

# How Reliable Is Debt Advice?

Does your heart leap each day when you look at the ever-growing pile of financial statements, letters of authority and requests for account information from a debtor's appointed third party? Mine neither!

I too, have gritted my teeth at the prospect of accepting a reduced contractual payment so that a debtor can keep their horse in the stables to which it has grown accustomed. Oh dear, how easy it is to become cynical!

The reality is, as with most issues in life when viewed from one side, things become a little, well, one-sided.

## Research

As such, it was with several pre-conceived ideas that I set about researching the role of third party advisors in cases of financial difficulty.

Is the debt management route really just another way to shirk financial responsibilities?

What is actually discussed and given as advice before we receive the ubiquitous financial statement? Are debtors really 'allowed' Sky TV, tobacco, charity giving and leisure activities, when they cannot afford to pay their contractual payments?

If I google 'debt help' I get around 469,000 possible links for UK sites. Of these, how can the average debtor differentiate between who will charge, who will offer potentially damaging advice and who provides a robust and compliant service?

## Regulations

There has been much work done already, both by the Office of Fair Trading (OFT), in its Debt Collection Guidance Note of July 2003, and the British Bankers Association (BBA) and Money Advice Trust with the Common Financial Statement.

This gave me a sound set of guidelines on how the debt collector was expected to deal with debtors who have appointed a third party, how the relationship with the third party had to be conducted and what items of discretionary expenditure – mobile phone, travel and pets – should be accepted without question by creditors who are members of the BBA.

Similarly, the OFT's guidance note of December 2001, Debt Management Guidance, sets out minimum standards by which debt management companies (DMCs) should behave if they too are to be judged fit to hold a consumer credit licence. The guidance is relevant to the activities of all such providers but is aimed primarily at the fee-charging companies.

My research was conducted using a 'mystery shopper' methodology, which was clearly going to achieve a more realistic response than asking: "Excuse me, could you tell me if you give fair and accurate advice to your customers, in line with the OFT guidance note? No? Fantastic!"

## Advertising

By firstly trawling several formats of advertisement I was able to gauge the general level of 'reality' displayed in the marketing for, predominantly, the fee-charging debt management companies &ndash; the free organisations being limited in their ability to advertise due to budget restrictions.

To start on a positive note, it was hearteningly difficult to find any breaches in the advertisements in newspapers and on TV, and we should applaud the OFT for its influence over the previous trend for misleading marketing through these medias.

More worryingly, however, was the newer trend for less than transparent IVA adverts which dominate the back pages of the tabloids and the television advertisements in the breaks of \_The Jeremy Kyle Show\_ alike.

Similarly, I found many online advertisements for the DMCs were, at best, misleading and economical with the truth. With unlimited space to extol the virtues of reduced repayment programmes, many companies did little to share the complexities and consequences involved in such a course of action.

Tucked away quietly in the Frequently Asked Questions section of their websites were vague references to credit ratings and potential further action, but by no means were these 'warnings' given similar prominence to the service they referred to, as is required by the OFT in their guidance note.

## Telephone advice

Encouragingly, my suggestion of only paying my creditors half of my disposable monthly income to the first (very well known) DMC was met with a firm &ldquo;No&rdquo;.

Regrettably, this encouragement was not to be matched in subsequent calls to some of this company's competitors.

I was advised by one company that having a representative meant my offers were more likely to be accepted as &ldquo;it's the law&rdquo;, that being on a debt management plan would improve my credit rating and that interest would be stopped if I went with them as opposed to trying to manage my debts myself.

The fee, which was only mentioned following my continued questioning, was given to me incorrectly, and I was told my debts would take less time to clear off than is actually possible, as the DMC had not accounted for the fact that their fee would reduce the amount I was paying my creditors.

I was also surprised by another company which advised me that I could pay my monthly repayments by credit card. When I acted perplexed at the prospect of having a credit card that was not included with my list of creditors I was advised to go out and apply for a new one. Displaying concern about obtaining further credit was met with the response that it was fine as long as my current creditors did not find out.

Presumably, consumers would then find it odd to receive the terms and conditions for this particular company which state that you should not apply for further credit and get yourself into further debt

whilst they are your representatives.

## Terms and conditions

I received written terms and conditions from several companies which, being printed in migraine-inducingly small text, left me dubious at their ability to provide clear and compliant advice.

Another highly disturbing aspect of the research has been the subsequent barrage of calls and letters to my home offering consolidation loans, IVAs, debt management plans and other so-called 'personalised debt solutions' from either a sister company of the DMC or a company to which my details have been passed by the DMC &ndash; without, as far as I am aware, my consent.

These issues, along with the fact that none of the DMCs I contacted offered any form of debt rehabilitation or education other than to offer a reduced repayment programme, left me concerned about the obstacles faced by the less 'in-the-know' consumer who approaches a DMC.

If an appointed debt representative does little to educate a debtor about the consequences of a reduced repayment scheme and the future problems they may face when or if they clear their current debts, then can we realistically expect a debtor to have learnt from the experience and be a 'more responsible' borrower in the future?

## Free advisory services

During my research, I found the advice given from the free advisory services to be easy to understand, realistic and correct. Unfortunately, however, the ever-growing demand for such services and their overstretched resources meant that it was incredibly difficult to get through to some advice services and, in one scenario, I gave up trying to contact a Citizens Advice Bureau after eight calls during their opening hours.

Their recorded message stated they were too busy and listed other possible options, but charged 4p more per minute than a local peak time call while I was waiting.

## The way ahead

As we are all now aware, with effect from 1 October 2008 creditors will be required to provide an information sheet compiled by the OFT when a default notice is issued to the debtor.

Mentioned in this document is contact information for the Citizens Advice Bureau and the Consumer Credit Counselling Service.

Although many creditors may fear that advertising these services in such a way may lead to a massive increase in debtors going on a reduced debt repayment programme, I believe that this step towards highlighting 'recommended' advice agencies to a potential hardship case should be seen as a broadly positive move.

No-one is suggesting that the free advice agencies offer a fault-free service or that all the DMCs are out to deceive.

However, if debtors are contemplating seeking advice, it should now be more likely that they will, as

a result of the information sheet, seek 'better' advice, sooner.

Hopefully that will leave them less likely to fall prey to the less scrupulous of the DMCs I encountered during the course of this research.

## About the author

Chris Firat is Director of Chris Firat Training, and has 24 years experience in the consumer finance industry. Chris Firat Training provides tailored collection courses to a variety of lenders, third party processors, solicitors and debt collection agencies.

Read about our debt collection training courses or get in touch to request a call or brochure at [www.chrisfirat.com](http://www.chrisfirat.com).