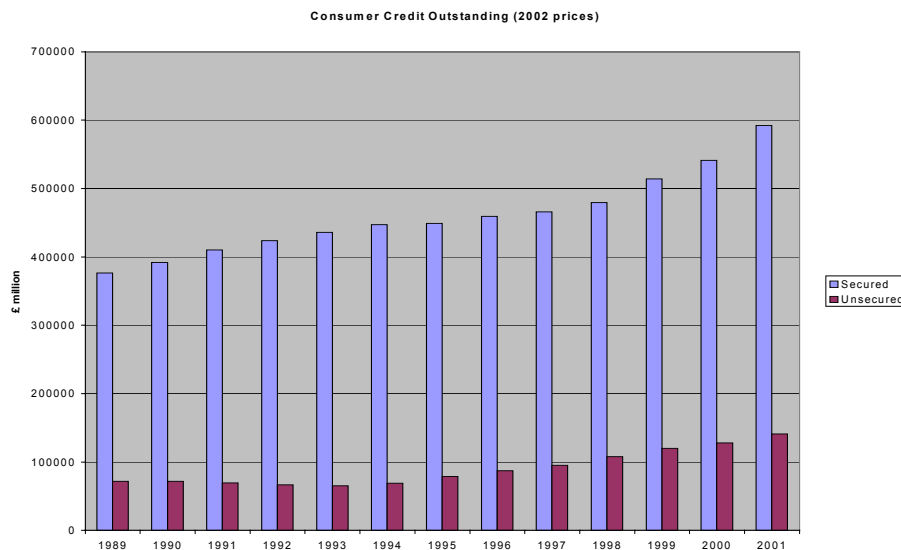


## Summary and conclusions

In response to concerns about the level of consumer borrowing, the then Minister for Consumer Affairs set up a Task Force in late 2000 to look at ways of achieving more responsible lending and borrowing. The Task Force recommended that a survey should be undertaken to provide the information it lacked on the causes, extent and effect of overindebtedness. This report presents the results of that survey which questioned 1,647 households nationwide.

Macro-economic statistics record a doubling in the amounts outstanding in unsecured consumer credit in the seven years between 1994 and 2001, even after allowing for inflation. Mortgage lending has also increased markedly over the same period (*Section 1.1*).



In contrast, national figures indicate no increase in levels of arrears – on the contrary in most instances they seem to have fallen (*Section 1.1*).

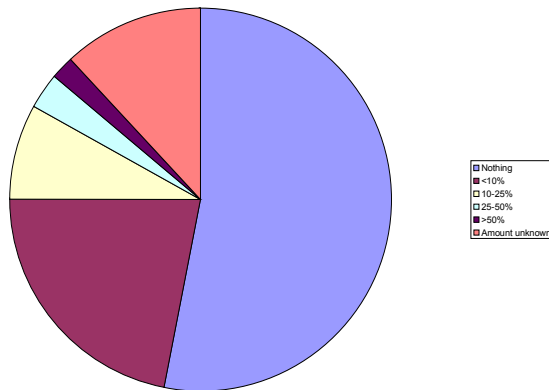
Access to credit was widespread. In the survey, three quarters of all households had credit facilities of some kind, although quite a number of these facilities were not actually being used. For example a third of people had overdraft facilities that they did not use and a similar proportion had credit cards on which they had owed no money following the last statement. Consequently, half of households had credit commitments (that is facilities on which they owed money) at the time they were interviewed. This suggests that there is a very high level of undrawn credit (*Section 2.1*).

Most households used credit modestly, having only one or two credit commitments, owing modest amounts and paying less than a tenth of their gross income on credit repayments but a small minority were heavy credit users:

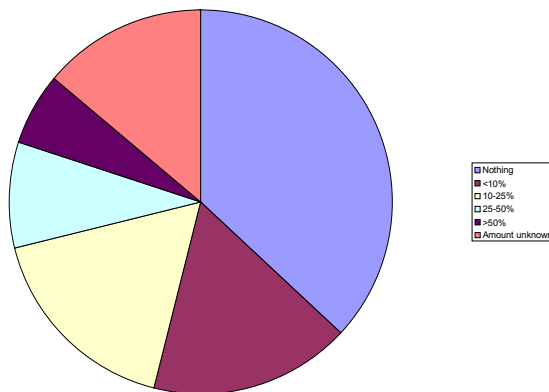
- 7 per cent had four or more credit commitments (*Section 2.1*)
- 5 per cent were spending a quarter or more of their gross income on consumer credit repayments (*Section 2.3*)
- 6 per cent were spending half or more of their gross income repaying their mortgage and other credit commitments (*Section 2.3*).

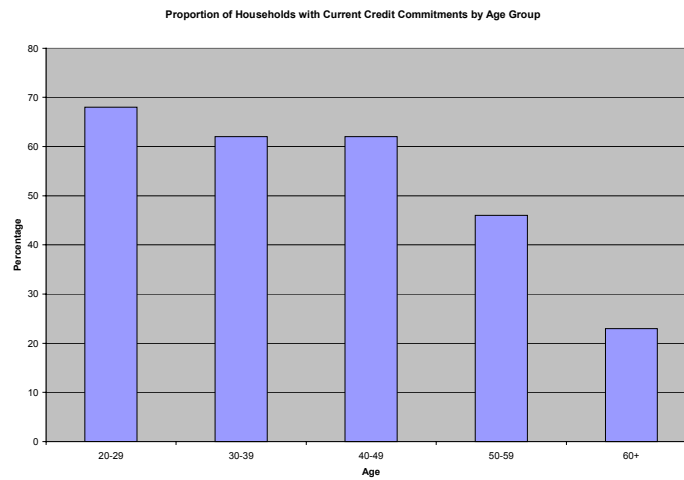
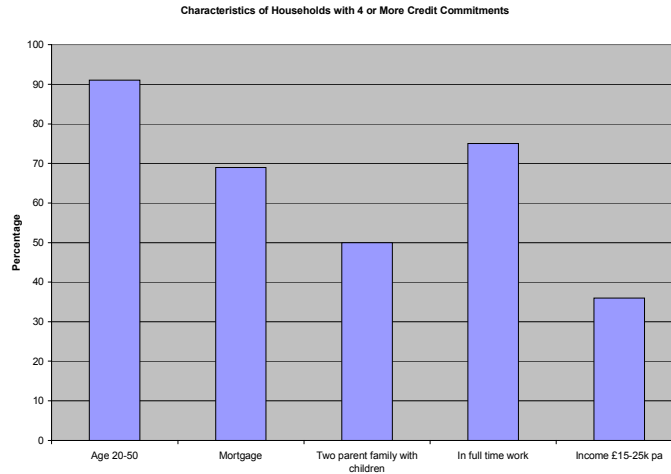
Credit was used most when people were setting up home and had young children, but its use was high right across most age groups, through to those in their fifties. There was no evidence of young people, still living at home, being especially heavy users of credit (*Section 2.1*).

Repayments excluding mortgages as Proportion of Gross Monthly Income



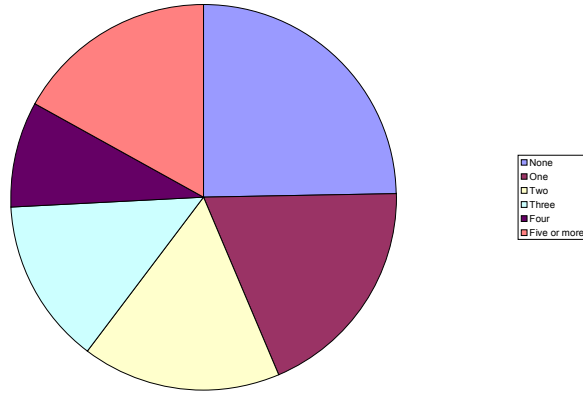
Repayments Including Mortgages as Proportion of Gross Monthly Income



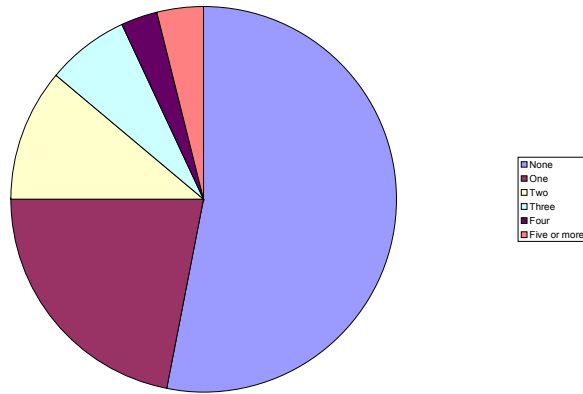


Since the last comparable survey in 1989, the number of households with credit facilities has increased markedly, but the proportion currently repaying credit was about the same. In other words there had been a large increase in the number of households with overdraft and credit card facilities they were not using (*Section 2.4*).

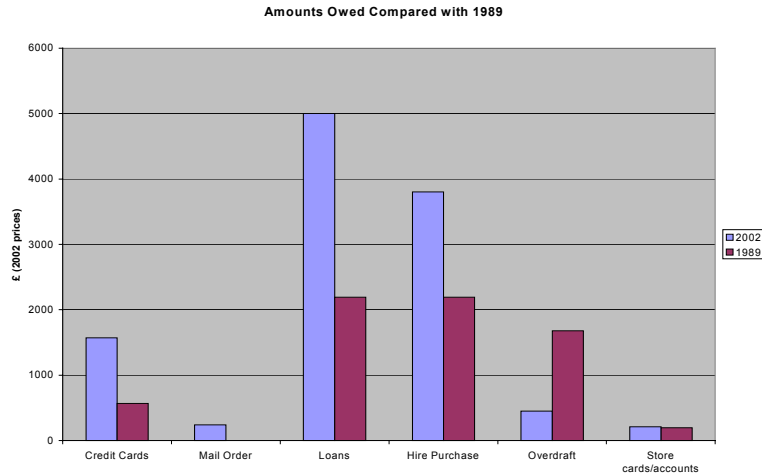
% of Households With Consumer Credit Facilities



% of Households With Current Credit Commitments



The amounts owed by credit users had, however, increased quite considerably – and especially on credit cards, loans and hire purchase agreements. At the same time, credit cards are increasingly being used in place of cheques or cash and being settled in full each month. These two factors taken together seem to account for the increase in gross borrowing recorded by official statistics. In other words, compared with 1989 more people would be at risk in an economic downturn (*Section 2.4*).



Figures for mail order not available for 1989  
1989 figures single average for hire purchase and loans

Overall, about a quarter of households reported that they had been in financial difficulties in the last 12 months, including 18 per cent who had been in arrears on one or more of their household commitments, and around two in ten were in financial difficulties at the time of the survey. Levels of current arrears were much lower in Scotland and Wales (7 and 8 per cent respectively) than they were in any of the English regions. The highest levels of arrears were in London, the North East and Yorkshire/ Humberside, all at 17 per cent. A small number (3 per cent) were currently behind with payments on three or more commitments (*Section 3*). More were in arrears with their household bills<sup>1</sup> than had fallen behind with repayments on consumer credit agreements – mainly because far fewer households were repaying credit commitments (*Section 3.4*).

It would seem that the situation is currently stable –over the last 12 months as many households got out of financial difficulty (6 per cent) as saw them start. About 7 per cent of households, however, had been in financial difficulty for more than a year (*Section 3.2*).

Despite low levels of unemployment, the largest single cause of financial difficulties was still job loss. Financial difficulties were also strongly associated with setting up home and having a family. The arrival of a new baby increased the risk of difficulties, as did relationship breakdown. Low and unstable incomes also increased the risk. Nearly half of households having financial problems attributed them to a loss of income and one in seven of households with financial difficulties said it was because they were living on low incomes that were inadequate to meet their needs (*Section 3.6*).

One in ten households with financial difficulties said that over-commitment was the cause of their financial difficulties (*Section 3.6*). Using credit undoubtedly increased the risk of financial difficulties. So that the more credit commitments households had and

<sup>1</sup> Household bills includes mortgages.

the larger the proportion of their income that went on repaying borrowing, the more serious was their level of arrears on household commitments (*Section 3.5*).

There is some evidence for the claims of both irresponsible lending and irresponsible borrowing. Lending practices that are associated both with financial difficulties and with high levels of spending on repaying money borrowed include:

- The automatic raising of credit limits on credit and store cards and on overdraft facilities.
- Encouraging people to transfer balances on credit cards, by offering low initial interest rates and higher credit limits.
- Reducing the minimum payment on credit cards.
- Issuing cheques that can be used to draw on credit card accounts.

These do, however, need to be set in context – each affects a relatively small proportion of high-risk households. But such practices do tend, quite disproportionately, to attract customers who are at a high risk of over-commitment (*Section 4.1*).

At the same time there is clear evidence of borrowers acting irresponsibly:

- borrowing money when already in financial difficulty to pay off other credit or to pay off arrears on bills and other commitments.
- Taking on credit agreements, despite knowing that they will struggle to repay the money.
- And impulsive shopping and credit use by consumers who buy things on the spur of the moment and know they will not be able to repay or do not consider whether they will be able to do so.

Each of these has a strong link both with financial difficulties and with high spending on credit repayments, although again each applies to only a small proportion of all households (*Section 4.2*).

Of particular concern is the fact that, currently, more people are re-financing when they are having difficulty keeping up with payments than are either claiming on payment protection insurance or seeking advice from a free money advice service (*Section 3.8*).

The historically high levels of borrowing are, therefore, problematic for a only small number of people. But a far greater number would, potentially, be at risk of serious difficulties in an economic downturn or a period of sustained increase of interest rates. This underlines the need to find ways of minimising the risks, both by educating consumers about the dangers of borrowing irresponsibly and by changes to the lending practices identified above.