



## Debt Fact and Figures - Compiled 8<sup>th</sup> April 2005

**Total UK personal debt** broke through the £1 trillion (£1,000,000,000,000) barrier in July 2004 and is likely to break through the £1.1 trillion barrier in June 2005.

Britain's personal debt is increasing by £1 million every four minutes.

At the end of February 2005 the total UK personal debt was £1,073bn. The growth rate remains strong at 12.4% for the previous 12 months. 2004 saw the largest single-year increase in debt (£116bn) since the Bank of England was founded in 1694.

Total secured lending on homes in February 2005 was £887.8bn.

Total consumer credit lending to individuals in February 2005 was £185.3bn.

Total lending in February 2005 grew by £8.9bn. Secured lending grew by £7.2bn in the month and consumer credit lending grew by £1.7bn in the month.

Average household debt in the UK is approximately £7,563 (excluding mortgages) and £43,800 including mortgages.

Average owed by every man, woman and child in the UK is approximately £18.017 (including mortgages).

Research by Datamonitor reveals that consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,004 per average UK adult at the end of 2004 (£1,302 on credit cards, £1,892 on unsecured personal loans and £812 on overdrafts and motor and retail finance deals). This figure translates into a 10% increase on the previous year's levels and a 45% increase since 2000.

According to the Bank of England the total borrowing growth this year has raised households' debt to 140% of aggregate income. This is above the levels in the United States and most large European countries

**Plastic card:** Total credit card debt in February 2005 was £54.3bn.

During December 2004, according to the banking industry, spending on plastic cards reached £269 billion for the year, overtaking cash payments, which were around £268 billion.

There are eight million more credit cards in the UK than people, according to research from Datamonitor. The firm counted 67 million cards in 2003 - compared with around 59 million people in the country - and has declared the country officially "addicted" to plastic. The UK accounts for over 55 per cent of the 155 million credit cards in circulation in Western Europe, having overtaken Germany to become the most card intensive country in Europe.

More than one in ten consumers have problems meeting their credit card debt repayments.

246 plastic transactions take place every second in the UK in 2003.

Plastic cards in issue have now reached 160.6m which is a growth of 13 million cards in 12 months. The average adult now has 3.5 plastic cards.

Nearly half the people who take out credit in shops, hadn't planned to do so when they left home.

**Servicing Debt:** The findings of an independent commission, chaired by former Downing Street policy chief Lord Griffiths of Fforestfach, include the warning that any major external shock - such as an oil price explosion - would create serious economic and social problems for the 15 million people in the UK who struggle with debt repayments.

The number of people contacting the Consumer Credit Counselling Service (CCCS) for help continued to rise during January 2005 as consumers took stock of their borrowings in the face of rising interest rates. CCCS said it had seen a 12% rise in the number of people contacting it compared with January 2004.

Average (mean) household incomes after tax and benefit payments fell by 0.2% in real terms between 2003 and 2004, dropping to £408 per week in 2004 prices. This was the first decline in any single year since the early 1990s.

Almost two-thirds of the population lived in households with incomes below the national average, which is pulled up by the incomes of the very well off.

Information gathered by the Consumer Credit Counselling Service and Age Concern shows that, excluding mortgages, those in their 50s owe an average of 1.69 times their net annual income, compared to 1.19 for the under-50s. The rate of growth of this debt has been faster among those in their 50s in the past five years - 20 per cent, compared with 4 per cent for the under 50s.

Personal insolvency cases being handled by PKF in Scotland have increased over the last year by 10%, and around 60% of recent cases involved young people aged under 30. Levels of debt among this age group ranged from £7,000 to nearly £60,000. Bryan Jackson, managing partner at PKF's Glasgow office, said all of those aged 20-30 being declared bankrupt were in full-time employment and blamed the statistics on their "living for today" mentality. "Society is becoming increasingly materialistic and consumer-led," he said. "Young people, in particular, are living for the moment and are using credit cards and loans to enhance standards of living.

The burden of debt for CCCS clients increased dramatically during 2004, according to the charity's latest figures. During the year the average debt burden of clients making repayments through CCCS rose by nearly £2000. The average debt figure increased from £21,660 at the beginning of 2000 to £26,800 at the end of December 2004

According to the FSA Financial Risk Outlook 2005 over a quarter of families have at least one credit card where the outstanding balance is not cleared each month, owing nearly £2,500 on average (14% higher than last year). Student Loan Company outstanding debt rose sharply, and is now 27% higher than in 2003.

In both a household survey and a survey of CAB clients, the top three reasons quoted by those suffering debt problems, were:

- sudden change in personal circumstances – resulting typically from job loss, relationship breakdown or illness;
- low income – the consequences of living for a long time on a low level of income; and
- over-commitment – in some cases related to money mismanagement.

The number of consumer debt problems dealt with by Citizens Advice Bureaux has risen by nearly three quarters over the last seven years, figures released today by the national problem-solving charity reveal. Consumer debt issues seen in bureaux stood at 706,700 in 2003/4 compared with 405,800 in 1996/7 – a rise of 74%. Bureaux dealt with nearly 1.1 million debt-related issues last

year, a figure that also includes housing, utilities and benefits-related debts. But consumer debt is by far the biggest type of debt problem for which people come for help.

A quarter of those in debt are receiving treatment for stress, depression and anxiety from their GP.

More than 3 million people are struggling with energy bills, 4.7 million are in debt to their water company and more than a million have had their phone cut off.

**Students / Youth:** Students worry more about money than they do about their studies. Twice as many undergraduates (59%) cite their finances as being their main worry, followed by their studies (29%) and having a good lifestyle and social life (12%), a survey of almost 1,000 students carried out by the Post Office found.

A survey for the Financial Services Consumer Panel assessed only a third of younger adults (aged 21-24) as financially literate, compared with nearly half of adults overall. Very few younger adults expressed confidence about purchasing new products, making them particularly vulnerable to mis-selling and mis-buying.

Despite debt being an obvious part of student life, recent research from debt advice group Payplan reveals that 47 per cent of students underestimate the amount of debt they will be in when they leave university.

The National Union of Students puts the cost of university, including tuition fees and living expenses, at an estimated £8,500 a year, and more than £10,000 in London.

This year's graduates owe £12,180 on average, an increase of £4,055 on 2003, according to a study by NatWest bank (Five years ago it was £3,700). The study found that this year's new students expect they will need £26,000 to pay for their time at college. Eighty-four percent of them predict they will get a part-time job, although only 35% of undergraduates found work this year, an 18% decline on 2003.

A quarter of all parents say they will have to work beyond 65 to pay for their children's university education.

**Housing:** According to the Office of Deputy Prime Minister the average house price in the UK in January 2005 stood at £178,796 (£190,611 in England). UK annual house price inflation was 10.0%. Annual house price inflation in London was 5.0%.

UK house prices have experienced their biggest monthly fall in almost 10 years, the Nationwide has said. Prices fell 0.6% during March - the biggest drop since June 1995. Nationwide forecasts house price growth of 0%-5% during 2005

110,000 new sellers added to the growing over-supply of houses, as stock levels per estate agent rise 6% in March to stand a third higher than a year ago according to Rightmove. The number of properties coming on the market is almost twice that coming off, the biggest imbalance in 3 years

The Council of Mortgage Lenders (CML) said that the number of loans for house purchase fell during the month by 3% to just 59,000 in February from 63,000 in January, the lowest monthly figure since it began recording the data in 1998.

Consumers' appetite for borrowing against the value of their home to fund lifestyle purchases such as holidays and cars has declined, according to figures released at the end of March by the Bank of England. Mortgage equity withdrawal - borrowing against a property that is not reinvested in the housing market - fell to £6.9bn in the last three months of 2004, down from £11.3bn the previous quarter and £16.8bn a year earlier.

The average loan approval for house purchase was £119,000.

One in seven people entering retirement now do so with mortgage debt still outstanding, according to the equity release advisers Key Retirement Solutions.

**Housing 1<sup>st</sup> Time Buyers:** The average house price in the UK in January 2005 for first time buyers stood at £144,742 which is an annual increase of 12.7%.

The Council of Mortgage Lenders (CML) estimate in February 2005 that the first time buyers average new loan is 89% of the value of the property and that they borrow 3.22 times their income (based on income figure provided by buyers in their mortgage application and may reflect one or more incomes).

The Chancellor announced in the budget that he is raising the threshold for residential stamp duty from £60,000 to £120,000. Gordon Brown estimates this will take 300,000 more homebuyers out of the scope of the tax every year and mean that more than 50 per cent of first-time buyers will not pay stamp duty

According to a report issued in January 2005 by the Halifax:

- The average price paid by First Time Buyers (FTBs) increased by 16 per cent in 2004 from £112,541 in 2003 to £131,024.
- The affordability difficulties confronting FTBs have significantly reduced the number of FTBs entering the market. There were an estimated total of 361,000 first-time buyers in 2004, the lowest annual total since 1981. The number of FTBs last year was almost a third lower than in 2002 (532,000).
- FTBs accounted for less than three in ten of all new mortgages in 2004. This was well below the longer-term average of almost one in two.
- Nine out of ten of the post towns surveyed were unaffordable for FTBs in 2004.
- FTBs put down an average deposit of £26,455 in 2004
- The average age of someone buying his or her first home has risen in recent years with the average age of a FTB in 2004 being 34 years

**High Street Spending:** The average wedding costs around £16,000, yet 45% of couples - some 117,000 nationwide - have no financial planning to pay for the big day, a study by stockbrokers Brewin Dolphin Securities found.

More people in Britain have two cars than no car at all, according to the National Statistics' annual social trends research. 29% of people have two or more cars while approximately 26% of people are without a car.

UK consumers could save £1bn a year on energy bills by switching supplier and installing better efficiency measures, the government has estimated. The average gas bill has increased by 18% this year, and the cost of electricity has risen by 14% on average.

The cost of running a car is now more than the average mortgage. Motorists spend an average £438 a month to keep a car on the road - £21 more than goes on bricks and mortar.

**Money Education / Financial Literacy:** According to Standard Life over half (57 per cent) of UK adults say they have not drawn up a will meaning they would die 'intestate'. A further 19 per cent have had a change in circumstances since drawing up their will, meaning it could now be out of date.

The need for consumers to be able to make sound long-term financial plans is ever more important. Pension provision is one of a number of areas where consumers are being required to take increasing responsibility for their financial affairs. We see more evidence of a 'savings gap' – with

consumers' expectations for retirement and their saving and borrowing behaviour being out of line. Good consumer understanding is needed for consumers to be able to make appropriate plans for the longer term, and meet the increasing requirements placed upon them. Consumers also need to have confidence in choosing from the range of products available (FSA Financial Risk Outlook 2005)

A new web site [www.moneybasics.co.uk](http://www.moneybasics.co.uk) was launched in the middle of November. This provides UK consumers an extensive range of useful, impartial and independent information on how to manage finances. Topics include budgeting, banking, borrowing, saving, insurance and planning for key life changes such as starting a family or retirement.

Nearly four out of five people do not know that APR refers to the interest and other costs of a loan, four in ten admit they do not understand mortgages or ISAs, and a third lack confidence in their financial affairs. These are some of the results of a survey conducted recently by Mori. One in five did not understand the concept of inflation. Nearly a third did not know that insurance products are designed to protect their owners from unforeseen events. Only 30 per cent could calculate four per cent interest on £2,000 over two years.

**Savings:** According to the Building Societies Association (BSA) the Christmas savings hangover has continued into February, as people clear debts rather than save.

Research by National Savings and Investments (NS&I) found that almost two-thirds of people (64 per cent) interviewed in January 2005 do not take inflation into account when looking to save, even though inflation is running at 3.5 per cent as measured by the Retail Prices Index (RPI).

For large chunks of the population - broadly definable as the middle classes working in the private sector - big problems are looming. The CBI estimates that 12 million people are not saving enough towards their pensions. Of the 12 million, 60% are not contributing to a private pension at all.

British people save half the amount that other Europeans do, and are more likely to spend than save spare money, according to research by the friendly society Liverpool Victoria. British households have an average income of £28,927 and save on average £132 a month; just 5.5% of their income.

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