

Forgive us our Debts

Roundtable on Personal Debt

14th June 2018

On 14th June 2018 Theos and St Paul's Institute held a roundtable to discuss personal debt in the UK. This roundtable was held under the Chatham House Rule. Among those who participated were representatives of debt and money advice charities, other think tanks with an interest in debt and the economy, the legal profession, and academic theologians with an interest in the topic.

This roundtable was held as part of a joint project between Theos and St Paul's Institute which seeks to review and discuss personal, corporate, and government debt in the UK within a theologically-informed moral framework. The aim of the roundtable was to understand the key facts and areas of concern around personal debt and offer participants an opportunity to engage with the ideas outlined in the briefing paper. Below is a summary of the conversation which will inform the project's final output.

Reflections on the nature of debt in the UK

The nature of personal debt

- *Typology of debt: secured vs unsecured*
Secured debt is when money is borrowed against collateral, which can be seized if repayments on the loan fail. Mortgages are an example of secured debt, where money is borrowed against a property.
Unsecured debt is when money is borrowed without an underlying asset to use as collateral. This kind of debt is high risk to the lender and the financial burden is placed on the borrower as the interest rates are often high.
- *Uses of debt: investment vs consumption*
A loan taken out for investment is money that is borrowed to be used in a way that generates more value or wealth.
A loan taken out for consumption is when money is borrowed and then spent in a way that doesn't generate any further income. This might be debt that it taken out to cover everyday living costs like buying food or clothes.
- Debt problems often originate in arrears on household bills. 1/3 are 'priority debts': council tax, utilities etc. Many local councils are very quick to collect. If one month is not paid, councils usually require an entire year in advance and send in bailiffs very quickly. Bailiffs, it was noted, are unregulated.
- 1.5 million people use high cost credit for everyday bills. The challenge, it was said, is how to support those who lack sufficient income (perhaps temporarily) to migrate away from using high cost credit to pay for house hold essentials.
- According to the UK's main debt advice charities, the top reasons for chronic debt problems are:
 - a. living on low income
 - b. mental health issues
 - c. relationship breakdown
 - d. job loss or decreased hours

In these circumstances, people turn to high cost credit which they've used easily and successfully previously (but then can't escape).

Issues of concern

- There was a robust discussion of the existence of two distinct groups of people who rely on debt: a group of 3 million who, in situations of financial distress, contract expensive forms of credit which quickly escalate into distressed debt situations, and the rest of the population (approx. 60 million) who, it was noted, are prone to 'chronic indebtedness for consumption' (e.g. buying consumer goods on credit cards) but can service their debts. Participants noted some of the potential causes of persistent indebtedness: lack of (financial) education, lack of self-control, 'filling an existential void', technology and the 'invisibility of cash'.
- The notion that there were two separate categories of debtors was however strongly disputed. One participant insisted that the lines were much more fluid between these two groups, and that the move from one to the other category could happen simply by an adverse life situation, a mishap or a lack of financial cushion.
- Participants noted that the majority of UK households have a very small amount in savings. The need to borrow for everyday needs means that credit gets stacked up.
- A 2013 American Economic Review article showed causality between impatient personality types and borrowing related to the concept of 'I want it now.' There was vigorous discussion on the question of where responsibility lies: with the consumer/borrower or the institutions (lenders, marketers etc). What is undeniable is that we have a culture that permits borrowing habits to proliferate.
- It was widely noted that personal debt is part of the polarization that characterizes UK society. Participants noted how people feel disenchanting with politics and live with the impression that no one is listening and no real change is possible.
- There is a particular problem with people going into debt around Christmas time. This is more than unfortunate given the Christian intent of the holiday.
- The vulnerable, it was claimed, start on unsecured credit and become 'addicted' to debt.
- Banks' behaviour with young adults was found to be objectionable, luring them in to cheap overdrafts to get them accustomed to living in debt and then raising the cost of credit dramatically when they leave university.

Theological Reflections

- Is consumption filling an existential void?
 - little connection with community
 - limited social capital.

(One participant suggested looking at Economics of Happiness literature. This shows very clearly that what makes people happy are good social relations.)
- Core theological issue is the 'just contract' which relates to the social contract; it has perhaps been forgotten in relation to taxation. The key question is how can we manage debts where the contract is broken? Scotland set up the children's hearings which deals with problems holistically before having to go to court. It was suggested this could be a good model for handling debt problems.
- One participant noted that bankruptcy is a Christian concept – a merciful interruption of increasing indebtedness. Bankruptcy, it was suggested, can be seen as an outworking or modern application of Jubilee principles that puts an end to a detrimental debt relationship between debtors and lenders. While participants acknowledged this as a solution, the fees of going through bankruptcy and the potential stigma attached to it make it a solution with restricted scope.

- One participant noted that the title of the project, *Forgive us our debts*, refers to the Lord's prayer which echoes the Jubilee year. This brings with itself the focus on the common good and economic justice. Moreover, many of the parables in the Gospels have a financial component. These aspects need to be properly teased out and sensitively brought to bear on the contemporary context, bearing in mind the significant differences between the world of Ancient Near East and Early Christianity and the modern economic context. The relational aspects in particular, it was thought, are still very relevant for today.
- There was some disagreement on the meaning of Romans 13:8. Participants thought the injunction was aligned with Luke's 'lend without expecting anything in return,' rather than the way it was interpreted in the briefing paper, namely stressing individual responsibility to repay debts where the debtor has the sufficient means to do so.
- Participants highlighted the importance of remembering the context of the Bible: a world of tribute, taxation and forced labour. This is in marked contrast to today's liberal, democratic, regulated world of law.
- The key challenge of the report is to bring theology to bear on the modern world in a way that people will listen.

Relational aspect of debt

- It was remarked that the relational aspects of debt is what will chime with people from all faiths and none.
- Even door-to-door lenders are relational, it was noted. They build a relationship between the company and the borrower. When it was announced that they were going to stop door-to-door collecting there was uproar.
- High cost lending is very different today; it is very easy to get a loan without the relationship to the lender.
- Catholic social teaching encourages subsidiarity (doing things at a local level) which could encourage relationships.
- Why has the principle of subsidiarity failed in local credit provision and community creation? Consumption has overtaken savings mentality.
- One of the participants highlighted that the values of trust and relationships are still present; they underpin the institutions of the modern economy. The problem is that they are not felt to be real in lived experience.
- The relationship between lender and borrower must change and become fairer. There is a clear imbalance of power. For example, young people are prone to spending money but the pressures on them, from lenders and marketers, are enormous.

Assessing possible models of affordable credit

- There was consensus that what is needed is a diversity of provision. Currently there is a structural homogeneity with an 'oligopoly of players and few local banks'.
- Some participants noted that high cost lending in itself should not be considered bad. The relevant question is: what is fair? It was noted that an account of debt should acknowledge the avenues that people have for debt and their financial education.
- Education was considered crucial in addressing debt problems. It was noted that people need a better understanding of:
 - Borrower-lender relationship
 - Options available to them

- One participant noted that the Post Office could play the role of a people's bank where banks are moving out of communities. Post Office still is very relational.
- When people use credit as a response to disruption in their lives it makes them twenty times more likely to get to a point of crisis. It was noted that what is needed are more affordable alternatives.
- The way risk is currently defined was found to be problematic. The solution envisioned was to redefine risk to allow for lending over a longer period of time, which would support providers to offer smaller loans without such high interest rates like credit unions.
- Some participants suggested looking at models of affordable credit around the world. It was noted that these are only applicable in regions where there isn't a developed banking system or where there has been a market failure, but it could be argued that there is a market failure here in the UK.
 - *Australia*: Good Shepherd; bank with 3rd sector partnership to lend at lower rates on the high street, to families in need.
 - *Ireland*: something similar
 - *Caribbean and Bangladeshi communities in the UK*: community schemes without interest for amounts from £10-100 – a historic method based on relationships of trust, which they continue to use even if they could access credit from banks.
- All such schemes seem to require homogeneous communities, social capital, and trust that enables them to lend without interest. Are we saying that lending in this way is only possible where those structures of trust are pre-existent?
- Participants discussed the need to look holistically at the borrower without using courts but rather consider appealing to trained mediators.
- It emerged that there are many tools to deal with debt problems already, but education and simplicity are key if people are to use them to their advantage: IVAs (Individual Voluntary Arrangement), administration through a CCJ, bankruptcy/insolvency, debt relief orders etc.

Summary

- The discussion began with the shared concern that if provision of high cost credit ceases the void that is created will make things worse for people. It is important to address the root causes.
- Debt problems often originate in arrears on house hold bills and build up from there.
- The discussion touched on questions pertaining to *education* and *formation*. Participants strongly emphasized the need for education on debt, desire, and the good life – in families, communities, schools, churches, and other civic institutions.
- The conversation also touched on existing tools and institutions that mitigate against harmful and detrimental forms of debt (e.g. bankruptcy, IVAs, mediators, etc.) but it was noted that information on their use needs to be clearer and more accessible to individual consumers.
- There was a clear consensus on the need to diversify credit provision and see affordable and fair credit more widely available.
- The discussion also touched on issues pertaining to economic empowerment: helping people reclaim agency, practice 'relational lending' through initiatives of 'economic democracy' at the local level: regional banks, credit unions, peer-2-peer and other similar initiatives.