

# Project Debt CM1222

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# Introduction

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# 1 Background

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- In October 2000, a Task Force launched to tackle over-indebtedness among consumers. This Task force aimed to address the cultural change from a 'save first, spend later' attitude to one of 'borrow now, and repay later' by taking steps to ensure that consumers are better informed and protected when applying for credit.
- The Task Force has developed some *Key Questions* that consumers should ask themselves and a prospective lender before entering into a credit agreement. DTI is developing a publicity campaign around this issue, focussing initially on the '*Key Questions*' advice, which is potentially to be offered as a plain English, easy-to-read information leaflet.
- A need for qualitative research was identified to examine the proposed information & potential formats for the '*Key Questions*' advice. Carne Martin, a qualitative specialist, were invited to conduct this research and this document details their findings.

## 2 Research Objectives

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- The overall objective of the research was to evaluate consumer response to the proposed *Key Questions* information and the different ways in which the information could be presented.
- In more detail the research aimed to answer the following questions:
  - Where do consumers currently get financial information or advice?
    - Which sources are most useful to them?
    - Which do they trust most?
  - How do they prefer to receive financial advice: leaflets, press, radio, TV, Internet etc?
  - What sorts of issues do consumers consider when applying for financial products?
  - Do they know what sorts of questions they need to ask?
  - Would the Key Questions advice help them in the decision making process?
  - What sort of format would be most useful for delivering the Key Questions advice e.g. a Z-card, leaflet, online?
  - Would they keep it and refer to it in future?

## 3 Method & sample

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### 3.1 Method

- Mini-group discussions, containing 6 people per group, were the chosen methodology for this research. The benefit of the mini-group discussion (as opposed to a standard group discussion with 8 respondents) is that it is a more intimate forum, allowing for more individual feedback, whilst at the same time remaining interactive, ensuring that the research benefits from the cross-fertilisation of ideas that can occur within a group. The mini-group structure was felt to be particularly important here given the detailed nature of the research subject: it would allow more time to discuss the points of detail.

## 3.2 Sample

- In designing the sample, we took into account those variables most likely to influence differences in attitude in an attempt to make the groups as homogenous as possible and thus enhance the group dynamic.
- The key differences were thought to be as follows:
  - **Life stage: Pre-family Vs Family Vs Post-family**
    - Used as a broad guideline, to enable recruitment of people at similar stages of life to particular groups
    - NB The terms Pre-family, Family and Post-family are not in any way used to exclude people e.g. those who do not have a family or who remain single or single parents; they are rather used as a guide to ensure that respondents in a particular group are at a similar ‘time of life’.
  - **Sex: Male Vs Female**
    - Single sex groups tend to be more productive than mixed groups. Single sex groups were thought to be particularly important here, given the potential sensitivity of the subject matter.
  - **Region: North Vs Midlands Vs South**
    - Though the sample was not large enough to tease out any real differences according to region, nonetheless it was felt to be important to achieve a certain regional coverage, so that the findings were not biased towards any particular region.

- **Socio-economic grouping: (B)C1 Vs C2 Vs DE**
- Given the potential differences in circumstances and attitudes across the sample, it was felt that the groups should be split according to SEG. The research was slightly weighted towards the DE group, as this group were felt to be potentially a particularly relevant target for the *Key Questions* service.
  - Across the different groups, all the respondents were recruited as decision makers in terms of finances and all had recent experience (i.e. within the last 12 months) of applying for a new financial product e.g. a credit card or a loan. This was to ensure that all respondents were potentially 'in the market' for financial information.
  - This gave rise to the following sample structure:

Group	SEG	Life stage	Sex	Region
1	(B)C1	Post family	M	North
2	(B)C1	Family	F	South
3	C2	Pre-family	M	South
4	C2	Family	F	Midlands
5	DE	Family	F	North
6	DE	Family	M	South
7	DE	Post family	F	South
8	DE	Pre-family	M	Midlands

The fieldwork was conducted between 13th and 20th March 2002.

# The findings

# 1 Overview

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- There were differences across the sample in terms of age and / or life stage. The younger or Pre family groups tended to be less wary in terms of debt, whilst those with children were typically slightly more wary of debt and the older group, often Post family were typically disinclined to have any form of debt.
- Beyond this, there were differences in terms of financial sophistication, sometimes but not always in line with age and life-stage.
- There was evidence that some felt they had learned about debt and credit through experience.
- We suggest 3 broad targets emerge
  - Pre family i.e. younger, couples or single, with no children
  - Young family i.e. have young children
  - Older/Post family i.e. older, no children or older children / children left home
- Of these groups we suggest that the Pre family and Young family are the most relevant target for *Key Questions* based on their comparative lack of experience of debt. We suggest the Young family group may be more receptive to the *Key Questions* information as they have a tendency to care more about the dangers of debt.
- However the majority of these groups are typically not currently actively seeking information or advice and therefore are generally unaware of the independent channels for financial information or advice that are open to them. Therefore getting them to pick up and read *Key Questions* is the biggest challenge.

- In an ideal world, we would recommend the combined use of PR and advertising (either on TV or radio) to broadcast the Key Questions leaflet and explain the benefits of the information to make them aware of it and look out for it.
- However, given budget limitations, we suggest that a combined leaflet and online service could reach the target audience but to do so it has to cut through and make an impact. In order for a leaflet to do this we suggest it needs extra leverage to raise its profile and make people aware that it is out there.
- In terms of branding we suggest that of the two options researched (DTI or Citizens Advice Bureau), the latter is more relevant for this target as they are all aware of the CAB and endorse them for being 'on their side'.
- In terms of the information itself we suggest the importance of streamlining it (to reduce the appearance of bulk and make it more manageable) and formatting it clearly.
- In terms of the presentation of the leaflet we suggest it is important to consider the following factors:
  - Make it attention-grabbing
  - Don't overwhelm them with text
  - Use text and graphics: not too text heavy
  - Make it manageable, not a weighty tome
  - Size is important: not too big & heavy, not so small that they might lose it
  - An incentive is likely to encourage pick up
  - Make it robust enough to keep

## 2 Detailed findings

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### 2.1 Current behaviour

- Within the sample, all had experience of different types of debt and/or credit. In fact the majority had experienced overdrafts, credit cards, Interest free credit, loans and mortgages at some stage.

#### 2.1.1 Overdrafts

- At the time of the research the majority of the sample had an authorised overdraft facility. That said, a small minority specifically didn't have an overdraft facility on the grounds that it might encourage them to spend money they didn't have. This group tended to be women.
- On the whole authorised overdrafts were felt to be a kind of safety net: something to prevent them from going overdrawn at certain times of the month without the consent of the bank or building society, for instance if bills were paid out of their accounts before their wages or salary were paid in. In practise some reported that they never actually *used* their overdrafts, but they were reassured by the knowledge that they had one 'just in case'. The benefit of an authorised overdraft over an unauthorised one was that they were not charged for it, or where charges were incurred they were felt to be minimal.
- However some of the younger, Pre family respondents claimed to be *living* day to day on their overdraft. There was a sense that since they paid either very low or no charges at all for authorised overdrafts, this 'money' was as good as their own

and they were inclined to spend it like their own cash. Among this minority group there was no real sense of concern over continually being overdrawn.

*'I'm overdrawn every month!'* [Pre family male, C2, South]

*'Necessities...food, cigarettes, drink...Friday nights!'*  
[Pre family male, C2, South]

- A minority of the younger, Pre family sample also reported experience of *unauthorised* overdrafts. Here some had not informed their bank that they were going to exceed their spending limit and reported having to pay high charges as a result. Others had on occasion spent over their overdraft limit but had informed their bank that this would be the case, and in contrast reported receiving a positive, helpful response i.e. the bank offered to extend their overdraft limit for a short period so that they avoided paying high charges for an unauthorised overdraft.

### 2.1.2 Interest Free Credit

- The majority of respondents endorsed interest free credit where they felt they could use it to their own advantage. By this they meant that they could pay for the item purchased within the interest free period, thereby spreading their payments over time but not incurring any interest for doing so. Most people were aware through experience that the 'interest free' period often only lasts for 6 months and claimed that they would only consider taking out interest free credit where they believed they could pay it off within that time.

*'You'd always try & pay it off in the interest free period'*  
[Male, C2, Pre family, South]

- As a result interest free credit was typically felt to be most appropriate for 'smaller' items i.e. items worth a couple of hundred pounds rather than something worth thousands of

pounds. In this case respondents felt they were likely to be able to afford to pay for the item within the relatively short interest free period. The perceived benefit of interest free credit over credit cards in this instance would be that they avoided paying any interest. As discussed below, the large majority were not currently paying off their credit cards in full on a regular basis and were therefore incurring interest.

- However, despite this apparent savvy use of interest free credit (i.e. using it to their advantage) many did report being 'stung' in the past. Here they were not aware of the loopholes of interest free credit through experience and did not read the small print of the contract carefully enough or even at all. As a result some report having to pay a very high rate of interest after 6 months, or having to pay a lump sum after the 6-month period finished. Others had previously been tied into expensive insurance plans.
- In all there was a sense across the sample that interest free credit should be approached with *some* caution – this seems to have developed through experience.

### 2.1.3 Credit cards

- The majority of the sample reported owning one credit card, though a small minority claimed to have up to four and another minority group avoided having any at all. This last group were typically more budget-conscious women who had made a conscious choice against credit cards on the grounds that they felt they might be tempted to spend beyond their means were they to have one. This was a particular concern where children were involved as they felt it was quite hard to refuse to buy children something they needed or wanted; therefore they felt it was wiser to avoid the risk of overspending by not allowing themselves the means to overspend.
- In practise the Pre family and Family sample were paying the minimum monthly payment on their credit cards. Here there

was a sense that ‘that’s what credit cards are for’ i.e. they allow you to spend now and pay later so that’s the way to use them. Beyond this there was some evidence of a ‘Catalogue mentality’ with credit cards: respondents liked the idea of being able to spread payments and were used to the system of buying something now & paying it off over time. In fact for some, credit cards were an essential financial tool, as they felt that they couldn’t always afford to pay off what they had bought that particular month e.g. children’s school uniform.

- For the majority of this group interest seems to be a fact of life, with respondents claiming it was difficult to change habits that they were in. Some reported being stuck in a routine of paying only the minimum payment, although they were aware that their ongoing balance would never be significantly reduced on this basis. Some felt that credit cards encouraged people to spend more than they can afford, simply because they could. In fact a minority suggested that to avoid overspending they felt it was ‘safer’ to keep some balance on the credit card, otherwise they might get carried away and overspend again.

*‘If you pay it off you’re more tempted to use it again because you don’t owe anything...it’s a vicious circle’*

[Male, C2, pre family, South]

- However, despite the convenience of being able to pay for things with credit and spread the payments, all acknowledged the negative side: that they end up paying more ultimately through having to pay interest on their balance. And some did report *trying* to pay off their balance in full where possible, though here there was a sense that this was not a regular thing but rather something they would do if they had a particularly good month financially: when they were feeling ‘flush’.

*‘Every couple of years if I’ve got some money I’ll try & clear it & then say I won’t use it’*

[Male, C2, pre family, South]

- By contrast the older, Post family sample were *typically* paying off their balance in full on a monthly basis. Here there was

some sense of ‘moral duty’ to pay off debt. Credit cards were considered a form of debt and so it was important to pay off that debt as soon as possible. They were also aware that by using credit cards in this way they were avoiding paying interest – but surprisingly this *seemed* to be an incidental benefit: their first concern was *not to be in debt*.

- When taking out credit card(s) some claim to have shopped around for the best APR. This was on the grounds that as they were aware they would be paying interest, they therefore wanted to make sure they received the lowest rate possible. To this end, some mentioned transferring their credit balance from one credit card to another to get a cheaper rate. And a small minority claimed to shift their balance every 6 months in order to get the 0% rate often offered to new cardholders.
- However, there was some sense that in reality many don’t shop around. The simplest, most convenient option for them is to accept a credit card from their own bank, and in fact they would probably be invited to open one by their bank. Many also seem to like the idea of keeping their finances ‘all under one roof’.
- In terms of how credit cards were used, some were using them for *particular* items or occasions. Examples of these were given as ‘medium sized’ items such as washing machines (£500+), - for which IFC was less suitable on the grounds that they might not be able to pay it off within 6 months. Christmas and holidays were also commonly paid for on credit cards, with some pointing out the benefits that they received by paying for holidays on a credit card: free air miles and holiday insurance. However the more debt-averse in the sample tended to resist the idea of paying for a holiday on credit on the grounds that holidays are a luxury and not an essential.

*‘Don’t want to still be paying for this years holiday next year’*

[Female, C1, Family, South]

*‘A holiday’s something you save up for...if we can’t afford it we don’t go’*

[Female, C1, Family, South]

- Others reported using their credit cards for 'daily expenses'. These respondents were typically slightly more financially organised and aimed to pay off their full balance each month. They tended to feel that the benefit to them of using credit rather than cash for daily expenses was that they would still be getting interest on their money by leaving it in the bank longer. For this group, the only problem they perceived was if for some reason or other they could not afford to pay off the full amount at any time as they would then end up paying interest.

*'I really object to paying interest on food'*

[Female, C2, Family, Midlands]

### 2.1.5 Loans

- Loans tended to be perceived as appropriate for big items e.g. home improvements, a new car, furniture: *'something you couldn't pay off in 6 months'*. In this case they were perceived to be the best value option. Many perceived the benefit of a loan over using a credit card in this case is that it allows you to budget, as you are aware of exactly what you are paying each month.

*'You know where you are, you know what you're paying each month'*

[Male, Pre family, DE, Midlands]

- Many claim to compare APRs when considering loans, contrasting those offered by banks, building societies and supermarkets etc. Some Post family respondents reported 'researching' APRs, for example in the financial press. However, there was a sense that in practise many of the younger sample (Pre family and Younger family) approach their bank first on the grounds that they already have some relationship there: banks tended to be trusted, and perceived as easy and convenient. Many liked the idea of keeping everything under one roof - using their bank as a one-stop shop. Therefore if the 'deal' offered by their current bank seemed reasonable, they would probably be unlikely to look further.

- In terms of which sources they would consider when taking out a loan, most claimed they would not go to an 'unknown' company, citing advertisements in back of the tabloids as examples of 'unknown' lenders. Here they felt that were they to go to such lenders, they would be taking an unneeded risk; rather they preferred the perceived safety of a well-known high street name. That said, a small minority of the Young family sample reported experience of loan sharks, operating at a local level. They were used at times where extra cash was needed e.g. Xmas and would come to the door to collect their payments on a weekly basis. The small minority who used them claimed to pay low interest and showed little concern over the consequences if they could not afford to pay the interest in a particular week.

*'If I can't pay I don't answer the door'*

[Female, DE, Family, Midlands]

## 2.2 Attitudes

### 2.2.1 Differences according to life-stage

- A broad difference emerges in the sample according to age or life stage. The younger, Pre family sample were typically less *wary* when it comes to debt. For them financial planning did not seem to be a priority, and they tended to be 'living for the moment' i.e. on a day-to-day basis. There was certainly evidence here of a buy now – pay later attitude. One potential reason for this is that they may not have experienced problems with debt before, and so may not have been prompted into giving it serious thought.
- Those who had children tended to be more wary about debt. They may have experienced increased spending caused by an expanding family and so may potentially be more aware of the need to control their finances. Further they were very aware of their financial responsibility for their dependents, and this was a serious concern for them: if problems were to arise, there would be more potential victims i.e. their family rather than just themselves.
- The older respondents (in the Family or Post family sample) could be disinclined to have any form of debt. They had experienced different types of debt across the years but tended to have quite a serious, 'moral' attitude towards debt i.e. that you should pay off your debts first before allowing yourself to spend on anything else. Some had the attitude that they would rather 'go without' something if they could not pay for it in cash.

### 2.2.2 Financial sophistication

- Beyond this difference of attitude according to life stage, a further dynamic emerged: there were differences across the sample in terms of financial sophistication. This dynamic often worked in line with age and life stage, *but not always*
- At the less sophisticated end of the spectrum, respondents seemed to have little confidence in terms of finances. They would often visit their own bank if they felt they needed help or advice, or a particular product and as a result were not really considering their options thoroughly and working out which was the cheapest option for them. They were also more typically open to being 'exploited' by debt or credit providers, for instance they were often paying the minimum payment on their credit cards, and a minority mentioned debt problems in the past e.g. building up significant debt on store cards. On the whole the less sophisticated *tended* to be younger and without children, although there were some exceptions to this rule.
- By contrast the more sophisticated respondents were typically older and had children. They were characterised by being more financially organised and were often budgeting. As a result they were more frequently using an overdraft facility as a buffer, rather than on a regular basis and were also aiming to pay off credit card balances in full each month.

*'My husband does our money like an accountant'*

[C1, Female, Family, Midlands]

- This group would be more likely to shop around when considering financial products; some of them reported reading the financial press to build up knowledge in this area. Some were also Internet banking.

### 2.2.3 Experience

- Against this background of differences according to life stage and differences in financial sophistication, many felt that they had learned about debt ‘through experience’. This was an attitude shared by members of each life stage, and was based in their perception that they had already experienced debt in different forms. Many felt that they had been ‘caught out’ in the past, for instance they had been tied into insurance premiums with Interest Free Credit deals through failing to read the small print. As a result of previous bad experiences, then, they felt that they were already aware of the pitfalls involved with ‘debt’ as a whole.

*‘Only reason I know what I know is that I’ve been down this route the hard way’*

[Male, C2, Pre-family, South]

- At its extreme, this sense of having learnt through experience could manifest itself as a more defensive attitude e.g. *‘I can handle it!’ ‘I don’t have a problem!’ ‘I know what I’m doing!’* Individuals who had this type of attitude were potentially closed to the idea of receiving information or advice on matters relating to debt.

*‘I think I’m clued up enough to actually understand most of it!’*

[Male, C2, Pre family, South]

*‘I’m strong willed enough to not allow myself to get into that situation’*

[Male, C2, Pre family, South]

- However, some, typically younger, were prepared to admit gaps in their knowledge of the subject. They admitted that they had not experienced all the different types of debt before and so felt they were likely to be unaware of some potential loopholes.

## 2.3 Implications

- The above findings suggest there are a range of *needs* within this broad audience: the *Key Questions* information has potential to be more informative & useful for the less sophisticated who lack certain information pieces in the financial puzzle. However for the more sophisticated & knowledgeable it could potentially be 'old news'.
- As well as the differing needs within the audience, there is also a range of *attitudes*. Some seem to be more open to receiving information in this sphere, as they are more aware of the gaps in their knowledge. Others though seem potentially closed to this type of information, particularly where they feel they have learned the ins and outs of debt through experience.
- In fact we would suggest that 3 broad groups emerge. These are Pre family, Young family and Older family/Post family. The relevant differences across the groups are as follows. The Pre family sample tend to demonstrate less financial responsibility, perhaps on account of the fact that they do not have dependents to look out for. The research indicates that financial planning is not a particular priority for this group. It is also possible that they are less likely to have experienced debt and 'been burned' in the past, although this is not necessarily the case for all (and some do feel they've learned through experience). As a result though this group may 'need' the type of information supplied by *Key Questions*, they may not actually be open to receiving it, as many are not currently worrying, or even apparently caring, about their financial situation.
- The Young Family group *may* be more likely to have experienced debt problems before, owing to the need to increase spending in line with their family size. They are also potentially more vulnerable to the effects of debt i.e. they are responsible for more people and therefore more people would suffer if debt problems arose. The Young family sample do

show signs of wariness when it comes to debt – some seem to fear falling into a debt trap from which they would be unable to escape. As a result this group are potentially open to help.

- The older target (Family & Post family life stages) seem from this research to be more likely to have financial control. Most had experienced different types of debt across the years, and they often displayed a ‘moral’ approach to debt, feeling that it was wrong to live off debt and that a debt was something that must be paid off first, before they would even consider buying anything else.
- In all, we suggest that the *Key Questions* information has greatest relevance for the Pre family and Young family groups, who as a rule might have most need for guidance. Within these two groups, we suggest that the Young families might be more receptive to *Key Questions*, based on their potential fear of getting into a debt trap and a greater need to maintain financial control.

## 2.4 Advice & information

- The research examined respondents current practise in terms of getting financial information and advice.
- Overall there was a sense that the majority were not seeking information or advice before taking out financial products. This was particularly the case amongst the less sophisticated, who tended to fall into the Pre family and Young family life stages. Many seemed quite confused by the marketplace and reported feeling bombarded with offers, for example from credit companies e.g. junk mail, Channel 5 advertisements etc. Some felt that there was little to choose from between the different credit providers and as a result would not necessarily weigh up their options when applying for a product.

*'They're all selling the same thing anyway'*

[Male, C2, Pre family, South]

- As a result they would often simply approach their own bank if they were in the market for a product, since they felt their bank was an organisation they could trust. Where they did report seeking advice, this tended to be from their friends & family, particularly, for example, if they knew anyone who worked in a financial capacity. They might also go to their own bank or building society for advice, feeling a certain safety in consulting a well-known name.
- The more sophisticated minority were tending to seek more objective information and claimed to read the Financial press e.g. Financial Mail & Financial Times. They also claimed to *gather* information, for instance with use of the Internet, to find out the best APR etc before making their decision about which was right for them. In contrast to the less sophisticated, they were disinclined to go straight to their own bank if they were

looking for a product, on the grounds that they were very much aware that the banks were out to make money too.

- However, despite these differences in terms of seeking information, there was a low awareness of independent advice providers *across the sample*, although the most sophisticated minority did mention IFAs. On discussion, a minority mentioned the Citizens Advice Bureau in this context and where it was mentioned in the groups it was generally endorsed as a very relevant & useful service. The key reason for this endorsement was that the CAB was perceived as being 'people-friendly' i.e. on the consumers' side. However despite this support, most admitted they thought of the Citizens Advice Bureau as more a source of help for people who *already have problems* rather than somewhere to get information or advice beforehand.

*'If I was in real problems...if things were getting really bad'*  
[Male, C2, Pre family, South]

- There was very little mention of the government with relation to independent advice and information providers. It appeared that across the sample the government were not particularly top of mind in a financial capacity. That said, when the government was mentioned, most had quite positive associations with it in this context. These positive associations were mostly based on its independent, non-biased status. Further most tended to assume that *in theory* the government aims for what's best for individuals, and therefore would provide sensible advice.
- *'You know they're not trying to sell you anything'*  
[Female, C2, Family, Midlands]
- So what channels for financial information or advice were they aware of? As many were not actively seeking information or advice, they were often unaware of the various channels available to them. On discussion, the less sophisticated (who were often Pre family and Young family) claimed that they prefer to receive information or advice in person, on the

grounds that this was the most straightforward way and it allowed them to ask questions and ensure they understood the detail involved. However, there was a sense that other channels such as the Internet and the financial press lacked salience for them, (some had no access to the internet, for example, and were not interested in reading the Financial pages). Therefore face-to-face advice seemed to be the most obvious method.

- Some also mentioned TV advertising as an appropriate medium for financial information. Here the benefit was that it required no effort on their part, as it 'brought' the information to them rather than requiring them to seek it out.
- By contrast the more sophisticated, typically Older family/ Post family life stage, were more open currently to 'written' information. Some were already reading the financial press and / or surfing the net for good deals on financial products. Here there was a sense that they preferred to *gather* information themselves from different sources as opposed to being 'sold' products from a particular organisation.
- To summarise, the less sophisticated majority, more typically the Pre family and Young family groups (who are the most important targets) were not currently actively seeking information or advice. They also tended to be unaware on the whole of the independent channels that are open to them for financial information or advice. As a result we suggest that the biggest challenge for *Key Questions*, bearing in mind their current behaviour, will be to make them aware of it and persuade them to pick it up and read it.

*'Can't stand all that bumf you get sent. I only want information when I ask for it'*

[Male, C2, Pre family, South]

## 3 Key Questions

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### 3.1 Overall

#### 3.1.1 Content

- Overall the majority endorsed the information *content*. The key strength was the fact that it was independent and not trying to sell anything. Instead it was felt to be aiming to explain the various strengths and weaknesses of the different *types* of debt. On the whole it was also endorsed for using clear, comprehensible language. And some sections were found to be particularly useful, for example, the explanation of APR.
- Beyond this there was some support for the tone of voice used: this was felt to be ‘on their side’, in that it aims to provide information and allows the reader to chose for himself/herself rather than ‘selling’ or ‘preaching’ to them.
- And *some claimed* that *Key Questions* would encourage them to think before borrowing. This response was more typical among Young family and some Pre family respondents. They commented that although they were aware of much of the information at the back of their minds, it was good to be reminded of it. However we suggest that respondents would be *inclined* to support information such as this in a group situation, as they might appear unwise not to.
- However, despite this suggestion by some that they would find *Key Questions* useful, there was evidence that for many the information has limited relevance in its current form. This was because they felt they already knew much of it. In fact they often commented that this type of information is based in

'common sense' and that it becomes 'automatic' to ask yourself these kinds of questions when you have some experience of financial products. As a result these people could assume that *Key Questions* was aimed at 'someone else', namely younger people such as students, school leavers etc as these were the groups for whom they felt it had relevance.

- This view was particularly common amongst the Older / Post family respondents. These people seemed to be relatively 'on top of' their finances, for example reading the Financial Times or the financial pages in other newspapers. They also tended to be disinclined towards 'debt' for the most part, and where they did use credit e.g. credit cards, they were in the habit of paying it off regularly e.g. each month.
- Nevertheless, although they perceived the information to be too 'basic' and therefore not relevant for themselves, some did endorse it as potentially a very useful tool for their children. Some expressed concern here that their children were more vulnerable to the effects of debt since they had less experience: they would be less aware of the potential loopholes. Further they felt that young people wouldn't automatically stop to think of the consequences of taking out credit cards and overdrafts etc, and it might be easy for them to fall into debt. As a result some Older family / Post family respondents felt they would be inclined to pick up something like this to give to their children, should they be made aware of it.
- To summarise, the overall response to the *Key Questions* information confirms the Pre-family and Young family groups as the most relevant target. They may be less likely to have learned through experience and as a consequence are more likely to have knowledge gaps, and potentially a greater need for information or advice. The response also indicates that the Older family / Post family could potentially be a secondary target, providing a 'way in' to their children.

### 3.1.2 Format

- Overall the information, as researched, was often found to be too long-winded, with many claiming that they would actually be unlikely to read it. There was a sense here that the way the information *looked* had an effect: respondents could find the bulk of the text off-putting. On examination, many felt that the conversational style was at fault for the wordiness and a typical view was that the information should be ‘thinned down’ i.e. keep the core information but say it in a cleaner way. We suggest that greater use of bullet points may help here.
- We suggest that streamlining the information is particularly important considering its *financial* nature; for many this is not the type of thing that they would ordinarily read or necessarily have an interest in, so a key consideration is how to make it as palatable as possible for them. As reported above, some also feel that they are bombarded with information in this sphere and therefore are very likely to switch off and discard it unless it is very direct and to the point. Therefore it is crucial to grab and also to keep their attention and to avoid putting them off with ‘heavy- looking’ paragraphs.
- Beyond this, we also suggest that the information would benefit significantly from clear formatting. There are 3 key needs here. First, we suggest that the Front page is critical, as it is the first point of contact that people will have with the information. Therefore it must motivate them to pick up the leaflet i.e. make them want to find out more. The current plan for the front page does not actually invite people to pick it up, as it does not tell them *why* they should read it or what they are going to get out of it. To maximise its impact we suggest the front cover should *give them a reason* to pick it up and read it, in other words tell them directly what they are going to get out of it.
- The second key need in terms of formatting is a Mission Statement. We suggest that a brief explanation up front as to the aim of the leaflet would help people to understand what it is

about and therefore increase the likelihood that they would make use of it and get the best out of it. Telling potential readers up front how the information is intended to work to help them would enable them to navigate their way through the information better, as they would be aware of what they were looking for as they read it. The Mission Statement need not be lengthy and we suggest it could be achieved in one sentence e.g. *'Explaining the different credit options to help you work out which is best for you'* or *'An independent checklist to help you work out which is the cheapest credit option for you.'*

- Finally, *clearer sections and headings* would also assist in navigation through the information. Some of the current headings can be confusing as they are not wholly consistent e.g. each *type* of credit or debt option is not actually *named*. We suggest that it is highly important to facilitate understanding of the information and to do this the headings and sections should be as clear & consistent as possible.
- In all, we suggest the most important points to consider are streamlining the information (perhaps with greater use of bullets) and clear formatting to assist navigation and understanding.

## 3.2 Detail

### 3.2.1 Cover

- *'Think before you borrow'* was often felt to be a useful prompt. Those who endorsed it admitted that they do not always *think* before spending, especially where children are concerned. Even if they do stop to think whether they or their children actually need the item or not, they reported that they don't necessarily consider the different payment options available to them and which would work out cheapest for them. So they felt that the *'think'* command might provoke them to more careful consideration.
- However, for the majority the cover seemed to lack a significant hook. In fact there was evidence that the current cover may be unlikely to fulfil its purpose: to draw them in and get them to pick up the leaflet, or look further. What was lacking for many was something to tell them why they should bother to read it, and how they would benefit if they did read it. We suggest it is very important for the cover to tell them what they will get out of reading this information, if it is to successfully prompt people to pick it up, e.g. *'How to save yourself money when borrowing'*
- Some suggested that including some reference to help for those already in debt might also be a way to prompt pick-up, on the grounds that people are far more likely to be looking for information if they already have some sort of concern over debt. On reading the information they assumed that the help lines and websites provided would be relevant for those already in debt as well as those wanting information on their options, and therefore they felt it would be relevant to position *Key Questions* as information and advice for both targets: those who want to work out the best option for themselves (i.e. before they sign the line) **and** those who may have made mistakes already. That said, any overt reference to 'debt problems' on the cover might discourage pick-up for some on grounds of

sensitivity or embarrassment, so we would suggest careful wording to avoid this.

- In terms of the tone of voice of the cover, some criticised this for being misleading. The phrase *'Want to buy something'* was felt to sound like sales-speak and some suggested the information (which was shown to them unbranded) was from a company selling credit.

*'Bit like an ad for another loan company'*

[Male, C2, Pre family, South]

*'Expect the next page to say...we'll tell you how!'*

[Male, C2, Pre family, South]

- This assumption that the information was from a company selling products or services highlighted the importance of conveying the independent status of the information at this point. This could be achieved by strong branding but it may also be worth stating 'independent' on the cover.
- Finally a minority were offended by the tone of *'Want to buy something?'*. Here there was a sense that they felt patronised by what they perceived to be a lack of understanding of their circumstances: they could be quite defensive about the need to use debt and suggested that it was not something that was entered into lightly. Therefore it would be more a case of *needing* (rather than wanting) to buy something that would cause them to use debt or credit i.e. they would not get into debt unless they had to.

*'You don't just decide to buy something & then go & get into debt...most people avoid it unless its really necessary'*

[Female, DE, Family, North]

- In all, we suggest that for the cover it is important to achieve a non-selling, non-patronising tone i.e. show that you understand

their circumstances, and also to provide a greater hook to encourage them to pick up *Key Questions*: say how it is going to benefit them. We also recommend consideration of reference to help for those *already in debt*, as these might be the people more likely to be open to receiving advice.

### 3.2.2 *Want to buy something?*

- Overall this section received a mixed response. As with the cover, some felt it would act as a useful prompt, reminding them to stop before spending and consider factors that they might not ordinarily think of, such as how they would cope if their circumstances changed.
- Most found this section clear & concise and endorsed the use of bullets & plain language to achieve a straightforward, easy to understand style. The use of questions also received support on the grounds that it invites the reader to think about their own circumstances and ask themselves the questions, rather than giving didactic advice.
- However, as with the cover, some found the tone misleading, and mistook the information to be from some sort of finance company e.g. Ocean Finance, though this reaction was potentially exacerbated in the research by the fact that it was presented to the respondents unbranded. They then tended to make the assumption that *Key Questions* was from someone trying to sell them something.

*'Work out what's the best deal for you!'*

*'How are you going to pay for it? Call now!'*

*'Need to add some govt seal or something'*

[Male, Pre family, C2, South]

- We suggest that this section would benefit from a clearer Mission Statement, explaining whom the leaflet is from and how it is designed to help the reader make informed choices. This might help to persuade them that they are not being 'sold to'.
- Finally a small minority felt patronised by the tone of voice (of *'Want to buy something?'*). As with the cover, they tended to perceive a lack of empathy with their circumstances.
- To summarise, this section works stylistically: the short bullet points, and use of questions enable easy reading. However it would benefit from a clearer Mission Statement, and as with the cover, we suggest the tone could be addressed to make it non-selling and non-patronising.

### **3.2.3 *What about spending some savings?***

- The heading for this section received a mixed response; some endorsed the question format, taking it as a signpost that the leaflet was setting out to demonstrate the different options available to them. However they often criticised the tone as they felt that it was encouraging them to spend money. This could be confusing as their initial takeout of the leaflet was that it was intended to warn against over spending. Perhaps a more objective, less encouraging tone for the heading would be more successful e.g. 'Should you spend some savings?'
- There was also some issue here with comprehension: many failed to understand the section about interest paid out on borrowed money being higher than interest gained on savings. As a result they typically did not understand the argument that it could be cheaper for them to spend their savings rather than borrow money. Therefore we suggest it is important to clarify this section of the argument.
- Finally there was resistance among many to the actual message. There was a general perception that it is important &

sensible to save for a rainy day and for many this seemed to be ingrained. They were therefore very disinclined to ‘take from’ their savings, *‘in case anything happens’*. Where they had savings, some preferred not to be able to get at them for this reason, that it prevented them from spending what they had put away for a rainy day. Thus advising them to spend their savings risks alienating them (because they are not inclined to) or undermining the credibility of information, as they may feel that they are being given poor advice. Therefore we suggest that if the Savings section is included, it is important to make the argument clearer, and to address their concerns about ‘taking from’ their rainy day savings.

- In all, we suggest this section would benefit from a more objective title (as opposed to the current persuasive, encouraging tone), and further clarification of the argument – to avoid comprehension problems. We also recommend that this section should address their concerns about spending their savings.

#### **3.2.4 What about using a credit card?**

- Much of this information was endorsed. It was felt to be the kind of information you would need to know when applying for a credit card and some thought it might prompt them to ask questions they might otherwise not have thought of.
- However the main barrier for this section is that it appears too dense; many felt that there was simply too much information and commented that they would not have read the whole section. They felt that the information was not ‘weighted’ and so they could find it hard to work out what was most important. To avoid overwhelming the reader, we suggest treating the information in a more selective way, providing only the most useful and relevant information.
- For most people the most important information was perceived

to be the basic explanation of how credit works (e.g. the quicker you pay, the less interest you pay and the less you pay each month, the more it costs). Beyond this the majority endorsed the 'checklist' information (which starts '*make sure you find out...*') on the grounds that this could be kept and used when applying for credit; it would act as a reminder for them to ensure they asked all the right questions. In fact many perceived this to be the most useful information in *Key Questions* because they could see how it might be useful to them. However, as the majority of the sample already had a credit card and most only had one card as a rule, they may have overestimated how useful this section would be for them i.e. would they need to apply for a credit card again? Nonetheless the support that this section received serves to show how relevant 'checklists' are perceived to be and indicates that this section could be of significant use to those who have not got a credit card yet.

- Despite the consistent support for the checklist information, it was criticised for being wordy, and we suggest that greater use of bullets here instead of the more conversational tone could reduce the text-heavy appearance somewhat.
- Finally, there was evidence in the research that this section needs clear formatting. Respondents were often confused by the first 2 paragraphs of the section, failing to understand that the aim is to point out the strengths and weaknesses of each type of credit. As a result they could assume from these paragraphs that the leaflet is trying to sell them a credit card. To avoid confusion we suggest making clearer that the aim is to explain both the positives and the negatives of the various types of debt. Headings could potentially be an easy way of doing this.
- In summary, we suggest a more selective approach to this section, perhaps focussing on explaining the basic principle of credit cards (i.e. how interest works) and the checklist of what to ask if you are applying for credit, as these were found to be the most useful points. We also suggest the use of clear formatting to assist with comprehension e.g. signpost the

‘positives and negatives’ section.

### **3.2.5 *Check interest free credit deals***

- This section was endorsed for being clear and straightforward and therefore easy to understand. However it was felt by some to lack certain information; Interest Free Credit was often thought to be a confusing area, and respondents felt this section could give a clearer indication of the potential ‘loopholes’. Many hoped for information on insurance, for example. Respondents also thought that a checklist would work well to remind them of the various questions they should ask when applying for Interest Free Credit e.g. how long is the interest free period? And what happens if you want to pay the whole balance off early?

### **3.2.6 *Can you afford to borrow?***

- The heading for this section often fails to signpost clearly what it is about. It seems to be slightly inconsistent with the other headings in that it does not directly name the type of debt involved. The word ‘borrow’ was not necessarily associated with loans; it is a broad term, and could be associated with mortgages or simply debt in general. We suggest it is important to indicate clearly that this section is about another *type* of debt in order to avoid confusion. A clearer heading might be simply: ‘What about loans?’
- However, despite some initial confusion caused by the heading, there was consistent support for certain parts of this section. The budgeting guide was generally endorsed as a helpful tool and the more financially organised in the sample reported using a similar system in their budgeting. For others though it was a new idea and some claimed it might act as a

prompt for them, enabling them to budget better. Here they tended to assume that they would be shocked by working out what they actually spend each month.

*'Never know exactly how much you spend each month'*  
[Female, C2, Family, Midlands]

### **3.2.7 Think about insurance**

- Overall this section received a muted response. The key barrier was that it was too wordy, possibly as a result of the paragraph, rather than bullet point style. As a result there were some comprehension problems with respondents finding it hard to follow the argument. This was exacerbated by what they perceived as a confusing flow of information; we suggest that greater use of headings would clarify the argument here e.g. a section entitled 'Do you need insurance?' and one entitled 'What to look out for'.

### **3.2.8 Who should you borrow from?**

- This checklist information received consistent support. It was perceived to be clear, concise information that would be useful when applying for loans. Despite this endorsement, some found the heading misleading: they felt the section was more about the questions you need to ask when applying for a loan rather than who you should borrow from.
- The most useful pointers were found to be *check if your house is secured on a loan* and *if you pay off your loan in full check how the amount you owe will be worked out*.
- *'That's the one you really need to look out for!'*

[Male, DE, Pre family, Midlands]

*'You don't think you'll get penalised for paying it off early!'*  
[Male, DE, Pre family, Midlands]

- Respondents felt that these were loopholes that you really needed to be advised about before applying for a loan.
- To summarise, there was strong support for the budgeting guide and the checklist information in the loan section. For development we suggest clearer use of headings to assist navigation and also revisiting the insurance section to achieve a more concise, improved flow.

### **3.2.9 If you can't afford to ...**

- This received strong support across the sample; it was perceived to be sensible & important advice, addressing the issue of 'burying your head in the sand' which some admitted they had an inclination to do.

*'Some people do get worried if they can't pay...I can understand that myself'* [Male, C2, Pre family, South]

- However the majority felt that the leaflet should answer the question it poses here – 'what's likely to happen if you contact them?' They thought it was important to explain the benefits to the individual of contacting the credit company involved, to allay any fears they may have. For example, they should receive a helpful response, the credit company may extend their credit until they can pay, and they should not incur extra charges as they would probably do if they did not contact the company to explain the situation.

*'Save them sending me a letter that will cost me twenty quid...when I can't even pay the original payment'*  
[Male, C2, Pre family, South]

- The reference to an independent financial adviser was felt to be inappropriate for many, on the grounds that it would be very unlikely that they would need this leaflet if they had one.

### **3.2.10 *Where to go for help and advice***

- This section was endorsed as the most useful & important information in *Key Questions* and the majority suggested raising its profile within the leaflet, for instance on or inside the front cover.

*'I'd be tempted to put that on the front page'*

[Male, DE, Pre family, Midlands]

- As some do not use the Internet, we suggest including telephone numbers for all the advice bodies, as well as their websites.

### 3.3 DTI branding

- The research examined potential branding ideas for the *Key Questions* leaflet, namely Department of Trade and Industry branding and Citizens Advice Bureau branding.
- Some in the sample were unaware of DTI and did not necessarily assume it was a government body. This meant that they were unaware of its independent status. The full title, Department of Trade & Industry, did help to convey government involvement for some, with the result that they assumed the advice it offered would be independent. However others were still unaware that it was a government body.
- All on the other hand knew the Citizens Advice Bureau, though some were not aware of the 'CAB' abbreviation. It was endorsed across the sample for being 'on the consumers' side' and also for being independent. That said, the CAB was frequently criticised for being overstretched, with some reporting experience of being unable able to get through to them on the phone.

*'Aren't they closing them all down?'*

[Male, DE, Pre family, Midlands]

- In all we would suggest that of the two proposed options, Citizens Advice Bureau branding is more relevant, as all were aware of them and tended to endorse the CAB for being 'on their side'. As a result they would possibly be more likely to read *Key Questions* and more inclined to accept its guidance, perceiving that it is in their interests.

### 3.4 Distribution: where & how?

- Given the financial nature of *Key Questions* and the fact that the majority are not currently seeking information in this sphere, getting this information to them and making them take notice of it is a considerable challenge. In an ideal world, we would recommend using both PR and advertising (on TV or radio) in order to broadcast the *Key Questions* leaflet. This would provide the opportunity to make people aware of it and, by telling them how they would benefit from the information, potentially get them to look out for it.
- However, given budget limitations, we suggest that a combined leaflet and online service *could* reach the target audience. As some are not currently using the Internet, a purely online service would not suffice, as those who were most likely to need the information might be most likely to miss out.
- In order for this combined service to reach the target audience though, it has to cut through and make an impact and we would suggest that in order for a leaflet to do this it really needs extra leverage: it is important to raise the profile of *Key Question* so that people are aware it is out there. We suggest that this could possibly be tackled by a tie-up with a consumer organisation such as Watchdog or Which?. The majority of respondents endorsed these organisations' 'consumer-champion' approach and also their independent status. And many suggested that they would be much more likely to take notice of an information or advice leaflet if it bore the branding of one of these organisations. Therefore we recommend consideration of dual branding for the leaflet, or even perhaps a short DTI or CAB sponsored section on Watchdog, looking at issues surrounding debt. This could perhaps raise the profile of the *Key Questions* advice leaflet as well as raising the profile of the DTI/CAB in the context of financial advice and therefore adding credibility values to the leaflet. Further we suggest that such a tie-up would give support to the message that this is an independent, consumer-focussed initiative.

- In terms of the places where consumers might pick up this kind of leaflet, the most relevant were thought to be Job Centres and DSS offices on the grounds that here you could target those who might be most in need of information. Beyond this student unions and colleges were suggested, based on the assumption that this information would be very beneficial for young people, especially recent home-leavers. Many also felt that they might pick up the *Key Questions* leaflet in a supermarket, as they are quite used to picking up information leaflets here, both of a financial and non-financial nature. The Post Office was also mentioned, though here *Key Questions* would compete with a wealth of other information leaflets and so would need to stand out from the others to be noticed. Finally some mentioned doctors' surgeries, particularly relevant perhaps for the Young family life stage, as they may make more frequent visits to the doctor than others.
- Respondents often felt they would like to be given this information at times when they were applying for credit e.g. in banks and building societies, or in shops, though many felt this was an unrealistic expectation as the commercial companies would not agree to it.
- Making the *Key Questions* leaflet stand out in the places it is distributed is also an important consideration. We suggest that it is important to give the leaflet as high a profile as possible and that the actual method of distribution could help here, for instance, displaying the leaflets in a branded eye-catching box so that they stand out of from other leaflets around. The box could also carry an advertising message, explaining the benefits of the *Key questions* leaflet, to encourage pick-up.
- The research also looked at the question of incentives for the leaflet and it was felt that an incentive such as a flat calculator would increase the likelihood of pick-up for many. Many admitted that they would be attracted by the idea of getting something for free, and suggested that leaflets with calculators attached might be more likely to grab their attention. Calculators were also felt to be an appropriate incentive given

the financial nature of the leaflet.

### 3.5 Format

- The research examined several potential formats for the *Key Questions* leaflet.
- Reactions to the different formats differed across the sample. On balance there was quite strong support for the foldout leaflet (as in the 'internet shopping' example). This was endorsed for its use of colour and graphics, which were felt to break up the text, making the leaflet both more appealing to the eye and more 'manageable'. It was formatted with use of straightforward bullets rather than heavy looking paragraphs and it was perceived to have a good ratio of text to graphics. They also felt that they would be more likely to pick up something of this size and weight than the bigger, booklet-style option as it was not too big & bulky, but not so small that they would lose it.
- However there were some supporters of the Z-Card format; these were typically younger men who found it a convenient size and shape: wallet sized, not too big and therefore easy to keep. They assumed that the help lines and websites would be quite obvious on the Z-Card and though they admitted that they might not read all the information in the leaflet, they often claimed they would keep it in case they ever needed help.

*'Like a blood donor card'*

[Male C1, Post family, North]

- On the other hand some disliked it as they felt it was too small, fiddly & fragile, and some of the older respondents found it difficult to read.
- Others still preferred the more robust booklet style (as in the OFT Debt leaflet) for its bigger text and clear layout. They felt that this style made it easy to read. They also felt that they might be more likely to keep this slightly weightier booklet rather than a flimsy leaflet. Further a minority perceived the information to be more credible because of the fact that it was

presented in a more sober and serious way.

- In summary we would suggest that there are several key factors to consider in terms of format. These are:
  - Make it attention grabbing. Brighter colours are more likely to achieve this and bearing in mind the challenge is to get people to pick the leaflet up, the cover is key.
  - Don't overwhelm them. We suggest the combined use of text and graphics, ensuring that the overall look is not too text heavy.
  - Make it manageable, not a weighty tome that they might be overwhelmed by.
  - Consider the size: we suggest the optimum size would be not too big and heavy as this might put people off but not so small that they might lose it.
  - Consider using incentives such as a flat calculator as this might encourage them to pick it up.
  - Make it robust enough to be kept.

# Conclusions & Recommendations

## Conclusions & Recommendations

- Broadly the sample splits into 3 groups, based on life stage, namely Pre family, Young family and Older family/Post family.
- We suggest that the most relevant target groups for *Key Questions* are the Pre family and Young family groups. They may be less likely to have learned through experience and as a consequence are more likely to have knowledge gaps, and potentially a greater need for information and advice in this sphere.
- However the Older family/Post family life stage could represent a secondary target, as they may be likely to pass on the information to their children.
- There was evidence in the research that the majority are not currently seeking financial information or advice beyond perhaps visiting their own bank, and as a result they were generally unaware of the independent channels that exist for financial advice. Therefore making them aware of *Key Questions* and getting them to pick it up and read it is a considerable challenge. This is particularly the case considering the financial nature of the information i.e. it is not necessarily something they would be interested in.
- In an ideal world, we would recommend the combined use of PR & advertising (either on TV or radio) to broadcast the benefits of the *Key Questions* leaflet and make people aware that it is out there.
- However, given budget limitations, we suggest that a combined leaflet & online service *could* reach the target audience, but to do so it would need extra leverage.
- This could possibly be achieved through a tie up with a consumer organisation such as Watchdog or Which?, for

example dual branding for the leaflet or even a short DTI or CAB sponsored debt section on Watchdog.

- In terms of branding, 2 ideas were researched: DTI and / or CAB. We suggest that if possible, CAB would be more relevant as all were aware of who they are and endorsed them for being 'on their side'.
- We also recommend that the *method* of distribution could affect likelihood of pick up, for instance a branded colourful distribution box might give the leaflets some stand-out from others around them. This could also be used to advertise the benefits of the *Key Questions* leaflet.
- In terms of places for distribution, the most appropriate places for pick up were felt to be Job Centres or DSS offices, schools and colleges, supermarkets, Post Offices and doctors' surgeries.
- Respondents often felt they would like to be given this information at times when they were applying for credit e.g. in banks and building societies, or in shops, though many felt this was an unrealistic expectation as the commercial companies would not agree to it.
- In terms of the information itself, we suggest that the key factors to consider are streamlining the information and formatting. First, in terms of streamlining, we suggest greater use of checklists and more selective information: focus on the most important information e.g. what they can *use*. Greater use of bullet points may also help to slim down the appearance of the information. In terms of formatting, we recommend revisiting the cover to give them more of a reason to pick the leaflet up. Beyond this we suggest including a Mission Statement to explain to the reader what *Key Questions* is aiming to do, and use of clearer headings to assist them in their navigation and comprehension.
- In terms of presentation, we suggest that there are several factors to consider. First, it is important to ensure the leaflet is

attention grabbing: bright colours are more likely to achieve this, and the appearance of the cover is key. We also recommend that you do not overwhelm the potential reader with too much text: a good balance between text and graphics should avoid this. Size is also important, not too big and heavy as this might discourage them from picking it up, but not so small that they would lose it. An incentive such as a flat calculator is also likely to encourage pick up. Finally the leaflet should be robust enough to be kept.

# Appendix

(cover copy)

Want to buy something?

(visuals showing what you might want to buy?)

How are you going to pay for it?

(visuals showing cash, credit card, loan options?)

THINK BEFORE YOU BORROW

(inside copy)

WANT TO BUY SOMETHING?

Do you have the cash to spend?

Will you use your credit card?

Or will you take out a loan?

If you haven't got the cash, think before you borrow.

Ask yourself - how long will it take you to pay off a credit card? Can you really afford the repayments on a loan? What happens if you suddenly earn less money or have to spend more each month?

If you do decide to buy now and pay later, work out what's the best credit deal for you.

WHAT ABOUT SPENDING SOME SAVINGS?

Think about using some of your savings, if you have any.

The interest you will have to pay out on a borrowed sum of money will normally be much more than the interest you would make if you left the same amount of money in your savings account.

(WHAT ABOUT ARRANGING AN OVERDRAFT?)

(the difference between authorised and non-authorised overdrafts?)

WHAT ABOUT USING A CREDIT CARD?

Using a credit card may be better than taking out a loan if you can settle the bill fairly quickly.

Sometimes, customers are offered a discount in a shop when they open a new credit account there. And if you buy something on a credit card that costs

more than £100, you might not have to pay for it if it's faulty or if it doesn't arrive. Both the credit company and the shop or organisation you buy from may be equally liable.

Credit companies make their money by charging their customers interest. They add interest - a percentage of the sum you owe them - on to your bill each month.

The quicker you pay off your credit card, the less interest you pay to the credit company.

If you regularly send just the minimum amount asked for on the bill, you will end up paying much more than the amount you first spent on the card. The less you pay each month, the more it costs.

If you're applying for a new credit card or want to open an account card with a shop, make sure you find out:

- if you have to pay any charges for using the card. Some credit card companies charge their customers a fixed amount once a year, others make a charge if you withdraw cash on the card or send your payment late;
- what's the minimum amount you will have to pay each month;
- when interest will be added on to the amount you first spent on the card.

Normally you get a certain number of "interest free" days if you pay off the bill in full when it arrives;

- what is the "APR" charged by the credit company. APR stands for Annual Percentage Rate of Change and shows the percentage you will be charged on top of the money you owe. Different credit cards and shop account cards offer different APRs. Generally, the lower the APR, the better the deal. The higher the APR, the more you will have to pay on top of the amount you have actually spent;

- does the credit card company charge different APRs for cash advances and for things you buy? Some credit card companies say they will charge you a very low APR if you transfer all the money you owe to their account. This

low APR will normally go up after a period of time - check how long it lasts;

- are there any special rates or deals for new customers? If these include a low APR when you first open the account, check how long the deal lasts.

#### CHECK INTEREST FREE CREDIT DEALS

Sometimes, shops and service providers offer customers a period of "interest free" credit. Make sure you read the terms and conditions of any special offer and find out what happens after the interest free period. Will they write to you and give you the choice of settling the bill or extending your credit and paying interest on the balance?

#### CAN YOU AFFORD TO BORROW?

If you decide to take out a loan, make sure you can afford the repayment instalments which will include interest added on to the amount you borrow.

Before borrowing any money, it's worth working out how much you actually need to spend to live on each month and how much you have left from your income to spare.

How much income do you have each month?

(Only include guaranteed monthly income. Don't add in overtime and commission if they aren't paid regularly.)

Yourself	£
Your partner	£
Any other income	£
TOTAL INCOME (A)	£

How much do you have to spend each month?

Mortgage or rent	£
Life/endowment premiums	£
Second mortgage	£
Existing loan/credit repayments	£
Student loan repayments	£
School/university fees	£
Court orders/fines	£
Maintenance payments	£
Credit cards	£
Ground rent/service charges	£

Gas/oil/coal/electric/bills £  
 Water rates £  
 Council tax £  
 Buildings/contents insurance £  
 Television/cable/sky rental £  
 Television licence £  
 Telephone/mobile £  
 Fares/travel expenses £  
 Car expenses (petrol/servicing) £  
 Car insurance £  
 Club memberships £  
 Food/milk/toiletries £  
 Social expenses:  
 cinema/pub/going out/cigarettes £  
 Newspapers/magazines £  
 School meals/meals at work £  
 Childminding/nursery fees £  
 Children's clubs £  
 Clothes/laundry £  
 Pets £  
 Other known expenditure £  
 Deferred payments (buy now/pay later) £  
 TOTAL SPENDING (B) £

SPARE MONEY EACH MONTH

(A-B) £

Before you arrange a loan, think carefully about what would happen if your income suddenly went down. Does your current guaranteed income include regular overtime, commission or extra allowances that you might lose? What would happen if you lost your job?

If you and your partner arrange a joint loan, think about what would happen if either of you were to die. Would you still be able to afford the repayments on just one income?

THINK ABOUT INSURANCE

If you do decide to borrow money or make a credit agreement of any kind, think about taking out payment protection insurance (PPI). You will have to pay more each month - but it could mean your monthly repayments would still be made if you lost your job or became ill.

Other types of insurance may also help you pay your bills when you are ill so check insurance policies you already have first of all.

The credit company or company offering you a loan may suggest you take out PPI. This insurance is optional - you don't have to take it. Read the agreement carefully before signing it and make sure you would be able to claim on the insurance if you needed to. Check that previous health problems

- or your age - wouldn't stop you from claiming.

#### WHO SHOULD YOU BORROW FROM?

Before you decide, compare different deals. Read the credit agreements and ask for information if you can't find the answers you need. Always check:

- the APR (Annual Percentage Rate of Change). The higher the APR, the more you will have to pay on top of the amount you owe. In general, the lower the APR, the better the deal;
- how many repayments you will need to make to pay off the loan, when the repayments will start and when they will finish;
- the cost of each repayment and whether the cost can increase. Find out why and when the cost could go up and how much extra you would have to pay;
- how much you will end up paying in total compared to the amount you are borrowing;
- if you have the right to cancel the agreement once you've signed it - how long have you got to change your mind?
- what would happen if you couldn't keep up the repayments? Could your house or belongings be taken away?
- if you decided to pay off the loan in full after making a few repayments, how would the amount you owe be worked out?

IF YOU CAN'T AFFORD TO PAY BACK YOUR LOAN OR CREDIT INSTALMENTS...

Don't ignore the problem - it won't go away.

Contact the company that has lent you money or given you credit and tell them you're finding it difficult to keep up the repayments.  
(what's likely to happen if you contact them?)

If you owe money to more than one company, ask for advice from an independent organisation, or ask your own financial advisor to help.

WHERE TO GO FOR HELP AND ADVICE

Citizens Advice Bureaux

(look in your telephone directory to find the number of an office near you)

Your local council's Trading Standards office

Student welfare officers at your college or university

Consumer Credit Counselling Service

(could not find a local office in my telephone directory)

National Debt Line 0808 808 4000

[www.advice.guide.org.uk](http://www.advice.guide.org.uk)

[www.consumer.gov.uk](http://www.consumer.gov.uk)

[www.nacab.org.uk](http://www.nacab.org.uk)

[www.ofc.gov.uk](http://www.ofc.gov.uk)