

# How Financial Difficulty Has Changed Over Time

Anyone who has been reading the serialisation of journalist Tim Butcher's journey across the Congo in the footsteps of HM Stanley cannot fail to have been touched by the excruciating level of poverty witnessed by the author throughout his terrifying ordeal. Particularly memorable for me was Butcher's meeting with a palm-oil trader who had walked for 16 days through heavy bush in the equatorial heat, with no food and no water, in the hope of making \$10 or \$15 profit from the sale of oil once he reached his final destination, well over 100 km away.

Thank goodness that, irrespective of economic conditions, the UK is spared such extreme levels of poverty. That is not to say, however, that financial hardship doesn't impact on a great number of people, and it is unsurprisingly common to hear debtors cite general financial difficulties and 'the credit crunch' as being the core reasons behind their financial delinquency.

This article explores the meaning of modern day financial difficulties in the UK and considers the challenges faced by debt collectors in establishing whether or not a diagnosis reflects genuine financial hardship or, conversely, a reluctance to change lifestyle based on perceived contemporary need.

## Historic culture of lending

The profile of the average creditor has changed. The safe lending culture of the last 20 years has broadly disappeared and been replaced by powerful, proactive campaigns to encourage the acceptance of debt as a life essential.

In the past, it was practically unheard of to secure a 100% or high-income-multiple mortgage, and the opportunities for those with a tainted credit history were severely limited.

The availability of unsecured credit to fund a holiday, a shopping trip, subscription to Sky, membership of a gym, to name but a few, was far less widespread than today and, consequently, the opportunity to rack up massive non-priority debts was restricted.

There were fewer tiers of expenditure in many areas of priority spending, as opposed to the now huge difference in price between, for example, neatly packed and prepared organic vegetables from the supermarket and those purchased from the local market at 4pm on a Saturday.

Whilst there are undoubted advantages of extending credit-taking opportunities and increasing customer choice, I believe that both these factors have contributed to the blurring of the previously well-defined line between want and need in our society.

## Definition of financial difficulties

From the debt collector's perspective, this situation significantly increases the complexity of fairly assessing cases of financial hardship.

Priority expenditure comprises:

- The repayment of secured loans,
- Payments that need to be made to avoid loss of the home, liberty or essential services (such as gas and electricity),
- Payments which are being deducted direct from a customer's salary via, for example, an attachment of earnings order, or as repayment of a student loan
- Outgoings deemed necessary for a basic standard of living commensurate with a western society, such as food and water.

Everything excluded from this definition falls into the category of non-priority expenditure.

Financial difficulties are usually described as being 'serious' if there is insufficient income to cover a customer's priority debts and priority outgoings, with a more general description being given to anyone who is able to pay their priority outgoings but is left with insufficient money to fund the non priority expenditure.

In the past, calculating a disposal income (namely, subtracting the priority debts and priority expenditure from the customer's income) was straightforward for two core reasons. Firstly, it was taken as read that the priority outgoings would be at a reasonable level and, secondly, it was accepted the customer would have minimal discretion over the level of spending in this category.

## Areas of change

For me, the two most significant areas of change in cases of financial difficulty cover, firstly, the widening definition of 'basic standards of living' and, secondly, the greater choice which some customers now have over their overall level of expenditure.

Knowing that the fee charging debt management companies will only take on a case if the customer has a minimum positive disposal income, and the fact that the customer may choose to pay for this service when they have been made aware of completely free alternatives are issues which in themselves put a somewhat modern twist on the definition of financial difficulties.

I am not for one moment suggesting that all customers claiming financial hardship are in fact living a life of luxury in a palatial home, guarded by a kennel of pedigree guard dogs and waited on hand and foot by a highly trained butler and loyal team of house servants.

Nor do I believe that genuine financial hardship is exclusively a thing of the past, a situation brought on solely by the customer's behaviour or attitude to debt (the creditors must certainly shoulder some of the responsibility here), or that all customers can easily and quickly find a stress-free escape route from their financial predicament.

There are undoubtedly many instances where financial destitution has been brought about by circumstances outside of the customer's control, and it would be naive and wrong to believe that all financial hardship can be attributed to a general uplift in expected living standards and basic human greed.

## Discretion over level of spending

However, I do find the long-term excuse of financial difficulties given by certain customers for non payment of council tax extremely weak when they are living in a valuation band H house and making no realistic attempt to down-size.

Similarly, to give a 'protected' priority status to a hire purchase loan which is funding a top of the range new vehicle is, in my opinion, putting the rights of the customer above those of the creditor and is therefore unacceptable.

I also believe that items such as private pension, optical and dental care, club fees, hairdressing and 'contingency' are being seen more commonly now on income and expenditure breakdowns and the levels of expenditure within these categories are sometimes alarmingly high.

The same can be said of a seemingly excessive shopping bill which results largely from the customer's choice as to where to buy their food, toiletries and clothes, rather than the nature of the items themselves.

I am in full agreement with the industry's regulatory obligation to treat customers fairly, and it would clearly be a breach of this requirement if a customer was somehow 'not allowed' to spend money on any non-priority area, simply because they are behind with their payments. The key for me lies in establishing what constitutes 'reasonable' in the context of discretionary expenditure.

## Updated common financial statement

On Monday 16 June 2008, the updated common financial statement (CFS) and trigger figures were launched formally. The CFS provides an open and transparent income and expenditure document drawn under guidelines in a consistent and standardised format and uses data taken from the Office for National Statistics' - family expenditure survey.

The CFS, in my opinion, provides a sensible interpretation of reasonable discretionary expenditure in the twenty first century and I would urge any company which is dealing with repayment proposals to obtain the necessary licence now required to use the CFS - available free of charge from <http://www.moneyadvicetrust.org> - in order to formulate a fair and reasonable policy in this area.

## Summary

In summary, I believe the key to fairness in cases of financial difficulty requires the debt collector to both:

- Acknowledge the rights of the customer to spend their money in whatever way they wish, irrespective of the state of the account
- Offer, where feasible, realistic and constructive alternatives which provide the customer with an opportunity to adjust their levels of expenditure with or without the help of a free debt management company and increase their level of income via, for example, the claiming of additional benefits.

In turn, however, the customer needs to acknowledge the creditor or debt owner's right to execute a breach of contract by way of further action in cases where they believe that the offer of repayment is unreasonably low or based on a set of lifestyle choices which the customer is able but reluctant to change.

## 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).