



## Debt Fact and Figures - Compiled 5<sup>th</sup> August 2005

**Total UK personal debt** broke through the **£1.1 trillion barrier** (£1,100,000,000,000) in June 2005. This is 11 months since it broke through the £1 trillion barrier in July 2004.

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

At the end of June 2005 the total UK personal debt was £1,107bn. The growth rate remains strong at 11.1% 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 June 2005 was £917.8bn.

Total consumer credit lending to individuals in June 2005 was £189.3bn.

Total lending in June 2005 grew by £8.8bn. Secured lending grew by £7.5bn in the month and consumer credit lending grew by £1.3bn in the month.

Average household debt in the UK is approximately £7,664 (excluding mortgages) and £44,818 including mortgages.

Average owed by every man, woman and child in the UK is approximately £18,588 (including mortgages).

Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,089 per average UK adult at the end of June 2005. This figure translates into a 10% increase on the previous year's levels and a 45% increase since 2000.

The rapid increase in households' borrowing has raised total debt to close to 150% of annualised aggregate post-tax income according to the Bank of England. They predict debt may continue to increase more rapidly than income over the next few years.

**Plastic card / Personal Loans:** Total credit card debt in June 2005 increased to £55.78bn.

According to the BBA the proportion of credit card balances bearing interest was 75.4% in May 2005.

The average interest rate on credit card lending is currently 15.75%, around 11 percentage points above base rate.

2.4 million personal loan agreements totalling £13.5 billion, were entered into in the first quarter of 2005 (compared with 192,000 home loans during the same period); most were for cars (30%), home improvements incl. goods & furniture (24%) and debt consolidation (20%); the total balances outstanding on personal loans at the end of March 2005 was £93 billion; Personal loans are typically available between £1,000 and £25,000 with the average loan size currently at £5,500. The average interest rate on a personal loan of £7,000 stands at 7.9%.

According to the latest annual report from the APACS nearly two thirds of adults have a credit card and multiple card holding is a growing phenomenon in the UK. More than six in ten card holders held more than one card in 2004, with one in ten holding at least five.

Plastic cards in issue reached 190m in 2004. This works out at an average of 4.1 plastic cards for every adult in the UK.

There are more credit cards in the UK than people according to the APACS. At the end of 2004 there were 74.3m credit and charge cards in the UK compared with around 59 million people in the country.

270 plastic transactions took place every second in the UK in 2004.

22 million adults purchased online last year on the Internet with credit cards being the favoured method of payment.

According to a recent survey for the Office of Fair Trading (OFT) - Just under a third of adults said that they had felt *pressurised to take up credit* when buying goods or services. 21% said they *arranged credit while out shopping that they had not intended to before they went*.

Some credit card companies have recently reduced their minimum repayments from 3% to 2% which many see as irresponsible. A £3000 credit card balance at 17.9% APR would now take over 40 years to repay if the minimum repayment of 2% is paid each month compared with 19 years at a minimum repayment of 3% each month.

**Servicing Debt:** One in five people say they regularly avoid checking their bank balance because they are too scared to find out how much money they have according to Lloyds TSB.

A government report says there were two million fuel-poor homes in the UK in 2003 but predicts a 400,000 rise by 2006. Fuel-poor households are those which spend 10% of their income on heating.

The number of people looking for help managing their debts nearly doubled during May compared with the previous year. The Consumer Credit Counselling Service (CCCS) said a total of 25,000 people rang its helpline for advice during the month, up from 13,000 in May 2004. CCCS is the UK's largest debt charity, and last year received 170,000 calls on its helpline.

Money is the most common cause of arguments (44%), most respondents argued about spending priorities, particularly if not working according to Relate. Low income couples are more than twice as likely to argue over money issues than middle/high income families. Money related arguments are also more common if the couple have children under 10. More women than men were likely to argue over trust and secrecy issues related to money. Equal proportions of men and women argued about lack of money.

Bankruptcies are still on the increase in the UK according to the Department of Trade and Industry. The figures show that 37,886 people have been made bankrupt in the year up to 31 March 2005. This is a 30% increase on the 12 months to 31 March 2004. Steve Treharne, Head of Personal Insolvency at KPMG said: "These figures come on top of the huge increase of nearly 30% we saw last year and do prompt the question of where this is all going to end. "It is interesting that these statistics are released just over a week after official government figures reveal there has been a 35 % increase in mortgage possession actions on the same period last year. The two trends are not unrelated. There is a big black cloud of debt hanging over the UK.

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.

**Students / Youth:** One in three prospective students underestimates the cost of university and a quarter expect their unprepared parents to foot the bill, research showed today. The survey by the Association of Investment Trust Companies (AITC) showed young people expected their debt on graduation to stand at £7,208, while their parents estimated it would be £9,741. However, research by Barclays bank puts the average debt for those finishing university this year at £13,501.

There has been a significant rise in the number of under-30s declared bankrupt. The figures, provided by the Insolvency Service, showed that almost 15% of all those declared bankrupt in the 2003/4 tax year were aged 30 or younger. This was nearly twice as many people as in 2001/02.

One in four parents say they have adult children who are still living at home. Student debts and the difficulty in getting a foothold on the housing ladder are often blamed for offspring being unable to leave home. The study suggests one in seven parents with adult children have re-mortgaged or taken out a loan in an attempt to help. The modern-day dilemma has spawned the term kippers, standing for "kids in parents' pockets, eroding retirement saving".

Parents who give cash to their offspring to help them out if they are struggling financially could be doing more harm than good according to research by NatWest. Children who accept handouts from their parents are 25% more likely to go overdrawn than those who never accept help. Overall a third of young people said their parents had never taught them how to manage their money.

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 miss-selling and miss-buying.

**Housing:** According to the Office of Deputy Prime Minister the average house price in the UK in May 2005 stood at £181,832 (£191,623 in England). UK annual house price inflation fell to 6.0 %. Annual house price inflation in London fell to 1.6%.

A report published in May by the National Housing Federation shows that average house prices in England rose to almost eight times the average salary last year. House prices have increased by 125% since 1997, but incomes have gone up by just 18% in the same period.

Housing data has been fairly consistent this month:

- According to the National Association of Estate Agents (NAEA) the number of properties on agent's books are at record levels in the second quarter of this year - an increase of 29.4% over the same time in 2004.
- According to the Nationwide the annual rate of house price inflation fell to 2.6% which is the lowest since May 1996. House prices rose more slowly than wages for the first time in nine years.
- The number of homes being repossessed has risen for the first time in seven years, according to the Council of Mortgage Lenders (CML). The number of properties taken into possession rose from 3,070 in the second half of last year (the lowest figure on record) to 4,640 in the first half of this year. The half-yearly repossession rate was around 1 in 2,500 mortgages, compared with around 1 in 250 when repossession rates peaked in the second half of 1991.
- In the second quarter of 2005 the number of mortgage possession actions made by the county courts rose by over 52% from those in the second quarter of 2004.
- Rightmove said asking prices fell by 1% in July which is the biggest monthly fall since November 2004. Annual house price inflation was 0.2% in July - the lowest level for 10 years

The average loan approval for house purchase in June was £131,600

**Housing 1<sup>st</sup> Time Buyers:** The average house price in the UK in May 2005 for first time buyers now stands at £150,259 which is an annual increase of 7.7%.

The number of first-time buyers in the housing market during May shrunk by more than half that of the previous month, reports the National Association of Estate Agents (NAEA) and stood at 10.9% of all buyers.

First-time buyers need to save harder and for longer to get on the first rung of the property ladder, despite a cooling housing market. Typical first-time buyers saving 5% of their quarterly earnings now need to save for 4.75 years to afford the standard minimum 5% deposit on their first home. This is three months longer than just six months ago and nine months longer than a year ago, indicating how house prices have continued to outstrip incomes and savings rates.

The Council of Mortgage Lenders (CML) estimate in June 2005 that the first time buyers average new loan is 85% of the value of the property and that they borrow 3.17 times their income (based on income figure provided by buyers in their mortgage application and may reflect one or more incomes).

**High Street Spending:** The RAC estimate the cost (including depreciation) to run a privately owned car from new for a period of three years with an annual mileage of 12,000 is £424/month for a 1201cc – 1500cc car and £627/month for a 2000cc car.

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.

**Money Education / Financial Literacy:** "Debt is the slavery of the free" (Publilius Syrus, 42 BC).

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.

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:** Long-term saving is an alien concept to two thirds (65%) of UK adults, according to research from IFA Promotion. And it's not just the younger generation who live for today; a worrying three quarters (74%) of 30-50 year olds and nearly half of over 50s (43%) have never saved for anything for longer than a decade. 4.6 million UK adults (10%) admit they have never saved for anything at all, and this rises to a larger proportion (17%) of under 30s who have grown up with today's credit culture. Saving seems to have fallen out of fashion in favour of instant consumer gratification.

Savings inflows have been very robust over the last few months according to the British Bankers Association (BBA). Net receipts this month are the highest June figures since 1997. With high street sales slowing, it looks like consumers are reining in their spending and choosing to save instead.

Over eight in ten (81 per cent) Britons contributing to a pension - some 16.7 million nationwide - expect a pension shortfall when they retire, according to new research commissioned by Brewin Dolphin. On average, people are expecting a 30 per cent deficit in their pension pot.

Research by Alliance & Leicester shows that consumers are failing to increase the amount they save each month despite their disposable income having jumped by 28% since last year.

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