

BERR

Department for Business
Enterprise & Regulatory Reform

**HOUSEHOLD DEBT
MONITORING PAPER
H2 2007**

**Consumer and
Competition Policy
Directorate**

URN 08/401A

Contents

[List of Figures](#)

[Summary](#)

1. [Introduction](#)
2. [Aggregate Information on Household Indebtedness](#)
3. [Analysis of Problem Debt](#)

Annex A: [List of Data Sources](#)

List of Figures

- Figure 1: [Bank of England base rate, January 2000 – April 2008](#)
- Figure 2: [Average effective interest rate for lending secured on dwellings to households, per cent, January 2000 – April 2008](#)
- Figure 3: [Employment and unemployment, thousands, January 2000 – March 2008](#)
- Figure 4: [Employment and unemployment rates, per cent, January 2000 – March 2008](#)
- Figure 5: [Quarterly growth in household final expenditure, percentage change relative to previous quarter, Q1 2000 – Q4 2007](#)
- Figure 6: [Monthly changes to net lending \(secured and unsecured\), £millions, January 2000 – April 2008](#)
- Figure 7: [12-month growth rate of net lending \(secured and unsecured\), per cent, January 2000 – April 2008](#)
- Figure 8: [Household sector debt to disposable income ratios \(secured and unsecured\), per cent, Q1 2000 – Q4 2007](#)
- Figure 9: [Household sector debt to financial assets ratios \(secured, unsecured and total\), per cent, Q1 2000 – Q4 2007](#)
- Figure 10: [Debt write-offs for the household sector, £ millions, Q1 2000 – Q4 2007](#)
- Figure 11: [Household sector write-off rates \(taken from the ten largest suppliers of banking services in the UK\), per cent, Q1 2000 – Q4 2007](#)
- Figure 12: [Mortgage arrears as a percentage of total stock of mortgages, H1 2000 – H2 2007](#)
- Figure 13: [Properties taken into possession, number, H1 2000 – H2 2007](#)
- Figure 14: [Mortgage possession orders and claims, number, H1 2002 – H2 2007](#)
- Figure 15: [Individual insolvencies in England and Wales, number, Q1 2000 – Q4 2007](#)
- Figure 16: [Individual insolvencies in Northern Ireland, number, Q1 2000 – Q4 2007](#)

- Figure 17: [Individual insolvencies in Scotland, number, Q1 2000 – Q4 2007](#)
- Figure 18: [Annualised personal insolvency rates, per cent, Q1 2000 – Q4 2007](#)
- Figure 19: [Consumer Credit Counselling Service \(CCCS\) Debt Management Plans \(DMPs\), number, Q1 2001 – Q4 2007](#)
- Figure 20: [Value of debt under CCCS DMPs at year end, £ billions, 2003 to 2007](#)

Summary

Data for the second half of 2007 suggests that consumer lending has continued to increase, albeit at a declining rate, with secured lending accounting for a greater proportion of overall growth. This growth has led to a further overall rise in the total household debt to disposable income ratio, although there was a small decrease in the fourth quarter. The number of repossessions stayed roughly unchanged and both personal insolvencies (statutory and non-statutory) and debt write-off rates continued to decline over the period.

It does not seem as though the credit crunch has had a significant impact on the various debt indicators reported here, in terms of the degree to which consumers may be over-stretching themselves. However, there are signs that it may be starting to have an effect on consumer spending and credit availability. Overall, the balance of the evidence would suggest debt is currently a problem for only a very small proportion of households. However, this may increase slightly in the future, particularly in light of developments that suggest a less benign macroeconomic environment.

On the macroeconomic front, the Bank of England has dropped the base rate by half a percentage point to 5 per cent since June 2007, though this has not affected the average effective interest rate for secured lending on dwellings. Inflation also increased, to well above the Government's 2 per cent target, largely as a result of food and fuel price increases, putting pressure on real incomes. This could possibly explain the decline in consumer spending growth, which is forecast to fall further in 2008.

Overall, the labour market continues to be strong, with employment rising and inactivity falling to record low levels, but here too there are signs of future problems – recent increases in unemployment and a weakening of business employment intentions.

The household debt to disposable income ratio continues to increase, largely due to the growth in secured lending, although this did fall slightly in the fourth quarter. Meanwhile, the household debt to financial assets ratio has also increased gradually throughout 2007 and has now reached the same levels as in mid-2004, the overall peak since the series began in 2000.

In terms of problem debt, the proportion of all mortgages in arrears rose slightly in the second half of 2007, with a greater proportion moving into long-term arrears. However, they remain at very low historical levels, and account for only a small proportion of total mortgage loans. The levels and rates for statutory personal insolvencies in England, Wales and Northern Ireland, and non-statutory debt management programmes across the UK, have continued on the downward path established at the beginning of 2007, though it is too early to say whether this will be a trend that will be maintained over a longer period of time, especially as the fallout from the credit crunch works its way through the wider economy.

The number of properties taken into possession is higher than in the recent past, though the level stayed roughly unchanged from the first half of 2007 and these remain a very small proportion of total home loans, in addition to being low by historical standards. However, there were also reported increases in mortgage possession claims and orders over the period, suggesting potential future problems as they work their way through the system.

On the positive side, both the level and rates of debt write-offs have declined in the second half of 2007, particularly write-off rates for non-credit card unsecured debt.

Finally, although the labour market appears robust there are signs of weakening in consumer spending, as higher inflation impacts real incomes. It is difficult to say what the effect of this, combined with further tightening in the credit market as a result of the credit crunch, might be on the wider economy over the next six months.

The following are notable changes since the end of the second quarter of 2007:

- Although the base rate has fallen by half a percentage point since June 2007, the average effective interest rate for secured lending has remained unchanged. Inflation currently stands at 3.3 per cent (CPI) or 4.3 per cent (RPI), depending on the measure chosen. Growth in household spending fell to 2.3 per cent for the second half of 2007 and year-on-year growth for Q4 2007 was down by almost 50 per cent. Forecasts released with the Budget suggest that growth of household consumption will weaken to between 1.25 and 1.75 per cent in 2008.
- Consumer lending has grown less strongly during the second half of 2007 compared to the first. Secured lending growth has fallen significantly (more than 10 per cent) during this time, whilst growth in unsecured lending remains relatively robust, at 3.7 per cent.
- The total amount of debt written off fell during the second half of 2007, more sharply than during the first six months, particularly so for write-offs relating to (non-credit card) unsecured debt. Write-off rates also fell slightly during the second half of 2007, with decreases for unsecured debt (including credit cards) especially strong.
- Repossessions stayed roughly the same in the second six months of 2007 as during the first but remain low by historical standards, accounting for only around 0.1 per cent of all loans. However, mortgage possession claims and orders both rose (by 2.4 and 1.6 per cent respectively), suggesting potential future problems in this area.
- Statutory insolvencies fell across the UK during the second half of 2007, continuing the trend set at the start of the year. This trend also emerged in insolvency rates, though Scotland is still well above England and Wales, significantly so compared to Northern Ireland. CCCS data shows that the number of Debt Management Plans (DMPs, non-statutory insolvency) continued to decline sharply during the latter half of 2007, as did the growth in total outstanding DMP debt, while annual DMP repayments for 2007 increased by almost 90 per cent on 2006 levels.

Chapter One

Introduction

The Consumer Credit White Paper published in December 2003¹ made a commitment to work on minimising over-indebtedness and helping those who become over-indebted.

As a result, a cross-Government Over-indebtedness Strategy was set up in July 2004. The Strategy is overseen by the Department for Business, Enterprise and Regulatory Reform (BERR), the Ministry of Justice (MoJ) and the Department for Work and Pensions (DWP). This work is supported by an Advisory Group whose representatives are drawn from the credit industry, voluntary sector and academia and which helps to develop policies in this area.

The widespread complementary activity is detailed comprehensively in the Tackling Over-indebtedness Annual Reports² which update the cross-Departmental Over-indebtedness Action Plan, issued in 2004³. Activities are also detailed individually on Government Departments' websites.

BERR is committed to monitoring debt levels and problems associated with debt in the UK. In line with this commitment, this Monitoring Paper aims to provide a high-level summary of the extent of household indebtedness and to look at the degree to which individuals are struggling with excessive debt.

Information is drawn primarily from publicly available sources, although where appropriate, specific research is referred to. The analysis includes data up to the end of December 2007. However where there have been more recent developments that have been particularly significant, for instance any changes in the overall macroeconomic environment, these changes have been included.

¹ Fair, Clear and Competitive: The Consumer Credit Market in the 21st Century, White Paper, December 2003, available at <http://www.berr.gov.uk/files/file23663.pdf>

² The latest report, Tackling Over-Indebtedness: Annual Report 2007, December 2007, is available at <http://www.berr.gov.uk/consumers/consumer-finance/over-indebtedness/index.html>

³ Tackling Over-Indebtedness: Action Plan 2004, July 2004, available at <http://www.berr.gov.uk/files/file18559.pdf>

Chapter Two

Aggregate Information on Household Indebtedness

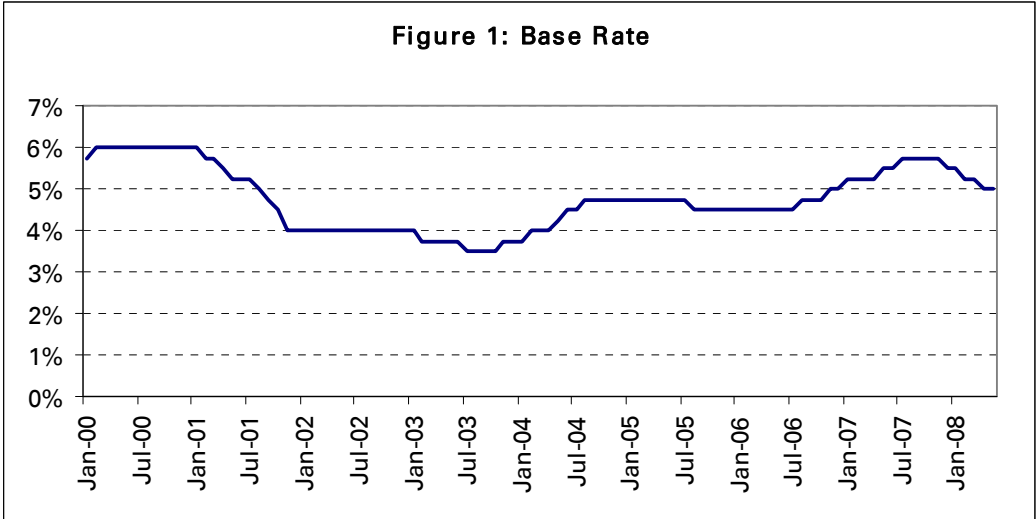
This section reviews the macroeconomic picture, the cost of and growth in consumer borrowing, and explores the degree to which individuals may be overstretching themselves, by looking at debt to income and debt to financial asset ratios to give a fuller view of the household sector's debt burden. It begins by looking at recent movements in interest rates and inflation before turning to the labour market. The chapter goes on to look at consumer spending, lending and debt.

Key points

- Although the base rate has fallen by half a percentage point since June 2007, the average effective interest rate for secured lending has remained unchanged. Inflation currently stands at 3.3 per cent (CPI) or 4.3 per cent (RPI), dependent on the measure chosen, putting a squeeze on real incomes.
- The labour market remains strong, with employment rising to almost 75 per cent and inactivity falling to a record low, though there are some signs of trouble ahead – unemployment has also risen slightly recently and business employment intentions appear to have weakened.
- Growth in household spending fell to 2.3 per cent for the second half of 2007 and year-on-year growth for Q4 2007 was down by almost 50 per cent. Forecasts released with the Budget suggest that growth household consumption will weaken to between 1.25 and 1.75 per cent in 2008.
- Consumer lending has grown less strongly during the second half of 2007 compared to the first. Secured lending growth has fallen significantly (more than 10 per cent) during this time, whilst growth in unsecured lending remains relatively robust, at 3.7 per cent for the second half of 2007.
- The household debt to disposable income ratio continued to rise over the second half of 2007, peaking in the third quarter – accounted for solely by the increase in the secured debt ratio, with the unsecured debt ratio unchanged. The debt to financial assets ratio also increased slightly, again due mostly to increases in the secured debt ratio. Secured and unsecured debt-financial assets ratios are now the same as those during the overall peak of the series, in Q3 2004.

2.1 Interest and Inflation Rates

As can be seen in Figure 1, the Bank of England raised the base rate by 0.25 percentage points on three occasions in 2007 (January, May and July), before three successive cuts by the same amount – first in December 2007, then February 2008 and finally in April 2008. The Bank of England base rate currently stands at 5 per cent.



Source: Bank of England, Monetary & Financial Statistics Interactive Database

The outlook for interest rates remains uncertain – Consumer Prices Inflation (CPI) exceeded the Government's 2.0 per cent target in March 2007 and continues to exceed the Government's target, reaching 3.3 per cent in May 2008. The Bank of England's Monetary Policy Committee is of the view that CPI inflation is likely to rise sharply in future months, possibly as high as 4 per cent during the latter half of 2008, especially due to rises in commodity prices – for example, in the last 12 months world agricultural prices have increased by 60 per cent and retail food prices by 8 per cent. However, inflation should peak towards the end of 2008 and fall back towards the 2 per cent target in 2009, as long as there are no more unexpected increases in oil and commodity prices, according to the Committee⁴.

The Retail Price Index (RPI) which, unlike CPI, includes additional items that relate mainly to housing costs, increased to 4.3 per cent in May 2008. RPIX (which excludes mortgage interest payments) also rose, to 4.4 per cent.

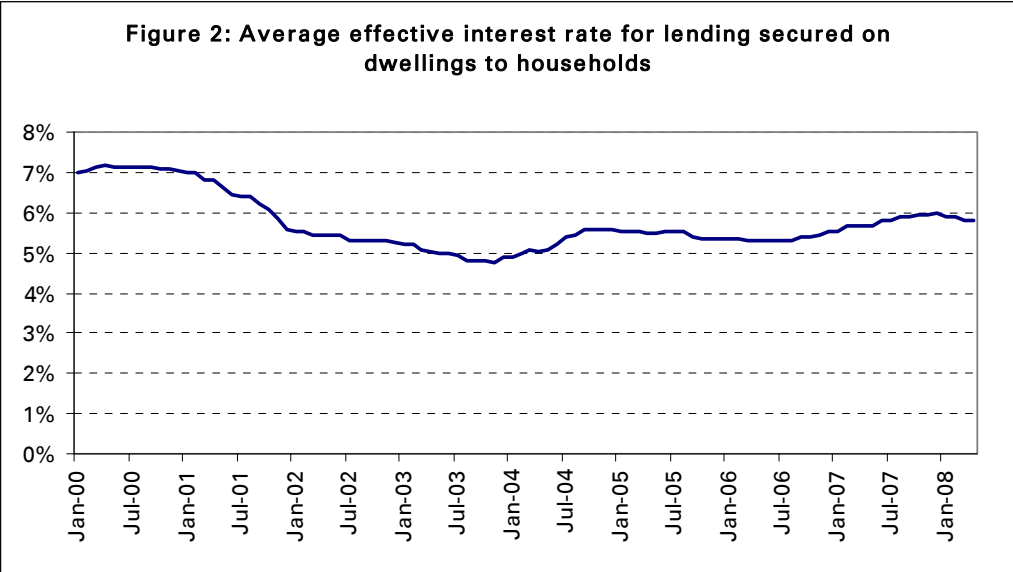
In order to assess the overall economic impact upon the household sector of changes in the Bank of England's base rate, an effective interest rate⁵ for lending secured on dwellings is calculated – shown below in Figure 2. This is the average cost of secured borrowing across the entire household sector, and

⁴ <http://www.bankofengland.co.uk/monetarypolicy/pdf/cpiletter080616.pdf>

⁵ This rate is computed using a survey in which the institutions taking part (most large retail banks) are selected from a population of over 400 UK-resident banks according to a stratified sample, where each stratum represents an economic sector or product type. The monthly effective interest rate for the household sector is computed as accruals of interest payable and receivable, divided by the average daily balance sheet total in the month for lending.

includes both fixed and variable mortgages. Three-quarters of total household borrowing is made up of mortgage debt.

The importance of this rate as a reflection of the average cost of borrowing across the household sector can be understood when one considers that banks offer a range of different mortgage products at different rates and terms. When mortgage rates change in response to base rate changes by the Bank of England, customers on fixed rates will remain on their existing rate until the fixed period runs out. By contrast, variable rate customers will often see their rates change the following month. Hence, effective rates average out all of these factors and measure the effect on the total customer base for that bank. When averaged across all banks they measure the economic effect on the entire household sector.



Source: Bank of England, Monetary & Financial Statistics Interactive Database (not seasonally adjusted)

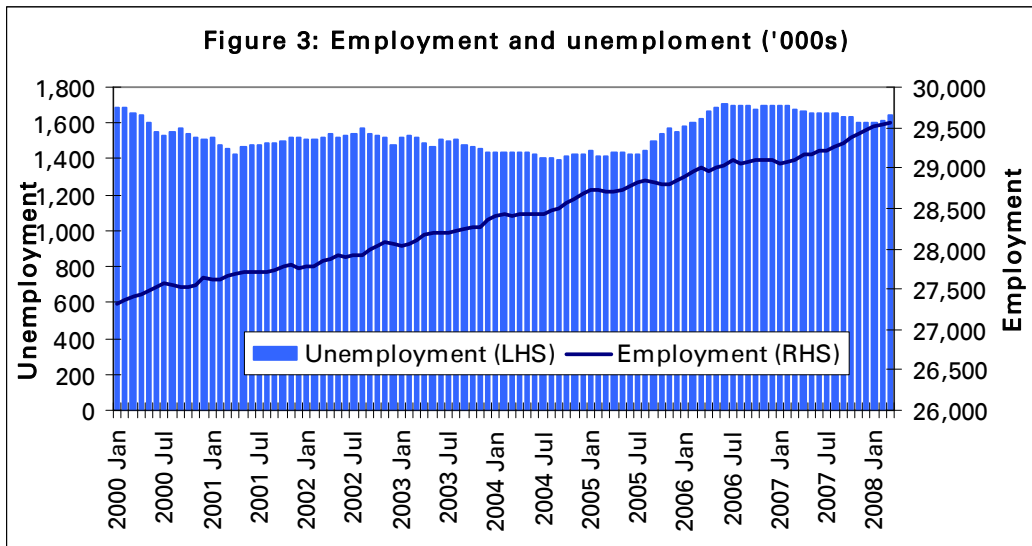
The effective interest rate rose throughout 2007, but fell in the first few months of 2008. The rate stood at 5.97 per cent in December 2007, 0.44 percentage points higher than December 2006, but it has since fallen to 5.80 per cent as of April 2008. Since June 2007, although the Bank of England’s base rate has fallen by 0.50 percentage points, the effective interest rate that households face on their loans secured on dwellings has remained unchanged.

Over the longer term, movements between the base rate and the effective interest rate have been closely correlated – for example, since July 2006 the base rate has risen by 0.50 percentage points, while the effective interest rate has risen by 0.51 percentage points. This recent divergence between the two series could therefore be a lag in adjustment, or reflect a high proportion of outstanding fixed-rate mortgages, or possibly a consequence of recent financial market instability. According to CML statistics⁶, the percentage of outstanding mortgages accounted for by fixed-rate mortgages is diminishing, which would seem to warn against such a potential explanation.

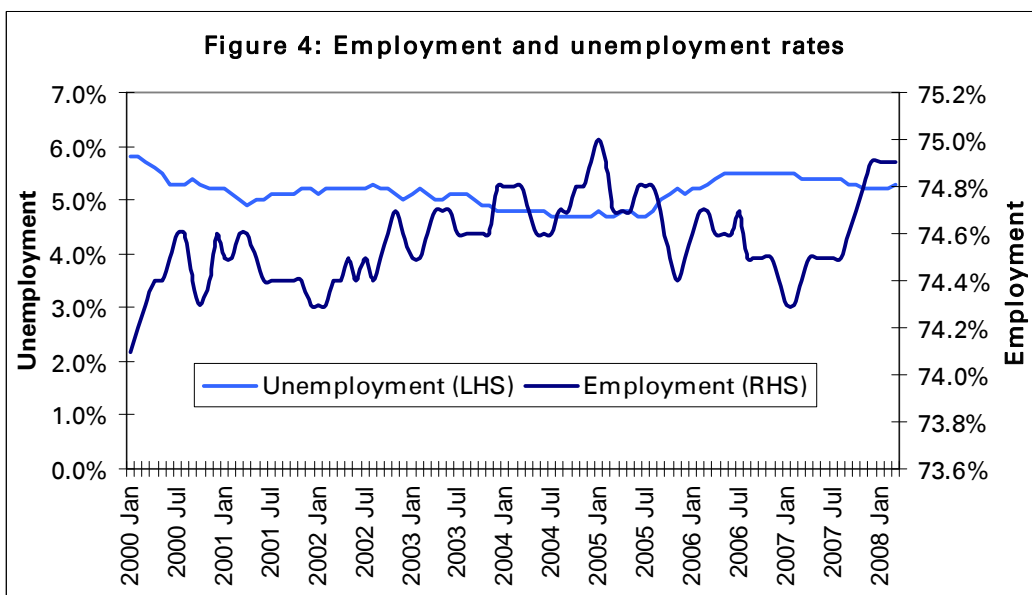
⁶ <http://www.cml.org.uk/cml/statistics>

2.2 Labour Market Trends

According to June 2008 *Labour Market Statistics*⁷, the number of people unemployed increased slightly to 1.643 million from the previous quarter, and the unemployment rate rose by 0.11 per cent. Over the same period, employment rose to 29.554 million – the highest level since comparable records began – with the employment rate⁸ standing at 74.9 per cent.



Source: ONS, Labour Market Trends (seasonally adjusted)



Source: ONS, Labour Market Trends (seasonally adjusted)

Turning to the longer term, the data presents a relatively positive picture for the UK labour market. The rising trend in unemployment levels seen through much of 2005 through to the start of 2006 appears to have levelled-off and even fallen slightly, notwithstanding the recent small increase. The trend in the claimant

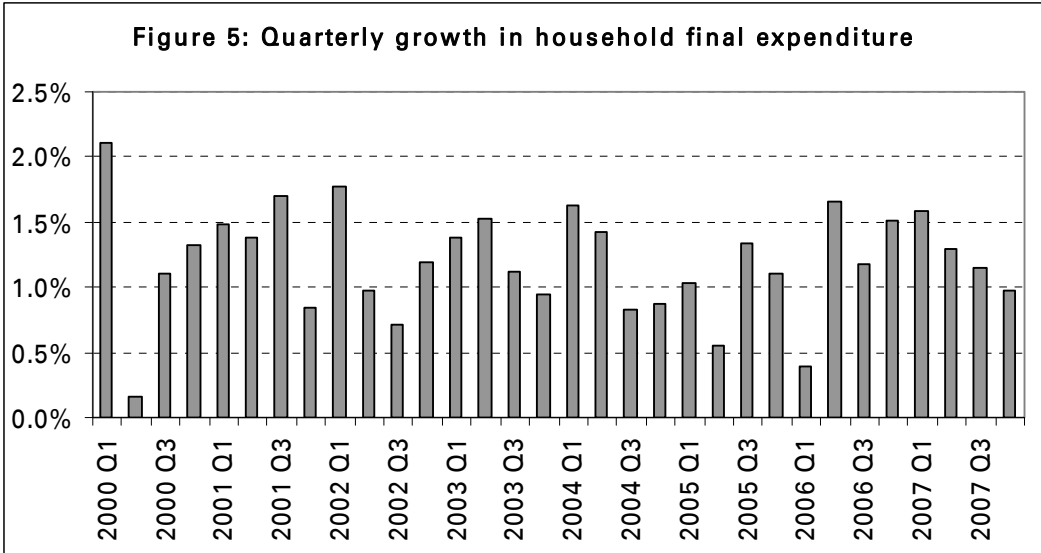
⁷ <http://www.statistics.gov.uk/pdfdir/lmsuk0608.pdf>

⁸ Calculated as the number of people aged 16 or over in employment over the total working age population.

count fell to a 32-year low in 2007 and the inactivity rate (excluding students) has also fallen to the lowest rate since detailed data was first compiled in 1993, with the overall inactivity rate declining slightly in recent years⁹. However, recent indications point to a weakening of the labour market in the near future.

2.3 Consumer Spending

Data on household final expenditure – measured as the percentage change relative to the previous quarter – is used as an indicator of consumer spending¹⁰. Data for the second half of 2007 show a continuation of the declining trend in the (seasonally adjusted) growth rate of consumer spending throughout 2007. Growth rates in the third and fourth quarters of 2007 were 1.1 per cent and 1.0 per cent respectively. Year-on-year growth in the fourth quarter also fell – the comparable figure in Q4 2006 was 1.5 per cent. Nevertheless, relative to the first half of 2007, growth in consumer spending in the second half of 2007 stood at 2.3 per cent, indicative of robust (albeit declining) growth.



Source: ONS, *Consumer Trends (seasonally adjusted)*

According to material published with the Budget 2008¹¹, household consumption grew by 3.25 per cent in 2007. Looking forward, it forecasts that growth will weaken in 2008 – falling to between 1.25 and 1.75 per cent.

2.4 Consumer Lending

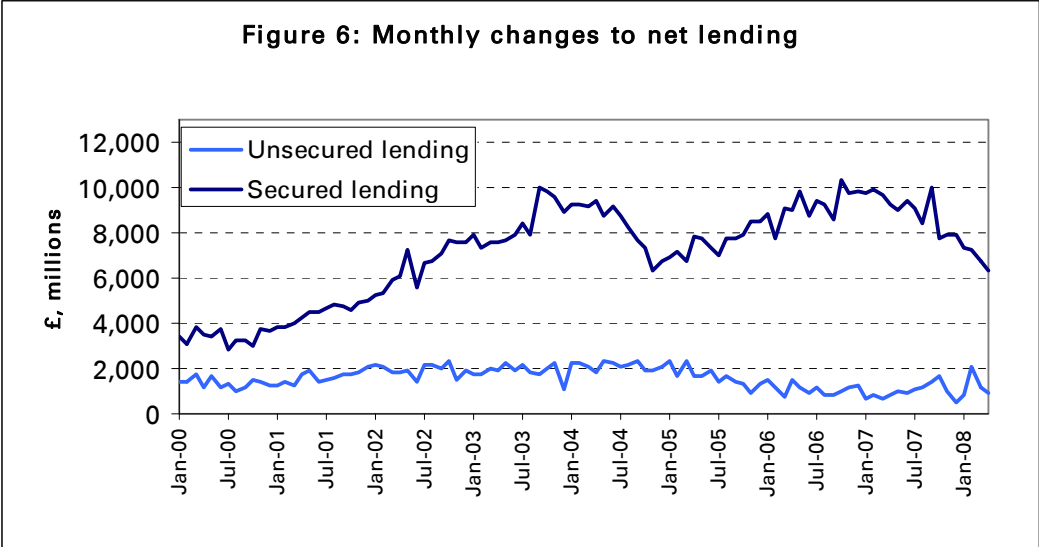
Consumer lending has grown less strongly during the second half of 2007 relative to the first half of 2007. Secured lending growth has fallen significantly, whilst growth in unsecured lending remains relatively robust.

⁹ http://www.hm-treasury.gov.uk/media/6/2/bud08_strategicchallenges_645.pdf

¹⁰ Household final consumption expenditure covers, in the main, traditional consumer spending on all goods and services and includes imputed rent for the provision of owner-occupied housing services and consumption of own production. It does not include the purchase of dwellings or expenditure on valuables (antiques and some jewellery), nor does it include business expenditure.

¹¹ http://www.hm-treasury.gov.uk/media/6/8/bud08_economy_1020.pdf

Overall, net lending¹² (shown in Figure 6 below) increased by £58.0 billion in the second half of 2007, less than in the first half of 2007 (£62.0 billion)¹³. Net secured lending in the second half of 2007 was £51.1 billion, more than 10 per cent below that for the first half of 2007. In contrast, net unsecured lending over the second half of 2007 was £6.9 billion, a 3.9 per cent increase on figures for the first six months of 2007.



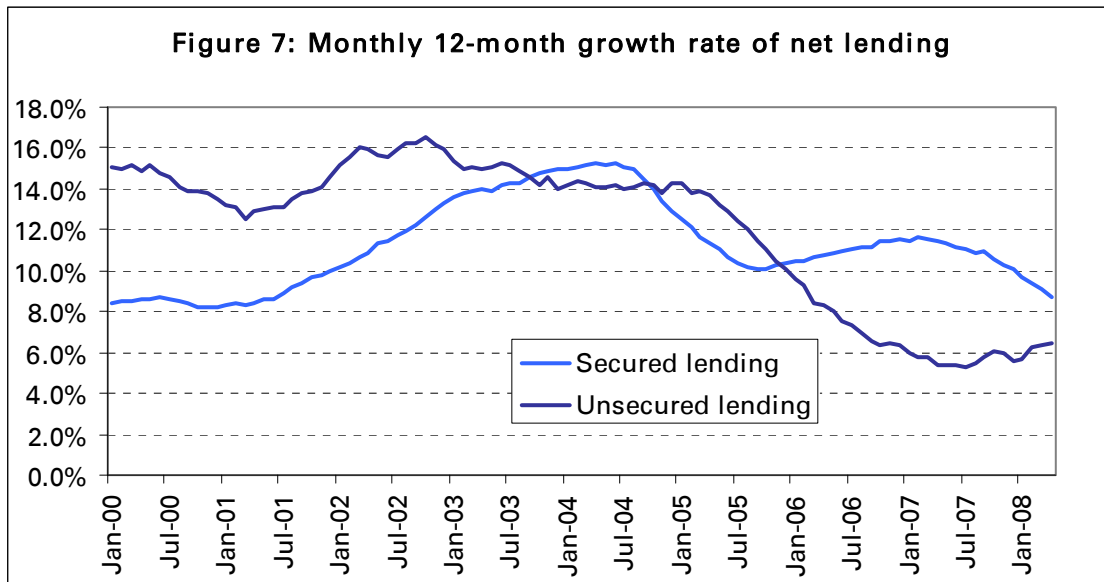
Source: Bank of England, Monetary & Financial Statistics Interactive Database (seasonally adjusted)

The data in Figure 7 captures the monthly annual growth rate of secured and unsecured lending to individuals¹⁴. The decline in the monthly annual growth rate of unsecured lending witnessed in the first half of 2007 largely reversed in the second half, with levels returning to similar levels as in December 2006. This reversal appeared to start in August 2007, as the 12-month growth rate reversed the downward trend that began in 2005, gradually rising to 5.6 per cent by the end of the year. The growth rate of secured lending continued to decline throughout the year, decreasing from 11.5 per cent to 10.1 per cent between December 2006 and December 2007 (it has since fallen further to 8.7 per cent as of April 2008), and down from the recent high of 11.6 per cent in February 2007.

¹² Net lending is calculated as gross lending (total value of loans advanced by institutions in the period) less repayments and other adjustments (e.g. for bad debt write-offs).

¹³ Seasonally adjusted figures remove seasonal effects (e.g. credit card lending tends to increase in December as consumers spend more in the run-up to Christmas) and may give a more informative indication of the underlying trend.

¹⁴ Longer period growth rates (including the 3-month and 6-month (annualised) growth rates) are calculated by concatenating the one-month rates, (rather than dividing the flow for these longer periods by the opening level) to avoid distortions where there are breaks in the series.



Source: Bank of England, Monetary & Financial Statistics Interactive Database (seasonally adjusted)

2.5 Debt to Disposable Income and Financial Assets Ratios

Comparing household debt with income and asset levels is important because it enables an assessment of the household sector's real exposure to debt, which is not provided by levels of debt. The relevant income ratio shows how readily debt can be covered out of current income, while the financial asset ratios show how well consumers are potentially able to cover debt out of their stock of financial assets – the potential ability of financial assets to cover debts in the short run is likely to be dependent on the relative liquidity of the asset class in question. These ratios thus help inform views about the level of exposure consumers face from debt at different points in time, from a potential shock to the economy.

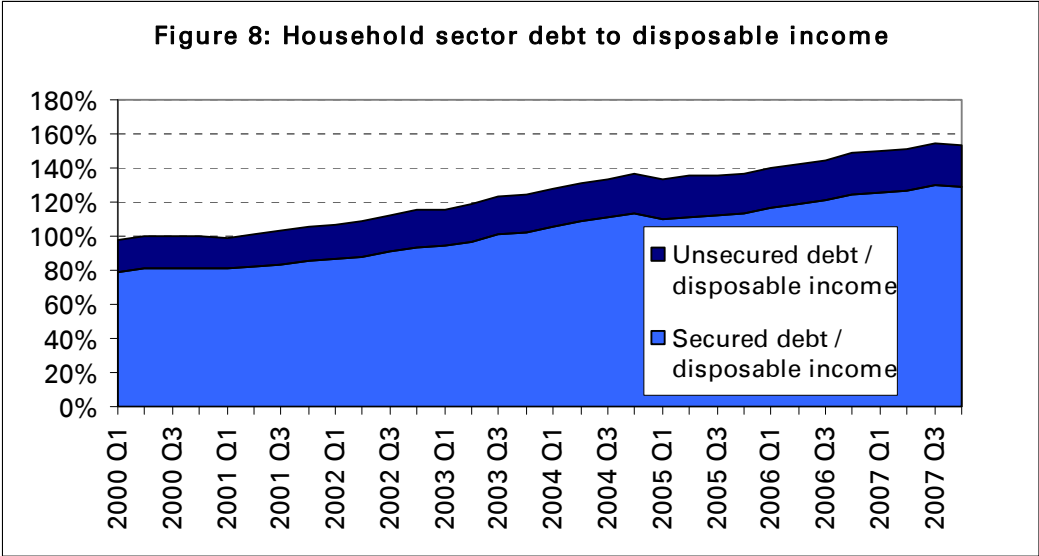
Debt to income ratio

Total household financial debt outstanding has more than doubled in real terms over the past decade to £1.4 trillion¹⁵. The total household debt to disposable income ratio¹⁶ has continued to rise over the second half of 2007, as shown in Figure 8. The ratio of total debt to disposable income has risen to 154 per cent in the fourth quarter of 2007, up from 151.5 per cent in the second quarter. There has been a slight fall during the period, as the ratio peaked in the third quarter of 2007 at 154.5 per cent. The overall rise has been driven predominantly by the expansion of secured debt – the secured debt to disposable income ratio has increased during the second half of 2007 from 127 per cent to 129 per cent. By contrast, the unsecured debt to disposable income ratio has remained relatively steady at around 24 per cent throughout 2007, and

¹⁵ http://www.hm-treasury.gov.uk/media/6/2/bud08_strategicchallenges_645.pdf

¹⁶ The measure of disposable income used is that of seasonally adjusted households' gross disposable income (ONS code: RPHQ). This is calculated as the seasonally adjusted total available household resources (ONS code: RPQK), adjusted for the change in net equity of households in pension funds.

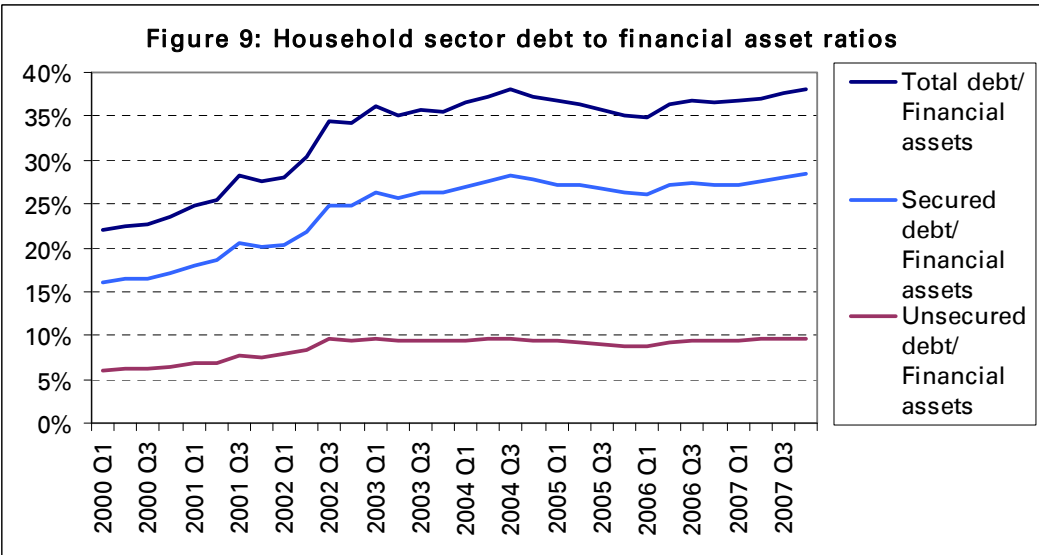
indeed has remained at around this level since the end of 2004, with a peak at 24.6 per cent in the third quarter of 2007.



Source: ONS, Financial Statistics consistent (seasonally adjusted income data)

Debt to financial assets ratio

The ratio of debt to financial assets is important as a measure of indebtedness, as it demonstrates the extent to which households can meet debt repayments out of their stock of financial assets and represents, when taken in conjunction with the debt to disposable income ratios, a more balanced view about households’ ability to meet debt levels. Financial assets include a mix of both liquid (money or relatively easily converted into money) and more illiquid assets such as long-term loans¹⁷.



Source: ONS, Financial Statistics consistent (not seasonally adjusted)

¹⁷ Financial assets, includes currency and deposits, security holdings (including bonds and equity holdings), long term loans and pension and life assurance funds and insurance premium prepayments.

Throughout the second half of 2007, the overall debt to financial assets ratio gradually increased to 38 per cent, most of which is due to an increase in the secured debt ratio – from 27.5 per cent in June to 28.4 per cent by year-end. The unsecured debt ratio also increased marginally over this period, from 9.5 per cent to 9.6 per cent.

The prevailing ratios in the fourth quarter of 2007 are almost exactly the same as those seen during the peak of the series, during the third quarter of 2004: the total debt to financial assets ratio is now exactly the same at 38 per cent; the secured debt ratio is 0.1 percentage point higher, and the unsecured ratio is 0.1 percentage point lower.

Looking over the longer term, all three ratios have also experienced a substantial increase since 2000 – most strikingly, the total debt to financial assets ratio has risen by almost two-thirds, from 22.1 per cent to its current level of 38 per cent. This has been primarily driven by changes in the secured debt-assets ratio, which has risen from 16.1 per cent to 28.4 per cent by the end of 2007. The change in the unsecured debt-assets ratio has been more modest by comparison, rising from 6 per cent to 9.6 per cent by the end of 2007.

Debt to assets ratio

To present a fuller picture of the debt to assets ratio, housing assets must be taken into account. Unfortunately, data on housing assets is only updated annually and are due to be updated in late summer 2008. However, the latest figures (for 2006) indicate that total housing assets are around £3.7 billion. This would indicate that the overall debt to assets ratio is just over 18 per cent, which has remained almost unchanged since 2004. It is likely that a persistent decline in house prices may result in a slight deterioration in this figure.

2.6 Summary of Macroeconomic Picture

The macroeconomic picture has changed somewhat since June 2007. Output growth has moderated, CPI inflation increased to 3.3 per cent in May 2008 and while employment growth continues to be strong, recent data from ONS would suggest that the unemployment rate has grown slightly¹⁸ and easing employment intentions amongst businesses point to a potentially weaker labour market in the future. Uncertainty is still a feature of international financial markets, despite central banks' actions (both individually and collectively) to increase liquidity and confidence in financial markets. The Bank of England's May 2008 *Inflation Report*¹⁹ projects further pressure on inflation rates in the short term, with a movement back to the 2 per cent CPI target over the medium term. The base rate was cut to 5 per cent at the April 2008 meeting of the Monetary Policy Committee, and this was maintained at the May and June meetings.

¹⁸ <http://www.statistics.gov.uk/cci/nugget.asp?id=12>

¹⁹ <http://www.bankofengland.co.uk/publications/inflationreport/ir08may.pdf>

In terms of consumer lending, the supply of credit has tightened considerably since 2007 Q2, especially for higher-risk borrowers – this has occurred both directly (though limiting the amount offered) and indirectly (through tightening the ‘terms’ of loans). The annual growth in secured borrowing fell to 9.1 per cent in Q1 2008 (the weakest growth rate since 2001), while growth in unsecured lending increased to 6.7 per cent in the same quarter (partially due to increases in university students eligible for tuition fee loans). The April 2008 Bank of England *Financial Stability Report*²⁰ attributes the fall in the annual growth rate of secured lending to the fall in contribution of smaller banks (including Northern Rock). According to their findings, all the growth in secured lending by major UK banks over the early part of 2008 was accounted for by the five largest institutions.

The 2007 Q4 Bank of England *Credit Conditions Survey*²¹ suggested that lenders were tightening the availability of secured credit and the latest Q1 2008 Survey suggests that lenders will reduce secured and unsecured credit availability into Q2. This has been partially implemented by imposing stricter loan-to-value ratios, which reduces the availability of credit to more risky borrowers. In line with this, the May 2008 *Inflation Report* reported that mortgage approvals for house purchase in March 2008 were around 45 per cent lower than a year earlier.

Housing market activity has generally weakened since June 2007. Property prices fell in Q1 2008 for both commercial and residential property and indicators point to further falls in Q2. In April the average of the Nationwide and Halifax house price indices showed that house prices were 2.2 per cent lower than a year earlier. A fall in house prices, combined with an unchanged level of secured debt, will result in a decline in the value of housing assets, and this might lead to an increase in defaults as people are less able to service their debt obligations by no longer being able to borrow against increasing house values to finance existing loan payment obligations. However a 2007 NMG survey found that around 60 per cent of mortgagors had more than £100,000 of equity in their homes in September 2007, which would leave them less exposed to recent credit tightening²². Available data indicates that household financial stress has not risen significantly, with only a small increase in arrears over 2007, and little change in possessions, however more recent Council of Mortgage Lenders forecast estimates an increase in both arrears and possessions in 2008 from 2007²³.

The Bank of England’s Special Liquidity Scheme and other recent initiatives should lead to a gradual improvement of financial market conditions, including increased liquidity. Lower prices should eventually encourage investors and households to return to the credit market, but at present lenders appear more reluctant to lend to consumers – and to each other – than prior to the credit crunch.

²⁰ <http://www.bankofengland.co.uk/publications/fsr/2008/fsrfull0804.pdf>

²¹ <http://www.bankofengland.co.uk/publications/other/monetary/creditconditionssurvey080103.pdf>

²² <http://www.bankofengland.co.uk/publications/quarterlybulletin/qb070401.pdf>

²³ <http://www.cml.org.uk/cml/publications/forecast>

Chapter Three

Analysis of Problem Debt

In contrast to the previous section, which dealt with debt at the aggregate level, the following section explores the degree to which households experience problems with debt. The section begins by looking at the levels and rates of debt write-offs on secured and unsecured borrowing, before turning to mortgage arrears and possessions. It then looks at personal insolvencies.

Key points

- The total amount of debt written off fell during the second half of 2007, more sharply than during the first six months, particularly so for write-offs relating to (non-credit card) unsecured debt. Write-off rates also fell slightly during the second half of 2007, with decreases for unsecured debt (including credit cards) especially strong.
- By the end of 2007, around 1.1 per cent of mortgages were at least 3 months in arrears, which was slightly higher than during the first half of 2007. Those in short-term arrears (3-6 months) increased by 2.2 per cent over these six months, while long-term arrears (more than 6 months) increased by 7.8 per cent.
- Repossessions stayed roughly the same in the second six months of 2007 as during the first but remain low by historical standards, accounting for only around 0.1 per cent of all loans. However, mortgage possession claims and orders both rose (by 2.4 and 1.6 per cent respectively), suggesting potential future problems in this area.
- Statutory insolvencies fell in total across the UK during the second half of 2007, continuing the trend set at the start of the year. This trend also emerged in insolvency rates, though Scotland is still well above England and Wales, significantly so compared to Northern Ireland.
- CCCS data on the number of Debt Management Plans (DMPs, non-statutory insolvency) continued to decline sharply during the latter half of 2007, as did the growth in total outstanding DMP debt, while annual DMP repayments for 2007 increased by almost 90 per cent on 2006 levels.

3.1 Levels and Rates of Debt Write-offs

Overall, the level of debt write-offs fell during the second half of 2007, more sharply than during the first half. Write-offs on mortgage debt and credit card debt decreased slightly, while write-offs on other unsecured debt fell more

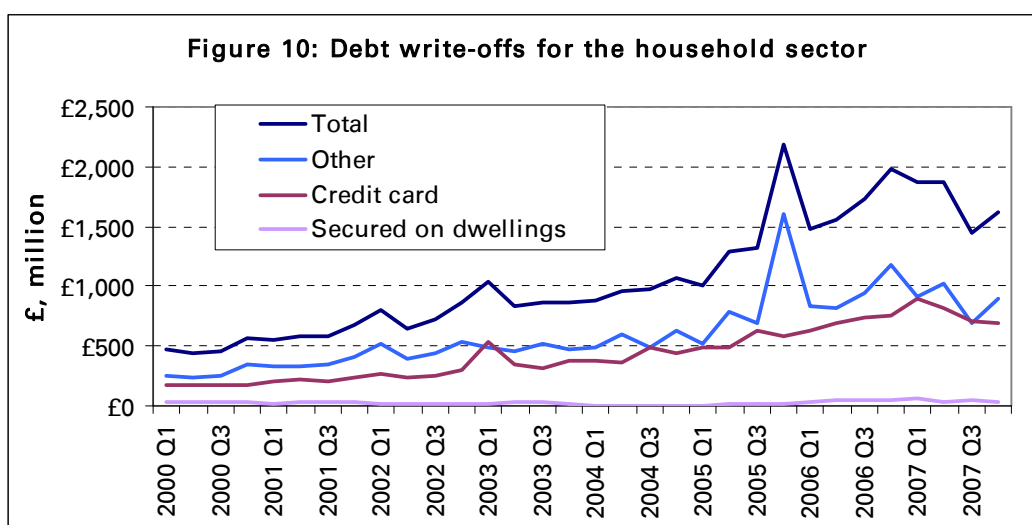
sharply. Write-off rates for total household debt also fell slightly during the second half of 2007, with decreases in credit card debt and other types of unsecured debt particularly strong.

Debt write-off levels

The total amount of debt written off during the second half of 2007 (£3.1 billion) was less than during the first half of the year (£3.7 billion). This overall decline was seen across all categories of debt considered (mortgage, credit card, and other unsecured debt). A total of £6.8 billion of debt was written off in 2007, only marginally more than in 2006 (£6.7 billion).

Types of debt written off

While the amount of debt written off on mortgages and credit cards fell steadily throughout the year, 'other' debt was more volatile, which was reflected in the movement of total debt write-offs. Credit card debt write-offs in the fourth quarter of 2007 (£689m) were 24 percent lower than at the start of the year (£902m). There was an even greater decline in the amount of mortgage debt written off, which fell by 49 percent over the course of 2007. However, this has not had a significant impact on the overall level of debt write-offs, as mortgage debt still represents only 1.8 per cent of all debt write-offs.



Source: Bank of England, Monetary & Financial Statistics Interactive Database (not seasonally adjusted)

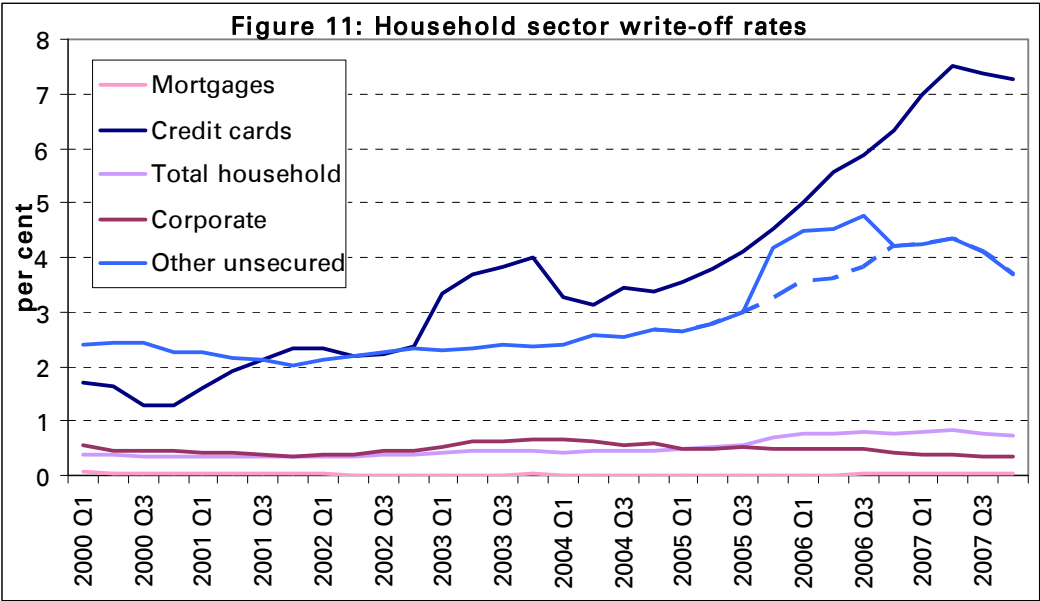
Note: The peak seen in the 2005 Q4 was caused by a single bank writing off an amount of bad debt equal to £0.7bn.

Debt write-off rates

Write-off rates for total household debt (debt written-off relative to outstanding debt levels)²⁴ have fallen slightly during the second half of 2007 (see Figure 11

²⁴ Quarterly write-off rates are calculated as the sum of write-offs over the previous three months divided by average quarterly stock of lending over the aforementioned period. Write-off rates are calculated on write-offs of UK household debt held by the 10 largest financial intermediaries, with the assessment of the 10 largest based on the value of banking-type services in the UK.

below). Write-off rates for some types of debt have been steady throughout this time – such as for mortgages – whilst write-off rates for both credit card debt and other types of unsecured debt fell more substantially (by 0.22 and 0.67 percentage points respectively) following strong growth during the first half of 2007.



Source: Bank of England, Financial Stability Report, May 2008

Note: Dashed line shows the rate excluding the one-off write-off of £0.7bn referred to above, which distorted the series.

Analysis

Looking at trends in growth over time, write-off rates for both credit card debt and other unsecured debt have been rising steadily since 2000, but have shown particularly strong growth since the end of 2004. Write-off rates for other unsecured debt appear to have peaked in mid-2006, with a slight fall over the following 12 months before a more significant fall over the most recent 6 months. Meanwhile, credit card write-off rates continued to increase strongly until the second half of 2007, when there was a strong reversal in the trend.

It is difficult to assess what the underlying cause might be for this change, and whether or not it is likely to persist. The credit crunch does not appear to have had a large effect on write-off rates in the latter half of 2007, given that rates have fallen for all types of debt. The increase in write-off levels for other unsecured debt in the last quarter could potentially be attributed to the credit crunch, but the amount of debt written-off on mortgage and credit card debt declined during the second half of 2007, suggesting that the credit crunch may not yet have affected these markets.

There are likely to be significant time lags before changes in overall credit market conditions feed through to write-offs (both rates and levels), making it too early to draw conclusions based on this causality.

Given that the decline in write-off rates has also coincided with a decline in the number of IVAs (discussed further below), a possible explanation could be

reluctance on the part of creditors to enter into IVAs, which involves writing off at least some debt.

It should be noted that write-off rates are dependent on specific bank policies, which may vary over time, so a rising level of write-off rates may not simply be a symptom of households increasingly stretching themselves. Indeed, the Q1 2008 Bank of England *Credit Conditions Survey*²⁵ points out that lenders are continuing to reduce secured and unsecured credit availability, especially to more risky borrowers, including the highly indebted. However, such action is unlikely to be affecting current write-off rates; the impact of this is likely to be felt in future reports. Thus, these rates capture both the degree to which individuals' debt situation becomes unmanageable and banks' willingness to write off that debt.

In its most recent *Financial Stability Report*²⁶, the Bank of England notes that, in spite of annual mortgage write-off rates remaining extremely low in 2007, major UK banks have tightened their lending criteria (primarily through tighter credit scoring and reduced maximum loan-to-value ratios), which has contributed to the continued reduction in the growth of secured lending. In addition, it reports that most lenders are planning to tighten credit conditions further in order to improve the quality of their mortgage books. Overall, estimates by the Council of Mortgage Lenders suggest that net mortgage lending to UK households in 2008 may be only half the level of 2007²⁷.

3.2 Mortgage Arrears and Repossessions

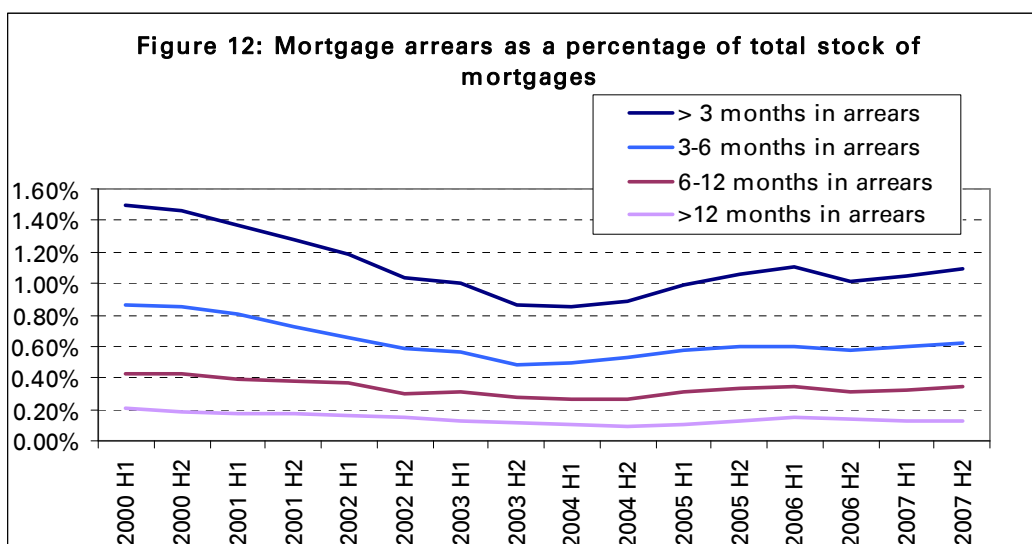
Mortgage arrears

Half-yearly data on mortgage arrears is reported in Figure 12 below. This is expressed as a percentage of the total stock of mortgages, by number of months in arrears. As of December 2007, the total stock of mortgages was over £11.8 million.

²⁵ <http://www.bankofengland.co.uk/publications/other/monetary/creditconditionssurvey080403.pdf>

²⁶ <http://www.bankofengland.co.uk/publications/fsr/2008/fsrfull0804.pdf>

²⁷ www.cml.org.uk/cml/filegrab/CMLAnnualLunchspeech2008.pdf?ref=5829



Source: Council of Mortgage Lenders²⁸

At the end of 2007, 1.1 per cent of mortgages were at least 3 months in arrears, which is slightly higher than during the first half of 2007, but below the most recent peak in the first half of 2006.

In terms of the distribution of arrears, just over half (0.62 per cent of all mortgages) are short-term arrears (between 3 and 6 months). Compared to December 2006, the total number of mortgages in both short-term and longer-term arrears (greater than 6 months) has increased by 8.6 per cent. However, compared to the first half of 2007, the number of mortgages with short-term arrears increased by 2.2 per cent, while those more than six months behind on payments increased by 7.8 per cent.

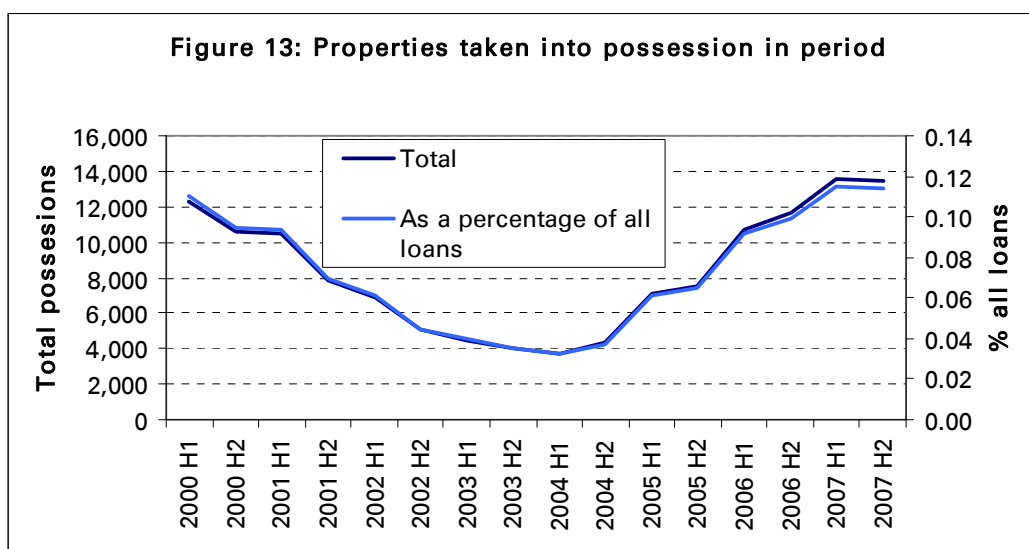
Looking at longer-term trends, mortgage arrears as a percentage of total mortgages declined from a peak of 1.5 per cent in 2000 to around 0.85 per cent in 2004. Since then, the proportion of mortgage arrears has increased gradually until mid-2006, after which time it has fluctuated just above one per cent of total mortgages.

Repossessions

The number of properties taken into possession during the second half of 2007 was almost the same as in the first half of 2007 (only falling by 1 per cent), although this was still 15 per cent higher than the second half of 2006. This figure is significantly higher than in the recent past, but remains low by historical standards²⁹ and still only represents only just over 0.1 per cent of all loans.

²⁸ The Council of Mortgage Lenders has 162 members comprising banks, building societies and other lenders, who collectively account for around 98 per cent of all residential mortgage lending in the UK.

²⁹ Between 1990 and 2000, the number of properties taken into possession exceeded 13,000 in every half-yearly period, and between mid-1990 and mid-1996 the number of properties that were taken into possession in every half-yearly period exceeded 24,000.



Source: Council of Mortgage Lenders

While the level of repossessions is historically relatively low, the FSA reports in its *Financial Risk Outlook 2008*³⁰ that, based on CML data, mortgage repossessions as a percentage of long-term arrears (arrears over six months) are now at their highest-ever level (approximately 60 per cent of long-term arrears cases). This has occurred at a time when the economic environment has been relatively benign. As economic conditions deteriorate, they expect to see an even greater increase in repossessions.

Looking forward, CML has said that it expects the number of repossessions to rise significantly (to 45,000) in 2008 as a result of recent changes to housing market conditions. However, it should be noted that the total number of repossessions in 2007 (27,100) were 10 per cent below CML's predictions of 30,000³¹.

There are two main reasons why information relating to properties taken into possession may not be an accurate reflection of households' mortgage positions:

- First, there are potentially significant time lags involved in the possessions process (FSA analysis suggests that this may be up to a year), such that properties taken into possession now may result from actions related to repayment problems some time ago, and
- Second, actual repossession may not happen even if court action is taken as the relevant parties may negotiate an arrangement, so not all consumers that are having problems paying their mortgages will progress as far as having their property repossessed.

For these reasons, more timely information with regard to the repossession situation can be seen from mortgage claim and orders data collected by the Ministry of Justice (MoJ) that relate to actions happening in court.

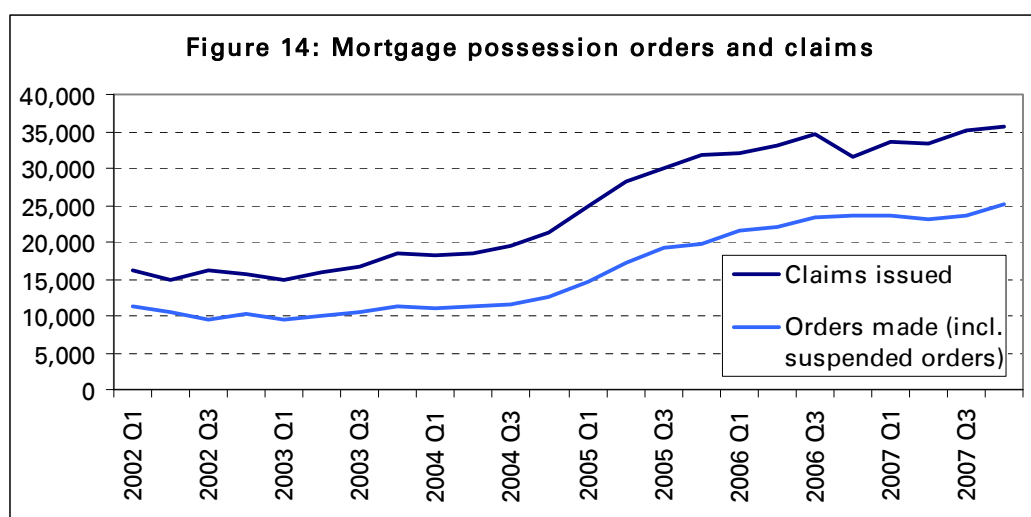
³⁰ http://www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2008.pdf

³¹ <http://www.cml.org.uk/cml/media/press/1492>

Mortgage possessions orders and claims

Mortgage possession claims³² made in the second half of 2007 increased by 2.4 per cent relative to the first half of 2007. Mortgage possession orders³³ also rose, but only by 1.6 per cent. This represents a continuation of the trend increase throughout 2007 for claims, following broadly flat growth during 2006, whilst growth for orders has been mostly flat since the second half of 2006.

It should be noted that claims issued are always higher than orders made, because even where a warrant for possession is issued, the relevant parties can still negotiate a compromise to prevent eviction. In the same vein, orders made are higher than actual repossessions (as seen in Figure 13) as the relevant parties may negotiate an arrangement. Further, it is important to point out that the MoJ records data for actions taken in court in England and Wales only, whereas the CML data pertain to the whole of the UK.



Source: Ministry of Justice (seasonally adjusted)

3.3 Personal Insolvency

A number of statutory insolvency instruments are available to individuals facing serious financial difficulty, including bankruptcy and Individual Voluntary Arrangements (in England, Wales and Northern Ireland), or sequestrations and protected trust deeds (in Scotland)³⁴. In addition to statutory instruments, individuals also have non-statutory options, such as Debt Management Plans, re-mortgaging and debt consolidation. The following two subsections look at

³² Possession claims involve a claimant beginning an action for an order of possession of property by issuing a claim in a county court.

³³ Orders made include suspended orders, which are frequently granted, and which grant the claimant possession but suspend the operation of the order. Provided the defendant complies with the terms of the suspension, which usually require the defendant to pay the currently mortgage/rent instalments plus some of the accrued arrears, the possession order cannot be enforced. An order entitles the claimant to apply for a warrant to have the defendant evicted.

³⁴ Insolvencies in Scotland and Northern Ireland are shown separately as they are covered by separate legislation as well as there being some differences in definitions pertaining to insolvency mechanisms.

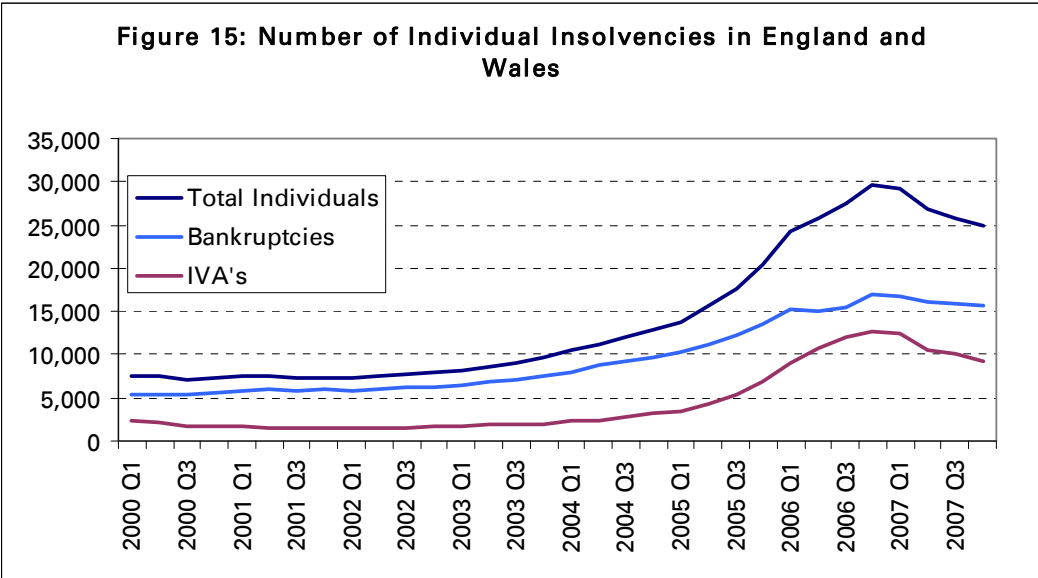
first statutory insolvency instruments and followed by non-statutory instruments.

i) Statutory Insolvency Instruments

England and Wales

In the second half of 2007, the total number of individual insolvencies in England and Wales decreased to just over 50,000 (on a seasonally adjusted basis) – a fall of 9.4 per cent compared to the previous six months. Bankruptcies accounted for around 60 per cent of all individual insolvencies and Individual Voluntary Arrangements (IVAs) the remaining 40 per cent, though both decreased over the latter six months of 2007 – by 4.5 per cent and 16.4 per cent respectively.

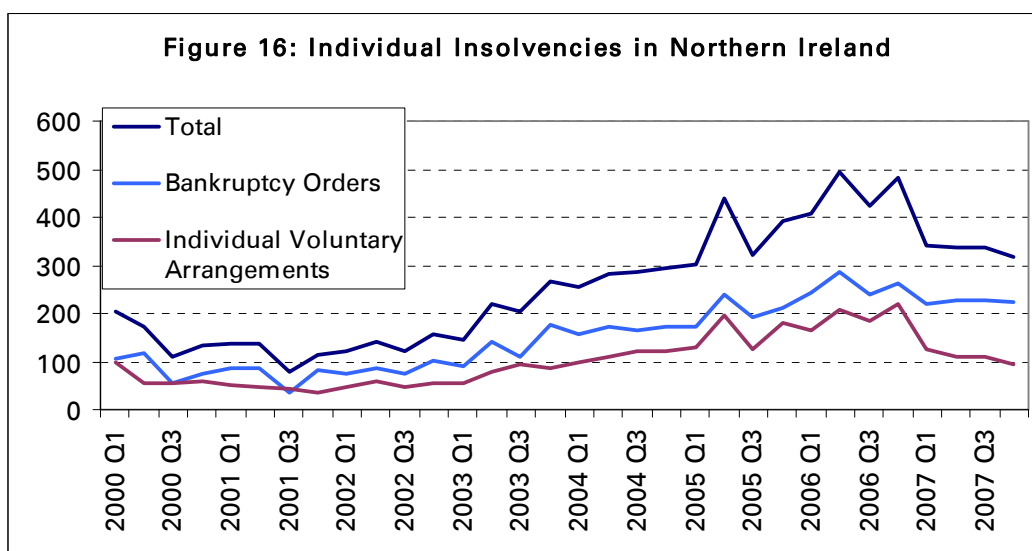
Looking over the longer term, personal statutory insolvencies in England and Wales have almost quadrupled since the beginning of 2000, and as Figure 15 shows, the growth in the number of insolvencies appears to have peaked in the last quarter of 2006. In the second half of 2007 individual insolvencies have decreased, but it is still too early to say whether this will be a trend that will be maintained. Since 2002, IVAs have accounted for an increasing proportion of total insolvencies (believed to be partly attributable to the strong advertising of IVAs by debt management companies and IVA providers), but this trend appears to have reversed since the beginning of 2007.



Source: Insolvency Service (seasonally adjusted)

Northern Ireland

As can be seen in Figure 16, the number of individual insolvencies in Northern Ireland follows roughly the same pattern as for England and Wales. Personal insolvencies decreased by 3.7 per cent in the second half of 2007, with IVAs also falling (by 12.8 per cent) but bankruptcies slightly increasing (by 1.1 per cent).



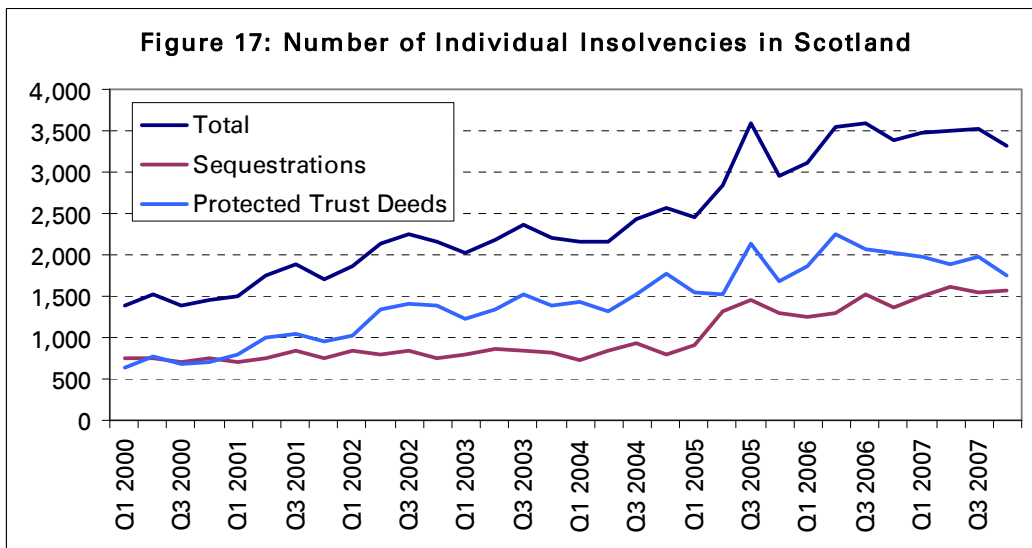
Source: Insolvency Service (non-seasonally adjusted)

Scotland

Owing to Scotland’s different judicial system, the schemes in place for bankruptcy are not the same as those in England, Wales and Northern Ireland. Nevertheless, sequestrations are comparable to bankruptcies in England and Wales and trust deeds work in a similar way to IVAs³⁵.

The growth of personal insolvencies in Scotland has been slower and more steady, both over the short and long run, compared with other parts of the UK, as can be seen in Figure 17. Total insolvencies decreased by 1.8 per cent between the first half of 2007 and the second half of 2007. This is mainly attributable to a decline in trust deeds (analogous to IVAs), which fell by 3.1 per cent, while sequestrations (analogous to bankruptcies) remained fairly flat, decreasing by just 0.1 per cent over the period.

³⁵ Under certain conditions, trust deeds can be registered as “protected”, meaning that creditors cannot then seek sequestration to recover the debts. To prevent a trust deed from being protected either a majority of creditors, or creditors representing at least a third of the debt must register their objections within five weeks of being informed of the move to protect the trust deed. Unlike IVAs, there is no minimum threshold to meet before a person qualifies for a trust deed.

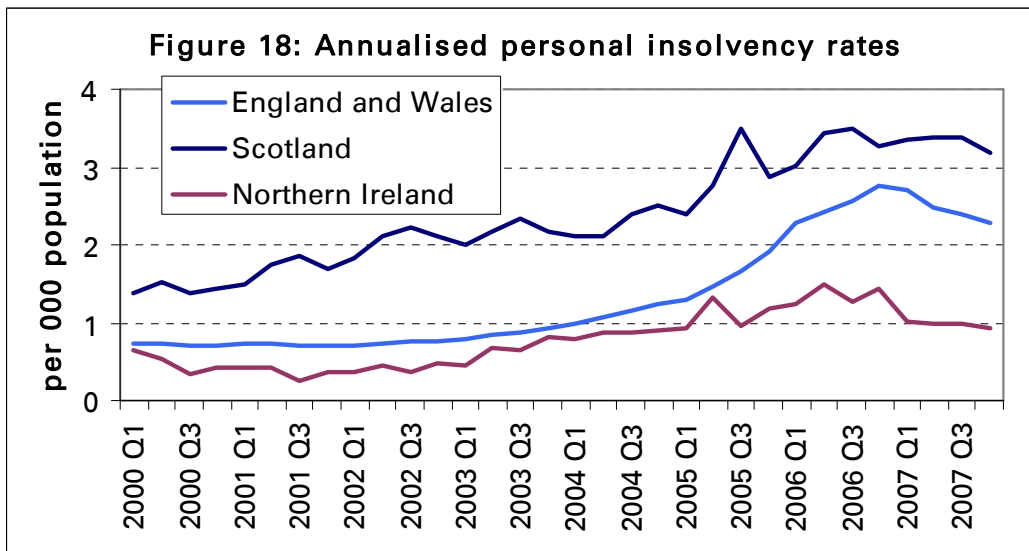


Source: Insolvency Service (non-seasonally adjusted)

Insolvency rates

Although looking at levels of insolvency is instructive in identifying trends across different parts of the UK, it is also useful to consider insolvency rates. It should be noted that making such comparisons is imperfect due to two main inconsistencies in data comparability – firstly, England and Wales data is seasonally adjusted, while that for Scotland and Northern Ireland is not; secondly, quarterly population estimates used for computing insolvency rates are based on population aged 16 and over, when it is only possible to apply for insolvency after you are 18.

Nevertheless, it can be seen that insolvency rates in England and Wales, despite the strong sustained growth since 2000, are still below that for Scotland. Insolvency rates in Northern Ireland, meanwhile, have remained well below rates for the rest of the UK and relatively stable, rising only slightly over the same period.

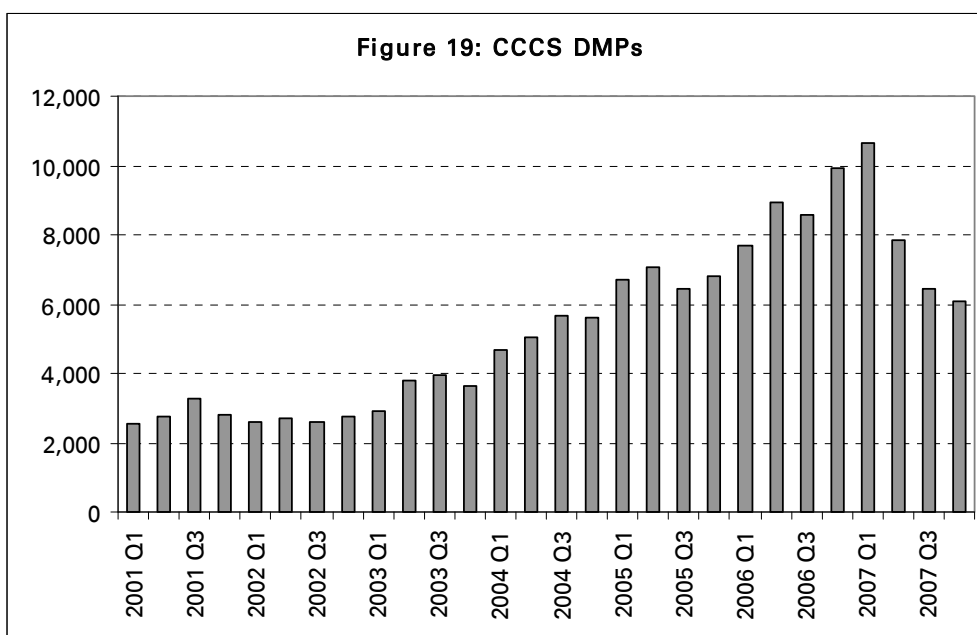


Source: BERR calculations based on Insolvency Service data (England and Wales – seasonally adjusted; Scotland, Northern Ireland – not seasonally adjusted)

ii) Non-Statutory Insolvency Instruments

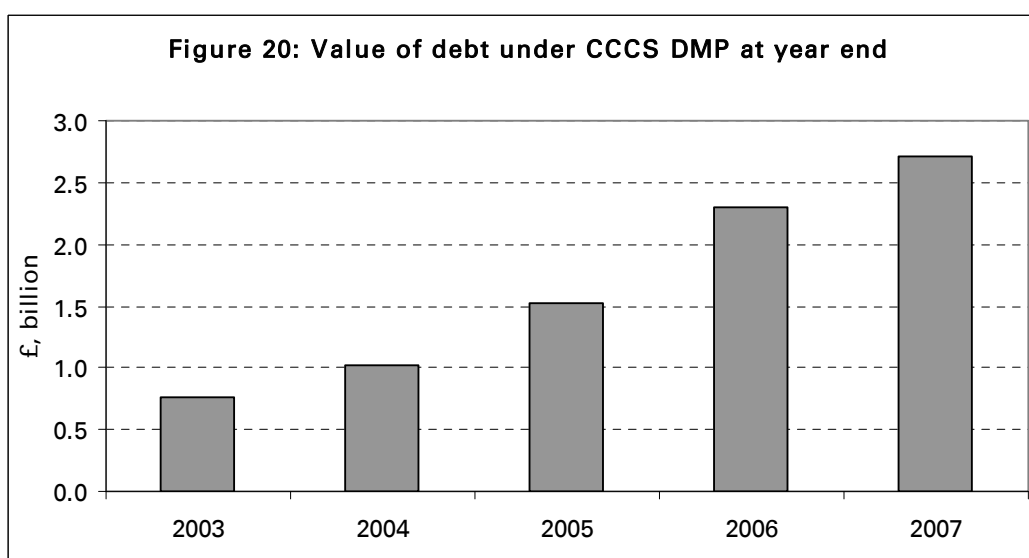
The following section sets out the information on Debt Management Plans (DMPs) from the Consumer Credit Counselling Service (CCCS). A DMP is an informal non-statutory insolvency instrument between a client and a creditor that can be utilised to address financial difficulties related to unsecured debt. Aggregate data on the total number of DMPs is not available; therefore the analysis in this section draws on information from CCCS, which manages around ten per cent of all debt repayment programmes within the UK.

The overall trend in the number of DMPs set up by CCCS seems to follow the trend in statutory instruments. The second half of 2007 saw a sharp drop in the number of DMPs to approximately 6,000 – a fall of 43 per cent compared with the start of the year. In terms of annual figures, DMPs in 2007 totalled 31,045, a decrease of 12 per cent relative to 2006, which breaks the strong annual growth in DMPs that has occurred since 2002.



Source: CCCS Statistical Yearbook 2007³⁶

The value of total debt under CCCS DMPs had risen to £2.7 billion by the end of 2007, which is 18 per cent higher than the £2.3 billion held at the end of 2006. This is significantly below the comparable growth rate between 2005 and 2006, which was 78 per cent. This fall is in sharp contrast to the increase in repayments to lenders by DMP holders through CCCS, which reached £194.8 million in 2007 – an increase of 87 per cent on 2006 levels.



Source: CCCS Statistical Yearbook 2007³⁷

3.4 Summary of Personal Insolvency Section

Relative to June 2007, both the level and rate of personal insolvencies have continued on a downward trajectory in England, Wales and Northern Ireland,

³⁶ [http://www.ccs.co.uk/research/2008/Stats per cent20Yearbook per cent202007.pdf](http://www.ccs.co.uk/research/2008/Stats%20per%20cent20Yearbook%20per%20cent202007.pdf)

³⁷ Ibid.

whilst insolvencies in Scotland have remained fairly flat since the start of 2006. This recent movement for England, Wales and Northern Ireland contrasts sharply with recent trends, as personal insolvencies had shown strong growth up to the beginning of 2007. Despite this sustained growth (which began in around 2003), insolvency rates for England and Wales are still below those for Scotland. Insolvency rates in Northern Ireland, meanwhile, have remained well below rates for the rest of the UK and relatively stable, rising only slightly over the same period.

The drop in both the number of statutory insolvencies in England and Wales as well as the number of new DMPs by CCCS are supportive of the view that insolvencies may have entered a period of decline, although changes in credit conditions since this time may have substantially altered the picture going forward. The decline in the number of new DMPs was particularly large, even though the value of the debt under DMPs has also continued to rise, albeit at a lower annual growth rate compared to 2006.

According to the Bank of England³⁸, the rise in personal insolvencies up to 2007 could be partly attributed to the behaviour of lenders. Looking ahead in relation to the path of individual insolvencies, FSA mentions in its *Financial Risk Outlook 2008*³⁹ that slower economic growth, combined with a weaker labour market and reduced availability of credit through borrowing against property could result in a rise in personal bankruptcies and/or IVAs.

3.5 Analysis of Personal Insolvency

Key drivers of personal insolvency

Personal insolvency levels can and do fluctuate. There is no definitive evidence of a single driver that might contribute to the overall increase in personal insolvencies, although research generally attributes changes in bankruptcy numbers to economic factors, in particular availability and levels of credit, although debt to asset ratios, interest rates and employment levels all play a part. The Insolvency Service published some research in 2006 that looked at the causes of failure in bankruptcy⁴⁰: it found the most common cause to be 'living beyond the bankrupt's means', followed by unplanned changes to bankrupt's circumstances (primarily due to a loss or reduction in income as a result of loss of employment) and business failure.

Impact of recent law changes and attitudes to bankruptcy

As a result of changes to the personal insolvency regime brought about by the Enterprise Act 2002, it has been suggested in the media that bankruptcy may have become an 'easy option' that may encourage people to behave irresponsibly by simply 'dumping' their debts and walking away. In their recent

³⁸ <http://www.bankofengland.co.uk/publications/fsr/2007/fsrfull0704.pdf>

³⁹ http://www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2008.pdf

⁴⁰ The Insolvency Service (2006): *Causes of Failure in Bankruptcy and Compulsory Liquidation*, <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/causes/Report%20-%20Cause%20of%20Failure.pdf>

evaluation report of the effects of the Enterprise Act 2002⁴¹, the Insolvency Service found that the perceived stigma associated with bankruptcy has not changed following the implementation of the Enterprise Act. This would seem to suggest that consumers are not taking advantage of these changes to declare bankruptcy. This is also supported by the overall decrease in levels of bankruptcy across the UK as a whole. Nevertheless, the Insolvency Service will continue to monitor this through the publication of various surveys.

Profiles of bankrupts

The Insolvency Service has published an updated report on the profiles of bankrupts, collectively in England and Wales and on a regional basis, over a three-year period ended March 2007⁴². This shows that:

- Over half of those who became bankrupt were men, although the proportion of female bankrupts increased. Female bankrupts tended to be younger than male bankrupts;
- The average age of a bankrupt increased from 41 to 42 over the study period;
- In 2006/7, around a quarter of those who became bankrupt were divorced or separated and over half of the bankrupts had dependent children⁴³, with female bankrupts being more likely to have dependent children compared to male bankrupts, and
- In 2006/7, based on 6-months of data⁴⁴, the primary cause of failure in around 43 per cent of bankruptcies was attributable to unplanned changes to a bankrupt's circumstances⁴⁵, and in around 30 per cent of bankruptcies, the primary cause of failure was attributable to a bankrupt living beyond his/her means.

The Insolvency Service plans to revisit the study on characteristics of bankrupts and publish those results in the first quarter of 2009.

⁴¹ The Insolvency Service (2007): *Enterprise Act 2002 – the Personal Insolvency provisions* <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/legislation/evaluation/finalreport/report.pdf>

⁴² The Insolvency Service (2008): *Profiles of bankrupts – 2004/5–2006/7* <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/profiles2004-7/profileBandC2004-7.htm>

⁴³ A dependent child is a child where the bankrupt is the parent or legal guardian of that child to whose upbringing s/he contributes financially.

⁴⁴ Information on the cause of failure was recorded on The Insolvency Service's internal database from 1 October 2006.

⁴⁵ Unplanned changes to the bankrupt's circumstances include 'life events', such as illness, an accident or a relationship breakdown, and the loss or reduction of income (either of the bankrupt or his/her household).

Survey of debtor petition bankrupts

The Insolvency Service has published a report on the results of a survey of debtor petition bankrupts⁴⁶. The survey's aim was to obtain views regarding the process of petitioning for bankruptcy and to assist in the evaluation of the proposed DRO provisions and The Insolvency Service's consultation 'Bankruptcy: proposals for reform of the debtor petition process.'⁴⁷

The survey showed that:

- Around 94 per cent of bankrupts had sought debt advice prior to presenting their petition, and around two-thirds of those bankrupts used the Citizens Advice Bureau;
- Nearly half of bankrupts would have chosen bankruptcy earlier if they could have filed their petition without going to Court;
- Around 70 per cent of bankrupts had to wait less than 1 month between contacting the Court to arrange an appointment to file their bankruptcy petition and the actual hearing date, with the average delay being around 1 month;
- Around 72 per cent of bankrupts had borrowed the money from someone to fund the bankruptcy petition deposit;
- Just under half of the bankrupts had paid the Court fee in full, and of those who had not paid the Court fee in full, around 90% had paid nothing; and
- Nearly 90 per cent of bankrupts thought that bankruptcy had given them a fresh start.

Individual Voluntary Arrangements (IVAs)

The stakeholder working group report "Improving IVAs" published in 2005 identified that IVAs were a useful tool for dealing with indebtedness and identified two ways to improve them. The first way was to legislatively provide for a simpler version of the IVA to reflect the needs of the majority of their current users. The second was by the adoption of a number of best practice methods and these are detailed below under the IVA protocol.

1) Legislative provisions for a simpler version of the IVA

In 2007 The Insolvency Service published a consultation document on proposals to simplify the IVA regime (and associated matters). When IVAs were first introduced, they were aimed at professionals and traders. However, over 80 per cent of IVA cases today are non-trading consumer debtors with a steady

⁴⁶ The Insolvency Service (2007): Survey of bankrupts petitioning for bankruptcy
<http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/surveyofdebtors.htm>

⁴⁷ Available at:
http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/con_doc_register/Initialstageconsultationpaper.doc

income stream and perhaps equity in a property. Such cases are relatively straightforward to administer, and do not require the full rigour of the original process.

The simplified regime will apply to cases where the debtor owes less than £75,000 and the debts are not disputed. In such cases, it is proposed that there will be simple majority voting, a paper meeting of creditors rather than a face-to-face meeting, and no facility for creditors to make modifications to the proposal.

2) IVA Protocol

Throughout 2007 The Insolvency Service worked closely with representatives from IVA providers, creditors, regulators and debt advisers, to identify improvements to IVAs.

The result is an industry wide protocol, launched in January 2008, which applies to all straightforward IVAs. This voluntary code includes standard terms and conditions to apply in all cases, a standard method for dealing with equity in the debtors' home, and a definition of due diligence, the process by which an adviser decides that an IVA is appropriate and verifies the information provided by the debtor. In return, creditors who sign up to the protocol agree not to make modifications to proposals unless absolutely necessary, and to provide their reasons when they do so.

The protocol will produce a more consistent, standardised approach for straightforward cases. This should reduce the cost of administering simple cases, which should in turn improve returns to creditors. It will also provide a more transparent regime for debtors.

Concerns in relation to advertising of IVAs

The factors affecting levels of IVAs are very similar to those affecting bankruptcies but an additional factor in the rising demand for IVAs has been increasing advertising by debt management companies and IVA providers. Moreover, there have been some concerns about the quality of advertising of IVAs.

The IVA protocol also provides that advertisements and other forms of marketing should be clearly distinguishable and have regard to the OFT Debt Management Guidance and all relevant codes of practice.

BOX: Perceptions of Debt

Previously this report has cited data from the Financial Services Authority's *Financial Risk Outlook*⁴⁸ reports on individuals' perceptions of their own debt burden. This data was last collected at the end of 2006 (see Table 1).

Table 1: FSA data on individuals' perceptions of their debt burden

Q: Degree to which consumers are able to cope with bills and credit commitments		
	End of 2006	End of 2005
Keeping up with all bills and credit commitments without any difficulty	66%	57%
Keeping up, but struggle from time to time	26%	31%
Keeping up, but constantly struggle	6%	8%
Falling behind with some bills or commitments	1%	3%
Having real financial problems and have fallen behind with many bills or credit commitments	1%	2%

Sources: FSA, *Financial Risk Outlook*, January 2006 and January 2007

However, there is more recent data from a similar survey commissioned by the Bank of England from NMG Research⁴⁹ which asks whether households are having problems paying their debts. The survey was conducted in September 2007 and asked almost 2,000 people about their household finances, including a question on whether they have trouble repaying their debt. Their findings (which are presented in Figure 1) show that only 15.5 per cent of people surveyed have some problems repaying their debts. This was a small decrease when compared to September the previous year (see Figure 2), when 18.7 per cent of people experienced problems repaying their debt.

Figure 1 - Q: Do you ever have problems repaying your debts?

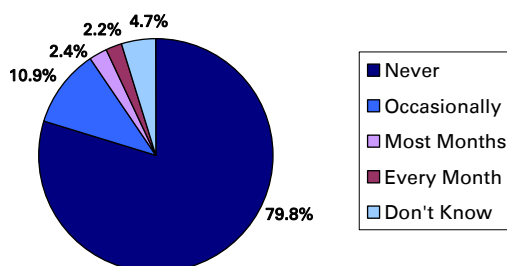
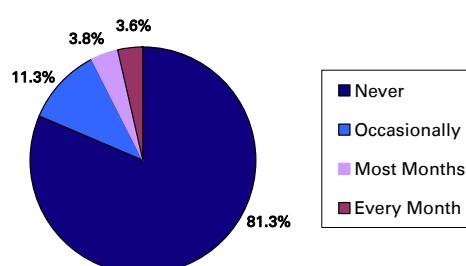


Figure 2 - Q: Have you ever experienced problems paying for your debts?



Sources: "Household debt and spending: Results from the 2007 NMG Research Survey"⁵⁰ (Figure 1); and "The state of British household finances: results from the 2006 NMG Research Survey"⁵¹ (Figure 2)

The FSA and NMG Research surveys are not directly comparable, as the questions posed in each survey were different. There is also a difference between the methodology used and sample sizes (the FSA data has a larger sample of over 5,000 individuals), which could affect the results. The Bank of England estimate for the number of people having problems repaying debts is also much smaller than the similar FSA estimate. This could simply be due to differences in the question asked (for example, the FSA question includes problems with bill repayments). However, both sets of data seem to support the finding that only a small minority of people are struggling with debt.

⁴⁸ <http://www.fsa.gov.uk/Pages/Library/Corporate/Outlook/index.shtml>

⁴⁹ <http://www.bankofengland.co.uk/publications/quarterlybulletin/qb070401.pdf>

⁵⁰ Published in the 2007 Q4 Bank of England Quarterly Bulletin

⁵¹ published in the 2006 Q4 Bank of England Quarterly Bulletin

Annex A: List of Data Sources relevant to Consumer Over-Indebtedness

The release date of each data series varies according to publication, to find out the release date of a specific series it is best to check the relevant link. In general, monthly data are available at the end of the following month and quarterly data as follows; the first quarter = Early April, the second quarter = Early July, the third quarter = Early October, the fourth quarter = Early Jan.

Frequency key: D= Daily, M= Monthly, Q= Quarterly, H=Half Yearly, A= Annual.

Measure	Source	Frequency	When available	Web link
Base Rate (IUMBEDR)	Bank of England: Monetary & Financial Statistics Interactive Database	M	1 st week of every month	http://www.bankofengland.co.uk/mfsd/iadb/NewInterMed.asp?
Effective interest rates (CFMHSDE)	Bank of England: Monetary & Financial Statistics Interactive Database	M		http://www.bankofengland.co.uk/mfsd/iadb/NewInterMed.asp?
Employment (MGRZ) and Unemployment (MGSC) Employment rate (MGSU) and Unemployment Rate (MGSX)	Office for National Statistics: Labour Market Trends	M	Check: http://www.statistics.gov.uk/statbase/tsdtimezone.asp http://www.statistics.gov.uk/statbase/tsdreleasedates.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Labour Market Stats' then '9:Unemployment by age and duration' and '2:Employment by age: LFS Time Periods'
Growth in Household Final Consumer Expenditure (ABJQ)	Office for National Statistics: Consumer Trends:	Q	Check: http://www.statistics.gov.uk/statbase/tsdtimezone.asp http://www.statistics.gov.uk/statbase/tsdreleasedates.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Consumer Trends then '0.CS: Household Final Consumer Expenditure'
Monthly changes to net lending, £ millions (secured -	Bank of England: Monetary &	M	End of following	http://213.225.136.206/mfsd/iadb/NewIntermed.asp

LPMVTVJ and unsecured - LPMRLMH)	Financial Statistics Interactive Database		month	
12-month growth rate of net Lending (secured - LPMVTYI and unsecured - LPMVTYO)	Bank of England: Monetary & Financial Statistics Interactive Database	M	End of following month	http://213.225.136.206/mfsd/iadb/NewIntermed.asp
Household Sector Debt to Disposable Income Ratios Total Debt / Disposable Income (=NNRP+NNRG+NNRK/4*RPHQ) Secured Debt / Disposable Income (=NNRP/4*RPHQ)	Office for National Statistics: Financial Statistics Consistent	Q	Check: http://www.statistics.gov.uk/statbase/tsdtimezone.asp http://www.statistics.gov.uk/statbase/tsdrelease/ledates.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Financial Statistics Consistent' and go to table: - 9.1M for NNRP, NNRK and NNRG - 14.8B for RPHQ
Household Sector Debt to Financial Assets Ratios Secured Debt / Financial Assets (NNRP/NNML) Unsecured Debt / Financial Assets ((NNRG+NNRK)/NNML)	Office for National Statistics: Financial Statistics Consistent	Q	Check: http://www.statistics.gov.uk/statbase/tsdrelease/ledates.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Financial Statistics Consistent' and go to table: - 9.1M for NNRP and NNRK - 12.1N for NNML
Individual debt write-offs (taken from the whole banking sector) (TFHD, TFHE, TFHF, TFHG)	Bank of England: Monetary & Financial Statistics	Q		http://www.bankofengland.co.uk/statistics/ms/current/index.htm - c Table C2.1

Household write-off rates (taken from 10 largest suppliers of banking services in the UK)	Bank of England: Financial Stability Report	H (data is Q)		Financial Stability Report, Chart 2.6. http://www.bankofengland.co.uk/publications/fsr/2007/fsr21.htm#charts
Mortgage arrears as a per cent of total stock of mortgages	Council of Mortgage Lenders	H		http://www.cml.org.uk/cml/statistics Select 'Arrears on mortgages, by number of months in arrears – AP1'
Properties taken into possession	Council of Mortgage Lenders	H		http://www.cml.org.uk/cml/statistics Select 'Possessions on mortgaged properties – AP4'
Mortgage possession orders and claims	Ministry of Justice	Q		http://www.justice.gov.uk/publications/statistics.htm Select 'Mortgage and Landlord Possession Statistics'
Individual Insolvencies in England & Wales, Scotland, and Northern Ireland ('000s)	Insolvency service	Q		http://www.insolvency.gov.uk/otherinformation/statistics/insolv.htm
Annualised Personal insolvency rates: Population aged 18+: England: SA (YCHL), Population aged 18+: Wales: SA (YCHM), Population aged 18+: Scotland: NSA (YCHN), Population aged 18+: Northern Ireland: NSA (YCZE). Annualised Personal Insolvency Rate (=4*total number of bankruptcies and IVAs in quarter/population)	Data from The Insolvency Service and the ONS	Q		http://www.insolvency.gov.uk/otherinformation/statistics/insolv.htm http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Labour market Statistics – Integrated FR' and go to table '18B. Regional Labour Market Summary – LFS data'.
CCCS DMPs (Number of DMPs and amount outstanding)	CCCS: Trouble Totals	Q		http://www.cccs.co.uk/research/CCCSReports.aspx

URN 08/401A