants at three-month intervals over an eighteen month period. A similar method was used to compare experimental groups of retail group, bank and fuel account holders who had sought money advice, with control groups that had not.

[3] This was done as part of the interview survey carried out in the summer of 2007. Respondents were asked for specific details about how their situation at that stage compared with their situation before they sought advice from MABS, some six to twelve months previously.

[4] The data do however have three main limitations from an "over-indebtedness" perspective, which is understandable given that this was not the main purpose of the surveys. Firstly, the debt and arrears questions are not worded in such a way as to reflect persistency. Secondly, the arrears questions do not make a clear distinction between different types of credit. Thirdly and finally, as no details are gathered in relation to the amount of debt repayments, it was not possible to apply an alternative 'objective' method to the data based on income thresholds (Kempson, 2002; Department for Social Justice and Regeneration in Wales, 2005).

The 'income threshold' approach involves the specification of a threshold as regards an acceptable proportion of income that can realistically be devoted to credit repayments. Above this threshold, a household is considered over-indebted; below this threshold, it is not. The suggested threshold is the spending of more than 50% of gross income on consumer credit and mortgage repayments or alternatively, the spending of more than 25% of gross income on consumer credit excluding mortgage repayments (Kempson, 2002, p.39).

[5] Thus the method used is *secondary data analysis* (Babbie, 1990, p.31).

[6] These files or databases consisted of the following: - a 'household' file containing the majority of data relating to income, tenure and living circumstances; a 'register' file consisting of a profile of the various persons within the household such as their ages and relationships with one another; a 'link' file containing a record of every person who appears in a household included in the survey, to facilitate the matching of information relating specifically to individuals; finally, an 'individual' file containing a record of every individual over 16 who completed an individual questionnaire (Watson, 2004, p.11-12). The files relevant to this study were the 'household' file and the 'register' file, which contained important information on household composition. Cross-referencing between files was made possible by the use of a unique identifier or reference code for each household.

[7] The LIIS questionnaire also contained four *subjective* questions as to respondents' views and feelings about their housing costs, debts and ability to make ends meet. These questions, also listed in Appendix 1, were not used as indicators of over-indebtedness for the purpose of this study.

[8] A *chi square test* (Bryman and Cramer, 1995, p.159) or *goodness of fit test* (Hinton, 2001, p.242) was used to compare findings in respect of category variables at the 99% (or 0.01) confidence level. A *z-test* was applied for numerical or quantity variables using the same confidence level (Rowntree, 2004, p.32).

[9]"Risk" is defined in this context as the proportion of a particular group that are experiencing or reporting a particular problem (Nolan and Callan, 1994, p.63).

[10] Deprivation for the purposes of this study thus refers to the enforced lack of at least one of the following six items: new not second hand clothes; a meal with meat,

fish or chicken every second day; a warm, waterproof overcoat; two pairs of strong shoes; a roast or its equivalent once a week; having to go without heating during the last year through lack of money.

[11] This analysis was undertaken in 2005/6 hence it is based on the original deprivation index (at least one item out of eight), rather than on the revised deprivation index now used (at least two items out of eleven as described in Chapter 3, endnote 4).

[12] The 60% of median threshold for a single adult in 2001 was €161.28 (this equates to IR£127.02 at the time the last wave of the LIIS was undertaken, as the Euro was not introduced until January 2002: the survey results are therefore recorded in Irish pounds or punts).

[13] OIP households are those within the 2001 LIIS that are identified as being over-indebted and poor; OINP are those that are identified as over-indebted and "non-poor".

[14] Odds ratios have been consistently used by the ESRI as a means of calculating the chances of one group reporting poverty as compared to another (Watson *et al.,* 2005, p.120-121).

[15] Clients are regarded as "new" clients by MABS when they approach MABS for the first time. Clients are also considered "new" if they have approached MABS before but their case has been closed. Thus it may be that some of the "new" clients are returning clients. The majority however would be first-time clients.

[16] Both of these figures were also compared with the equivalised incomes of respondents to the interview survey of MABS clients.

[17] A service was categorised as 'urban' if it was located in one of Ireland's cities (Dublin, Cork, Galway, Limerick or Waterford) or within the Greater Dublin region

(Bray, Dun Laoghaire, Dundrum or Fingal). A service was categorised as 'rural' if it was located elsewhere.

[18] Although services are designed to cover segments of the population within a particular region or area, in practice for reasons of confidentiality or convenience, clients sometimes opt to approach a service other than the most local one: service boundaries are therefore not set in stone.

[19] A reference number was provided for each client and a profile in relation to their characteristics and creditors. No names and addresses were however provided.

[20] These were clients whom the money advisers felt were particularly vulnerable and who would find it difficult to cooperate in a study such as this.

[21] Clients with a social welfare income as their first or second income source.

[22] Ballymun MABS in Dublin.

[23] Specifically, questions on income source and respondents' ability to save, make ends meet and cope with an unexpected expense.

Chapter 5

THE RELATIONSHIP BETWEEN OVER-INDEBTEDNESS AND POVERTY IN IRELAND: EXTENT AND CHARACTERISTICS

5.1. INTRODUCTION

This chapter deals with the first issue or research question: what is the connection between over-indebtedness and poverty? Where possible, findings from a number of data sources are presented, both to corroborate and to add value to these findings (Ritchie and Lewis, 2003). Comparisons are also made with the findings of other national and international research where relevant. The findings are based on analysis of the various datasets discussed in the previous chapter, in particular the Living in Ireland Surveys (LIIS) and MABS computerised client records (MABSIS). Responses from the interview survey of MABS clients are used where appropriate to illustrate these findings.

5.2. EXTENT AND INCIDENCE OF OVER-INDEBTEDNESS

Extent of over-indebtedness among the general household population

How extensive is over-indebtedness in Ireland? We have information from five sources. These are the Living in Ireland Surveys; the Irish Mortgage Council; the Irish National Survey of Housing Quality; the EU Survey on Income and Living Conditions; and finally, the Irish League of Credit Unions.

Six indicators of over-indebtedness, described in the previous chapter, were used to determine the number of over-indebted households from those who took part in the Living in Ireland Surveys. In the LIIS survey of 2,865 households in 2001, 184 households, 6.4%, were over-indebted. Applying the relevant household weighting of the ESRI, it is estimated that 7.5% of private households in Ireland were over-indebted in 2001, which comes to a total of about 97,000.

Data provided by the Irish Mortgage Council on default among customers of its member companies up to and including 2001, indicate that the level of default by borrowers was around a similar level, as indicated by Table 5.1 below. IMC member agencies, though they do not include the main clearing banks, provided the majority of Irish mortgages at that time: 7.2% of members' mortgage accounts were in arrears at the end of 2001.

TABLE 5.1: EXTENT OF MORTGAGE ARREARS AMONG IRISH MORTGAGE COUNCIL (IMC) MEMBER COMPANIES, 1995-2001

Year	Percentage of accounts in arrears at year end	Arrears as a percentage of total mortgage portfolio
2001	7.2	0.25
2000	7.0	0.25
1999	7.5	0.29
1998	10.1	0.41
1997	11.8	0.54
1996	13.7	0.67
1995	15.0	0.77

Source: Irish Mortgage Council, 2004

A major national survey into housing quality conducted for the Department of Environment, Heritage and Local Government in 2001-2002 produced similar results (Watson and Williams, 2003). This was a survey of over 40,000 householders on the nature, characteristics and problems associated with their dwellings. As part of the survey, information was gathered on arrears on rent, mortgage and utility bills, and 9%

of households reported that they had been in arrears with these payments at some time during the previous 12 months (p.40).

More recent research corroborates these findings. The EU-SILC survey by the CSO in 2006 found that 8.8% of the population experienced debt problems arising from ordinary living expenses that year (Central Statistics Office, 2007, p.9). This figure is however based solely on the responses to the "debt indicator".[1] Data on credit unions are similar. The amount of the total loan portfolio of member credit unions that was in arrears in 2007 was 6%, a drop of 2% from 2004 when the figure stood at almost 8% (Irish League of Credit Unions, 2008, p.83).

One can conclude, therefore, from the evidence of the five sources of data above that over-indebtedness affects 6 to 10 percent of private Irish households, although recent evidence suggests this figure to be on the rise (see Chapter 9).

Extent of over-indebtedness among households in poverty in Ireland

Are poor people more likely to be in debt? As described in the previous chapter, the 184 households comprising the over-indebted sample in the 2001 LIIS were divided into those below the poverty line (OIP) and those above (OINP), as shown in Table 5.2. The findings indicate that 39% of "over-indebted" households were below the poverty line whereas nearly 61% of households were above it. This figure was strongly corroborated by subsequent analysis of the equivalised incomes of over-indebted MABS clients selected at random for the purpose of the interview survey in 2007, which found that 39% of these clients were below the 60% median poverty line.[2]

Are poorer households more likely to be over-indebted than households generally? The percentage of over-indebted households in poverty was compared to the proportion of the general household population in poverty that same year i.e. 2001. The respective figures are included in Table 5.2 below. The total proportion of persons living in households that were at risk of poverty[3] or "poor" was estimated to be 21.9% in 2001

(Whelan *et al*., 2003, p.12). Thus there were a considerably higher percentage of "poor" households (over 39%) in the over-indebted sample than in the general population at that point. To assess the significance of this difference, "odds ratios" were used to determine the likelihood of a poor household being over-indebted as compared to a non-poor one. A poor household was three times more likely to be over-indebted than a non-poor household. This strongly suggests that there is a relationship between over-indebtedness and poverty in Ireland. By applying relevant household weights to the OIP group, we can conclude that around 3.1% of all households, around 38,000 households, were both over-indebted and in poverty in 2001.

TABLE 5.2: EXTENT OF POVERTY: ALL HOUSEHOLDS AND HOUSEHOLDS EXPERIENCING OVER-INDEBTEDNESS, 2001 (n =184)

	All households	**Over-indebted households**	
	%	%	(n)
At risk of poverty[4]	21.9	39.1	(72)
In consistent poverty	4.1	15.2	(28)

Source: Living in Ireland Survey, 2001

Consistent poverty and over-indebtedness

These data also strongly suggest that there is a relationship between consistent poverty and over-indebtedness (Table 5.2). Just over 4% of the general population were in consistent poverty in 2001. These were households that were in receipt of income below 60% of the median and also reported at least one indicator of basic deprivation (Whelan *et al.,* 2003, p.39). The corresponding figure for the over-indebted sample was just over 15%. Thus an over-indebted household was over 3 times more likely to be in consistent poverty than a private household in general.

Fuel poverty and over-indebtedness

Is fuel poverty in particular associated with over-indebtedness? From the analysis of data in MABSIS records (namely the financial statements of 2006 MABS clients), the answer appears to be "yes". The amounts being spent by MABS clients on electricity, gas and other fuel costs were ascertained and a household deemed to be experiencing fuel poverty if it was spending more than ten per cent of its total recorded household net income on electricity, gas and/or solid fuel. Once again a strong relationship between over-indebtedness and poverty is indicated by this analysis. Over 40% of clients were found to be affected by fuel poverty thus defined, as shown in Table 5.3 below. This figure is over twice as high as that estimated for Ireland as a whole (Sustainable Energy Ireland, 2003, p.3)[5] and would be even higher if housing costs were deducted before carrying out the calculation. As might be expected, it was those on lower incomes who appeared to be most affected by fuel poverty. Over half of clients in receipt of social welfare incomes were found to be spending more than ten per cent of their net income on fuel, compared to around 1 in 7 of those in receipt of a wage as their first income source.

TABLE 5.3: PERCENTAGE OF MABS CLIENTS EXPERIENCING FUEL POVERTY IN COMPARISON WITH THE GENERAL POPULATION, 2006 (n =1430)

Group	**Experienced fuel poverty** %
General population	17.8
MABS Clients (n=1430)	40.5
MABS Clients -Social welfare first income (n=912)	55.7
MABS Clients -Wage first income (n=518)	13.7

Source: MABSIS/Sustainable Energy Ireland

5.3. INCOME AND ASSETS

The findings presented in this thesis in relation to resources strongly indicate that there is a relationship between over-indebtedness and a real lack of resources. In other words, generally speaking, over-indebtedness does not arise where resources are sufficient but are mismanaged. There are three distinct but related factors that have a bearing on adequacy. Firstly, *the amounts* of income that over-indebted households receive in comparison to the rest of the population; secondly, the *source(s)* of that income; and finally, *the availability or not of other resources* by way of savings or assets.

Equivalised income

To explore these issues, income data from three groups of households were compared both with one other, and with corresponding data for the population as a whole. The three groups of households were: (i) The "over-indebted sample" of 184 households identified from the 2001 LIIS (ii) The "financial statement sample" of 1430 clients identified from MABSIS records (iii) The "interview sample", the 36 clients interviewed. The median equivalised income figures were calculated for each of these three groups and the respective figures are shown in Table 5.4 below.

TABLE 5.4: AVERAGE WEEKLY EQUIVALENT INCOME COMPARISON: OVER-INDEBTED SAMPLE, MABS CLIENTS AND THE GENERAL POPULATION, 2001 AND 2006

2001	**Median equivalised income (€)**
General Population	268.80
Over–indebted sample (n=184)	185.80
2006/7	
General population	337.50
Financial statement sample (n=1430)	241.03
Interview sample (n=36)	237.20

Source: Living in Ireland Survey, 2001; MABSIS; Interview Survey, 2007; EU-SILC 2006

The median income figures for the over-indebted samples were then compared in each case with the respective figures for the population as a whole at the relative times.[6] The findings indicate that the net equivalised income of the three groups of households was around 30% lower in each case than the equivalised income of households in general.[7]

The inadequacy of the weekly income came up time and again in the interview survey of MABS clients. Of the 36 clients interviewed, 28 (78%) said their income was not enough to live on. The quotations below illustrate the responses in relation to the inadequacy of current income. What was striking about the interviews was people's apparent acceptance of their situation: only three respondents expressed anger about the inadequacy of their income. In most cases, respondents appeared to be trying to manage as best they could on incomes that in many cases were clearly inadequate for their needs Only five respondents gave an unequivocal "yes" to the question of whether their income was adequate. It was noticeable that they all lived in households with an equivalised (individualised) income of €400 per week, nearly €60 per week in excess of the national median, and more than twice the social welfare safety net figure for a single person[8]. A number of respondents made reference to how income inadequacy affected them in terms of having to borrow, to struggle to make ends meet and to make cutbacks:

> *I often have to ask friends for a loan at the end of the week: I did the same for them when I was in work* (Respondent 7: Male, single, on social welfare).

> *I'm always broke the day before you're due to get paid again* (Respondent 36: Female, couple with one child, waged).

> *We might be going grand for a while but sometimes we keep treading barely above the water [...] we basically have just enough to live off and pay our ESB, rent* (Respondent 35: Male, couple no children, on social welfare).

We're struggling to pay MABS, have been for a few months now [...] not having enough and two kids (Respondent 18: Male, married with children, on social welfare).

You can't give your kids anything [...] can't spend anything on yourself (Respondent 25: Female, lone parent, on social welfare).

Income source

Analysis of LIIS (2001) data revealed that there is a strong relationship between over-indebtedness and the main income source of the household (Table 5.5). The "over-indebted sample" was found to contain significantly more households than would have been expected where social welfare was the main source of income (chi-square = 29.4; p=0.01). The expected number of households in each income category was calculated on the basis of the weighted proportions of households in each income category in the 2001 LIIS as a whole.[9] The income category most at risk of over-indebtedness was the group of households in receipt of social welfare as their main income source.

TABLE 5.5: OBSERVED FREQUENCIES, INCIDENCE AND RISK OF OVER-INDEBTEDNESS IN COMPARISON TO THE GENERAL POPULATION BY MAIN HOUSEHOLD INCOME SOURCE: OVER-INDEBTED SAMPLE, 2001 (n =184)

Main income source	Observed frequency	Incidence	Risk of reporting over-indebtedness
Wage/salary	93	50.5	6.7
Self- employment	7	3.8	4.0
Farming/other	8	4.4	8.2
Private pension/investments	1	0.5	0.5
Social welfare	75	40.8	11.7
Totals	184	100	N/a

Source: Living in Ireland Survey, 2001

Analysis of the MABSIS sample of 4,212 households also contains evidence of a relationship between over-indebtedness and income source. The MABSIS database contains details of each client's "first income source". Where a client, partner or other adult living in the household has income from another source, this is categorised as a "secondary" source of income. Table 5.6 below shows the first and second income source of every new client who approached MABS in 2006. Over half of all clients received some form of social welfare payment as their first source of income, and almost 68% of clients in all were in receipt of some form of social welfare payment. Further, nearly 70% of clients had only one source of income.

TABLE 5.6: PERCENTAGES OF MABS CLIENTS BY FIRST AND SECOND INCOME SOURCE, 2006 (n =4212)

Income source	**First income source** %	**Second income source** %
Social welfare	54.3	13.6
Wage/employment scheme/FAS	31.8	9.2
None, other, maintenance, self-employed	13.9	8.2
None	0	69.0
Totals	100	100

Source: MABSIS

Income source, over-indebtedness and the poverty line

Are over-indebted households below the poverty line more likely to be in receipt of social welfare payments? As shown in Table 5.7 below, the answer to this question is clearly "yes". Nearly three quarters of "poor" over-indebted households (OIP) were in receipt of social welfare as their main source of income. In comparison, only a fifth of "non-poor" over-indebted households (OINP) relied on social welfare. The figures were reversed in terms of wages or salaries. In this case, over 70% of OINP households were reliant on a wage or salary in comparison to only a fifth of OIP households. Thus again, a relationship between over-indebtedness and lack of resources is evident.

TABLE 5.7: PERCENTAGES OF OVER-INDEBTED SAMPLE RELATIVE TO THE (60% MEDIAN) POVERTY LINE BY MAIN INCOME SOURCE, 2001 (n=184)

Main source of Income	**Households below poverty line** (n=72)		**Households above poverty line** (n=112)	
	%	(n)	%	(n)
Social welfare	72.2	(52)	20.5	(23)
Wage or salary	18.0	(13)	71.4	(80)
Self-employment	4.2	(3)	3.6	(4)
Farming/other	5.6	(4)	3.6	(4)
Private pension/investments	0.0	(0)	0.9	(1)
Total	100	(72)	100	(112)

Source: Living in Ireland Survey, 2001

Savings

Another aspect of a household's resources, often neglected in discussions about over-indebtedness, is that of its "realisable assets" which is part of the definition of over-indebtedness used for this study (Chapter 1). The possession of savings is a key part of a household's assets. The question of interest in this study is whether over-indebted households are different from households in general in relation to savings. A limitation of the LIIS data in this regard is that it does not seek details of the amount of savings people have. It does however contain details of responses to a question regarding whether the household is able to save some of its income on a regular basis.[10] Sixty six percent of those who responded to this question (116 respondents: there were 9 non-respondents) said they were not able to save regularly. This compares to a figure of 29.6% for the population as a whole in 2001. Again as might be expected, an inability to save is more evident among the OIP households that make up the over-indebted sample in comparison with their OINP counterparts. As illustrated by Table 5.8, three quarters of OIP households reported an inability to save compared to just over half of OINP households.

TABLE 5.8: PERCENTAGES OF OVER-INDEBTED SAMPLE AND ABILITY TO SAVE RELATIVE TO THE (60% MEDIAN) POVERTY LINE, 2001 (n=184)

Ability to save some income regularly	**Households below poverty line** (n=72)		**Households above poverty line** (n=112)	
	%	(n)	%	(n)
Able to save	18.0	(13)	41.1	(46)
Unable to save	75.0	(54)	55.3	(62)
No response	6.9	(5)	3.6	(4)
Total	100	(72)	100	(112)

Source: Living in Ireland Survey, 2001

The interview survey with MABS clients also highlighted the issue of lack of savings. Two thirds of respondents (24 out of 36) said that they had no savings to draw on. Respondents were also asked whether they could afford an unexpected expense of €1000 without borrowing. In this instance, three quarters of respondents (27 out of 36) reported that they could not afford such an expense. This suggests that in some cases where MABS clients reported that they did have savings, these were fairly limited. The latter question was based on an almost identical question that is now posed as part of the EU-SILC surveys.[11] The percentage of the population as a whole unable to afford such an expense in 2006 is 39.8% (Central Statistics Office, 2007). Once again, there is a strong relationship between over-indebted households and a general lack of resources. The non-availability of a "buffer" in the form of an amount of savings put aside to cope with sudden demands or expenses was evident in some of the responses to the questionnaire.

I've enough to get by, I couldn't afford a wardrobe for my daughter's clothes though (Respondent 13: Female, lone parent, on employment scheme).

Different weeks it varies [...] some weeks something will turn up and you're scrimping around [...] some weeks the kids need to bring things into school [...] it hits you sometimes and knocks you for six (Respondent 21: Female, married with children, waged).

Our finances work from week to week, it's the big things that happen that leave us in a pickle (Respondent 26: Male, married with children, on social welfare).

5.4. CHARACTERISTICS OF OVER-INDEBTED HOUSEHOLDS

Housing Tenure

The issue of resources in the form of assets also arises in relation to housing tenure status. A house is clearly a significant asset given the rises in Irish house prices over recent years, although house values are now on the decline. In the context of over-indebtedness, tenure status is particularly important: home-ownership has been found to be the gateway to a range of credit options (Bridges, Disney and Henley, 2006). Thus those who do not have such an asset and associated collateral may find themselves excluded from many of the traditionally cheaper loan products. The question of interest in this study is whether there is a relationship between over-indebtedness and tenure status, particularly for those in poverty.

Analysis of the LIIS data suggests that there is a strong relationship between over-indebtedness and housing tenure status. Table 5.9 below indicates the tenure types of the over-indebted sample in comparison to the population. There were over twice as many tenants, and five times more local authority tenants, in the over-indebted sample as would be expected relative to the population at large. There were also over twice as many local authority purchasers in the sample as would be expected. These differences were highly significant (chi-square = 83.29; p=0.01). Local authority tenants were also found to be the tenure group most at risk of over-indebtedness followed by local authority purchasers/owners. Households purchasing their own home, or owning it outright, were those least likely to experience over-indebtedness.

TABLE 5.9: PERCENTAGES OF OVER-INDEBTED SAMPLE AND RISK OF OVER-INDEBTEDNESS BY TENURE TYPE IN COMPARISON TO THE GENERAL POPULATION, 2001 AND 2002 (n =184)

Tenure Type	**General population** %	**Over-indebted sample** %	(n)	**Risk of over-indebtedness** %
Owner/purchaser private	74.0	41.8	(77)	4.3
Owner/purchaser –local authority	6.5	14.7	(27)	31.9
Local authority tenant /rent-free	7.5	38.6	(71)	45.8
Private tenant	12.0	4.9	(9)	3.4
Totals	100	100	(184)	N/a

Source: Living in Ireland Survey, 2001 / Census 2002

The relationship between over-indebtedness and tenure type is particularly strong in the case of those households that are below the poverty line. Table 5.10 below clearly illustrates the distinction in tenure type between the two sets of households that comprise the over-indebted sample, namely OIP and OINP households. The proportion of households above the poverty line that are private homeowners or purchasers is twice that of households below the poverty line. Tenancy on the other hand is considerably more prevalent below the poverty line. This indicates that "poor" over-indebted households are more likely to lack both a sizeable asset in the form of the family home and the wider range of credit options that goes with it.

TABLE 5.10: PERCENTAGES OF OVER-INDEBTED SAMPLE RELATIVE TO THE (60% MEDIAN) POVERTY LINE BY TENURE TYPE, 2001 (n=184)

Tenure Type	**Households below poverty line** (n=72)		**Households above poverty line** (n=112)	
	%	(n)	%	(n)
Owner/purchaser: private	26.4	(19)	51.8	(58)
Owner/purchaser: local authority	16.7	(12)	13.4	(15)
Tenant /rent-free	56.9	(41)	34.8	(39)
Totals	100	(72)	100	(112)

Source: Living in Ireland Survey, 2001

The association between tenancy status and over-indebtedness among the poor is corroborated by analysis of the MABSIS data. Because the headings used by MABS are somewhat different to those used in the LIIS, it is not possible to make direct comparisons. The MABSIS categories used to record tenure type are combined in some instances in Table 5.11 to facilitate comparison with the LIIS data at least to some degree. Five categories are used, as follows:

> '*Owner-purchaser private',* comprises the MABSIS categories "mortgage" and "owned";
>
> *'Owner-purchaser: local authority',* comprises the MABSIS categories "shared ownership" and "tenant purchase";
>
> '*Local authority tenant*', comprises the MABSIS categories "rented LA", "social housing" and "sheltered housing";
>
> '*Private tenant*', comprises the MABSIS category "rented PR";
>
> *'Other tenure',* comprises the MABSIS categories "other", "homeless", "hostel", "residential" and "living with parents.

These data appear to confirm the relationship between over-indebtedness and tenancy. The proportion of MABS clients (nearly 54%) who were tenants was twice the proportion that were owner/purchasers (that there appear to be as many private as public tenants using MABS services, is unexpected on the basis of the LIIS analysis and suggests the need for further research). There also appears to be a much smaller proportion of local authority purchasers/owners than would be expected from the LIIS analysis. The reason for this appears to be that many such purchasers and owners are being recorded within the "mortgage" or "owned" categories.

TABLE 5.11: PERCENTAGES OF MABS CLIENTS AND TENURE TYPE BY FIRST INCOME SOURCE, 2006 (n =4212)

Tenure Type	**Social welfare only** %	**Social welfare plus other** %	**Wage only** %	**Wage plus other** %	**All clients** %
Owner/purchaser-private	17.3	23.3	35.4	53.1	26.3
Owner/purchaser –local authority	0.8	0.6	0.2	0.4	1.2
Local authority tenant	33.0	35.3	12.0	18.2	25.6
Private tenant	33.9	32.5	28.5	18.7	28.1
Other tenure	15.0	8.3	23.9	9.6	18.8
Totals	100	100	100	100	100

Source: MABSIS

What is more relevant in the context of this research is whether different types of tenure are associated with different levels of income of MABS clients. As discussed in the previous chapter, a "working" distinction was made for the purpose of analysis between four groups of MABS clients on the basis that, in general these groups correspond to gradations of income groups.[12] The results of making such a distinction in relation to tenure type are also shown in Table 5.11 above. Over two thirds of MABS clients in receipt of a social welfare payment were tenants, compared to considerably less than half of "waged" clients. Thus, as is the case with the results of the LIIS analysis, the MABSIS data also strongly suggest that tenancy is associated with over-indebtedness among those on lower incomes.

Household size and composition

In relation to household size and composition, the findings indicate that there is a relationship between over-indebtedness and the size and composition of households, but suggest that these relationships do not relate specifically to households in poverty. The average size of household in the over-indebted sample, namely 3.93 persons, is somewhat larger than that for the average household within the population as a whole, namely 2.94 persons according to the 2002 Census (Central Statistics Office 2003, p.19). This difference was highly significant (p=0.01) and strongly indicative of a relationship between household size and over-indebtedness in Ireland. The poverty line however made little difference in terms of household size, except that households above the poverty line (OINP households) were found on average to be slightly larger than those below (OIP households).

The next stage of the analysis focused on the composition of households in the over-indebted sample compared to the general population. Certain categories were again combined to ensure that the expected frequency in each was at least 5.[13] As with household size, the findings suggested that there is a significant relationship between over-indebtedness in Ireland and the composition of households (chi-square = 62.79; p=0.01). This relationship appeared to relate to the presence of children in over-indebted "lone parent" and "couple with children" households, as shown in Table 5.12 below. The relationship between over-indebtedness and the presence of children in households was further indicated by a calculation of the risk of each household type reporting over-indebtedness: lone parent households were found to be at the greatest risk followed by couples with children.

TABLE 5.12: OBSERVED FREQUENCIES, INCIDENCE AND RISK OF OVER-INDEBTEDNESS BY HOUSEHOLD COMPOSITION IN COMPARISON TO THE GENERAL POPULATION: OVER-INDEBTED SAMPLE, 2001 (n =184)

Household type	**Observed frequency**	**Incidence**	**Risk of over-indebtedness**
	(n)	%	%
One person	20	10.9	3.8
Couple	12	6.5	2.9
Couple with children	101	54.9	10.9
Couple with other persons	1	0.5	2.8
Couple with children and other persons	4	2.2	4.8
Lone parent with children	33	17.9	13.2
Lone parent with children and other persons	9	4.9	24.5
2 or more family units/non-family households	4	2.2	2.1
Totals	184	100	N/a

Source: Living in Ireland Survey, 2001 / Census 2002

This raises the question of whether the evidence suggests that household composition (i.e. the presence of children in the household) is more of a factor above the poverty line than below it, as was found to be the case with household size. Again the over-indebted sample was divided into two groups, OIP and OINP, for the purpose of comparison (Table 5.13). There were differences between the two groups of households but these differences were not at all as pronounced as the characteristics discussed to date in this chapter, and certainly not statistically significant. The overall conclusion is that there is no evidence of a relationship between poverty and the composition or size of over-indebted households. The figures do however suggest that there may be an issue worthy of further research, namely the relationship between over-indebtedness, poverty and households *without* children, particularly those consisting of only one person; the proportion of such households within the OIP group was almost four times that within the OINP group.

TABLE 5.13: PERCENTAGES OF OVER-INDEBTED SAMPLE RELATIVE TO THE (60% MEDIAN) POVERTY LINE BY HOUSEHOLD COMPOSITION, 2001 (n=184)

Household type	**Households below poverty line** (n=72) % (n)	**Households above poverty line** (n=112) % (n)
One person	19.4 (14)	5.3 (6)
Couple	9.7 (7)	4.4 (5)
Couple with children (and other persons)	54.2 (39)	59.9 (67)
Lone parent with children (and other persons)	16.7 (12)	26.8 (30)
2 or more family units and non-family households	0	3.6 (4)
Total	100 (72)	100 (112)

Source: Living in Ireland Survey, 2001

As with the other characteristics examined thus far, the MABSIS data provided an opportunity to test these findings. Again direct comparisons of patterns in the two databases are difficult because different categories are used within MABSIS as compared to those used in the LIIS and Census data. For the purpose of this analysis, four categories are used. These categories are:

> *'Single'* (comprising the MABSIS categories "single", "widowed", "separated" and "divorced");
> *'Couple no children'* (comprising the MABSIS categories "couple" and "married");
> *'Couple with children'* (comprising the MABSIS categories "married with children" and "couples with children");
> *'Lone parent'* (comprising the MABSIS categories "divorced with children", "separated with children", "single with children" and "widowed with children").

The findings of this analysis are shown in Table 5.14 below. The MABSIS data appear to corroborate the findings of the LIIS analysis: lone parent households were found to be the most frequent users of MABS services and to be the group of MABS clients most likely to be in receipt of a social welfare payment. Single people were the second largest user group of MABS services, again suggesting that the relationship between over-indebtedness and households *without* children is one worthy of more exploration. The MABSIS data also suggest that clients categorised as "couples with children" are the group most likely to be in receipt of higher (wage plus other) incomes. This appears to confirm the LIIS finding that over-indebted households consisting of couples with children are more likely to be found *above* than below the poverty line.

TABLE 5.14: PERCENTAGES OF MABS CLIENTS AND HOUSEHOLD COMPOSITION BY FIRST INCOME SOURCE, 2006 (n = 4212)

Household type	Social welfare only	Social welfare plus other	Wage only	Wage plus other	All clients
	%	%	%	%	%
Single	37.3	14.4	46.5	8.7	29.7
Couple no children	6.6	9.6	12.2	16.0	12.6
Couple with children	14.6	23.9	22.1	50.2	20.5
Lone parents	40.7	51.5	18.3	24.8	36.8
No record	0.8	0.6	0.9	0.3	0.4
Totals	100	100	100	100	100

Source: MABSIS

Again, although the picture is far from clear, there is no conclusive evidence of a relationship between household composition and over-indebtedness among those in poverty. Previous research has identified correlations between lone parent households and over-indebtedness (Berthoud and Kempson, 1992), and between lone parent households and poverty in Ireland (Whelan *et al.,* 2003; Central Statistics Office, 2007). However the findings of this study suggest that the relationship between over-indebtedness, poverty and lone parent households is less clear-cut than might be expected. For example, the majority of lone parent households in the over-indebted sample who were *above* the poverty line were below the median income level. The indication therefore is that the "benefits" of above poverty-line incomes are effectively being wiped out for some reason. The most likely explanation has to do with the costs of childcare and other aspects of childrearing.

There is a significant policy focus on "child poverty" in Ireland at present. The danger is that such a focus may ignore children, such as those in the lone parent households in the over-indebted sample, who would not be officially categorised as being in poverty. The 'above poverty but below average income' group are clearly a group worthy of further study in their own right.

To conclude, this study's findings in relation to household composition suggest that it is a factor related to over-indebtedness, particularly in lone parent households: it is not, however, specifically related to poverty except perhaps to some extent in the case of single person households.

Gender

The available data are of limited use in relation to determining whether there is a relationship between gender and over-indebtedness and in particular, whether such a relationship exists as regards those in poverty. More women than men use MABS services. Administrative data, provided by the MABS Unit in the Department of Social and Family Affairs for the first two quarters of 2005, indicated that 61% of MABS users were female compared to 39% who were male. A similar ratio appears from analysis of the MABSIS data for 2006: 64% of clients were female as compared with 36% male. These data suggest one of two things: either that where a problem of over-indebtedness arises in Ireland, women are more likely to seek help about it than men; alternatively, more women than men have problems of over-indebtedness. When the relationship between gender and the first income source of MABS clients is examined, there is some indication that gender may be a significant factor in relation to over-indebtedness among those on lower incomes. As Table 5.15 indicates, MABS clients in receipt of a social welfare payment as their first income source are more likely to be female than male. There are however indications from the Table that there are a group of males in receipt of a wage only who may be more prone to getting into debt. This may be linked to the earlier finding (Table 5.14) that a larger proportion of the waged group of MABS clients are single. The extent of over-indebtedness among young, single, working men is an issue that was apparent from the interview survey and may be an aspect for further study.

TABLE 5.15: PERCENTAGES OF MABS CLIENTS AND GENDER BY FIRST INCOME SOURCE, 2006 (n = 4212)

	Social welfare only %	**Social welfare plus other** %	**Wage only** %	**Wage plus other** %	**All clients** %
Female	63.5	76.4	52.4	67.2	64.0
Male	36.5	23.6	47.6	32.8	36.0
Totals	100	100	100	100	100

Source: MABSIS

The relationship between over-indebtedness and gender is also an area worthy of further research. The interview survey revealed particular issues that seem to relate to males. In three interviews, male respondents made reference to casualness in their early dealings with money as young adults. They recognised that a lax attitude to money had led them into difficulty: -

> *I was living to the max* (Respondent 23: Male, single, self-employed).

> *I'm fortunate because it happened when I was young, you know how to deal with money in later years* (Respondent 24: Male, single, waged).

> *I just took things as they come, easy come easy go […] Money meant nothing to me, I'm more serious about money now, reality kicked in* (Respondent 29: Male, single, on employment scheme).

In two interviews, reference was made by female respondents to the reluctance of their male partners to seek help, or even claim social welfare rights to which they were entitled, for reasons of pride.

> *He didn't want to ask for help [...] he was too proud* (Respondent 14: Female, married with children, on social welfare).

> *He was on nothing but he did not want money from the Government* (Respondent 15: Female, married with children, waged).

There is also some evidence of what has been referred to as "sexually transmitted debt" or situations where a woman is left to deal with debts taken on by a partner or husband who subsequently deserts her (Conroy and O'Leary, 2005).

> *He told me he was paying the bills but he wasn't* (Respondent 4: Female, lone parent, on social welfare).

> *When my husband left, he left debts in joint names [...] I took them on myself* (Respondent 12: Female, lone parent, on social welfare).

> *My husband took control, then he left me* (Respondent 32: Female, lone parent, on social welfare).

Age

As was the case with gender, the available data are of limited use in relation to determining whether there is a relationship between age and over-indebtedness, and in particular whether such a relationship exists for those in poverty. In terms of the LIIS, the average date of birth of the head of each household or "Household Reference Person"[14] (HRP) in the over-indebted sample was found to be 45.39. The poverty line in this instance appeared to make little difference: the average age for OIP household heads was 45.70 compared to 45.22 for OINP household heads. This suggests that age may not be a factor in relation to over-indebtedness among those in poverty.

The MABSIS data appear to suggest that over-indebtedness is more likely to occur at an earlier age than that suggested by the LIIS, given that people in their late 20s or 30s are the group most likely to use MABS services, as Table 5.16 below shows. When age is related to income source, little noticeable differences occur across the four groups, although those in the "26-40" age bracket appear more likely to be waged than in receipt of social welfare payments. One can conclude, albeit tentatively, that clients on lower social welfare-based incomes are slightly more likely to be younger (in the 19-25 age group) or older (in the over 65 age group) than average. More research however is needed to identify whether there is a relationship between age and over-indebtedness, particularly among those on low incomes.

TABLE 5.16: PERCENTAGES OF MABS CLIENTS AND AGE GROUP BY FIRST INCOME SOURCE, 2006 (n = 4212)

Age group	**Social welfare only** %	**Social welfare plus other** %	**Wage only** %	**Wage plus other** %	**All clients** %
Age 15-18	0.3	0.4	0.5	0	0.4
Age 19-25	16.5	13.1	13.4	8.0	13.7
Age 26-40	46.6	50.2	58.5	60.2	52.2
Age 41-65	32.5	33.8	27.4	31.7	31.8
Over 65	4.1	2.5	0.2	0.1	1.9
Totals	100	100	100	100	100

Source: MABSIS

Geographical location

The final piece of analysis undertaken on the characteristics of over-indebtedness in Ireland was in relation to geographical location. Is the distribution of over-indebted households, as between population centres of different size, the same as for the population at large? The same categories of location size are used to categorise both the LIIS and Census (2002) data. These categories are as follows (population sizes are given where relevant): open country; village, 200-1,499; town, 1,500-2,999; town, 3,000-4,999; town, 5,000-9,999; town, 10,000 or more; Cork City; Limerick City; Galway City; Waterford City; Greater Dublin (city and county, including Dun Laoghaire). As before, it was necessary to combine some of these categories for the sake of comparison where an expected frequency was less than 5. The results are presented in Table 5.17 below.

TABLE 5.17: OBSERVED FREQUENCIES AND INCIDENCE OF OVER-INDEBTEDNESS BY SIZE OF LOCATION IN COMPARISON TO THE GENERAL POPULATION: OVER-INDEBTED SAMPLE, 2001 (n =184)

Location size	**Observed frequency**	**Incidence**	**Population**
	(n)	%	%
Open country and villages	67	36.4	40.2
Town (1500-4999)	14	7.6	5.4
Town (5000-9999)	19	10.3	6.0
Town (10,000 or more)	29	15.8	12.5
Cork, Limerick, Galway and Waterford Cities	20	10.9	10.3
Greater Dublin (city/ county)	35	19.0	25.6
Total	184	100	100

Source: Living in Ireland Survey, 2001 / Census 2002

The value calculated for chi-square in this instance (12.63) was found to be not significant at the 0.01 confidence level[15]: there is no significant relationship between location size and over-indebtedness in Ireland. There is some evidence from the results that over-indebtedness may be more of a factor in Irish towns and less of a factor in rural areas and in the Greater Dublin region. This corresponds to the results of a national housing survey, which found that the highest percentages of households reporting housing and utility arrears were located in towns of more than 5,000 people (Watson and Williams, 2003, p.40).

5.5. CONCLUSION

In this chapter, the first set of findings of the research into the extent and characteristics of over-indebted households in Ireland in general, and among those in poverty in particular, has been presented. The findings strongly suggest that there is a relationship between over-indebtedness and poverty in Ireland. Firstly, households in poverty are more likely to experience over-indebtedness than households not in poverty. Secondly, over-indebted households are significantly more likely to be consistently poor, and to be experiencing fuel poverty, than the general household population as a whole. Thirdly, over-indebted households have significantly lower incomes and assets than the general population as a whole, and, particularly in the case of those in poverty, to be significantly more likely to be dependent on a social welfare payment. Fourthly, over-indebted households, and particularly those in poverty, were found to be significantly more likely to be tenant households than home purchasers or owners.

There is no conclusive evidence that household composition is connected with the over-indebtedness of households below the poverty line, although households with children, and particularly lone parents, are more likely to be over-indebted than other household types. There is insufficient evidence of any specific relationships between over-indebtedness in Ireland and gender, age and/or location size, although the available data were more limited in these areas. Certain issues are identified as being worthy of further research. These are the links between over-indebtedness and certain groups, namely private tenants, single person households, single working males and those above the poverty line but below median income (in particular, lone parents).

Taken together, these findings suggest that the Government is correct in pursuing a specific policy response predicated on the presumption that those in poverty are the group in Irish society most at risk of over-indebtedness. The question which the next chapter begins to address is whether the principal measure it has adopted with regard to this group, namely MABS, is an appropriate one given the nature and severity of the debt problems experienced by this group.

Notes

[1]. The corresponding figure for the "debt indicator" in the 2001 LIIS was 6%.

[2] For 2006, the most recently available at the time of analysis.

[3] i.e. Below the 60% median income poverty line.

[4] A household or person is said to be 'at risk of poverty' if their net income is below 60% of the national average.

[5] Research carried out for Sustainable Energy Ireland by University College Dublin (UCD) estimated that in 2001, 4.7% of Irish households (62,000) were experiencing persistent fuel poverty and an additional 12.7% (165,000) intermittent fuel poverty. The figure used for the sake of comparison by this study is the combined estimate for 2001 i.e. 227,000 households or 17.8% of the private household population at that time (1,279,617) as estimated by the 2002 Census (Central Statistics Office, 2003).

[6] The median figure for 2001 (€268.80) was provided by the ESRI. The median figure for 2006 (€337.50) was provided by the CSO.

[7] The equivalence scale used in respect of each dataset was 1 0; 0.66; 0.33. i.e. total net household income was divided by 0.66 for each additional adult and 0.33 for each child under 14 resident in the household.

[8] The basic rate Supplementary Welfare Allowance (SWA) figure for a single person in 2008 is €197.80.

[9] Nine categories were used to classify the main household income source for the purpose of this analysis. The income categories used by the ESRI to differentiate

between different types of income for the purposes of the LIIS are as follows: 'wages/salaries'; 'self-employed'; 'farming'; 'private pension'; 'unemployment benefit or assistance'; 'other social welfare payment'; 'investments'; 'children's allowance' and 'other' (Watson, 2004).

It was necessary to combine categories in some instances for the purpose of analysis as no frequencies at all were observed in the over-indebted sample in respect of two categories, namely 'investments' and 'children's allowance'. Further, the "expected" frequencies were less than five in some cases, which meant that a chi square test would not work (Hinton, 2001, p.242). Three sets of categories were therefore combined. 'Unemployment benefit or assistance', 'other social welfare payment' and 'children's allowance' were combined to form one category, namely *social welfare payments.* 'Farming' and 'other' were combined to form *farming/other.* Finally, 'private pension' and 'investments' were also combined to form *private pension/investments*.

[10] The actual question (H.28.19) used in the LIIS asks respondents whether they are able to save some of their income regularly.

[11] The amount of the expense is slightly different, €875.

[12] The four client groups are: - those in receipt of a social welfare income only ("Social Welfare only": 1812 clients); those in receipt of social welfare plus other income ("Social Welfare plus other": 1026 clients); those in receipt of a wage only ("Wage only" 844 clients); finally, those in receipt of a wage plus other income ("Wage plus other": 530 clients).

[13] 'Couple with other persons' was combined with 'couple with children and other persons' to form a category *couple with children (and other persons)*. 'Lone parent with children' was combined with 'lone parent with children and other persons' to form a

category *lone parent with children (and other persons)*. Finally, the category '2 or more family units' was combined with 'non-family households' to form *2 or more family units/non-family households*.

[14] A "household reference person" (HRP) is defined as 'the owner or tenant of the accommodation or, if a couple or jointly responsible, the older of the two' (Whelan e*t al.,* 2003, p.23).

[15] This chi-square figure is however significant at the 0.05 level of significance which is a slightly less rigorous test. Thus there is the possibility of a Type II error here by accepting the null hypothesis (i.e. that there is no relationship between location and over-indebtedness) when in fact there is (Hinton, 2001, p.93).

Chapter 6

THE CHARACTERISTICS OF OVER-INDEBTEDNESS AND ITS RELATIONSHIP TO POVERTY

6.1 INTRODUCTION

This chapter presents the second set of findings of this research. The focus of this chapter is on the *severity* of over-indebtedness in Ireland, the different types of debt involved (i.e. the *nature* of the debt problems) and in particular whether those in poverty have different and more serious debt problems than others. As with the previous chapter, the findings are based principally on the analysis of LIIS and MABSIS data, and on the interview survey data from the present research. The different sets of results are compared. In each case, the findings in relation to the population as a whole are presented first and then the findings in relation to households in poverty or those on low incomes. *"Severity"* in this context refers to two separate things. Firstly, it refers to the *persistence* of over-indebtedness over time, or how long the problem has lasted to date. Secondly, it refers to the *depth* of over-indebtedness, defined as the amount of debt owed relative to the income available to discharge it in the future. "*Nature"* in this context refers to the range or breadth of debts people have, the types of debts they owe and to whom these debts are owed.

6.2 SEVERITY OF OVER-INDEBTEDNESS

Persistence

As discussed in Chapter 4, the limitations of the data available, and of the questions that were put to elicit these data, means that the practicability of analysis of the persistence of over-indebtedness in Ireland is more limited than what was hoped for. This part of the analysis concentrates on the LIIS data for 2000 and 2001. The focus was on how many in the over-indebted sample (those who reported debt or arrears in the 2001 survey) had also reported debt or arrears the previous year as well i.e. in the

2000 LIIS, the vast majority of the sample (177 out of 184) having participated in both waves. Over half of the sample of households (56%) had reported debt or arrears in both the 2000 and 2001 surveys and are defined here as "persistently over-indebted". These households represent over 52,000 Irish households.[1]

This suggests that an Irish household reporting over-indebtedness is more likely than not to have been over-indebted for at least a year. The responses to the "debt indicator" question posed within the LIIS each year from 1994 to 2001 suggested that the extent of debt problems had been declining during this period. The number of households reporting this indicator dropped from 17.9% in 1994 to 10.3% in 1997, and further to 6% in 2001 (Whelan *et al.,* 2003, p.59).

In order to examine the history of persistence as far as possible within the constraints of the data available, the history of each of the 184 households in the 2001 over-indebted sample was examined to identify when they first began to report at least one of the six objective indicators (listed in Section 4.5), and how long they had continued to do so. As mentioned in the previous chapter, sample attrition was a major factor here. It transpired that only 102 of the over-indebted sample (55%) had been interviewed for 5 waves or more of the LIIS. It was decided, therefore, to focus on these households in order to ascertain the extent to which each had been reporting over-indebtedness over the long-term. The findings of this analysis are presented in Table 6.1 below. They indicate that over-indebtedness *does* appear to be a considerably persistent problem for the households that experience it. Over 60% of the 102 households examined were found to have been reporting debt or arrears for 5 years or more.

TABLE 6.1: PERCENTAGES OF OVER-INDEBTED SAMPLE (INTERVIEWED FOR 5 YEARS OR MORE) REPORTING PERSISTENT OVER-INDEBTEDNESS, 1994-2001 (n = 102)

Number of years household reported debt/arrears	Number of households reporting debt/arrears	Percentage of households reporting debt/arrears
	(n)	%
1	9	8.8
2	12	11.8
3	9	8.8
4	10	9.8
5 or more	62	60.8

Source: – Living in Ireland Surveys 1994 – 2001

Administrative data also suggests that over-indebtedness is a persistent phenomenon once it occurs, although these data give a more short-term picture as they relate to weeks and months rather than years, as is the case with the LIIS data. The evidence, from an analysis of the annual reports of a sample of 22 of the 39 major local authorities in Ireland, is that where there are arrears in relation to a local authority rent or housing loan account, they tend to be persistent in nature. As shown in Table 6.2, over 70% of accounts in arrears were found to have been so for at least 12 weeks (or 3 months). There was little difference between the figures for rent and housing loan accounts overall, although rent arrears appeared to be slightly more persistent.

TABLE 6.2: PERSISTENCE OF ARREARS: LOCAL AUTHORITY RENTAL AND HOUSING LOAN ACCOUNTS, 2004 [2]

Period in arrears	Rent Accounts	Housing loan accounts
	% in arrears	% in arrears
4-6 weeks	9.86	7.68
6-12 weeks	13.59	8.75
More than 12 weeks	74.21	71.39

Source: Local Authority Annual Reports, 2004

Persistence of over-indebtedness and poverty

As would be expected, the evidence suggests that over-indebtedness is more persistent among poor households. A comparison was made between those in the over-indebted sample[3] below the poverty line (OIP=70) and those above it (OINP=107). Two thirds of OIP households (47 out of the 70 interviewed for both waves) were found to have also reported one or more of the six indicators in the 2000 LIIS, compared to just half of OINP households (53 out of the 107 interviewed for both waves).

Analysis of the sub-sample of 102 over-indebted households, interviewed for 5 waves of the LIIS or more, also suggests over-indebtedness to be more persistent among those in poverty. The findings are shown in Table 6.3 below. Although these suggest that OIP households have reported over-indebtedness for longer periods than OINP households, the limitations of the available data mean that it is not possible to say whether each set of households remained below or above the poverty line during the entire period. What was most noticeable here was that over-indebtedness appeared to be a persistent phenomenon for a clear majority in *both* sets of households.

TABLE 6.3: PERCENTAGES OF OVER-INDEBTED SAMPLE (INTERVIEWED FOR 5 YEARS OR MORE) REPORTING PERSISTENT OVER-INDEBTEDNESS RELATIVE TO THE (60% MEDIAN) POVERTY LINE, 1994-2001 (n =102)

Number of years household reported debt/arrears	**Households below poverty line in 2001** (n =37)		**Households above poverty line in 2001** (n =65)	
	%	(n)	%	(n)
1	2.7	1	12.3	8
2	5.4	2	15.4	10
3	8.1	3	9.2	6
4	13.5	5	7.7	5
5 or more	70.3	26	55.4	36

Source: – Living in Ireland Surveys 1994 - 2001

Depth of over-indebtedness

"Depth" for the purposes of this study is defined as the amount of debt owed relative to the income available to discharge it. Data held on MABSIS make it possible to calculate the ratio between clients' incomes and clients' outstanding debts, as discussed in Chapter 4. The ratio described in the findings below (Table 6.4) is based on a comparison of two figures derived separately. The first figure is an average disposable income figure per client, calculated by identifying the mean disposable weekly income of the 1430 "financial statement clients". This figure was €44.96. The second figure is an average total outstanding debt figure per client, calculated by identifying the median debt owed by those 4212 clients who make up the "MABSIS sample".[4] This figure was €4,468. The ratio between the two figures can be expressed as a weekly ratio (99:1) or an annual ratio (nearly 2:1). Thus clients overall owe almost a hundred times as much as their weekly disposable income, or twice as much as their annual disposable income, available to service that debt.

TABLE 6.4: AVERAGE DEPTH OF OVER-INDEBTEDNESS OF MABS CLIENTS, 2006

MABS Clients 2006	**Amount (income)**
Average weekly disposable income (mean)	€44.96
Average annual disposable income (mean) n=1430	€2,337.92
	Amount (debt)
Average total outstanding debt (median) n =4212	€4,468.00
	Ratio of debt to income
Debt: Weekly disposable income ratio	99:1
Debt: Annual disposable income ratio	1.9:1

Source: MABSIS

These figures suggest that on average, under the most ideal conditions, it would take around two years for the average MABS client to repay their debts. The ideal conditions would be: that no interest or other charges accrue; that the entire disposable income is used every week without fail to service the debt; that disposable income remains constant throughout the two year period; finally, that no further credit or debts are incurred during this period. If all of these conditions are not met, then the period required for repayment would be longer. This is a long period to maintain such a regime given so many provisos and as shown in Table 6.5 below (and later in Chapter 8), the likelihood is that MABS clients are faced with much longer periods before debts are eventually cleared in full. The table below is based on the responses from the interview survey with respect to the following question: -

> *Question 29. How long would you say it will take you to pay off your outstanding debts?*

TABLE 6.5: LENGTH OF TIME ESTIMATED BY INTERVIEW RESPONDENTS TO REPAY OUTSTANDING DEBTS, 2006 (n =36)

Estimated number of years to repay debts	**Number of respondents**
	(n)
Less than half a year	1
0.5 – 3 years	14
5- 9 years	7
10 –20 years	7
Never	5
No idea	1
Never think of it	1

Source: MABS Client Interview Survey 2007

This table shows that the respondents believe it will take them a relatively long time to clear their debts, and that in some cases, there is no end in sight. Only 10 of the 36 clients (28%) expected to be free from debt within 2 years (the average length of time suggested by the debt: income ratio figure). However, over half the clients surveyed (19 out of 36 who gave a response) felt that it would be 5 years or more before they were free from debt, if at all. As shown in Chapter 8, the repayment performance of clients repaying debts through the MABS special (client) account scheme suggests that it will take at least five years in total for the average client to repay all of their outstanding debt if their circumstances do not change.

Depth of over-indebtedness and poverty

Analysis of the data available suggests that those on lower incomes are in fact *less* deeply in debt than those on higher incomes.[5] This conclusion can be arrived at by relating the depth of over-indebtedness of MABS clients to the income source of those clients using the four categories described in Chapter 4 (namely "social welfare only"; "social welfare plus other income"; "wage only"; and "wage plus other income").

TABLE 6.6: PERCENTAGES OF MABS CLIENTS AND BALANCES OF OUTSTANDING DEBT BY FIRST INCOME SOURCE, 2006 (n = 4212)

Balance of outstanding debt	**Social welfare clients** (n=2838)	**Waged clients** (n=1374)
€1 - €4,999	64.3	27.4
€5,000 - €9,999	13.4	13.7
€10,000 - €19,999	12.7	22.5
€20,000 +	9.6	36.4
Average debt (median)	€2,301	€13,294

Source: MABSIS

As Table 6.6 above shows, the average amount of debt owed by clients in the social welfare groups[6] (€2,300), was considerably *less* than the average amount of debt (almost €4,500) owed by MABS clients as a whole. In contrast, the average amount of debt owed by the wage groups[7] (around €13,000), was significantly *more* than that for clients as a whole. Whereas around two thirds of social welfare clients owed less than €5,000, almost 60% of waged clients owed €10,000 or more. Thus waged clients appeared to have borrowed significantly larger amounts than social welfare clients as they were more likely to have had access to credit: on average they owed between five and six times more.[8]

Higher income waged clients did however have higher disposable incomes (around €84 per week) on average to service the higher levels of debt that they were carrying, almost twice as much as the disposable income of the average client (€45 per week), and nearly four times as much as the average for the social welfare group (€22 per week). Even so, the debt: disposable income ratio for the waged group (3:1) was higher than that for the social welfare group (2:1) due to the substantially higher amounts of debt incurred by the former. This suggests that those in the waged group as a whole will take longer on average to clear their outstanding debts. These results are shown in Table 6.7 below.

TABLE 6.7: DISPOSABLE INCOMES AND DEBT:INCOME RATIOS OF MABS CLIENTS BY FIRST INCOME SOURCE, 2006 (n = 4212)

	Social welfare clients (n=2838)	**Waged clients** (n=1374)
Average weekly disposable income (mean)	€22.41	€83.61
Average debt (median)	€2301	€13,294
Average debt: annual disposable income ratio	2 : 1	3 : 1

Source: MABSIS

6.3 NATURE OF OVER-INDEBTEDNESS

Multiple over-indebtedness

A debt problem may involve just one debt or several different debts. A situation where an over-indebted household has two or more outstanding debts is referred to as "multiple over-indebtedness" for the purposes of this study. The categories used within the LIIS do not enable the number of individual debts owed by those comprising the over-indebted sample to be identified. They do, however, enable the number of types or categories of debt reported, to be identified. Given that a household is most unlikely to be in both rent and mortgage arrears as these are two separate types of tenure, the maximum number of debt types or 'indicators' that a household could realistically report is five (i.e. rent or mortgage arrears; utility arrears; hire purchase or credit card arrears; arrears on hospital or medical bills; debt for ordinary living expenses). The Table (6.8) below illustrates the number of debt types reported by each household in the over-indebted sample:

TABLE 6.8: NUMBER OF DEBT TYPES REPORTED BY OVER-INDEBTED SAMPLE HOUSEHOLDS, 2001 (n =184)

Number of types of debt reported	**Number of households**	**Percentage of sample**
	(n)	%
1	103	56.0
2	39	21.0
3	34	18.5
4	8	4.5
5	0	0.0
Totals	(184)	(100)

Source: Living in Ireland Survey, 2001

Thus 44% of the sample households may be said to be "multiply over-indebted" in that these households reported 2 or more types of debt, and over half of them reported three or four different debts. These percentages are almost identical to those found in the UK (Berthoud and Kempson, 1992, p.112).[9] Applying these weightings to the general population means that around 44,000 Irish households were "multiply over-indebted" in 2001.

MABSIS data also contain details of types of debt, but in this case the categories used are more specific.[10] These data indicate levels of multiple over-indebtedness to be somewhat higher among MABS clients generally than in the over-indebted sample: just under 57% of clients were recorded as having 2 or more debts, whilst the remaining 43% were recorded as having just one outstanding debt. This difference is in line with previous research, which suggests that people who approach money advice centres with outstanding debts tend to be significantly *more* over-indebted and to have a wider range of debt problems than the over-indebted population as a whole (Kempson, 1995). Even so, both data sources suggest that in the region of half of those who are over-indebted are likely to have multiple debts.

Multiple over-indebtedness and poverty

Is multiple over-indebtedness associated with poverty? The available evidence is somewhat conflicting. The LIIS data shows that the poverty line makes little or no difference at all to the experience of multiple over-indebtedness. Around 47% of OIP households (34 out of 72) were in multiple debt compared with 42% of OINP households (47 out of 112).

A clearer picture of how multiple over-indebtedness and income appear to be related emerges from the MABSIS data which focuses on individual debts (rather than groups of debts as is the case with the LIIS). Those clients on lower incomes (for whom social welfare was their first income source) were found to be much *less* likely to be multiply over-indebted than those on generally higher 'waged' incomes. The results are shown in Table 6.9 below.

TABLE 6.9: PERCENTAGES OF MABS CLIENTS AND NUMBER OF OUTSTANDING DEBTS BY FIRST INCOME SOURCE, 2006 (n =4212)

Number of outstanding debts	Social welfare only	Social welfare plus other	Wage only	Wage plus other	All clients
	%	%	%	%	%
1	50.9	44.5	32.3	31.7	43.1
2 or more	49.1	55.5	67.7	68.3	56.9

Source: MABSIS

Whereas around a half of those clients dependent on social welfare were found to be multiply over-indebted, in line with the average for clients overall, and in accordance with the figure estimated for the over-indebted population as a whole, this figure rises to over two thirds of clients on generally higher "wage-based" incomes. This increased level of multiple over-indebtedness among those on higher incomes reflects the type of debts found to be more commonly associated with this group, namely loans to mainstream financial institutions, as described in Table 6.13 below. Taken together, the increased number and different types of debt found to be associated with higher income MABS clients is very much in line with the findings of previous research in the UK that those on higher incomes have a wider range of mainstream credit options than those on lower incomes, and, therefore, have more debts (Berthoud and Kempson, 1992). Hence, higher income MABS clients tend to have more debts outstanding when they run into financial difficulty.

Types of debt owed

Research in the UK indicates that no one *category* of debt predominates to any great extent. The PSI study, for example, found that the most commonly reported types of arrears among those in difficulty were those in respect of utilities, housing repayments and consumer credit, and that these debts were reported by roughly similar proportions of debtors, as shown in Table 6.10 below (Berthoud and Kempson, 1992, p.138). Analysis of the types of indicators reported by households comprising the over-indebted sample reveals similar proportions in the Irish context. Just over 41% of the sample reported utility arrears, 37% reported housing arrears and 26% reported hire purchase or credit card arrears. The risk of certain types of arrears occurring was also calculated by the PSI study (p.139). Rent arrears were found to be the most likely to occur followed by arrears on credit cards, utilities and mortgages (p.139). Similar figures were found among the over-indebted sample but since there was no population figure available for credit card debt, the risk could not be calculated for this category. Again, the greatest risk related to arrears on rent (14.0%) followed by utility (2.6%) and mortgage (2.5%).

TABLE 6.10: INCIDENCE AND RISK OF DIFFERENT TYPES OF DEBT, UK AND IRELAND COMPARISON, 1992 AND 2001

	Over-indebted sample (2001) n =184 %	**PSI study (UK) (1992)** %
Incidence		
Housing arrears	36.9	32.0
Utility arrears	41.3	35.5
Credit arrears	26.1	28.8
Risk[11]		
Rent arrears	14.0	17.7
Mortgage arrears	2.5	3.3
Utility arrears	2.6	3.9

Source: Living in Ireland Survey, 2001 and Policy Studies Institute (UK), 1992[12]

Berthoud and Kempson (1992, p.139) also found that twice as many households were in arrears with household bills as compared to arrears with consumer credit repayments. Again, analysis of the over-indebted sample indicates a similar trend in Ireland: 112 households were found to be in arrears with rent, mortgage or utility payments compared to 48 households who were in arrears on credit card or hire purchase agreements. However, the evidence from more recent and detailed MABSIS data, as shown below, is that these proportions appear to be changing considerably and that problems with consumer credit repayments are now as prevalent in Ireland, if not more so, than household bills in general. Utility debt remains the most likely to occur: 53% of all MABS clients had an outstanding debt of this nature. However, as shown in Table 6.11, in a noticeable reversal of the order suggested by the LIIS and PSI data, MABS clients are much more likely to owe outstanding balances on bank loans (nearly 39% of clients), credit union loans (31% of clients) and credit cards (25% of clients) than in respect of rent accounts (only 12% of clients).

The picture that emerges suggests that the credit boom described in Chapter 2 is resulting in a greater proportion of problem debts relating to loan and credit agreements than was the case before. For example, the PSI data (p.138) suggest that only around 5% of households in arrears owed money on credit cards prior to the occurrence of a similar credit boom in Britain in the 1990s. The percentage of MABS clients owing money on credit cards in 2006 is considerably higher (over 25%).

TABLE 6.11: TYPES OF DEBT OWED BY MABS CLIENTS, 2006 (n =4212)

Type of debt	**Number of clients with an outstanding balance** (n)	**Percentage of clients with an outstanding balance** %
Utilities	2258	53.6
Personal bank loan	1625	38.6
Credit union	1314	31.2
Other	1216	28.9
Credit card	1062	25.2
Moneylender	634	15.1
Local authority rent	417	9.9
Hire purchase	378	9.0
Catalogue	103	2.4
Private rent	88	2.1
Waste charges	82	1.9
Fine	78	1.8

Source: MABSIS

Types of debt and poverty

The co-incidence of poverty made a difference in respect of only one of the six categories used to identify the over-indebted sample, namely utility arrears. This was the only category in which the proportion of OIP households exceeded that of OINP households as shown in Table 6.12 below.

TABLE 6.12: PERCENTAGE OF OVER-INDEBTED SAMPLE REPORTING DIFFERENT CATEGORIES OF ARREARS RELATIVE TO THE (60% MEDIAN) POVERTY LINE, 2001 (n =184)

Category of debt	**Households below poverty line** (n=72)		**Households above poverty line** (n=112)	
	%	(n)	%	(n)
Rent arrears	16.7	(12)	27.7	(31)
Mortgage arrears	12.5	(9)	14.3	(16)
Utility arrears	48.6	(35)	36.6	(41)
Hire purchase or credit card arrears	25.0	(18)	26.8	(30)
Hospital or medical arrears	2.7	(2)	6.2	(7)
Debt for ordinary living expenses	55.5	(40)	66.9	(75)

Source: Living in Ireland Survey, 2001

Although not conclusive, the figures suggest that there is a relationship between utility arrears and over-indebtedness among households in poverty. The MABSIS data indicate such a relationship much more strongly. MABS clients on generally lower social welfare incomes were found to be around twice as likely to have an outstanding utility debt compared with clients on generally higher 'waged' incomes (Table 6.13). The converse is true in relation to personal bank loans and credit cards, where waged clients were found to be twice as likely on average as social welfare clients to have such debts. Again, this bears out earlier findings that higher income clients have higher levels of debt linked to a wider choice of credit options. In some cases, the proportions reporting particular types of debt increased as average incomes decreased. Examples of these types of debt are local authority rent, private rent, fines and utilities. In other cases the percentages reporting particular types of debt increased in line with average income. Examples of these types of debts are credit card, personal bank, credit union and hire purchase loans.

TABLE 6.13: PERCENTAGES OF MABS CLIENTS OWING DIFFERENT TYPES OF DEBT BY FIRST INCOME SOURCE, 2006 (n =4212)

Type of debt	Social welfare only	Social welfare plus other	Wage only	Wage plus other	All clients
	%	%	%	%	%
Personal loan	26.0	27.4	63.7	63.2	38.6
Moneylender	13.2	17.4	15.2	16.6	15.1
Credit card	15.0	20.0	41.7	43.8	25.2
Rent (L.A.)	10.3	11.9	7.7	8.1	9.9
Credit union	24.9	31.0	38.0	42.3	31.2
Fine	2.3	1.9	1.5	0.75	1.8
Other	23.3	28.7	40.3	30.2	28.9
Hire purchase	6.7	7.8	12.8	13.0	9.0
Catalogue	1.8	3.5	2.6	2.3	2.4
Waste charges	1.5	3.5	1.2	1.7	1.9
Private rent	2.5	2.3	1.4	1.3	2.1
Utilities	61.3	66.2	31.2	37.7	53.6

Source: MABSIS

Research in the UK makes a distinction between two such groups of debts (Parker, 1990). The first group of debts, described as "primary" or "priority" debt, consists of arrears on unavoidable household bills such as housing or a utility. Another way of looking at this group of debts is that they generally carry with them the most severe sanctions in the case of default such as eviction, disconnection and imprisonment (MABS National Development Limited, 2006, section 2, p.7). The second group of debts is described as "secondary" or "non-priority" debt. These are debts where money has been borrowed on credit. These debts generally carry lesser sanctions in the case of default. Research in the UK has found that primary or priority debt tends to be more associated with those on lower incomes, whereas secondary or non-priority debt tends to be more associated with those on higher incomes (Parker 1990; Berthoud and Kempson, 1992). The evidence from the MABSIS data is that such relationships also exist in Ireland. Priority debts on household bills were more common among those for whom a social welfare payment was their primary source of income. Secondary debts were more likely to be incurred by those on higher, waged-based, incomes.

One final point of interest with reference to the MABSIS data relates to the proportions of clients from the different income groups that have outstanding balances to two particular types of creditor, namely credit unions and moneylenders. Both of these credit providers have traditionally been linked with the provision of loans to those on low incomes. The evidence from the data is that neither lender is particularly associated with the lower income (social welfare) MABS client-groups: indeed in the case of credit unions, the data suggest that proportionately more lending is now being extended to relatively higher income groups.

6.4. CONCLUSION

This chapter has presented the second set of findings of this research, those relating to the seriousness and nature of the problem of over-indebtedness in Ireland. These findings suggest that the objective set for MABS by the Government of making people financially independent in the long term is unrealistic. Debt problems were found to be much more persistent over time than expected and particularly so among those in poverty. In terms of the future, people with debt problems are facing long periods of debt repayment with little or no end in sight in many cases. The periods involved are likely to be even longer than estimated, given that these are based on various presumptions such as fixed debt amounts, accrual of no further charges and no sudden demands on income and resources. The evidence suggests that sudden demands on limited incomes are a major reason why repayment arrangements run into difficulty (Conroy and O'Leary, 2005, p.93), hence it is reasonable to presume that such demands will occur from time to time and that as a consequence, people will take longer to clear their debts.

Debts are owed to a range of credit institutions, public authorities and utility companies, but a significant difference between those on lower and higher incomes was identified in relation to the types of debt owed. Those on lower incomes were found to be more likely to owe primary or priority debts, such as those related to housing and utilities, whereas those above the poverty line were found to be more likely to owe money on secondary or non-priority debts such as personal loans and credit cards. Thus the poor owed more serious debts or those that had, potentially, more severe consequences. In contrast, the findings suggest that those on relatively higher incomes are likely to experience a greater breadth and depth of over-indebtedness, as a result of having access to a greater choice of credit options, particularly banks and other mainstream lending institutions. The evidence is that it will take these households considerably longer than poorer households to clear their outstanding debts, as the amounts involved are so considerable.

Taken together, these findings suggest that those with debt problems at all income levels require more than budgeting advice to help them clear their debts. In many cases the repayment periods found to be facing MABS clients are so long as to appear almost endless from the client's perspective.

The findings in this chapter point clearly to a need to introduce personal insolvency measures into Ireland such as Individual Voluntary Arrangements and Debt Settlement procedures which are universal i.e. available to all and not just the poor. They also point to a need for a more interventionist approach to the credit market. Poor people clearly are not using the same range of credit sources as other people. Whether this is because of exclusion or choice is not clear from the data, but recent evidence suggests that there are several barriers that prevent low-income consumers from using financial services (Combat Poverty Agency, 2008). Government clearly needs to do more to facilitate, cajole or perhaps even require mainstream financial service providers to offer services to poor people and to encourage poor people to take up such services. Those on higher incomes appear to be taking on levels of borrowing which are too high. Whether this is as a result of over-borrowing or irresponsible lending is again unclear from the data, although the likelihood is that it is probably a combination of both. There is clearly a need for more stringent measures to ensure that credit is extended responsibly and in full cognisance of people's ability to repay. The findings in this chapter thus call into question the appropriateness of the Government's response to over-indebtedness both among the poor and in general. The findings presented in the next chapter also call this response into question, in this instance with reference to the factors that cause over-indebtedness to occur in the first place.

Notes

[1] This figure is derived by applying the relevant population weights assigned to each household by the ERSI.

[2]Source data in relation to all 22 local authorities is contained in Appendix 8.

[3] Those that participated in both the 2000 and 2001 surveys i.e. 177 households.

[4] The reason for using the mean to derive average disposable income is that although disposable income figures vary, there are no "huge" figures at the top end to "skew" the average figure. In contrast, there are a relatively small number of clients with huge outstanding debts, which may "skew" the average outstanding debt figure if the mean were used: the median therefore gives a more accurate average for this distribution.

[5] This finding is in direct contrast to research in the UK. Low-income clients of money advice centres there, have been found to be faced with significantly *longer* debt repayment periods than those on high incomes (Hartropp, 1988). People in poverty in the UK have also been found to have debts 20-25% *higher* than the population as a whole (Joseph Rowntree Foundation, 2005). This study focuses on comparing outstanding debt with *disposable* income whereas these UK studies compare outstanding debt with *net* income: this may explain the difference.

[6] Clients in receipt of a social welfare payment as their first income source.

[7] Clients in receipt of a wage or salary as their first source of income.

[8] This figure does not include mortgage debt.

[9] 55% of debtors were found to be in arrears with 1 commitment, 22% with 2 commitments, and 22% with 3 or more commitments.

[10] The categories used within MABSIS are: Personal bank loans; Moneylender; Credit cards; Local authority rent; Credit union; Fine; Other; Hire purchase; Catalogue; Waste charges; Private rent; Utilities.

[11] Risk was calculated by taking the number of those reporting each of the three types of arrears as a proportion of all those identified as having the relevant account type in question in the 2001 LIIS. For example, there were 308 tenants in the LIIS sample as a whole, thus the risk of a household reporting rent arrears was calculated by dividing the number of households reporting arrears (43) by the total number of rented households (308). A similar calculation was undertaken in respect of the 1003 households with a mortgage. All 2865 private households surveyed for the 2001 LIIS were deemed to have a utility commitment.

[12] This study was conducted by Berthoud and Kempson (1992).

Chapter 7

THE CAUSES AND CONSEQUENCES OF OVER-INDEBTEDNESS IN IRELAND

7.1. INTRODUCTION

The findings presented in this, the penultimate chapter, are based primarily on the results of the interview survey of a random sample of 36 MABS long-term clients, reflective of the overall client base, conducted in the summer of 2007. This chapter analyses the responses given in respect of the individual causes and consequences of over-indebtedness among the sample. The main purpose of this part of the research is to explore the factors giving rise to over-indebtedness with particular reference to whether money mismanagement and lack of access to affordable credit are the main factors as regards those in poverty. These factors are examined primarily with reference to the French distinction between 'active' and 'passive' over-indebtedness, discussed in detail in Chapter 3. The second set of findings relates to the social, financial and psychological effects of debt problems, and provide the context for examining the extent to which MABS alleviated these effects over the long term (the specific impacts are discussed in Chapter 8).

7.2. ROOT CAUSES OF OVER-INDEBTEDNESS

The interview schedule included two questions specifically concerned with over-indebtedness at the level of the individual household,

> *Question 30 (a) I'd like to end by asking you about how your financial difficulties came about and how they affected you and your family. Could you describe as best you can the cause of these difficulties, by the cause I mean the thing at the root of the problem?*

> *Question 30 (b) Was there anything that made the problem worse?*

The questions were intended to gather information on people's own perceptions of how their debt problems arose. The purpose was to identify as far as possible in each case whether debt problems came about as a result of factors within or outside an individual's control; or, to put it another way, to distinguish between "passive" and "active" over-indebtedness. A decision was taken to start with an open question about the root cause of each respondent's debt problems rather than giving a pre-coded list of options, to allow people an opportunity to "open-up", and provide a richer answer than would be the case if a tick-box method were used. The follow up question was designed to identify whether there were any compounding or contributory factors involved. This method drew on both the approaches and findings of similar research in the UK (Mannion, 1992; Hinton and Berthoud, 1988).

What tended to happen in practice was that the open question (30a), asked towards the end of the interview when a rapport had been established, gave people the opportunity to talk about both root factors and compounding factors, and thus in many cases, the follow up question proved redundant. In some cases, respondents replied to the root cause question clearly and succinctly. In other cases, respondents answered by telling their story in some detail. A synopsis or summary of each respondent's story is given in Appendix 7. This synopsis is based on what the respondents said and incorporates their own words in some cases, in quotation marks. Identifying details are kept to a minimum for confidentiality purposes.

"Passive" v "active" over-indebtedness

In most cases, the root cause was clearly identifiable by the respondent, although in a small number of cases, the answers were not as clear as can be seen from the various synopses in Appendix 7. In such cases, the root cause was identified as being the thing or "trigger" that happened first from the series of events described. Table 7.1 below categorises the root causes of respondents' over-indebtedness as identified from the responses of the clients themselves. Illness was the most cited category (6 respondents) followed by relationship breakdown (5 respondents). What was noticeable however was that there were a variety of reasons given (16 in all could be identified) and that no one reason predominated to any great extent. People appeared to be very honest and blamed themselves for their difficulties in many cases for over-borrowing (4 respondents), poor money management (3 respondents) and poor business planning (4 respondents). It should be noted, however, that financial mismanagement may play a larger role than people may admit, often by compounding other causes such as a drop in income (European Commission, 2008, p.23).

TABLE 7.1: ROOT CAUSE OF OVER-INDEBTEDNESS AS IDENTIFIED BY INTERVIEW RESPONDENTS, 2007 (n =36)

Root cause	**Number of respondents** (n)
Illness	6
Relationship breakdown	5
(Over-) Borrowing	4
Business failure –planning	4
Money mismanagement	3
Redundancy	2
Addiction	2
Ongoing low income	2
Other[1]	8

Source: MABS Client Interview Survey 2007

There are many different ways of distinguishing between and/or categorising these various responses. Three of these are used in Table 7.2 below. Daly and Walsh for example use three categories: "inadequate income" (no identifiable reason); "life event or crisis"; "money management" (Daly and Walsh, 1988). Hinton and Berthoud also use three categories, although these are somewhat different namely: - "sudden reduction in income", "unexpected increase in needs"; "emotional crises" (Hinton and Berthoud, 1988). A third possibility is to use the French distinction between "passive" and "active" over-indebtedness as described in Chapter 3; in other words, to make a distinction between factors outside a person's control such as "*force-majeure*" factors, and those within a person's control, namely behavioural factors. There are difficulties in attempting to make such a distinction from the clients' responses in some cases. It could be argued for example that addiction can be either "active" or "passive" depending on one's point of view. There could be similar arguments about pregnancy, business failure and relationship breakdown, depending on the circumstances involved in a particular case. For the purposes of the distinction made in the table below, addiction and business failure through a reported lack of planning are classified as "active" factors. Relationship breakdown, pregnancy and business failure as a result of increased overheads brought on by economic circumstances, are conversely categorised as "passive" factors.

TABLE 7.2: ROOT CAUSE OF OVER-INDEBTEDNESS IDENTIFIED BY INTERVIEW RESPONDENTS BY DIFFERENT CLASSIFICATIONS, 2007 (n=36)

Root cause	**Number of respondents** (n)
Daly/Walsh classification	
Inadequate income	2
Life event or crisis	23
Money management	11
Hinton and Berthoud classification	
Sudden reduction in income	19
Unexpected increase in needs	3
Emotional crises	0
Other reason	14
French system "active" v "passive" classification	
Active reason	13
Passive reason	23

Source: MABS Client Interview Survey 2007

What emerges strongly from the table is that in each of the three categorisations, a leading category emerges. In the case of Daly/Walsh, it is "life event or crisis"

(64%). In the case of Hinton/Berthoud, it is "sudden reduction in income" (53%). Finally, in the "French" distinction, it is "passive over-indebtedness" (64%). In other words, whichever method of categorisation is chosen, and given that there are some moot points in terms of how different factors may be most appropriately categorised, the conclusion appears to be that the individual factors reported were "external factors", *largely beyond the control of the individuals themselves*. It would be hard to argue that illness, unemployment, redundancy, breakdown of a violent relationship, accident, bereavement and a unilateral change in employment conditions by an employer are anything other than "external" factors.

There is also evidence of "external factors" in some of the "active" responses. For example, there are indications of irresponsible lending in the "over-borrowing" responses; of irresponsible non-payment by business creditors in the "business failure" responses; finally, one may take the view that addiction is an illness to some degree beyond a person's control and should therefore be categorised more as a "passive" than an "active" factor. Whatever view is taken on these specific issues, the responses overall suggest strongly that over-indebtedness amongst MABS clients in Ireland arises significantly more as a result of things that happen *to people,* rather than things being done or not being done *by people*. Money management or financial planning appears to be the root cause in only a minority of cases (11 out of 36 or 31%).

Compounding factors, "that made matters worse"

What is particularly notable here is that budgeting difficulties and mismanagement of money were not mentioned at all by respondents as factors compounding their problems, although this may be under-reported as mentioned earlier. What was also noticeable about the responses given by the vast majority of respondents was that very rarely was there a cause that operated on its own. Many other factors were cited as making the problems worse. Again, these factors were identified from the various responses given, and are presented in Table 7.3 below.

TABLE 7.3: FACTORS COMPOUNDING OVER-INDEBTEDNESS IDENTIFIED BY INTERVIEW RESPONDENTS, 2007 (n =36)

Compounding factor	**Number of respondents** (n)
Income drop	19
Children's needs	5
Reduced work hours	3
Depression	3
Gave up work entirely	2
Loss of job	2
Failure to find adequately – paid work	2
Relationship breakdown	2
Pride/embarrassment in claiming financial help	2
Lack of insolvency options	2
Essential repairs	2
Other[2]	9

Source: MABS Client Interview Survey 2007

In some cases, more than one compounding factor was given, hence the total responses are more than 36. Again, as with root causes, one factor stands out as compounding the problem: *a drop in household income*. This was specifically mentioned by over half of all respondents (19). Work-related issues were also clearly a major factor for respondents: a variety of such issues were mentioned by a third of respondents (12). Again, these issues are linked to income and to its limitations. Children's needs were also cited on a number of occasions (5). Previous research into the causes of over-indebtedness among clients of money advice services has also noted the presence of "compounding problems" such as these.

> *The loss of a job, divorce, sickness, death, pregnancy might not in themselves have inevitably caused financial problems; many other people might have survived such crises without incurring debts. But what seemed significant about our sample was the number of compounding problems people were dealing with which intensified the repercussions of the original event, making it more difficult to cope* (Hinton and Berthoud, 1988, p.31).

7.3. BORROWING

A key objective of Government policy with regard to over-indebtedness among the poor (and one of MABS' key objectives) is to facilitate the target group to get access to appropriate credit sources which suit their particular needs, hence the provision of a loan guarantee fund for use by MABS. This implies that such sources are not always readily available to the target group, and as a result people may end up borrowing from less appropriate or more expensive credit sources, which leads them into problems. There is little evidence in the responses to the interview survey, and in the MABSIS data, to support this view. Firstly, prior to experiencing financial difficulties, all respondents with the exception of two had accessed credit i.e. they had borrowed for something from somewhere. In only 4 out of 36 cases (11%) was this borrowing mentioned as a root cause of debt problems and in only one case as a compounding factor (by a respondent who referred to the costs involved in borrowing from a moneylender). Respondents had sought credit for a wide variety of reasons as discussed below.

The evidence from this study suggests that people in poverty are not as dependent as they once were, on the credit sources traditionally associated with them such as moneylenders, credit unions and catalogues. Analysis of MABSIS data indicates that although the most common type of loan owed by social welfare clients was a credit union loan, it was closely followed by personal bank loans (Table 7.4 below). Debts to credit cards were also more prevalent than debts to moneylenders, whilst debts on hire purchase and catalogues were very rare indeed. It may be that these liabilities were taken on prior to a detrimental change in circumstances; alternatively, it may be that those on low incomes are using a wider range of credit options than might previously have been thought (McLoughlin, 2006, p.49). This is not to say that there is as yet anything like equality of access to, or use of, such sources by those on lower incomes. The comparative figures for the higher income waged group reveal that bank loans and credit cards are used by twice as many people from this group. What these findings do suggest, however, is that the boundary between the traditional sources used by the poor (such as credit unions and moneylenders), and those traditionally associated with those on higher incomes (such as bank loans and credit cards), is becoming perhaps a little blurred. Clearly more needs to be done to open up the full range of possibilities to those in poverty. The main issue from the perspective of this research, however, is whether informing people, and poor people in particular about more appropriate credit options is an appropriate response to the problems that give rise to over-indebtedness. It would appear not to be given the findings discussed here.

TABLE 7.4: PERCENTAGES OF MABS CLIENTS OWING DIFFERENT TYPES OF CREDIT LOANS BY FIRST INCOME SOURCE, 2006 (n =4212)

Type of loan	**Social welfare clients** (n = 2838) %	**Wage clients** (n=1374) %	**All clients** %
Credit union loan	27.0	39.2	31.2
Personal bank loan	24.0	55.6	38.6
Credit card	15.3	39.1	25.2
Moneylender	14.2	15.6	15.1
Hire purchase	6.8	12.1	9.0
Catalogue	2.3	2.0	2.4

Source: MABSIS

The issue of income inadequacy highlighted in Chapter 5, was also referred to in the responses given as to the reasons for people's borrowing, albeit indirectly. The common perception is that poor people borrow for essentials and more affluent people borrow for luxuries. Leaving aside what is actually meant by these contested terms, there is evidence that a significant proportion of respondents (almost a third) had borrowed for essentials. A question was put to all respondents to ascertain whether borrowing was a factor in giving rise to their financial difficulties. Again an open question was posed to allow respondents to talk about their borrowings at length if they wished to do so.

> *Question 31. One of the things sometimes associated with financial difficulties is the reason people borrow. Were any of your debts taken on for a specific purpose and if so what was this purpose?*

Some respondents gave multiple responses to this question, others responded that they had borrowed solely for one or two specific purposes, whilst a small number (2) had not borrowed at all for any specific purpose. The findings, presented in Table 7.5 below, indicate that borrowing had taken place for a wide range of purposes and that no one purpose predominated. What was particularly noticeable, however, was that in a considerable number of cases (10 out of the 36 clients interviewed or 28% of the sample), people reported that they had borrowed for things such as bills, family events, debt repayment and living expenses, that one might expect to be paid out of current resources (i.e. income and realisable assets or savings), were these sufficient. Such borrowing has been referred to as "survival borrowing" (Daly and Walsh, 1988, p.99). A comparative figure for the population as a whole, already cited earlier in this study (Chapter 5), is 8.8% (Central Statistics Office, 2007, p.9). Although these two figures are not directly comparable as they are based on responses to different stimuli, nevertheless, there is an indication that substantially more borrowing is taking place among MABS clients for essential living expenses than among the population at large.

TABLE 7.5: REASONS FOR BORROWING GIVEN BY INTERVIEW RESPONDENTS, 2007 (n =36)

Reason given	**Number of respondents** (n)
Bills/repay debts	9
Motor vehicles	9
Household furniture/appliances	7
Home improvements	7
Business purposes	7
Family events	6
Holidays/travel	6
Living expenses	4
House purchase/deposit	2
Children's education	1
Legal costs	1
Addiction	1

Source: MABS Client Interview Survey 2007

7.4. CONSEQUENCES

The remainder of this chapter concentrates on identifying the main consequences of over-indebtedness as reported in the interview survey in particular. The purpose of such analysis is to provide a context for the evaluation of the long-term impact of MABS services, which is the subject of the final substantive chapter which follows. Three types of consequences of over-indebtedness have been identified by Hinton and Berthoud (1988). These are as follows: social consequences, financial consequences and psychological consequences. These are dealt with in order below.

Social consequences

There is strong evidence of a relationship between over-indebtedness and social exclusion in Ireland. "Social exclusion" is officially defined as situations where

...as a result of inadequate income and resources, people may be excluded and marginalised from participating in activities which are considered the norm for other people in society" (Office for Social Inclusion, 2007, p.20).

There was evidence that social exclusion was a common experience among the majority of respondents to the interview survey. What was noticeable about most of the responses in this regard was that they indicated an inability to participate in two activities in particular, namely helping or providing for one's children and socialising with others or "going out". Money worries in each case appeared strongly to be what precluded people from engaging in such activities. There was evidence that people had become more isolated as a result of their debt problems, either through not going out or refusing to have visitors because of embarrassment at their situation; many had cut back on all but the basic necessities.

I'd be lucky if I get out for a 7UP, just to get out of the house (Respondent 5: Female, lone parent, on social welfare).

We used to go to Supermacs a lot, now we treat ourselves once a week and that's it [...] we don't really go out (Respondent 28: Male, married with children, on social welfare).

I sit up crying, look at other kids with Nikes and cry [...] I couldn't have other kids in the house, I felt so guilty (Respondent 32: Female, lone parent, on social welfare).

I don't spend, I don't have a social life, I don't smoke, I don't drink, I don't go out [...] I have Sky but it's just the basic package (Respondent 30: Female, single, waged).

We're not very high, social, outgoing people [...] we don't smoke, drink, waste money (Respondent 33: Male, married with children, waged).

> *We've never been on holiday [...] we don't do social activities* (Respondent 31: Female, married with children, dependent on partner's income).

Closely linked to social exclusion, the concept of deprivation, and basic deprivation in particular, has already been discussed in earlier chapters of this study with reference to the "consistent poverty" measure used in Ireland. The key point about the list of items that make up the deprivation index is not that people are going without specified things, but that the reason for this is through a lack of money i.e. people would like to have the various 'conventional' items but are being forced to go without them through a lack of resources. The question of interest in this study is whether there is evidence of a relationship between over-indebtedness and deprivation. The answer is "yes": 57 (31%) of the 184 households that comprise the over-indebted sample identified from the 2001 LIIS experienced basic deprivation compared to only 8.5% of the population as a whole that year (Whelan *et al.,* 2003, p.36). Thus the proportion of the over-indebted sample experiencing basic deprivation was nearly four times that of the population as a whole. The evidence, therefore, is that in trying to cope with over-indebtedness, a third of households cut back on, or go without, things that the rest of society takes for granted.

As might be expected, the poverty line makes a noticeable difference to the way over-indebted households appear to experience over-indebtedness. The proportion of OIP households that reported deprivation indicators (44.4%) was twice that of OINP households (22.3%). Thus, households that comprise the over-indebted sample were found to be considerably more likely to experience deprivation if they were below the poverty line than if they were above it.

Respondents to the MABS client interview survey consistently reported deterioration in household and family relationships as a consequence of debt problems. Conflict within the household between couples and with respect to children, was identified by nearly two thirds of respondents (22 out of 36). In a number of cases (3), this conflict had led to a breakdown in a couple's relationship. Table 7.6 indicates the numbers of respondents who cited specific consequences in terms of relationship issues. These findings are in line with research in the UK, which has identified financial difficulties as a source of friction in around one fifth of all households; further, that relationship problems are over twice as likely to occur in households that report financial difficulties compared to those who do not (Kempson, 2002). Couples with arrears have also been found to be more likely to separate than couples in general (Kempson *et al.,* 2004).

TABLE 7.6: NUMBER OF INTERVIEW RESPONDENTS REPORTING RELATIONSHIP DIFFICULTIES, 2007 (n =36)

Nature of difficulty	**Number of respondents** (n)
Deterioration in relationship between parents and children	9
Conflict with partner	8
Separation	3

Source: MABS Client Interview Survey 2007

The issue of people feeling stigmatised or embarrassed by their debt problems (MABS National Development Limited, 2006, section 3, p.12; Mannion, 1992) was also apparent during the arranging, scheduling and carrying out of the interview survey. As described in Chapter 4, there were a large number of refusals to participate in the interview survey. This is one indication of the sensitivity around this issue. Another such indication is that of those who agreed initially to participate, and with whom initial contact was made, six were unable to be interviewed for various reasons such as change of mind and failure to show for interview (these reasons are described more fully in Chapter 4).

The choice of venue where the interviews were carried out can also be seen as another indicator of the sensitivity of over-indebtedness. The interview venue was chosen in each case by the respondent. Table 7.7 below lists the various type of location. Over half the interviews took place in the client's home. In two of these cases, respondents indicated to me that they had told their families that the interview was for a different purpose, namely a job interview. In two other cases interviews took place in the car rather than in a public place. Two interviews were conducted over the phone at the client's request.

TABLE 7.7: LOCATION OF INTERVIEWS WITH MABS CLIENTS, 2007 (n =36)

Interview venue	Number of respondents (n)
Home	19
Hotel/Bar	5
Coffee shop	5
MABS office	2
Car	2
Phone	2
Resource centre	1

Financial Consequences

People experiencing debt problems may be subjected to the threat or enforcement of legal sanctions that relate to the debts concerned, although in general this occurs only where serious default or persistent non-payment has occurred. This situation, sometimes referred to as "crisis debt", can be particularly serious where priority debts are concerned (Parker, 1986, p.36). As any, or perhaps every, debt may be a crisis from a debtor's perspective, it was decided to define "crisis debt" narrowly in line with the definition of a priority debt used by Parker (1990) i.e. a situation where there is a threat of eviction, home repossession, utility disconnection, repossession of goods or committal to prison. A specific question was posed in this regard as part of the interview survey of MABS clients.[3] The responses to this question (Table 7.8 below) indicated that half of the clients surveyed were in some form of crisis debt at the time they approached MABS; in 9 cases, respondents had multiple crises (two or more). In 5 of these latter cases, respondents reported that they faced both eviction and disconnection; in 3 of these cases respondents reported that they faced both disconnection and repossession of goods; in the final case, a respondent faced eviction, disconnection and repossession of goods. In 14 of the 18 "crisis debt" cases, utility disconnection had been threatened. In 3 of these cases disconnection had already taken place and in one of the 5 'goods repossession cases', goods had already been repossessed. Again, utility debt features strongly in this analysis and was the debt most likely to be associated with an imminent crisis facing MABS clients.

TABLE 7.8: NUMBER OF INTERVIEW RESPONDENTS REPORTING CRISIS DEBT, 2007 (n =36)

Type of crisis debt	**Number of respondents** (n)
Disconnection	14
Eviction	6
Goods repossession	5
House repossession	2
Committal	1
Multiple crises	9
No crisis debt	18

Source: MABS Client Interview Survey 2007

These responses suggest that crisis debt is a serious issue among clients of money advice services in Ireland. However it appears to be less of an issue among money advice clients in Ireland than in the UK. Hinton and Berthoud (1988) found for example that 69% of the clients they surveyed were facing eviction at the time they first sought advice, 54% faced disconnection and 38% were threatened with imprisonment.[4] Respondents were generally approaching MABS services before things had got completely out of hand. This may indicate that MABS has had some success in establishing itself within the community as an effective intervention service. Eustace and Clarke (2000) found for example in their national evaluation of MABS services that the most common reason for referral to MABS was "word of mouth" recommendation by others, in particular existing service clients (p.187).

Other financial consequences

Some of the other financial consequences of over-indebtedness have already been described both above, and in the previous chapter. As discussed above, it was clear that people had cut back on spending in many cases and were unable to afford certain items that the rest of society takes for granted, or to save. The finding (mentioned earlier in Chapter 5) that three quarters of respondents lacked even a relatively modest savings "buffer" of €1000 to cope with future emergencies, indicates that whatever savings a household may have had, were now gone as a result of trying to cope with ongoing demands and debt repayments. Two respondents described how debt problems were affecting future income prospects by impairing their confidence or ability to work or to find work.

> *It affects your confidence, the pressure to get a job at an interview [...] you think 'I desperately need it', you lose more confidence when you don't get it* (Respondent 16: Female, single, waged).

> *I couldn't take the job even though I was offered it [...] I was so stressed, it wasn't going to make any difference* (Respondent 23: Male, single, self-employed).

The breakdown of the relationship with a key provider of financial services, namely the bank, was a consequence of over-indebtedness noted by two respondents (below). This clearly has implications in terms of access to future credit and to financial services in general. These issues, and the impact of MABS on each, are discussed in more detail in the next chapter.

> *The bank treat you like a criminal [...] I'd been with the bank for years, banks suddenly dismiss you, they used to have great time for me, almost over-night the same people didn't want to know, it was like they had a personality change (*Respondent 16: Female, single, waged*).*

*The bank foreclosed [...] the banks were not helpful, they didn't listen or want to know (*Respondent 15: Female, married with children, waged.*)*

Psychological consequences

There is a growing body of literature which suggests that over-indebtedness has an adverse effect on the health, and in particular the psychological or mental health, of those who experience it. These effects were the subject of two significant pieces of Scandinavian research some years ago. Hintikka *et al.,* (1998) and Ahlstrom (1998) both identified relationships between ill-health and difficulties repaying debts, in Finland and Sweden respectively. The health consequences were serious in each case. The Finnish study found that people with debt problems were more likely to have suicidal tendencies than the population as a whole. The Swedish study found a broader correlation between over-indebtedness and diminished mental and physical health in general. It concluded that:

> *Low health values such as those found among over-indebted men and women in the study*[5] *are only seldom found in the general population and even if then, are usually associated with disability pensioners, old age and/or severe chronic disease* (Ahlstrom, 2000, p.50).

More recent research in Ireland undertaken by the Women's Health Council also found that there is a relationship between over-indebtedness and ill-health among women specifically. The study, based on a study of 97 MABS clients, found that debt problems have more of an impact on emotional rather than physical health, and that stress is a major factor (Women's Health Council and MABS National Development Limited, 2007, p.6). The responses given by respondents to an 'open' question[6] posed as part of the interview survey of MABS clients, are very much in line with the above research. All but two clients responded that over-indebtedness had affected them in some way, and in most cases, several ways. A majority of clients, 19 out of 36, (unprompted) used the word "stress" to describe how the problems affected them psychologically. The words "pressure", "anxiety", "worry", "tension" and "not sleeping" were also used to describe what appeared to be basically the same thing.

The other main psychological effect of debt problems appeared to be guilt. Several respondents reported that they felt guilty particularly with regard to not being able to afford things for their children. The full list of reported effects is shown in Table 7.9 below.

TABLE 7.9: EFFECTS OF DEBT PROBLEMS REPORTED BY INTERVIEW RESPONDENTS, 2007 (n =36)

Type of effect	**Number of respondents** (n)
Stress	19
Guilt (re spending on children)	8
Depression	5
Worry	4
Nervous/psychological breakdown	3
Pressure	2
Children became stressed	2
Anxiety	1
Tension	1
Not sleeping	1
Increased medication	1
Fear (of homelessness)	1
Loss of confidence	1
Lack of control	1
Suicidal	1
No effects	2
Prefer not to answer	1

Source: MABS Client Interview Survey 2007

The quotes below, from both men and women, illustrate vividly the pressure that respondents felt themselves to be under as a result of their debt problems and how this pressure resulted in stress, depression, anxiety and guilt.

> *I had fierce stress* (Respondent 3: Male, married with children, on social welfare).

> *Stress, depressed, I couldn't get up, I had nothing to show for a 14-hour day* (Respondent 8: Male, married with children, self-employed).

> *I got totally depressed, let everything else go* (Respondent 30: Female, single, waged).

> *I'm on anti-depressants, I sit up crying [...] I worry I may not be able to close my eyes at night* (Respondent 32: Female, lone parent, on social welfare).

> *Conflict, a lot of personal stress [...] anxiety over what are we going to do* (Respondent 14: Female, married with children, on social welfare).

> *I told my daughter 'you can't go to the cinema, I don't have the money', she'd say 'you never have it', you want to let her go but you can't let her go and that makes you feel bad* (Respondent 28: Male, married with children, on social welfare).

Research in the UK has identified a relationship between over-indebtedness, emotional ill-health and social disadvantage in the context of people's housing situations (Nettleton and Burrows, 2000). A similar correlation emerges from Canada where research has found that tenants experience higher levels of emotional distress than homeowners (Cairney and Boyle, 2004). These two pieces of research suggest that where a particular group is experiencing disadvantage, a lack of security and of emotional capital, increased levels of distress can be expected. These are all characteristics of the MABS client-base as described in this and the previous chapter and may, therefore, explain the high levels of distress among the interview respondents.

7.5. CONCLUSION

This chapter has focused on identifying the causes and consequences of over-indebtedness amongst MABS clients. The analysis in respect of causes has focused on comparing the findings to the official perception of the cause of debt problems among poor people, i.e. money mismanagement and lack of access to credit. The findings suggest strongly that these perceptions are inaccurate.

In the first instance, the evidence suggests that money mismanagement or failure to budget is a direct or compounding cause only in around a third of cases. The predominant causes of debt problems among the interview respondents were linked to things or events that were largely outside of their control in the first place. Budgeting advice would not have prevented illness, unemployment, redundancy, bereavement or accident, for example. Nor was credit a major factor identified by respondents as causing over-indebtedness or as exacerbating it, although people in poverty were found not to be using as wide a range of credit sources, as those on relatively higher incomes. The indications were that low income was a factor causing people to have to borrow for *essential* items in a considerable number of cases.

These conclusions, allied to those in the previous two chapters, suggest strongly that although the Government has correctly identified the group most at risk of over-indebtedness in Ireland, its policies are inadequate and inappropriate given the severity, nature, and root causes of the problem. The findings to date suggest that poor people need more income, more assets and more choice to begin with to help prevent them becoming over-indebted in the first place. Those on higher incomes need to be encouraged to be more responsible users of credit, and the institutions which lend to them need to be encouraged to be more responsible sources of credit. People as a whole need their debts to be dealt with within a more humane system that recognises that problems arise often through circumstances rather than behaviour and provides a foreseeable way out in such circumstances.

Such changes would lead to a more appropriate system for preventing and addressing debt problems than we have at the moment. As regards the present, the extent to which MABS actually works in practice to improve the long-term circumstances of its clients is the subject of the next and final substantive chapter. MABS is faced with the various psychological effects and social and financial consequences of debt problems described above. The extent to which it helps people to deal with these consequences, their over-indebtedness, their poverty, and their prospects of becoming financially independent in the long term, will be considered in Chapter 8.

Notes

[1] There was one reported instance of each of the following: business failure through economic circumstances; unemployment; change in employment terms; accident; income drop; bereavement; "officialdom"; pregnancy.

[2] There was one reported instance of each of the following: inability to work; partner not working; nature of (contract) work; illness of family member; bereavement; spending behaviour; expensive borrowing; failure to receive maintenance; failed subsequent business.

[3] The specific question (no. 23) reads as follows: "Had any of your debts or loans reached crisis point at the time you went to MABS (by crisis I mean were you facing eviction, disconnection, repossession or committal for any of your debts?)".

[4] The authors note however that these findings were not based on a representative sample of clients.

[5]This study focused on the health of 500 over-indebted individuals in comparison to the general Swedish population.

[6] The full question (32a) reads as follows: -"I know that financial difficulties can sometimes affect the people involved and their immediate family. Please can you tell me if you can whether your financial difficulties affected you or your immediate family in any way?"

Chapter 8

THE IMPACT OF MABS ON OVER-INDEBTEDNESS AND POVERTY IN IRELAND

8.1. INTRODUCTION

The findings presented in this chapter are again based primarily on the interview survey of MABS clients carried out in the summer of 2007, and to a lesser extent on analysis of MABSIS data in respect of services overall. As has already been shown in the previous three chapters, although the Government has identified the group most at risk of debt problems, the strategy it is pursuing is inappropriate given the severity, nature and causes of these problems. The question to be considered now is the extent to which its main policy response, namely MABS, helps people to deal with their over-indebtedness, its causes and its consequences, and the extent to which MABS is meeting the objectives set for it by the Government.

8.2. MABS AS A RESPONSE TO OVER-INDEBTEDNESS IN THE SHORT TERM

In the short-term, MABS has an impact on a number of issues experienced by their clients. These issues are crisis debt, liability for debt, debt repayments and the associated pressure. Each of these issues is considered in more detail below.

Crisis debt

MABS proved to be very successful in the short-term in helping people deal with crisis debt (Table 8.1). As described in the previous chapter, half the respondents (50%) reported that they had experienced crisis debt at the time they first approached MABS, that is they were facing eviction, home repossession, utility disconnection, goods' repossession or committal to prison in respect of a particular debt or debts. In 13 of the 18 cases where people had experienced crisis debt, MABS had enabled them to deal successfully with the crisis debt(s) involved, whilst in another case, MABS had been "a little help" (Respondent 36: Female, couple with one child, waged.). In the four remaining cases, respondents had sorted out matters themselves without any help. Money advice, then, has a significant impact in enabling people to deal with these situations (c.f. similar findings in the UK by Mannion, 1992 and Hinton and Berthoud, 1988).

TABLE 8.1: IMPACT OF MABS ON RESPONDENTS' CRISIS DEBTS, 2007 (n=36)

	Number of respondents (n)
Experienced crisis debt	18
Crisis debt resolved completely	13
Client resolved debt without help	3
Crisis debt partially resolved	1
Crisis debt had already resulted in disconnection	1

Source: MABS Client Interview Survey 2007

Disputing debt

MABS was however less successful in the short term in assisting people to challenge the amount or legality of any of the debts that remained outstanding: see Table 8.2 below. In 30 of the 36 cases, debts were not disputed. There are three possible explanations for this. Firstly, liability may have been checked and everything found to be in order; or secondly, there may have been grounds for dispute but these were not checked; the third explanation is that there may have been no liability issues, and the evidence suggests this is most likely to have been the case. Research by Joyce (2003), and the Free Legal Advice Centres (2009), has concluded that in relation to cases where legal action has been instigated for the recovery of debts, the reason the vast majority of such claims are uncontested is that in general there are no issues involved other than a person's ability to repay.

In six cases, MABS directly assisted the clients interviewed to challenge successfully the amount of debt owed. In three of the six cases, the outstanding balance claimed by a creditor was higher than it should have been. In two other cases, the creditor had levied charges to the account (in respect of payment protection insurance in one instance, and account fees in another), both of which were successfully challenged. In the final case, the outstanding debt claimed following the repossession of a client's goods was reduced as a result of representations made on the client's behalf. The evidence of the unauthorised imposition of charges suggests that there may be more people, particularly among those who do not use MABS services, who may have grounds for contesting the amount of debt being claimed. It suggests a need for the Financial Regulator to take a more pro-active role in monitoring the practices of institutions or agencies in recovering debts from consumers.

TABLE 8.2: IMPACT OF MABS ON RESPONDENTS' LIABILITY FOR DEBTS, 2007 (n=36)

	Number of respondents (n)
Helped directly to dispute liability for debt	6
Helped indirectly to dispute liability for debt	1
Debts not disputed	29

Source: MABS Client Interview Survey 2007

In a further case, MABS indirectly assisted a respondent to significantly reduce their amount of debt. On the advice of MABS, a respondent had applied to join the Department of Social and Family Affairs' Household Budget Scheme, to repay their rent arrears by direct deduction from their social welfare payment. This led to the local authority re-assessing the client's rent account in line with their reported circumstances, and realising that they were charging the client too much rent on the basis of incorrect records: this led to the client's account being credited with a backdated rent rebate. Thus, it is more accurate to say that MABS assisted clients both directly and indirectly to contest successfully the amount of debt claimed in almost a fifth of cases (7 out of 36).

Re-negotiation of debt repayments

In assisting people to re-negotiate the amount of their debt repayments however, intervention by MABS clearly had a major impact. In over three quarters of cases (28 out of 36), respondents were now spending a different amount on debt repayments compared to when they first approached MABS (Table 8.3). A key aspect of the whole budgeting process is to enable people to identify what they feel they can realistically afford to pay towards their debts considering their ongoing expenditure on a range of essential items and needs (MABS National Development Limited, 2006, section 5, p.3). This is probably taking place in the majority of cases.

TABLE 8.3: IMPACT OF MABS ON RESPONDENTS' DEBT/LOAN REPAYMENTS, 2007 (n=36)

	Number of respondents (n)
Now spending more	9
Now spending less	19
No change	6
Don't know /not applicable	2

Source: MABS Client Interview Survey 2007

However, only around half of all respondents (19) reported that they were now spending *less* on debt or loan repayments. In a quarter of cases, respondents were now actually spending *more*. As the quotes below reveal, the most common explanation for this was that no payments at all were being made before advice was sought from MABS. Thus in some cases, a major effect of the provision of money advice appears to be the re-establishment of communication between debtors and their creditors. A further benefit of money advice to creditors is the receipt of payments in respect of debts outstanding to them. Thus, the process of re-assessing and prioritising expenditure with the assistance of MABS appeared to have resulted in the identification of a portion of income available for debt or loan repayments that had not been identified before.

> *We weren't paying anything before* (Respondent 10: Female, married with one child, waged).

> *I wasn't paying them [...] I was borrowing off Peter to pay Paul...now everything is regular* (Respondent 12: Female, lone parent, on social welfare).

> *It's where my focus is at the minute […] I wasn't really paying before* (Respondent 24: Male, single, waged).

Alleviation of pressure

MABS clearly had a considerable initial impact in alleviating the pressure experienced by its clients, and the alleviation of pressure in the short-term had led to longer-term benefits in many cases, such as an improvement in family relationships and in psychological health. The service was seen both as a "buffer" between clients and their creditors, and as an "empathiser" in understanding the situations respondents found themselves in. Two thirds of respondents mentioned some form of improvement in their worry or stress levels as a direct result of MABS intervention: 13 of the 24 mentioned that their health had improved, 7 that their stress had been lifted, 2 that they had less anxiety, one felt more relaxed and another that they now had more control over their life. In a third of cases (12 out of 36), respondents reported specifically that relationships within the household with their partner and/or children, had improved. However the impact in this respect appeared to be less than in relation to the alleviation of stress: in four cases respondents specifically mentioned that their relationships had *not* improved.

The quotes below illustrate just how important these indirect impacts of money advice were to respondents. It is worth noting that many of these comments were given in response to a final question at the end of the interview, as to whether respondents had any final comments about their involvement with MABS.

> *Within a week or two the stress had just gone[…] I'm just glad that they were there, all the staff were helpful, I could talk to any of them, (they) took all the stress away. The money's still owed but the wolves are away from the door now* (Respondent 8: Male, married with children, self-employed).

> *Stress, family relationships have improved […] as if a weight had been lifted […] knowing someone is there to help, an intermediary […] they don't judge you, they help you, they go through everything with you […] (they) put a hold on things, they're like the middle man* (Respondent 10: Female, married with one child, waged).

> *It all worked out […] I didn't know what to expect […] (I had) a sense of embarrassment about it […] I came out with my confidence lifted […] wasn't judged, I was understood, I got confidence from that […] (I was) dealing with a body of people who understand your situation* (Respondent 16: Female, single, waged).

> *If it wasn't for MABS, I don't know if this family would be together or not* (Respondent 18: Male, married with children, on social welfare).

8.3. MABS AS A RESPONSE TO OVER-INDEBTEDNESS IN THE LONGER TERM

MABS also made a longer-term impact on a number of issues that related to respondents' over-indebtedness. These issues related to respondents' understanding of money, the repayment of their outstanding debts and the capacity of respondents to meet the agreed repayments on these debts. Each of these issues is considered in more detail below.

Understanding of money

In nearly three quarters of all cases, 26 out of 36, respondents reported that they now understood more about money than they did before, and in particular in most of these cases, about how to budget. Respondents were asked whether their involvement with MABS had made any impact in relation to their understanding of money and credit in general and if so in what way or ways. This question was directly linked to one of the seven objectives set for MABS, namely 'to facilitate the target group to develop the knowledge and skills required to avoid getting into debt or to deal effectively with debt situations that arise' (Eustace & Clarke, 2000, p.22). The specific responses are shown in Table 8.4 below.

There were multiple responses in some instances. Ten respondents out of the 36 said that their involvement with MABS had made no difference to their understanding of issues to do with money and credit. Nearly half the respondents (17) said that they understood more about budgeting and how to use money than before; five respondents mentioned that they understood more about interest rates and/or consumer credit than before. One respondent mentioned specifically that he now understood how to prioritise his creditors. The replies from three respondents indicated that their involvement with MABS had resulted in them experiencing a "wake-up call" with regard to money, and an acknowledgement of the need to give more consideration or respect to it: 'not to take it for granted' (Respondent 23: Male, single, self-employed); 'not to let things go' (Respondent 21: Female, married with children, waged); and 'things have to be paid' (Respondent 11: Female, married with children, waged).

TABLE 8.4: IMPACT OF MABS ON RESPONDENTS' UNDERSTANDING OF MONEY, 2007 (n =36)

Understanding of money	**Number of respondents**
	(n)
Understand more about budgeting / prioritising	18
Understand more about credit/interest rates	5
More respect for money	3
Made no difference	10

Source: MABS Client Interview Survey 2007

Repayment of outstanding debt

It appears that MABS is also having an impact, but a more limited one, in terms of the overall repayment of outstanding debt. Balances of debt are reducing but only gradually. As highlighted in the previous chapter, respondents saw themselves as being faced with significantly long periods of debt repayment, five years or more in the majority of cases. A related question was posed during the interview survey, to determine how respondents felt about the progress they were making on clearing their outstanding debts. They were asked for information on the amount of money owed overall at the time of interview compared with when they first approached MABS for help. This was a multiple choice question with six options ranging from "owe considerably less now" to "owe considerably more now". The distribution of responses is given in Table 8.5. Only about a fifth of clients felt that they owed "considerably less" than when they first approached MABS, whereas the vast majority felt that they owed either "a little less" or "about the same". These findings show that although the amount of outstanding debt is declining, it is doing so only very gradually.

TABLE 8.5: RESPONDENTS' PERCEPTIONS OF THE AMOUNT OF DEBT CURRENTLY OUTSTANDING COMPARED TO WHEN MABS WAS INITIALLY APPROACHED, 2007 (n =36)

	Number of respondents (n)
Owe considerably less	7
Owe a little less	16
No change	9
Owe a little more	0
Owe considerably more	2
Don't know	2

Source: MABS Client Interview Survey 2007

The rate of decline in the outstanding debt balances owed by MABS "special account" clients also shows that debts are being repaid only very gradually. MABS "special account" clients make their re-payments into the local credit union every week. At the end of each month, the credit unions forward the payments received to MABS and the repayments to the various creditors are actually made, and monitored, by MABS. Thus records are available on MABSIS both on the original, and on the current, debt balances at any given time for this group of clients. The aggregate amount of debt owed by the 1,340 clients at the time of their initial approach to MABS (during 2006) can be compared with the aggregate amount of debt owed by these same clients as of July 1st 2007. The total proportion repaid by this group of clients by this stage amounted to around 18% of the amount of debt that was outstanding when they first visited MABS. Thus over 80% of the original debt was still owed. A fifth of these clients had cleared their debts in full but of the remainder, a majority still owed over 80% of their debts and in 10% of cases the amount of debt had not decreased at all (and in some cases had even *increased*). The best estimate from these special account data is that on average, it will take most MABS clients around five years to clear their debts.

Sustainability of repayment arrangements

Respondents to the interview survey had difficulties keeping to the repayment agreements that they themselves had made on the basis of MABS advice or that MABS had made on their behalf. In 34 of the 36 cases, MABS had helped respondents to negotiate agreements with creditors. How did respondents find keeping to the arrangements made on their behalf? The responses to this question are presented in Table 8.6 below.

TABLE 8.6: ABILITY OF RESPONDENTS TO MAINTAIN REPAYMENTS NEGOTIATED THROUGH MABS, 2007 (n =36)

Degree of ease/difficulty	**Number of respondents** (n)
Easily	12
Fairly easily	6
OK	1
Some difficulty	8
Difficulty	4
Great difficulty	2
None being made	1
N/a	2

Source: MABS Client Interview Survey 2007

Just over half of respondents reported that were finding it "easy" or "fairly easy" to keep to the agreed repayments. What is of cause for concern, however, is that the remainder were not finding things so easy: 15 out of the 34 found some degree of "difficulty" and in one case no repayments were being made at all. A view expressed by one respondent was: 'it's very tight: sometimes you have to pick out the most pressing [bill] and pay that" (Respondent 33: Male, married with children, waged). Given the length of time that it will take respondents to repay debts, the likelihood is that unless there is a significant improvement in clients' financial circumstances, such difficulties will continue to grow. As Mannion has noted:

> *The impact of money advice upon the well-being of clients can change over time. Immediate relief can fall off when confronted with the practicalities of living, possibly for many years, on a tight budget.* (1992, p.63).

Once again, inadequate resources to cope with ongoing demands on a limited budget appear to be at the root of these problems and the inability to see any end in sight (in the absence of debt settlement or personal insolvency options) may be another factor. However the over-estimation of what can realistically be paid may also be relevant.

The approach adopted by MABS is a subjective one, that is to say the emphasis is on helping clients to review their spending themselves, to decide the amounts they need to cover essential commitments such as food and clothing, and to identify the proportion of income available to repay debts. Could it be that clients are underestimating the amounts upon which they need for living, and thereby overestimating the amounts they have available for debt repayments, and is this what is contributing to the repayment difficulties?

The work undertaken recently in Ireland by the Vincentian Partnership for Social Justice (VPSJ) in relation to budget standards strongly suggests that this is the case. The VPSJ have concluded that when actual costs of living are compared with the needs of particular households, 'a low cost but acceptable' (or basic but adequate) standard of living is *not* viable at present for people dependent on One Parent Family Payment or unemployment payments' (Vincentian Partnership for Social Justice, 2004, p.VI). The situation is even bleaker in that this standard is calculated on the basis solely of living costs, and debts, and loan repayments, are not included. By definition therefore, the VPSJ is saying in effect that such households cannot realistically afford to pay anything towards debt repayments at current rates of social welfare. In contrast, the analysis of MABSIS data discussed in Chapter 6 (Table 6.7) suggests that social welfare clients on average have disposable incomes of over €22 per week, or nearly €100 per month, to offer creditors. These findings strongly suggest a need for MABS to review the methods by which it assists clients to draw up household budgets and to incorporate a more objective approach drawing on the VPSJ methodology. This would enable clients to identify more accurately how much, if anything, they can afford to offer their various creditors. Such an approach also has implications for periods of debt repayment, which would be likely to be considerably longer, were such an approach to be adopted.

8.4. MABS AS A RESPONSE TO POVERTY IN THE SHORT TERM

MABS also made an impact in the short-term on two issues that related to respondents' poverty, how they paid for things and how they budgeted their income from week to week. Both of these issues are considered in more detail below.

Repayment methods

Respondents were asked whether the methods of payment being used to repay debts were any different from when they first sought help. The evidence suggests that MABS is having a major impact in this area. In nearly two thirds of cases (23 out of 36), respondents reported that it was now easier physically to make their payments compared with how it was before seeking advice. One respondent summed up the situation thus: "Physically easier but financially more difficult" (Respondent 3: Male, married with children, on social welfare). Another responded similarly: "Physically easier but the money is still difficult to find" (Respondent 4: Female, lone parent, on social welfare). Payments through the credit union (by way of the MABS special account), banking system, Household Budget Scheme, post office and online payments were five examples given of easier payment methods that were now being used. In three cases, the periods between repayments had changed to facilitate the making of these payments, from weekly to monthly in one case, monthly to weekly in another and monthly to fortnightly in a third. Thus money advice had clearly made a difference to the methods used by respondents to manage their available resources.

Budgeting

MABS also had a significant impact in the short-term in encouraging people to identify the resources available to them and the various demands on these resources. People had clearly made choices, cutbacks or increases in various areas of expenditure as a result. This led directly to longer-term changes in spending behaviour. Respondents to the interview survey were asked a number of questions about how MABS had impacted on their spending habits.

The first of these questions was of a general nature about whether MABS had made a difference in respondents' ability to budget. Three quarters of respondents replied that they were now more able to budget as a result of MABS, whilst the remaining quarter indicated that the service had made little or no difference in this regard. The quotes that follow illustrate how people's attitudes towards spending had changed as a result of MABS.

> *I used to get Chinese or take-aways [...] I think more before I waste money* (Respondent 12: Female, lone parent, on social welfare).

> *I wouldn't buy a pair of runners and go without food now* (Respondent 13: Female, lone parent, on employment scheme).

> *I go to Aldi now, not Dunnes or Tesco [...] made a big saving* (Respondent 14: Female, married with children, on social welfare).

> *Managing it better, not buying silly, unnecessary things, magazines and papers, you'd have a quick look and throw them aside a couple of days later [...] no need for it* (Respondent 17: Female, married with children, on social welfare).

> *MABS showed me how to watch what I spend. I shop for cheaper brands now, save €30 per week shopping [...] I'm more aware of where my money is going: I look at €20 and say 'I can get two dinners out of this'* (Respondent 32: Female, lone parent, on social welfare).

In order to explore this issue more deeply and identify which areas of spending were being affected, respondents were asked specifically whether they were now spending different amounts of money on certain things namely food, fuel, family needs and social activities compared to before they approached MABS (Tables 8.7 and 8.8). It seems that MABS is having little impact on two areas of spending in particular: fuel costs and social activities. In terms of fuel costs, 22 respondents (over 60%) said that they were now spending the same amount on fuel and electricity as they were before.

A similar picture emerged in relation to people's spending on social activities. Again, nearly two thirds (22) reported that MABS had had no impact on their social spending, and only a third replied that they were now spending more in this area. These findings are a cause for concern given the long repayment periods many respondents appear to be facing.

TABLE 8.7: IMPACT OF MABS ON RESPONDENTS' SPENDING ON FUEL, ELECTRICITY AND SOCIAL ACTIVITIES, 2007 (n =36)

Area of spending	Spending more	Spending less	No difference	Don't know	Total
Fuel and electricity	2	11	22	1	36
Social activities	12	2	22	0	36

Source: MABS Client Interview Survey 2007

Intervention by MABS made more of a difference in terms of the amounts respondents chose to spend on their families and children. Half of the respondents in this situation were now spending a different amount, in some cases more (7), and in some cases, less (8). It also appears to be having a considerable impact in relation to the amounts being spent on food. As shown in Table 8.8, over 60% of respondents (22) reported that they were now spending a different amount of their budget on food as a result of going to MABS. The majority of these respondents (16) reported making cutbacks on their spending in this area, whereas only a small number (6) were now spending more.

TABLE 8.8: IMPACT OF MABS ON RESPONDENTS' SPENDING ON FAMILY/CHILDREN AND FOOD, 2007 (n =36)

Area of spending	Spending more	Spending less	Made no difference	Not applicable	Total
Family and children	7	8	15	6	36
Food	6	16	14	0	36

Source: MABS Client Interview Survey 2007

A number of respondents (unprompted) elaborated on how their spending behaviour had changed as a result of MABS intervention. In three cases for example, respondents reported that they had got rid of their telephone landlines and were now using just mobile phones, which they felt resulted in a significant saving. For many respondents, cutting back on what they saw as "extravagant" spending, keeping track of their money and shopping in cheaper stores, had become normal practice. People were also prioritising their spending as a result of MABS. For example in a number of instances, food and household bills were now being given higher prominence than before. The findings suggest that MABS has had a significant impact in helping people make the best use of the money available to them. The question that this raises, however, is whether the household budget that these changes imply is sustainable over the long term.

8.5. MABS AS A RESPONSE TO POVERTY IN THE LONGER TERM

The connections with MABS also impacted on people's poverty over the longer term, at least in some instances. These impacts related to respondents' ability to make ends meet, their overall quality of life, their ability to deal with future crises and to the amounts of savings and income that respondents now had at their disposal. However, in all of these instances, the impacts were noticeably *less* than those described so far and in some cases, minimal.

Making ends meet

The evidence from the interview survey is that respondents were finding it difficult to sustain the changes they had made in their lifestyles. A question was put to clients directly about their ability to make ends meet on a continuous basis.[1] A number of options were given ranging from "easily" to "with great difficulty". The responses indicate that two thirds of respondents (24 out of 36) were finding at least *some degree of difficulty* in making ends meet (Table 8.9). This compares with a figure of 44% for the population as a whole in 2001, and 56% for the population as a whole in 2006 (Central Statistics Office, 2007). Nearly a third of clients were "in difficulty" or "in great difficulty" as compared with 10% of the population as a whole in 2001, and 24% in 2006.

Thus despite the fact that those interviewed had received advice on budgeting over a considerable period, unlike the vast majority of the population, and had made significant changes to their lifestyle as a consequence, the majority were just about managing to keep their heads above water financially. The following quotes from the interviews illustrate the difficulties people were having in managing their living expenses and debt repayments:

> *Any tip at the moment would send me into ill-health* (Respondent 3: Male, married with children, on social welfare).

> *Things improved initially but they're now just as bad* (Respondent 5: Female, lone parent, on social welfare).

> *I wouldn't want to draw anything else on me* (Respondent 17: Female, married with children, on social welfare).

TABLE 8.9: ABILITY OF RESPONDENTS TO MAKE ENDS MEET, 2007 (n=36)

Ability to make ends meet	**Number of respondents** (n)	**Percentage of sample** %	**Population (2001)** %	**Population (2006)** %
Easily	4	11.1	14.8	13.2
Fairly easily	8	22.2	41.7	30.6
Some difficulty	13	36.1	34.0	32.1
Difficulty	5	13.9	7.2	15.0
Great difficulty	6	16.7	2.3	9.1

Source: MABS Client Interview Survey 2007, Living in Ireland Survey 2001 and EU Survey on Income and Living Conditions 2006

Once again, a lack of resources was clearly at the root of these difficulties. MABSIS data on expenditure on food and fuel in respect of the 1,430 clients who presented to MABS for the first time in 2006 also highlight this lack of resources. Expenditure by social welfare recipients on food, electricity, gas and solid fuel as a proportion of income (52%) was nearly twice that of those with an income from wages (30%) as shown in Table 8.10 below. In other words, the social welfare recipients spent more on essentials and therefore had less to spend on a discretionary basis.

TABLE 8.10: PROPORTIONS OF NET INCOME SPENT ON FOOD AND FUEL BY MABS CLIENTS, 2006 (n=1430)

Area of spending	**Social welfare recipients** (n=912) %	**Waged recipients** (n=518) %	**All clients** %
Food	31.5	18.6	24.41
Electricity	6.4	3.4	4.7
Gas	6.7	3.6	4.7
Solid fuel	7.1	4.1	5.4

Source: MABSIS

Quality of life

MABS had clearly had some impact on people's sense of wellbeing or their quality of life, but this was marginal in many cases. Respondents were asked specifically about "the extent to which MABS intervention had impacted on their quality of life". The purpose of this question was to identify whether MABS had helped people feel better about their lives. The responses indicated that the vast majority (29 out of 36) felt that their quality of life was better now compared with when they first approached MABS, but just under half the sample reported that it was now "much better". For the remainder, the impression from the interviews was that their quality life had either not improved at all, or at best, only slightly.

TABLE 8.11: IMPACT OF MABS INTERVENTION ON RESPONDENTS' QUALITY OF LIFE, 2007 (n=36)

Quality of life compared to before help sought from MABS	**Number of respondents** (n)
Much better now	16
A little better now	13
No difference	7

Source: MABS Client Interview Survey 2007

Ability to deal with future crises

How financially secure are MABS clients? One way of exploring this question is by reference to what they would or could do if confronted by another financial crisis. The interviewees, therefore, were asked how they would cope with an unexpected expense of €1,000. Two specific questions were posed in this regard as follows: -

> *Question 20. Could you afford an unexpected expense of €1000 without borrowing?*

> *Question 21. If you needed to borrow €1000 for something, would you be able to get a loan that you could afford to pay back?*

Respondents' seeming inability to cope with these possible scenarios is striking. In respect of the first question, 27 of the 36 respondents (three quarters) reported that they could *not* afford such an expense out of the resources readily available to them. This compares with a figure of 40% for the population as a whole in 2006 (Central Statistics Office, 2007). This more than any other finding illustrates the continuing precariousness of respondents' budgets and the inadequacy of resources available to MABS clients.

Another way of dealing with an impending crisis or need is of course to borrow the money. A specific objective of MABS is to facilitate its clients to get access to appropriate sources of credit: respondents were asked not just whether they could borrow the money, but whether they could afford to pay it back. The majority (19) replied that they would not be able to do so and only 15 (42%) replied that they could.

In a follow-up question, respondents were asked where they would go to borrow such a sum if they were able to do so. Ten of the respondents who had answered "no" to question 20 went on to describe a source of credit that they would use if they had to, even though they could not afford it. Table 8.12 below presents these findings. Two clients mentioned that they would approach either the bank or the credit union. The role that MABS can play with regard to the latter is illustrated by one respondent: 'MABS helped me get a loan from the credit union by advising me to put my savings into the credit union' (Respondent 16: Female, single, waged). By far the largest category was the credit union, although only around a third of clients felt that they would be able to borrow from this source.

In total seven different options were described by respondents including doorstep, mainstream and informal credit sources. Five of the 25 who gave a potential borrowing source, cited moneylenders as that source which suggests that these respondents saw no alternative. Only a fifth of respondents cited mainstream credit sources such as. banks and building societies. Four respondents cited family sources as their only source of borrowing. Access to credit was therefore an issue for a number of respondents.

Taken together, these findings suggest that MABS cannot in practice meet one of its key objectives, namely 'to identify sources of credit, which can best meet the needs of the target group and facilitate them to access these sources'. MABS clients feel they cannot afford to borrow on such limited incomes. It is not just access to credit that is the issue: the bigger issue is their ability to repay the credit that they take on. The loan guarantee fund is therefore only a partial solution in this context.

TABLE 8.12: SOURCES OF CREDIT THAT RESPONDENTS WOULD USE IF THE NEED AROSE, 2007 (n=25)

Credit source that respondents would use	**Number of respondents who would use that source[2]** (n)
Credit union	11
Moneylender or "loan shark"	5
Banks	4
Family or friends	2
Parents	2
Building Society	1
Religious organisation	1
Don't know	1

Source: MABS Client Interview Survey 2007

Savings and income

As we have seen, MABS had little noteworthy impact in enabling people to increase their incomes and/or assets as a way of getting out of poverty. There was little difference in the amount of savings respondents now had available to them compared to when they first visited MABS. As already described in Chapter 5, two thirds of clients reported that they had no savings they could draw on if they needed to. In three quarters of the cases (27 out of 36), respondents replied that MABS intervention had made no difference at all in terms of the amount of their savings. Again the majority, 26 out of 36, responded that MABS had made no difference to their ability to save on an ongoing basis. In two cases, people now actually had *fewer* savings than previously as shares they held in the credit union had been used to reduce their debt to the credit union. In only a fifth of cases (7 out of 36), did respondents report that their savings had increased as a result of going to MABS. Even here, the responses indicated that the amounts being saved were very low:

> *A little regular: I have a bit to put towards my daughter's accommodation* (Respondent 12: Female, lone parent, on social welfare).
>
> *A small amount* (Respondent 21: Female, married with children, waged).
>
> *A little more, €60 [...] but going in the right direction* (Respondent 23: Male, single, self-employed).
>
> *We've a little left after the bills and things have been paid* (Respondent 28: Male, married with children, on social welfare).

MABS appeared to be having more of an impact on income than on savings, but again only for a minority of clients. Respondents were asked "whether or not going to MABS had made any difference to their amount of income" and "whether any difference was directly attributable or not to MABS". The findings are presented in Table 8.13 below.

As can be seen, nearly two thirds of respondents (22 out of the 36) had received no extra income, either on a once-off basis or on an ongoing basis, as a result of the intervention of MABS. In the remaining 14 cases where extra income had been accessed, once-off payments were received in 4 cases, extra ongoing income in 6 cases and both once-off and ongoing income in the final 4 cases. In other words, in 10 cases out of 36, respondents had, as a direct result of MABS, a higher regular income than when they first approached MABS. In two other cases, MABS assisted respondents indirectly to maximise their income. In one of these cases, a respondent reported that as a result of getting on top of her financial problems, she now had more confidence both to seek, and to find, work:

> *Our income has gone up, not directly because of MABS but indirectly as getting on top of our debt problems, it helped mobilise yourself and get a job* (Respondent 15 – Female, married with children, waged).

TABLE 8.13: IMPACT OF MABS ON RESPONDENTS' INCOMES, 2007 (n=36)

Impact on income	**Number of respondents** (n)
No extra income	22
Extra ongoing income	6
Extra once-off income	4
Extra ongoing and once-off income	4
Total	36

Source: MABS Client Interview Survey 2007

These findings can be compared with findings from the UK. One research project focused on 15 clients dealt with by money advice centres and found that incomes had increased in only 2 of these cases (Mannion, 1992). The second piece of research, based on a survey of 26 clients of money advice centres, found 26 different instances where extra income had been accessed, including income from multiple sources in some cases (Hinton and Berthoud, 1988). MABS clients had received additional income either directly or indirectly as a result of MABS in around 4 out of 10 cases, but it is difficult to know whether MABS is doing all it can to maximise a person's income in every case. Table 8.14 illustrates the different ways in which MABS helped people to get access to extra income. There were 21 such instances reported by the 36 clients.

TABLE 8.14: TYPES OF EXTRA INCOME RECEIVED BY RESPONDENTS AS A RESULT OF MABS, 2007 (n=36)

Income Type	**Number of respondents** (n)	**Nature of extra income**
Supplementary Welfare (SWA)	3	Ongoing
Medical card	3	Ongoing
One Parent Family Payment	2	Ongoing
Unemployment Assistance	2	Ongoing
Maintenance	1	Ongoing
Child Benefit	1	Ongoing
Tax relief	1	Ongoing
Exceptional Needs Payment	4	Once-off
Charitable grant	4	Once-off

Source: MABS Client Interview Survey 2007

It was anticipated that factors other than MABS might have had an impact on clients' incomes. They were asked, therefore, whether their incomes had gone up or down significantly since they first approached MABS. The majority, 20 out of 36, replied that their income was still basically the same as it was before. In a further 3 cases, incomes had gone down for reasons unconnected with MABS and in the final 13 cases, incomes had increased although in 7 of these cases, this was not as a result of MABS.

With regard to the overall incomes of the MABS' clients interviewed, therefore, MABS had had some impact, although in only 6 of the 36 cases (17%) did it appear that clients' overall incomes had gone up *considerably* over the long-term as a direct result of the intervention of MABS. In short, MABS had had little impact on respondents' income and poverty.

8.6 CONCLUSION

The question addressed in this chapter may be summarised as follows: does MABS work? The findings suggest that it works very well in some respects but not in others. It helps people to deal with debts that have reached the "crisis" stage, it eases the pressure on them and as a result, people's health and relationships benefit. It enables people to re-establish communication with their creditors and to make arrangements with them. MABS also helps clients to become more aware of money in general and in particular of how they spend it. People are assisted to identify areas of spending where economies can be made and to find more suitable ways or methods of managing their finances.

However in other respects MABS has relatively little impact. It helps clients reduce their amounts of outstanding debt but only very gradually; long periods of payment remain and people find it difficult to keep to the arrangements that have been made. There is a marginal improvement in people's quality of life but they find it increasingly difficult to make ends meet on relatively low, predominantly fixed, incomes. Clients continue to lack the assets they would need to cope with future emergencies and most are unable to afford to borrow money for such things. At a push, most would be able to borrow, but the majority would borrow from non-mainstream sources, even in some cases from moneylenders, and less than half would borrow from credit unions. These impacts are summarised in Table 8.15 below.

What is clear from the responses is that MABS has its most significant impacts in relation to the *management* of available resources in that it helps people to manage their existing income, their debts and their poverty as best they can. However it is much less successful in terms of *eradicating* people's debts and *ameliorating* their poverty.

The evidence of this study suggests that MABS is fulfilling the short-term objective, set for it by the Government, of helping people cope with their immediate debt problems; however, it is not meeting their longer term objective of helping poor people to become financially independent in being able, for example, to access affordable credit. Insufficient income and assets have been identified throughout the study as being the main reasons for this. Various measures that are needed if these longer-term objectives are to be fulfilled have been suggested here. It may have to be concluded that it is unreasonable and unrealistic to expect a money advice service alone, even one as highly regarded as MABS, to meet these objectives.

TABLE 8.15: OVERALL ASSESSMENT OF MABS IMPACT ON RESPONDENTS

	Strong impact	**Little impact**
Resolution of crisis debt	✓	
Establishment of communication with creditors	✓	
Arrangements for debt repayment	✓	
Re-assessment of spending	✓	
Method of repayment	✓	
Understanding of money	✓	
Alleviation of pressure	✓	
Improvement in health/relationships	✓	
Dispute of liability		✓
Reduction in overall level of debt		✓
Ability to repay debt		✓
Ability to make ends meet		✓
Quality of life		✓
Ability to deal with future crises		✓
Access to affordable credit		✓

Notes

[1] This question was based on a similar question contained in both the LIIS and EU-SILC questionnaires.

[2] Two clients gave more than one option hence the total number of options is greater than the number who responded.

Chapter 9

CONCLUSIONS

The Irish social policy response to over-indebtedness

The policy response of the Irish Government to over-indebtedness is a distinctive but narrow one. Initial responses to the problem in the 1980s, such as the creation of a Loan Guarantee Fund, were a quick fix response to addressing problems associated with moneylending among low-income families. Throughout the 1990s, budgeting advice came to be seen as a more comprehensive response both to these problems, and to the issue of over-indebtedness generally. Some preventative measures, and in particular measures to do with consumer protection and information, have been put in place. However, while consumer credit use has grown to worrying levels across all sectors of the population in recent years, the Government has continued to focus primarily on dealing with debt problems among those on low incomes by way of service provision, and few other major policy initiatives or systemic measures have been put in place.

The Irish response to over-indebtedness is, thus, a striking example of two theoretical social policy models. The first is Groth's (2000) *conservative social model*, in which those who fall into debt are viewed by and large as "getting themselves into debt" and hence, need to be helped to get themselves out of it. Creditors are viewed generally as the wronged parties and debts remain repayable in full. Imprisonment for civil debt remains on the statute book in Ireland, although the legal architecture that permits this has had to be changed as a result of the High Court's finding in *McCann*. Irish money advice services, therefore, work mostly in opposition to the current legal system as opposed to in conjunction with it, as is the case in other European countries.

The second model is Esping-Andersen's (1990) *residual welfare state* model in which minimal assistance is provided to those people who find themselves among the lower tiers of society. In the context of the welfare state in general, this involves provision of a system based on means as opposed to citizenship or universalism. The MABS service itself is, arguably, based on this idea of residuality. Firstly, the government has assigned responsibility for its funding and operation wholly to the department with responsibility for income maintenance or social welfare services in general, namely the Department of Social and Family Affairs. Means-testing is a cornerstone of the Irish social welfare system, as evidenced by the emphasis on "safety net" provisions such as the Supplementary Welfare Allowance scheme, some of the provisions of which remain discretionary. Secondly, in contrast to money advice services elsewhere in Europe, Irish services are targeted specifically at *social welfare recipients and other low-income families*. Although people at all income levels use MABS services, the proportion that is social welfare recipients has remained fairly static at around 65-70%. Thus it may be said that MABS is an example of a "service for poor people".

The objectives set for MABS indicate that over-indebtedness is perceived to be associated with money mismanagement and in particular, with the unavailability of affordable credit to poor people. Thus the policy response is a curative one, based primarily on helping individuals to inform, educate and help themselves, and on facilitating their access to credit institutions that are seen as appropriate to the needs of those in poverty.

MABS services were set up relatively quickly, but there has been little reflection on how adequate these services are. There has been a lack of research and independent policy analysis in this area, and this has held back further policy development. Despite this lack of reflection and analysis, the response of the Irish Government is widely praised and the model it has developed, highly regarded. This study set out to examine the effectiveness of this model through a combination of quantitative and qualitative research using existing data and generating new data.

The response to over-indebtedness in Ireland is quite different from that in most other European countries, which commonly provide money management or budgeting advice on a universal basis and as an adjunct to other universal provisions.

In many countries, over-indebtedness is viewed more as a social problem than as an individual problem. In particular, there are measures elsewhere to enable people to clear their debts through a more accessible legal system, and out of court procedures. By comparison, the response of the Irish Government is narrow and one-dimensional, and there is no overall strategy or policy framework for dealing with over-indebtedness.

The findings of this study show that MABS plays a significant role in helping people deal with immediate difficulties, claim their rights and entitlements, become aware of their options and make the best use of available resources. In particular, the emotional support it provides remains highly valued by the majority of its clients. However, the findings challenge the general perception that MABS alone is the answer to poor people's debt problems. Although these findings show that the Government is focusing on the group most at risk of over-indebtedness and most persistently and severely in debt, namely those in poverty, the response it has put in place is not entirely appropriate to the nature and causes of their debt problems today. The Government is sponsoring behavioural and institutional solutions to a problem that this study has found to be predominantly socio-economic and outside of people's control. There is, thus, a need to move towards a more multi-dimensional model for dealing with over-indebtedness, which recognises that problems arise, by and large, as a result of factors other than personal irresponsibility. Such a move would be particularly timely as current indications are that the extent and nature of this problem is becoming considerably worse.

The effects of the recent economic downturn

The issue of over-indebtedness, and in particular the inadequacy of the present system for dealing with it, has featured prominently in the Irish media in recent months (the first half of 2009). This is mainly as a consequence of the fallout from the spectacular Irish economic downturn and accompanying recession, which began to manifest itself during the latter part of 2008, and has continued to escalate throughout 2009. Ireland has gone, therefore, from being commonly thought of as an economic "Celtic Tiger" to 'fighting for economic survival'[1] within a relatively short period of time. Although debt problems are not new phenomena, the extent of the current downturn, and the financial consequences of it, have brought these issues to the forefront of public debate and into the policy arena.

There are a number of indicators that the incidence of debt problems is growing significantly among the population as a whole in Ireland at the time of writing. Firstly, recent data published by MABS, show that there was a 33% increase in queries to MABS services during the latter two quarters of 2008, and the first quarter of 2009, compared to the corresponding periods twelve months previously.[2] Particularly noticeable has been an increase in clients presenting with mortgage debt.[3] Secondly, Ireland has experienced a dramatic increase in financial vulnerability relative to other European countries. According to the respected Genworth Index, which is compiled from responses to survey questions on current financial difficulties and future financial prospects, the Irish population has moved from a position of feeling relatively financially secure in Summer 2007 to being the third most financially vulnerable (of the twelve countries surveyed), by Autumn 2008 (Genworth Financial, 2008, p.14-15). Thirdly, a study recently published by the Financial Regulator shows that 1.44% of residential mortgage accounts, or nearly 14,000 mortgage accounts, were three months or more in arrears as at June 2008, an increase of nearly 24% compared to the end of December 2006 (Financial Regulator, 2008c).

Fourthly, there is evidence from recent court statistics that the number of debt cases coming before the Irish courts is increasing substantially. Research undertaken by the Free Legal Advice Centres (FLAC) reveals that in May 2008, Business Pro (the company which owns Stubbs Gazette, a journal in which the names of people who have had debt judgements registered against them are recorded), reported a 30% to 40% increase in a one year period in debt cases coming before the courts. FLAC also found there to have been a doubling of mortgage repossession cases brought in the High Court in 2008 compared to 2007; further, that the 276 people jailed in 2008 under the heading ‘offences relating to debt’, represented a 37% increase from the 201 who were so committed in 2007. FLAC went on to note that these were imprisonments of people who have not committed any crime or offence at all, and that are both 'costly to the Exchequer and unnecessary in many instances'.[4] Finally, there is evidence that mortgage indebtedness is placing increased demands on the social welfare system. Figures provided by the Department of Social and Family Affairs show that the number of those receiving financial assistance with their mortgages, in the form of mortgage interest supplement, more than doubled from 4,111 at the end of 2007 to 9,616 by the end of 2008.

Taken together, these recent data indicate that over-indebtedness is increasing across the population as a whole, and is placing greater demands on statutory systems and services such as the social welfare system and the courts' service. It is also placing huge demands on MABS' services. For the first time in the history of the Irish state, there is now a cohort of people in financial difficulty who have very high levels of credit (and mortgage credit in particular), this debt having been largely incurred during the credit boom when incomes were sufficient to service the associated repayments. Many in this position have become used to relatively high levels of income but now, through unemployment, redundancy, short-time work and higher tax levies, are faced not just with lower incomes and living standards, but with multiple debts and multiple creditors. Thus, there now exists in Irish society a group of people on low, or significantly lower, incomes with serious debt problems, in addition to those more persistently in poverty. This situation presents a fresh challenge to policymakers and a new approach for dealing with over-indebtedness across the whole population, which also recognises that specific interventions are needed to assist those on lower incomes, is clearly required.

Measures to address over-indebtedness among those on low income

The findings of this study have a number of implications for the development of policies to tackle financial difficulties in Ireland. Although MABS remains a highly regarded initiative, the findings suggest that specific measures, in addition to budgeting advice, are needed for those on lower incomes in order to prevent the spread of financial difficulty. The seminal work on credit and debt in the United Kingdom (Berthoud and Kempson, 1992, p.181), argues '*if the risk of debt is directly* *related to levels of income, raising the income of the poorest would reduce the extent of debt'.* This is also an overriding conclusion of this study.

Income is, however, only one part of a household's potential resources. Assets are also important to provide security for the future and a "buffer" against unforeseen or unexpected occurrences such as those that affected the majority of respondents to this study's interview survey. "Asset welfare" initiatives such as the UK *Child Trust Fund* and *Savings Gateway* schemes, discussed in Chapter 3, are examples of how those on low incomes can be encouraged to build up assets in the forms of savings. These savings can, among other things, prevent, and tide people over, periods of financial difficulty; they also provide people with a sense of security for the future and encourage a "savings habit". Another option is to revisit the idea of an SSIA type savings scheme, aimed specifically at those on low-incomes.

Finally, with respect to those on lower incomes, the findings of this study in relation to types of debt indicate that use of mainstream credit is strongly related to higher income in Ireland, in line with similar research in the UK. Thus more needs to be done to enable people to access more affordable and appropriate financial services, and to support people to use these services effectively. The development of basic bank accounts as a gateway to a range of such services has been proposed by the Combat Poverty Agency (2008) and a requirement to develop such accounts has recently been included as part of the Irish Government's 'banks recapitalisation package'.[5] Credit unions are also currently developing similar accounts, referred to as "service accounts".

Ireland is fortunate to have a well-developed, and greatly envied, credit union movement. Credit unions in the UK have been used as a vehicle to provide immediate, low cost, loans to those who are in need of credit but do not have the savings or collateral normally required. This is done through a UK government "Growth Fund" which facilitates affordable lending to those who are excluded from affordable credit. The Fund, currently stg. £80 million, is administered through third sector organisations, predominantly credit unions. A similar model could be adopted in Ireland. Another model that has recently been proposed is that of a "not-for-profit" home credit business that would compete directly with moneylenders (Kempson *et. al.,* 2009). Home insurance products could be provided for tenants (and tenant purchasers) through local authorities as part of rental schemes, as is the case in other countries.

Measures to address over-indebtedness among the population in general

Although this study identifies a relationship between poverty and financial difficulties, it also shows that debt problems are not confined to people in poverty, or to those on low income. Those on higher incomes were found to owe considerable amounts of debt and to have multiple, generally mainstream, creditors: they were thus more broadly and deeply in debt. Measures to address financial difficulties in general are, therefore, also needed. Reform of the legal system for dealing with civil debt is urgently required. Uncontested debt is more appropriately dealt with through mediation as opposed to litigation as is the case at present. Budget standards, only relatively recently developed in Ireland, could be better used to assist in the identification of affordable instalment payments for those in trouble. In addition to money advice, which is already very well developed and regarded in Ireland, there are three additional measures that would help to address financial difficulties in general in Ireland: debt settlement schemes, personal insolvency measures, and measures to curb irresponsible lending and promote responsible borrowing.

The Irish system, by and large, continues to treat individual debts owed by the same person as a series of stand-alone problems, whereas there is another possibility, which is more "holistic" and focuses on the *person*, rather than the individual debts. Debt settlement provisions or schemes, provided in many Scandinavian and Northern European countries and discussed in detail in Chapter 3, have been found to be very effective in enabling people to deal with complex debt problems by treating these as *one problem*. Many countries developed broadly similar types of schemes in response to the effects of the economic recession in the early 1990s. People who had taken on credit commitments and mortgages prior to the recession were becoming over-indebted in large numbers due to economic circumstances beyond their control.

Several (particularly northern European) governments recognised that their existing legal procedures were inappropriate for dealing with such situations. The emphasis had, heretofore, been on designing a system to deal with debtors who "wouldn't pay". Now, by and large, the casualties of the economic recession were found to be debtors who "couldn't pay". This is the situation facing Ireland at the time of writing and an opportunity exists to implement similar measures here, an option currently being examined by the Irish Law Reform Commission as part of its third programme of reform.

Unfortunately, given the extent of the current economic downturn and disturbingly high levels of credit being carried by many people, there will, in all likelihood, be a number of people who are to all intents and purposes financially bankrupt or insolvent. Aside from the possibility of making informal arrangements through MABS, the only mechanism that currently exists in Ireland for dealing with such situations is bankruptcy legislation, enacted in 1988 and discussed in Chapter 2. This legislation is rarely used other than in a business context as a result of the lengthy, cumbersome, embarrassing and stigmatising process involved.

More humane and accessible ways of declaring insolvency are now required, coupled with provisions that enable people to become re-habilitated within a reasonable and foreseeable timeframe. Personal insolvency provisions are highlighted as having an important part to play in tackling over-indebtedness, albeit as a last resort, in two important studies: firstly, the European Commission (2008) study on over-indebtedness referred to throughout this study, and secondly, a Council of Europe (2007) set of recommendations on legal solutions to debt problems. "Individual Voluntary Arrangements" (IVAs) and "Debt Relief Orders", discussed in Chapter 3, are examples of the types of personal insolvency provision that could be introduced in Ireland.

The findings of this study suggest that irresponsible lending is a factor giving rise to financial difficulties in Ireland, although it is probably true to say that credit consumers "over-borrowing" is also a factor, in particular among younger people.

The need for stronger regulation of consumer lending, and of financial service providers in general, has recently been advocated by a number of independent experts.[6] A Belgian initiative, commended in the European Commission study (2008, p.68) as an example of good practice, is the creation of an "Over-indebtedness Treatment Fund", modelled to some extent on the "polluter pays" principle. Credit institutions are required to make a contribution to the Fund based on their good to bad debt lending ratio. Those with higher levels of default are required to pay a higher percentage into the Fund, which is used to finance initiatives to tackle over-indebtedness. A more inclusive data sharing system among lenders could also help to prevent irresponsible lending. Currently, in contrast to some other European countries, many lending institutions in Ireland are not members of the main credit reference agency, the Irish Credit Bureau: examples are moneylenders and the majority of credit unions. Thus, credit institutions are often making lending decisions on the basis of incomplete information on prospective borrowers. Budget standards could be used in this context to enable lenders to ascertain borrowers' repayment capacity, as is the case in Norway.

In terms of promoting responsible borrowing behaviour, an opportunity exists to incorporate money management skills programmes within the *core* school curriculum at second level in particular: this is not the case at present, although there are some progressive initiatives taking place. In addition to the materials and resources on money management already developed for educational use, there is a potential role for the Irish banking industry in supporting the development of further materials as part of the requirements placed upon it through the banks' recapitalisation scheme.

To conclude, the experience of other European countries suggests that a policy framework for dealing effectively with over-indebtedness is needed, to ensure a more strategic response to the problem is put in place, as opposed to one based almost entirely on service provision as at present. An agreed definition of the problem for social policy purposes would be useful. The implementation of more effective methods of data collection and analysis would enable trends with regard to outstanding debt and default to be better monitored, and the effectiveness of policy interventions to be better evaluated. Credit providers and their representative bodies, for example, play little or no role in gathering data on debt and arrears for public policy purposes at the moment. The evidence from this study is that a policy framework consisting of the above elements, together with a range of preventative, curative and rehabilitative measures, is the most appropriate response to what, unfortunately, appears to be a pervasive and growing problem in Irish society.

Notes

[1]'Mr Cowen's moment', *Irish Times*, 29th January 2009.

[2]Figures provided by MABS National Development Ltd.

[3] Money Advice and Budgeting Service (MABS) Presentation to the Joint Oireachtas Committee on Social and Family Affairs on Levels and Trends in Personal Debt in Irish Society, 29th April 2009.

[4] Free Legal Advice Centres (FLAC) Presentation to the Joint Oireachtas Committee on Social and Family Affairs on Levels and Trends in Personal Debt in Irish Society, 29th April 2009.

[5]The recapitalisation scheme, announced by the Government in December 2008, aims to ensure stability in the Irish banking sector. In return, the scheme obliges the two banks in question (AIB and Bank of Ireland) to promote basic bank accounts to low-income groups, and to develop and support financial education initiatives ('Government statement: full text', *Irish Times*, 22nd December, 2008).

[6]Workshop on "Public authorities and financial services providers' responses to tackle financial exclusion", Brussels, 27th January 2009.

APPENDICES

Appendix 1

QUESTIONS RELATING TO OVER-INDEBTEDNESS CONTAINED IN THE LIVING IN IRELAND SURVEYS 1994 - 2001

Subjective questions

H.18: By 'total housing costs', we mean the repayments on loans and mortgages (if relevant) as well as property tax, the cost of repairs, heating and other household charges. To what extent are these housing costs a financial burden to you? Are they: a heavy burden; somewhat of a burden; no burden at all

H.24: By 'total housing costs', we mean rent, repairs, any charges for electricity, water, heat etc. To what extent do these housing costs represent a financial burden to you? Would you say they are: a heavy burden; somewhat of a burden; no burden at all

H.30: To what extent is the repayment of such debts *(hire purchases or loans)* and the interest involved a financial burden on your household? Would you say that it is a heavy burden; somewhat of a burden; not a problem?

H.31: Thinking now of your household's total income, would you say that your household is able to make ends meet? With great difficulty; with difficulty; with some difficulty; fairly easily; easily; very easily

Objective questions

H.32.1: Has your household been in arrears at any time in the last 12 months that is to say unable to pay as scheduled *rent* for accommodation?

H.32.2: Has your household been in arrears at any time in the last 12 months that is to say unable to pay as scheduled *mortgage* repayments?

H.32.3: Has your household been in arrears at any time in the last 12 months that is to say unable to pay as scheduled *utility* bills (electricity, water, gas etc)?

H.32.4: Has your household been in arrears at any time in the last 12 months that is to say unable to pay as scheduled *hire purchase instalments* or *credit card debts?*

H.32.5: Has your household been in arrears at any time in the last 12 months that is to say unable to pay as scheduled *hospital or medical bills*?

H.33: Has the household *had to go into debt* within the last 12 months to meet ordinary living expenses such as mortgage repayments, rent, food, Christmas or back to school expenses?'

Source: Economic and Social Research Institute, Household Questionnaire, *Living in Ireland Surveys*, 1994 to 2001.

Appendix 2

LETTER GRANTING ETHICAL APPROVAL

NATIONAL UNIVERSITY OF IRELAND, MAYNOOTH
MAYNOOTH, CO. KILDARE, IRELAND

NUI MAYNOOTH
Ollscoil na hÉireann Má Nuad

RESEARCH & GRADUATE STUDIES
Dr Carol Barrett
Enterprise Officer.

Mr Stuart Stamp
Department of Applied Social Studies
NUI Maynooth

RE: Application for Ethical Approval for a project entitled:
Household Over-indebtedness and Poverty: The Implications for Policy

Dear Stuart,

The Ethics Committee evaluated the above project for ethical approval and we would like to inform you that ethical approval has been granted subject to the following changes:

- Please change the interview duration to read 'up to an hour' as the panel feels the time chosen may not be sufficient.

- Please also add a closing statement to the consent form and during interviews to make it very clear that this study may not directly benefit the participants.

With kind regards

____
Dr Carol Barrett
Secretary to the Ethics Committee

Cc Professor Seamus O'Cinnéide

Appendix 3

INTERVIEW SURVEY: LETTER AND EXPLANATORY NOTE REQUESTING COOPERATION OF MABS SERVICES

31st January 2007

Dear Chair

Following a long association with MABS, I am now a post-graduate student at NUI Maynooth where I am carrying out a study on over-indebtedness in Ireland. The study so far has involved a review of statistical data and MABS administrative records. However, in order to get further information, I would like to talk to clients with whom MABS is dealing at the moment. For that purpose, five services have been selected to represent all services, one of which is yours.

I would be grateful if you would cooperate in this research by facilitating me to select a sample of clients from your area and interview them. I wish to select a random sample of clients, but would wish to consult with the appropriate staff as to whether it would be possible to interview some or all of these clients. The interviews would be carried out in a professional and sensitive way. I have given more detail on the survey in the attached explanatory note.

I hope you will be able to help. Please do not hesitate to contact me directly if you require any further information or clarification.

Yours sincerely

Stuart Stamp
IRCHSS Government of Ireland Scholar
Department of Applied Social Studies
NUI Maynooth
Co. Kildare

Explanatory Note on the Proposed Survey of MABS clients

This research into over-indebtedness is important as being the first of its kind in Ireland. Statistical data and administrative records have been reviewed to build up a picture of over-indebtedness in Ireland. The first results of this work were published in the Autumn Edition of the Combat Poverty Agency's journal "Action on Poverty Today". However, if the research is to be comprehensive, it also needs to take account of the views of individual clients of MABS services.

For this purpose, it is proposed to carry out a survey of five different services representative of services as a whole. The survey will consist of a sample of ten clients from a list of reference numbers (not names) provided by each service. Services will then advise whether some or all of those chosen are approachable for interview. The primary purpose of the interviews is to ascertain the long-term impact of money advice on the clients concerned. Thus the focus will be on drawing a sample of clients who first approached MABS around six months ago. No individuals will be identifiable in the final report.

The research is funded by the Irish Research Council for the Humanities and Social Sciences, the primary government funded agency for social science research in Ireland. Approval to carry out this research has been granted by the relevant authorities within the University. The research is supervised by the Department of Applied Social Studies at NUI Maynooth.

Appendix 4

EXPLANATORY NOTE FOR MONEY ADVICE STAFF AS A GUIDE FOR POTENTIAL SURVEY PARTICIPANTS

- A national survey is being carried out by an independent academic researcher into the issue of financial difficulties and the impact the MABS service is having throughout the country. The aim of the survey is to find out people's experience of financial difficulties and their views on the service they have received from MABS.
- You have been selected anonymously and at random by the researcher as a potential participant in this survey. I am contacting you to see if you would be willing to take part in the survey.
- The survey involves an interview with the researcher who will ask you a number of questions about your financial situation and experience of MABS. He will record your replies in a questionnaire.
- The interview should take no more than an hour.
- The survey is totally confidential – this means that no-one, including the MABS service, will know what is said in this interview. It also means that no views that you express will be attributed to you personally.
- If you agree to participate, I will pass your contact details on to the researcher who will contact you directly to arrange a time and place that suits you.
- The researcher's name is Stuart Stamp. Stuart has long experience and involvement in this area and currently works as a researcher at Maynooth University.
- Would you be willing to participate in this survey?

Client ID:

Agree/Refuse:

Date

Client's Money Adviser: -

Contact details if client agrees (first name and phone no., mobile if appropriate):

Appendix 5

INTERVIEW QUESTIONNAIRE FOR SURVEY OF MABS CLIENTS

MABS Client ID = Date of interview =

Introduction – explanation and consent form

Before we start the interview, I would like to inform you of a few things about this survey:

- This is a national survey about the issue of financial difficulties and the impact the MABS service is having throughout the country.
- I am an independent researcher with a long-standing interest and involvement in this area.
- This survey is for academic purposes.
- The survey is totally confidential – by this I mean that no-one, including the MABS service, will know what is said in this interview.
- No views that you express will be attributed to you personally.
- I have around 30 questions to ask. The questionnaire is split into 6 different sections and should take around an hour to complete.
- Before we start I will give you a consent form to sign. Please sign only if you are happy to do so.

Part 1 General Profile and Circumstances

1 (a) Could you tell me please how many adults and children live in your household?

Record no. adults (18 and over).....	No.	=
Record no. of children and ages.....	No.	=
	Ages	=

1 (b) In the light of this, which one of the following best describes your living arrangements?

Single person	1
Couple with no children	2
Couple living with others (e.g. relatives)	3
Couple with children	4
Couple with children and others (e.g. relatives)	5
Lone parent with children	6
Lone parent with children and others (e.g. relatives)	7
Two or more family units (e.g. living separately in the same household)	8
Non family household	9

2 (a). Could you tell me please which of the following sources of income does your household receive?

	(a)		(b)
Record source of income as follows: -	Receive?		Largest source
	Yes	No	
Wages or Salaries	1	2	1
Income from self-employment	1	2	2
Income from agriculture	1	2	3
Private pensions	1	2	4
Children's allowance (child benefit)	1	2	5
Social welfare payments	1	2	6
Income from investments/savings/property	1	2	7
Other sources (please specify)	1	2	8
e.g. Maintenance			

2 (b) And of these sources of income, which of these is the largest source of income at the moment?

3. Now, if you added up all income sources in your household, what would be the household's total net income per week or month? This would include income from social welfare and all household members. By net income, I mean after tax and PRSI have been deducted.

Household net income	€	=
Period	Per.	=
Calculate net weekly equivalised income for the household	€	=

4. Do you think this income is enough for you and your family to live on?

Yes – 1 No -2

5. Now I'd like to ask you about your housing situation. Could you tell me please if you own your own home, are buying it with a mortgage or if you are a tenant?

	Yes (circle one)
Home owner	1
Private home purchaser	2
Purchaser through local authority	3
Local authority tenant	4
Private tenant	5
Other (e.g. sub-tenant)	6

6. Just to check before we move on, are your circumstances still the same as when you first went to MABS or have they changed at all? (specify)

Changed 1 Same 2

<u>Part 2. Resources: - Savings and Income</u>

7(a) I'd like to ask you now about savings. Could you tell me if you have any savings that you could draw on if you needed to?

(a)		(b)		
Savings?		Amount?		
Yes	No	More	Less	Same
1	2	1	2	3

7(b) And has going to MABS made any difference to the amount of savings you have?

8 (a) I'd now like to ask you whether or not going to MABS has made any difference to the amount of income you receive. Have you received extra income from any of the following as a result of going to MABS: -

	(a) Income receipt?		(b) Nature?	
	Yes	No	Once off	Ongoing
Employment or training schemes?	1	2	1	2
Tax credits or allowances?	1	2	1	2
Charitable payments?	1	2	1	2
Social welfare?	1	2	1	2
Health service (e.g. medical card /grant?)	1	2	1	2

8(b) Where you have received additional income was this a "once off" payment or is it a regular ongoing payment?

9. With regard to your income overall, would you say it has gone significantly up or down since you first went to MABS or is it much the same?

Gone up	Gone down	Stayed much the same
1	2	3

<u>Part 3 Spending, Budgeting and Managing your Money</u>

Here I'm interested in the amounts you actually spend on certain things compared with before you went to MABS.

10. Do you spend more or less on food now as a result of going to MABS or is there no difference?

	More	**Less**	**Same**	**Don't know**
Food	1	2	3	4

11. Do you spend more or less on fuel and electricity now as a result of going to MABS or is there no difference?

	More	**Less**	**Same**	**Don't know**
Fuel	1	2	3	4

12. Do you spend more or less on your children/family now as a result of going to MABS or is there no difference?

	More	**Less**	**Same**	**Don't know**
Children/family?	1	2	3	4

13. Do you spend more or less on your debt and loan repayments now as a result of going to MABS or is there no difference?

	More	**Less**	**Same**	**Don't know**
Debt and loan repayments?	1	2	3	4

14. Which one of these options best describes how you have found keeping to the repayments agreed through MABS?

With great difficulty	=1
With difficulty	=2
With some difficulty	=3
Fairly easily	=4
Easily	=5

15. Which of the following best describes your overall quality of life now compared with when you first went to MABS? Is your quality of life: -

Much better now?	=1
A little better now?	=2
Much the same now?	=3
A little worse now?	=4
Much worse now?	=5

16. As a result of going to MABS, are you more or less able to budget your money or is there no difference?

More able	Less able	Same as before
1	2	3

17. Which of these best describes your ability to make ends meet at the moment?

With great difficulty	=1
With difficulty	=2
With some difficulty	=3
Fairly easily	=4
Easily	=5

18. As a result of going to MABS, are you more or less able to save regularly or is there no difference?

More able	Less able	Same as before
1	2	3

19. As a result of going to MABS, are you more or less able to spend money on social activities or is there no difference?

More able	Less able	Same as before
1	2	3

20. Could you afford an unexpected expense of €1000 without borrowing?

Yes	No	Don't know
1	2	3

21. If you needed to borrow €1000 for something, would you be able to get a loan that you could afford to pay back?

Yes	No	Don't know
1	2	3

If yes, please specify where you would go to borrow the money

22a. Do you understand more or less about money and credit as a result of going to MABS or is there no difference?

More	Less	Same
1	2	3

If 'more', please specify

22b. Do you have a current bank account?

Yes - 1 No –2

<u>Part 4. Debts and Loans</u>

I'd now like to ask you a question about the debts and loans themselves.

23. Had any of your debts or loans reached crisis point at the time you went to MABS (by crisis I mean were you facing eviction, disconnection, repossession or committal for any of your debts?)

	Yes	No
Eviction pending?	1	2
Disconnection pending?	1	2
Repossession of Goods pending?	1	2
Committal pending?	1	2

24. Did MABS help you to deal with the crisis or not?

Yes	No
1	2

25. Has going to MABS enabled you to make agreements with your creditors or not?

Yes	No
1	2

26. Has going to MABS enabled you to dispute any of your debts or not?

Yes	No
1	2

27. Is the process of physically making your debt/loan repayments any different to what it was before you went to MABS?

Easier	More difficult	Same
1	2	3

28. Which one of these options best describes the amount of money you owe now overall compared to when you first went to MABS. Do you: -

Owe a little less now?	1
Owe considerably less now?	2
Owe a little more now?	3
Owe considerably more now?	4
Owe about the same?	5
Don't know	6

29. How long would you say it will take you to pay off your outstanding debts?

Part 5 Causes and Consequences

You'll be glad to hear we're nearly finished now. I'd like to end by asking you about how your financial difficulties came about and how they affected you and your family.

30(a) Could you describe as best you can the cause of these difficulties, by the cause I mean the thing at the root of the problem? (Open question)

Record as: -	**Root cause**	**Subsequent factor**
Income drop	1	1
Expense increase	2	2
Family crisis	3	3
Failure to budget	4	4
Lack of services	5	5
Lack of resources	6	6
Other factor (specify)	7	7
No one source, a combination of factors	8	8
Force majeure (e.g. illness, unemployment)	9	9

30(b). Was there anything that made the problem worse?

31. One of the things sometimes associated with financial difficulties is the reason people borrow. Were any of your debts taken on for a specific purpose and if so what was this purpose (Open question)?

Record as	Yes	No
Home improvements (e.g. extension, new kitchen)	1	2
A motor vehicle	1	2
Household furniture/appliances	1	2
A holiday	1	2
Family events (e.g. Christmas/Confirmation/communion)	1	2
Essential costs or bills (clothing/education/medical)	1	2
Business costs	1	2
To pay off debts (e.g. through a consolidation loan)	1	2
For ordinary living expenses	1	2
For other purposes (specify)	1	2

32(a). I know that financial difficulties can sometimes affect the people involved and their immediate family. Please can you tell me if you can whether your financial difficulties affected you or your immediate family in any way? (Open question)

Record as

	(a) Had an effect?	(b) Improved since MABS?	
	Yes	Yes	No
Health?	1	1	2
Wellbeing/peace of mind?	1	1	2
Family relationships?	1	1	2
Relationships with others?	1	1	2
Family activities?	1	1	2

32 (b) Would you say that as a result of going to MABS, any of these things have improved?

<u>Part 6 Views on MABS</u>

33 Which one of these best describes the way you have been treated by MABS: -

Very well	-1
Well	- 2
OK	-3
Not too well	- 4
Not very well at all	-5

34. Have you any final comments that you would like to make about your involvement with MABS?

Many thanks for taking the time and trouble to help me complete this questionnaire

Appendix 6

CONSENT FORM USED FOR INTERVIEW SURVEY OF MABS CLIENTS

Confidentiality of data
No names or addresses will be recorded on the questionnaire. Only the researcher (and if necessary the researcher's supervisor) will have access to the data. The data will be kept in a locked cabinet at the University.

Study results
Data will never be used in such a way as to identify any of the participants. Data collected from the study will be presented as part of a PhD dissertation at the National University of Ireland, Maynooth. It may also be used for academic presentations and journals.

Withdrawal
You may withdraw from the study at any time or withdraw your data up until the work is published.

Participation
Participation in this study does not constitute any kind of advice or counselling. The study may not directly benefit the participants.

Advice/Support
Should you experience any kind of discomfort/stress as a result of participation in the study, advice/support is available from your local MABS

If during your participation in this study you feel the information and guidelines that you were given have been neglected or disregarded in any way, or if you are unhappy about the process please contact the Secretary of the National University of Ireland Maynooth Ethics Committee at pgdean@nuim.ie of 01 708 6018. Please be assured that your concerns will be dealt with in a sensitive manner.

Please sign below if you agree to participate in this survey

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Appendix 7

INTERVIEW SURVEY 2007: SUMMARY OF RESPONDENT PROFILES AND THE CAUSES OF OVER-INDEBTEDNESS REPORTED BY EACH RESPONDENT

Respondent 1: Female, married with two young children, private home purchaser, main income source is her partner's wage. They took out a loan on top of the mortgage to fund a deposit to buy a house. They have found it more difficult to meet the loan payments as the children got older and needed more.

Respondent 2: Female, lone parent with two children, local authority tenant, main income source a wage. She has separated from her partner who left behind debts owing to both companies and friends. This has led to a significant drop in her income as the respondent had to cut back on over-time work to look after the children.

Respondent 3: Male, married with two older children but is about to separate, private home purchaser, main income source social welfare. He was made redundant and his salary dropped by over half. This led to him attempting to be self-employed, which failed owing to a lack of planning, collateral and cash-flow. His consumer debt then became business debt and his relationship broke down as a result.

Respondent 4: Female, lone parent with four children, local authority tenant, main income source social welfare. Her partner told her that their bills were being paid when they were not and subsequently left the respondent. This has resulted in a significant reduction in income, with no maintenance and the respondent suffered depression as a result.

Respondent 5: Female, lone parent with one child, private home purchaser, main income source social welfare. The respondent has suffered from depression and been absent from work a lot. She subsequently had to give up work but did not claim social welfare for months afterwards.

Respondent 6: Male, married with two children, local authority tenant, main income source a wage. Took on a lot of credit that was being pushed by lenders "without thinking through the consequences". The situation was made worse by his partner not working and the nature of his work (short-term contracts).

Respondent 7: Male, single, tenant purchaser through local authority, main income source social welfare. He was laid off suddenly when his employer ceased trading. He had taken on a loan for home improvements needed for a family member with a disability. The loan was "pre-approved" and unsolicited.

Respondent 8: Male, married with two young children, private home purchaser, main income source his partner's wage. He feels he "never appreciated the value of money" as he went into business self-employed "without planning". Cash-flow problems ensued and a family bereavement led to depression. He separated from his partner temporarily but they are now back together.

Respondent 9: Female, lone parent with two children, local authority tenant, main income source an employment scheme that is about to end. She will then be totally dependent on social welfare. Her relationship with a violent partner broke down and the partner left causing a significant drop in income. The partner subsequently caused damage to property. The respondent states she is "an impulsive spender not a saver".

Respondent 10: Female, married with one young child, private home purchaser, main income source a wage. Her partner's alcoholism led to him losing his job and they stopped paying bills and loans. They ignored their debts for a while before the realisation dawned that the debts had to be faced.

Respondent 11: Female, married with two teenage children, three grown-up children still living at home, private home purchaser, main income source a wage. A friend was paying the respondent's loan but when the friend's loan finished, the respondent failed to maintain her own payments, she “forgot and stopped paying”. Threatening letters followed.

Respondent 12: Female, lone parent with one teenage (student) child, local authority tenant, main income source social welfare. The respondent had a violent partner who left her with debts. The respondent did not want to aggravate the situation and took on these debts but subsequently defaulted to fund her children’s education.

Respondent 13: Female, lone parent with one teenage child, local authority tenant, main income source an employment scheme. The respondent worked “normal hours” until she was put on shift work. Arrangements had to be made for her child but these proved unsatisfactory and resulted in the child having behavioural difficulties. The respondent was forced to give up work as a result and became depressed. Bills went into arrears.

Respondent 14: Female, married with three children, private tenant, main income source social welfare. The respondent “didn’t pay attention to outgoings” and they lived on their savings for a while until these ran out. Her partner was “too proud” to seek help or claim social welfare.

Respondent 15: Female, married with two children but another stays at the weekends, private home purchaser, main income source a wage. Their business failed because of cash-flow and an “inability to collect money owed”. The banks were unwilling to help and there was no bankruptcy option available. Their current income is insufficient to service their business debts.

Respondent 16: Female, single, home owner, main income source a wage. Her business failed because of “increased running costs” and an “inability to charge more than the market rate” to cope with this increase. The respondent re-located but was unable to find work other than very low-paid work. She found the banks very unhelpful.

Respondent 17: Female, married with three children, local authority tenant, main income source social welfare. The respondent's partner had an accident and was out of work for a significant period. They became dependent on social welfare and were unable to meet their loan repayments.

Respondent 18: Male, married with two young children, private tenant, main income source social welfare. A drop in income from "higher to lower" and children's demands made it difficult to cope. The respondent is precluded from work as a result of immigration issues.

Respondent 19: Female, lone parent with three teenage children, private tenant, main income source social welfare. The respondent a victim of abuse in a residential institution and has always been "stuck for money".

Respondent 20: Female, lone parent with one child who is very sick, local authority tenant, main income source social welfare. When her child became ill, the respondent had to give up work to care and her income dropped as a result.

Respondent 21: Female, married with two children, shared ownership with local authority, main income source a wage. They re-located for cost of living reasons but then her partner became sick and the respondent reduced her hours to care for him. Their financial problems "started as a result of this income drop" and the problems snowballed as their children's needs increased.

Respondent 22: Female, lone parent with two grown-up children, in-law also living with her, home owner, main income source a wage. The respondent borrowed for the cost of legal proceedings but had to use this money for a sudden family bereavement. This resulted in an unpaid legal bill.

Respondent 23: Male, single but has one child who he sees at weekends, living with parents, main income source self-employment. The respondent worked abroad for a while and was well-paid. He "continued to live the high life by borrowing" after returning home for a mixture of safety and family reasons. He has experienced a huge income drop.

Respondent 24: Male, single, rent free accommodation, main income source a wage. The bank granted loans to the respondent when he was a young age .He defaulted on these loans when he subsequently lost his job.

Respondent 25: Female, lone parent with one teenage child, local authority tenant, main income source social welfare. The respondent had a serious dispute with the local authority which resulted in her being forced to move and losing many of her possessions. She has had to re-build her life from scratch.

Respondent 26: Male, married with two children, local authority tenant, main income source social welfare. The respondent contracted a serious illness and was no longer able to work in his chosen profession.

Respondent 27: Male, couple with no children, private home purchaser, main income source a wage although certified sick from work. The respondent contracted a long-term illness. He received his full-income for a while but this subsequently dropped to half-income. They have had to borrow to repair damage caused by an accident.

Respondent 28: Male, married with three children, local authority tenant, main income source partner's wage. He contracted a serious illness some years ago. As he was self-employed, he was no longer able to work as much as before, became "depressed and started drinking heavily". He subsequently experienced cash-flow problems as a result of "mismanaging the business".

Respondent 29: Male, single but partner lives with him and child stays with him half time, shared ownership with local authority, main income source an employment scheme. "Money meant nothing from a young age". He experienced relationship difficulties which led to depression and neglecting bills. He borrowed from a moneylender to pay outstanding bills but found it difficult to make the associated repayments.

Respondent 30: Female, single with one grown-up child living with her, private home purchaser, main income source a wage. The respondent started her own business "without sufficient thought or planning". The business failed and an inability to find sufficiently paid work led to her relying on social welfare. Her debts escalated and no insolvency procedure was available as a way-out.

Respondent 31: Female, married with three young children, local authority tenant, main income source partner's self-employment. His business failed for "cash-flow reasons" and he was unable to pay loans he had taken out to purchase materials.

Respondent 32: Female, lone parent with two young children, private tenant, main income source social welfare. The respondent "didn't know about money" when she got married at a young age. Her partner had full control of their money but when he left her, it resulted in a significant drop in income and she got no maintenance. The respondent became dependent on social welfare.

Respondent 33: Male, married with two young children, shared ownership with local authority, main income source a wage. Problems started as a result of his partner's pregnancy and an employment rights dispute resulted in the loss of her job. Their income reduced significantly and arrears accrued. They had taken on loans for motor vehicles, home purchase and furnishings on the basis of two incomes but were no longer able to meet the associated repayments on one income alone.

Respondent 34: Male, single, local authority tenant, main income source a wage. The respondent had addiction issues and used credit to pay off other debts.

Respondent 35: Male, couple with no children, private tenant, main income source social welfare. His employer dismissed the respondent as a result of frequent illness. There was a subsequent delay in receiving social welfare and debts "started piling up". The lower income was compounded when his partner's employment scheme finished.

Respondent 36: Female, couple with one young child, private tenant, main income source partner's wage. The respondent's low wage as an apprentice was "not sufficient to cope with costs of living". She received no benefits to help supplement her income so she took on debts and used new debts to pay old ones.

Appendix 8

ARREARS ON LOCAL AUTHORITY RENT AND HOUSING LOAN ACCOUNTS 2004

Local authority	**4-6 weeks (rent)**	**6-12 weeks (rent)**	**More than 12 weeks (rent)**	**1 month (housing loans)**	**2-3 months (housing loans)**	**More than 3 months (housing loans)**
	% of accounts in arrears	% of accounts in arrears	% of accounts in arrears	% of accounts in arrears	% of accounts in arrears	% of accounts in arrears
Clare	25.00	10.00	65.00	13.00	28.00	59.00
Cork	2.68	10.93	73.13	3.33	2.80	88.66
Dublin	3.50	9.60	86.90	5.80	4.20	90.00
Dun Laoghaire /Rathdown	7.90	19.50	62.50	9.64	4.46	82.25
Fingal	8.16	17.07	65.95	0	42.89	57.11
Galway	9.00	8.00	51.00	17.00	44.00	39.00
Kerry	6.49	18.54	67.38	10.39	6.74	75.41
Kilkenny	5.50	11.80	65.50	6.50	5.90	79.70
Laois	28.00	20.83	50.54	-	-	-
Leitrim	13.00	18.40	56.40	65.00	0.50	30.00
Louth	13.64	22.62	54.38	11.70	7.19	70.55
Longford	6.00	10.00	78.00	8.00	2.00	86.00
Mayo	6.00	9.00	53.00	7.00	12.00	71.00
Monaghan	7.40	13.60	63.10	8.30	6.20	85.50
Offaly	7.80	19.90	60.77	7.00	7.00	69.00
Sligo	1.00	3.00	94.00	3.00	3.00	93.00
Tipperary N.	6.00	11.00	73.00	2.00	1.00	95.00
Tipperary S.	29.85	12.65	34.62	15.8	15.31	68.89
Waterford	9.14	17.69	65.04	13.64	11.96	65.94
West Meath	3.30	6.10	88.60	4.00	1.80	93.80
Wexford	7.78	15.15	53.21	1.05	7.81	28.09
Mean	**9.86**	**13.59**	**74.21**	**7.68**	**8.75**	**71.39**

Source: Local Authority Annual Reports, 2004

Appendix 9

GLOSSARY OF TERMS

Child Benefit: a monthly state payment, paid to the parents or guardians of dependent children in Ireland (sometimes referred to as the "children's allowance").

Credit Unions: not for profit co-operatives available to people throughout Ireland who live or work within a common bond. Credit unions provide loans and other financial services to members who regularly save with them.

Dáil Éireann: the House of (elected) Representatives that together with the President and Séanad Éireann (the Irish Senate) forms the Oireachtas (the Irish National Parliament).

District Court: The Irish court that deals with civil matters relating to contracts where the claim does not exceed €6,348.69. The District Court also deals with certain criminal matters, mainly summary offences that are statutory in nature.

European Community Household Panel (ECHP): a panel survey into living conditions in member states co-ordinated by Eurostat (the statistical office of the European Communities) and conducted annually from 1994 –2001. The Irish element of the ECHP was the series of Living in Ireland Surveys (LIIS) conducted by the ESRI over this period.

EU Survey on Income and Living Conditions (EU-SILC): a European-wide survey into the incomes and living conditions of private households. The Irish surveys are carried out by the Central Statistics Office for the principal purpose of measuring and monitoring poverty in Ireland. These surveys are the successor to the Living in Ireland Surveys.

Exceptional Needs Payment (ENP): a discretionary, generally once-off payment, administered by Community Welfare Officers (under the auspices of the Health Service Executive) to social welfare recipients who have an exceptional need that cannot be met out of current resources.

Financial statement: a document used principally by money advice services to present details of the income and expenditure of service clients to creditors, legal practitioners and the judiciary.

Household Budget Scheme: a budgeting facility for social welfare claimants operated through An Post (the Irish Postal Service). Claimants can opt to have up to 25% of their weekly payment deducted at source and paid to certain specified creditors, namely local authorities and utilities.

Illness Benefit: a social insurance contributory benefit for those under 66 years who are unable to work through sickness.

Jobseeker's Allowance: a means-tested (non-contributory) payment for those who are unemployed and available for work in Ireland (formerly known as Unemployment Assistance).

Jobseeker's Benefit: a social insurance (contributory) payment for those who are unemployed and available for work in Ireland (formerly known as Unemployment Benefit).

Living in Ireland Surveys (LIIS): a series of eight panel surveys or 'waves' into poverty trends conducted by the Economic and Social Research Institute between 1994 and 2001 as the Irish element of the European Community Household Panel.

Loan Guarantee Fund (LGF): collateral provided by the Irish government to guarantee loans advanced by credit unions. The Fund, established in the late 1980s to help people pay off outstanding moneylending loans, is now available solely through MABS services.

MABS Helpline: a freephone service for people with debt problems in Ireland.

Money advice: the provision of advice and information on rights and options to do with personal finances (excluding investments), and on personal over-indebtedness in particular.

National Anti-Poverty Strategy (NAPS): a strategic plan to combat poverty in Ireland adopted by the Irish government in 1997. Now superseded by the National Action Plan for Social Inclusion.

National Action Plan for Social Inclusion: a strategic plan which incorporates the Government's targets for reducing and eliminating consistent poverty by 2016.

Oireachtas: the Irish Parliament or legislature. The Oireachtas consists of the President, Dáil Éireann (the House of Representatives) and Séanad Éireann (the Irish Senate). Proposed legislation must be passed by both Houses and signed by the President before it passes into Irish law.

One Parent Family Payment (OPFP): a means tested social welfare payment for lone parents.

Pay Related Social Insurance (PRSI): social insurance payments, deducted at source by employers that provide entitlement for the employee to a range of social welfare payments dependent on the rate of PRSI paid.

Shared ownership: a scheme to enable people who cannot afford to buy a home outright, to purchase it in stages in partnership with their local authority.

Sheltered housing: a housing scheme for older people provided by way of supervised accommodation units.

Social housing: rental housing provided through local authorities, sometimes in partnership with voluntary housing associations.

Social welfare: the term used in Ireland for income maintenance services provided by the Department of Social and Family Affairs (DSFA), previously called the Department of Social Welfare (DSW).

Special account scheme: a budgeting facility, operated in partnership with credit unions, available to clients of Money Advice and Budgeting Services (MABS) for the weekly or monthly payment of bills and debts.

Supplementary Welfare Allowance (SWA): the basic safety net social welfare payment available to those without any other source of income in Ireland.

Tenant Purchase: a scheme whereby tenants of local authority houses can apply to purchase the home they have been renting after a certain period.

Appendix 10

LIST OF ORGANISATIONS

An Garda Síochána: the Irish Police Force.

An Post: the Irish Postal Service.

Bord Gaís: the main supplier of natural gas in Ireland.

Central Bank of Ireland: the regulatory body for the financial services sector in Ireland. The Bank is part of the Central Bank and Financial Services Authority of Ireland (CBFSAI).

Central Statistics Office (CSO): the statutory body responsible for the collection and dissemination of statistical information on social and economic activities in Ireland.

Citizens Information Board (CIB): the national support agency responsible for supporting the provision of information, advice and advocacy in relation to social services in Ireland.

Citizens Information Centres: a network of free, confidential, independent information and advice centres in Ireland.

Combat Poverty Agency: the statutory agency responsible for advising the Irish Government on policies to reduce poverty in Ireland.

Community Welfare Service: the statutory service responsible for the administration of certain social welfare payments and in particular the Supplementary Welfare Allowance (SWA) Scheme, the basic income safety net payment in Ireland. The service operates under the auspices of the Health Service Executive (HSE). The officials within the service who deal directly with the public in terms of the SWA scheme are Community Welfare Officers (CWOs).

Consumer Credit Association (CCA): the trade association for licensed moneylenders in Ireland.

Courts Service: an independent corporate organisation established by statue, to manage the courts, support the Irish judiciary and disseminate information about the courts and their work.

Credit and Debt Policy Group: a voluntary group that lobbied on consumer credit and debt issues in the 1990s from a low-income perspective, now disbanded.

Department of Social and Family Affairs (DSFA): the Government Department responsible for income support services in Ireland.

(Office of the) Director of Consumer Affairs: formerly the independent statutory office responsible for consumer protection and the provision of advice and information to consumers. The Office was disbanded in May 2007 and has been replaced by the National Consumer Agency.

Economic and Social Research Institute (ESRI): an independent social science research centre with a specific focus in informing policy making in Ireland in relation to economic and social issues.

Eircom: Ireland's largest telecommunications provider, formally the sole provider prior to privatisation in 2002.

Electricity Supply Board (ESB): Ireland's largest electricity service provider, formally the sole provider prior to privatisation in 1999.

FÁS (Foras Áiseanna Saothair): Ireland's national training and employment authority. FÁS offers a range of training and employment programmes and supports to those who are unemployed.

Financial Regulator: the statutory body responsible for the regulation of financial service providers in Ireland and the protection of consumers of financial services. Formerly named the Irish Financial Services Regulatory Authority (IFSRA).

Free Legal Advice Centres (FLAC): an independent Irish human rights organisation that campaigns for equal access to justice through advocacy, litigation and research.

Health Services Executive (HSE): the statutory body responsible for the provision of health and personal social services throughout Ireland.

Irish Banking Federation (IBF): the representative body for the vast majority of clearing banks and associated financial institutions in Ireland.

Irish Credit Bureau (ICB): the principal credit reference agency in Ireland, funded by members of the credit industry. The Bureau keeps details of individual loans made by members and the associated repayment record of borrowers. This information is used by ICB members to assess the credit worthiness of potential borrowers on application for a loan or credit facility.

Irish League of Credit Unions (ILCU): the representative body for the vast majority of credit unions in Ireland.

Irish Mortgage Council (IMC): the representative body for mortgage lenders, mainly Building Societies, affiliated to the IBF. Formerly known as the Irish Mortgage and Savings Association.

Irish Research Council for the Humanities and Social Sciences (IRCHSS): a government funded body that funds post-graduate research through a range of fellowship and scholarship schemes.

Irish Social Science Data Archive (ISSDA): based in University College Dublin (UCD), ISSDA holds data from a range of official surveys and makes these data available for academic research purposes.

Money Advice and Budgeting Service (MABS): a government established and funded network of money advice centres, aimed principally at those on low-incomes.

MABS National Development Limited: a company established to assist the work of MABS services through the provision of technical support, training, promotion, information/education resources and information technology.

National Consumer Agency (NCA): a statutory body established to protect Irish consumers through the enforcement of consumer legislation and the provision of advice on consumer rights. The NCA took over the functions of the Office of the Director of Consumer Affairs in 2007.

Office for Social Inclusion (OSI): the Irish Government Office responsible for implementing and monitoring the National Action Plan for Social Inclusion, which incorporates the Government's targets for reducing and eliminating poverty.

One Parent Exchange and Network (OPEN): a national network of local lone-parent self-help groups which promotes the interests of lone parents within society.

Radio Telefis Éireann (RTÉ): Ireland's national public service broadcaster.

Society of St Vincent de Paul (SVP): a Catholic charitable organisation that provides financial assistance and other supports to those in poverty.

Sustainable Energy Ireland (SEI): Ireland's national energy agency established by the Government in 2002 to promote sustainable energy, formerly known as the Irish Energy Centre.

Threshold: a not-for-profit charity that promotes people's housing rights by way of campaigns, information, advice and research.

Vincentian Partnership for Social Justice (VPSJ): a partnership of Irish religious orders that campaigns for equality and social inclusion through research and advocacy.

Women's Health Council (WHC): a statutory body that advises the Government on all aspects of women's health.

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