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# First steps out of debt: Attitudes and social identity as predictors of contact by debtors with creditors

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ABSTRACT

Questionnaire research was carried out to identify factors that may encourage problem debtors to take the first steps towards getting out of debt. Consumers with debt problems were identified with the aid of creditor organisations and Her Majesty's Court Service for England and Wales. Responses were also sought from non-debtors from the same consumer groups as the debtors. Response rates from debtors were very low, but results confirmed the existence of a group of chronically poor consumers with widespread and long-lasting debt and also confirmed the demographic differences between this group of debtors and non-debtors found in previous research. These debtors showed marked attitudinal differences from non-debtors, with reduced optimism and financial self-esteem, and a less internal economic locus of control. They also showed a distinct social identity, identifying with fellow debtors and feeling stigmatised both generally and personally. Within the debtor group, engagement with creditors was higher in people reporting lower debt levels, but seeking advice was more frequent in those reporting higher debts. Engagement was associated with a stronger attitude of financial self-efficacy and with a perception of the debtor identity as more permeable. Neither demographic nor psychological factors significantly predicted which debtors would seek advice.



## 1. Introduction

### *1.1. Credit use, debt, and problem debt*

Consumer credit use is on the increase, and the total indebtedness of UK consumers has reached unprecedented levels. In the UK, total household debt in April 2009 stood at £1.4 trillion, more than double that a decade ago (Department for Business Enterprise & Competition Policy Directorate, 2009), and even if mortgage borrowing is excluded, the total is £232 billion, or roughly £1000 per household (at the time, £1 exchanged for approximately $1.6 US).

Lea (1999) drew a distinction between credit use, debt, and problem debt, to mark the practical and psychological distinction between manageable credit arrangements and unmanageable situations where people have no way that they can see to repay loans or meet regular commitments. The present paper is concerned with problem debt. Problem debt

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creates difficulties for the creditors who are unable to recover debt, for the consumers who are unable to pay it, for institutions within the legal system who are called onto regulate the recovery process, and for advice agencies who seek to help (primarily) consumers. The major UK charitable agency offering all forms of advice to individuals, Citizens Advice, now has a case load that is one third composed of debt cases (Aznar, 2009), and in addition there are numerous specialist debt advice agencies.

Although there has been substantial research on debt within economic psychology, most of it has been concerned with the factors associated with indebtedness. However, longitudinal studies (e.g. Webley & Nyhus, 2001) have shown that even severe debt is not necessarily a permanent state, and that some people do successfully recover from debt. The present paper seeks to shift the focus of research towards the factors that might be associated with escape from indebtedness.

### *1.2. Previous literature: the antecedents, behaviour and consequences of debt*

Given the practical significance of debt in society, it is no surprise that economic psychologists have sought to understand it. There are three aspects from which a psychology of debt can be considered. We can seek to understand why people get into debt; we can look at the behavioural and psychological phenomena associated with being in debt; and we can consider how people can be helped to get out of debt. From all three aspects, we have to recognize that debt is not only, and probably not even primarily, a psychological phenomenon. It obviously is a form of economic behaviour, but in addition any full account of debt is bound to require sociological analysis and is likely to have political implications. Nonetheless, previous research has demonstrated unambiguously that psychological variables play a part in an understanding of debt.

Most previous research on the psychology of debt has concentrated on its antecedents, trying to trace the psychological and other factors that lead some individuals to have debt problems. Theoretically, taking on debt is an interesting case of intertemporal choice, and this has led to analyses of what kinds of commodities are more likely to be bought on credit (e.g. Prelec & Loewenstein, 1998). Empirical literature has concentrated more on what kinds of people are more likely to experience, or escape, debt problems, either because of general circumstances and psychological attributes (e.g. Lea, Webley, & Levine, 1993; Lea, Webley, & Walker, 1995; Stone & Maury, 2006; Viaud & Roland-Lévy, 2000; Webley & Nyhus, 2001), because of specific behaviours such as gambling (e.g. Barron, Staten, & Wilshusen, 2002), or because of the provision of counselling on how to avoid debt (e.g. Hartarska & Gonzalez-Vega, 2006). The burgeoning literature on student debt (from Davies and Lea (1995) to Oosterbeek and van den Broek (2009)) largely shares this focus. Among the psychological variables that have often been found to be associated with higher debt are more tolerant attitudes towards debt (Lea et al., 1993), a more external locus of control (e.g. Ding, Chang, & Liu, 2009; Livingstone & Lunt, 1992; Tokunaga, 1993; though contrast Lea et al. (1995) and Wang, Chen, and Wang (2008); and, for student samples, Norvilitis, Szablicki, and Wilson (2003) and Trent, Lee, and Owens-Nicholson (2006)), a sense of inadequacy about money or money management (e.g. Lea et al., 1995; Stone & Maury, 2006), and excessive optimism (Brown, Garino, Taylor, and Price (2005) for the general population and Seaward and Kemp (2000) for students).

Many of the studies referred to above have also thrown some light on the (generally negative) psychological impacts of indebtedness. Recent epidemiological studies have shown that debt is a substantial risk factor for psychological distress, for example depression, independent of the poverty that typically accompanies it (e.g. Brown, Taylor, and Price (2005) and Jenkins, Bhugra, Bebbington, Brugha, Farrell, and Coid (2008) for the general population and Roberts, Golding, Towell, Reid, Woodford, and Veteree (2000) for students). Davies and Lea (1995) argued that more tolerant attitudes towards debt might be a consequence rather than a cause of greater debt, and Lea et al. (1995) suggested that the same might be true for perceived competence at money management.

### *1.3. Steps towards becoming debt-free: encouraging engagement with creditors*

In contrast with the well established research on factors associated with debt, few studies have considered how indebted people become debt-free, and the present paper aims to begin consideration of this question. The conventional wisdom has traditionally been that the first stage in overcoming debt is to engage with creditors (Ford, 1988, p. 8), and this remains a common view:

> When people are struggling to pay for everyday essentials and repay their credit obligations, such as credit cards and personal loans, the advice sector and the credit industry encourage them to contact all their creditors as soon as possible to negotiate reduced repayments (MacDermott, 2008, p. 5).

The fact that this advice has to be given shows that debtors do not automatically contact creditors when they run into difficulties, and indeed in some previous research, serious debtors have shown considerable reluctance to approach creditors, and reported that creditors were one of the less useful sources of help (Lea et al., 1995, Table 3). The present paper therefore concentrates on debtors' decisions to engage with creditors.

Debt cases place a heavy load on the legal system, and in England and Wales this falls on Her Majesty's Court Service (HMCS). Therefore, in the mid 2000s HMCS's parent department, the UK Department for Constitutional Affairs (now part of the Ministry of Justice) introduced a programme of ways to help people avoid, reduce, or manage debt problems