Credit payment holidays reduced the mental health effects of debt during COVID: Study

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Like other countries, the UK implemented a number of initiatives to mitigate the effects of the COVID-19 pandemic on people's economic circumstances. While we know these schemes supported household finances, now we're beginning to understand how they affected mental health.

For instance, a 2022 study showed the COVID job-retention scheme (furlough) protected workers from mental health decline due to job loss.

One policy that has been somewhat overlooked in research until now is payment deferral schemes, also known as "payment holidays". Our new research shows these schemes, too, reduced the mental health effects of debt for those who used them.

The government first announced that mortgage lenders would support customers facing financial difficulties due to COVID by granting payment holidays in March 2020. The scheme was then extended to other forms of unsecured credit (such as credit cards, personal loans, and payday loans), which we refer to here as "credit holidays".

These credit holidays, which were offered until July 2021, allowed borrowers to postpone their credit repayment for a three-month period, later extended to six months in November 2020, without being considered in arrears. One of the other features of the COVID credit holiday was that it did not appear on applicants' credit reports, and so didn't affect their credit scores.

Analyzing the effects of COVID-era measures such as this is relevant beyond the context of the pandemic, with the potential to inform future policies.

In our research, we focused on the relationship between unsecured debts, credit holidays and mental health in the UK population using longitudinal data from the understanding society study.

We collected information on unsecured debts and receipt of credit holidays over three time points during the pandemic (November 2020, March 2021 and April 2021) with an average of about 11,500 respondents at each point. Information on mental health was also collected at each time point using a tool called the general health questionnaire, which grades respondents on a scale from 0 to 36 (36 indicating the worst mental health).

We controlled for a number of factors that may have otherwise influenced our results, including pre-pandemic debt and pre-pandemic mental health. This allowed us to focus on whether the association between mental health and debt changed over the course of the pandemic.

Our results show that an average of 28% of the adult British population reported unsecured debts during the pandemic compared with 31% in 2018. So it seems that the pandemic did not lead to an increase in personal debts, but rather to increased difficulty in paying them back.

Some 9.5% of those reporting unsecured debts said they had used the credit holiday scheme. In total, about 4% of the UK population got access to a credit holiday.

Credit holidays, debt and mental health

Research conducted before the COVID pandemic revealed a clear link between debt and mental ill-health.

We found that compared to people with no unsecured debts and no credit holiday, those who reported unsecured debts and no credit holiday had significantly poorer mental health. This equated to, on average, a score of 0.26 units higher on the general health questionnaire, which indicates greater psychological distress.

By contrast, those with unsecured debts who accessed a credit holiday reported better mental health outcomes. Their score was reduced by an average of 1.16 units compared to those with no unsecured debts and no credit holiday.

Women could be particularly vulnerable

When looking at the gender difference across these categories, we found similar associations, but that the negative effects of debt on mental health were more significant among women.

This is not entirely surprising, as studies have shown that debt disproportionately affects women, who are more likely to be overindebted (where debts exceed income) and to experience debt-related stress. Women have also generally been at greater risk of poor mental health during the pandemic.

Overall, our results show that uptake of the credit payment holiday scheme by borrowers led to significant improvements in mental health scores compared to other borrowers. The magnitude of this difference suggests potentially significant health benefits.

With the unequal and cumulative rise in individual and household debt due to COVID, the ongoing cost of living crisis, and rising borrowing costs, our results suggest that government-endorsed credit payment holidays should not be regarded as an "unprecedented" measure solely for global pandemics. Instead, they could become a long-term policy tool that helps minimize the negative mental health effects of unsecured debt, particularly for women.

More information: Matthew Sparkes et al, Debt, Credit Payment Holidays, and their Relationship with Mental Health during the COVID-19 Pandemic in the United Kingdom, *Society and Mental Health* (2023). DOI: 10.1177/21568693231169783