Eurofound

Household debt advisory services in the European Union

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Introduction

Many EU citizens are struggling to service their mortgages or consumer credit, and to pay their rent and utility bills. In 2010, more than one in four persons reported that they felt at risk of becoming over-indebted, while 11.6% were in arrears with payments related to such debts or bills (up from 9.9% in 2007).

This Eurofound study focuses on debt advisory services, especially on how access to and quality of services can be improved. The study identifies successful debt counselling measures and outlines the conditions that contribute to good practice.

Building on an earlier working paper, the study brings together international data and literature on the topic, providing an overview and a comparative perspective. Most importantly, the research draws on evidence from country studies in Hungary, Ireland, Portugal and Sweden. Each country study includes case studies of specific debt advisory services. Debt advisors, households that received help from debt advisors and other stakeholders were interviewed about their experiences with, and views on, what works and what does not, and under which circumstances.

Policy context

The Europe 2020 Strategy includes a headline target to lift 20 million people out of poverty by 2020. An increasingly prominent cause of poverty is over-indebtedness. Management of over-indebtedness is critical in the effective reduction of poverty. However, because of the economic recession, increasing numbers of households who were not previously at risk of poverty are now encountering problems with debt.

Key findings

For many people, the economic and financial crisis has resulted in a fall in income due to reduced working hours or unemployment. In autumn 2008, one out of every five households in the EU reported a major drop in income over the previous year. Households who made long-term financial commitments in better times are now often unable to service their debts. Some people may fall behind with utility bills because of reduced income and other bills, a common occurrence among the unemployed who face higher utility bills, not least as a result of increased time spent at home.

Poor households are more likely to take out small loans to service payments, finance emergency home repairs and pay for goods. Such small, easily accessible loans often come with high interest rates or encourage consumers to buy products they cannot afford. Missed payments can easily spiral out of control, with cumulative interest payments, fines and administrative costs.

For those new to debt problems and those who live in chronic poverty, debt advisory services can help to get their finances – and often their lives – back on track. When no help is available there are costs for the household and for society, as over-indebtedness can lead to, or be a symptom of, a broad range of problems, including social and health issues such as depression and relationship breakdown.

The crisis has generated challenges because of increased demand for support services in the face of reduced resources. The study identifies several ways to tackle the situation and improve access to services. It finds that the quality of debt advisory services can be enhanced by offering tailored approaches, leaving the household in control as much as possible and building relationships of trust between all the stakeholders involved.

Policy pointers

Provide timely access

- Providing timely help can be challenging, especially when those in need are socially excluded. Potentially helpful measures include anonymous first-contact options, multiple language and media channels, targeted marketing, early-warning systems and outreach services.
- The social partners can play an important role by providing information on available services to employees, as debt problems often arise as a result of sudden, unexpected unemployment.
- Waiting lists, non-availability of services and exclusion criteria such as debt or income limits were identified as barriers to access. Prompt referral and 'minimum service systems' could help to ease the negative impact of such barriers.

Enhance quality

- Debt service provision requires consistent, customised approaches. In some cases, a quick and simple solution will do, while in other cases it takes more time to develop a sustainable solution.
- Advice manuals were found to be useful, as were debt advisory teams composed of people from different backgrounds working together to develop long-term solutions for specific cases.
- It can take time to build relationships of trust, to fully understand a household's situation and to develop an appropriate response. The case studies point to several factors that can be effective, including sharing experiences of other households with debt problems.
- A credible and well-communicated assurance of confidentiality is crucial. Face-to-face encounters usually enhance trust, but do not have the same value in all stages of the process or in all cases.
- It is vital to build good relationships between debt advisors and other stakeholders, such as creditors, welfare offices and health services. Honest and consistent communication is an essential factor in building sustainable trust.
- It is important for the services to put the household in control, and ensure it is contributing actively to the solution, while offering support. Not only does this contribute to the household's sense of being in control, but it also motivates creditors and debt advisors in their efforts to facilitate an appropriate solution.
- Often it is essential for the household in debt to establish a reliable payment record during the process, not least in order to guarantee access to cheaper future credit.

Develop sound institutions

- Quality assurance requires the registration of debt advice providers and training of debt advisors. In addition, there is a need for enhanced integration of support areas such as legal assistance, financial advice, monetary relief and mental health care.
- Overlap between different institutions providing help is often viewed as inefficient. Nevertheless, this is not necessarily the case. Organisations with different backgrounds have different strengths.
- There should be a holistic approach to debt problems, with a wide range of preventive, remedial or curative, alleviative and rehabilitative measures in place. The European Commission's Consumer Credit Directive (2008/48/EC), for example, sets out important preventive measures.

- Sound legal debt settlement and bankruptcy procedures are crucial. While legal processes should not be too short and open to abuse, they should also not be too long and inaccessible. It is important for households to have incentives to maximise earnings during such procedures where all income earned above a certain minimum is transferred to creditors, often for several years.
- Finally, housing policies can play a role in emergency situations, for example facilitating the household's transfer to a more affordable dwelling. This is important, because households with debt problems often fear losing the roof over their heads and problems often arise from costs related to housing in the first place.

Introduction

The Europe 2020 Strategy includes a headline target to lift 20 million people out of poverty by 2020 (European Commission, 2010). An increasingly prominent cause of poverty is over-indebtedness. The 'European platform against poverty and social exclusion', one of the flagship initiatives through which these targets should be reached, further aims to ensure that people experiencing poverty and social exclusion can live their lives in dignity and take an active part in society.

It is important to address effectively both the causes of poverty and the issues which prevent people experiencing poverty from living their lives in dignity. These are diverse and often interrelated. This research report focuses on one increasingly prominent cause of poverty that can also rob people already experiencing poverty of their dignity: it concerns households that struggle with debts. Management of over-indebtedness is clearly critical to the effective reduction of poverty, but increasing numbers of people who are not experiencing poverty are nevertheless also encountering problems with debt. The prevention and management of over-indebtedness presents some specific problems and requires particular measures.

Poverty can be both a cause and a consequence of debt problems. When a household loses control of its finances because of its debts, it risks falling into poverty. Most debt advisors interviewed for this study identified a group of people who have only recently become prominent among those seeking help. A household might never have had any problem making regular payments related to its mortgage, rent, consumer credit or utility bills. Nevertheless, for many the financial and economic crisis has resulted in reduced income because of decreased working hours or unemployment. As a consequence, the household might not be able to meet its regular payment commitments and the situation risks spiralling out of control with cumulative interest and fines and administrative fees. Many other factors have also played a role (Eurofound, 2010). Access to credit has often been too easy and households have often been too eager to take up credit.

The mechanism can also operate in reverse. In this case, poverty results in households taking on debts, causing them to lose control over their finances. In the short term, these debts allow low-income households to incur expenses that would not be possible without these loans. They often pay interest at a much higher rate than that paid by higher-income borrowers (Daly and Walsh, 1988; Orton, 2010). This can make life even more difficult for those already experiencing hardship, dragging them deeper into poverty and making the way out of poverty even harder than it already is. To enable people experiencing poverty to live a life in dignity and to potentially help them to lift themselves out of poverty, it is important to address this problem.

While wealth and income are positively related to well-being, there are other important factors. For example, for the poor and rich alike, the feeling of being in control of one's finances affects well-being. In late 2010, around 27% of EU27 residents aged 15 years and older reported feeling 'very' or 'fairly' at risk of being over-indebted.[1] Many are struggling to make payments related to loans, whether for a mortgage or consumer credit. Furthermore, households may fall behind in paying their bills, especially utility and rent bills. Such problems have become increasingly common during the financial and economic crisis. While the proportion of EU residents who feel at risk of being over-indebted stayed almost constant between 2009 and 2010, the proportion of people who actually experience payment problems increased. In autumn 2010, 11.6% of EU residents reported that they had actually been in arrears of payments related to such debts or bills over the previous 12 months, up from 9.9% in 2007.[2]

[1] Eurobarometer 74.1

[2] Data downloaded on 23 November 2011 from Eurostat's online database, European Union Statistics on Income and Living Conditions (EU-SILC).

Debt problems can lead to, or be a symptom of, a wide range of problems, including social and health issues (see Nettleton and Burrows, 1998; Eurofound, 2010). Debt advisory services can help households to get their finances, and with that often their lives, back on track.

In addition to the importance for households, their direct surroundings and society (for example, in terms of lost economic output; see Pleasence et al, 2007), effective debt help has the potential to save public funds. While precise numerical estimates can be challenged, the message is clear: quality debt advisory service provision may not be cost-free to society but there are costs involved when no help is provided. This is especially the case when a household enters a 'debt spiral' with no prospect of recovery. Severe depression, relationship break-up and other problems are likely to result. Furthermore, someone who lives in a household with debt problems is more susceptible to becoming or remaining unemployed. As all EU27 countries have (to different degrees) some kind of public security system offering healthcare and unemployment benefits, such problems are likely to increase public expenditure. In the Dutch context, for example, it has been estimated that most of the savings to the public purse as a result of solving debt problems come from avoiding costs for unemployment, inactivity and housing benefits (Aarts et al, 2011; Konsumentverket, 2011; van Geuns et al, 2011). Besides reducing public expenditure, increased public revenue can also result from effective help. An Austrian study stresses the additional tax revenue collected by helping people regain their purchasing power (Hollerweger and Leuthner, 2006). Furthermore, debt problems may not only reduce the capacity of adult members of the family to re-engage in an income-generating activity but, can also prevent or substantially limit the same capacity for their children (Council of Europe, 2007).

Aim and objectives of study

The quality of service delivery in the area of debt advice depends on the accessibility of the services and the type of services delivered. There is limited evidence available on what services work best and under what circumstances. The focus of existing research is on a few specific EU countries and has remained largely in the national realm. The current study draws on this available evidence, providing an overview and an international perspective. The most significant contribution of this research, however, is to add to this important existing evidence by drawing on primary data from debt advice assessment in various EU Member States. While evidence from all over the EU27 Member States is reported, the study draws in particular on four country studies: Hungary, Ireland, Portugal and Sweden. Each of these studies explores at least two case studies of debt advisory services.

Debt advisors,[3] households that have received help from debt advisors, and other people closely involved in service provision in this area usually have experience about what works and what does not, and under what circumstances. By drawing on this expertise from the field and by triangulating these views and experiences with other data sources, this study adds to the evidence on quality debt advisory service delivery.

The study has two main objectives:

- to assess how to improve the access to, and quality of, service delivery in an integrated response to indebtedness;
- to examine what debt counselling practices have been successful, and in what circumstances.

[3] Several of the service providers discussed in this report are not formally referred to as 'debt advisors' (for example, Saint Vincent de Paul Society (SVP) in Ireland has 'members') and often giving debt advice is not their main task. Nevertheless, in practice, an important part of their work consists of providing services to households with debt problems. In this study, such workers will be referred to as 'debt advisors'. In Ireland and the UK they are often referred to as 'debt counsellors' or 'money advisors', and in the US as 'credit counsellors'.

Criteria for assessing debt advisory services

Before analysing the results it is important to have a common understanding of the broad criteria used to assess debt advisory services. What is meant by ‘effective’ debt advisory services? Certain elements in assessment might differ according to the perspective taken. Although this study highlights different aspects and perspectives, two broad aspects are emphasised in defining effective debt service provision: the solution and its sustainability, and timely access to the service.

While no quantitative cost–benefit analysis is presented in this report, efficiency is also touched on: how can such effective debt advice be achieved with the least possible resources? In particular, experiences from the field in this regard are taken into account.

Sustainable solutions

The principal outcome of effective debt services is that a household’s current problems are solved. In a UK study into fee-charging debt management companies, customer satisfaction was closely linked to the outcomes that people had experienced when using a debt management service provider. Those who expressed the most satisfaction were those who had paid off their debts, either partly or wholly, through a debt management plan (Collard, 2009). This corresponds to the impression given by interviewees providing input for this research report. One of the interviewees in the country study on Portugal noted:

> *[the debt advisory service provider] was a great help … I have my home and my stuff, everything thanks to the help of [the debt advisory service provider]. … [The debt advisory service provider’s] support is very good.*

Furthermore, the solution should be sustainable so that the re-occurrence of debt problems is avoided.

Timely access

Another aspect of effective debt service provision is that it should reach the entire population of households with debt problems. Assuming the content of the advice is effective, those in trouble should know about the service and not be, or feel, restricted from using it.

It is not enough that households can and do use these services. For debt advisory services to be effective, the timing of service provision matters as well. Households in debt trouble should be reached at an early stage to prevent the situation from deteriorating. In other words, ‘timely access’ is a key requirement for debt advisory services to be effective and is an aspect taken into account when assessing debt advisory services in this study.

Limitations of study

First, it should be clear that this study focuses on private household debt problems and not on public debts. While a relationship exists between the two, the focus is on household debt problems in isolation with only limited regard for the macroeconomic situation. It is left for other researchers to examine the connection between the two types of debt. For example, high government debts might aggravate the destabilising impact of high household debts at the macroeconomic level. In fact, both types of debt can reinforce each other’s impact. Furthermore, measures taken to reduce public debt certainly have an effect on the prevalence of household debt. Cuts in healthcare funding, for example, can shift more of these expenses to the household level, thus putting households at risk of incurring unexpected healthcare costs which tip the sometimes delicate balance of their finances.

Much attention is being paid to public debts in the current macroeconomic climate, while the focus on household debts is somewhat less. Nevertheless, regardless of the public debts, household debts have specific micro-level causes and consequences.

Second, an appropriate policy response to over-indebtedness consists of preventive, alleviative, remedial (/curative), and rehabilitative measures (Council of Europe, 2007). The emphasis of the current research is on alleviative, as well as remedial or curative, measures given by services in an effort to help households with debt problems to solve these problems in a sustainable way.

The focus is not on legal ways out of debt problems such as legal debt settlement and consumer bankruptcy options. While more in-depth research on this topic can be found elsewhere (see Reifner et al, 2003; Ramsay, 2011), it is touched on briefly in this report as these different aspects of the response to debt problems are related.

Preventive measures can, for example, take the form of regulation of the credit industry or financial education for households; they can also be taken by households themselves, for example by maintaining a financial reserve (Świecka and Carleo, 2011). Such measures are also not the principal subject of this study. Nevertheless, preventing re-occurrence and escalation of problems are examined. While prevention of debt would be the ideal situation, practice suggests that some households will inevitably run into trouble, regardless of preventive measures. The fact that there is no single EU Member State where households manage to avoid debt troubles altogether suggests that preventive measures, while potentially limiting them, will not eradicate household debt problems.

Even when a household is denied access to most forms of credit, it can still run into debt problems. This was observed in the case of debt services offered to Travellers, a disadvantaged minority in Ireland. For many Travellers, the price and magnitude of a funeral and/or headstone reflect the love they feel for the person who died. Consequently, many Travellers will go to great lengths to secure funds for this purpose. Because the death of loved ones is often unexpected and comes at a relatively early age in this community, funds have to be gathered quickly. While Travellers have hardly any access to credit, certainly for expenses such as headstones or funerals, they turn not only to family and friends, but also to illegal lenders. While at first sight this seems a very specific observation, other groups of people searching for credit might not indebt themselves for the same purposes, but there can be other strong culturally ingrained drivers that are hard to change. For high- and middle-income households, it might be the dream of possessing a house or keeping up with their peer group in terms of flat screen television sets, cars and number of rooms available. For low-income groups it might be Christmas presents, communions or weddings.

In short, it seems hard to prevent debt problems altogether. Nevertheless, it is important to keep exploring prevention, if only to minimise debt problems. From a policy point of view, it should be kept in mind that consistent policy relies on a combination of appropriate preventive, alleviative, remedial or curative, and rehabilitative measures. Unfortunately, the focus of this report remains relevant even with relatively effective preventive measures in place.

Third, it is hard to generalise from observations made only in a few case studies. This is especially true for the complex, varying environment with which this study deals. Debt advisory services are provided within a multifaceted institutional environment where these services interact with other institutions. In particular, the effectiveness of different debt advisory arrangements depends on the legal framework, social security system, government measures and culture in the particular country or area. For example, in an earlier publication Eurofound explored the interaction with legal debt arrangements, especially with the presence and design of consumer debt bankruptcy procedures (Dubois and Anderson, 2011).

However, while contextual differences should not be underestimated, they should also not be exaggerated. This study examines rather different contexts in terms of countries and service providers. Some aspects of debt advice might be more important in certain contexts than in others. These differences are discussed and analysed. But as will be clear from the assessment below, very similar observations were made even in the very different countries studied. It is all the more telling that often very similar observations were made with regard to what type of debt advisory services work and which are less effective. Furthermore, also within countries, similar observations were made in different cases. It is not unlikely that these observations would have been even more alike had the selected countries and cases been more similar.

Methodology 1

In order to assess how to improve the access to, and quality of, service delivery in an integrated response to indebtedness, and to examine what debt counselling practices have been successful, a literature review was undertaken and case studies of debt advisory services were conducted in four different country contexts from within the European Union. One country study was written by Eurofound (Ireland), while the other three (Hungary, Portugal, Sweden) were written by three different contractors. All four country studies include at least two case studies from two different types of service providers. The sample selection and data collection processes are described below. The selection of countries and cases is 'purposeful' and thus non-random. According to Patton (2002, p. 230):

> *The logic and power of purposeful sampling lie in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry ... Studying information-rich cases yields insights and in-depth understanding rather than empirical generalizations.*

Selection of the four country cases

Eurofound was in the fortunate position of being able to select countries for in-depth investigation based on previous data. An earlier, exploratory research project (Eurofound, 2010) produced an overview of the necessary data that facilitated this process. Given the selection criteria, a somewhat different set of countries could still have been selected. Nevertheless, resources were limited and choices had to be made. Rather than being an exact science, this is a 'satisficing approach'; in other words, one aimed at finding a satisfactory solution, if not a perfect one. As argued below, the choice was well considered.

The selection was based partly on a maximum variation rationale, with the welfare regimes of the country and available type of service delivery in the country as selection variables. This approach can be expected to generate complementary findings, increasing relevance for the various countries within the EU27.

Debt advice in the four countries is offered through different channels. In Ireland, debt advice is offered mainly by a publicly funded body, at some distance from the Irish public administration. This is a rather unusual arrangement in the EU27. In Hungary and Sweden, local authorities are among the most important debt advice providers, as is also the case in Finland. Portugal has an arrangement which is illustrative for another group of countries (including the Czech Republic, Slovakia and Spain); here a consumer association is the principal provider of debt advisory services. In addition, there are private (for-profit and non-profit) organisations operating in the area in all four countries.

Countries were also deliberately chosen with the aim of selecting examples from which the most could be learned. All four countries have considerable debt advisory services structures in place. This is not case, for example, in Bulgaria, Denmark and Lithuania. In addition, there were cases of relatively integrated service delivery and/or these countries were experiencing particularly severe situations in terms of households with debt-related problems, with fast-developing changes in the clientele[4] of debt advisory services. Furthermore, while there are differences, legal debt settlement is relatively unattractive in most of the countries to both debtors and creditors. Consequently, in these countries households should be struggling more than in other contexts, making them potentially rich cases to learn from.

4 Some debt advisors prefer to refer to the households they help as 'clients' because alternative terms would make them sound helpless while others prefer the less business-like term 'households in need'.

Another important criterion in the selection of the countries was that the amount of existing, readily accessible evidence from these countries should be relatively limited because the study aims to add to evidence already available. The available research comes mainly from Germany (for example Knobloch et al, 2011) and the UK (Kempson and Collard, 2004; Pleasence et al, 2007; Collard, 2009; Orton, 2011).

While the primary data in this report come from Ireland, Hungary, Portugal and Sweden, the evidence is complemented with secondary analysis of data from other EU27 countries.

Service provider cases

Authors of the country reports were encouraged to select good practices of integrated service delivery, which other countries can expect to learn from. For each country, at least two service providers were selected for a more in-depth examination by means of case studies.

Table 1 gives an overview of the different service providers selected for each of the four countries. The cases cover a broad spectrum of possible providers including charities, consumer organisations and local authorities. For some of them, debt advice is their core activity (for example, MABS in Ireland and Planoviável in Portugal), while for others it is one of a broad spectrum of activities sometimes not even explicitly referred to as debt advice (such as SVP in Ireland and Association for Youth in Hungary).

For each country at least one case study aimed to assess service provision. The other case study(ies) included at least an extensive description of the type of services provided and the organisation's background, while on some occasions secondary data (or even primary data) were used to provide an assessment.

Table 1: *Overview of the case studies*

Country	Organisation	Type of organisation	Subject of the case study/ levels of analysis
Hungary	Local authority	Government (public, non-profit)	Debt advisory service in Budapest's 8th District (Józsefváros)
	Ifjúságért Egyesület (Association for Youth)	Debt advisory service in Budapest's 8th District (Józsefváros)	Home Attendant Programme in the city of Pécs
Ireland	Money Advice and Budgeting Service (MABS)	Government-funded	North Cork MABS office
			Dún Laoghaire MABS office and National Traveller MABS
	Saint Vincent de Paul Society (SVP)	Private non-profit (NGO)	Clonmel and Cork offices
Portugal	Associação Portuguesa para a Defesa do Consumidor (DECO) (Portuguese Association for Consumer Defence)	Consumer association	Over-indebted Supporting Office of Coimbra, one of DECO's seven offices
	Associação Portuguesa de Usuários de Serviços Bancários (APUSBANC), (Portuguese Association of Banking Service Users)	Consumer association	Organisation's single office, in the city of Cascais
	Decisões e Soluções (Decisions and Solutions)	Private, for-profit company	Whole organisation
	Planoviável	Private, for-profit company	Coimbra franchise office
Sweden	Local authority	Government (public, non-profit)	Municipality 'M'
	Konsumentverket (Swedish Consumer Agency)	Public, non-profit	Whole organisation

Data collection

The structure of the country reports was standardised somewhat to ensure consistency. Each report contained:

- a description of the situation with regard to debt problems in the country;
- the institutional context (legal debt arrangements, relevant social security arrangements);
- the available relevant debt advisory services;
- the development of demand for debt advisory services.

To avoid convergence of approaches and conclusions, there was minimal communication between the authors during the writing of the four country reports. The country reports were written between May and August 2011. Interviews for the case studies were carried out with debt advisors, and sometimes also with households that had received help from debt advisors and with other stakeholders (for example in policy and research). The country reports are unpublished, but are used as input for this synthesis report.

2 Debt advice: Needs and service provision

Before considering the evidence from the different countries, it is important to get a broad understanding of how they compare to each other and to other EU27 states in terms of:

- extent and nature of household debt problems;
- availability of, and demand for, debt advisory services.

Extent and nature of debt problems

Problems related to debt (for example, financial or psychological) often emerge before households cannot service their debts or pay their bills anymore. Debt advisory and other service providers are sometimes consulted well before this stage. Nevertheless, initial trouble paying debts usually leads to arrears. Table 2 shows how the four countries compare in terms of the rate of the population experiencing any type of arrears related to:

- mortgage or rent;
- utility bills;
- 'hire purchase instalments or other loan payments (non housing-related debts)'.

Table 3 lists the rates for the different types of arrears.

These types of arrears are not the only types that can emerge. Other examples include arrears resulting from traffic fines and health insurance premiums. For example, in the Netherlands in late 2009 around 304,000 people (2.3% of the population) were in arrears of six months or longer with their health insurance premiums, up from 240,000 in 2007 (CBS, 2009). Debts can also be informal. In Romania, the May 2010 Quality of Life Diagnosis survey showed that 12% of all respondents declared that they fell behind with what they owe to people around them (friends, relatives), during the past month.[5] Data from Italy show that debts owed to friends and relatives are particularly common in the poorer parts of the population (De Bonis, 2011).

Nevertheless, the arrears listed in Table 3 cover the most common ones to emerge in a situation when a household struggles with debts. Almost every EU27 Member State saw an increase in household debt problems between 2007 and 2010 during the economic and financial crisis. Two of the countries examined for this study, Hungary and Ireland, showed a particularly marked increase compared with the EU27 average, while for Portugal and Sweden the situation was more favourable.

[5] Data provided by the Research Institute for Quality of Life, Romanian Academy.

Table 2: *Arrears by country (mortgage or rent, utility bills and/or hire purchase)*

Country	2007	2010	Increase (% points)
Romania	10.1	29.8	19.7
Latvia	10.3	25.7	15.4
Estonia	5.2	13.3	8.1
Ireland	8.4	14.0**	5.6
Slovenia	14.2	19.5	5.3
Hungary	19.1	24.3	5.2
NMS12	15.0	19.7*	4.7
Greece	26.4	30.9	4.5
Slovakia	7.6	12.1	4.5
Spain	6.8	10.1	3.3
Austria	3.9	7.1	3.2
Lithuania	9.4	12.2	2.8
Bulgaria	31.0	33.8	2.8
Denmark	4.4	6.2	1.8
Belgium	6.1	7.8	1.7
EU27	9.9	11.6*	1.7
Portugal	7.0	8.6	1.6
Finland	9.2	10.3	1.1
France	9.8	10.8	1.0
Netherlands	4.3	4.9	0.6
Sweden	5.8	6.4	0.6
Luxembourg	2.7	3.3	0.6
Czech Republic	5.6	6.0	0.4
Italy	12.5	12.5	0.0
Malta	7.9	7.3	-0.6
Germany	5.8	4.9	-0.9
Cyprus	23.0	20.7**	-2.3
Poland	18.2	15.3	-2.9
United Kingdom	8.5	n.a.	n.a.

Notes: Percentage of households that been unable to pay in time at least once due to financial difficulties
*Estimate; **2009
n.a. = not available
Sorted by 'increase'
Source: *SILC data from the online Eurostat database*
(**http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database**), accessed 23 November 2011

Some interesting conclusions can be drawn when looking in more detail at the increase in reported arrears (Table 3).

Arrears related to utility bill payments are the most prevalent; they are more common in the New Member States (NMS) than elsewhere in the EU27, while the reverse is true for arrears relating to mortgage or rent payments.

The largest relative increase is seen in arrears related to utility bills. There may be several reasons for this. Generally, gas and electricity prices rose sharply between 2005 and 2011.[6] In addition, if they fear losing their homes, households having money troubles might prefer to run into arrears in their utility payments rather than in their rent or mortgage payments. Furthermore, an often ignored reason which was mentioned by a debt advisor in Ireland is that people who have lost their jobs spend more time at home and thus have higher home utility bills combined with less income.

Another marked increase was in hire purchase instalments or other loan payments arrears in NMS, which are in any case relatively high in these states.

Table 3: *Type of arrears, EU27 and NMS12 (%)*

	2007		2010*	
	EU27	NMS	EU27	NMS
Overall	9.9	15.0	11.6	19.7
Utility bills	7.3	13.3	8.8	17.7
Mortgage or rent payments	3.3	1.8	3.8	2.2
Hire purchase instalments or other loan payments	2.8	3.5	3.2	4.7

Notes: Percentage of households that had been unable to pay in time at least once due to financial difficulties
*Estimates.

There is a large variation in reported prevalence of arrears, with 33.8% of residents in Bulgaria reporting at least one of three types of arrears compared with only 3.3% in Luxembourg (Table 4). With regard to arrears related to utility bills, Hungary comes fourth after Bulgaria, Romania and Latvia. Ireland (9th) also has a figure which lies above the EU27 average, while in Portugal (17th) and especially Sweden (22nd) such arrears are less common. Arrears related to hire purchase instalments or other loan payments are particularly high in Hungary (3rd) and Ireland (joint 7th) while less so in Portugal (16th) and Sweden (19th).

6 Eurostat data, elaborated by CECODHAS Observatory.

Table 4: *Arrears breakdown by type, 2010*

Country	Overall	Utility bills	Mortgage or rent payments	Hire purchase instalments or other loan payments
Bulgaria	33.8	31.6	1.7	5.9
Greece	30.9	18.8	10.2	13.3
Romania	29.8	27.0	0.6	6.3
Latvia	25.7	23.2	5.9	5.0
Hungary	**24.3**	**22.1**	**5.6**	**6.9**
Cyprus*	20.7	12.2	4.1	12.9
NMS12	**19.7**	**17.7**	**2.2**	**4.7**
Slovenia	19.5	18.0	2.4	3.7
Poland	15.3	13.9	1.0	3.9
Ireland*	**14.0**	**11.2**	6.5	**5.0**
Estonia	13.3	11.0	2.7	4.7
Italy	12.5	10.5	3.3	2.6
Lithuania	12.2	11.1	1.5	2.1
Slovakia	12.1	9.6	6.8	5.9
EU27	**11.6**	**8.8**	**3.8**	**3.2**
France	10.8	7.1	6.1	3.0
Finland	10.3	6.9	4.7	3.9
Spain	10.1	6.6	5.2	3.5
United Kingdom	9.6	5.6	4.8	2.6
Portugal	**8.6**	**6.4**	**4.8**	**2.9**
Belgium	7.8	5.8	3.4	2.1
Malta	7.3	6.4	1.0	1.2
Austria	7.1	4.4	3.9	2.2
Sweden	**6.4**	**4.3**	**2.3**	**2.5**
Denmark	6.2	3.2	2.7	3.7
Czech Republic	6.0	4.2	3.5	2.0
Germany	4.9	3.5	2.0	1.4
Netherlands	4.9	2.1	3.1	1.6
Luxembourg	3.3	2.1	1.4	1.7

Notes: Percentage of households that had been unable to pay in time at least once due to financial difficulties
*2009
Sorted by 'overall arrears'
Source: SILC data from the online Eurostat database
(**http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database**), accessed 2 December 2011

Households in Ireland have among the highest housing loans outstanding as a percentage of disposable income, with Sweden following closely behind. In Hungary, large mortgages are relatively uncommon, as they are in most other NMS. The figure for Portugal lies somewhere in between two groups (Fondeville et al, 2010). Whether high levels of loans become problematic depends on many different factors. Nevertheless, Ireland is among the countries with the highest rates of arrears in mortgage and rent payments (Table 4), with only Greek and Slovakian respondents reporting arrears more often. Hungary and Portugal also score higher than average, while households in Sweden seem to struggle less frequently with paying their mortgage commitments or rent in time.

Not only self-reported data, but also administrative data show recent increases. In Ireland, 44,508 mortgage accounts (5.7% of total residential mortgage accounts) had been in arrears for more than 90 days in December 2010. This amounts to a 156% increase compared with December 2009 (CBI, 2011). In Hungary the increase was 29% over the same period, with 90,667 mortgage accounts in arrears in December 2010. The increase was sharper in the preceding year, with 269% more mortgage accounts in arrears of over 90 days in December 2010 compared with December 2008 (MNB, 2011). In Portugal, the percentage of borrowers in households with overdue consumption credit and loans for other purposes (not housing) increased from 14.6% in December 2009 to 15.2% in December 2010, while housing loan defaults remained constant at 5.2% (Bank of Portugal, 2011). In Hungary, the number of households in arrears with their electricity bills increased by 66% between 2003 and 2009; in the same period, arrears with gas bills had increased sevenfold, while the price of gas has tripled since 2003 (Herpai, 2010).

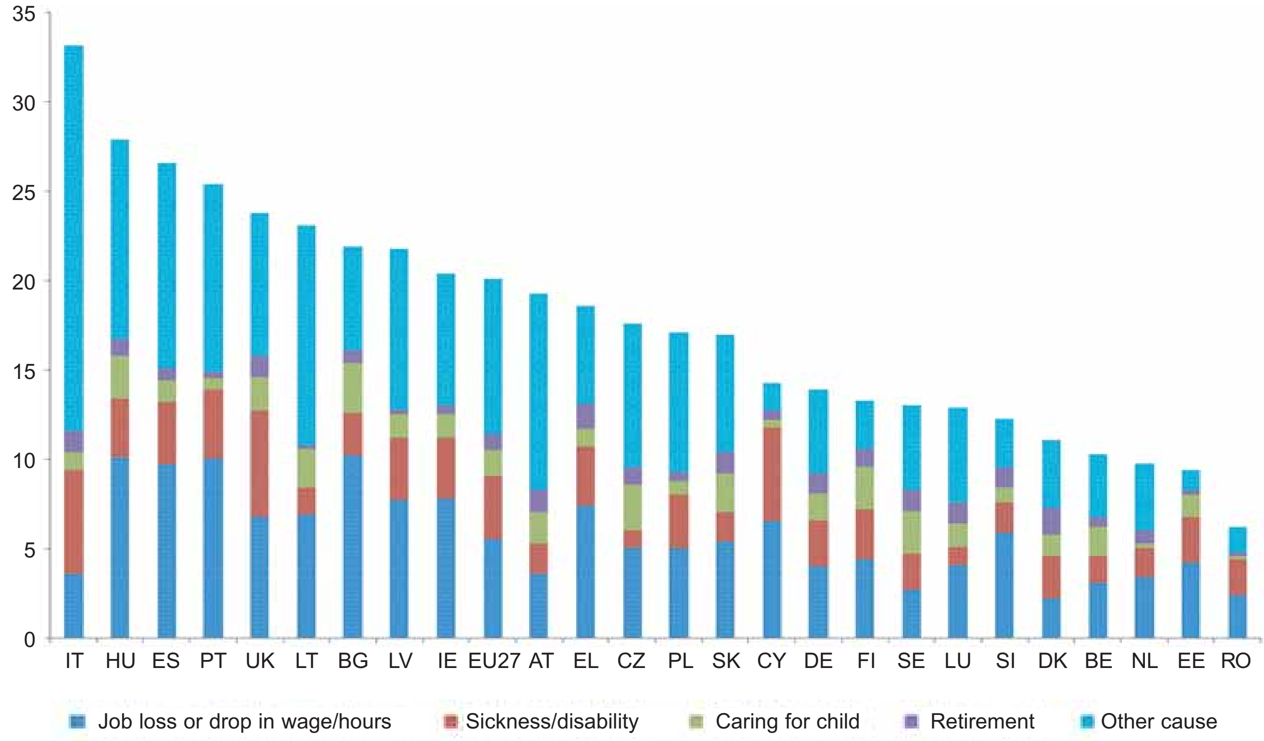
While the amount of debt people incur bears little relation to whether they are employed or not (Fondeville et al, 2010), the trouble people have with meeting their commitments is clearly related to employment, even after correcting for level of income and other potential explanatory variables (Eurofound, 2010). In particular, problems often emerge when people experience major drops in income because of becoming unemployed, especially when it is not expected. More generally, debt problems often occur when a household experiences an unanticipated drop in income or increase in expenditure.

In autumn 2008, 20.1% of households in the EU[7] were reported to have experienced a major drop in income over the previous 12 months. For over a fifth of these households, the main reason for this drop was job loss. Nevertheless, sickness or disability (17.9%), a drop in income and/or wages (6.9%), caring for a child (6.9%), retirement (4.5%), marriage break-up (2.0%) and other changes in the household (6.9%) were also frequently cited main reasons for such a drop in income. A further 36.3% reported that there were other reasons, not listed by the questionnaire, for the drop in income (Fondeville et al, 2010). Figure 1 provides an overview of the reasons for a recent drop in income and for the observed differences among countries.

In three of the four countries examined in depth in this study (Hungary, Ireland and Portugal), the data suggest that income in more than one out of five households showed a major drop between autumn 2007 and autumn 2008. The reasons behind this are mostly related to job loss or falls in wages or hours worked. As the three countries have been particularly badly hit by the economic and financial crisis, the situation is unlikely to have improved by the time data for this study were collected.

[7] No data are available for France and Malta.

Figure 1: *Proportion of people living in households experiencing a major drop in income and the main reasons for this (% of each category)*



Note: No data for France and Malta.
Source: *Compiled from SILC 2008 data as reported by Fondeville et al (2010)*

Besides the relatively low prevalence of mortgage debt, relatively high prevalence of utility arrears and a large rise in consumer credit over the past two decades, NMS differ in some other respects from the other EU Member States.

In several of the NMS, many households own their dwellings outright and do not have a mortgage. Nevertheless, this does not imply a necessarily lower risk of running into arrears. The reason is an antiquated housing stock with poor insulation and in need of repair. For example, in Hungary, 23% of dwellings were built prior to 1945 (KSH, 2005). Prefab housing estates and 'jerry-built' family houses in particular suffer from poor insulation. During the socialist era and in more recent years, there has been a lack of public spending to undertake renovations and private households seldom had the means to do so. This means that many households face the need to carry out urgent and costly repairs.

Furthermore, in many NMS it has been relatively common to have a mortgage in a foreign currency (especially in euros, British pounds sterling or Swiss francs), with interest rates far below those for loans in the national currency. This implies an additional risk for the borrower, as currency fluctuations can affect the level of payments both positively and negatively. With appreciating currencies before the crisis, households in NMS with such foreign currency loans benefited. This changed drastically, however, when national currencies weakened compared to these foreign currencies and many loans became unsustainable.

Recently there have been signs that this risky form of borrowing is being effectively discouraged. In Poland, for example, the share of new Swiss franc-denominated mortgage loans in total mortgage loan sales dropped from 78% in the third quarter of 2008 to 6% in the second quarter of 2011, which consist almost exclusively of already existing contracts rather than new ones. Several banks have stopped offering franc-denominated mortgage loans and the sole large bank still offering such loans applies high margins, implying that these loans are seldom granted.[8] While somewhat less risky – as the Polish currency is more closely linked to the euro – there were also very few euro-denominated mortgages sold in Poland, but existing contracts are more common than for francs. In Hungary, a ban was imposed in spring 2009 on foreign-currency mortgage lending. However, the ban was lifted within the framework of the government 'home protection action plan' announced in May 2011 as such a ban went against EU legislation. Nevertheless, only people with an income at least 15 times higher than the official minimum wage can now obtain foreign currency mortgages and only in euro.

Debt advisory service providers

Debt advisory services can be provided by different organisations. This section considers the different types of providers found in the EU27 grouped under six headings:

- non-governmental organisations (NGOs);
- consumer organisations;
- local authority public services;
- publicly funded organisations at some distance from public administration;
- private for-profit companies;
- social partners.

These clusters are not intended to be mutually exclusive. For example, consumer organisations are often non-governmental and can be publicly funded, or even be part of public administration. Services in one country are usually provided by several types of organisations. In Germany, for example, 46.6% of debtors in a 2006 sample of 996 debt settlement negotiations were supported by non-profit debt counselling agencies (Heuer, 2007), with earlier research suggesting that roughly 80% of them are NGOs and 20% municipalities (Heuer, 2005). Another 46.7% were supported by for-profit lawyers, and 6.7% by other providers, such as consumer organisations, for-profit debt counselling agencies.

Informal service delivery also plays an important role in the EU27. Often when a household cannot pay its bills, family and friends help out both financially and psychologically. This happens especially when things are really bad (Frade, 2006; Frade et al, 2008; Eurofound, 2010).

Finally, many other social services take on a burden of harm from debt problems and from fighting their causes. These include employment services, primary healthcare services and social housing services. In this study, however, the focus is on organisations at the centre of the network of services addressing debt-related problems.

[8] ZBP data referred to in Warsaw Voice, *Polish banks withdraw from franc-denominated mortgage loans*, 19 August 2011, http://www.warsawvoice.pl/WVpage/pages/articlePrint.php/17719/news

NGOs

In many EU27 Member States, non-profit, non-governmental organisations play a key role in service delivery. Several of these are charities with a Christian origin (such as Saint Vincent de Paul in Ireland, Caritas in parts of Germany, Italy and in Portugal, Diakonisches Werk in Germany, and Schuldhulp Maatje in the Netherlands). Others include the German Red Cross or *Arbeiterwohlfahrt*, the Latvian Borrowers Union (LAKRA), as well as the Hungarian Anti-Poverty Network (Magyar Szegénységellenes Hálózat), which helps households in need of information and advice on their financial problems, involving banking and social experts as counsellors. Other such organisations are mainly funded by private for-profit companies as a form of corporate social responsibility. Examples include the Finnish Guarantee Foundation funded by the Finnish Slot Machine Association and AGIR HOJE in Portugal, which is funded by a debt collection company. Another example is Hitel-S, a pilot programme in Hungary, which was launched in February 2009 to provide support for households that get into debt as a result of the economic crisis. It is operated by the Hungarian Maltese Charity Service and is supported by savings banks.

The diversity of funding sources for some of the NGOs is well illustrated by the Hungarian Association for Youth, funded by the local authority of the city of Pécs, the county of Baranya, the Hungarian Maltese Charity Service and Caritas. Furthermore, the NGO receives funds from several small and medium enterprises (SMEs), especially in Baranya, and one bigger company, the Hungarian Nuclear Power Plant.

The services of NGOs are usually free for users. In terms of human resources (HR), their workforce tends to consist of a combination of both volunteers and paid staff (this is true of both the Hungarian Association for Youth and SVP in Ireland).

These NGOs often started their operations to help disadvantaged groups in general. Recognising the central place of debt-related problems in the lives of many in these groups, they began to provide services in this area.

Consumer organisations

In some countries, consumer organisations are among the principal providers of debt advisory services. These can be the national, general consumer organisations such as DECO in Portugal. There are also more specialised consumer organisations, focusing on banking services, which are either among the principal providers of debt advisory services (ADICAE in Spain) or have very limited local reach (APUSBANC in Portugal, which has only one office near Lisbon). In other countries, where they are not among the principal debt advisory service providers, consumer organisations still can play a role, for example by providing support to principal debt advisory services, sometimes even mandated by law (in Sweden).

Sometimes, these consumer agencies are mostly financed by their members (APUSBANC in Portugal). Elsewhere, consumer agencies are public bodies (Konsumentverket, the Swedish state consumer agency) or receive at least some public funds (DECO in Portugal). Sometimes funding comes partly from revenue from sales of magazines about consumer products (DECO in Portugal). Others are financed at least partly by private for-profit companies. For example, the Poradna při finanční tísni (‘counselling in stringency’) debt advisory centre in the Czech Republic was created in 2007 by the Czech Consumer Association and Česka spořitelna Bank.

Usually the services are free at the point of use though sometimes clients have to pay. For example, APUSBANC in Portugal only offers non-legal services free of charge to members. Non-members can contact the association by phone just once to request information free of charge, but they pay €50 for a face-to-face appointment. Both members and non-members have to pay for specialised legal services.

These organisations generally began offering these services in response to the need identified by the number of consumer complaints filed.

Local authority public services

In several EU27 Member States (including Finland, Hungary and Sweden), local authorities have a statutory duty to provide some sort of debt advice service to households with debt problems. These laws were established by governments which recognised the debt problems faced by certain households and believed they had a public duty to provide services for these households.

In the countries with government provision, smaller local authorities often do not provide these services. The reasons for this vary. They might not have faced demand and thus have not so far found it necessary to provide the service and/or they might lack the capacity to do so. These arguments apply to several small Swedish municipalities. Occasionally they opt to buy services from other – often neighbouring – municipalities. Elsewhere, such considerations actually mean that small local authorities are legally exempt from offering debt advisory services. This is the case for Hungarian local authorities with fewer than 40,000 inhabitants. While some of these smaller settlements still offer debt services, the Hungarian country study found that generally they opt not to because of resource constraints and, in some cases, a lack of recognition of the problem by local decision-makers.

In Sweden, each municipality has to take full responsibility on its own for raising enough funds to fulfil its obligation. The services can either be free for users (Sweden) or a fee is charged (Hungary). The workforce often consists of government employees (civil servants), but not necessarily. In some countries local authorities are allowed to outsource these activities to private companies. In Sweden, about 450 civil servants work in the debt advisory service sector throughout the country. In small municipalities, the work is very often managed by a single person, whereas in big communities, or cities such as Stockholm, Gothenburg and Malmo, there are more than 25 employees and the work tasks are often divided between specialists. Estonia's capital city employs four debt counsellors in its Tallinn Social Work Center, serving 1,797 clients in 2011.

Publicly funded organisations at some distance from public administration

Some countries have separate organisations in place which are detached from government to varying degrees. Nevertheless, they are fully government-funded. Examples are MABS in Ireland, which since 2009 has fallen under the responsibility of the Citizens Information Board (CIB), and the Citizens Advice Bureau (CAB) in the UK. Usually they have local offices with defined catchment areas (sometimes coinciding with a local authority or a group of authorities) with the intention of covering the entire country.

These services are usually free for users (MABS, CAB) and entirely publicly funded. Nevertheless, their employees are not necessarily civil servants.

These organisations were established by governments which recognised the debt problems faced by many households and thought it a public duty to provide services for these households. Rather than passing a law mandating the levels of government close to citizens to provide these services, a special-purpose agency was established (such as MABS in Ireland). In other instances, an already existing agency took up debt advice (for example, CAB in the UK). Responding to developments in demand, debt advice evolved into one of the main services provided by CAB.

Private for-profit companies

Over the past few years, private for-profit companies have become more active in the field of debt advice. For example, several private for-profit debt advisory service providers have emerged in both Ireland and Portugal. Among the largest in Ireland are Debt Advice Ireland, Debt Advisory Centre and Debt Help Ireland. In Portugal examples include Decisões e Soluções and Planoviável.

Often this service is provided by companies that saw their businesses decline during the financial and economic crisis (such as financial service companies or estate agents) and expanded their areas of activity into what they saw as a profitable market with potential.

A handful of private debt advisory agents also operate in Sweden. They are frequently organised by solicitors. Usually these companies focus on debt restructuring (renegotiating and merging debts), though sometimes private for-profit companies are also hired by local authorities to provide services in the locality, usually taking a broader focus.

Private for-profit help in the EU27 is mainly provided by small owner-run companies. In Germany, 46.7% of debtors in a 2006 sample of 996 debt settlement negotiations were supported by for-profit lawyers (Heuer, 2007). These are typically young lawyers with small businesses who specialise in this area. In the UK, a telephone survey of 53 fee-charging, for-profit debt management companies indicated that most operated on a UK-wide basis, but several focused on parts of the country only. Most of these companies had fewer than 50 employees (Collard, 2009).

Funding comes from fees charged. Fee schemes can be diverse. Sometimes payment is also received from a financial institution if it takes on the restructured debt and the client accepts the presented proposal (an example is Decisões e Soluções in Portugal). Sometimes the client only pays when the outcome is successful in terms of an accepted restructured debt (again, this policy is followed by Decisões e Soluções in Portugal). Usually, though, the client pays upfront. An example is Planoviável in Portugal. The amount paid depends on the amount of debt to be renegotiated; the minimum payment is €250 and the maximum €1,200.

Social partners

As discussed above, the transition from employment to unemployment, especially when it is unexpected, is particularly risky in terms of debt problems. Employers and sometimes trade unions are the first to know when employees are about to be made redundant or subject to cuts in hours or wages, or when this might happen in the near future. Among others, unions and employers are thus in a position to help pre-empt problems with debt. The causal relation can also be reversed, with over-indebtedness triggering problems at work. Similarly, in this second case, the social partners are in a position to stimulate timely action (Eurofound, 2010).

The question arises: what can employers and trade unions do to help prevent households from running into escalating problems triggered by their debts? Trade unions can negotiate debt advisory services as part of employees' benefit packages and employers can invite debt advisors to participate in information sessions. Before being made redundant, employees can also be made aware of the existence of the potential help offered in the respective Member States. This includes debt advice services and arrangements to negotiate plans for dealing with debts. The social partners can play an important role in early referral and in ensuring mobilisation of social services (Gloukoviezoff, 2006).

Type of debt advisory services available

The services provided to households with debt problems can be of a very broad spectrum. Because financial, psychological, social, legal and other problems are interrelated, it is important for debt services to be part of an integrated, tailor-made service package (Eurofound, 2010). Households with debt problems might first contact healthcare services or social housing services rather than a specific debt advice agency. It is important to keep this in mind, as space considerations do not allow a detailed discussion of all possible related service providers in this report. In describing which services are provided to households with debt problems, the focus is on those services identified in the cases examined as aimed specifically at dealing with debt problems.

Besides referral, the services can broadly be grouped into:

- information provision;
- budget planning and balancing;
- help with legal arrangements;
- negotiation with creditors;
- managing accounts.

The order in which the services are listed corresponds roughly to the stage at which they are provided. For example, information is given first; then budgeting can take place while debt restructuring would only happen at a later stage. Nevertheless, a household usually only receives some of these services, as the others are not perceived to be necessary or they are not available. Furthermore, after providing the services listed, some follow-up is frequently offered. For example, in the SVP case examined in Ireland, debt advisors get back in touch periodically with households that have received their services to check they are coping.

Information provision

Information provision implies looking at what the organisation can do for the household in order to avoid misunderstandings and expectations which are too high or too low. Information about what can be done by other institutions and by the household itself is also provided.

Budget planning and balancing

Debt advisors further help households by stimulating them to make an inventory of their typical expenses and income, and of all debts. They encourage households to think of ways to minimise expenses and to maximise income. Expenses can be minimised by, for example, cutting down utility usage (electricity, gas, water, and so on) and by reviewing the necessity for each individual item in the household's budget. Income can be maximised by helping the household access the social benefits to which it is entitled or by encouraging employment when the household is unemployed, even if the employment is only part-time. All these budget planning and budget balancing activities should help the household find a sustainable structure for its private economy.

Help with legal arrangements

Help with legal arrangements can involve a broad spectrum of issues. Debt advisors can help the client file for legal debt settlement procedures which will clear them of their debts after a certain period, such as personal bankruptcy, if this option exists in the country concerned. A large share of the work of Poradna při finanční tísni ('counselling in stringency') in the Czech Republic, for example, is helping clients fill in forms correctly. Legal advice can also include (Reifner et al, 2003):

- giving debtors information about their (contractual) rights and obligations;
- verifying the legitimacy of contract terms;
- protecting the debtor's income and assets;
- filing claims or objections.

The debt advisor can also assist the client in court hearings when a creditor has taken the case to court, or subsequently helping the client comply with the clearance period requirements. In some countries there are specialised agencies dealing with these legal aspects which cooperate with the debt advice agencies. An example is the Free Legal Advice Centres (FLAC) in Ireland.

Negotiation with creditors

When a household's situation has spiralled out of control and economising would not allow a household to fulfil its payment commitments, debt renegotiation can be necessary. Even if the situation is not yet critical, renegotiation of debts can prevent things getting worse. With the consent of the household, debt advisors can then contact creditors on the household's behalf. Alternatively standard letters can be provided to the client to facilitate communication (see Wolfe and Madge, 2010). Sometimes debt problems can result from simple misunderstandings between creditor and debtor. In the case studies, this was seen to occur among minority groups who had communication problems because they had a deep mistrust of authorities or simply felt intimidated by complex or aggressive letters. In this case, assistance with basic communication could be enough.

On other occasions, real negotiation takes place. Often the institutional framework seeks to encourage amicable settlements with creditors outside the courts (as in Sweden). This is cheaper and less burdensome for debtors and creditors alike, especially when arranged by the household (potentially assisted by debt advisors, for example by providing standard letters to creditors) or by debt advisory services. While not the focus of this study, sometimes (in Belgium, France and Luxembourg for example) negotiation is also part of an 'amicable' phase of a judicial procedure, or (as in Germany and the Netherlands) a separate legal out-of-court arrangement which may or may not be a condition for access to a bankruptcy procedure (Noël, 2011). Debt advisors can help clients prepare for, and provide support during, such procedures. Arrangements with creditors that result from negotiation on behalf of the client can include measures such as delayed payments, partial default, interest rate freeze, and different down-payment plans.

Sometimes required payments related to debts can be decreased substantially by restructuring the debt. For example, multiple debts can be merged into a single debt with one creditor only, or a high-cost debt can be transferred into a cheaper loan with another creditor. In Finland, for example, there is a separate organisation (Guarantee Foundation) that focuses on providing financial guarantees to over-indebted households so that banks will offer them one relatively low-cost loan to replace multiple loans with different creditors. The main focus of several of the private for-profit agencies is on such renegotiation. It can also be an integral part of broader debt advice service, as can be seen in almost all debt advice agencies examined for the study which focused at least part of their activities on the renegotiation of debt arrangements.

After renegotiation, a regular follow-up is often provided to make sure the agreement is met (for example with APUSBANC in Portugal), or administrative support is provided to the debtor for the fulfilment of the repayment plan (Reifner et al, 2003).

Managing accounts

Sometimes debt advice service providers can step in to take on actual management of the client's finances. Sometimes they act simply as an intermediary between a creditor and the debtor, just for the payment of certain bills (for example in the SVP case in Ireland). However, their role can also involve managing a larger part of the client's finances by providing an account facility to enable the client to make a single payment that will be distributed to creditors in accordance with the client's financial statement, and thus relieving the client of the administrative burden (for example, the so-called 'special accounts' in the MABS case in Ireland).

Development of demand for debt advisory services

Increased demand

There have been some indications of increased demand for debt advisory services over the past few years in several EU Member States (for an overview, see Eurofound, 2010). For example, in the UK in 2006–2007, enquiries about debt problems overtook enquiries about welfare benefits as the most common reason why people came to CAB (Citizens Advice Bureau) for advice, and in 2009–2010 CAB in England and Wales dealt with 2.4 million debt enquiries, 23% more than in the previous year (Wolfe and Madge, 2010).

Although reliable and detailed statistical data were not found in Portugal, a broad observation can be made about the development of demand. Demand has increased since 2000, accelerating particularly since 2007. Looking at the first quarter of each year since 2008, there has been a steady increase in requests for support received by DECO. There were 78 support requests in the first quarter of 2008, more than doubling to 171 in the first quarter of 2009. Requests went up steadily to 203 in the first quarter of 2010 and to 248 in the first quarter of 2011. Demand therefore tripled over the four-year period.

A similar development can be observed in Ireland with the number of MABS clients up by around 50% when the first quarter of 2008 is compared with the first quarter of 2011. A similar increase is seen among 'information-only clients' and among those who need more support. SVP also reported increases in households seeking help with their debt-related problems.

In Sweden, in the past few years, and especially during the financial and economic crisis, an increase has been observed in demand for debt advisory services in spite of the impressive growth in the Swedish economy during the past three years. This in turn has put considerable pressure on municipal budgets, with the waiting time for assistance close to one year in some cases.

No quantitative, time-series data on demand for debt advisory services were identified in Hungary, but all interviewees working either for NGOs or local authorities offering debt advisory services said that the demand has increased in recent years. These observations correspond to the data presented earlier suggesting a rise in the number of households with debt problems.

There are various potential reasons for increases in demand for the services of particular providers (e.g. increased market share, increased awareness of the services). Nevertheless, they do correspond to statistical evidence presented in the preceding chapter for increases in household debt problems during the recent economic and financial crisis. This suggests that an important part of the increase in demand for services can be explained by increased prevalence of debt problems.

Changing characteristics

From 2007 onwards, DECO in Portugal noted a rise in the average income of its clients, with the €1,000–1,500 monthly gross income bracket surpassing the €500–1,000 bracket for the first time.

In Sweden, very young individuals (18–25 years of age) are applying for help at a greater rate than in previous years. Apart from this trend, no dramatic changes were observed in the socioeconomic stratification of clients.

In Ireland, especially since 2009, interviewees have noted a change in the type of households contacting SVP. Long-term welfare recipients remain among those in need. Nevertheless, a new group has emerged, referred to as 'new to need', who never had contact with SVP before. Typically, they are used to being in employment and only recently became unemployed.

The types of debts have changed as well. In Portugal, an increase in ‘non-credit’ debts has been observed. This relates to non-payment or delayed payment of bills rather than loans and particularly concerns utility, education and medical bills. The Irish country study also noted a change in the type of debts. While problems with utility bills were still common, the group of ‘new to need’ were noted to have credit card and mortgage debts more often.

3 Institutional context

The need for debt advice, and the type of services needed, is strongly related to the institutional context (Dubois and Anderson, 2011). In particular, the arrangements for protection of the principal dwelling, the availability and nature of legal 'ways out' of debt problems, and regulation and presence of certain creditors are significant. The social security context is also relevant; this is touched upon throughout this report but not in this section, which deals more with the legal context. A more detailed description of these contextual issues can be found in the country studies, but a brief overview is presented here as it is important to keep this context in mind when assessing debt advisory services in these countries.

The EU plays a role as well,[9] with preventive measures and measures related to the rehabilitative context. Preventive measures include the Directive on Credit Agreements for Consumers, transposed into national law by June 2010. The directive stipulates that a comprehensible set of information must be given to consumers before the contract is concluded and as part of the credit agreement. To enhance the comparability of different offers and to make the information easier to understand, the pre-contractual information has to be supplied in a standardised form and consumers must be told the annual percentage rate of charge (APR), which is a single figure, harmonised at EU level, representing the cost of the credit. Consumers also have the right to withdraw from the credit agreement without giving any reason within a period of 14 days after the conclusion of the contract. They also have the right to repay their credit early at any time, while the creditor can ask for fair compensation. The directive applies to consumer credit between €200 and €75,000, so smaller loans are not included. These very small loans tend to be targeted at the poorest parts of the population, and usually have high interest rates and administrative charges. The 2011 proposal for a directive on credit agreements relating to residential property is another relevant measure in the context of prevention.

An EU measure related to the rehabilitative context includes Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings. This regulation, which establishes a common framework for insolvency proceedings in the EU, aims to prevent assets or judicial proceedings from being transferred from one EU country to another in order to obtain a more favourable legal outcome to the detriment of creditors.

Social partners play a role as well, with some providing help for employees who are in financial trouble (Eurofound, 2010). Some companies also undertake occasional promotions to prevent debt among their customers; one example is E.ON's Bonus Programme, under which households that suffer hardship but that pay on time can apply for a temporary discount on energy unit prices.

Protection of the principal dwelling

High unemployment as a result of the financial and economic crisis resulted in a surge of people becoming unable to keep up with their rent and mortgage payments. Other debts (for example utility, emergency home renovation, healthcare and car-related bills) can also affect people's ability to keep up with rent and mortgage payments.

The fear of losing one's principal dwelling is often the major cause of stress brought about by debt problems. Prioritising of bills, based on the potential consequences, has been observed by several debt advisors who were interviewed (such as SVP in Ireland). The perceived danger of losing the roof over one's head plays an important part. In the Hungarian country study, it was noted that households with debt problems prefer to keep up their housing credit payments at the

[9] See Thibaut and Noël (2011) for a comprehensive overview.

expense of their utility bills. There is evidence that the experience of mortgage indebtedness has an independent effect on the subjective well-being of men and women, and that it increases the likelihood that men will visit their general practitioners (Nettleton and Burrows, 1998).

Several governments have responded by implementing laws aimed at protecting households' main dwellings or by bringing in temporary legal protection. An example is the Greek consumer bankruptcy law in force since 1 September 2010 which allows debtors to keep their main residence if they can credibly show that they will be able to pay off 85% of the commercial value of the house in at most 20 years. If someone owns only one house and their partner does not own an immovable property that can be used as a residence, the person can keep the house even when not living there. This provision often concerns a household owning a house in the countryside, usually a property that has been in the family for a long time, or someone who, due to business reasons, has to live somewhere else (Dubois and Anderson, 2011).

Some more ad hoc measures have also been observed. In Ireland, a 'moratorium' issued on 27 February 2009 required lenders to wait six months from the time arrears first arose before applying to the courts to start legal action for repossession of a borrower's primary residence. In 2010 this was increased to 12 months. In Portugal, in 2009, the government established a moratorium regime to benefit those who have been unemployed for at least three months and have a mortgage to repay (Decree-Law no. 103/2009 of 12 May). Available till the end of 2010, it provided state aid to support up to 50% of individuals' instalments to a limit of €500 per month for a period of 24 months. After the moratorium period, the debtor has to pay back the amount paid by the state plus the interest equivalent to the Euribor rate over six months and a spread of 0.5%. According to official data, more than 2,360 families are using the moratorium regime (Mediador do Crédito, 2011).

Legal 'ways out': debt settlement and consumer bankruptcy

While Ireland,[10] Portugal and Sweden have a personal bankruptcy law,[11] Hungary does not. In addition, the bankruptcy arrangements differ considerably in the three countries with such a law. Aspects that vary according to country include[12]:

- acceptance criteria;
- duration of the 'clearance period' during which the household must transfer income above a certain threshold to the authorities;
- minimum subsistence level during this clearance period;
- likelihood that debts will be discharged and the debtor's credit record will not follow them;
- administrative costs involved for the creditor and/or the debtor.

[10] In Ireland, the Law Reform Commission (LRC) recently recommended a non-judicial debt settlement regime where the creditors and a debtor would enter into a binding commitment in which the debtor would repay an agreed amount of personal debt over a period of up to five years (LRC, 2010).

[11] Terminology with regard to consumer/private bankruptcy/insolvency and legal/institutionalised debt settlement/adjustment arrangements differs according to country (Kilborn, 2011) and the distinction can be somewhat arbitrary depending on the context.

[12] These are by no means all the aspects that differ from country to country when it comes to bankruptcy laws. For example, certain types of debts do not qualify for bankruptcy in certain countries, such as student debts in the US.

Extensive discussions of this theme can be found elsewhere (see Reifner et al, 2003; Ramsay, 2011), but it is important to be aware of the broad differences between the countries examined.

In sharp contrast to consumer insolvency laws in other EU27 Member States (for example, the UK), overall, the Irish, Portuguese and Swedish personal bankruptcy paths are seldom used. In these three countries, personal bankruptcy arrangements are hugely unattractive to debtors and creditors alike, often involving high administrative costs for creditors and/or debtors and uncertain outcomes in terms of remaining debts after the procedure. In Ireland the discharge period is a minimum of 12 years compared with five in Portugal. Nevertheless, in Portugal there are relatively strict requirements for qualifying; for example, the judge can deny this discharge if the individual fails to file for bankruptcy within six months after becoming insolvent. Furthermore, the costs of this process (€2,000–5,000 just for the lawyer according to some interviewees) are beyond the reach of many. However, the number of people who filed for personal bankruptcy in Portugal increased from 548 in 2009 to 751 in 2010, and to 2,190 from January 2011 to 13 May 2011 alone.

As mentioned above, a different type of legal debt settlement procedure sometimes exists in parallel to the bankruptcy procedure. This goes beyond the less formal, bottom-up, non-legal negotiation by the household itself and/or the debt advisor, and the creditor. This is the case in Sweden. The Swedish bankruptcy law (*konkurs*) is rarely used by individuals, while the debt settlement procedure (*skuldsanering*) is a more common path followed by those with debt problems. A debt settlement repayment plan has a maximum duration of five years, after which debts should be discharged.

While within-country changes in the number of bankruptcy applicants (if rules remain unchanged) say something about the development of the extent of debt problems, international comparison says very little in this respect. For example, England and Wales had 20 insolvency filings per 10,000 inhabitants for personal insolvency in 2008, Germany 12 and France 11 (Ramsay, 2011). For Portugal the number was consistently below one per 10,000 for many years up until 2011. The figure for 2011 is expected to be considerably higher, but still very small compared to the number for England and Wales. The same holds for Ireland and Sweden. This does not mean that debt problems are less severe in these countries than they are in England and Wales. Rather it confirms the assertions made about the respective attractiveness of the consumer bankruptcy route in the countries examined. This has implications for the importance and the design of debt advisory services. In particular, debt advisory services are expected to have a more prominent role and will focus less on assisting households legally with bankruptcy procedures in countries where this specific legal route is relatively uncommon (Dubois and Anderson, 2011). Furthermore, it can be easier to obtain credit when lending entities have large powers to recover the borrowed funds and when these loans are unlikely to be discharged through bankruptcy procedures. In addition, while bankruptcy policy forms part of the curative/ rehabilitative policies, it seems to impact upon future levels of indebtedness (Lilico, 2010).

Role of creditors

The nature and persistence of debt problems are closely related to the type of providers available in the market.

For example, in Ireland, the prominent role of credit unions eases many households' situations and improves prospects for solutions. While debt problems can also occur with credit unions, such creditors also often provide a solution as they are non-profit cooperatives, charging relatively low interest rates. Credit unions (for example in Poland), cooperatives (in France and the Netherlands) and 'church banks' (Germany), are common across Europe, but credit union membership is exceptionally high in Ireland, covering almost the entire population.

However, the prominent role of doorstep lenders in Ireland and Hungary, charging high rates and pursuing aggressive marketing strategies, leads many households into the debt spiral. Aggressive advertising and easily obtainable high-interest loans (for example by text message or phone call) provide another example. The same holds for illegal loans, which as shown in the Irish country study, can give rise to particularly stressful situations for the households involved when they run into debt problems. Easily obtainable, non-transparent, long-term contracts for mobile providers constitute a further example. As discussed above, low-income households are vulnerable to such high-interest loans or non-transparent consumption contracts.

4 Success factors

As noted above, at least one of the cases discussed in each of the four country reports includes an assessment of a particular debt advisory service provider. This assessment is based on interviews with debt advisors and brings together data from interviews with other stakeholders and from the national literature. The Portuguese country study showed that some factors that contribute to the success or failure of service provision are inherent to the debtors' behaviour, while others result from the creditors' behaviour and yet others are the consequence of the service provider's efforts. From the assessment of debt advisory services in the four country studies, four broad themes emerge. In particular, success factors relate to:

- timely access;
- debt advice as a customised and consistent process with a key role for trust;
- support with minimal dependence;
- the existence of sound institutions.

These four factors are discussed below.

Timely access

Timely help for households with debt problems is important. It is thus encouraging that, for example in the case of DECO in Portugal, there are more and more people asking for support before their debts become overdue. Nevertheless, as was stressed in the Irish and Portuguese country studies, many households ask for help too late.

More timely help can prevent debts becoming too large. The Swedish country report argues that the economic equilibrium of low-income households in particular may be irreversibly lost in just one month. In the Portuguese country report, it was emphasised that the seriousness of the debtor's situation when resorting to support determines the success of the process. For example, the larger the number of debts and the longer the period of non-payment, the harder it is to renegotiate a payment plan and to get it accepted by all creditors. According to one debt advisor, seven out of ten cases 'are already too late [for a good renegotiated payment plan] because of the non-fulfilment and the reduced margin to negotiate' (Planoviável, Portugal).

In short, swift help is important for the delivery of quality debt advisory service. For households to receive such timely assistance, help must be both sought and provided at an early stage. Below we consider how households with debt problems can be encouraged to seek help at an early stage. It is also important to bear in mind the restrictions in answering such demands and what can be done to lift these restrictions or to mitigate their impact. This is discussed in detail below.

Seeking timely help

Households that are experiencing or foreseeing debt problems may have various reasons for not seeking timely help.[13] Being unaware of the existence of debt advisory services,[14] not recognising one's own problematic situation, and fear of being judged are among the most important. The Portuguese country report, for example, mentions shame and fear that

[13] For an overview of such reasons, see Eurofound (2010, p. 15).

[14] For an overview of evidence, see Eurofound (2010, p. 15). In addition, around a third of those receiving advice were unaware of the UK National Debtline (NAO, 2010).

friends, family members, neighbours and co-workers will discover the household's position. Another reason could be that the household actually manages to postpone escalation of problems (or, sometimes, solve them) by drawing on informal support. The risk is that the debt advisory service is contacted at a late stage, if at all. A further reason for not seeking help (Frade, 2006; Frade et al, 2008), includes anger towards the financial institutions and politicians. This can sometimes lead to a defeatist attitude to one's own debts.

A number of factors that can enhance access were observed in the different country studies and the literature. These are summarised below.

Systematic referral by other service providers

Service providers (often public in the EU27) likely to be confronted with households with debt problems include (Eurofound, 2010):

- public employment;
- social housing;
- long-term care;
- mental healthcare;
- childcare;
- social assistance.

These providers can either refer their clients to debt advisory service providers or disseminate information about these services.

Several of the debt advisory service providers in the case study received referrals from other service providers. Facilitators for such referrals were diverse. For example, CIB in Ireland disseminates leaflets in its office for MABS services, while ad hoc referrals in local communities were reported to be frequent and stimulated by informal ties with healthcare providers, priests, police and other key figures.

Proactive early warning systems

An example of a proactive early warning system can be found in Amsterdam (Netherlands) with its 'Vroeg Eropaf' [Approaching Early] initiative (Dubois and Anderson, 2011). This organisation is informed by housing corporations, utility companies and health insurers when households are two months behind in their payments. It then sends debt advisors to these households to help them address their problems. There are strong signs of positive outcomes, with a decline in repossessions. Nevertheless, it is hard to unequivocally relate the precise impact of the service to this decline. Some disadvantages of the service have been reported as well, with households with debt problems mistaking these debt advisors for payment collectors, complicating establishment of contact.

Large-scale advertisements

It was noted in several cases (for example with SVP in Ireland) that raising general awareness of debt problems and available services was beneficial for encouraging early contact. For example, in the Portuguese country study, television and the internet (but also personal recommendation) were mentioned as the most common ways through which households with debt problems came to know about the supporting institution. It was also mentioned that advertising through television and the internet may encourage over-indebted people to ask for help sooner, and to realise the risks of debts even before problems emerge. The observation in the Irish country study that debt problems are now seen as more 'mainstream' has also helped decrease the stigma attached to seeking help with debt. By decreasing the stigma, it can also reduce psychological strain (Gathergood, 2012 forthcoming).

It should be noted that some debt advisory services do not advertise broadly on purpose to avoid being over-burdened, which would affect the quality of the services they provide. For example, because it takes steps to limit its client base, APUSBANC in Portugal is able to offer time-consuming services such as supervising the execution of established agreements with creditors. This makes it more likely that the agreements will be fulfilled and means that unanticipated difficulties can be dealt with rapidly.

Targeted marketing

While large-scale advertising or news coverage was reported to have specific advantages such as reducing the social stigma attached to the problem, carefully targeted marketing is more cost-effective. For example, in the case of MABS (Ireland) it was noted that posting advertisements in temporary job agencies can help target the unemployed – a group that runs a particular risk of getting into debt problems and is likely to be most in need of help (for example because they are often 'new to need' and unaware of available support).

Raising awareness by social partners

Dissemination of information by trade unions (Ireland, Sweden) or businesses arranging for debt advisors to present seminars are expected to help raise awareness among a target group in cases where there are looming redundancies.

For example, the Irish Congress of Trade Unions (ICTU) has prepared a redundancy information brochure and runs seminars. These include information on mortgage interest and rent supplements employees might be entitled to when losing their jobs, with references to CIB which the employees can contact for more information and applications. The brochure also clarifies some issues on redundancy payments to pay off debts. In Sweden, a federation of trade unions (TCO) participates in an informal network aiming to increase the financial self-confidence of private individuals.

Even if there are no planned redundancies, such help can be important to avoid problems that can spill over to the employment sphere (for example, creditors contacting the debtor's HR department to claim part of the wages, or debt-induced concentration problems, sick leave or stress). Employers may also take the initiative in this area (Eurofound, 2010). Some employers in Ireland make their employees aware of MABS' services, and in Latvia businesses occasionally call in debt advisor LAKRA for information sessions to employees. The Employee Assistance European Forum (EAEF) also reported legal and financial counselling by its members who were called in by employers for anonymous consultations with employees.

Multi-media and multiple languages contact options

To enhance access, it is important for information on debt advisory services to be available in easily accessible language, as well as foreign languages spoken by minority groups. Furthermore, the use of alternative media (such as phone, offices) facilitates access for those with literacy problems and those who have less access to, or are less familiar with, the internet and email.

The Portuguese country report argued that such multi-media contact options can capture different client profiles. In the Pécs programme in Hungary, telephone consultations also took place, but these were not applied as a main instrument of communication. It was found that other forms of communication, such as via the internet, cannot be effectively applied at present due to the poor internet penetration among the target group and its poor computer literacy.

Anonymous first-contact options

Anonymous first-contact options were mentioned by several of the country studies to be crucial for enhanced access. For example, in the Portuguese country study it was argued that the ability of households to send an email, gather information via the internet or call a helpline (as in Portugal) also stimulated access because it was, for many, easy and relatively anonymous. In the case of outreach activities by MABS, it was considered crucial for the debt advisor to be associated with providing useful general advice in relation to the household's finances. If information was only provided on how to deal with debts, there would be a risk of stigma: 'Everybody who speaks with [the advisor] is in debt'. Next, the debt advisor would leave business cards and is frequently contacted at a later stage by households in need of help.

Facilitating contact regardless of location of household

Geographical expansion of the service provider was identified as useful in enhancing access. This was noted in Portugal, and also for Poradna při finanční tísni ('counselling in stringency') in the Czech Republic. When the problem was related to distance and transport costs (in particular for the rural community), outreach posts were considered effective, for example by SVP in Ireland. The telephone, email and internet options mentioned above also enhance access in this case.

Building trust in the organisation

A final, crucial success factor in stimulating households to seek help at an early stage is feeling of trust at the organisational level. This is discussed below under a separate heading focusing on the 'customised and consistent process of debt advice, with a key role for trust'.

Getting timely help

Even when timely help is sought, it might not be provided. This section explores the reasons for this cause of limited access and discusses potential solutions. As well as solicited help not being provided at all, it can also be the case that the wrong type of help is provided. This issue is discussed in the following sections.

One reason for failure to obtain timely help includes the fact that there are often waiting lists for advice. This is the case for example for Hungarian and Swedish local authority debt services. A recommendation from the Swedish Consumer Agency is that assistance to a client with debt problems, or at risk of facing debt problems, should be provided as soon as possible, with a wait of no longer than one month. In practice, however, the Swedish country study reports that waiting times can sometimes be around a year.

A second reason is the absence of debt advisory services. This is the case in small Hungarian and Swedish municipalities. A potential solution includes stimulating small local authorities to offer joint services, or for them to pay third parties or neighbouring municipalities to offer the services to their constituencies. Private (not-for-profit and for-profit) organisations can also fill the gap. An example of an initiative seeking to establish debt services in smaller Hungarian municipalities currently not offering debt help is the pilot project 'Preventing the debt trap', which is co-funded by the European Social Fund.

A third reason is that many of the service providers (and many of the legal methods of help) have criteria which the applicants must fulfil in order to be entitled to the service. Exclusion from services can also be formal. Households in need applying for debt advice, sometimes in the form of debt restructuring, can have their applications turned down on formal grounds.

Explicit restrictions applied by debt advisory service providers in the EU27 include those relating to the following.

- Characteristics of the household
  - Households in need of help should not already have legal procedures running against them (DECO, Portugal) and addictions should not play a role (Guarantee Foundation, Finland).
  - Income should not be too low (private for-profit debt advisors, UK (Collard, 2009)) or too high. For example, local authority services in Hungary have a locally defined income limit and specify that the applicant should have a regular income.
- Characteristics of the debt
  - The debtor must be personally liable for the debts and the debts should not be related to a company operated by the household (MABS, Ireland; local authority services, Hungary; DECO, Portugal).
  - The debt should not be above (local authority services, Hungary) or below (private for-profit debt advisors, UK (Collard, 2009)) a certain threshold.

For example, in 2010, some 1,358 local residents of the Józsefváros district in Budapest (Hungary) applied to the local authority's family care service to use its debt advisory and management service. Of these residents, 978 (72%) met the eligibility criteria and 380 (28%) applications were rejected. However, it is important to point out that these numbers do not include households with debt problems that did not apply because they thought they would not fulfil the criteria.

The issue of access does not end with first contact. Households sometimes stop using the services even though their problems are far from solved. While challenging in practice, effective referral is important, making the client aware of alternative services that might be of more help or with which the client might be more inclined to proceed.

When rejected, there can still be other ways to obtain help for households with debt problems. For example, DECO in Portugal rejects households that seek help but who are already involved in court hearings. This does not mean that these households necessarily have nowhere to turn to in Portugal. For example, another organisation, APUSBANC, does intervene even when the process is already in the court. Nevertheless, it is not always easy to find a way through the complex network of services.

Consequently, if these restrictions are left in place – for sometimes understandable reasons (for example, lack of funds or the low chance of a successful outcome) – it is crucial for the organisation rejecting the application to have protocols in place to effectively steer rejected households towards other organisations that can help. Alternatively, they can give these households some very elementary support, with some kind of a 'minimum service system' (such as an information package based on an assessment of what would help rejected households most).

Timely help can also be given by informal service provision if the household is able to draw on such a network. The Portuguese country report mentions that many of those who actually solve their financial problems do so by effectively mobilising financial support from relatives to repay the banks (Frade, 2006; Frade et al, 2008). Several entities, regardless of the applied model, acknowledge the importance of using personal ties in order to capture financial resources which may solve the most serious and urgent situations. Such support buys time to work on an efficient solution and can boost the real recovery of the household. The donation of material goods, money, but also services such as child and healthcare, functions for many as a social safety net. However, the limits of such informal systems are being tested at a time when many households are facing the simultaneous unemployment of several of their members and problems in one household can spill over to other households. If this network is broken, evidence from Portugal shows that debt problems will worsen significantly (Frade et al, 2008).

Customised, consistent process with a key role for trust

With different optimal solutions for different cases, debt service provision requires customised, consistent approaches. This is challenging but essential. A crucial element in this process is trust:

- between the household that is seeking help and the organisation;
- between the individual debt advisor and the client;
- between the debt advisory service and the network of stakeholders it relies on to provide an effective service.

In this last group, the relationship with creditors is particularly important. Nevertheless, the relationships with institutions such as welfare services were reported to be crucial as well. All these aspects are related and are discussed below.

Debt advisors are not the only ones who should be aware of these issues. Policymakers (governmental or non-governmental) should also take note of them. For example, designing performance measurement systems which count the numbers of different households helped can be important, but quality indicators might have to be added to such measures as quick solutions are sometimes unsustainable.

Customised approach

Very broadly, two groups of clients can be distinguished in the country studies:

- long-term low-income households or benefit recipients with a long history of unemployment;
- those who became ‘new to need’, usually after becoming unemployed.

These groups need different types of support. More generally, it is important to provide a customised approach.

The Hungarian country report suggests that the lower the household’s income, the more complex are its problems (poor education, health problems, etc.), and the more relevant becomes the social work component.

The ‘new to need’ group, usually with larger debts, generally requires a somewhat different approach. The Irish country study suggests that prompt professional help in renegotiating payment arrangements with creditors is crucial. In addition, the ‘new to need’ group in particular often sees its situation as a ‘failure in life’. The psychological impact of this, and of having to drastically alter one’s lifestyle, requires particular attention. Paradoxically, one interviewee even noted that those who have been on welfare for decades generally seem to cope better with the crisis in terms of being used to minimum standards of living. With an increasingly large share of clients who are ‘new to need’, this reinforces the view that psychological support might have become more important for the clientele overall. Furthermore, there is a larger need for specialised help with mortgage issues for this group.

While each case requires a customised approach, consistency was another important aspect emerging from several of the cases. Debt advisors have the difficult task of balancing such consistency with customisation. The needed approach varies considerably among different clients. Services might range from simple information provision to intensive social work and from a one-off financial contribution to regular assistance.

Nevertheless, similar cases need similar approaches and following certain standards would ensure quality service delivery. For example, a debt advice manual can contribute to this. The MABS debt advice manual (MABS, 2007) in

Ireland was identified by an earlier assessment (Korczak, 2004) as a success factor of effective debt advice. The Debt advice handbook in the UK (Wolfe and Madge, 2010) is another example, as is a Swedish publication with basic information for new debt advisors (Konsumentverket, 2009). These documents have been continuously improved and updated. MABS is currently developing an interactive update. In the case of SVP (Ireland), the issue was addressed by establishing a mandatory four-hour introductory course to standardise service delivery to some extent, ensuring fairness and quality.

The tension between standardisation and customisation is well illustrated by the case study on debt advisory service provider DECO in Portugal. The increase in requests for support from 2007 impelled DECO to standardise its procedures. This was done through:

- creating forms that were filled in by debtors at home and then sent to the debt advisors to analyse;
- developing a database to help the debt advisors to manage contacts and answers from creditors and debtors;
- producing standard letters to be sent to creditors;
- making efforts to reduce the duration of each interview to 30 minutes.

These changes helped to create a streamlined course of action that allows DECO to keep up with the rising demand for its services. It also facilitates greater homogeneity in the treatment and management of processes, within and across offices. A further positive aspect is that the self-reflexive task implied by the new procedures helps the debtor become aware of the difficulties and commits the household to its own solutions (see the section on ‘control’ below).

However, these changes also had some negative consequences for the level of personalised assistance and treatment of households. One is that the repayment plan suggested by the debtor is sometimes not adjusted to the household’s financial situation. The potential emotional vulnerability of the household with debt problems and the sometimes large challenges it faces in the management of its finances may result in an unsatisfactory proposal. In this standardised procedure there is also a lack of time to perform a more detailed investigation of the household’s situation, especially exploring other measures of additional support (such as psychological assistance, financial education, and help from public or private social solidarity institutions). In contrast to other providers in Portugal facing much less demand, there is less opportunity within DECO to promote financial empowerment of the household, to help it develop self-esteem, and to enhance its consumption strategies.

It is important to understand the history behind the figures presented by households with debt problems. Such histories are important to reach a full understanding of the causes of the problems and when working towards a solution. This became apparent from the different cases. In the Swedish country study it was further found that, while it is important to get a good sense of the client’s problem, it can be degrading and eroding of trust to meticulously analyse the client’s expenditure, for example on food, clothes and hygiene articles.

In one of the Irish cases, when suggestions for economising were discussed, and when household expense patterns had to be presented to welfare officers to apply for some financial relief, high mobile phone bills were called into question. A debt advisor noted that a relatively high mobile phone budget for a household with debt problems, however irrational it might seem at first sight, can in specific cases be crucial to someone’s mental health. Another example refers to an Irish household with children. This household, struggling with huge debt problems, reported a multi-channel TV subscription among its expenses. Presenting such a budget can often generate a judgemental response. Nevertheless, in this particular case, the North Cork MABS debt advisor found that this TV channel was a crucial social outlet, important to the household’s well-being, at least in the short run.

Mixes of ages and backgrounds among debt advisory teams was perceived to be a good thing in developing an appropriate response to multi-faceted problems. For example, cases are discussed at weekly meetings of the SVP advisory team (Clonmel, Ireland), before designing a long-term response. This is considered a success factor, as it means various points of view are taken into account.

The Irish case highlighted as an example the importance attached by some parents to giving children some money to buy food in a shop with their peers during school breaks. Having packed lunches is often seen as not 'cool' and, however unjustly, in this particular case could result in exclusion of the young child. It was a younger member of the service who identified this argument in support of donating a few additional euros per week.

The fact that both economists and lawyers were employed by DECO in Portugal was identified as a strength, but the lack of social workers and psychologists was identified as a weakness. If such expertise is missing, it is important for the debt advisors to recognise this and where possible use external help, such as in the case of the SVP office examined in Ireland where an external professional mortgage expert was hired for certain cases.

Trust between the debt advisory service and the debtor

Role of trust in establishing first contact

The first occasion where trust matters is when the household with debt problems seeks help. When this household has never contacted a service provider, trust mainly matters at the organisational level. Does the household trust the organisation in terms of its professionalism and sincerity in having the objective and the powers to help a household out of trouble? Preconditions for trust at the organisational level can be diverse.

Because of this diversity, it can be helpful to have organisations with different backgrounds to which people can turn for first contact. The Irish and Portuguese country studies showed that when a household has negative experiences with, or opinions about, one organisation, it can be beneficial to have an alternative. For example, households with debt problems may not be willing to share their private information with an organisation which they perceive as being 'part of government', but could perhaps find it easier to approach a charity, or vice versa. In turn, these organisations can then either help the persons involved, or advise the client to approach a more appropriate service provider.

Organisational trust can depend on a single experience. For example, one client from APOIARE in Portugal had at first passed through DECO but looked for another provider after having had a negative experience. 'I was received by the secretary (...) in a very cold manner and there wasn't any explanation. They gave me a lot of papers to fill in.'

Trust in the organisation can also be based on a longstanding reputation. Several comparative advantages were noted for DECO (Portugal):

- its long experience;
- its acknowledgement by consumers and creditors;
- the fact that it is free;
- swiftness (from few days to three months until a reply from the creditors is received);
- its geographical scope.

Similar remarks were made about MABS and SVP in Ireland.

Organisational trust also depends partly on the clientele involved. Minority groups in particular frequently lack trust in governmental organisations. The importance of the service provider being perceived as unrelated to 'the authorities' was often stressed as crucial for this clientele. This is hard when services are actually provided by local authorities (Hungary, Sweden) but somewhat easier for organisations that are publicly funded but operating at some distance from public administration (as with MABS in Ireland). In the case of particularly vulnerable minority groups (such as Travellers in Ireland), it was considered crucial to establish a trusting relationship with key people in the respective communities, or to build on the relationship of NGOs working with the respective communities.

In different contexts, particular relationships might be subject to different levels of trust. For example, creditors in some countries trust the courts more than in others, and these patterns can also be varied for debtors (Ramsay, 2011). Nevertheless, the underlying mechanisms and importance of trust were consistently identified in the very different countries and cases.

Role of trust during service delivery process

Trust is important in order to get a real understanding of the issues involved in the case of a particular client. For example, in the Irish country study it was noted that initially clients would come to SVP (Ireland) for problems with paying utility bills and costs related to the education of children 'because this is where people feel comfortable with reporting as there is a lot of media attention for this'. Nevertheless, after some level of trust is gained, 'when you sit down with them, the real problems come to the surface', such as major debt or their children's drug problems. Sometimes, when debt advisors think a solution has finally been reached to solve the client's situation, other issues are then revealed. Only when a high level of trust is reached might a client tell debt advisors about issues such as a huge additional debt, an addiction problem in the household, or about the struggle to finance its children's education.

Trust at the organisational level is frequently based on word of mouth; that is, on the experiences of others. This means that trust at the organisational level can depend on the individual-level experiences of others. In turn, trust in an individual debt advisor is partly determined by trust in the organisation. After passing through the stage of contacting the organisation and once the household has agreed to become involved with this organisation, trust in the individual debt advisor – rather than the organisation as a whole – becomes particularly important.

Several lessons have been learnt with regard to building trust at the individual level. It is usually not good enough for indebted households to sometimes speak to one advisor and then to another. Both professionalism and consistency are crucial. This was noted in the Irish country study.

Training of debt advisors was considered important to guarantee professionalism (for example in SVP in Ireland). While a mix of ages and backgrounds among debt advisory teams was perceived to be a good thing, one debt advisory service in Portugal signalled a problem with over-representation of recent graduates among debt advisors, arguing that debt advisors should have ample experience with household budget management and also in the trust building process.

Building trust can be enhanced by subtle issues such as debt advisors sharing examples of how they themselves or, while guaranteeing anonymity, other clients dealt with similar situations (as with the MABS case in Ireland). A municipal advisor in Sweden said: 'I examine how the debtor handles incoming mail and tell the client how I have chosen to organise my personal finances and often, but not always, clients accept this approach'.

It was also considered essential to communicate clearly the importance the provider attaches to confidentiality issues, both at the organisational level and in dealing with the client on an individual level. For example, in the Irish country study this was stressed for cases where the debt advisory service would actually manage an account for the client. Households had to be convinced of the fact that nobody but MABS (Ireland) would be informed of the nature of the creditors, not even the financial institution where the account is based. Also, when in-kind help is offered, such as food vouchers, it was considered important for these vouchers not to be recognised as coming from any relief organisation (SVP in Ireland).

Regardless of the communication channel used, it is argued that the debt advisor's attitude should not be condescending or accusatory. Emotional, communication and technical competence will strengthen the role of debt advisors and prevent undesirable effects such as lack of trust. One of the aspects that debt advisory clients in Portugal (APOIARE) mentioned as particularly positive was the lack of negative judgement and the fact they do not feel treated as 'criminals', to use the words of one interviewee. It has already been noted that an important goal of debt advisors is to raise awareness in debtors of their responsibilities and their mistakes. Nevertheless, this certainly does not imply an accusatory tone. A Swedish householder with debt problems noted that: 'It has been important to me that Eve never [made me feel guilty] or questioned me as a person'.

A careful, trustful approach is especially crucial for those who are 'new to need'. As mentioned above, this group particularly often feels they 'have failed' in their lives. In the Irish and Portuguese country reports, it was noted that many belong to the middle and even upper class, and have been hit by unemployment. They need help in order to pay for food and their children's education. They are ashamed to ask for help because until now they were social and economically included, but sometimes do so over the phone and through the internet. Personal treatment was considered important, as shown by APUSBANC in Portugal where the number of clients is restricted to ensure such personalised treatment. Face-to-face encounters in particular were identified as crucial for the trust-building process in most of the country studies. However, this approach is resource-intensive.

From the Portuguese case, it appeared that face-to-face encounters are particular important in some stages of the process but less so in others. Different channels may be activated in different phases of the process. In a first phase, indirect contact allows the household with debt problems to overcome the barrier of shame and be aware of what can be expected regarding the kind of help they receive. However, in a subsequent phase, personal contact will help build trust and let the debt advisor gain a more precise idea of the debtor's situation. It will also contribute to improving the responsibility and commitment of the households, and will open space for working in other dimensions related to consumption and indebtedness behaviour. This resonates with the findings from a UK study where about a quarter of consumers who had received face-to-face advice funded by the Department for Business, Innovation and Skills (BIS), and who expressed a preference, would have preferred telephone or internet advice (NAO, 2010).

The Hungarian country report argued that personal encounters were particularly important during the social work aspect of debt help. Furthermore, the Irish country study indicated that it was often perceived as more important to have regular, but not necessarily frequent, face-to-face encounters. Reliability was perceived to be key in such appointments. Face-to-face encounters do not need to be long. A Portuguese debt advisor from Planoviável noted that a consultation lasts for 60 minutes at most because 'after that, people stop listening'. Interviewees (SVP, Ireland) noted that ideally these home visits are made in pairs with a female and a male debt advisor.

Trust between debt advisory services and stakeholders

Also at the interorganisational level, trust was identified as an important success factor. As identified elsewhere (for example by Korczak, 2004), it is crucial for the service provider to have a constructive relationship with financial institutions and other organisations. While often based on informal contacts because of the local organisation of services, frequently there are also institutional structures in place to ensure communication on a continuous basis. For example, in Ireland, the fact that local SVP volunteers and other key stakeholders are represented on local MABS boards, greatly stimulated coordination and mutual referral. In particular the relationship between the debt advisory service providers and creditors was considered crucial.

The debt advisory service providers examined in the country studies all have special relationships with creditors. For example, a debt advisor in Portugal (APUSBANC) noted:

> *We have a group of banks with whom we keep privileged connections or friendly connections … There is an open line and also certain empathy between people, I can call an administrator from here.*

Banks see the benefit of debt advice and even direct customers to APUSBANC. Such relationships of trust with creditors are built on a long history of proven reliability. Honest communication was considered particularly important. The following quote from an interview with APUSBANC is a good illustration of this:

> *Because when we present the process [to the bank] we also present a solution, but it is an honest and serious solution; it is not the same as saying 'look, poor thing, he cannot pay'. We make a serious, honest and technically well supported proposal. We are able to persuade them, they have no chance of saying no, because we are not doing anything illegal or financially negative.*

Besides open and honest communication, another helpful measure is to have a specialised person in charge of contact with the creditors. For example, in the SVP Cork office in Ireland, over time it appeared most effective to have a single volunteer focusing entirely on such negotiations. The success of the approach to financial institutions is enhanced by the existence of a privileged access of debt advisory services to credit institutions, previously agreed between both. The fact that the decision on cooperation is made at a level beyond the local branch allows proposals to be presented that the branch manager would otherwise not have the authority to accept. This specialisation also creates a favourable culture for renegotiation at the financial institutions themselves and allows the debt advisory service (as observed in DECO in Portugal) to anticipate the reply, helping it to formulate the request. The opening of these more direct channels results both from the institutional weight given to some debt advisory services (as with DECO), and the experience and contacts that their specialists and executives may bring with them (for example with APUSBANC and Planoviável). Nevertheless, the Irish cases show that good contact at the local level is also crucial, regardless of any high-level agreements.

It was noted that good relations are easier to build with well-established creditors. For example, DECO and APUSBANC debt advisors in Portugal noted that credit purchase financing companies granting credit by phone or internet raise more obstacles to renegotiation. Several debt advisors in Ireland noted the same. Nevertheless, a newer, less well-established service provider (Decisões e Soluções) highlighted exactly the contrary: that there is resistance to renegotiation (for credit consolidation or transfer), mainly from the 'traditional' banks, when there is a record of non-fulfilment. This suggests that there are no easy rules in establishing productive relationships between debt advisory service providers and creditors. It is about finding a 'match'. For example, from its brief experience since it opened in December 2010, Planoviável's Coimbra office already knows the entities that are willing to negotiate.

Cooperation among debt advisory services and creditors is crucial for providing effective help to clients, especially for renegotiating payment plans. A DECO client in Portugal stated: 'Only the mention of DECO helped me. When I mentioned DECO, everything ran more smoothly'. Nevertheless, it was also noted that good relations between DECO and the credit institutions are insufficient to prevent them negotiating directly with their client after DECO's contact, leaving the association out of the process. Whenever this happens it usually means a less favourable counter-proposal to the debtor and makes a coherent and sustainable global plan impracticable. Pressured by the difficulties and anxious for a change, many debtors end up accepting the terms imposed by creditors.

Individually tailored solutions also benefit from flexibility from utility providers, for example in terms of payment by instalment and delay in disconnection, as appeared from the Hungarian country study. This again requires trustful relationships. Utility providers became increasingly flexible in setting their conditions for participants of the programme, and in most cases where families ended the three-year programme with debts remaining (mainly district heating bills), instalment payment agreements could be set for the remaining sum.

Also in areas beyond payment negotiations, cooperation between debt advisory services and creditors can be beneficial. For instance, in the UK a group of credit counselling agencies and representatives from the credit industry (the Money Advice Liaison Group) have developed (voluntary) guidelines for creditors dealing with debtors with mental health problems (Gathergood, 2012 forthcoming).

Similar observations can be made for relationships with other service providers important for achieving an integrated response to debt problems. Two debt advisors in Ireland stressed the importance of being able to call the local welfare officer informally. A Swedish debt counsellor further mentioned meetings with the head of the social psychiatry unit to participate in the long-term comprehensive planning for one client, which is facilitated by a good working relationship with the healthcare services. Trust also matters with regard to (potential) employees of debt advisory services. For example, SVP's established position in Irish society facilitates the recruitment of volunteers.

In the long run, the key to these relationships is that both parties should see the benefit of cooperation. In reported cases in the country reports where cooperation seemed successful, there was a sense of such mutually beneficial relations. In the Irish case, for example, one indication of such understanding was that creditors were among those who pointed clients with debt problems toward the existence of debt advisory services.

Quality service delivery can be lengthy process

In some cases a quick and simple solution will do, while in other cases a longer process is needed to reach a sustainable solution. Helping households with their debt problems can take time and each case requires a customised response to lead to sustainable, long-term solutions. Sometimes a quick, standard approach will do, but sometimes it will not be sufficient. It is important to make the right diagnosis, allowing optimal use of debt advisory services' resources to achieve desired, sustainable outcomes. It is important that both policymakers and service providers are aware of this. The cases examined in the different countries made it clear that effective debt advice can be time-consuming. The Pécs programme in Hungary, for example, includes three years of intensive social work, preceded by a 6–9 month preparatory phase and followed by three months of further work.

Reasons why debt advice can involve such a lengthy process include the fact that it takes time to fully grasp the complexity which often lies behind the debt problems. It takes not only time to understand the particular causal network in which the debt problems are embedded, but also to build trust with the client which is needed for potential deeper problems to be revealed. Besides the time required for grasping this complexity, other aspects of quality service provision also take time. Much of the value of the service lies in the process itself, rather than the actual measures taken, with debt advisors providing a listening ear and giving moral support. The slow process of households working out their expenses and income, and getting them to draw up a budget, in itself was reported to stimulate households to think more clearly about their own finances, often resulting in actions improving their own situation.

A six-year UK study, following clients of debt advisory services since 2007, reveals that three years after seeking advice most interviewees still considered it to have been helpful. They found most helpful:

- having someone to talk to;
- being given information and options;
- being better able to deal with creditors.

Only a small minority considered it had been unhelpful and here the main issue was service provision rather than the content of advice. All these appreciated that elements cost time to deliver. In addition, in the Hungarian country study it was further noted that the effective reduction or elimination of large debt and a sustainable change in households' budgeting behaviour may take some time and even several years.

Support with minimal dependence

Keeping the client in control

Sometimes it helps to provide a helping hand. As noted in several of the cases (such as SVP in Ireland), households are often overwhelmed and stressed by mailings from debt collectors, especially when they come frequently and contain threatening, complex legal language. Taking over communication with creditors can thus bring about enormous relief for households and provide an immediate solution for psychological problems. Earlier evidence from a UK study supports the observation that clients tend to appreciate debt services representing them in communicating with creditors (Collard, 2009). Representation is particularly beneficial when it brings a halt to creditors' phone calls, letters and visits.

Nevertheless, it was considered important that households retain some level of control even when financial management is completely taken over by the debt advisor, for example, by receiving copies of bills and being informed of payments made. The client can then intervene if they notice any irregularity. 'You don't want them to panic, but also not to become dependent' (a MABS debt advisor in Ireland). The UK study mentioned above also found that information provision was considered important to achieve satisfaction with customer service. This included up-to-date information about:

- the creditors that have been paid;
- the amount paid to each creditor;
- the outstanding credit owing to each creditor.

In the Swedish case, the 'folder' was mentioned as an example of good practice.[15] A listed strength is that it is not based on an 'expense manager philosophy' where the client's expenses are scrutinised. It leaves the client in control. There are two folders. The first, the 'Everyday economy folder', includes all documents concerned with revenue, financial assistance grants, household expenditure and tax returns. It is stored not in the debt advisory service office but at the client's home and is usually brought by the client to meetings with the counsellor. The second folder known as the 'Debt file' is filled with information about debt. In addition, a folder separated into sections by tabs is also brought by the clients on each visit. The top tab contains the bills (in a sorted order) to be paid during the current month. The second tab is labelled 'Next month' and includes bills that have a later due date or bills for which a payment plan is in progress. The third tab is called 'To fix' and is meant for things that clients have to take care of on their own until the next visit; for example, to cancel a subscription. The fourth tab is called 'Sort out' and includes things that must be sorted into the binder. The fifth tab is 'Other things', and it holds, for example, notices from the children's school, offers, etc. Post-it notes are used for writing down things that need to be done. The advisor and the applicant each has a set of notes and write down the same things. At the next meeting, if something has been dealt with, it can be deleted from the 'to-do list'.

[15] A Dutch electronic version of a similar approach is downloadable from the National Institute for Family Finance Information (NIBUD) website: **http://www.nibud.nl/omgaan-met-geld/overzicht-houden/administratie/geldzaken-organiser.html**

The idea that clients tend to be wary of situations which they experience as a 'loss of control' can also be seen in mixed experiences with 'special accounts' (MABS, Ireland) where the debt advisor manages an account for the client. Households make weekly[16] contributions into such accounts and then different creditors are paid from this account. While for many households this system is beneficial, the Cork MABS office reported that some households feel nervous about making payments into the account, having the feeling that the money 'is gone' after transferring it to the account. As a consequence, these households were sometimes reported to opt to default. Managing such accounts can also be relatively time-consuming and may not always be the most effective way to spend scarce resources. While implying more loss of control than is the case with MABS' 'special accounts', clients were thus sometimes asked, especially when defaulting, to make use of the national 'Household Budget Scheme' for utility and rent payments. In this scheme, deductions are made before the households receive their benefits. As a side effect, this prevents illegal creditors laying their hands on the deducted amounts.

Keeping the client involved also avoids nurturing unrealistic expectations. A UK study found that customer satisfaction changes over time, with satisfaction almost always high at the start, but later dependent on outcomes (Collard, 2009). This can partly be caused by the clients having unrealistic views of what debt advice can do for them.

For the client to regain confidence which is sometimes lost, it can help to increase awareness of the fact that many others struggle with similar issues. A Swedish municipal debt advisor confirmed this: 'They understand that there have been others in the same situation; they are thinking "I am not alone".' A 'self-help' initiative in Portugal (AGIR HOJE) is an example of a service that builds on this aspect. Self-help groups are guided by mediators who have experienced financial problems in the past. It is a relatively cost-effective way to help households, keeping them largely in control. Furthermore, there is evidence that debt-related psychological problems may be partly caused by social stigma which can be decreased by 'peer effects' (Gathergood 2012, forthcoming), and confronting households with others who have similar problems is expected to reduce the psychological burden. Nevertheless, this approach does not suit all cases, especially as anonymity is often an issue.

While it is important to help the household without making it too dependent on external help, sometimes some loss of control is unavoidable to prevent problems from deteriorating. For example, when emergency help was needed by households, results of earlier research (Eurofound, 2010) were confirmed in that it is better to provide the household with food vouchers, for example, than with funds to spend on food. This was mentioned by two SVP advisors in Ireland. Furthermore, payments directly to the utility company to avoid disconnection were sometimes preferred to providing the household with funds to be transferred to utility companies. These two observations confirm the arguments made by municipal welfare offices in Riga in Latvia and by Hungarian local authorities, respectively. Listed reasons also correspond to those found in earlier research: households with debt problems have been shown to economise on food and utility payments in favour of other payments, especially those due to creditors (Dearden et al, 2010; Eurofound, 2010).[17] Payment directly to utility companies and in-kind help can prevent deterioration of the quality of life of households beyond a basic level.

[16] In Ireland (and the UK), wages and welfare benefits are often paid weekly and local authority rent is also collected weekly. Elsewhere in the EU27, payments tend to be monthly.

[17] For a more detailed discussion see Eurofound (2010, p. 14).

Facilitating control by the household

Some arrangements can help facilitate control by the household. For example, debt advisors in Ireland recommended increasing the frequency of periodical payments to make them easier to plan for. When smaller bills come in once a week, they are easier to keep under control than accumulated bills that come in only once every two months, for example.

Particularly for low-income groups, prepaid utility meters were mentioned as effective. Positive outcomes include economising, enhancing planning capability, and getting a better sense of the cost of utility usage. Installation of prepayment meters for households threatened by, or already in, arrears was considered an effective tool to avoid the accumulation of unmanageable amounts of debt. Prepaid meters provide a sense of control over expenditure. A precondition for this positive effect is that rates for prepaid meter users should not be much higher than those paid by other users. The effectiveness of these meters was noted in the Hungarian, Irish and Swedish country studies. In Hungary, since 1 January 2008 electricity providers (and since 1 January 2009 gas providers) have installed such meters for vulnerable consumers (people in receipt of regular social welfare support from their local authority and disabled people) free of charge. The experience of the Hungarian Maltese Charity Service shows that installation of such devices did not leave families without services; they were able to use the services without interruption, but consumption dropped to about 70% of its level preceding installation.

For prepaid meters to be installed, it is essential to have utility companies on board. In Hungary for example, the opportunity exists only in towns and villages where public debt management systems operate. Furthermore, despite the existence in law of the option, utility companies seem reluctant to install such meters, and only a few thousand electricity prepayment meters and just a few hundred gas prepayment meters are known to be in use. The utility providers were reported to argue that one of the reasons for the low number is that consumers do not take up the option when it is offered to them. Originally, utility companies refused to install prepayment meters for households in arrears. However, this policy is changing, and some gas and electricity providers do now install meters for households in debt. In such cases, a certain proportion (for example, 25%) of payments is automatically allocated to repaying the old debt. However, there is no unified policy on this and some suppliers insist that the amount owing is cleared before a prepayment meter is installed. It was even argued that in some cases postponement of disconnection could be problematic – unless the household is already engaged in debt management – since it can lead to the further accumulation of debt.

Building a reliable record

It is important for creditors, but also for debt advisors (and for clients themselves), to see that debt advisory clients can be reliable payers, who can control their expenses. Frequently those in trouble actually have good control of their finances (Swedish case; Corr, 2011). It is also important for creditors to observe the client’s willingness to cooperate. ‘I learned something from DECO: if I cannot pay my monthly instalment in full, I can pay a small amount to show that I want to pay’ (client, DECO, Portugal). Such observations were confirmed by debt advisors in Ireland as well. Nevertheless, a precondition for this is that the creditor is aware of the situation. Otherwise, these payments might just be lost and considered incomplete with ever-increasing bills plus cumulative interest payments, fines and administrative fees on the unpaid part, as noted by another Portuguese debt advisor.

Several debt advisors considered it crucial for the clients to contribute to the process of helping themselves out of trouble. In one instance (MABS, Ireland), for example, the debt advisor communicated with the welfare office to secure a €1,000 one-off benefit that would cover most of the built-up arrears of the household concerned. Nevertheless, this €1,000 would not be directly used to pay off the debts at once, but rather to top up each time the client made a €30 transfer into the budget account with an additional €30, allowing the client to accumulate savings and build a reliable payment record. The client prefered the funds to be used directly to clear all debts at once, but the debt advisor did not give in to this request. Experience showed such mutual effort to be important in some cases for a long-term, sustainable solution.

Similarly, with regard to debt restructuring, it was stressed that a one-off payment solution might not always be the best. The Irish country study showed that, when instantly clearing their multiple debts by making an agreement with the creditors, households were sometimes inclined to quickly start running into debts again. For example, when an unexpected car repair occurs, households might turn to expensive lenders as they would expect the institution holding their merged debt to be unwilling to increase their already considerable debt. In a response to this problem, the North Cork MABS office, together with some of the credit unions, established a mechanism to reap some of the benefits of debt restructuring (lower payments and a smaller number of creditors) in a way which reduces the risk of repeated indebtedness. The credit union would pay a monthly amount to all creditors, gradually eliminating arrears and paying off debts. The household in turn pays a considerably smaller weekly amount to the credit union. If the household consistently pays the credit union on time, all debt will eventually be taken over by the credit union and the household's weekly payments will be used to cover interest and down-payments. In addition, the household would have established a reliable payment record with the credit union and may have accumulated some savings. Because of this record, the household would also have future access to relatively cheap loans. Should the household miss a payment, the credit union would immediately stop paying the creditors and also inform MABS. Consequently, the system further serves as an early warning system when problems emerge.

Sound institutions

A fourth success factor of debt advisory services is the presence of sound institutions. The different country reports provide evidence for a number of suggestions.

Sound debt advisory service institutions

First, while at first sight it seems inefficient, there may be some benefit in the existence of various service providers of different nature providing somewhat overlapping services. This applies mostly to the initial phase of debt advice, at the point of access, establishing initial trust. Nevertheless, at a later stage of the debt advisory process different organisations can also have different strengths. For example, the Hungarian country report noted that the advantage of local authorities is that they have administrative powers, seen as authoritative by creditors, which strengthens their negotiation position.

Second, somewhat in conflict with the first suggestion, consistency was also identified as important. For example, because the provision of debt services is left almost entirely to local authorities in Sweden, there are major disparities in the approaches and quality of these services. Adaptation to local circumstances can be beneficial. For example, in the Irish country report it was noted that sometimes debt advice systems focused on covering the whole country, while services might be more necessary in certain areas rather than others, for example parts of the country badly affected by unemployment. Nevertheless, some national coordination is required to guarantee a minimum level of quality. This was recognised in most country studies (Ireland, Portugal and Sweden).

Third, while the country report writers were encouraged to identify the most integrated approaches they could find in their respective countries, it was frequently observed that there was a lack of integration of services. For example, in the Hungarian context it was argued that closer cooperation between actors and the services they provide could potentially improve the effectiveness of debt management. There are several types of debt management services and a variety of actors present in the field, but coordination is lacking. Several interviewees in the Hungarian country study emphasised that the key problem regarding indebtedness in Hungary is unemployment. For that reason, some of the innovative NGO programmes include a component aimed at developing employability, but in many cases improving the employment prospects of affected individuals falls outside the remit of providers. In a Portuguese case, the lack of involvement of psychologists or social workers was stressed as problematic. Similarly, for Germany, it has been noted that the increased involvement of lawyers leads to a more limited approach to debt counselling, with a narrow focus on legal advice and negotiation with creditors (Heuer, 2007).

Fourth, quality assurance is needed. For-profit debt advice can be beneficial (Collard, 2009; Portuguese country report) and the Irish report suggested it might fill perceived gaps in the market with certain expertise and might appeal to clients who are mistrustful of government institutions. It can also cover households in need that do not fulfil the access criteria for another service. Nevertheless, some concerns were raised in the country studies. In both Ireland and Portugal, the websites of some private providers omit the entity's legal nature, its structure (there are no names or faces), and transparent information with regard to the costs of the service offered. The information provided on some websites is scanty, vague and even pamphlet-like, which presents a risk to particularly vulnerable debtors. In this context, quality assurance is wanting. In the Portuguese country study it was argued that the expansion of the debt counselling services network must be accompanied by regulation in order to prevent fraudulent situations or unqualified entities from offering services. The public reference and potential certification of the entities and debt advisors should also be considered; in the UK, for example, for-profit debt services must be licensed. It was also argued that external benchmarking should be applied for debt advisory service providers.

Holistic policy approach

Lastly, effective policy aimed at addressing over-indebtedness requires a holistic, well-balanced combination of preventive, remedial or curative, and rehabilitative measures (Council of Europe, 2007). While not the focus of this study, some messages appeared from the research about this broader institutional context.

With regard to the legal way out, almost all EU27 countries now have some kind of consumer bankruptcy law, with Bulgaria, Hungary, Italy, Lithuania and Romania among the few without any legal debt adjustment route. Nevertheless, several of these countries are now working on draft legislation (Niemi-Kiesilainen, 2010). Although recommendations with regard to such remedial measures are somewhat beyond the scope of this research and more extensive treatment can be found elsewhere (see Kilborn, 2011), some observations can be made. In the country studies it was argued that some of these procedures are too long (Ireland, at least 12 years) or too difficult to enter into (Portugal). Other personal bankruptcy procedures are so short that they have even been reported to attract 'bankruptcy tourism' (England and Wales, discharge after one year, with at most three years of income payments). In most arrangements, the people going through the bankruptcy process or legal debt settlement process have to hand over all their income above a minimum during these procedures to the authorities, which then transfer part of it to creditors. This removes a financial incentive to increase earnings in this period and remain active in the labour market. Hardly any Member State's bankruptcy arrangement recognises this in offering shorter clearance periods, or for the individual to be able to retain part of additional earnings to increase incentives to maximise income and to be better prepared for life after bankruptcy. Austria is an exception, offering a potential clearance period reduction if more than a certain proportion of outstanding debts has been repaid three years into the procedure (Dubois and Anderson, 2011).

In the Portuguese country study, all entities recognise that an extrajudicial solution, whenever possible, is beneficial to both parties: it is swifter, less expensive and helps keep people socially and economically included. This was also argued in earlier research (Reifner et al, 2003). However, many households ask for help too late, so that the bankruptcy process, despite its acknowledged deficiencies, is the only remaining option (Marques and Frade, 2004).

Several of the debt advisors interviewed (for example SVP in Ireland) argued the need for a central register of debts, so that debtors cannot accumulate debt after debt and finances are less likely to spiral out of control. Creditors can then be obliged to check their applicant's solvency before granting a loan. However, several debt advisors also noted that debt histories should not follow the debtors for too long and that such a register system should be designed with care for privacy. The EU's Directive on Credit Agreements for Consumers already obliges creditors to assess the creditworthiness of the consumer to some extent.

Both the Hungarian and the Irish country reports mention that if a household is in debt to a 'loan shark' (legal or illegal) then repayment of that debt often takes precedence over everything else and renders the household incapable of meeting its other payment obligations. Due to aggressive debt collection methods, the stress suffered by the indebted household is likely to be particularly severe. This gravely influences the chances of successful debt management, so besides all other reasons supporting the need to combat loan sharks, such actions are also key to effective debt management for households in deep poverty. Effective legislation restricting the operation of such lenders could provide a partial solution. Interest rate restriction, marketing limitations and barriers for completing contracts can help. Examples are the recent Finnish prohibition on 'SMS loans' being made available late at night and the requirement to sign a paper contract before concluding a loan in Germany (Dubois and Anderson, 2011). The EU's Directive on Credit Agreements for Consumers already obliges parties to draw up credit agreements on paper or on another durable medium. In addition, several debt advisors stressed that it was important for clients to feel they can securely report experiences with illegal moneylenders to debt advisors and/or the police.

As noted earlier, housing plays a central role in debt problems, both with regard to the causes and consequences. Qualitative results from the case studies confirmed this. A client of a Swedish municipal debt advisory service who had difficulty in keeping up with the rent noted:

> *The anxiety was so great. I could not support my child. In my imagination I saw how we would be forced to live on the street, as I had seen in the US.*

With the principal dwelling taking centre-stage in most households' life, moving to a cheaper dwelling can be a hard step to take for a household in an already stressful situation. Nevertheless, it can provide relief. The same client of the Swedish municipal debt advisory service eventually moved:

> *I never thought I would move, had refused for so many years. But both me and my daughter are thriving in our new apartment. I feel calm and safe and have started to take more care of myself.*

For households who are about to lose their dwelling, consistent and automatic mechanisms could be set in motion to avoid homelessness. As mentioned in the Irish country report, such mechanisms can be aimed at helping households to move to a more affordable property, to hand over ownership of their property while becoming instead a tenant of the same dwelling, or being guided towards possibilities to move into social housing.

5 Conclusions

Quality debt advisory services have the potential to improve, even if only partially, the difficult conditions faced by many households with debt problems. Several lessons were learned, for policymakers and debt advisory services alike, on how to maximise the positive impact of debt advice.

Provide timely access to debt advisory services

Providing help and raising awareness

Timely help is particularly challenging when those in need are socially excluded. A number of potentially helpful measures are anonymous first-contact options, multiple language and media channels, targeted marketing, early warning systems, and outreach posts. The report also discusses the potential role of social partners. Companies and trade unions can raise awareness among employees of the existence of debt advisory services and of specific measures to avoid problems, such as raising awareness of the right to certain benefits. For example, pre-redundancy information packages have been used by trade unions.

Improving access

Translate solicited access into actual access. Waiting lists, non-availability of services and exclusion criteria were reported as barriers to access. As resources are limited, it is understandable that restrictions must be made, with a focus on helping those most likely to benefit and those who are suffering most. Nevertheless, effective referral to alternative service providers and 'minimum service systems', with some key suggestions about what the household can do itself to improve its situation, could help those who are refused access to the service. Such measures prevent problems spiralling further out of control. In countries where local authorities provide the service, cooperation between them allows small local authorities to provide quality services.

Enhance the quality of debt advisory services

Customised approach

Debt service provision requires customised, consistent approaches, relying on trust. In some cases a quick and simple solution will do, while in other cases a longer process is needed for a sustainable solution. While there are many different cases, very broadly, one can distinguish between two groups of over-indebted people: the poor who usually have relatively small debts against high interest rates, and those households who due to an unexpected fall in their incomes are unable to service their mortgages anymore. The emphasis on different parts of debt advice should be somewhat different for both groups, but there are also similarities such as the key role of trust.

Relationship of trust

It can take time to build relationships of trust, to fully understand the nature of a household's situation and to develop an appropriate response. The case studies point to several factors that can enhance trust, including sharing the debt advisor's own experiences with managing finances. In addition, a credible and well-communicated assurance of confidentiality is vital. Face-to-face encounters usually enhance trust, but are resource-intensive and do not have the same value in all stages of the process and also not in all cases.

Cooperation between all parties

Build good relationships between the debt advisor and other stakeholders, in particular creditors, welfare offices and health services. Smooth cooperation between these actors is necessary for quality service delivery. Good relations are crucial at the organisational level, but also more informally at the local, day-to-day level. Honest and consistent communication was identified as important for a successful relationship and hence for effective service provision. Having a key contact person in charge of communication and negotiation with the creditors, and providing honest information, was crucial in building sustainable trust. For long-term relationships between advisor and stakeholders, it was vital to make the case for the mutual benefit of working together toward a solution.

Understanding the context

Ensure that customised, consistent approaches are offered. Debt advisors have the difficult task of finding a balance between customisation and consistency, but organisational and institutional measures can help. Advice manuals were judged to be of great value, as were debt advice teams with different backgrounds working together to develop long-term solutions for specific cases. It is essential to know the history behind, and understand the full context of, a household's spending. For example, a phone bill which seemed easy to economise on was regarded as crucial to a person's mental health in one particular case. The 'folder approach' as applied in a Swedish municipality highlighted how one can keep the household in control while restoring order in its finances.

Putting the household in control

As far as possible, put the household in control and make sure it contributes actively to the solution, while providing support. Oversimplified, quick solutions may mean that households will run into trouble again and contribute little to the household's feeling of being in control of its finances. Furthermore, so that both creditors and debt advisors are motivated to help the household, it is important that the debtor is seen to put effort into solving the problem. 'Self-help groups', organised by a service provider in Portugal, were identified as an efficient, effective way of enhancing control and self-confidence. Nevertheless, they are not suitable for all cases, especially when problems are more complex and when privacy issues play a large role.

Reliable payment record

Often it is essential for the household in debt to build a reliable payment record during the process. It helps in gaining the confidence of the creditors and of the household itself, it often guarantees access to cheaper future credit and, if well monitored, it can serve as an early warning system.

Easy solutions for household bills

Prepaid meters and avoiding bills that span too much time (for example, getting weekly phone bills instead of bimonthly ones) were identified as measures which help the household remain in control.

Develop sound institutions

Integration of service delivery

Debt advisory services require a sound institutional context. For example, quality assurance requires registration of debt advice providers and training of debt advisors. While potentially beneficial in covering service gaps, some recent private for-profit initiatives were identified as especially wanting in terms of information provision on organisational structure and quality assurance. Furthermore, there is a need for increased integration of service delivery in support areas such as legal assistance, financial advice, monetary relief, and mental health care. In addition, while at first sight inefficient, some overlap between different institutions providing help is not necessarily a bad thing. Organisations with different backgrounds have different strengths. For example, state-backed organisations have more legal discretion but non-state providers may appeal more to excluded groups.

Holistic approach

There should be a holistic approach to debt problems, with a comprehensive range of preventive, alleviative, remedial or curative, and rehabilitative measures in place. Important preventive measures are laid out in the EU's Directive on Credit Agreements for Consumers. Sound legal debt settlement and bankruptcy procedures are crucial as well. While legal ways out should not be too short and invite abuse, they should also not be too long and inaccessible. Furthermore, it is important for households to have financial incentives to maximise earnings during discharge periods. Finally, housing policies can facilitate a solution if they react swiftly and consistently to emergency situations, for example smoothing the household's transfer to a more affordable dwelling. This is important, because households with debt problems often suffer from the fear of losing their home, and problems frequently stem from debts related to housing in the first place.

Overall, the assessment presented in this report, together with the research already available at the national level, should help policymakers, debt advisory service providers and other stakeholders to learn from experiences. Effective assistance for households with debt problems can prevent and alleviate poverty, but will depend on informed decisions by providers and policymakers alike.

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