

MALG

Money Advice Liaison Group

A forum working for greater communication, understanding and professionalism

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MALG INFORMATION PACK

August 2011

**A forum working for greater communication,
understanding and professionalism among
organisations with an interest in
personal credit and debt.**

Appendix 1

UNDERSTANDING THE DEBT ADVICE SECTOR

Providers & supporters of debt advice

1. The United Kingdom hosts a complex debt advice sector. Advice reaches consumers through a variety of networks which include, in alphabetical order:

(a) AdviceUK

AdviceUK is the largest network of independent advice agencies in the UK. Its membership includes more than 800 voluntary organisations. All member organisations are not-for-profit and most are registered charities. There is a very wide diversity amongst members - many are providers of specialist advice, e.g. in the fields of benefits, housing or immigration advice, whilst others offer generalist services. The total number of clients seen by AdviceUK agencies across all advice subjects is in the region of 2 million per year.

Nearly 400 AdviceUK members provide money advice services to the general public. The Money Advice Trust estimates that they account for 25% of face to face money advice provision in the UK. As well as debt advice, many members also provide money guidance, financial capability or financial inclusion services. Almost half of AdviceUK members work in the 50 poorest local authority areas; over a quarter specifically serve the most socially and financially excluded and 'hard-to-reach' communities, e.g. disabled people or people from black and minority ethnic communities.

www.adviceuk.org.uk

(b) AdviceNI

AdviceNI is a membership organisation that exists to provide leadership, representation and support for independent advice organisations in Northern Ireland. AdviceNI has 70 member organisations operating throughout Northern Ireland and providing information and advocacy services to over 100,000 people each year, on an extensive range of matters including social security, housing, debt, consumer and employment issues.

(c) Business Debtline

Business Debtline is a national telephone helpline offering expert professional advice to help people deal with business debts in England, Wales and Scotland. Business Debtline is part of the Money Advice Trust. Business Debtline provides specialist advice to the self-employed and small business community. Clients following the self-help route receive guidance and motivation from specialist business debt advisers and all advice is backed up with comprehensive written material. This includes a free self-help information pack "Dealing with your Business Debts" and a range of fact sheets on business related debt issues. The service is free, confidential and independent.

www.bdl.org.uk Telephone Helpline 0800 197 6026 (Freephone)

(d) Citizens Advice

Citizens Advice (the operating name of the National Association of Citizens Advice Bureaux) is the 'head office' for the CAB service in England and Wales. The CAB service helps people resolve their legal, money and other problems by providing free information and advice and by influencing policy makers. All Citizens Advice Bureaux are independent charities delivering advice and information from over 3,500 outlets. Bureaux deal with over seven million problems every year which are central to people's lives, including debt and consumer issues, benefits, housing, legal matters, employment, and immigration.

The service is run by just 28,500 people, 75 per cent of whom are trained volunteers. Bureaux in England, Wales and Northern Ireland are members of Citizens Advice which sets standards for advice and equal opportunities, provides an information system, training and other services. Citizens Advice also co-ordinates social policy, media, publicity and parliamentary work.

www.citizensadvice.org.uk

Citizens Advice Scotland (CAS) is a national umbrella body that provides essential services to Scottish Citizens Advice Bureaux. CAS works very closely with Citizens Advice.

www.citizensadvicescotland.org.uk

Citizens Advice Northern Ireland (Citizens Advice NI) supports the work of Citizens Advice Bureaux in Northern Ireland and has formal links with Citizens Advice (England and Wales) and Citizens Advice Scotland.

(e) The Community Legal Service (CLS)

The Legal Services Commission (LSC) is the successor to the Legal Aid Board.

The LSC is responsible for the Community Legal Service, whose role is to ensure people have access to appropriate legal advice through a network of advice providers. Membership of the Community Legal Service (CLS) is achieved following certification to any one of the Quality Mark standards.

The Quality Mark is a family of quality assurance standards for legal services providers. Organisations that deliver legal aid must hold either the SQM or Lexcel (the Law Society's practice management standard) quality standard.

Further information on the Quality Mark standards is available by clicking on the following link:

http://www.legalservices.gov.uk/civil/how/quality_mark.asp.

Community Legal Advice (CLA) is a free and confidential advice service in England and Wales paid for by legal aid. It provides free specialist advice from legal advisers on issues including: benefits and tax credits; debt, education; housing; employment; and family problems. Further information on CLA is available on the DirectGov website:

www.direct.gov.uk .

(f) Free-to-client debt management agencies

Currently, there are three main UK debt management agencies that offer debt advice and the administration of Debt Management Plans (DMP) free to the consumer: - The Consumer Credit Counselling Service (CCCS), Payplan and Christians Against Poverty (CAP). They fund their services by charging creditors' a 'fair share' fee – a percentage of the owed monies they are able to recover. They set up DMPs for their clients, under which the consumer pays a lump sum each month, which is disbursed to creditors at agreed amounts by the agency. Payplan offer initial generic debt advice and a signposting service but like CCCS concentrate on devising and administering DMPs appropriate to the client.

Christians Against Poverty (CAP) offers a full debt management service and a single payment facility that covers expenditure, arrears and unsecured debt payments. It also provides a facility to save a small amount of money for future needs, thus promoting sustainability of the DMP. This service is provided when a client isn't able to manage their finances independently.

(g) Christians Against Poverty (CAP)

CAP is a charity that offers free face-to-face debt counselling through a network of centres throughout the UK. The charity is mainly funded through regular donations from churches and individuals. Finance companies that opt in to our Fair Share scheme also represent a small income stream.

CAP's debt counselling includes face-to-face home visits, budgeting advice, setting up of DMPs and a complete insolvency service. CAP also provides an additional befriender service should someone need or want it. CAP also runs financial education workshops where attendees can go on to access online debt counselling called CAP Money Plus.

CAP's service is free and confidential and available to anyone, regardless of religious background or faith. Their service is specially designed to provide in-depth support to those struggling to cope with their debt but is inclusive to all.

(h) Consumer Credit Counselling Service (CCCS)

CCCS is a charity funded by the financial services industry offering clients a range of services including debt management plans (DMPs). They are also able to give advice on Welfare Benefits, Bankruptcy, Debt Relief Orders, Self Employed Clients, Mortgage Counselling and Individual Voluntary Arrangements (IVA)

The CCCS debt advice service is completely free and confidential. However if the debtor opts for an IVA provided by CCCS, there will be a charge for this service.

In addition to this CCCS also provide two interactive, web based tools which allow clients to access advice online. Debt Remedy will provide a tailored financial solution to those in debt and Money Matters will provide advice on generic financial products again tailored to the client's particular circumstances. Both tools can be used anonymously and allow advice booklets to be downloaded by the client.

www.cccs.co.uk

(i) Fee-charging debt counselling service companies

These commercial organisations often called Debt Management Companies operate in a similar way to debt management plan agencies but charge a variety of fees to the consumer for acting on their behalf.

It is difficult to ascertain the current number of these companies, but it is estimated that there are approximately 250+ such companies in the UK, but the range of services provided may differ from one to another.

The Debt Managers Standards Association (DEMSA)

The Debt Managers Standards Association (DEMSA) is a trade association that was established to raise standards within the debt advice sector and to promote better practice in order to provide consumers with greater protection and redress.

As the only trade association that has achieved OFT Approved Code status, DEMSA is committed to working with stakeholders and member firms to encourage high standards to be met and maintained.

Membership is only granted after a stringent audit has been passed, mystery shopping undertaken and customer satisfaction surveys completed – demonstrating Code adherence. There are currently 19 member firms, collectively accounting for around 80% of current paid for debt repayment plans.

DEMSA and its members remain committed to working with the debt advice sector to eliminate bad practice, misleading advertising and inappropriate advice and welcomes the opportunity of further engagement with key stakeholders to help achieve this.

Debt Resolution Forum (DRF)

The DRF is a trade association, training and monitoring body primarily for fee-charging debt resolution companies. There is a chapter for lead introducers and free-to-join chapters are being introduced for creditors and free-to-client solutions providers.

DRF has 35 members at the time of writing and is the provider and training and examination centre for the Certificate in Debt Resolution (CertDR) an advanced BTEC (accredited by EdExcel) a 210 hour study, three examination, qualification being taken by more than 250 learners and with around 180 holders.

DRF members are monitored annually by the Insolvency Practitioners Association (IPA) for compliance with DRF's standards – which assume

compliance with all statutory obligations, marketing and advertising codes and, of course the OFT's debt management guidance.

DRF is active in representing the interests of its members to government, the creditor community and others.

DRF runs an annual conference for members and interested parties which attracts around 250 delegates every autumn.

(j) Independent advice agencies

Independent advice agencies offer a similar but sometimes more narrowly-focused service than CABx but not all provide debt advice. A few provide very comprehensive and specialist debt advice or debt counselling services, e.g. Money Advice Plus (formerly Direct Debtline (DDL), the Birmingham Settlement (where money advice was pioneered), Blackfriars Advice Centre, Bristol Debt Advice Centre and Leicester Money Advice Service.

A few independent agencies/charities have set up debt advice services for their particular client groups, e.g. Sure Start (a government-funded agency supporting families with a child aged under four), MIND (for people with mental health problems), Age Concern (for older people), SSAFA/RBL (for ex-Service personnel).

Many of these independent agencies may be members of AdviceUK.

(k) Insolvency Practitioners (IPs)

Some people in debt will benefit from entering into an Individual Voluntary Arrangement (IVA) which can only be set up by an IP. An IVA will suit only those who have a reasonable disposable income or sufficient assets to allow them to offer their creditors a lump sum in part or full settlement and/or regular payments over a period of several years (normally 5).

IPs charge a set-up (nominee's) fee and a maintenance (supervision) fee which is usually deducted from the dividend paid to the creditors. This means that creditors recover only a percentage of the money owed and effectively write off the remainder of the debt.

Following considerable abuse of the IVA procedures that developed in the 2000s through 'IVA factories' a voluntary IVA protocol was introduced in February 2008 under the strange acronym of SCIVA- the Simple Consumer Individual Voluntary Arrangement. This has now been reviewed and amended and from May 1st 2010 the revised IVA Protocol 2010, to be

known as The Protocol Compliant Individual Voluntary Arrangement (PCIVA) has been introduced. A copy of the PCIVA is available on the Insolvency Service website www.insolvency.gov.uk.

In Scotland a similar arrangement is known as a Protected Trust Deed and relies on disposable income. Usually Protected Trust Deeds last for three years.

(l) Institute of Money Advisers (IMA)

The IMA replaced the Money Advice Association (MAA) in June 2006 and is the only organisation in England, Wales and Northern Ireland working solely for money advisers.

The IMA continues to deliver the membership services previously supplied by the MAA, namely: Branch (regional) meetings; annual conference; training; Quarterly Account publication; statements of policy and practice.

The IMA in conjunction with Staffordshire University in 2010 introduced a new qualification for money advisers which provides the benchmark for quality in the money advice profession

www.i-m-a.org.uk

(m) Local Authorities.

Most local authorities in Scotland and some in England and Wales, provide free debt advice services. These can be delivered in a variety of ways, for example through Trading Standards, Social Services or the housing departments or by specialist debt or welfare rights units. Help is available only to the local authority's council tax payers and in some cases access is even more restricted.

(n) Money Advice Scotland (MAS)

Money Advice Scotland's vision is to promote and champion the provision and development of free, independent, impartial and confidential money advice, and financial inclusion. MAS provides second tier support through training, consultancy, conferences, seminars and other events. It provides input to government policy, in all matters relating to debt legislation in Scotland, and beyond.

This umbrella organisation has a broad church of members both from the money advice sector and credit-related industries.

MAS has been instrumental in pioneering accreditation for money advisers through SVQs and Professional Development Awards in money advice.

MAS has achieved Investors in People status for the fourth time, and recently achieved "Bronze status".

MAS is also working towards becoming the Institute of Money Advisers in Scotland.

www.moneyadvicescotland.org.uk

(o) Money Advice Trust (MAT)

The Money Advice Trust is a charity formed in 1991 to increase the quality and availability of free, independent money advice in the UK. It works with government, the private sector and the UK's leading money advice agencies to:

- increase the availability of money advice
- improve its quality; and
- improve the efficiency and effectiveness of its delivery.

MAT's Vision: To help people across the UK to tackle their debts and manage their money wisely.

MAT's Mission: To support individuals and micro-businesses in the UK through their debts and into financial health, and to improve the capability, quality and efficient delivery of free independent money advice by:

- Delivering advice to the public;
- Supporting advisers;
- Making the case for free money advice;
- Co-ordinating initiatives to improve money advice;
- Sharing research and information to shape and influence policy.

As well as planning a [national strategy](#) for money advice services, the Money Advice Trust offers [debt advice](#) to the public and provides high-quality [training](#) for money advisers.

We also raise money from [our funders](#) to provide secure, long term funding for quality money advice services.

www.moneyadvicetrust.org

(p) National Debtline

National Debtline is a national telephone helpline for people with debt problems in England, Wales and Scotland. National Debtline is part of the Money Advice Trust.

The service is a holistic helpline offering expert, professional advice via the telephone and e-mail, enabling clients to deal with their debts in an informed and proactive way. NDL offers both self-help solutions and Debt Management Plans to people with multiple debts.

Clients following the self-help route receive guidance and motivation from specialist money advisers and all advice is backed up with comprehensive written material. This includes their free information pack "Dealing with your debts" and a range of detailed fact sheets on debt issues. The service is free and confidential.

www.nationaldebtline.co.uk Telephone Helpline: 0800 808 4000
(Freephone)

(q) Payplan

Payplan is committed to being a leading telephone advice provider of free to client debt solutions across the UK.

We help thousands of people every year to resolve their debt issues through a best advice model and a suite of debt remedy options that are all available under one roof. We pride ourselves on our ethical and understanding approach, ensuring that the sustainability of solutions is carefully explained and considered to suit the needs of each individual.

Payplan has established and maintained excellent standards of quality and delivery to qualify the Fair Share model to creditors in order to sustain the essential provision of free debt advice and solutions to people suffering from financial difficulties.

We operate a successful and trusted referral partnership programme, having worked with organisations such as the Citizens Advice Service for over 20 years. We support our partners with specialist Relationship Managers and offer free debt advice and Payplan awareness training. Our partnership programme offers a wide range of simple, effective referral processes to suit the bespoke needs of organisations, service delivery and most importantly to ensure that customers benefit from a seamless handover to continue their journey feeling supported and motivated.

We continue to value the collaborative work that MALG undertakes and remain dedicated to the aims and objectives of MALG for the benefit of the sector and the intrinsic value this presents to the public as a whole.

www.payplan.com

Methods of debt advice delivery

2. There are a variety of ways in which debt advice can be delivered. These include:

(a) Face-to-face (F2F)

Face-to-face interviews are available from many organisations such as CABx, independent advice agencies and local authorities.

(b) Telephone advice

Free telephone helplines are operated by a variety of agencies, e.g. National Debtline (NDL), Business Debtline (BDL), Direct Debt Line (DDL), Consumer Credit Counselling Service (CCCS), Community Legal Advice, Payplan and some high street agencies such as CABx also provide telephone advice services.

(c) Websites and e-mail

Advice by e-mail – often by connecting from a website which usually provides answers to frequently asked questions – is a relatively new means of delivering debt advice but is now frequently provided by fee chargers and Insolvency Practitioners. NDL operates an increasingly popular e-mail advice service. Some high-street agencies also operate this service as do credit reference agencies, which will give basic information and then signpost website visitors to debt advice organisations for more specialist advice.

(d) Court desks

A considerable number of County Courts (England and Wales) and Sheriffs' courts (Scotland) allow agencies to set up desks where defendants/defenders can obtain emergency advice to help them present a defence or to seek an adjournment if they need more advice or time to gather more evidence.

(e) Video

In South Wales and parts of Scotland there are CAB/CAS bureaux which offer advice through a video link to outlets provided in local authority libraries.

(f) SMS text service

In Scotland there is a debt advice service that uses SMS text.

APPENDIX 2

UNDERSTANDING THE CREDITOR SECTOR

Introduction

The creditor sector is, like the debt advice sector, a complex area to understand. The description that follows provides only an overview of the types of creditors, some of the available products and the structure and operation of some of the ancillary services - debt collection, tracing agents, repossession agents and credit reference agencies - in the UK today.

It is important to distinguish between creditors who offer various forms of credit to their customers, which automatically creates a debt, and many of the public sector organisations mentioned which create a debt either through a civic responsibility such as council tax, personal or business taxation or VAT, or on a person's default on the payment of costs associated with a civic responsibility, e.g. child support, road tax etc.

The creditor sector can itself be split into two distinct parts - the consumer sector and the commercial/corporate sector. The creditor sector also encompasses debt created by non-commercial organisations such as local authorities, Her Majesty's Revenue & Customs (HMRC), Her Majesty's Courts & Tribunal Service (HMCTS), The Child Support Agency (CSA) and The Student Loans Company, etc.

THE COMMERCIAL/CORPORATE SECTOR

Commercial/corporate debt, often called business-to-business or trade debt, relates to credit arrangements entered into by businesses with businesses - sole traders or partnerships, limited companies, limited liability partnerships or public limited companies, usually carrying payment terms of 30 days payment in full.

Debt advisers in the free-to-client sector will generally only become involved with companies such as sole traders or individual partners of a legal partnership or possibly a legal partnership itself. It would be possible for a Director of a company who has given a personal guarantee of a debt to seek advice from a debt adviser.

There are comparatively few debt advice organisations that can cater for these types of business debtor. Business Debtline is probably the best known and is the only service offering debt advice to companies while they are still trading, as opposed to other advice services, which typically advise on the 'aftermath' to owners of failed businesses.

There is a distinct cross-over point between commercial/corporate and consumer credit/debt. This point is where credit/debt is taken out or owed by sole traders, a partner of a legal partnership or a director of a limited company who has given his/her personal guarantee for the business debt.

THE CONSUMER SECTOR

This sector includes credit provided by lenders to consumers. Credit acquired by individuals for both the purchase of property and goods/services and by cash loans, credit cards, etc. and debt created by a variety of organisations such as public sector authorities, relating to the supply of services, local taxes and fines and the utilities (gas, electricity & water) as a result of charges relating to a supply of energy and water.

Within the creditor sector there are different players –providers of secured and unsecured credit (and associated brokers/dealers/introducers), statutory and commercial providers of non-financial services, and statutory bodies to whom certain types of consumers have an obligation to make payments (e.g., car drivers/owners and DVLA).

In addition, the sector includes a variety of companies who offer ancillary services such as debt collecting, tracing/investigation/ repossession agents, insurance companies offering payment protection insurance and other forms of insurance, credit reference agencies, solicitors acting for lenders.

Lenders can themselves be split into secured and unsecured lenders.

SECURED LENDERS

Secured lenders are companies that will lend money on the basis of securing their loans on the property or other assets of the customer. Most secured lending is typically lending against the main home by way of mortgage but could equally be against stocks and shares. The main players in this sector are banks, building societies, secured lending finance houses etc.

Under the terms of this form of lending should the customer default, the secured lender who 'owns' the security until the last payment under the

agreement has been paid, can apply to the court to repossess the property under certain circumstances.

UNSECURED LENDERS

Unsecured lenders have no such security as a house or property. The risk in lending is therefore greater. In general they will be banks, finance houses - motor and retail - weekly collecting companies, mail order companies, trading check companies, moneylenders, credit unions, student loans, pawnbrokers, pay-day loan companies etc.

The variety of the credit products offered is very diverse ranging from credit cards to hire purchase and it is important for all involved with debt to fully understand how each product works.

Hire Purchase/conditional sale debts can be regarded as either non-priority or priority depending on whether the goods are considered to be essential by the debtor. Typically, the finance house 'owns' the goods until the last payment under the agreement has been made and so if a default occurs before this point, then the loan to which it relates should be treated as secured against the goods in question.

RENTAL/HIRE/LEASE

There are also a considerable number of creditors who will rent/hire/lease certain goods to consumers - vehicles, televisions, etc. Officially these companies are called lessors and the consumer who rents/hires/leases from them is a lessee.

Under a rental/hire/lease the lessee never owns the goods; they always remain the property of the lessor.

PRIME LENDING & SUB-PRIME LENDING

Lending can again be sub divided, this time into prime and sub- prime lending.

PRIME, SUB-PRIME & NON STANDARD LENDING

Lending can again be sub divided, this time into prime, sub-prime and non-standard lending.

PRIME LENDING

A lender will take a risk on every credit agreement they approve. The risk is whether the customer will fulfil his/her obligations to pay or not. Details on an application form supported by information provided through credit reference agencies all assist the lender to assess the risk involved.

As all lending is a risk, a credit manager is not 'worth his/her salt' if they do not take risks. It is the type of risk that is the issue.

Prime lending to consumers reflects the smallest risk. It is usually only offered to individuals who have a good credit rating, a clean credit reference file, probably home owners and in full time employment and the risk appears to the lender to be sound.

SUB-PRIME LENDING

Sub-prime lending came over from the United States in the early 90s and reflects the highest risk. It is a term normally applied to those individuals who normally would be refused credit because of their credit rating-defaults, county court judgments, etc.

When sub-prime lending as a commercial option developed more widely in the '90s (although there had always been lending in this demographic for those on the lowest incomes), the UK was slowly pulling out of a recession. As with any recession many perfectly credit worthy individuals had lost their jobs and suffered serious financial problems during the recession. They were now beginning to get back on their feet but realised that many prime lenders would not assist them as their credit record was tarnished. Thus the sub-prime market offered an important service and helped many people recover and assisted the economy.

There are few companies solely operating in the sub-prime market (secured or unsecured). Until the credit crunch of 2008 many prime lenders, such as banks and large finance houses also had a sub-prime book or were linked to a sub-prime provider. One of the drivers of sub-prime lending prior to the recession was Government itself who were keen to ensure that suitable credit products were available as widely as possible.

Companies operating in the sub-prime market are usually very quick to follow up on arrears through their collections operations. Borrowing in the sub-prime market is likely to cost more in terms of higher interest rates to offset the additional risk that lenders are taking.

NON STANDARD LENDING

As mainstream credit suppliers move down market in times of growth, but then move up market in times of recession, so an increasingly large number of consumers fall into a category that is best described as **non-standard**. Some consumers will always fall into the **prime** category, some will always fall into the **sub-prime** category, but around one in four (12 million adults) will float between the two depending on the economic climate and availability of credit. These consumers usually are in work, have bank accounts and employment. Sometimes they can access mainstream products, sometimes they cannot. Sometimes they choose not to access mainstream products through lack of confidence that recession brings about. So a new generation of products has developed to meet their needs. Small sum, short term loans (often called *payday* loans) is one example, but others are in the process of development and may well be very significant in the near future as easy access to mainstream products remains a problem for many who used to have that access.

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TYPES OF CREDITOR & THEIR PRODUCTS/SERVICES

Banks

The main four clearing banks in the UK are each involved in most forms of lending to consumers - mortgages, loans, overdrafts, credit cards, hire purchase etc.

Building Societies

Many former building societies have become banks in their own right. However there are still a number of pure building societies. They operate to offer mortgages to their members - the customers. Since the Building Society Act in 1986 they have been allowed to widen the variety of credit products they offer, so loans and current accounts have become the norm.

Brokers/dealers/introducers

Brokers/dealers/introducers are found in most areas of the finance-providing element of the creditor sector. Their function is to make money on new business introduced to finance houses, banks, etc. 90% of such introductions are done without the finance house ever having direct contact with the customer, so they have to rely on the honesty of the dealer/broker/introducer. Across the range of sub-sectors in which they operate, – (motor finance, secured lending and others), probably exceed 4,000 in number.

Cheque Cashers

Cheque cashers mainly offer two products. The first is the encashment of third party cheques for customers who typically do not have a bank account or who need the cash instantly, rather than waiting for the cheque to clear through the system. There is a fee payable, typically between 2.9% and 7% of the value of the cheque. This is not "credit" and hence is not regulated by the Consumer Credit Act. However, third party cheque cashing is defined as a "money service business" and firms have to be registered with HMRC under the Money Laundering Regulations.

In reality, most cheque cashers offer a variety of other services, such as pawnbroking, foreign currency and money transmission. Most are members of the British Cheque & Credit Association and are bound by its Code of Practice. See www.bcca.co.uk Some companies will also be members of the Consumer Finance Association.

Check trading companies

This is a very old form of credit and there are comparatively few organisations that offer this type of credit today. Those who do are often in the home credit industry. The consumer purchases trading vouchers on credit which they can then use in certain linked retail shops to purchase goods.

Credit Unions

Credit Unions (CUs) have a long history and historically were often associated in Great Britain with community self-help initiatives developed by migrant communities, typically from Ireland and the Caribbean.

Membership of CUs is currently dictated by compliance with the concept of a 'common bond', which generally specifies that in order to be able to

join a CU, an applicant must live and/or work within the catchment area of the CU, usually corresponding to a given local authority. Other credit unions exist for employees of certain organisations, for people who work in the same profession or for people with an association with a certain organisation such as a religious group or trade union.

Credit Unions are owned by their members and operate on a not-for-profit basis serving under the co-operative tradition of self-help. Traditionally they offered a simple form of regular savings for their members, most of whom would not be able to access normal forms of 'high street' credit. The credit union would then progress to offering small loans against the savings, but many credit unions no longer require members to save before they borrow, and the terms of the Department for Works & Pensions (DWP) Growth Fund allocations to Credit Unions require loans to be made available to as yet non-saving members.

Today some Credit Unions offer current account facilities, ISAs, Child Trust Funds and a range of other services. Changes to legislation due to come into force in early 2012 will allow credit unions to provide services to organisations, extend their services to new groups and pay interest on savings, instead of a dividend. Contact details of all credit unions in Britain can be found at www.findyourcreditunion.co.uk

Finance houses

Finance houses are companies ranging in size from medium to multi-national companies that focus on providing finance to consumers and companies for goods and assets purchased. They provide the finance for a variety of suppliers of goods and assets, e.g. motor finance, asset finance, retail finance etc.

Her Majesty's Revenue & Customs (HMRC)

HMRC's role as a creditor is largely dictated by its responsibility for recovery of Income Tax, National Insurance, VAT and other duties and tax credit overpayments.

Mail Order Companies

Mail order companies offer purchases from catalogues, which can be made by cash or credit. Catalogue purchasing very often is a family-based form of purchasing of goods. For example, one member of a family who uses mail order will encourage and recruit other family members to join the scheme.

Moneylenders

Possibly the oldest type of credit available. You could argue that any company offering loans to the public is a moneylender. However the name has unpleasant connotations and is very rarely used.

'Loan sharks' are usually moneylenders who practice unlicensed and operate unlawfully. The very high interest rates they charge are generally imposed and increased on an arbitrary basis and collection practices are often aggressive and/or abusive in other ways.

Pawnbrokers

Along with moneylenders, pawnbrokers are probably the oldest type of organisation offering credit. They have experienced something of a revival in recent years and their number has greatly increased. The consumer is allowed to borrow money against property left with the pawnbroker for security.

Pay Day Loans

This product came originally from the United States a few years ago and recently, probably thanks to the aftermath of the recession, has considerably increased in popularity with consumers.

Payday lending accounts for about £1 billion annually, 0.5% of all UK unsecured consumer credit. Fewer than 3% of those within the lowest 50% of household incomes use payday loans, and 94% of payday loan customers come from a household with at least one full time worker.

Small sum, short term loans (often referred to as "payday" loans) are accessible from high street outlets or online.

Many providers, both large and small businesses, offer such loans. They allow customers to borrow a relatively small amount of money (usually between £50 and £1,000) which is repaid over a short period (typically one or two months).

Loans are not designed for longer term borrowing, but to improve short term personal cash flow.

Payday loans are designed for those who have bank accounts, a job and disposable income. They are not loans for people on benefits or very low incomes.

Public sector debt

Public sector debt could include DVLA road tax debt, Child Support Agency debt and court fines. Local authorities, although not offering credit as such, are one of the largest creditors in this sector, collecting primarily on council tax, housing benefit and rent.

Students Loans

Student loans are also considered a public sector debt. Apart from various banks that offer loans to students, there is of course the government-run Student Loans Company which lends money to students for university and college costs and expenses and now tuition fees as well.

Historically there have been two types of student loans. The current type of loan requires the student to start paying the loan back out of their salary, through PAYE, after they have started earning £15,000 or more. This version appears to be regarded by government as a form of 'higher education' tax rather than a loan as such.

Telecoms

Telecommunication has traditionally been 'lumped' in with utilities, but with the vast expansion of mobile technology, it really ceases to be a utility and has become a sector on its own.

The ever expanding and developing sector of telecommunications, mainly mobile phone companies and organisations selling similar technology.

Utilities

Suppliers of electricity, gas and water are all part of the utility sector.

Apart from the supply of energy, which is normally paid for after its use, other than through the use of Pre-Payment Meters, utility companies do offer the purchase of central heating and items like boilers on credit.

It is unlawful to cut off a consumer's water supply for non-payment of due charges, although it is permissible to cut a consumer off for electricity or gas supply for non payment (however, vulnerable customers are not knowingly disconnected at any time of year). Initiated through their respective trade bodies, there has been a considerable amount of work

done in recent years by energy suppliers to protect their 'vulnerable' customers, many of whom would be classed as experiencing fuel poverty.

Weekly collecting companies (Home credit companies)

Weekly collecting companies are often regarded as being the backbone of the home credit industry. This type of operation is found most commonly in areas of high poverty and high rates of exclusion from mainstream banking services. Companies operating in this market place employ agents whose task is to both sell new credit products and collect on existing ones door-to-door from their numerous customers. Normally they offer short-term low-value loans.

Because of the high cost of servicing a door-to-door weekly service, together with the way the Annual Percentage Rate of Charge (APR) must be calculated on an annual basis, their interest rates as advertised are high.

The value that home credit lending provides to its customers is based on its accessibility, both in 'physical' terms (home visits by agents) and the facility to offer small amounts of money to people who either would not be 'attracted' to or eligible for mainstream sources of credit.

In this sense, home credit lenders offer an important service to a certain sector of the community who normally would not have access to credit other than turning to illegal loan sharks.

ANCILLARY SERVICES

DEBT COLLECTION

Debt collection in the consumer market has its roots in the traditional tallyman system. It originated with the growth of mail order and the need for agencies to provide doorstep collection services for the collection of their accounts. Financial institutions, credit card companies and utility operators, all of whom generated large volumes of accounts, eventually joined mail order companies. As their requirements grew, collection techniques were developed to include litigation, lettering and telephony.

During the recession of the early nineties, in-house debt collecting agencies (bearing different company names than their parent), developed widely.

Most debt collecting companies collect both types of debts - commercial and consumer - although a debt collecting agency tends to specialise in one particular sector. A number of debt collecting companies these days get involved in the creditor sector in its widest sense, collecting such debts as student loans, child support etc.

Debt collection in the UK is undertaken by telephone, letters or doorstep visits. Each has its place and is often used in conjunction with each other.

There are approximately 450 to 500 companies within the UK where debt collection is one of their primary activities. Approximately 200 to 300 of these are single person type operations offering localised services. To progress business in this arena it is very advisable for an agency to be a member of The Credit Services Association. The CSA currently has approximately 360 UK members.

Public sector authorities, such as councils and The Student Loans Company also now use the services of debt collection agencies. Indeed central and local government departments are now using the services of debt collection companies; for example HMRC, DWP etc..

Utility companies also use third party debt collectors to reduce their costs associated with bad debt. As a result, levels of business in the marketplace have increased significantly.

In addition fast-expanding high-tech companies such as the telecoms sector outsource a growing amount of their debt work to agencies including telephony, mobile phone and cable companies.

Outsourcing offshore to call centres in South Africa, India, Malaysia, China, etc. is still reasonably commonplace, but there is a general belief that such outsourcing is not necessarily the correct solution for collections.

Commission/Contingency collection.

The most common and traditional method of debt collection is commission or contingency based. Debts will be passed to debt collection agencies (DCAs) for a short period of time - say three or four weeks, during which to 'work' the debts. The agency does not own the debts and acts purely as an agency for the creditor and because of the tight deadline set by the client company, collection methods are intensive.

There are a number of businesses that have debt collection as a by-product of their main business, for example firms of accountants or bailiffs carrying out pre-legal collections and creditor-owned internal

collection operations with trading names different to the controlling creditor and usually described as 'in-house' agencies.

The actual amount of debt outstanding passed to debt collection agencies runs into trillions of pounds in both the consumer and the commercial sectors.

There is an increased recognition of the contribution successful debt collection makes to the UK economy, providing a safety net for the recovery of large sums which would otherwise have been lost.

Debt collection still does and has always suffered from a difficult reputation and this is mainly due to the very nature of its operation. The situation is however changing. A considerable amount of work and effort has been made in recent years, both by the CSA and its members, to improve this reputation.

Debt purchase/sale

In addition to "traditional" DCAs there are also debt purchase companies, in many cases evolved from traditional DCAs but which have investment capabilities.

The debt sale and purchase sector originated in The United States and came over to the UK in the 1990s. It has witnessed tremendous growth since its arrival in the UK and is drawing more investors to the marketplace.

Debt sale is not debt collection but a financial transaction. The reasons for debt sale can vary significantly from client to client. For some, it forms a part of their normal arrears strategy with regular on-going arrangements for offloading aged debt at a given time. For others, it reflects changes within their organisation, which necessitate the freeing up of expensive resource for purposes other than bad debt management. For others still, it offers a short-term route to instant profit in respect of budgeted targets. Whatever the reason, debt purchase has led to the arrival of a number of new companies within the marketplace, focussing specifically on this particular product and currently estimated to handle £8 billion of debt at face value this year.

Creditors can only sell debts the 'assignment' of debt is allowed for in the terms and conditions of the credit products they offer. Most debt sale is undertaken by assignment and debtors must receive a letter of assignment- commonly called a 'letter of welcome' or a 'Hallo letter'- either from the creditor or debt purchaser informing them of the sale before collection activity can proceed.

In the early days most sales' deals involved old, low quality debt (commonly called 'garage sales') but new portfolios are coming to the market at much earlier stages with consequent increases in value and price. Indeed a considerable amount of 'live' debt is now being sold. This as can be imagined adds a different dimension to collections.

Debt purchase companies have therefore had to resource their businesses to cope with the increase in volumes and the changing quality in the debt they have to collect. This industry change has also seen the introduction in 2004 of the Debt Buyers & Sellers Group (DBSG) a division of the CSA for those specifically involved in this area.

Following trends from the US, we are beginning to witness the emergence of a second sale market whereby debts are sold on to a second purchaser. However this has been slow to take off in the UK as many creditors in the UK are very conscious of reputation and therefore permission of the original seller must be obtained before a second sale can occur.

Most debt sale today is undertaken by telephone auction.

Tracing Agents

Tracing agents are a very important ancillary service within the creditor industry. 'Gone-aways' are a huge problem for all creditors and will continue to be so, from the person who forgets to advise a creditor to the fraudster who moves to get away from their creditors.

Tracing agencies will usually attempt to trace people in debt by telephone. However doorstep tracers are active also. Legislation has restricted the work of tracing agents in recent years.

Many creditors and debt collecting agencies will have their own in-house tracing department. This will often mean that the tracer who finds the person in debt will then attempt to collect the debt as well - a process known as 'trace & collect'.

Repossession agents

There are a number of companies whose operations focus on the repossession of security under finance/mortgage agreements. They will therefore, following instructions from creditors or debt collecting agencies, undertake the repossession of motor vehicles under Hire Purchase/Conditional Sale Agreements or the possession of property under a Possession Order in the County Courts.

Credit Reference Agencies (CRAs)

There are three main credit reference agencies within the consumer sector - Experian, Equifax & Callcredit. CRAs are licensed by Government to hold information on individuals and commercial organisations for credit vetting purposes. They hold two types of data - public information and subscriber information.

It is important to remember that credit reference agencies do not keep "black-lists" of consumers. They merely hold positive and negative information about consumers as supplied to them either through public sources (public information) - Electoral Roll, County Court Judgments, Bankruptcy Register, Individual Voluntary Arrangements Register, Debt Relief Order register etc. or by their subscribers. Their subscribers are normally lenders who supply and share data (subscriber information) as a part of an information sharing schemes such as 'CAIS' (Experian), 'Insight' (Equifax) or SHARE (Call Credit). This data is available to all lenders within the Information Sharing scheme who wish to assess an individual for credit. It is now available to debt collecting agencies that buy debt from lenders who share full data through the CRAs. Such debt collecting agencies will also supply default information on their debtors as part of the scheme.