



## Debt Fact and Figures - Compiled 3<sup>rd</sup> February 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 the middle of 2005.

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

At the end of December 2004 the total UK personal debt was £1,058bn. The growth rate remains strong at 12.8% for the previous 12 months which means we start 2005 with £116bn more debt than we had at the beginning of 2004. 2004 was the largest single-year increase in debt since the Bank of England was founded in 1694.

Total secured lending on homes in December 2004 was £874.6bn. We increased our total mortgage debt by £101 billion in 2004, which is greater than total net mortgage lending in the five years from 1994 to 1998 combined, at £99bn.

Total consumer credit lending to individuals in December 2004 was £183.6bn. We increased our unsecured debt (made up of personal loans, credit and store cards, overdrafts and so on) by a hefty £15bn in 2004.

Total lending in December 2004 grew by £8.6bn. Secured lending grew by £7.1bn in the month and consumer credit lending grew by £1.5bn in the month.

Average household debt in the UK is approximately £7,494 (excluding mortgages) and £43,193 including mortgages.

Average owed by every man, woman and child in the UK is approximately £17,769 (including mortgages).

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** – British consumers expect to spend only £730 on credit cards over the next three months, down 30% from the £1,036 they planned to spend in the fourth quarter of 2004, according to the latest figures from the Morgan Stanley card index. This is the lowest level recorded since the index began four years ago.

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 half a million people may have crippling debts on their credit cards, MPs were told in October. The massive problem was revealed when credit card chiefs were grilled by senior MPs. The bosses admitted that between one and four per cent of customers were in severe financial difficulties. Members of the powerful Commons Treasury committee — which is probing credit card charges and marketing — estimated that this meant more than 500,000 people have huge balances which they are struggling to pay off.

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.

We owe more than £56bn on cards - around £1,140 per card-holder.

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

**Servicing Debt:** 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.

MORE than six million shoppers fear it will take them up to three months to pay for Christmas according to a survey for Sainsbury's Bank. A further 168,000 say credit card debts built up buying gifts for the holiday will take them the whole year to wipe out.

More people are seeking help with debt:

- The Consumer Credit Counselling Service (CCCS) said calls in December were up by 77% on the same month in 2003. CCCS said it had received more than 1,000 calls on 4 January, the first working day after the Christmas and New Year break, the most calls it has received in one day.
- Debt Free Direct said it received 275% more calls per day in December than a year before. Calls are running at almost double the rate of last January.

Rising interest rates were blamed for 28.5% more people falling into bankruptcy over the summer than at the same stage of 2003. Government figures revealed a total of 9,156 people were made bankrupt in England and Wales during the three months to the end of September 2004 - 4% higher than the previous quarter

According to the National Consumer Council one in five people are borrowing money just to pay household bills, and one in four are struggling to meet bills and credit repayments. Six million families are already struggling to keep up with credit commitments at a time when borrowing is rising.

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.

CCCS clients carry an average of £25,000 in debt, but now many come to the counselling service owing more than £100,000, excluding mortgage debt.

The Prudential estimates that two million pensioners are in financial difficulty. The average annual income for retired households in UK is £14,648. The average drop in income at retirement is £4,164. 2.8m pensioners are returning to work to meet this shortfall.

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.

The amount of debt being chased by Britain's bailiffs has soared by 70% over the past two years to a record £5bn. The typical household falling into difficulty owes £25,000, spread across an average of 15 different lenders. 20 million cases have been passed to debt collectors over the past year.

Britons have written off £3.4bn in debts to friends and family, a report showed earlier this year. Seven out of 10 people have lent money and almost half of those never saw it again. Almost three-quarters of people had got into serious arguments or even ended relationships as a result of lending cash the survey revealed.

**Students / Youth:** A recent survey by UNITE found that money issues were top of the list of worries among undergraduates and post-graduates. Half of the students surveyed said lack of cash was their biggest concern, while 43% named being in debt the main worry.

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.

More than half of UK students are miscalculating how long it will take them to repay their debts, it was claimed recently. Researchers also discovered that while students expected to pay off their debts by the age of 28, on average they were calculated to be 31 by the time they were clear of student debt.

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 November 2004 stood at £180,226 (£192,713 in England). UK annual house price inflation was 13.8%. Annual house price inflation in London was 7.1%.

The latest figures from the British Bankers' Association point to a five-year low in mortgage lending. In December £14.2 billion was lent in mortgages, three per cent less than in November and ten per

cent lower year on year. The number of mortgage approvals was 29 per cent down on the same month the year before, additionally the average loan approved for a house purchase fell to £118,100.

House prices will show little significant movement in 2005 according to the Royal Institution of Chartered Surveyors. They expect house prices to rise by 3% in 2005 following an increase of 13% for 2004, which would be the weakest outturn in ten years. The Council of Mortgage Lenders Housing and Mortgage Market forecast for 2005-2007 predicts a similar year on year growth of 4% in 2005 and 2% in each of 2006 and 2007.

The number of people struggling to cope with their monthly mortgage repayments has increased for the first time in nearly seven years. By December 2004, nearly 54,000 people had fallen between three and six months behind with their mortgage repayments, an increase of nearly 10 per cent from the start of the year when rates were still below four per cent

House prices are more likely to fall than increase over the coming months, the Bank of England warned yesterday.

Kate Barker, a member of the Bank's interest rate-setting committee, said despite recent falls, house prices were still overvalued. In a speech to the Institute of Economic Affairs, she said the future direction of house prices remained uncertain, but added: "In view of the evidence on affordability and the balance of arguments about overvaluation, the likelihood of some decline in prices, at least relative to earnings, seems now to be much greater than that of a further significant increase."

70% of people now own their home, but UK owner-occupation lags many countries in southern and Eastern Europe and does not match the aspirations of around 80% of UK residents who would like to be home-owners.

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 November 2004 for first time buyers stood at £144,226 which is an annual increase of 15%.

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:** According to Egg, parents spend £2,916 per year raising a girl (excluding education costs) – boys are cheaper at £2,790 per annum. That amounts to nearly £50,000 per child up to the age of 17.

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.

According to research published in February 2004 by You & Your Wedding magazine, the average cost of a wedding has now reached an enormous £15,764

### Money Education / Financial Literacy

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 with 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.

Two-thirds of the UK's adult population have not made a will, according to a poll by Tesco.com

**Savings:** 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).

Millions of Britons (55 per cent of the population) are failing to save money, raising concerns that mounting debt may be destroying the nation's will to save.

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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