

Over-indebtedness in Britain:
First follow-up report

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Executive Summary

In March 2005, the DTI published '*Over-indebtedness in Britain: A DTI report on the MORI Financial Services survey 2004*' which examined consumer over-indebtedness in Great Britain using one of the largest surveys at the time. This report has been produced as a follow-up to that report, although it is based on different data. The results contained in this report are drawn from experimental statistics produced by the Office for National Statistics, covering the six months between July and December 2006.¹ This was done to take advantage of greater survey coverage (almost 7,500 households, representing more than 15,000 individuals) and to improve the methodology for future reports.

There are several differences between the initial MORI survey and the survey data used in this report, which unfortunately means that the results are not directly comparable. Although efforts have been made to do so here, any comparisons should be treated with caution. Furthermore, selection of the survey sample means that the statistics measuring over-indebtedness could be biased downwards slightly.

Evidence suggests that relatively few people could be considered to be 'over-indebted', with around three-quarters of households not meeting any over-indebtedness indicators and only 1% of households meeting 4 or more. In terms of arrears, only 1 in 15 households were in structural arrears (2 or more payments behind). Furthermore, only a small proportion of households appeared to be at risk from 'over-indebtedness' – assessed through the application of a 10% negative income 'shock' – with less than 1 in 250 households becoming over-indebted as a result. However, a larger proportion of people considered their debt repayments to be a burden, with around 2 in 15 households containing at least one person who considered an element of their credit commitments to be a heavy burden.

This report also finds that certain household characteristics seemed to be associated with being over-indebted: younger households, those with children under 16, or who have had a baby in the last 12 months seemed to be relatively more over-indebted than the population – this is not significantly different from previous findings.

Credit was still very popular, with 55% of households holding some form of credit commitment. Evidence on the usage of unsecured credit products indicates that credit cards and personal loans have increased in popularity over the last 5 years or so, whilst the use of mail orders has declined markedly.

¹ The designation of 'experimental statistics' recognises the preliminary nature of the analysis presented in this report, as well as the fact that further data processing will be carried out prior to its release.

Key Findings²

Insolvency

- 0.5% of individuals surveyed, representing 0.9% of households³, had entered into bankruptcy, an individual voluntary arrangement (IVAs) or a Debt Management Plan in the preceding 12 months.

Arrears

- 6.9% of households were at least 2 consecutive payments⁴ behind on one payment, be it either mortgage, household bill or credit commitment payment.⁵
- 3% of households were in structural arrears on two or more payments.

Burden of debt

- 4.0% of households were spending more than half their gross monthly income on total credit repayments.
- 3.1% of households (and 3.5% of individuals) were spending more than a quarter of their gross monthly income on unsecured credit repayments.
- 13.4% of households contained at least one individual who identified an element of their credit commitments (either separately or collectively) as a heavy burden.

Number of outstanding credit commitments

- 11.5% of households had four or more credit commitments, (including mortgage commitments).
- 2.8% of individuals had four or more unsecured credit commitments, i.e. excluding mortgage commitments.⁶

² Percentages are shown against total number of households or individuals unless specifically stated otherwise

³ 78 individuals, 68 households

⁴ The mortgage arrears question actually asked on the basis of more than 2 months behind with payments, but this is expected to map directly to two consecutive payments in the overwhelming number of cases as mortgages are typically a monthly payment.

⁵ Credit commitment arrears includes only loans, hire purchase and credit agreements and mail order debt where the last two payments have been missed. It does not include credit and store card debt as no equivalent question was asked about missing the last two payments for credit and store card debt.

⁶ Individual analysis does not include mortgages, as mortgage burden can be regarded as a household debt rather than particular to any individual. Obviously in a single person household, mortgage debt will be an individual debt, however single person households have not been separately analysed here.

Overlap between measures of indebtedness

- Of the five measures that are used to define over-indebtedness on a household basis:
 - Only 1% of households breached 4 or more indicators;
 - Around 1 in 10 of households breached two or more indicators, and
 - Three-quarters of households failed to meet any of the over-indebtedness indicators.

Risk of over-indebtedness: sensitivity to income changes

- A simulated 10% fall in the gross income of households identified:
 - an additional 0.7% of households for whom total monthly debt repayments would breach 50% of their gross income.
 - an additional 0.4% of households for whom unsecured monthly debt repayments would breach 25% of their gross income.

Characteristics of those over-represented on the over-indebtedness indicators

- Those households that are over-represented on the over-indebtedness indicators were those households where:
 - the eldest household member was young or middle-aged;
 - there were children under 16 (especially so in the case of single-parent households);
 - there had been a new baby in the last 12 months;
 - the household lived in rental accommodation (particularly social housing); and
 - income and savings levels were comparatively low.

Type of credit held and amount owed

- On a household basis, the most common form of credit held was mortgage debt, held by 30% of households. The largest average amount owed by households on a single form of credit was also on mortgage debt, with the average amount owed on an outstanding mortgage of £83,000.
- The commonest form of unsecured credit held was credit card debt, which was held by 24% of households. The largest average amount owed on any form of unsecured credit was on personal loans, where the 12% of households holding a personal loan had an average of £7,820 outstanding.

1. Introduction

On 20th July 2004 the Government launched “Tackling Over-indebtedness: Action Plan 2004”.⁷ This strategy coordinated action across Government with the aim of minimising the number of people who become over-indebted and improving the support and processes for those whose borrowing is unsustainable. As part of this strategy, BIS is committed to monitoring the level and profile of consumer over-indebtedness.

As part of meeting this commitment, BIS produces a six-monthly monitoring paper, which summarises publicly available sources to form a high-level view of consumer over-indebtedness. However, conducting more in-depth analysis, such as examining the numbers at risk of insolvency or of moving into arrears or distinguishing the characteristics of those who are at risk from over-indebtedness, requires detailed survey data. Therefore in 2004, the then-DTI commissioned Market & Opinion Research International Financial Services (MORI) to undertake a survey of consumer over-indebtedness in Great Britain, which was subsequently published in March 2005.⁸ BIS has committed itself to producing follow-up reports on a periodic basis, with this report being the first such follow-up.

2. Details of the sample population used to produce this report

The report uses data from 7,443 households (equating to over 15,000 individuals) collected over a 6-month period between July and December 2006. The data is unweighted and does not take account of differences between the population and the sample. Wealthy addresses were over-sampled to meet the requirement of other uses of the data. As the data has not had weights attached to take account of this over-sampling, the over-sampling can be expected to bias slightly downwards the statistics measuring over-indebtedness, as high wealth users would be expected to show a lower prevalence towards indebtedness.

Unlike the MORI 2005 survey, the results from the ONS survey have been aggregated where possible to produce household-level indebtedness data. This is the correct approach to take as assets and liabilities tend to be handled at a household level and to analyse these at an individual level could lead to spurious results.⁹

⁷ <http://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/files/file18559.pdf>

⁸ <http://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/files/file18550.pdf>

⁹ In fact, analysis would be better conducted at the level of the ‘economic unit’ than at the level of the household. This would mean, for instance, that students living in a household together would be analysed separately, as they represented separate economic units within the household or indeed were added back into the household of their parents if the debt ultimately would be serviced by them. However, such a level of analysis is beyond the scope of this study, and household data, whilst imperfect, does provide a good basis to analyse over-indebtedness.

In addition to these methodological improvements, there have also been changes to the questions asked between the two reports – addressed in the relevant sections – with a greater level of detailed in-depth questioning introduced for this report.

All of these changes improve the quality of the data and the robustness of the results collected here, but this does not facilitate comparison over time. While efforts have been made to compare results here with findings in previous reports, any such comparisons should be treated with caution and regarded as purely indicative.

3. Results

To maintain a level of consistency with the previous report, the four main themes that will be focused on are:

- **Identification of over-indebtedness:** The results for a number of indicators under the themes of arrears, burdens and credit commitments are examined and the degree to which they overlap shown. In addition to the specific over-indebtedness indicators, other information on problem debt is shown.
- **Who is over-indebted:** Household characteristics are compared with the over-indebtedness indicators to identify potential risk factors for household over-indebtedness.
- **How many households are at risk from over-indebtedness:** The expected impact on the prevalence of over-indebtedness is examined following a simulated 10% fall in gross income.
- **Who has got what type of credit?** The amount and prevalence of credit is examined both from the perspective of the entire population and for those households with a high level of debt service.

The 2005 MORI survey also asked whether people knew how much they owed in terms of their borrowing commitments. However, this question was not repeated in the current survey.

Due to the fact that the debt data was analysed at the individual level in the 2005 report, it has therefore not been possible to make comparisons between the results of the two reports. In addition the questions asked within the two reports are in some cases significantly different, adding to the comparison difficulties. However, where possible, data from the ONS study has been analysed at the individual level and the results presented in terms of these individual indicators. Therefore, in order to allow comparison over time of the over-indebtedness indicators, the results are compared where possible with a 2002 study conducted for the DTI by Elaine Kempson of the Personal Finance Research Centre at Bristol

University, entitled "Over-indebtedness in Britain",¹⁰ which also used MORI research data. Although this study does not contain results for the full five over-indebtedness indicators, results are shown here for three that are comparable.

3.1 Identification of over-indebtedness

There is no universal agreement on the definition or the indicators that should be used to measure over-indebtedness. In 2004, OXERA defined an over-indebted household or individual as one where 'households or individuals are in arrears on a structural basis, or are at a significant risk of getting into arrears on a structural basis'¹¹ and it was along these lines that DTI's original indicators, identified in 2005, were based.

The over-indebtedness indicators can be split into three categories. The first is arrears, where households are identified as being in structural arrears if they have failed to make the last two payments on an account. Taking the last two payments to indicate structural arrears rules out the case where someone may have simply forgotten to make a single payment. The second category on burdens is split into three questions. The first two questions look at affordability of repayments and compare separately unsecured credit payments to gross income and total repayments to gross income. The final burden question asks individuals about their own subjective opinion regarding whether an element of their debt (secured or unsecured) or total combined debt repayments is burdensome. The third category looks at the number of credit commitments that households/individuals have outstanding, as research suggests that a large number of credit commitments is synonymous with financial difficulty. The results for these indicators are as follows:

Arrears Indicator

- 6.9% of households were at least 2 consecutive payments behind on one payment, be it a mortgage, a household bill or credit commitment payment.

Burden Indicator

- 4.0% of households were spending more than 50% of their gross monthly income on total credit repayments.
- 3.1% of households were spending more than 25% of their gross monthly income on unsecured credit repayments.

¹⁰ <http://webarchive.nationalarchives.gov.uk/http://www.berr.gov.uk/files/file38667.pdf>

¹¹ 'Are UK households over-indebted?' Oxera, April 2004. Commissioned by the Association for Payment Clearing Services, British Bankers Association, Consumer Credit Association and the Finance and Leasing Association.

- 13.4% of households contained at least one individual who identified an element of their credit commitments as a heavy burden.¹²

Credit Commitment Indicator

- 11.5% of households had four or more credit commitments, including mortgage commitments.

3.1.1 Comparison of indicators over time

As stated previously, a full comparison of the indicators over time with both the 2002 Kempson and 2005 MORI reports is not possible. The following table shows the comparisons that are possible.

Table 1: Comparison of indicators

Indicator	Kempson, 2002 (% of total households)	ONS, 2006 (% of total households)	MORI, 2005 (% of total individuals)	ONS, 2006 (% of total individuals)
Monthly repayments on unsecured borrowing > 25% of gross income	5	3	8	3.5
Monthly repayments on total borrowing* > 50% of gross income	6	4	9	N/A ¹³
Number of (non-mortgage) credit commitments ≥ 4	7	8	6	3

* Total borrowing – secured and unsecured borrowing

No comparison is possible on the arrears indicator or the subjective assessment of debt burden, as their precise construction is unique to this current study.

We turn first to look at the comparison between the 2002 and current studies (columns 2 and 3 of Table 1). The different methodologies adopted in the two studies make comparison of the figures difficult, and therefore any conclusions over time should be treated cautiously. As the current study is more rigorous, based on a larger sampling size and more detailed level of questioning, in many ways it actually replaces the previous data from 2002 rather than being useful for time comparison. In addition to the different methodological approaches, the data from the 2002 study has a two percentage point margin of error in regard to each figure, so as can be seen from looking at the figures above, it is difficult to interpret that there has been any perceptible change across each of the three indicators.

¹² This comprises either their mortgage or non-mortgage and bill commitments, or the combination of all their debts.

¹³ As mortgage debt tends to be a household debt, secured borrowing at an individual level is not calculated so this debt repayment-income ratio is not produced.

The data suggests that there has been a fall of 2 percentage points in the number of households that exceed each of the two debt repayment to gross income thresholds. The indicator for the number of credit commitments has been shown here with mortgage commitments excluded, as that was the approach adopted in the 2002 study.¹⁴ Again this figure is little changed. Given the rise in household sector debt as a proportion of income that has taken place across the whole economy (as shown in Figure 1 below) the fact that these results do not show some level of increase is surprising, notwithstanding the differences in methodology and margins of error.

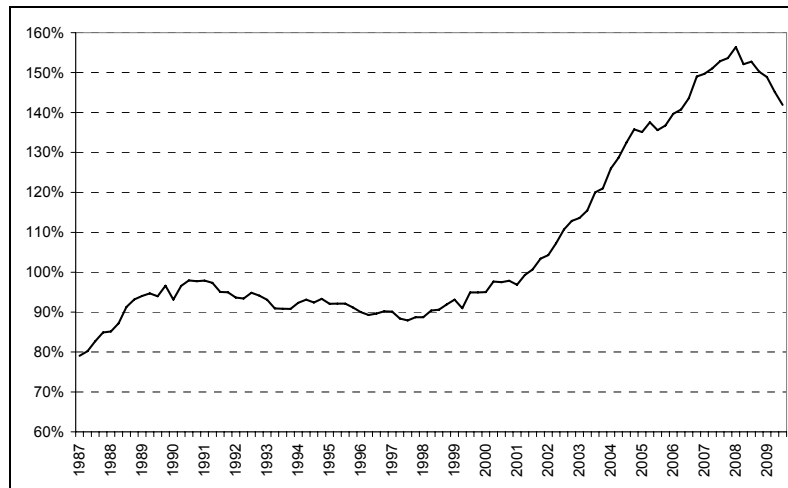
If the results are correct, it could suggest that the expansion in household lending since 2002 has primarily occurred for those individuals that did not already have substantial borrowing. This would accord with the observed rising aggregate debt levels without a commensurate increase in the number of households breaching debt repayment indicators, as repayments remain below the thresholds (due to a lack of previous lending).

However, the data from the 'Credit held' section below indicates that, while there has been some expansion in the number of households holding different types of credit commitment, the average amount owed by those who hold each form of credit also tended to increase significantly – making this explanation difficult to support.

Therefore, a second potential explanation is that this increased lending has been to those households that already have substantial borrowing and therefore already exceed the debt repayment thresholds – this would also accord with rising aggregate debt levels without an increase in the debt repayment indicators.

¹⁴ However, this is only for the purposes of comparison here. Mortgages are included in the main set of indicators, as they represent a debt commitment and therefore not to do so would be an omission.

Figure 1: Total household debt (secured and unsecured) to income ratio



Source: ONS $(NNRP + NNRG + NNRK)/(RPHQ*4)$

Comparing the individual data from the MORI study in 2005 with the ONS data reported here (columns 4 and 5 in Table 1), there has been a substantial fall in both the number of individuals with four or more (non-mortgage) credit commitments and the number of individuals spending more than 25% of their gross income on unsecured credit repayments. Again, it is likely that the substantial fall is more likely accounted for by the improved methodology in this study, which includes a series of questions about the source of an individual's income as opposed to a single income question that was used in the 2005 MORI study, than is attributable to a fall in over-indebtedness.

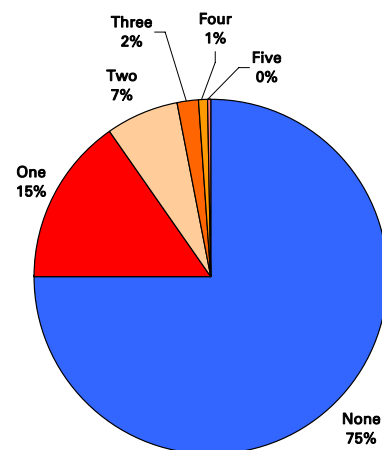
As mentioned above, the downward bias in relation to measures of over-indebtedness – attributable to over-sampling of wealthy households – might also account for some of these differences between the three studies.

3.1.2 Distribution of households meeting over-indebtedness indicators

Table 2 and Figure 2 below show the distribution of households meeting a certain number of over-indebtedness indicators. This indicates that there is not much overlap between the indicators. For instance, while 25% of households satisfied at least one of the indicators, only 3% of households breached three or more of the indicators.

Table 2: Proportion of over-indebtedness indicators met by households

Number of over-indebtedness indicators breached	Proportion of households meeting that number of over-indebtedness indicators (%)	Cumulative (%)
None	75.1	75.1
One	15.1	90.2
Two	6.8	97.0
Three	2.0	99.0
Four	0.8	99.8
Five	0.2	100.0



It would tend to be the case that households that breach a greater number of over-indebtedness indicators can be thought of as likely to be experiencing more difficulty with debt. However, caution needs to be exercised, as there is likely to be a significant degree of correlation between some of the indicators – for instance between the two debt repayment to income ratios, such that meeting both indicators as opposed to one would not mean that you are likely to be experiencing significant additional difficulties with debt. That said, the 3% of households that were meeting three or more of the indebtedness indicators could fairly be regarded, in the majority of cases, as experiencing some problems with over-indebtedness, and certainly so in the case of the 1% meeting four or more of the indicators.

3.1.3 Personal Insolvency

Approximately 1 in 200 respondents (78 individuals) entered insolvency within the last 12 months.¹⁵ The equivalent household statistic is that just under 1 in 100 households contained at least one individual who had become insolvent (68 households). In terms of the types of personal insolvency entered into:

- 27 individuals (35%) entered bankruptcy
- 14 individuals (18%) took out an Individual Voluntary Agreement
- 37 individuals (47%) took out a Debt Management Plan

¹⁵ The definition of insolvency here includes both statutory (bankruptcy, individual voluntary arrangements) and non-statutory instruments (e.g. Debt Management Plans).

Table 3: Formal insolvency proceedings and Debt Management Plans

	% individuals that have entered into:	% households that have entered into:
Bankruptcy	0.3	0.3
Individual Voluntary Arrangement	0.1	0.1
Debt Management Plan	0.2	0.4
TOTAL	0.5	0.9

Note: Figures may not sum due to rounding

3.1.4 Arrears

The following section looks first at the incidence of structural arrears¹⁶ with regard to different types of credit commitment and bills, and then examines the number of credit commitments and bills that households are in arrears on.

3.1.4.1 Mortgage Arrears

Table 4 shows the number of individuals in mortgage arrears of at least two months. As households tend to prioritise mortgage debt, as can be seen from Table 4, very few households – on average, less than 1 in 500 – tend to be in structural arrears on mortgage debt.

Table 4: Proportion of households with mortgage arrears by length of arrears

Length of time in arrears	% of entire sample
2-6 months in arrears	0.2
More than 6 months behind	<0.1
Overall % in mortgage arrears (sum of the two)	0.2

Only 14 households (representing 0.2% of all households) were 2 or more months behind with mortgage payments – this equates to 0.5% of all households with mortgages.

3.1.4.2 Arrears on All Credit Commitments and Household Bills

Table 5 sets out the proportion of households more than 2 payments behind on any credit commitment or household bill, which overall accounted for 6.9% of the sample (around 1 in 15 households).

In terms of the broad categorisation of debt arrears, the most significant were arrears on household bills (6.0% of all households), with only 1.4% of households in arrears on non-mortgage credit commitments.

In terms of household bills, council tax (2.7% of all households) was the bill for which most households are in arrears, and also represents the

¹⁶ The definition of 'structural arrears' used here (at least 2 months in arrears) is slightly different to that used in the 2005 study (at least 3 months in arrears), which reflects differences in the questions asked in the two surveys.

largest amount owed, at £550.¹⁷ For non-mortgage credit commitments, loans were the most prevalent form of arrears (0.8%), with average arrears owed of £3,100.

Table 5: Households more than 2 months in arrears on mortgage debt, household bills or credit commitments

Type of payment	% of households at least 2 consecutive payments in arrears on a single bill or combination of bills	Average amount owed: household more than 2 consecutive payments in arrears (£)
Any payment	6.9	n/a ¹⁸
Household bills	6.0	910
Non-mortgage credit commitments	1.4	1850
Mortgage arrears	0.2	n/a
Household Bills: -		
Council tax	2.7	550
Water rates	2.0	270
Electricity	1.5	280
Rent	1.3	500
Gas	1.2	180
Telephone	1.0	150
Child maintenance payments	<0.5	-
Court fines	<0.5	-
Income tax payments	<0.5	-
VAT payments	<0.5	-
Other	0.5	-
Non-Mortgage Credit Commitments: -		
Loans	0.8	3100
Mail Order	<0.5	-
Hire Purchase	<0.5	-

NB: Arrears amounts not shown where proportion of households in arrears on a debt is 0.5% or less due to insufficient number of households for the amount to be robust.

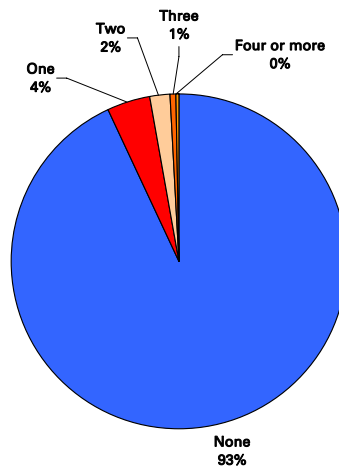
3.1.4.3 Number of Arrears per Household

Figure 3 shows the number of separate credit commitments or bills for which households were simultaneously in arrears. As can be seen, only 3% of households were in arrears on 2 or more payments.

¹⁷ For those households with arrears on household bills.

¹⁸ Not calculable as amount owed as mortgage arrears was not recorded in survey.

Figure 3: Proportion of households in structural arrears on simultaneous credit agreements (including mortgage payments and household bills)



3.1.5 Subjective burden of debt

As stated above, 13.4% of households contained at least one individual who had identified mortgage, credit and bill repayments, either individually or collectively, as a heavy burden. However, the subjective burden of debt can be further analysed by type of debt.

- Around 1 in 10 individuals with debt outstanding on credit commitments or behind on household bills found these repayments to be a heavy burden.¹⁹ This compares with over two-thirds (68.5%) who found it to be no problem; the equivalent figure in the 2005 report was 75%.²⁰
- Approximately 2 out of 15 households with mortgages but without mortgage payment arrears (13.3%) found mortgage debt repayment to be a heavy burden.
- Of those individuals with a mortgage and who had either outstanding credit commitments or who were behind with household bills, just under 1 in 8 (12.2%) found repayments to be a heavy burden. By contrast, over half of all individuals surveyed (51.1%) found the combined burden to be no problem.

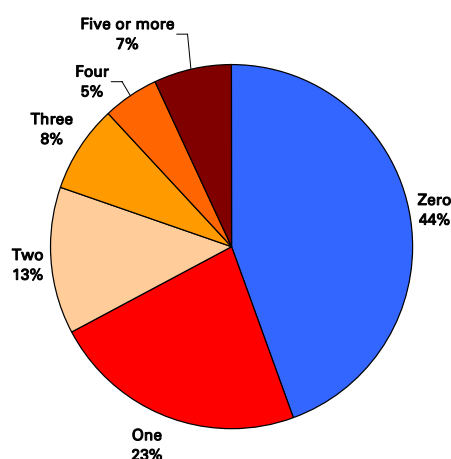
3.1.6 Credit Commitment Indicator

Figure 4 illustrates the number of credit commitments held by households. As reported in the indicator section, 11.5% of households had four or more credit commitments. Strikingly, nearly half (45%) of households had no credit facilities, with only just under 20% holding 3 or more credit commitments.

¹⁹ This equates to 6.1% of all individuals surveyed. MORI comparison = 4%

²⁰ This figure is not directly comparable due to methodological differences in the construction of the relevant question.

Figure 4: Number of credit facilities per household (including mortgages)



3.2 Who is Over-Committed?

Table 6 looks at the characteristics of households that satisfy the over-indebtedness indicators. Comparison is made between the proportion of households for each category that satisfy each indicator (shown in the top line of the table). The figures in each cell of the table show the proportion of all households in that category that have breached the particular over-indebtedness indicator in question – for example, 24% of households in which the eldest member is 16-24 exceeded the threshold for the arrears indicator. This is a very different approach to that adopted in the 2005 study, where the equivalent cell would indicate, of the households meeting the arrears indicator, 24% are accounted for by households in which the eldest member is 16-24. This further complicates comparison between the two studies, though where there is broad agreement on particular themes or characteristics, this will be highlighted.

The fact that certain characteristics are identified as being correlated with indebtedness is not proof of causality, with further analysis required to prove any such causality. For instance the fact that households with children under 16 were more likely to breach the over-indebtedness indicators does not necessarily mean that children lead to a greater likelihood of being over-indebted. It could be the fact that families with children have lower incomes, and it is the low income that is driving over-indebtedness. Households are analysed by: age (according to eldest household member), family type, whether they have had a baby in the last 12 months, housing tenure, gross household income and level of liquid savings.²¹

²¹ Liquid savings here refers to all financial savings vehicles, and does not include for example pension investments, property or non-financial asset investments such as gold. They are perceived to be able to be liquidated relatively easily and are more short and medium term investments whilst pension and property investments are less easily liquidated and tend to be undertaken for the longer term.

Table 6: Analysis of over-indebtedness indicators, by household characteristics

	<i>Base</i>	Arrears Indicator (%)	Total debt repayment to gross income indicator (%)	Unsecured repayments to gross income indicator (%)	Heavy burden indicator (%)	Credit commitment indicator (%)
All households	<i>7443</i>	7	4	3	13	12
Age – eldest household member						
16-24	<i>168</i>	24	3	5	23	15
25-34	<i>900</i>	13	4	3	21	23
35-44	<i>1,437</i>	11	7	5	22	18
45-54	<i>1,312</i>	8	5	5	18	16
55-64	<i>1,371</i>	4	4	3	10	8
65-74	<i>1,176</i>	2	1	1	5	3
75-84	<i>821</i>	<1	1	<1	2	1
85+	<i>258</i>	<1	<1	<1	2	1
Family type*						
Single, not retired, without children <16	<i>1,379</i>	12	4	4	19	8
Single, not retired, with children <16	<i>466</i>	27	5	7	29	13
Couple, not retired, without children <16	<i>1,745</i>	4	3	2	11	17
Couple, not retired, with children <16	<i>1,384</i>	8	7	5	20	22
Single retired	<i>59</i>	0	2	0	9	3
Couple retired	<i>1,252</i>	2	3	2	5	4
Life changes over the last 12 months						
New baby	<i>212</i>	17	6	5	28	17
Housing tenure						
Own it outright	<i>2,555</i>	1	<1	1	2	2
Mortgagor	<i>2,746</i>	4	9	4	19	22
Part rent, part mortgage	<i>21</i>	10	0	5	19	24
Social tenant**	<i>1,326</i>	21	2	5	21	9
Private tenant	<i>712</i>	13	2	4	17	13
Private Tenant (rent-free)	<i>96</i>	0	0	1	4	3
Gross household income						
<£10,000	<i>1,962</i>	13	8	7	14	5
£10,000 - £14,999	<i>883</i>	9	5	3	14	7
£15,000 - £19,999	<i>672</i>	6	5	3	13	7
£20,000 - £29,999	<i>1,134</i>	6	3	2	16	12
£30,000 - £39,999	<i>850</i>	4	1	2	14	18
Over £40,000	<i>1,941</i>	2	<1	<1	11	19
Liquid Savings						
< £1,000	<i>2,062</i>	12	5	4	19	13
£1,000 - £9,999	<i>2,042</i>	5	4	3	13	12
£10,000 - £49,999	<i>1,687</i>	6	4	3	12	12
£50,000 - £99,999	<i>644</i>	3	3	3	10	10
> £100,000	<i>1,008</i>	4	2	2	9	10

* 'Couple' includes those who are cohabiting as well as those who are married.

** Social tenancy includes local authority, council, Scottish homes, housing association, charitable trust or local housing company landlords.

Age²²

According to the survey, a greater proportion of the youngest households breached the arrears and heavy burden indicators. Out of the five indicators, these two are probably the most indicative of actual problem debt, as these are unlikely to be breached unless someone in the household has a real problem with debt.²³ Strikingly, 24% of households where the eldest member is 16-24 were in arrears on at least one credit commitment or bill, which is more than three times the rate (7%) for the general population. Households where the eldest member was middle-aged (35-54) tended to dominate in terms of the proportion of each age group that exceed the debt repayment to income ratios, though this may not be problematic, as it might be expected that this age range includes those at the peak of their earning potential. Most noticeable of all is the fact that only a small proportion of elderly households (>65) breached the over-indebtedness indicators.

The 2005 report used different age brackets in its category breakdown, which was also done at the individual level rather than household, so it is difficult to compare them directly. In broad terms, younger and middle-aged people were likely to have the greatest problems with over-indebtedness, with little impact on older people. This would seem to support a 'life-cycle' explanation for indebtedness.

Family type

As this breakdown of households is in part replicating the breakdown provided by age of household, it is not surprising that some of the same features are observed. Retired households – both single and couples – were under-represented relative to the average, matching the pattern from the section above where the eldest member of the household was elderly. Single people, both with and without children under 16, were relatively over-represented on both the arrears and heavy burden indicators.

Significantly, the over-representation among single people with children on these two indicators was particularly strong – 27% for arrears and 29% for heavy burden respectively – and they were also slightly over-represented on the debt repayment to gross income indicators. Couples with children under 16 were similarly over-represented for the debt repayment to gross income indicators, although not in terms of the heavy burden indicator (20%) and arrears indicator (8%).

By contrast, couples without children under 16 were relatively under-represented across all of the indicators, apart from that for credit

²² Based on age of eldest household member

²³ For instance, crossing the debt repayment to income indicators might not be a problem where an individual has a high level of income, as they will still have a significant level of income to live on.

commitments. The basic message is that single-person households are more likely to suffer from over-indebtedness than couples, but having children under 16 is an even more likely determinant of over-indebtedness. Households which were over-represented as having more than four outstanding credit commitments were the non-retired couples, and to a lesser extent those with children under 16.

Although the 2005 report analysed family type on an individual respondent basis, it found similarly that single people and those with children were more likely to be over-indebted.

Life changes – baby in last 12 months

Families with a new baby in the last 12 months followed a similar pattern to both that of single-person households and couples with children under 16, in that they tended to be over-represented across all the indicators. In fact for each of the indicators, having a new baby tended to sit between the percentage figures for singles and couples with children.

The 2005 report also had a few additional categories under life changes, including separation and loss of partner's job, which particularly affects comparability.

Housing tenure

Tenants, particularly those in social tenancy, were more likely to breach both the arrears and heavy burden indicators than the average household. Mortgage holders were also over-represented on the heavy burden indicator (19%), and were most likely to have more than four outstanding credit commitments (22%).

Those who own their house outright were barely represented on the over-indebtedness indicators. Looking at the debt repayment to income indicators may be misleading, as for instance those with mortgages are highly likely to be over-represented, particularly for total debt repayments exceeding 50% of total gross income.

Again, the 2005 study had slightly different categories, though the broad findings were similar – mortgagors were most likely to breach the debt repayment ratio thresholds and there was strong representation of tenants (especially social tenants) for a number of indicators.

Gross household income

The arrears and the debt repayments to income ratios follow the expected pattern, in that those households with the lowest income showed the largest percentages satisfying each indebtedness indicator, with a constant reduction in the prevalence of over-indebtedness across each of these three indicators as income rises. By contrast, those households more likely to hold more than four outstanding credit

commitments were those with higher levels of income, which again is not to be unexpected.

The surprise comes in the fact that household gross income was not an indicator of whether a household will find their debt repayments a heavy burden, as all income levels show a similar prevalence. One possible explanation for this phenomenon might be that households generally adjust their spending patterns to reflect their income. However, the fact that arrears were more likely to be associated with low-income households casts doubt on whether this represents a full explanation for the finding.

These findings are similar to that for the 2005 study – i.e. those with low incomes are in greater danger of being over-indebted.

Liquid Savings

Only the group of households with liquid savings under £1,000, which includes those with no savings, were above the population average for each of the five over-indebtedness indicators. Liquid savings above £1,000 therefore seem to be accountable for lower levels of over-indebtedness. This is not necessarily a surprising result, as it seems rational for a household to use any savings to meet their outstanding debt commitments should they prove burdensome. Nevertheless, it does point to the fact that households tend to manage the balance of their assets and liabilities in a relatively rational way.

For the group of households with less than £1,000 of liquid savings, most striking is the fact that this group performed relatively poorest on arrears and subjective heavy debt burden, which would appear to be the best indicators of over-indebtedness out of the five. Of this group, 12% were in structural arrears on at least one payment as against 7% for all households, whilst 19% found the debt burden to be in some part a heavy burden, against 13% across all households.

There is some analysis of this characteristic in the 2005 study, with similarly strong results for those with savings of less than £1,000. This category also hints at the extent of the potential downward bias in relation to over-indebtedness estimates, in that 45% of the sample had at least £10,000 in liquid savings.

3.3 How many households are at risk of over-indebtedness?

In order to assess those households at risk of over-indebtedness, a 'shock' to household income, such as that which could be expected to be endured following a period of unemployment, is applied. This small change – a 10% reduction in household income – is used to simulate such a situation and its impact on the number of households exceeding the thresholds for two over-indebtedness indicators, the ratios for total

debt repayment and unsecured debt repayment to gross income (50% and 25% respectively), is analysed. The results showed that very few households would move beyond these threshold levels, specifically:

- A simulated 10% fall in the gross income of households identified an additional 0.7% of households for whom total monthly debt repayments would breach the 50% level of gross income.
- A simulated 10% fall in the gross income of households identified an additional 0.4% of households for whom unsecured monthly debt repayments would breach the 25% level of gross income.

3.4 Who has what type of credit?

Table 7 contains data for the number of households with different types of outstanding credit commitments. Individual-level data is aggregated to produce it at a household level. The credit and store card figures only include those individuals who do not pay off their full balance each month, so does not include households for whom credit and store cards operate as a means of deferred payment rather than as a form of credit. Additionally, only where there is a negative balance on a bank account is it counted as an overdraft; having an overdraft facility in itself does not represent a credit commitment.

Table 7: Proportion of households holding various credit commitments and the average amount of outstanding credit on each

Credit commitment	Percentage of all households with current commitment	Average amount owed on each debt (£)	Households spending >25% gross income on unsecured debt repayments	
			Percentage of households with current commitment [#]	Average amount owed on each debt (£)
Credit card*	24	3,220	75	11,270
Overdraft	16	1,200**	37	1,260
Hire purchase/credit sale	12	4,380	39	7,000
Mail order catalogue	8	335	22	990
Store card*	5	500	17	740
All loans	15	6,650**	31	10,600
- <i>Personal loan</i>	12	7,820	25	13,300
- <i>Home credit*</i>	<1	820	2	1,110
- <i>Pawnbroker/cash converter*</i>	<1	380	-	-
- <i>Credit union*</i>	<1	1,680	-	-
- <i>Social Fund</i>	1	550	2	-
- <i>Student loan company</i>	1	4,410	-	-
- <i>Student loan from bank/building society*</i>	<1	4,350	-	-
- <i>Loan individual/employer*</i>	<1	1,830	-	-
- <i>Pay day lender*</i>	<1	-	-	-
Household bill arrears***	7	910	17	720**

* Base: 233 households

- Numbers very small
- Significant outliers have been removed
- Arrears are identified as more than two months behind with any bill
- Indicates an amount that is too small to record

The second and third columns of Table 7, which look at the amount of debt held across all households, show that credit card debt was the most commonly held form of debt, with 24% of households holding at least one outstanding credit card commitment. Other significant household commitments included overdrafts (16%), loans (15%) – which includes any of the loans listed above in Table 8 as well as a number of additional types of loan not shown due to their scarcity – and hire purchase/credit sales (12%). The proportion of households more than two months in arrears on any type of household bill, including electricity, gas, telephone and Council Tax, was 6.9%.

The highest average amount of debt held by those households with an outstanding debt on a particular form of credit was on personal loans (£7,820). Other significant amounts were held in the form of student loans – around £4,400 for loans from both the student loan company and from banks and building societies – and from hire purchase/credit sales (£4,380). The average amount held on credit card debt, the most prevalent form of consumer credit household debt, was £3,220, while the average amount owed in arrears on household bills was £910.

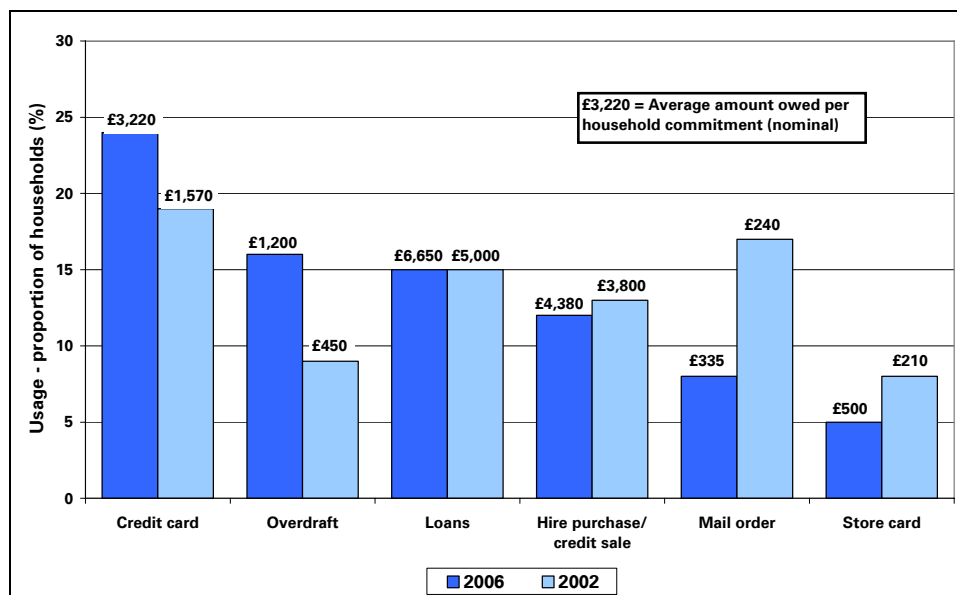
The final two columns look at the same two figures as previously, but only for the 3% of households that are spending more than 25% of their gross income on unsecured debt repayments, and therefore according to this indicator, are over-indebted. Given that these households are necessarily spending over 25% of their gross income on repayments for these unsecured credit items in order to qualify in this category, it is hardly surprising that the usage and the average amount owed for each type of credit commitment was significantly higher than for all households. Interestingly, the pattern of debt usage across the types of credit commitment, and the most significant forms of debt in terms of outstanding balances, were very similar. Credit card debt remains the most prevalent – 75% of these households held credit card debt. Also, the average amount owed on personal loans (£13,300) remained highest. Significantly, the average amount of debt held by this sub-group of households in the form of overdraft debt was little changed against the overall sample – £1,260 compared to £1,200 – while debt on arrears was lower.

How has credit usage changed over time?

Figure 5 shows changes in the proportion of households with different types of outstanding credit commitments, and the average amount owed per household with each of these outstanding credit commitments, between the 2002 Kempson report and this report. Due to the significant difference in the methodology used to gather the information in the two

surveys and the fact that the data used in this report has yet to be quality-checked, this comparison data should only be interpreted as indicative, and not definitive.

Figure 5: Types of credit in use and average amounts owed, 2006 & 2002



In terms of usage, the most striking features were the increase (from 9% to 16%) in the number of households who were using their overdraft facility, and the significant fall (from 17% to 8%) in the number of households with mail order debt. The decline in the usage of mail order follows a long downward trend; in 1989, 23% of households had an outstanding mail order commitment.²⁴ Credit cards remained the most used form of unsecured consumer credit facility, rising from 19% to 24%.

In terms of the average amount owed by all households who have an outstanding debt on each form of credit, this had more than doubled for credit and store cards, as well as on overdrafts. Indeed, each of the six identified forms of consumer credit had seen a rise in the amount owed. Interestingly, in terms of overdrafts, this increase in debt owed on overdraft facilities was in contrast to the substantial fall observed between 1989 and 2002.²⁵

Finally, Table 8 shows the level of mortgage debt held by households.²⁶ Almost one-third of households in the sample (30%) held mortgage debt on their main residency, with an average amount of £83,000 remaining outstanding. For those households that were spending over 50% of their gross income on total debt payments – and therefore over-indebted according to this measure – 80% had mortgage debt outstanding, owing on average £103,000 in mortgage debt.

²⁴ Kempson (2002)

²⁵ Ibid.

²⁶ Figures only show household mortgage debt held on main household residency.

Table 8: Proportion of households holding mortgage debt and the average amount owed

Credit commitment	Percentage of all households with mortgage	Average amount owed (£)	Households spending >50% gross income on total debt repayments	
			Percentage of households with outstanding mortgage*	Average amount owed (£)
Mortgage payments	30	83,000	80	103,000

* Base – 295 households

4.0 Conclusions

- Due to survey design differences between this and previous reports, it is difficult to infer how levels of over-indebtedness in the UK have changed over time using this data. This is further complicated by the fact that the data presented in this report is also of an experimental nature and thus the results are preliminary. The general findings are however similar between the two reports.
- In general, relatively few people could be considered as ‘over-indebted’ and over-indebtedness is not a concern for the majority of the population; 75% of households did not meet any of the over-indebtedness indicators.
- There does not appear to be much overlap between the different over-indebtedness indicators used in this study; while some of the indicators are inter-related and a substantial degree of overlap between them may be expected, only 3% of households met 3 or more of the over-indebtedness indicators.
- However, 13.4% of households contained at least one individual who identified repayments as being a heavy burden. This figure accounts for a greater proportion of people than any of the other indicators. This suggests that while households might not breach the objective over-indebtedness indicators, they still might feel subjectively over-indebted and struggle as a result.
- The number of people at risk of becoming over-indebted was also small. The test of a 10% ‘shock’ to income identified that few additional households would be affected, with only an additional 0.7% breaching 50% of gross income (for total debt repayments) and 0.4% breaching 25% of gross income (for unsecured debt repayments) indicators.
- The survey data revealed several characteristics that are disproportionately associated with over-indebtedness. These

characteristics were very similar to those found in the 2005 report: young households, those with children under 16, those who have had a baby in the last 12 months, those living in rented accommodation, those with low incomes and those with low savings.

- The most common type of consumer credit held was credit cards (24% of households) and the average outstanding credit card debt increased. The usage of overdrafts rose significantly, whilst use of mail orders fell. However the largest amount owed on consumer credit was for personal loans, which were owed by 12% of households and had an average amount of £7,820 outstanding.

