Policy brief

Debt - a tipping point for homelessness?

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Polly Atatoa Carr[1], Carole McMinn[2], Jesse Whitehead[1], and Julie Nelson[2]

[1] National Institute of Demographic and Economic Analysis, University of Waikato, Hamilton, New Zealand; [2] The People's Project, Hamilton, New Zealand

Executive summary

Debt is a significant issue for homeless people, as described with a large cohort of those experiencing homelessness in Hamilton, New Zealand. Over 60% of individuals interviewed reported having debts, which collectively totalled $2.8 million. This total is likely a significant under-estimate and where individuals felt comfortable discussing their debt, approximately $10,000 was owed per person. Institutional debt, particularly with government institutions, was both the most common type of debt (38%) and made up the largest amount of money owed (approximately $1.5 million). More than a quarter of interviewees had debts to the Ministry of Social Development, through Work and Income New Zealand or the Inland Revenue Department, totalling at least $325,000. Debt to financial institutions is another significant burden for 25% of interviewees, who reported at least $207,000 owed to credit agencies and $80,000 owed to banks. Multiple debts were common, and it is likely that having debt within one category resulted in going into further debt within another category, in order to try to meet basic financial needs. Significant policy options exist to reduce the impact of debt, particularly government institutional debt, for those experiencing homelessness. Such policy options will likely contribute to homelessness intervention and prevention and improved population wellbeing.

Key messages and recommendations

- Debt is an important tipping point into and barrier for exiting out of homelessness.
- Individuals who have experienced homelessness report significant and multiple debts. An average of $10,000 debt was described by each individual.
- Large institutional debt to government agencies including the Ministry of Social Development, through Work and Income NZ, and the Inland Revenue Department (IRD) are described by those experiencing homelessness.
- Recommendation 1: Consider the opportunity costs of government-supported homelessness responses for those with debt to government agencies.
- Recommendation 2: Address institutional debt for those who experience homelessness, including consideration of debt suspension or removal when sustained housing is supported.
- Recommendation 3: Protect those vulnerable to homelessness against credit agencies.
- Recommendation 4: Reduce multiple and overall debt by focussing on institutional debt, credit agencies, and utility company debt.
- Recommendation 5: Undertake further detailed research regarding the wellbeing outcomes of debt reduction/elimination policies for those with experience of homelessness.

> " But all this money they get anyway, they got to pay it all back 'cause they got to pay WINZ…so the government is just giving people money to pay the government back. It's a waste of time.."

[TPP participant]

Context

High levels of personal debt both push individuals into homelessness, and contribute to people being unable to solve their personal housing crises. Debt can take many forms including institutional debt owed to government departments, debt owed to various lenders who extend consumer credit - ranging from banks to credit agencies - and private debts to utilities companies, landlords, or family and friends. To date, little is known about the debt experienced by those who also experience homelessness in New Zealand. However, one concern is that high levels of institutional debt, including to government departments, may be acting as both an important feature of the pathway to homelessness as well as a barrier preventing people from becoming rehoused and sustainably housed. A large proportion of homeless people live on low incomes, including that received from a benefit, study allowance, insecure employment or superannuation. Often, these low levels of personal income are further reduced by individual's institutional debts which may be automatically deducted. Since government agencies are required to invest in homelessness prevention and support, this cycle of institutional debt and benefit receipt is a significant systems and policy failure.

The participants in this study

This study aimed to provided data on both the types and amounts of debt that homeless individuals have. The analysis is based on two cohorts of individuals that were registered and engaged with The People's Project (TPP) in Hamilton. TPP is a collaborative effort between 13 local organisations which takes a Housing First approach to homelessness. The first cohort includes 695 individual clients who gave responses to a range of questions during their registration with TPP between 2015 and 2017. The second cohort includes an additional 100 individuals involved with the TPP who were interviewed in 2019, and were asked questions around debt as a pathway to homelessness. Forty participants from Cohort 2 overlapped with Cohort 1, giving a total of 755 adults experiencing homelessness that were involved in this study.

How common is debt for those experiencing homelessness?

Of the total participants in this study, 465 (62%) reported having debt during their registration process, or in discussion with their case manager. This overall proportion is likely an underestimate of those experiencing homelessness with debilitating debts because of the nature of the registration process and the differences in the details regarding debt asked between the two cohorts. A much higher proportion of cohort 2 (96%) reported having debts than cohort 1 (55%). Cohort 1 were opportunistically asked about their debt during their registration for TPP services. Cohort 2 were interviewed in more detail about their pathway to homelessness, including debt, by a trusted case manager. Therefore **overall, it is more likely than not that those experiencing homelessness are in debt**.

How much debt is described by those experiencing homelessness?

Information about the types and amount of debt held by each individual was collected. There were 272 homeless individuals from both cohorts who reported the amount of money they owed. As not all individuals described the amount that they owed these figures are likely to be an underestimate. Those from Cohort 1 owed a total of $1.8 million. Those in Cohort 2 (where more specific information about debt was collected) owed a collective $1.06 million, therefore overall debt of at least $2.8 million was described. In both cohorts, the **average amount owed per individual was approximately $10,000**.

Who are those experiencing homelessness in debt to?

Types of debt described was coded and grouped into three main categories:

- Institutional debt – including to government agencies (such as MSD through WINZ, IRD, StudyLink), tenancy related debt (including to Kāinga Ora: Housing NZ), court debts and legal costs, and fines. Institutional debt was significant – totalling over $1 million. **Institutional debt (including that to government agencies particularly MSD and Kāinga Ora:Housing NZ) was the most common type of debt described.**
- Financial services debt – including to banks, credit agencies, and credit card debt;
- Private debt – including to utilities companies, private landlords, collection agencies, mobile shops, and personal debts to family, friends and others.

Further detailed results are provided in Box 1 and Box 2.

BOX 1: Results

Significant debts were held by at least 62% of the 755 individuals surveyed in this research. The amount of money owed was also significant, approximately $10,000 on average per person, even though the amount was not described by all individuals (and therefore is an underestimate).

Institutional debt

A large total amount of money was owed as institutional debt, by a large proportion of those experiencing homelessness. Institutional debt was the most common debt described. Institutional debt described by this study totalled over $1 million.

In Cohort 1, 23% of individuals stated specifically that they had debts to a government service, and these debts amounted to an estimated $500,000. The most common types of debts were to MSD through Work and Income or IRD (n = 36), fines (n = 29), student loans (n = 17), legal debt related to courts and lawyers (n =15), and tenancy related debt including to Kāinga Ora:Housing NZ (n = 6). Among the 96 individuals in Cohort 2 that described debt, 94% had institutional debt, including to MSD through Work and Income or IRD ($325,000, n = 83), student loans ($291,000, n = 39), legal debt ($49,000, n = 52), and tenancy related debt ($7,000, n = 8). The total debt owed in Cohort 2 to government agencies was over $670,000. Individuals that owed larger amounts of money often owed this to government agencies.

These debts are often automatically deducted from individuals benefit payments before they are received which reduces an individual's only source of income, and participants (particularly in Cohort 2) talked about the inadequacy of their benefit incomes. After advanced payment reductions for institutional debts, individuals often did not have enough money to cover the costs of accommodation, utilities such as power, and food. In turn, further debt was therefore required to meet these basic needs.

Financial services

After institutional debt, the largest amount of money was owed to financial services, including banks and credit agencies. Of these, debts to credit agencies were the largest (at least $207,000) and the most common of this debt type (19% of all interviewees). Some of these debts managed by credit agencies may also be originally a result of a loan or money owed to institutions (including government institutions).

Private debt

Debts to private companies or individuals were common, with 37% of individuals reporting such debts. Among Cohort 2, where information is more complete, these debts totalled almost $100,000. Debts to utilities companies were the most common 'private debt' described in Cohort 2 (18%, totalling $21,000). Debt to utility companies were also common in Cohort 1 although individual amounts of debt for each company could not be determined. Debt to other private companies and individuals was also common and significant ($42,000, n = 53), including family and friends.

Multiple debts are common

Of those who described the organisations or individuals to whom money was owed, 55% had two or more debts. Debts to WINZ/IRD, credit agencies, and utilities companies were the three most common types of debt. Figure 2 displays the top 6 most common debt types. There were 45% of individuals who identified a single creditor. These were most commonly MSD (WINZ/IRD; 15%), utilities companies (15%) and financial institutions or services (15%). This suggests that while many individuals have multiple debts, addressing institutional, financial, and utility related debt is likely to have a significant impact on a large proportion of those experiencing homelessness.

> “ Half these fellas on the street, they all got debt...Getting in debt is worse than smoking drugs...People paying back debt is getting them into trouble... ”
>
> [TPP participant]

BOX 2: Greatest amount owed, by debt type, and most common debts described

Figure 1: The top 6 largest amounts of debt, by debt type

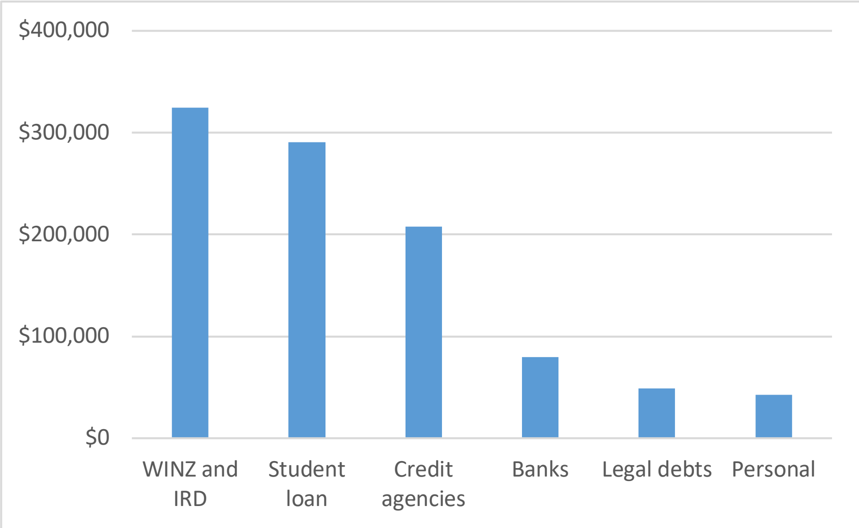
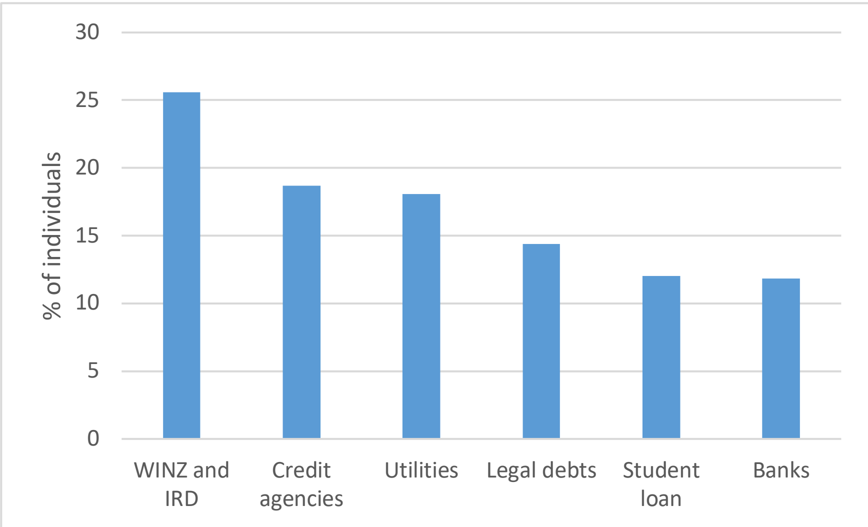


Figure 2: The most common types of debt owed



Conclusion

It is likely that the proportion of individuals with debt, the total amounts of money owed, and the amount of money owed to specific organisations/individuals has been underestimated in this study. These results are also based on an analysis of individuals who have registered for TPP services in Hamilton, and may not represent the experiences at a national level, or within different cities and regions. However, despite these limitations it is clear that debt is a significant issue for those experiencing homelessness. Institutional debt owed to government departments (particularly MSD) is common and high. The management of debt, multiple debts, and the vicious cycle that debt (and the associated inadequate income created) is an important and under-recognised opportunity to intervene for homelessness reduction and prevention. Such an intervention includes a policy option for a 'clean slate' or suspension of government debt when people are housed, and evaluation of the impact of this approach on tenancy sustainability and wellbeing.

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