

Over-indebtedness in Britain:
Second follow-up report

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1 Executive Summary

This report is a follow-up to the DTI report of March 2005 'Over-indebtedness in Britain'¹ and the analysis contained in the 2007 Annual Over-indebtedness report.² It uses data from the YouGov DebtTrack survey, a series of on-line surveys carried out between July 2008 and July 2009, to explore the extent of consumer indebtedness and use of unsecured credit in Britain. The survey is particularly valuable in being able to provide regular and timely updates on the financial position of households in Great Britain and how they have been affected by the changing macroeconomic climate.

The report includes discussion of trends over the twelve months covered by the survey and of changes in over-indebtedness indicators since previous studies. Overall, the analysis suggests an increase in the proportion of households meeting the criteria for over-indebtedness since 2006 (in terms of arrears and burden of commitments), but there are indications of an improvement in various measures during the first half of 2009.

The findings in this report are mainly drawn from four cross-sectional DebtTrack surveys carried out in 2008/9.³ The surveys are conducted on-line and collect data about the financial situation of a sample of around 3,000 adults sampled at random from a YouGov panel of volunteers and subsequently weighted back to GB population totals. When comparing results with data from other survey sources it should be noted that differences in survey design can themselves affect the accuracy of survey estimates. So comparisons may be affected by a range of factors including variation in question wording and context, whether surveys are administered by interviewers or self-completion, and differences in sample size and structure.

Key Findings

Unless otherwise stated, the figures quoted in this report are based on the combined sample for the four DebtTrack surveys carried out between July 2008 and July 2009, so represent average figures for 2008/9. Change between survey rounds has also been explored for key measures, as indicated in the text. The overall sample size for the four surveys is in excess of 14,100.

Use of credit (Section 4)

- The most common sources of unsecured credit were credit cards (35% of households), bank overdrafts (29%) and personal loans (22%). Non-mainstream sources⁴ were used by around 3% of the sample. About one-fifth (19%) of respondents had used one or more of their current loans or credit⁵ to refinance or pay off other borrowing.
- Almost two-thirds (64%) of households had some form of unsecured credit and 75% had a loan or credit commitment of some type, including mortgages and secured loans. Although a quarter (24%) of borrowing households owed less than £1,000 on unsecured credit, more than a quarter (28%) owed in excess of £10,000. The average amount of debt recorded for this sample was around 20% higher than that recorded for the 2006/8 Wealth and Assets Survey.
- The type of credit products used varied by household characteristics. Use of mainstream loans and credit or store cards increased with household income, while

¹ <http://webarchive.nationalarchives.gov.uk/+http://www.berr.gov.uk/files/file18550.pdf>

² <http://www.bis.gov.uk/files/file42700.pdf>

³ Initial findings from the related longitudinal survey of a sample of households experiencing financial stress can be found in Appendix C.

⁴ Such as home-collected credit, payday loans and pawnbrokers

⁵ Including secured loans

use of non-mainstream loans decreased with income. Lone-parent households showed above-average usage of non-mainstream loans and informal loans from family and friends.

- Demand for credit remains strong. Around one-fifth of respondents had applied for one or more credit products (including mortgages) in the last six months, but the rate of applications decreased over the year to July 2009 – from 21% to 15% for unsecured credit. A slightly smaller proportion of respondents (13%) said they were 'likely' or 'very likely' to need to borrow money over the next six months.
- Credit cards were the most popular product (11% of households had applied for a credit card in the previous 6 months) and, along with store cards, were the most likely to be agreed for the full amount (70% or over). Applications for unsecured personal loans and overdrafts were the most likely to have been rejected (32% of applications).

Over-indebtedness indicators (Section 5)

- Almost one-tenth (9%) of households were in 'structural' arrears⁶. There was little variation in this measure over the period of the survey but some indication that the proportion of households in arrears may have peaked between October 2008 and February 2009.
- About one in 12 of all households in the DebtTrack sample (8%) were spending more than 30% of their income on repayment of unsecured loans, and about one in eight (12%) were spending more than 20% of their income.
- About one in seven respondents (15%) considered that keeping up with bills and credit commitments was a 'heavy burden' for their household. There were indications of a slight improvement in this indicator in the first half of 2009.
- About one-tenth (11%) of households had four or more different types of unsecured credit commitment.
- The data suggests that there has been a slight increase in the proportion of households meeting the criteria for over-indebtedness since 2006 on certain measures (e.g. arrears and burden).⁷
- More than a quarter (28%) of households breached one or more of the over-indebtedness indicators and 11% breached two or more. Households with zero savings (31%), lone-parent households (27%) and households with an unemployed adult (24%) were most likely to have breached two or more of the indicators.

Other indicators of financial difficulties (Section 6)

- Around 7% of households had entered into one of the statutory or informal actions on debt (e.g. bankruptcy, IVA, DMP). Bankruptcies and IVAs accounted for a small proportion (1% of households for each), while around 5% of households were paying debts through a DMP.
- In addition to the above, a further 6% of households were in 'structural' arrears on payments. Hence 13% of households were in 'financial difficulties' on a combined measure, though this declined slightly, from 14% to 11% in the first half of 2009.

⁶ That is, more than three months behind with any bill or payment

⁷ However, comparison with previous studies is imperfect, due to methodological differences in data collection and indicator construction

- Some 14% of respondents who had difficulties keeping up with bills and payments⁸ had sought professional debt advice in the preceding six months. Two-fifths (40%) of those who were behind with bills or credit payments had contacted their creditors about their financial difficulties.
- About a third (32%) of respondents showed signs of stress on at least one of three subjective indicators.⁹ Each of the measures suggested a slight deterioration in public perceptions in late 2008, followed by signs of improvement between February and July 2009.
- Respondents' perception of their financial situation was, as usual, worse than their actual financial position. Almost half (48%) of respondents who showed signs of stress on two or three of the subjective indicators were neither experiencing extreme financial difficulties nor beginning to fall behind on payments.¹⁰
- Around one in eight of the sample (12%) felt that they would risk falling behind with their bills and commitments if subjected to a 20% increase in housing or utility bills.¹¹

⁸ Either constantly struggled or were falling behind with payments

⁹ How well a household is keeping up with bills and credit commitments, whether they consider keeping up with their repayments as a 'heavy burden' and whether they struggle to last to next pay day

¹⁰ Involved in statutory or informal action on debt, in structural arrears or one to three months behind with any payments

¹¹ Mortgage or rent, utility bills or council tax charges

2 Introduction

In July 2004 the Government launched “Tackling Over-indebtedness: Action Plan 2004”.¹² This strategy co-ordinated action across Government with the aim of minimising the number of people who became over-indebted and improving the support and processes for those whose borrowing becomes unsustainable. As part of this strategy BIS is committed to monitoring the level and profile of consumer over-indebtedness.

Conducting in-depth analysis of groups who are either already in financial difficulties or at risk of moving into arrears requires detailed survey data. Therefore in 2004 DTI (now BIS) commissioned Market & Opinion Research International (MORI) to undertake a survey of consumer over-indebtedness in Great Britain, which was subsequently published in March 2005.¹³ BIS has committed itself to producing follow-up reports on a periodic basis. The first of these, included in the 2007 Annual Over-indebtedness report (subsequently published as a separate document), used experimental ONS data from July to December 2006.¹⁴ This report is based on data from the YouGov DebtTrack surveys¹⁵ carried out between July 2008 and July 2009.

3 Background

3.1 Sources of data

The YouGov DebtTrack is an online survey that was launched in July 2008 and designed to provide a better understanding of the nature and dynamics of consumer debt and over-indebtedness. The survey has both cross-sectional and panel elements. The findings shown here are mostly based on the cross-sectional survey which was carried out at regular intervals between July 2008 and July 2009.

3.1.1 Detailed methodology

The cross-sectional YouGov DebtTrack collects data from a sample of more than 3,000 adults aged 18 or over. An invitation to take part in the survey is sent by e-mail to a randomly-selected sample of individuals from the YouGov plc GB panel¹⁶ and respondents access the survey through a link to the relevant part of the YouGov website. The questions relate to the current financial position of the respondent and, where relevant, their spouse or partner. The responding sample is weighted back to the profile of the GB population using known distributions of key variables including age, gender, tenure and household income.

The second element of the YouGov DebtTrack is a longitudinal survey, in which households experiencing financial stress were interviewed four times between July 2008 and February 2009.¹⁷ This dataset provides a larger sample of financially-distressed households than in the cross-sectional survey, with almost 1,400 households responding to all four waves of the panel, and so offers greater scope for detailed analysis of their circumstances. An analysis of the panel data is provided in Appendix C.

¹² <http://webarchive.nationalarchives.gov.uk/http://www.berr.gov.uk/files/file18559.pdf>

¹³ <http://webarchive.nationalarchives.gov.uk/http://www.berr.gov.uk/files/file18550.pdf>

¹⁴ <http://www.bis.gov.uk/policies/consumer-issues/consumer-credit-and-debt/real-help-now-for-those-in-difficulty/over-indebtedness>

¹⁵ See <http://www.yougov.co.uk/corporate/specialisms/specialisms-financial-debttrack.asp?submenuheader=1>

¹⁶ The panel has over 250,000 members

¹⁷ The sample comprised those who said at an initial screening interview that they struggled to keep up or were falling behind with bills and credit commitments

3.1.2 Comparability with previous surveys

The DebtTrack is particularly valuable in being able to provide regular and timely updates on the financial position of households in Great Britain and how they have been affected by the changing macroeconomic climate. There are, however, some complications in using the data to update estimates from other surveys as presented in earlier papers (although some of these are general issues which affect any comparison across different surveys). In summary, these are as follows.

- i. Variation in precise question wording and in the context in which questions are asked.
- ii. Differences in survey mode. The DebtTrack is a self-completion survey that is administered online, whereas earlier surveys were administered face-to-face by trained interviewers.¹⁸
- iii. Differences in sample structure. The DebtTrack sample is drawn from a pool of volunteers and data are weighted back to population totals. As with any quota sample, biases may remain if volunteers differ systematically from the total population in terms of key measures relating to their financial situation.¹⁹
- iv. Surveys differ in who is designated the main respondent and whether questions refer to the individual, the couple (family unit) or the household. The DebtTrack is a survey of individuals but relevant questions generally refer to the respondent and spouse (i.e. the family unit). As the majority of households contain only one family unit, survey results are more comparable with earlier data for households than for individuals.

Results shown in previous reports have been drawn from three surveys.

- i. In **2002** MORI conducted a detailed survey for the DTI on over-indebtedness in Great Britain, which used a national quota sample.²⁰ Between March and May a total of 1,647 face-to-face interviews were carried out with the head of household or their spouse/partner. Respondents gave information about their household's financial position so the survey results refer to household units.
- ii. A second survey was carried out by MORI on behalf of the DTI in **2004**. The MORI Financial Services Survey (MFS) was a large-scale survey using a quota sample in which individuals were interviewed face-to-face in their homes in the second half of 2004.²¹ The survey achieved response from almost 10,000 individuals. The questions relate to the respondent's personal situation, and so are not directly comparable with surveys based on the family unit or household.
- iii. Results for **2006** were based on experimental ONS data. Results used previously and reproduced here are based on unweighted data collected for 7,443 households interviewed between July and December 2006.

¹⁸ As a result, the YouGov survey could under-represent those respondents and households who may not have access to the Internet, such as older people and low-income households. Additionally, self-completion surveys are likely to result in a greater degree of measurement error.

¹⁹ For example, panel members may be disproportionately drawn from those who have more time to complete surveys and from those who are attracted by possible financial gain, which may in turn be related to the type of credit products used or the level of household indebtedness.

²⁰ Quotas reflected the distribution of the GB population by age, gender, household size and tenure

²¹ Quotas were based on age, gender, social class and working status

It is also possible to compare some of the measures used in this report with published results from the first wave of the Wealth and Assets Survey, carried out from July 2006 to June 2008.²²

The results from the DebtTrack survey relate to the period from July 2008 to July 2009. Unless otherwise stated, the figures quoted in this report are based on the combined sample of 14,132 respondents to the four cross-sectional surveys in this period, so represent average figures for 2008/9. Where relevant, results are presented separately for each survey, for which sample sizes vary from 3,300-3,800.

3.2 Themes

As in previous reports, four main themes are addressed here.

- **Use of credit.** Data on the prevalence of different types of credit, and variation for different groups of households.
- **Identification of over-indebtedness.** A number of indicators used in previous reports are explored using the DebtTrack survey data and trends are examined. Data on other related measures are also presented, including the incidence of statutory and informal action on debt and whether respondents had sought professional advice on debt.
- **Who is over-indebted?** The characteristics of households meeting different over-indebtedness indicators are explored.
- **Households at risk of over-indebtedness.** Various subjective questions on financial stress and payment shocks²³ are explored in addition to the established indicators of over-indebtedness.

²² http://www.statistics.gov.uk/downloads/theme_economy/wealth-assets-2006-2008/Wealth_in_GB_2006_2008.pdf

²³ Such as how an increase in major bills might affect the respondent's ability to keep up with payments

4 Use of credit

4.1 Types of unsecured credit

Credit has become an everyday feature of life for many people in the UK. It serves a useful function in the economy, allowing individuals to borrow against their future expected earnings in order to finance current consumption. It thus gives consumers more freedom to match spending to need and opportunity, as well as enabling them to spread the cost of significant purchases, such as mortgages for homes and loans for large items, over a longer period. There have been significant increases in levels of household debt over the last ten years in the UK, with a recent slowdown in 2008-9.

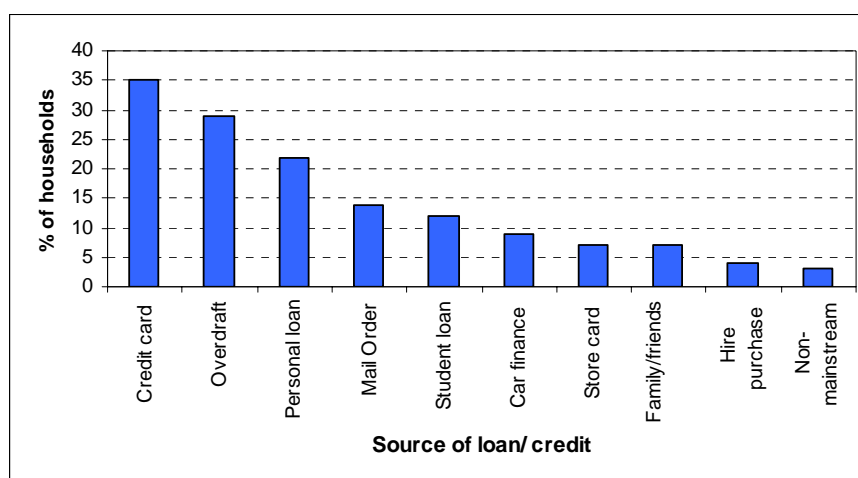
As discussed later in Section 5.2, unsecured credit remains popular among UK households, with almost two-thirds (64%) of households having some form of unsecured commitment. Whilst use of credit products is not in itself a problem, a high level of borrowing may render households more vulnerable to over-indebtedness if they experience an adverse change in financial circumstances. There may also be differences between groups in the types of credit to which they have access.

4.1.1 Credit product holding

The DebtTrack collects detailed information on the type of loans and sources of credit used by respondents and their partner, along with the amount of outstanding credit at the time of the interview for each type of commitment. The data are not strictly comparable with other surveys because of differences in the mode of interview and question content. Nevertheless, they provide a useful indicator of trends from July 2008 to July 2009 and also allow investigation of the relationship between credit commitments and other aspects of the household's financial position.

- **The most common sources of unsecured credit were credit cards (35% of households), bank overdrafts (29%) and personal loans (22%) (Figure 4.1).**
- Another three types of credit were used by about a tenth of households: mail order catalogues (14%), student loans (12%) and car finance loans (9%). Some 7% of households had an informal loan from family or friends.
- Non-mainstream sources - home-collected credit, payday loans and pawnbrokers – were used by around 3% of the sample.

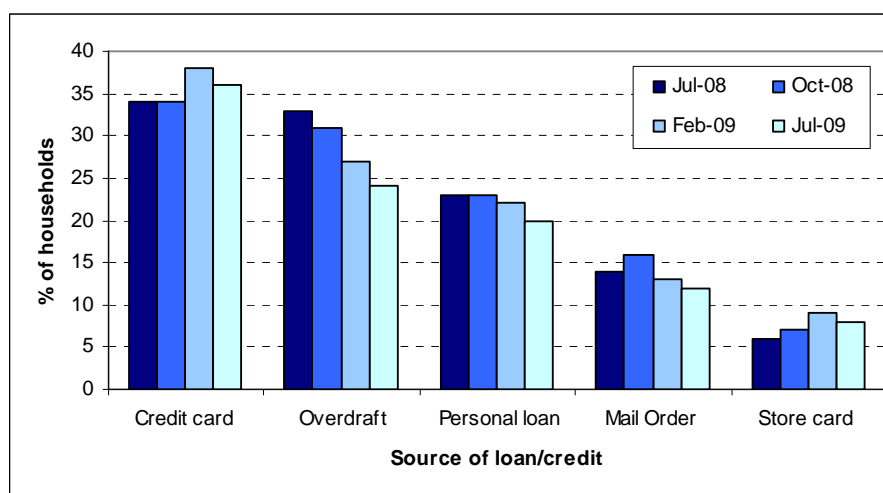
Figure 4.1: Main sources of unsecured credit: rounds 1-4 combined



For some of the more common types of credit there was evidence of a decline in prevalence between the latter half of 2008 and early 2009 (Figure 4.2).²⁴

- This decline was most marked for bank overdrafts: prevalence fell from 33% in July 2008 to 24% in July 2009. There were also indications of a decrease in prevalence of unsecured loans and mail order credit over this period.
- The decrease in use was not evident for credit and store cards. The proportion of respondents with outstanding amounts on a credit card appeared to increase through to February 2009 but then showed signs of a decrease by July 2009.²⁵

Figure 4.2: Prevalence of main sources of unsecured credit: July 2008 to July 2009



4.1.2 Household indebtedness

High levels of debt are not necessarily a problem so long as households have the means to continue servicing and repaying them. However, highly-indebted households may be more vulnerable to adverse economic shocks (e.g. unemployment, increases in interest rates or other household bills) that may put them at risk of falling into over-indebtedness. Analysis of those at risk of over-indebtedness usually focuses on the ratio of debt to annual income and on the ratio of debt servicing payments to current income.

The DebtTrack surveys collect data on the amount currently owed for each type of unsecured loan or credit used by the household, recorded either as a precise or banded amount. This information has been used to estimate the total value of unsecured borrowing (in banded form) and the ratio of unsecured debt to annual household income.

Looking first at absolute values, Table 4.1 shows the distribution of total unsecured debt.²⁶ This indicates that a substantial proportion of borrowers had relatively small debts – almost a quarter (24%) owed less than £1,000 and a further quarter (25%) had borrowing of between £1,000 and £4,000. However, some households had much higher levels of unsecured debt – more than a quarter (28%) owed more than £10,000 in unsecured credit and 10% of households owed more than £20,000.

²⁴ For further detail, see Appendix Table A1

²⁵ It should be noted that the question asking about holding of credit and store cards changed slightly, from February 2009 onwards

²⁶ Analysis is based on cases for which information on the value of unsecured borrowing was available. This value was missing for a substantial proportion (24%) of households with unsecured borrowing.

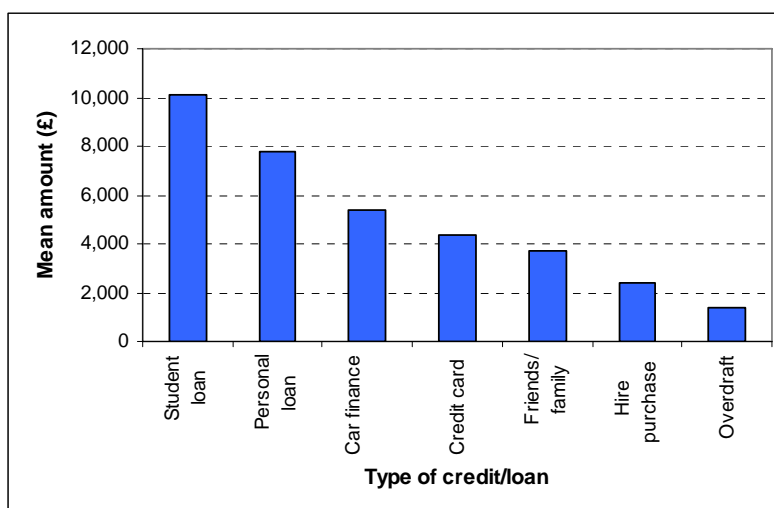
Table 4.1: Total unsecured household borrowing

	Households using unsecured credit
	%
£1,000 or less	24
£1,001 to £2,000	11
£2,001 to £4,000	14
£4,001 to £6,000	9
£6,001 to £10,000	14
£10,001 to £15,000	11
£15,001 to £20,000	7
£20,001 or more	10
<i>Base = 100%</i>	<i>6,928</i>
<i>% of households with missing values</i>	<i>24%</i>

Figure 4.3 compares the average amounts owed for different types of credit commitment.²⁷ It should be noted that the quality of the data is reduced by high levels of missing data as well as the problems of conversion from banded values.²⁸ On average, student loans were the largest (at over £10,000 per household with this type of loan), followed by personal loans (£7,800) and car finance loans (£5,400). The average reported credit card debt was around £4,400 and loans from family and friends were also relatively high, at around £3,700 per household.

For every type of debt, the median value for the amount owed was substantially less than the mean value; this indicates that the distributions are positively skewed and the mean may be affected by a small number of very high values. This is also seen in the high values for the 90th percentile for some types of credit. For example, one-tenth of respondents with an unsecured personal loan owed £15,000 or more and one-tenth of those with credit card debts owed £8,500 or more.

Figure 4.3: Mean amount owed on main types of credit commitment



²⁷ For further detail, see Appendix Table A2

²⁸ The mid-points of bands were used when calculating average amounts. Around 30-40% of values for each type of debt were missing.

These values for the amounts owed on individual types of credit can be combined to derive an estimate of total unsecured debt.²⁹ This suggests that the mean amount owed (by those giving information about values) was around £8,700 with a median of £4,300.³⁰ In spite of the issues with using this data, the results offer a useful comparison with debt values based on the more detailed questions in the Wealth and Assets Survey (WAS).³¹ In general, where categories can be compared, the DebtTrack survey data gives higher mean values – for example, the mean value for credit card debt is £4,400 compared with £3,200 for the WAS. Overall the estimate for total debt is some 20% higher than for the WAS – £8,700 compared with £7,200 per household.

4.1.3 Debt-to-income ratios

The absolute level of debt is not necessarily a good indicator of potential problems as households may have high income to offset the higher debt, so the ratio of debt to household income is considered a more useful indicator than the absolute amount of debt. The debt-to-income ratio is calculated by dividing the total value of outstanding household debt (unsecured, secured or both) by the total household annual income. Over the last ten years debt has increased at a faster rate than income which has led to an increase in the aggregate debt-to-income ratio over recent years, driven mainly by the expansion of secured debt. There is evidence of a fall in the ratio since it peaked in the first quarter of 2008.³²

Table 4.2 shows the distribution of the ratio of unsecured debt to household income for households with unsecured debt and for the full DebtTrack survey sample. Most households with unsecured debts had relatively modest levels of borrowing – more than half (55%) had debts amounting to less than 20% of household income and 38% had debts of less than 10% of income. However, about one-fifth (19%) of households with unsecured credit had debts amounting to more than 60% of current household income, and 13% to more than 80% of income.

Table 4.2: Ratio of unsecured debt to income - households using unsecured credit and all households

	Households using unsecured credit (%)	All households (%)
Zero	n/a	46
10% or less	38	20
>10% to 20%	17	9
>20% to 40%	17	9
>40% to 60%	9	5
>60% to 80%	6	3
More than 80%	13	7
<i>Base = 100%</i>	5,863	10,887
<i>% of households with missing values</i>	36%	23%

4.2 Credit use by household characteristics

It is well established that use of credit varies through the life-cycle, and is traditionally highest among families with children and among young people living as independent householders,

²⁹ See Appendix Table A2

³⁰ It should be noted that the value was missing for 30% of households with some form of unsecured credit

³¹ http://www.statistics.gov.uk/downloads/theme_economy/wealth-assets-2006-2008/Wealth_in_GB_2006_2008.pdf

³² Falling from a peak of 154% in Q1 2008 to 142% in Q3 2009 (latest data available)

whereas pensioner households tend to have fewer commitments. The analysis of variation in credit use presented here focuses on three measures:

- the proportion of households with any unsecured credit commitments;³³
- those with unsecured debts of £10,000 or more and £20,000 or more;³⁴ and
- those with an unsecured debt-to-income ratio of 60% or more.³⁵

Variation in the type of credit product used by different groups of household is also explored.

³⁶ For this analysis, credit products are grouped into the following categories:

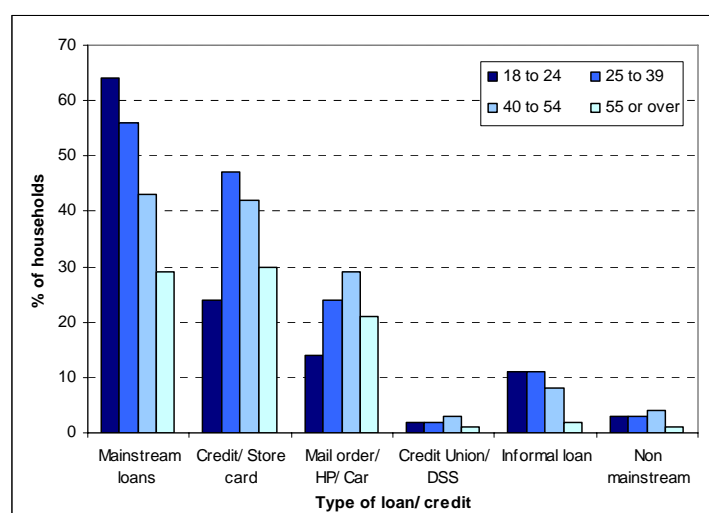
- Mainstream loans – personal loans, authorised overdrafts and student loans
- Credit and store cards
- Mail order, hire purchase agreements and car finance
- DSS/ Social Fund and Credit Union loans
- Informal loans from family and friends
- Non-mainstream loans – pawnbroker, home-collected credit and payday loans

4.2.1 Age

Analysis of the DebtTrack data shows the expected variation in credit use by age of respondent, with high use for respondents aged 18-24 (73%) and 25-39 (76%) decreasing to 50% for respondents aged 55 or over. Levels of debt were also above-average for the households of younger respondents – 45% of respondents in the 18-24 age group and 33% aged 25-39 owed £10,000 or more, compared with 18 to 23% of older age groups. Young respondents were also particularly likely to have a high debt-to-income ratio – 31% of those in the 18-24 age-group had an unsecured debt to income ratio of 60% or more, compared with 19% for the sample as a whole.

The low incidence of unsecured credit among older groups was seen for most categories of product. Young respondents (aged 18-24 years) had above-average levels of both mainstream loans and informal loans, but below-average prevalence of loans on credit/store cards and mail order/hire purchase.

Figure 4.4: Types of unsecured credit by age of respondent



³³ See Appendix Table A3

³⁴ See Appendix Table A4

³⁵ See Appendix Table A5

³⁶ See Appendix Table A6

4.2.2 Income and savings

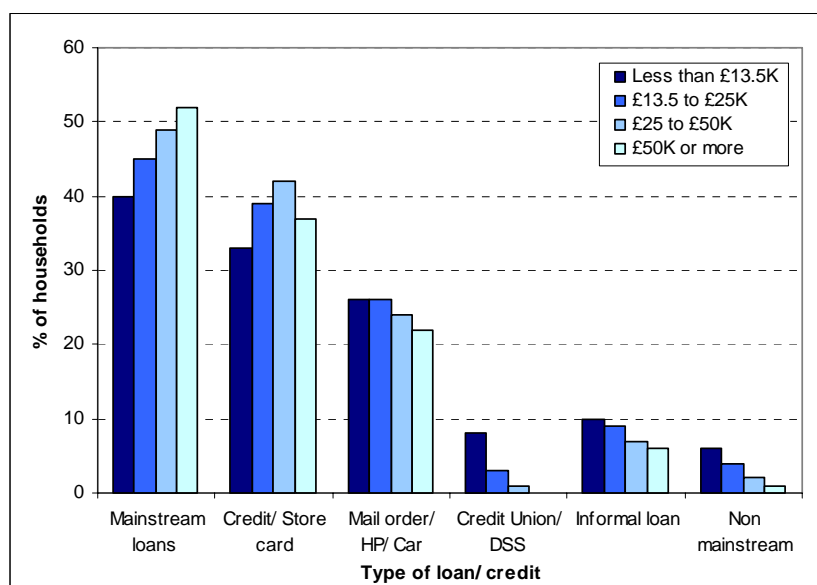
There was little variation in the use of unsecured credit with household income but unsurprisingly there was a strong inverse relationship between credit use and the level of household savings. Four-fifths of households (80%) with savings of less than £1,000 and 86% of those with zero savings had some form of unsecured credit, compared with 47% of households with savings of £10,000-£20,000 and 31% of those with £20,000 or more. A similar pattern was seen for the likelihood of having large numbers of credit commitments.

Although the likelihood of using unsecured credit did not vary with household income, the likelihood of having a high level of debt tended to increase with income. Some 38% of households with an annual income of £50,000 or more had unsecured debts of £10,000 or more, compared with 18% of households in the lowest income group. Levels of debt were also high for households with zero savings (36% owed £10,000 or more).

As would be expected, debt-to-income ratios were more strongly associated with household income, with higher ratios for low-income households. Some 42% of low-income households with unsecured credit had a debt-to-income ratio of 60% or more, compared with 19% overall. There was again a strong association between high levels of debt and household savings – more than a quarter (28%) of households with zero savings had a very high debt-to-income ratio, and this decreased to 6% among borrowing households with savings of £10,000 or more. Households containing an unemployed adult were also much more likely than average to have a high debt-to-income ratio – 32% had a ratio of 60% or more compared with 19% for the sample as a whole.

In terms of product types, the likelihood of using the two major types of unsecured credit – mainstream loans and credit or store cards – increased with household income (Figure 4.5). By contrast, the likelihood of holding the other four categories of unsecured credit tended to decrease as household income increased. The inverse relationship with income was most marked for the category combining DSS/Social Fund and Credit Union loans and for non-mainstream loans (pawnbrokers, home-collected credit and payday loans).

Figure 4.5: Types of unsecured credit by gross annual household income



4.2.3 Household composition

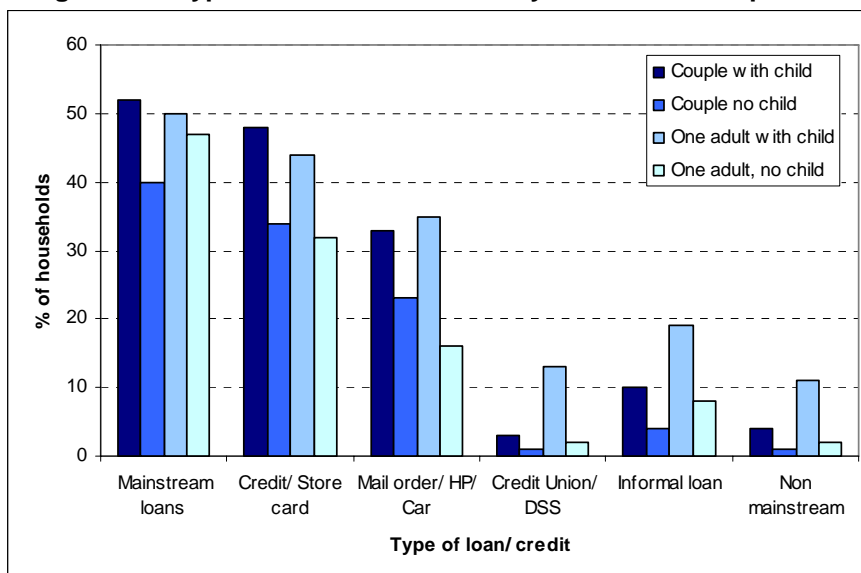
Household composition can be an important factor in credit use, particularly the additional financial burden associated with children. The data shows that around three-quarters of

households with children (74% of couples with children and 78% of lone parents with children) had some form of unsecured credit, compared with 64% of single-adult households and 59% of couples without children.

There was relatively little variation in the incidence of high levels of debt by household composition but differences in the debt-to income ratio were more marked. One-quarter (26%) of lone-parent households and 24% of single-adult households with unsecured debts had a debt-to-income ratio of 60% or more, compared with about 17% of households containing a couple with or without children.

Figure 4.6 highlights the above-average levels of credit use by households with dependent children. There is particular interest in the use of non-mainstream loans, such as home-collected loans, payday loans and credit from pawnbrokers, which tend to have higher interest rates. These were particularly common among lone-parent households (11%, compared with 3% overall) as were informal loans from family and friends (19%, compared with 7% overall) and loans from DSS/ Social Fund or a Credit Union (13%, compared with 2% overall).

Figure 4.6: Types of unsecured credit by household composition



4.3 Demand for credit

Credit is an important feature of modern living but it can become problematic if it is relied upon to pay for everyday expenses. Around one-tenth of respondents (11%) said that they (or their partner) used credit or store cards or an overdraft to pay for everyday living expenses ‘all the time’, and a further 15% used credit for living expenses ‘once in a while’. Families with children were more likely than others to use credit for everyday expenses – 15% of couples with children and 16% of single adults with children used credit for everyday expenses ‘all the time’.³⁷

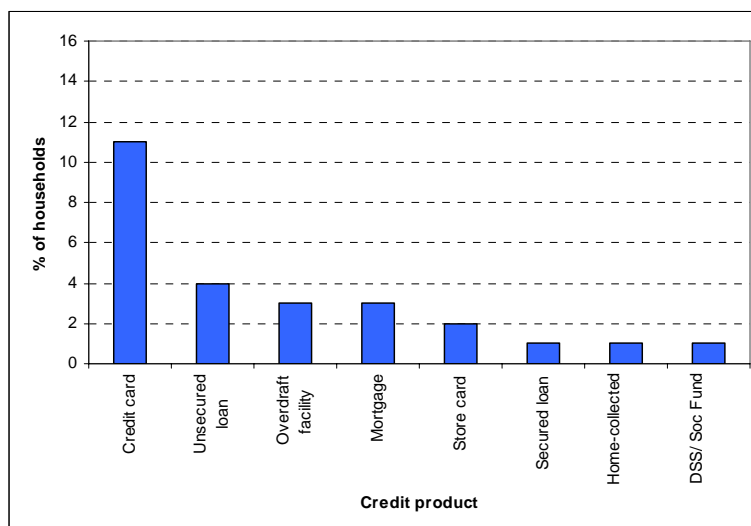
It is important to monitor consumer demand for credit (proxied here through applications) and how well this is being met (through approval of applications), particularly given the macroeconomic context between July 2008 and July 2009.

³⁷ See Appendix Table A7

4.3.1 Applications for unsecured credit

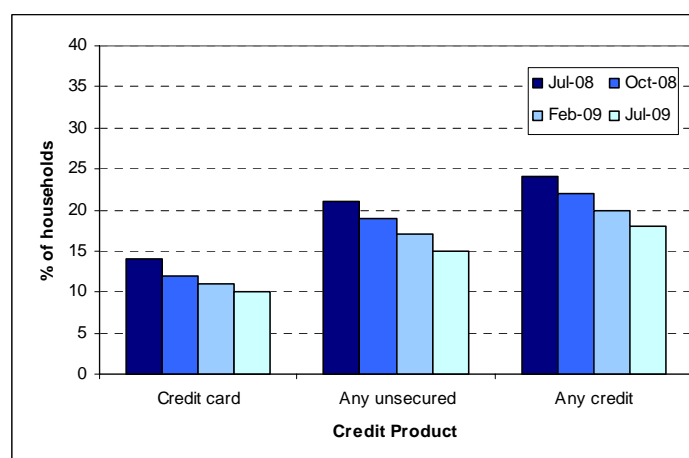
The DebtTrack surveys provide data on demand for credit by means of questions about applications for credit products in the last 6 months. Overall, one-fifth of respondents (21%) had applied for one or more credit products in the preceding six months. Looking across all four rounds of the survey, applications for a credit card were the most common (11% of respondents) followed by applications for personal loans (4%) and then overdrafts and mortgages (3%, see Figure 4.7).³⁸

Figure 4.7: Applications for credit products in the previous 6 months



There is some evidence of a fall in applications for credit over the period of the survey, from July 2008 through to July 2009, as shown in Figure 4.8. The proportion of respondents who had recently applied for an unsecured credit product decreased from 21% in July 2008 to 15% in July 2009; applications for credit cards reduced from 14% to 10% over the same period.

Figure 4.8: Household applications for credit products: July 2008 to July 2009



Applications for both secured and unsecured credit products were associated with household income. Households with an annual income of £50,000 or more were most likely to seek credit (see Table 4.3) – 23% had applied for any form of unsecured credit and 7% for a secured loan, compared with averages of 18% and 4% respectively. This association differed from

³⁸ For further detail, see Appendix Table A8

that for existing credit holdings, where there was no difference between income bands in the level of use of unsecured credit.³⁹ Applications for unsecured credit were also more common among lone-parent households (28%) and respondents aged 18-39 (23%); both of these groups were characterised by high existing credit use.

Table 4.3: Applications for credit products in last 6 months by selected household characteristics

		Credit or store card	Personal loan or overdraft	Home-collected, DSS, payday loan	Any unsecured loan	Any secured loan	Base = 100%
Annual household income							
Less than £13,500	%	9	7	5	18	1	2,026
£13,500 to £25,000	%	13	7	2	19	3	2,626
£25,000 to £50,000	%	15	6	1	19	5	3,876
£50,000 or more	%	18	7	0	23	7	1,985
DK/ NA	%	10	4	1	14	3	3,619
Age of respondent*							
18 to 24	%	15	11	3	24	3	1,225
25 to 39	%	16	8	2	23	6	2,995
40 to 54	%	11	5	3	17	4	2,767
55 or over	%	8	2	1	11	1	3,818
Household composition							
Couple, with child(ren)	%	16	7	2	22	5	3,088
Couple, no child	%	11	4	1	15	4	6,152
One adult with child(ren)	%	16	11	7	28	4	619
One adult, no child	%	13	7	2	18	2	4,192
All households	%	13	6	2	18	4	14,132

* Rounds 2 to 4 only

Higher-income groups were particularly likely to have applied for a credit or store card (18%, compared with 13% overall). Lone-parent households had above-average rates of applications for most types of unsecured credit but particularly for personal loans and overdrafts (11%, compared with 6% overall) and non-mainstream and DSS loans (7%, compared with 2% overall). This difference could reflect preferences for different types of credit product that better suit certain circumstances or possibly a perception among different groups about the likelihood of having their application for certain products approved.

4.3.2 Outcome of applications

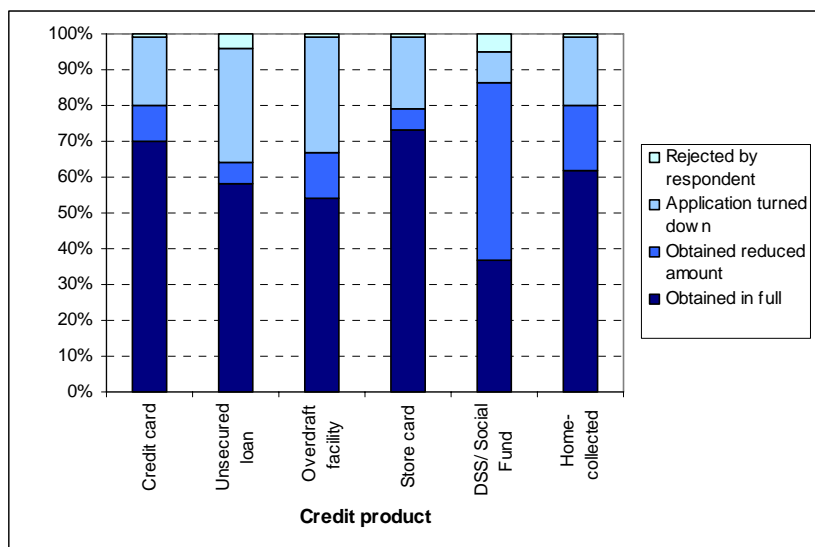
The outcome of applications for each type of unsecured credit is shown in Figure 4.9.⁴⁰

Applications for unsecured personal loans and overdrafts were the most likely to have been rejected (32% in each case). Credit and store card applications were most likely to have been agreed for the full amount (70% and 74% respectively), whereas DSS/ Social Fund loans were most likely to have been agreed for a reduced amount (50% of applications).

³⁹ For further detail, see Appendix Table A3

⁴⁰ For further detail, see Appendix Table A9

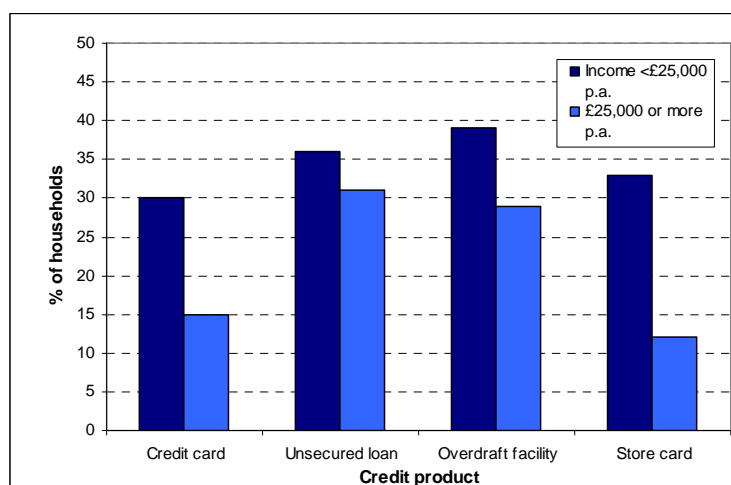
Figure 4.9: Outcome of applications for unsecured credit



The likelihood of having loan applications rejected for the main types of credit product was inversely associated with income. Households with lower income levels⁴¹ were consistently more likely than those with higher income to have their credit application rejected, as shown in Figure 4.10.⁴² The difference was particularly marked for credit and store card applications.

Although the likelihood of having an application rejected showed some variation by age and household composition, the pattern was not consistent across all product types. However, younger respondents (aged 18-39) appeared more likely than older groups to have their applications for credit cards, store cards and unsecured loans rejected.

Figure 4.10: Percentage of applications for main credit products that were rejected, by gross annual household income



4.3.3 Use of credit for consolidation

Around one-fifth of respondents (19%) had used one or more of their credit products⁴³ to refinance or pay off other borrowing. The likelihood of having done this was greater for families with children than for other households; 28% of couples with children and 33% of

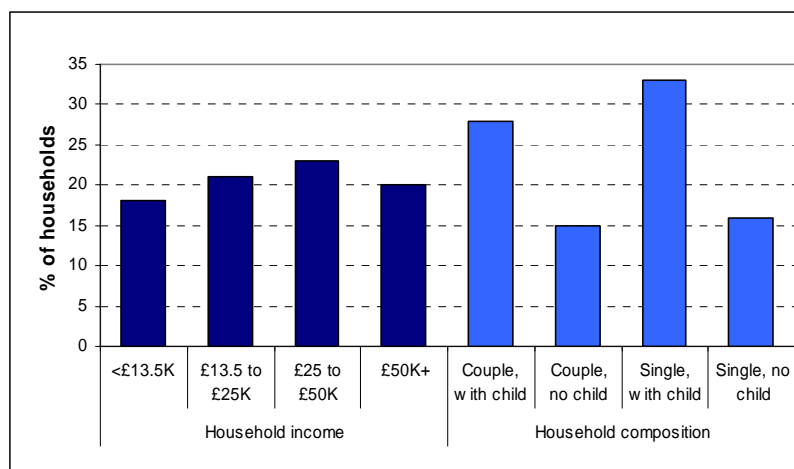
⁴¹ Here defined as those with a gross household annual income of less than £25,000

⁴² For further detail, see Appendix Table A10

⁴³ Including secured loans

lone-parent households had used credit to refinance other borrowing. The rate did not, however, vary systematically with household income (see Figure 4.11).⁴⁴

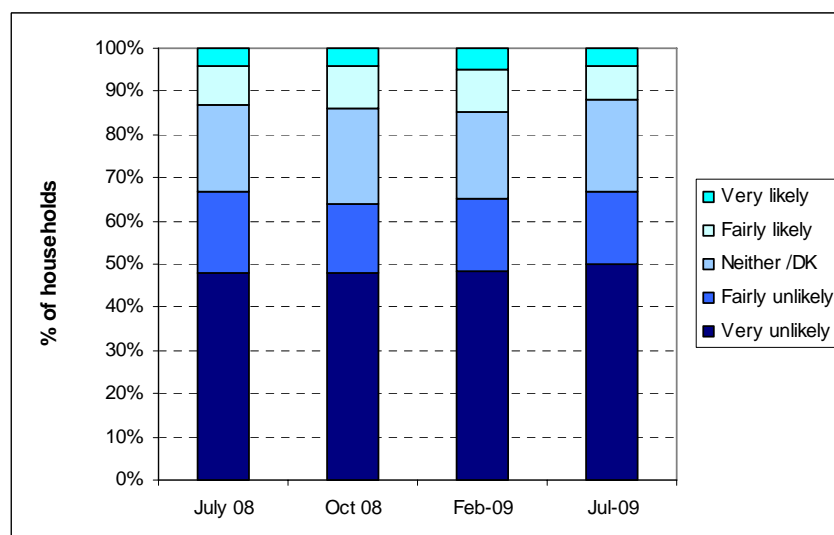
Figure 4.11: Use of credit for consolidation by household income and composition



4.3.4 Future demand for credit

The demand for credit appears unlikely to increase substantially in the near future (Figure 4.12). Only 13% of respondents said that they were ‘likely’ or ‘very likely’ to need to borrow money over the next six months; two-thirds (66%) of respondents said they were ‘unlikely’ or ‘very unlikely’ to need to borrow more. There was little change in responses over the period of the survey, although there were possible indications of a decrease in likely demand between February and July 2009, mirroring the fall seen in credit applications over this period.⁴⁵

Figure 4.12: Likelihood of needing to borrow more money in next 6 months: July 2008 to July 2009



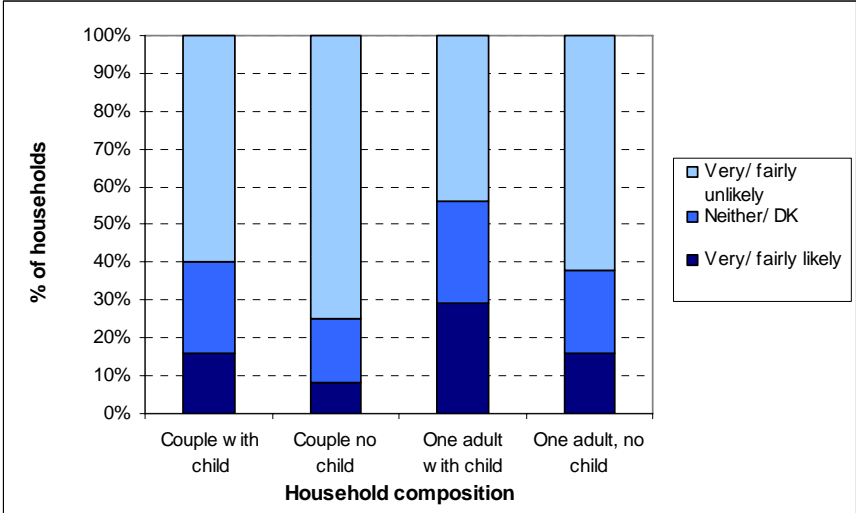
The aggregate data masks substantial differences in expectations among certain sections of the population. Lone-parent households were more likely than others to say that they were fairly or very likely to need to borrow more money (29%), as shown in Figure 4.13, as were the households of younger respondents (25% of those age 18-24) and households in which the

⁴⁴ For further detail, see Appendix Table A7

⁴⁵ For further detail, see Appendix Table A11

respondent and/or partner was unemployed (24%).⁴⁶ The associations with household composition and age were broadly similar to those seen for credit applications made in the previous 6 months. There was, however, an inverse relationship between income and the likelihood of needing to borrow more – low-income groups were more likely to say that they might need to borrow more. This is the reverse of the association seen for credit applications, highlighting perhaps the difference between a ‘need’ for credit and exercising a choice to apply for different products

Figure 4.13: Likelihood of needing to borrow more money in next 6 months by household composition



⁴⁶ For further detail, see Appendix Table A12

5 The extent of over-indebtedness

5.1 Suggested indicators of over-indebtedness

There is no universal agreement on the definition of the indicators that should be used to measure consumer 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'.⁴⁷ Based on this definition, five indicators of financial difficulties were explored using data from the 2004 MORI Financial Services Survey. The indicators cover different aspects of over-indebtedness, identifying either those who are currently experiencing financial difficulties (arrears indicator) or those who might be at significant risk of problems (burden and credit commitments). For each indicator a threshold was identified which might be consistent with arrears 'on a structural basis'. Most of the indicators are based on objective measures of arrears or level of debt but a subjective measure based on individuals' perception of their situation is also included. The five indicators are as follows:

Arrears Indicator

- Individuals/Households in arrears on a credit commitment and/or a domestic bill for more than 3 months.

Burden Indicators

- Those spending more than 25% of their gross monthly income on repayments of unsecured debt.
- Those spending more than 50% of gross monthly income on repayments of all debt (unsecured and secured).
- Those saying that their commitments are a 'heavy burden'.

Credit Commitments Indicator

- Those with four or more separate credit commitments.

A more recent review of the available literature on over-indebtedness⁴⁸ concludes that a more precise definition derives from the German Federal Ministry, which defines 'over-indebtedness' as: "...when [a household's] income, in spite of a reduction in the living standard, is insufficient to discharge all payment obligations over a longer period of time." This is interpreted as circumstances where the household's credit-financed spending plans are inconsistent with its potential income stream. This approach presents a challenge to progress in terms of analysis, as the main components of the definition remain undefined (e.g. potential income stream, minimum living standard).

5.2 Latest findings

This section presents results from the DebtTrack sample for the over-indebtedness indicators used as the basis for comparisons since 2004. These results relate to the period from July 2008 to July 2009. Longer term trends are discussed in the next section (5.3) by comparison with results from earlier surveys. Section 5.4 then presents information on the extent of overlaps between the different over-indebtedness indicators. Other possible indicators of financial difficulties are explored in Section 6.

5.2.1 Arrears indicator

Questions about arrears on current bills and payments are considered to be a strong objective indicator of current financial difficulties. Respondents to the DebtTrack surveys were asked

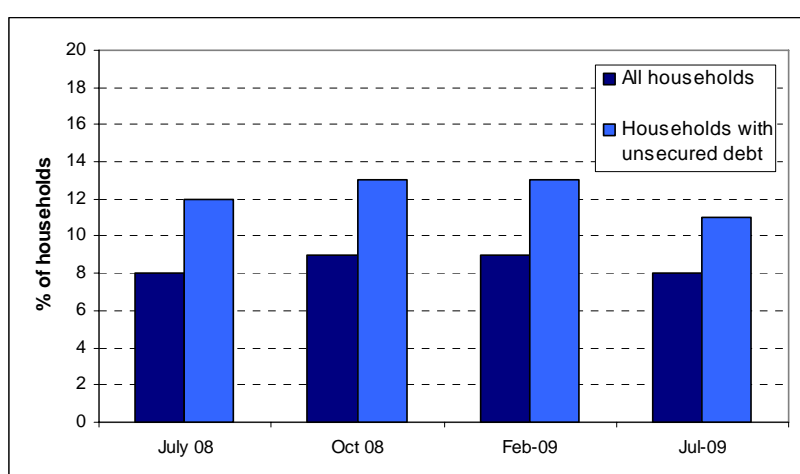
⁴⁷ <http://www.oxera.com/main.aspx?id=1425>

⁴⁸ <http://www.bis.gov.uk/files/file49248.pdf>

directly about whether they (or their partner) were currently behind with any payments on bills or credit commitments and, if so, whether they had been behind with any payments for more than three months. The latter measure was used to identify households that were in ‘structural’ arrears, i.e. excluding those who may have simply forgotten to pay a bill or who had delayed payment over a short period.

- **9% of households in the DebtTrack sample were identified as being in structural arrears.** The level of arrears was higher for households with some unsecured credit, at 12% on average across the four rounds of the survey.⁴⁹
- There was little change in the proportion of households in structural arrears over the period of the survey. For households with unsecured credit there were indications that the level of arrears peaked between October 2008 and February 2009 with a slight reduction by July 2009.

Figure 5.1: Percentage of households in structural arrears: July 2008 to July 2009



5.2.1.1 Number and type of payments in arrears

Whilst evidence that a household is in structural arrears – i.e. more than 3 months behind on any bill or payment – is an indicator of over-indebtedness, it can be instructive to look at the number and type of payments in arrears. For example, evidence that a household is in structural arrears on two or three payments might give an indication of severe over-indebtedness.

- Around half of respondents with structural arrears were behind on only one payment; 4% of households were more than three months behind with two or more payments and 2% were behind with three or more payments (Table 5.1).
- Arrears on household bills and on credit payments were similarly prevalent, with around 5% of all households having arrears on each of these types of payment.

⁴⁹ For further detail, see Appendix Table A13

Table 5.1: Number and type of payments in structural arrears

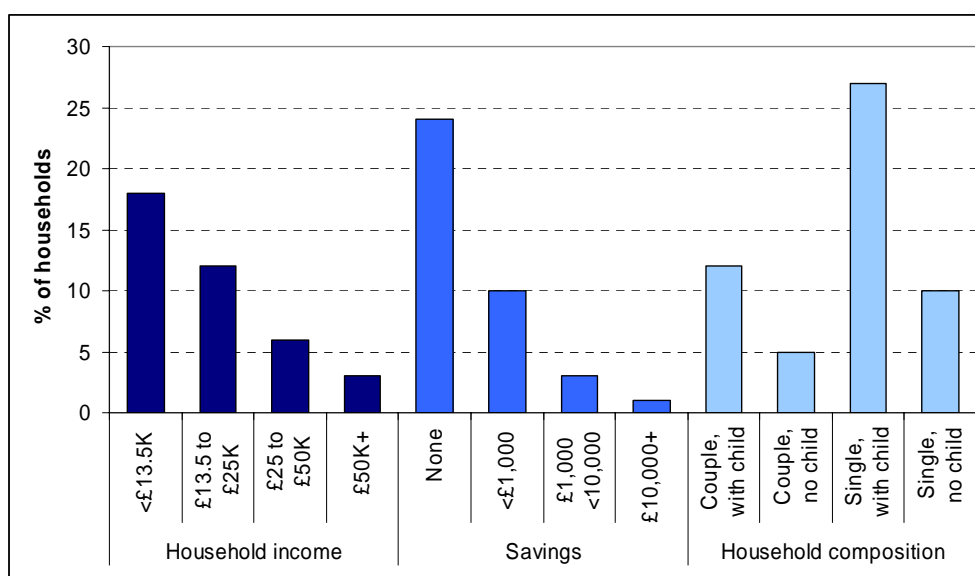
	All rounds (percentage)
More than 3 months behind with any payments (structural arrears)	9
2 or more payments in 3-month arrears	4
3 or more payments in 3-month arrears	2
<hr/>	
Arrears on major household bills ^a	5
Arrears on any unsecured loans or credit	5
Arrears on other bills or payments	3
Arrears on mortgage payments	0
<hr/>	
Base	14,132

^a Including rent, excluding mortgage payments

5.2.1.2 Variation by household characteristics

The likelihood of being in structural arrears varied markedly for different groups of households. As might be expected, there was a strong association between income level and the incidence of arrears (as shown in Figure 5.2). Almost a fifth (18%) of households in the lowest income band⁵⁰ were in structural arrears with payments and this reduced to just 3% for households with an annual income of £50,000 or more. The prevalence of structural arrears was particularly high for households with no savings – 24%, compared with 3% or less for households with savings of £1,000 or more.⁵¹

Figure 5.2: Variation in the arrears indicators by household characteristics



Looking at other household characteristics, the likelihood of being in arrears was substantially above average for lone-parent households (27%), households living in rented accommodation (19%) and those where one or both adults was unemployed (22%). The rate was also above average for households experiencing a significant change in circumstances in the past year – 20% of households in which the respondent or partner had lost their job in the last 12 months were in structural arrears, as were 20% of those affected by a relationship breakdown or a new child in the household during the past year.

⁵⁰ Those with a gross annual household income of less than £13,500

⁵¹ Further detail on variation in the incidence of structural arrears (and other indicators of over-indebtedness) are available in Appendix Table A14

The likelihood of being in arrears was significantly below average for households which owned their home outright (2%) and where the respondent was aged 55 or over (5%) as well as for households with higher annual income, as already discussed.

5.2.1.3 Multivariate analysis of variation in arrears

Although the above analysis indicates characteristics that are associated with structural arrears, it is likely that some of the characteristics discussed are themselves strongly associated with each other. For example, the high probability that households in rented accommodation are in structural arrears may be related to such households earning lower incomes. The extent to which these characteristics have independent and additive associations with the incidence of arrears can be explored using multivariate analysis, as detailed in Appendix B. The findings can be summarised as follows:

- The level of **household savings had the strongest association** with the likelihood that households were in structural arrears, **followed by household tenure**.
- All of the household characteristics used in the main analysis (shown in Appendix Table A14) apart from age were found to be independently associated with the likelihood of being in structural arrears.

5.2.2 Burden indicators

Results are presented for two different indicators of burden used to identify over-indebtedness – an objective indicator based on repayment to income ratios, and a subjective indicator based on the proportion of households who find their commitments to be a ‘heavy burden’. The burden (and credit commitment) indicators are somewhat broader than the arrears indicator, in that they could potentially also cover households that might be at risk of over-indebtedness as well as those already suffering financial problems.

5.2.2.1 Repayment to income ratios

Two indicators based on the affordability of credit repayments have been considered in previous reports – households spending more than 25% of their gross monthly income on unsecured credit repayments and households spending more than 50% of gross income on total credit repayments. The DebtTrack collects relevant data on the value of credit repayments but levels of non-response to these (and other) questions on monetary amounts are relatively high, as is usually the case for self-completion surveys. Due to the incompleteness of data, it is difficult to draw conclusions about these ratios and only one is considered here – the repayment to income ratio for *unsecured* credit repayments.⁵²

- When based on all households⁵³, about **one in twelve (8%) households were spending more than 30% of their income** to service their loans and **about one in eight (12%) were spending more than 20% of their income**. This represented 12% and 18% respectively of households with unsecured credit (Figure 5.3).⁵⁴
- For only those households with complete information⁵⁵, one-tenth of households (10%) were spending more than 30% of their income on credit repayments; this represented 19% of households with unsecured credit (Figure 5.3).⁵⁶

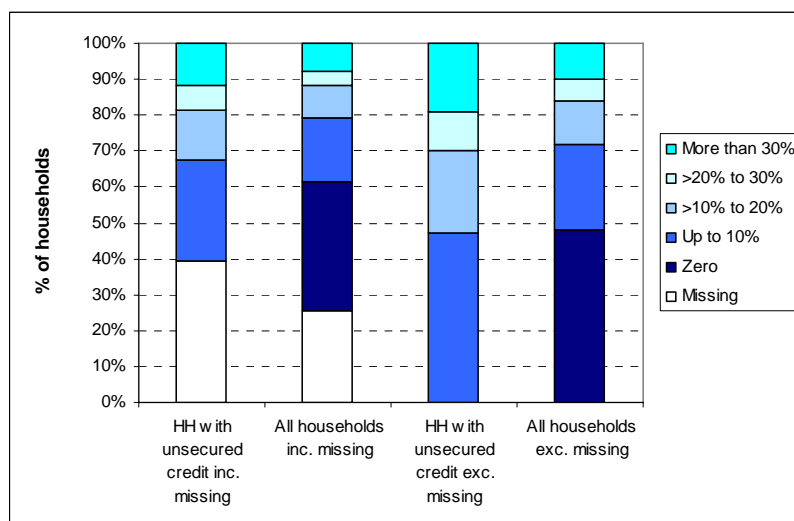
⁵² The repayment to income ratio was missing for 26% of all respondents to the DebtTrack (40% of households with unsecured credit). The ratio was missing for 12% of all responding households in the 2002 DTI-MORI survey.

⁵³ That is, including households with missing information in the base

⁵⁴ By including all households in the base this approach implicitly assumes that households with missing data had repayment ratios below the threshold levels, so it will tend to under-state the proportion of households above the threshold. It is, however, comparable to the method of calculation used for previous surveys, which had lower levels of missing information (see also Appendix Table A15)

⁵⁵ That is, excluding households with missing information from the base

Figure 5.3: Distribution of ratio of unsecured debt repayments to income – households with unsecured credit and all households



5.2.2.2 Subjective burden indicator

A more subjective indicator of burden is based on a direct question on the extent to which respondents feel that keeping up with their bills and credit commitments is a financial burden. On the DebtTrack survey this question was asked of all households, regardless of whether they were using any form of credit.

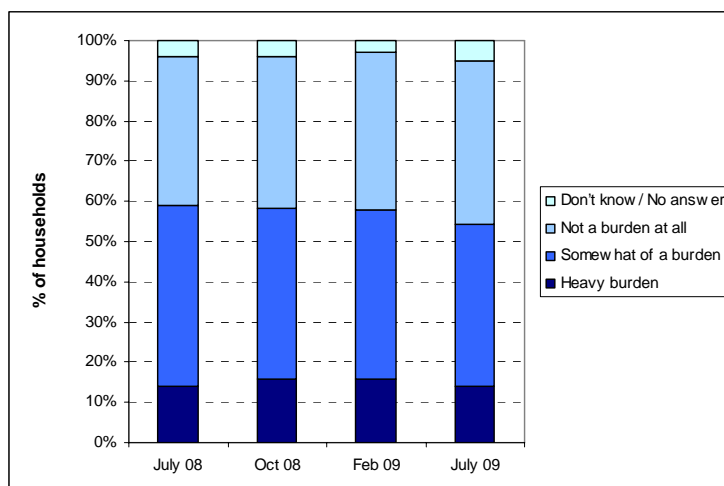
- **15% of respondents considered that keeping up with bills and credit commitments was a heavy burden for their household** (self and partner). The level varied between 14% and 16% across the separate rounds of the survey, and there were indications of a slight improvement between February and July 2009 (see Figure 5.4).⁵⁷
- Active users of credit were more likely to see their commitments as a heavy burden. One-fifth of respondents with any form of credit or loan (21%) felt that keeping up with their bills and credit commitments was a heavy burden.⁵⁸ This group was also more likely to perceive that keeping up with payments was 'somewhat of a burden' (49%, compared with 43% for all households).

⁵⁶ These percentages are based only on those who gave relevant information, so implicitly assume that the distribution of the ratio would be similar for non-responding as for responding households. Clearly this is not known but it may be a more realistic assumption than that used above.

⁵⁷ For further detail, see Appendix Table A16

⁵⁸ For further detail, see Appendix Table A16

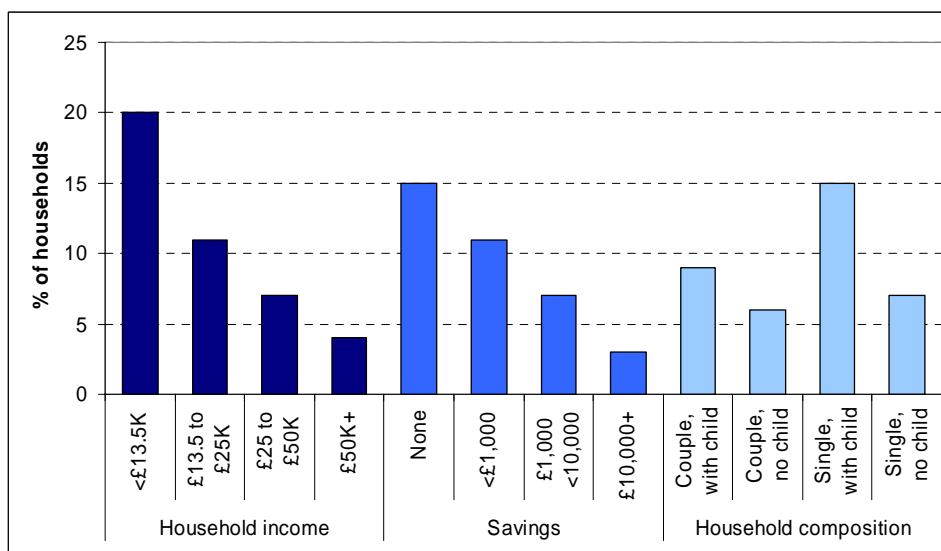
Figure 5.4: Extent to which keeping up with bills and credit commitments is a burden – all households



5.2.2.3 Variation by household characteristics

As for the arrears indicator, both of the burden indicators were inversely associated with household income and with the level of household savings.⁵⁹ For example, a quarter (25%) of households with a gross annual income of less than £13,500 said that keeping up with payments was a heavy burden, compared with 9% of those with an income of £50,000 or more. Respondents from households with zero savings were particularly likely to say that keeping up with bills and credit commitments was a heavy burden (37%) and this rate fell to 7% among households with savings of between £1,000 and £10,000, down to 2-3% for households with savings in excess of £10,000.

Figure 5.5: Variation in the repayment ratio indicator by household characteristics



Lone-parent households had above-average rates on both of these indicators, as also seen for the arrears indicator – 30% said that keeping up with payments was a heavy burden compared with 15% overall and 15% had high repayment to income ratios, compared with 8% overall. Couples with children also had above-average levels on the subjective burden indicator (21%), as did households of respondents in the middle age bands (18% for those

⁵⁹ For further details, see Appendix Table A14

