# Debt Fact and Figures - Compiled 2nd June 2005

**Total UK personal debt** is likely to break through the £1.1 trillion barrier (£1,100,000,000,000) in July 2005. This will be exactly one year after 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 April 2005 the total UK personal debt was £1,088bn. The growth rate remains strong at 11.7% 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 April 2005 was £901.2bn.
Total consumer credit lending to individuals in April 2005 was £187.0bn.

Total lending in April 2005 grew by £8.6bn. Secured lending grew by £7.3bn in the month and consumer credit lending grew by £1.3bn in the month. Consumer credit lending in April 2005 was the weakest since December 2003 - net credit card lending was the weakest since June 2001, whereas net other loans were broadly in line with the previous six month average.

Average household debt in the UK is approximately £7,633 (excluding mortgages) and £44,408 including mortgages.
Average owed by every man, woman and child in the UK is approximately £18,269 (including mortgages).

Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,039 per average UK adult at the end of April 2005. 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 in 2004 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 April 2005 was £55.03bn.

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*.

A survey for Morgan Stanley showed that credit cards now rival traditional methods of paying for purchases such as groceries and petrol, which make up 44% of all spending on the cards. During the second quarter of 2005, people expect to spend an average of £803 on their credit cards, 10% more than in the first quarter.

Barclays warned of falling profits in its Barclaycard credit card division in May 2005 due to customers missing repayments and increasing bad debts.

According to the BBA the proportion of credit card balances bearing interest was 74.5% in February 2005.

Some credit card companies reduced their minimum repayments from 3% to 2% this month 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.

Credit card debt has fallen for the first time since May 1994, the British Bankers' Association (BBA) said. During April, cardholders paid £40m more off their credit card than they spent.

**Servicing Debt:** Borrowers are finding it increasingly difficult to service their debts according to Britain's leading debt charity, Consumer Credit Counselling Service (CCCS), despite rises in average earnings. Their repayment difficulty index for the first quarter of 2005 shows a year-on-year rise of 10.6 percent. The index stood at its highest level for any first quarter. This rise is despite a 4.5 percent upsurge in average earnings since the first quarter of 2004.

The number of clients estimated to be earning £50,000 a year or more and on debt management plans with CCCS has almost doubled since the first quarter of 2004.

The level of personal debt is at breaking point in the UK, says Vicky Redwood, a UK economist at Capital Economics. “It is unlikely that the numbers have peaked but we estimate that households must be feeling the pain of borrowing too much. People are paying the equivalent of about 20 per cent of their disposable income on interest and debt repayments – the highest since 1990.”

Debt sale is now a key tool in the armoury of all financial institutions, as well as industries with a significant retail debtor book such as telecoms and utility companies. In 2004 the total money transacted had reached a staggering £2.5bn, with that figure expected to increase to £3bn in 2005.

Tuesday 31st May was the date for UK taxpayers to open the bubbly and celebrate Tax Freedom Day, the theoretical point in the year at which we stop working for the government and start working for ourselves

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 main reason for taking out a personal loan over the next 12 months is expected to be for debt consolidation according to Sainsbury's Bank. The bank expects 30 per cent of personal loans taken out in 2005 will be for this purpose, totalling £11.9 billion. Approximately £9.92 billion is expected to be borrowed to pay for cars and £6.35 billion, around 16% for home improvements.

Three million people living on basic benefits face a bleak year in which they will fall further behind the rest of the population as the gulf in incomes between those in and out of work widens, Citizens Advice forecast in April. Working age adults who are receiving Income Support or Jobseekers Allowance will be expected to live on only £56.20 a week (£88.15 a week for a couple) after their rent has been paid. This has to cover food and drink, heating and water, clothing, general household costs, transport, telephone, TV and other entertainment.

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 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:** University students who graduate this year will have accumulated an average debt of £13,501 - a 12% increase on last year, according to research published today by Barclays. If this trend continues, those starting a three-year degree course this autumn are likely to leave college with debts of nearly £20,000, without taking into account the impact of higher top-up fees of up to £3,000 a year to be introduced next year.

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.

**Housing:** According to the Office of Deputy Prime Minister the average house price in the UK in March 2005 stood at £183,346 (£193,190 in England). UK annual house price inflation was 12.6 %. Annual house price inflation in London was 9.8%.

A new 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.

Research from Economic Lifestyle, the retirement, housing and finance specialists, found that 100,000 retired homeowners released £3.96 billion of equity from their homes during 2004, and around 39 per cent of this went towards supplementing their pensions and increasing their disposable income.

Owner occupation has risen from 57% of households in 1981 to 71% in 2004 according to a survey by the Office of Deputy Prime Minister. In 2004, the most common type of household was couples with no dependent children (35 per cent of all households). One person households formed the second largest household type (29 per cent). Twenty-nine per cent of households contained dependent children, of which 22 per cent were couples and 7 per cent lone parents.

Housing data has been mixed this month:

- The Hometrack April survey of the national housing market reports a small fall of -0.1%. House prices have now been decreasing for the past ten consecutive months. The average sales price as a percentage of asking price was 93.3%. The amount of time it takes to sell a property remains stable at 7.4 weeks.
- According to the Council of Mortgage Lenders (CML), gross lending in April was up 2% on last month but year-on-year figures still showed a 28% decline in lending to homebuyers
- Rightmove said that house sales were at a 10 year low in April. Annual change in prices dropped in April to 4.9% - the lowest since 1996 and Rightmove anticipate a 0% year-on-year rate of increase by July with little movement upwards until buyer affordability improves.
- Housing market activity is down 30% compared to this time last year according to the Royal Institution of Chartered Surveyors (RICS) monthly housing survey published in May.
- New research published in April by independent market analyst Datamonitor reveals that mortgage lending in the UK will decline 10% over the next three years as the housing market and house price growth stalls.
- Nationwide trimmed its forecast for house price growth this year to between 0% and 2%. They also predicted that total mortgage lending would slump 30 per cent this year, from £100 billion to £70 billion, as the housing market slows.

The average loan approval for house purchase in April was £122,700.

**Housing 1st Time Buyers:** The average house price in the UK in March 2005 for first time buyers stood at £149,470 which is an annual increase of 18.3%.

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 April 2005 that the first time buyers average new loan is 86% of the value of the property and that they borrow 3.12 times their income (based on income figure provided by buyers in their mortgage application and may reflect one or more incomes). First-time buyers remained thin on the ground, accounting for 32% of lending for house purchases.

According to a report issued in January 2005 by the Halifax First Time Buyers (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. FTBs put down an average deposit of £26,455 in 2004 and the average age of someone buying his or her first home has risen to 34.

**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.

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.

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:** Less than half of population are saving each month. This has fallen from 55% last year to 48% this year as households across the country feel the impact of soaring debts.

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.

Workers can no longer expect to reach 65 and 'hang up their boots', David Blunkett has warned. The new Pensions Secretary insisted many would inevitably have to work longer in the future to help plug a looming black hole in Britain's pensions system.

The Institute of Directors (IoD) believes that social change is aggravating the pension savings gap. The traditional financial life cycle involved households accumulating debt in their 20s and 30s, before beginning the age of savings accumulation in their 40s and 50s. Times have changed. People are now having children later in life and also have to finance the costs of their children's higher education. The risk that the age of accumulation will be too short to provide an adequate retirement income, means that people will eventually recognise the need to start saving.

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.

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