

Household Debt Monitoring Paper H2 2006¹

Introduction

As part of the strategy outlined in 'Tackling Over-indebtedness: Action Plan 2004²', the DTI is committed to monitoring debt levels and problems associated with debt in the UK. In line with this commitment, this paper aims to provide a high-level summary of the level of indebtedness and to look at the degree to which individuals are struggling with regard to excessive debt. Information is drawn primarily from publicly available sources, although where appropriate we also refer to specific research. This paper primarily covers information on the situation up to December 2006, although the macroeconomic situation includes some updates into 2007. Previous Monitoring Papers have been updated every quarter. This update is the first to be released subsequent to the decision to update on a six-monthly basis only.

Summary

Data for the second half of 2006 suggests that consumer lending has continued to grow strongly, with the growth becoming increasingly focussed on growth from secured lending. This strong growth has led to the debt to disposable income ratio to continue to rise, although consumers are no more exposed to debt when compared to their financial asset position than in June 2006.

Turning to look at distressed lenders, the picture is mixed, although on balance it is showing a situation that maybe deteriorating. Both the level and rates of debt write-offs have continued on an upward trend, especially debt written-off on credit cards. Personal insolvencies have shown very strong growth, although this would appear unlikely to be driven solely by a worsening in households' financial situation. This would appear to include robust growth in Debt Management Plans, for which only limited information is available. Positively however, mortgage arrears remained relatively stable and at very low historical levels, whilst mortgage possession orders also showed little growth. Most strikingly, individuals have become more positive about their ability to service their debts, with a far greater number reporting no problems keeping up with commitments as well as a decline in the number of consumers falling behind with bills or commitments.

Notable changes since the beginning of Q2 2006:

- The level of total household debt to disposable income reached 162.9% in Q4 2006 compared to 157.4% in Q2. This increase was driven entirely by the strong increase in secured debt, which saw the secured debt to disposable income ratio rise from 118.8% in Q2 to 124.4%. By contrast debt to financial asset ratios have not increased significantly over the 6 month period showing that consumers, in the aggregate level, were no more exposed on a net liquid asset basis to rising debt levels at the end of 2006 than in June.
- Both personal insolvency numbers and debt write-off rates have continued on their upward trend. Personal insolvencies in England and Wales for Q4 2006 stood at almost 30,000; 14.1% higher than Q2 2006, and 44.1% on the same period a year ago. The level of household debt written-off to total household debt has remained static between Q2 and Q4 2006 at 0.86%, albeit around 0.1% higher than a year earlier. Significantly credit card debt write-off rates continue to rise, standing at 6.4% in Q4 as a proportion of total credit card lending, up from 5.6% on Q2 and 4.5% a year earlier.³

¹ Previously called the "Over-indebtedness Monitoring Paper".

² Available at <http://www.dti.gov.uk/ccp/topics1/pdf1/overdebt0704.pdf>.

³ Q4 debt write-off figures are actually taken from November, with Q2 debt write-off figures from May.

- The number of consumers able to keep up with credit and bill commitments rose between 2005 and 2006 from 96% to 98%. Significantly the number keeping up with repayments without any difficulty increased from 57% to 66%.
- On the macroeconomic front, the main change has been the 0.75% rise in the Bank of England base rate since Q2 2006. It will take time before the full extent of these cumulative changes work through into levels of debt and insolvency levels.

This Report splits the evidence into three sections:

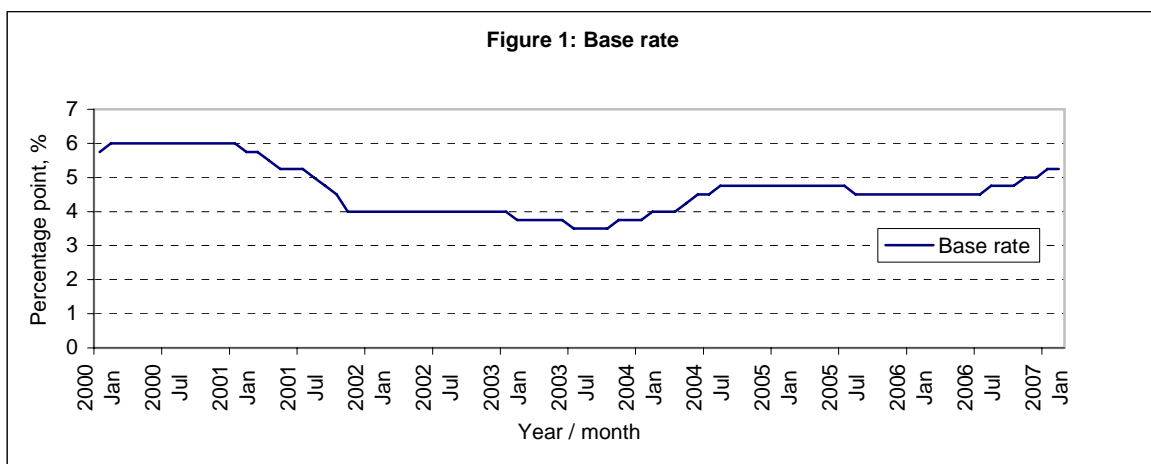
- 1. Macroeconomic environment**
- 2. Objective measures of debt levels and financial distress**
- 3. Individual assessment of ability to meet credit and bill commitments**

1. Macroeconomic Environment

1.1 Interest and Inflation Rates

Figure 1 shows movements in the Bank of England base rate since January 2000. Twice in the second half of 2006 the Bank of England raised the interest rate by 0.25% and subsequently increased the rate by a further quarter point in January 2007. Following this most recent increase, the rate now stands at 5.25%, the highest rate for over 5 years but still low by historical standards. The recent increases in rates have coincided with an increase in the Consumer Price Inflation (CPI), which increased to 3.0% in December 2006, and although falling back subsequently rose to 3.1% in March 2007. Since January 2007, the Bank has left the rate unaltered, although many commentators believe that at least one further increase is inevitable over the coming months.

The Retail Price Index (RPI)⁴, rose to 4.8% in March the highest level since July 1991, with RPIX (RPI excluding mortgage payments) rising to 3.9%.

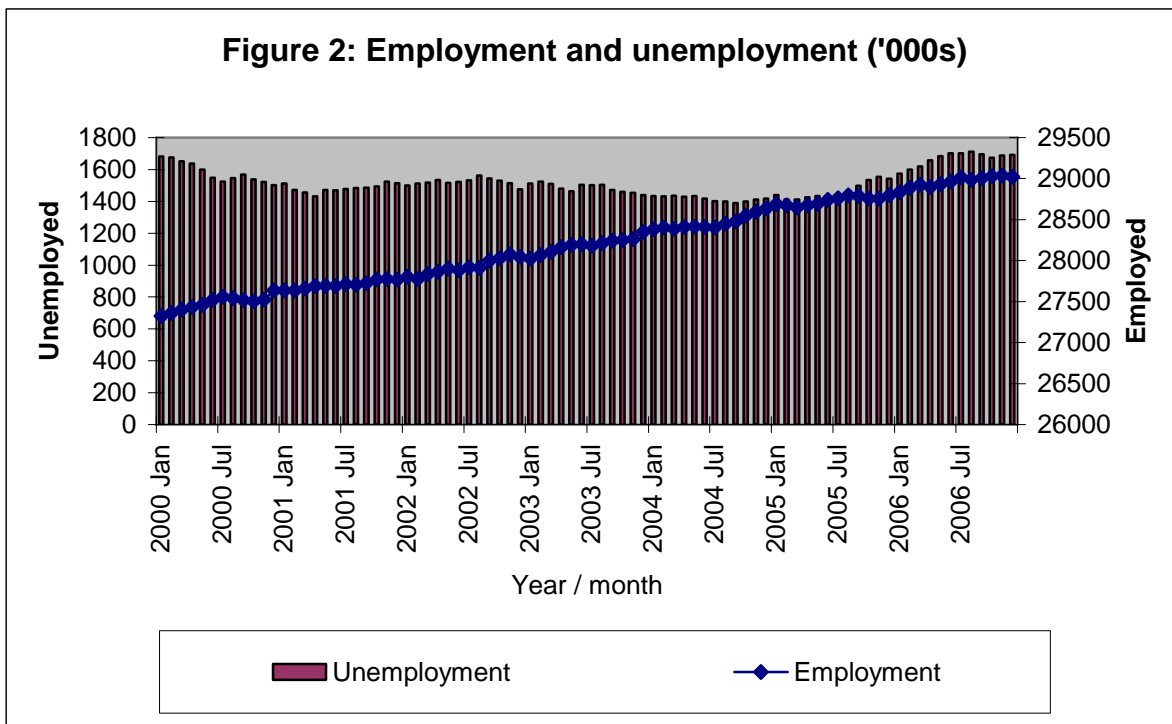


Source: Bank of England: *Monetary & Financial Statistics Interactive Database*

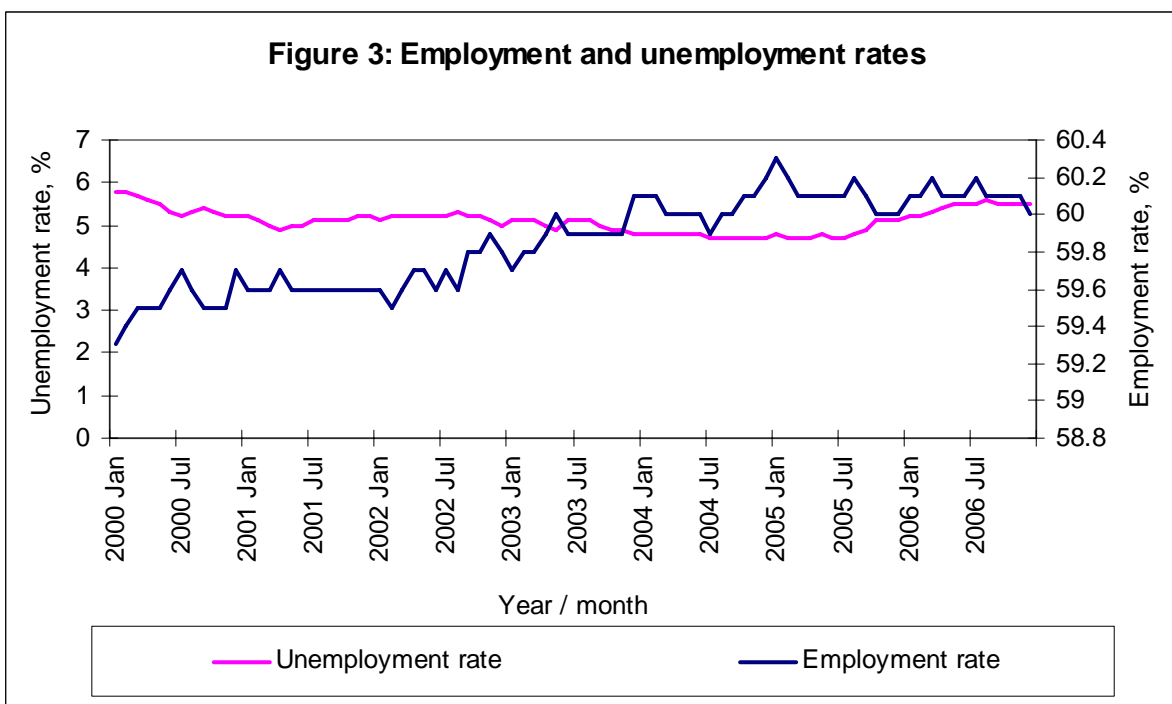
⁴ RPI is based on a typical basket of goods and services that would be consumed by a private UK household. One difference between the two measures is that whilst RPI includes a number of items chosen to represent owner-occupier costs, including mortgage interest payments and depreciation costs, this is excluded from the CPI. Another difference is that CPI includes some items that represent costs faced by foreign visitors to the UK. For more detailed information, please visit www.statistics.gov.uk.

1.2 Labour Market Trends

The labour market outlook remains relatively benign and unchanged since Q2 2006. Figure 2 and figure 3 show that both the rate and level of both unemployment and employment has remained practically static since June 2006. Although it is worth pointing out that the unemployment rate is at its highest levels since 2000, in terms of recent UK history and compared to rates pervading in several European economies unemployment levels are low.



Source: ONS: *Labour Market Trends (seasonally adjusted: sa)*

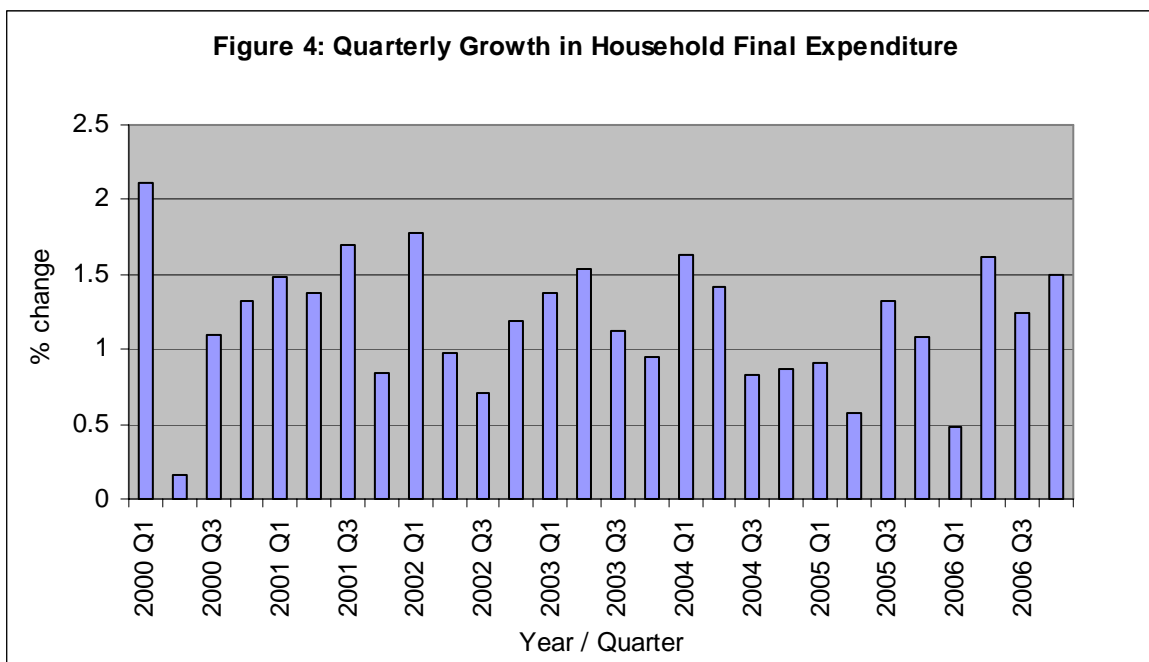


Source: ONS: *Labour Market Trends (sa)*

1.3 Consumer spending

Figure 4 shows the growth in household final expenditure measured as the percentage change relative to the previous quarter.

Growth in consumer spending (seasonally adjusted) has remained robust over the second half of 2006, standing at a level 2.8% higher in Q4 than in Q2 2006. Growth has accelerated slightly over the period rising 1.5% between Q4 and Q3, whilst increasing at the slightly lower rate of 1.2% Q3 on Q2. Compared to a year earlier, consumer spending in Q4 2006 stood just under 5% higher (4.9%), again indicative of robust growth.



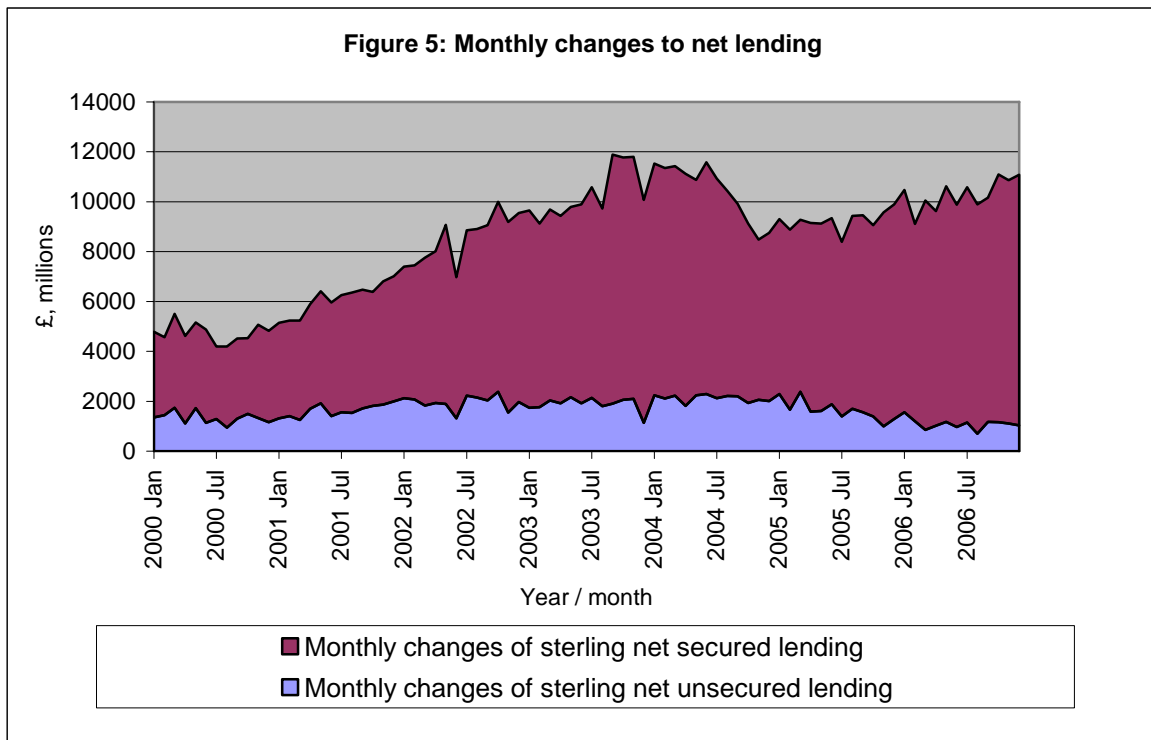
Source: ONS: Consumer trends (sa)

Looking forward, according to the latest Budget forecast consumer spending growth will continue at rates slightly below that of the economy as a whole, reflecting the impact of recent interest rate rises and developments in household real incomes.

1.4 Consumer lending

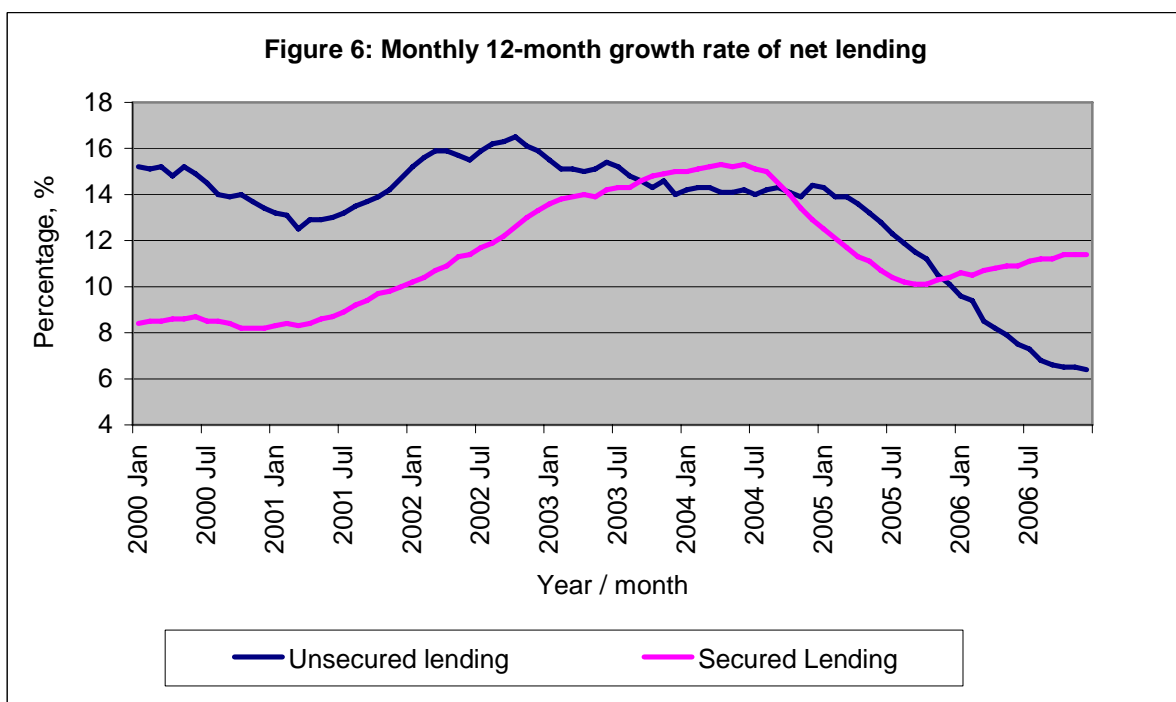
Figures 5 and 6 indicate that consumer lending has continued to grow strongly during the second half of 2006, with the increase in consumer lending primarily attributable to an increase in secured lending.

Figure 5 shows the monthly changes to net lending. December 2006 saw net monthly lending at £11.1bn. The increase in secured lending of just over £10bn in December 2006 represents the highest ever recorded level of monthly growth. Net secured lending increased just over £57bn during the second half of 2006, considerably up relative to the £53.0bn increase in the first half of the year. In contrast, the increase in net unsecured lending over the second half of 2006 was little changed from the first half averaging just over £1bn (£1.09bn) a month.



Source: Bank of England: Monetary & Financial Statistics Interactive Database (sa)

The data in Figure 6 captures the monthly annual growth rate of secured and unsecured lending to individuals. Over June and December 2006, the monthly annual growth rate of unsecured debt declined whilst the monthly annual rate of growth of secured debt increased. Specifically, the 12-month growth rate of unsecured debt decreased during the aforementioned period from 7.5% to 6.4% and now stands at less than half the level of growth from spring 2005. In contrast, the 12-month growth rate of secured debt now appears to be on a gentle upward trajectory, increasing from 10.9% to 11.4% between June and December 2006, and up from the recent low of 10.1% in October 2005.



Source: Bank of England: Monetary & Financial Statistics Interactive Database (sa)

Summary of macroeconomic picture

A strong labour market, low rate of inflation and still historically low levels of interest rates, particularly prior to the recent increases in interest rate, still indicate an economy that continues to perform strongly. Against this continuing stable background, the strong growth in consumer spending over the last year is not to be unexpected.

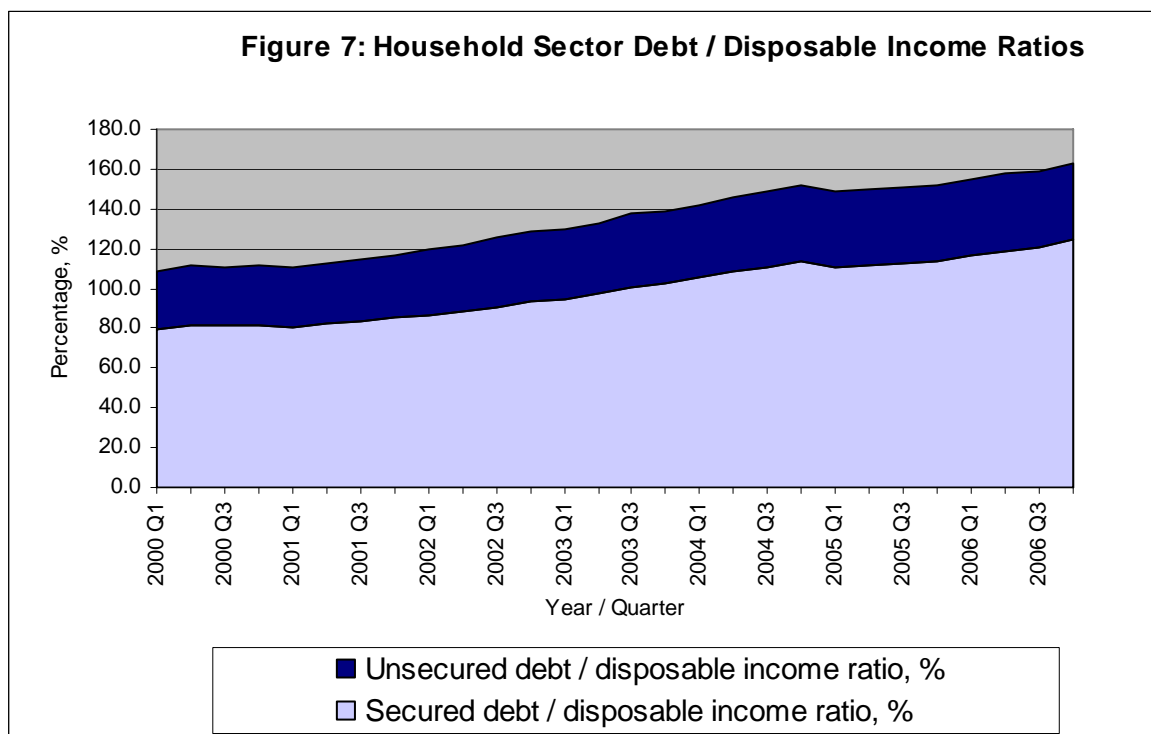
In terms of lending specifically, the growth in unsecured lending continued to decelerate over the second half of 2006, as demand dampened and banks tightened lending criteria. The slowing rate of growth in unsecured lending might also have been due in part, to consumers taking advantage of relatively low interest rates on secured debt to re-finance more expensive unsecured borrowing.

In contrast, the strength of secured lending has been underpinned by sustained growth in house prices. In addition, according to the FSA Financial Risk Outlook 2007, competition in the mortgage market and, the continuing rise in house prices has led banks and building societies to offer borrowers larger mortgages. The 2007 Outlook points out that banks stress their commitment to more effective affordability tests. However, the FSA report states, that whilst lending at higher multiples might be appropriate in certain circumstances, the rise in lending multiples raises the question about whether lenders have adequately assessed their borrowers' ability to cope with higher interest rates.

2. Objective measures of debt

2.1 Debt / Disposable Income Ratios

The total household debt to disposable income ratio has continued to rise⁵ as shown in figure 7. The ratio of total debt to disposable income has risen to 162.9%, up from 157.4% in Q2 2006. This rise has been solely driven by the strong expansion of secured debt, which has led to the secured debt to disposable income ratio increasing from 118.8% in Q2 2006 to 124.4% in Q4 2005. By contrast, the unsecured debt to disposable income ratio has remained static at around 38.5% between Q2 and Q4 2006, and indeed has remained at around this level over the last two years.



Source: ONS: Financial Statistics Consistent. (Seasonally adjusted income data)

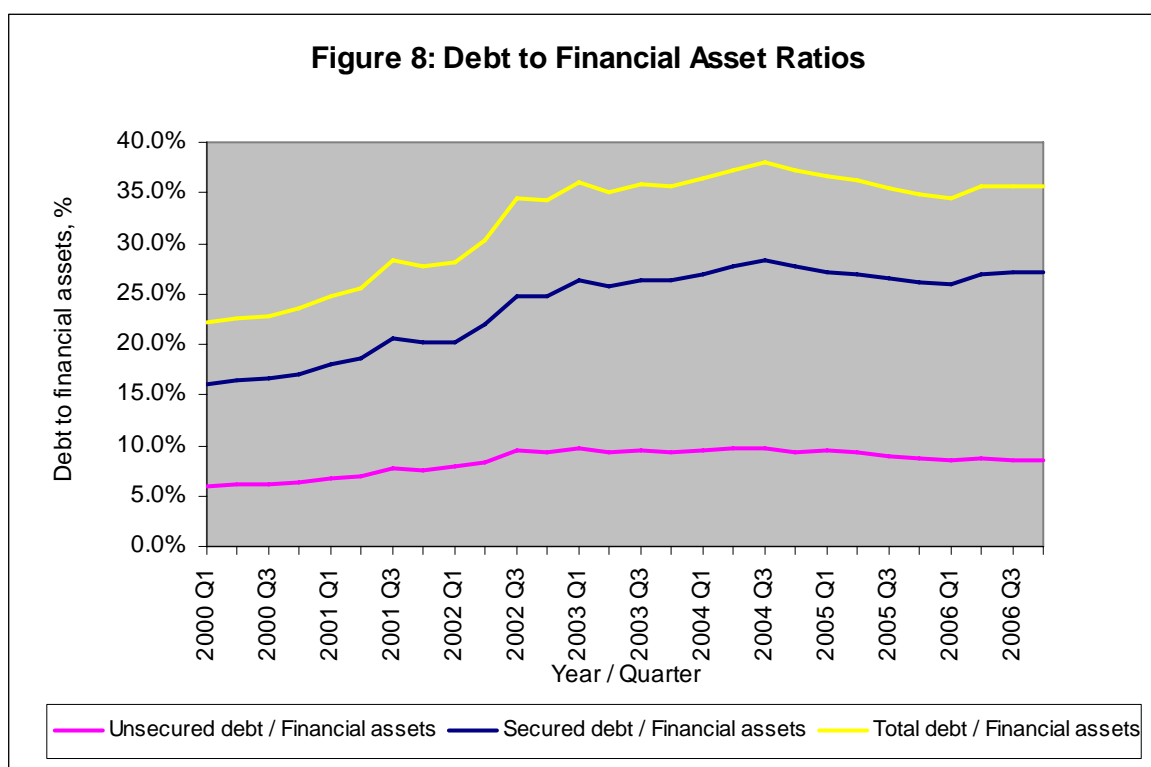
⁵ Note this debt to disposable income ratio is not the same measure that has been reported in previous over-indebtedness reports. Previous reports utilised seasonally adjusted total available household resources (ONS code: RPQK), whilst this report utilises seasonally adjusted households' gross disposable income (ONS code: RPHQ). The difference in these two measures is that the former includes the adjustment for the change in net equity of households in pension funds.

2.2 Debt / Financial Asset Ratios

Figure 8 reports quarterly data for the secured debt to financial assets ratio⁶, the unsecured debt to financial assets ratio and a combined total debt to financial assets ratio. The importance of this measure of indebtedness is that it demonstrates the extent to which households can meet debt repayments out of their stock of liquid (able to be converted to money relatively easily) assets and represents, when taken in conjunction with the debt/disposable income ratios, a more balanced view about households ability to meet debt levels.

Looking initially at the movements that have occurred between Q4 and Q2 2006, very little change has actually occurred, with the total debt ratio remaining constant, and the small upward movement in the secured debt financial assets ratio being offset by the small movement downwards in the unsecured financial assets ratio.

Of most interest is the fact that all three ratios are now off the high seen in Q3 2004, with the total debt to financial assets ratio now around 2.5% below the 38% high seen in that quarter. This is made up of a decline of 1% in the secured debt ratio, and a 1.5% decline in the unsecured ratio. However, it is also clear from the graph that the three ratios have also experienced a substantial increase since Q1 2000. Most strikingly, the total debt to financial assets ratio has risen by over half, rising from 22% to its current level of around 35.5%. This has been driven by the secured debt to financial asset ratio that has risen by 11%, from around 16% to around 27%. Clearly, whilst the ratio is off its high, the debt to financial assets ratio remains high based on the recent past.



Source: ONS: Financial Statistics Consistent (nsa)

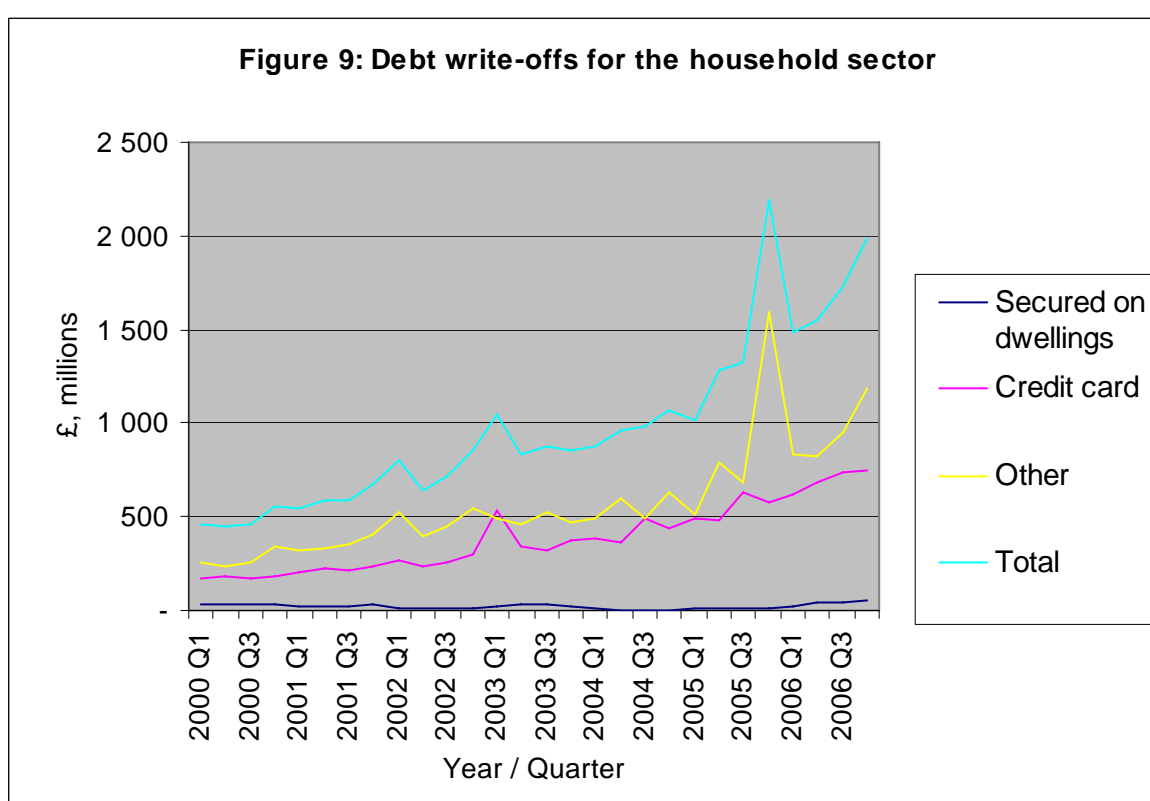
⁶ Financial assets, includes currency and deposits, security holdings (including bonds and equity holdings), long term loans and pension and life assurance funds and insurance premium prepayments.

2.3 Levels and Rates of Debt Write-offs

Overall levels and rates of debt write-offs have continued on their upward trend of the last few years.

Turning first to the amount of debt written off, all forms of household debt write-offs shown in figure 9 have risen over the second half of 2006. Total write-offs increased by 28.1% to £1.99bn between Q2 2006 and Q4 2006. This has largely been driven by the growth on debt write offs on debt other than credit card and mortgage debt, which rose by 44.5% to £1.19bn across this period.⁷ Whilst credit card write offs have grown at the much lower rate of 8.6% to £750m, the amount of write-offs on mortgage debt has increased by 29.3% to £53 million, albeit a level that represents only a small fraction of total debt write-offs.

Turning to the longer trend, since the start of 2000, both credit card debt and other unsecured debt write-off levels have more than quadrupled, whilst mortgage write-offs on the back of rising house prices have increased by only just over 40%.



Source: Bank of England, *Monetary & Financial Statistics February 2007*⁸, Table C2.1

Moving on to annual household write-off rates⁹, a slightly different picture emerges in figure 10. Between May 2006 and November 2006, the period for which data is available, whilst credit card write-offs rates (debt written-off/outstanding debt levels) rose from 5.6% to 6.4%, other unsecured debt has fallen from 4.5% to 4.2%. Overall the net effect has been that total write-off rates have remained constant at 0.9% over the period, with mortgage write off rates although rising, remaining at an extremely low rate at 0.03%.

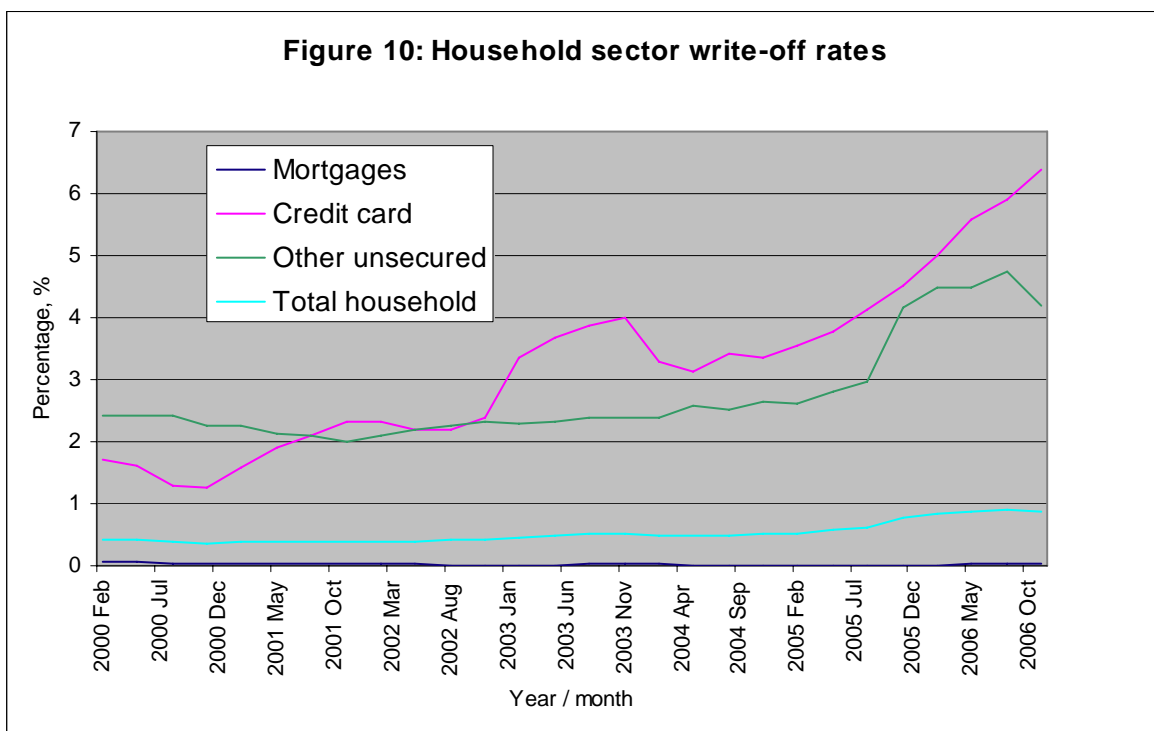
⁷ The peak in the 'other' chart and the total chart seen in Q4 2005 was caused by a single bank writing off an amount of bad debt equal to £0.7bn in that period.

⁸ http://www.bankofengland.co.uk/statistics/ms/2007/feb/bankstats_full.pdf.

⁹ Write-off rates are calculated quarterly as write-offs over previous year divided by average quarterly stock of lending over this period. Also, 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.

Looking at the whole period since 2000, it is clear from figure 10 that credit card write-off rates have been on a consistently upward trajectory, rising from below 2% at the start of 2000, to the current level of 6.4%. In terms of other unsecured debt, write off rates remained fairly flat out to the end of 2005, before jumping to a level of write-offs around 4-4.5% where they have remained since. Total debt write offs were similarly flat, before entering a period of gradual increase from the beginning of 2005 up to their current levels.

It should be noted that write-off rates are dependent on specific bank policies, which may vary over time, so the rising level of write-off rates may not simply be a symptom of households increasingly stretching themselves. Indeed the July 2006 Financial Stability Report provides support to the view that rising write-off rates are not solely due to households increasingly stretching themselves, by pointing out that major UK banks had been in the process of tightening credit availability for some borrowers, including the highly indebted.



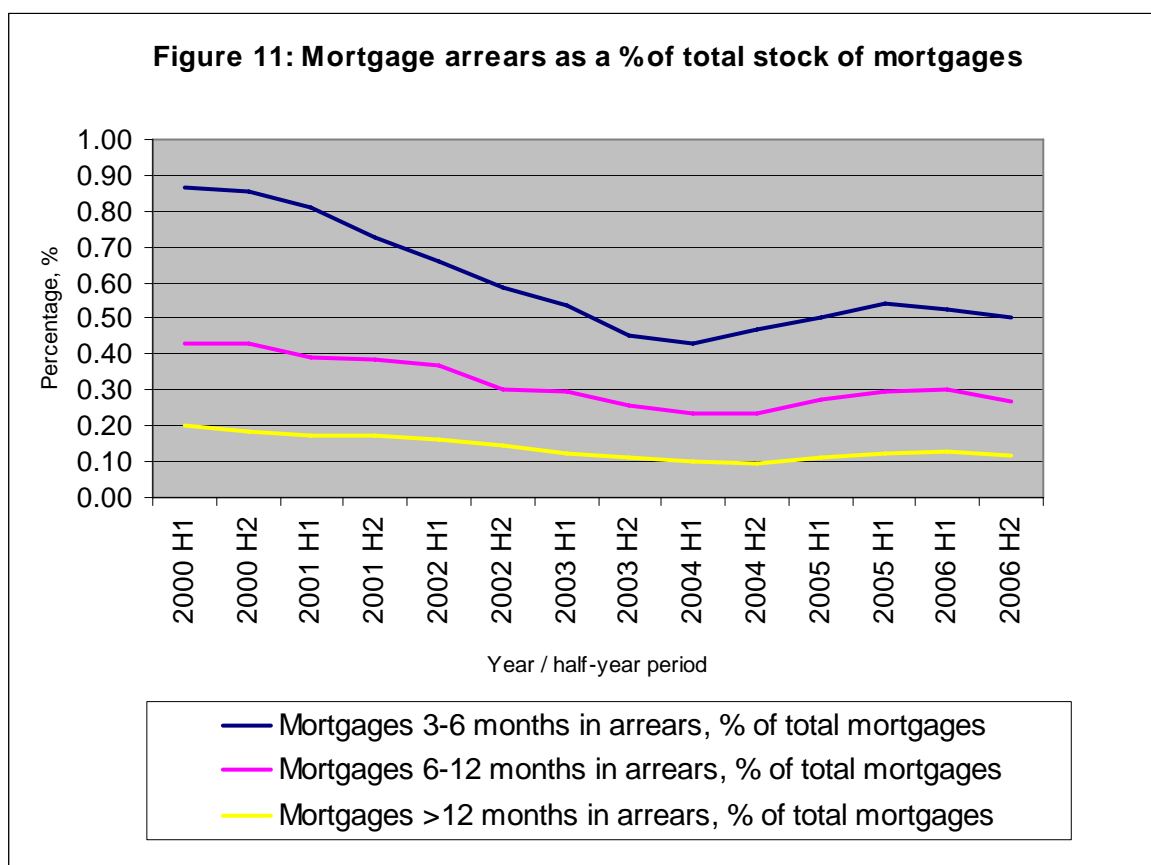
Source: Bank of England: Financial Stability Report, July 2006

2.4 Mortgage Arrears and Repossessions

The number of mortgages more than six months behind on payments fell by 8.5%, from 49,010 at the end of 2005 to 44,840 at the end of 2006. This figure represents less than 0.4% of all mortgages. The number of mortgages with shorter term arrears, of 3-6 months, also fell by 6%, and now represents only 0.5% of all mortgages.

Looking at longer-term trends, since the beginning of 2005, mortgage arrears as a percentage of total mortgages have been on a downward trend, an overall downward trend that can clearly be seen in figure 11.

Looking ahead, the Council of Mortgage Lenders (CML) expects short-term arrears to rise during the course of 2007, mostly because of the effects of higher interest rates. The effect may be more pronounced in the second half of the year than the first, since interest rate changes take a while to feed through into repayment difficulties for borrowers.



Source: Council of Mortgage Lenders

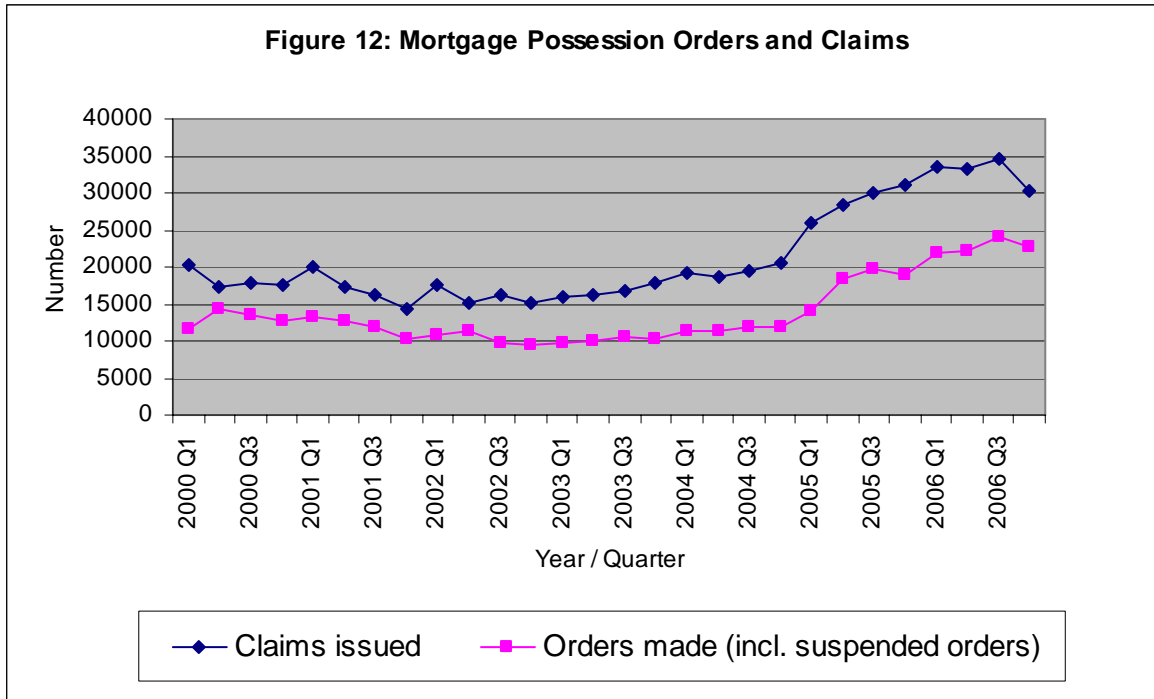
Moving on to mortgage repossessions, according to the CML, the actual number of mortgage repossessions rose from 8,140 in the first half of 2006 to 8,860 in the second half. This brings the total for 2006 to 17,000, 65% higher than in 2005 and roughly 1 in 690 mortgages. The CML has forecasted that repossessions will rise modestly to 19,000 in 2007 and 20,000 in 2008. This reflects a slight worsening in prospects as a result of higher interest rate expectations since the previous forecast.

Due to the time lags involved in mortgage repossessions occurring, timelier information with regard to the repossession situation can be seen from mortgage claim and orders data. Mortgage possession orders¹⁰ made in Q4 2006 totalled nearly 23k; little changed

¹⁰ 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

from Q2 2006, but 21.5% higher than a year earlier. Mortgage possession claims¹¹ totalled just over 30k, 8.5% lower than Q2 2006, but little changed since a year earlier. Interestingly, both claims and orders fell, significantly in the case of claims, between Q4 and Q3, which is likely to be linked to the acceleration in house price growth.

Turning to the longer term trend, both mortgage possession orders and claims were fairly flat between 2000 and the end of 2004, since when both series have shown significant growth, with mortgage orders doubling in level over that time. Interesting the CML¹² finds significant regional differences in the ratio of mortgage possession claims to the number of mortgages, with London having seen the biggest increase in this ratio in the past few years, and with other southern regions also showing large increases.



Source: Department of Constitutional Affairs

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.

¹¹ Possession claims involve a claimant beginning an action for an order of possession of property by issuing a claim in a county court.

¹² Repossession Risk Review, <http://www.cml.org.uk/cml/media/mcomm/repossession>.

2.5 Personal Insolvency

A number of statutory insolvency instruments are available to individuals facing serious financial difficulty, including bankruptcy, Individual Voluntary Arrangements (IVAs) in England, Wales and Northern Ireland and sequestrations and protected trust deeds in Scotland¹³. Individuals also have non-statutory options, such as Debt Management Plans (DMPs), re-mortgaging, and debt consolidation.

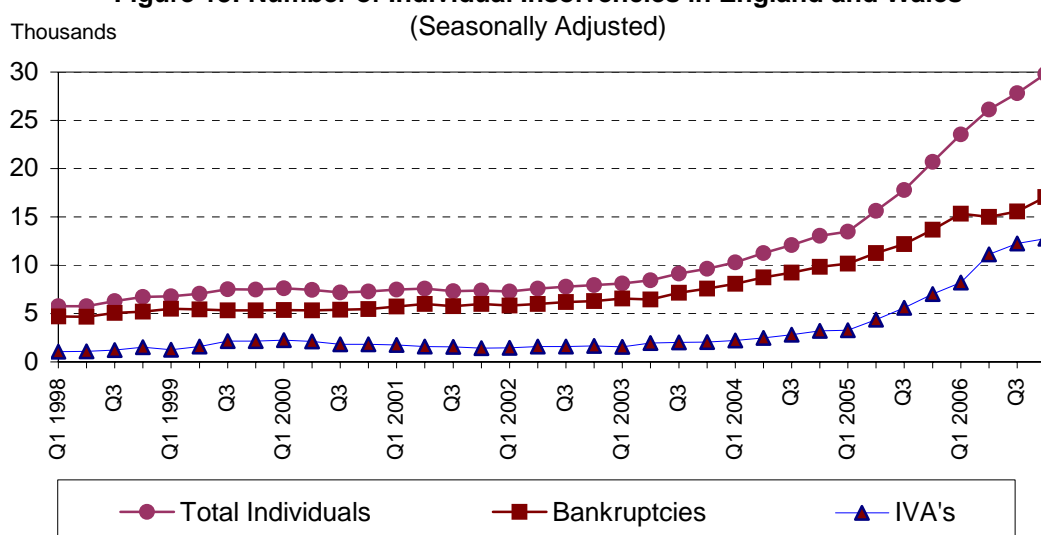
2.5.1 Statutory Insolvency

England and Wales

There were almost 30k individual insolvencies in England and Wales (calculated on a seasonally adjusted basis) in Q4 2006. This represents an increase of 14.1% since Q2 2006 and is in line with the growth rate of both bankruptcies and IVAs¹⁴, which grew to around 17k and 13k respectively. Looking back to Q4 2005, individual insolvencies were 44.1% higher in Q4 2006. In terms of its component parts, bankruptcies had increased 24.8% on Q4 2005, whilst IVAs had increased 81.9%.

Looking over the longer term, it is clear that personal insolvency continues to rise. Personal statutory insolvencies in England and Wales have almost quadrupled since the beginning of 2000, and as figure 13 shows, the growth in the number of insolvencies appears to have accelerated since Q1 2005. The specific strong growth of IVAs in recent years has sparked controversy about the way IVAs are being sold, with some parts of the industry suggesting that consumers are being encouraged to enter into an IVA when it might not be the most suitable option for them. To address these concerns, the British Bankers Association (BBA) and representatives of the IVA industry announced in December 2006 that they are going to work together to create industry standards to regulate how responsible debt practitioners market and advertise their services.

Figure 13: Number of Individual Insolvencies in England and Wales



Source: Insolvency Service

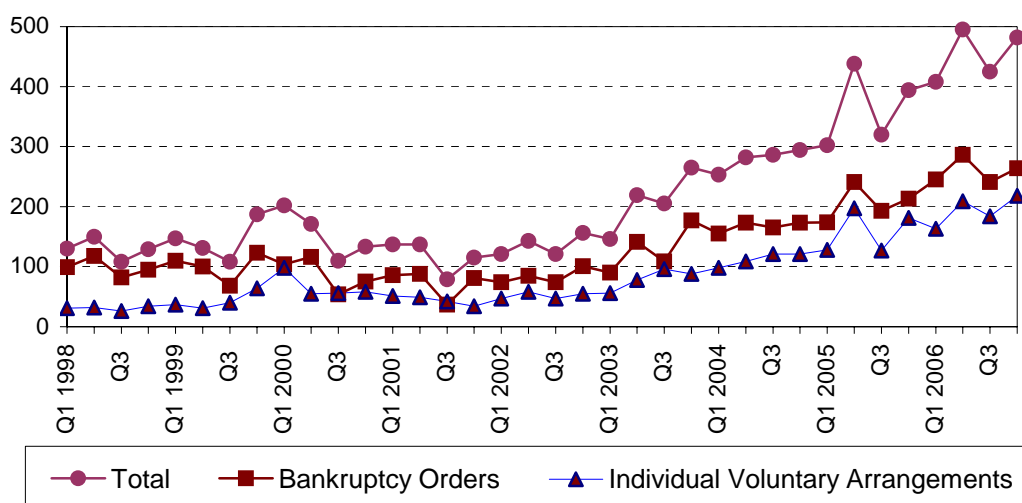
¹³ Insolvencies in Scotland and Northern Ireland are shown separately as they are covered by separate legislation as well as there being some differences in definitions pertaining to insolvency mechanisms.

¹⁴ It is pertinent to point out that IVAs are generally only appropriate if the debtor has sufficient money available to contribute towards repaying debts each month or additional assets which could be taken into consideration.

Northern Ireland

For completeness, figure 14 shows the number of individual insolvencies in Northern Ireland, which are very much of a smaller magnitude than for England and Wales. As with the data for England and Wales, personal insolvency levels have embarked on an upward trend, with the upward trend by contrast having emerged at the beginning of 2003.

Figure 14: Number of Individual Insolvencies in Northern Ireland
(Not Seasonally Adjusted)



Source: Insolvency Service

Scotland

Owing to Scotland's different judicial system, the schemes in place are not the same as those in England and Wales. However sequestrations are comparable to bankruptcies in England and Wales and trust deeds work in a similar way to IVAs¹⁵.

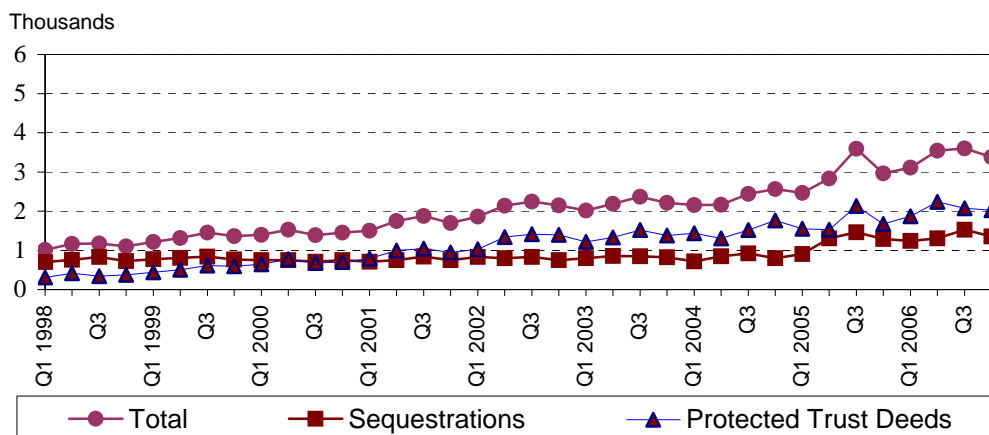
The growth of personal insolvencies in Scotland has been slower both over the short and long run compared to England and Wales as can be seen in figure 15. Total insolvencies fell by 4.6% between Q4 and Q2 2006, and over the year period between Q4 2006 and Q4 2005 are only 14.2% higher. Sequestrations increased at a steady rate across both periods, rising by 3.9% between Q2 to Q4 2006, whilst over the entire year period rose by 5.2%. In contrast trust deeds fell in the period Q2 to Q4 2006 by 9.5%, whilst rising by 21.2% over the entire year period on the back of particularly strong growth in Q2 2006. In contrast to personal insolvency levels for England and Wales, the final quarter of 2006 saw a decline across all forms of personal insolvencies in Scotland.

Looking over the longer term, the growth in insolvencies since Q1 2000 has been at a lower level than for England and Wales, with personal insolvencies only increasing at the comparatively low factor of 2.4 times by Q4 2006. As with England and Wales, the growth has occurred predominately in the voluntarily insolvency device (trust deeds and IVAs), but

¹⁵ Under certain conditions, trust deed's 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 creditor, 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.

unlike in England and Wales trust deeds already have grown to a level where they outstrip the level of sequestrations (bankruptcies).

Figure 15: Number of Individual Insolvencies in Scotland
(Not Seasonally Adjusted)



Source: Insolvency Service

Analysis

The rising trend in personal insolvencies could in part be due to a reduction in the stigma of insolvency as a way for debtors to restructure their borrowings, which was one contributing factor advanced by the Financial Stability Report July 2006 to explain the strong growth. It might simply therefore not be explained purely by the fact that more people are now experiencing financial distress, although this is likely to be at least a partial explanation.

Another contributing factor to the rise advanced by the Bank of England May 2006 Inflation Report, could come from the introduction of a new bankruptcy regime in England and Wales which may have increased the incentive to enter bankruptcy¹⁶. This might explain why the growth in personal insolvency has been particularly marked in England and Wales over recent quarters. Looking specifically at Scotland, the growth in sequestrations since the beginning of 2005 can be strongly attributed to the increasing use of bankruptcy by both Scottish local authorities as a mechanism for recovering council tax arrears and by property managers of tenements to recover their fees and charges. The creditor's intention is to access the equity in the debtor's home by forcing the sale of the home via bankruptcy. It is not uncommon to see petitions for debts of around £2,000, where bankruptcy could be seen as a disproportionate form of debt recovery for what are comparatively modest debts.

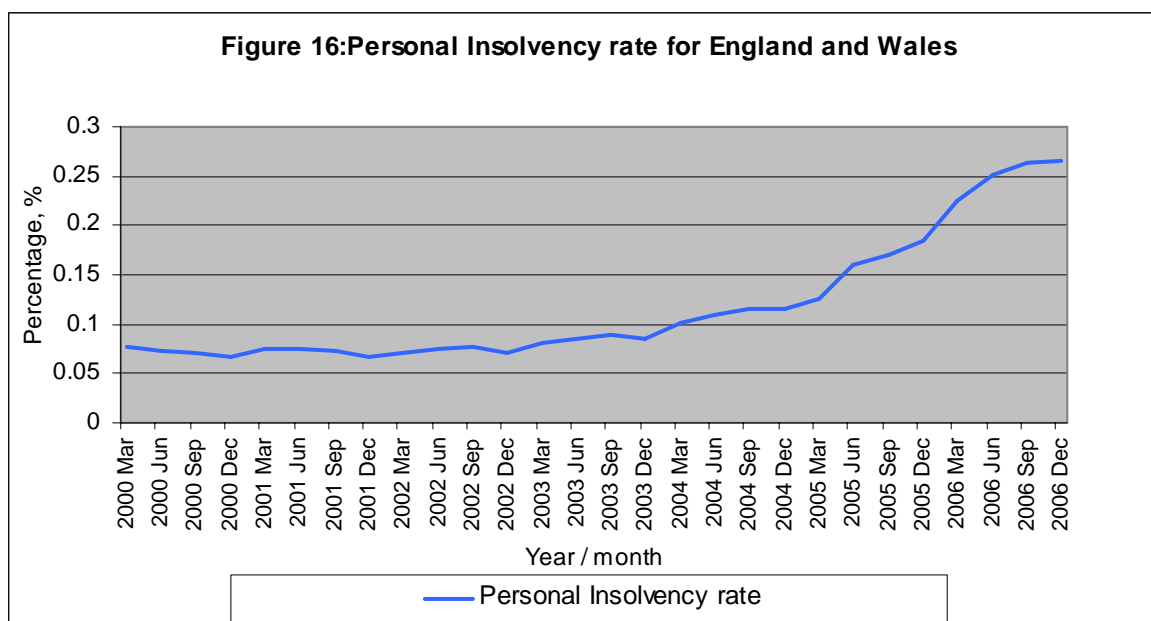
¹⁶

Although analysis by The Insolvency Service advocates that this is not the case (see section 2.5.4).

2.5.2 Personal Statutory Insolvency Rate

Moving on to look at the personal insolvency rate (includes bankruptcies and IVAs) for England and Wales, these have increased sharply over the course of 2006. Figure 15 shows the annualised insolvency rate for England and Wales. This is computed as the ratio of personal insolvencies relative to the population aged 16 years and over.

In December 2006, the annualised personal insolvency rate rose to 0.26% from 0.25% in September 2006. Compared with December 2005, the rate increased by 0.08% from the then rate of 0.18%. Since the start of 2000, there has been a four-fold increase.



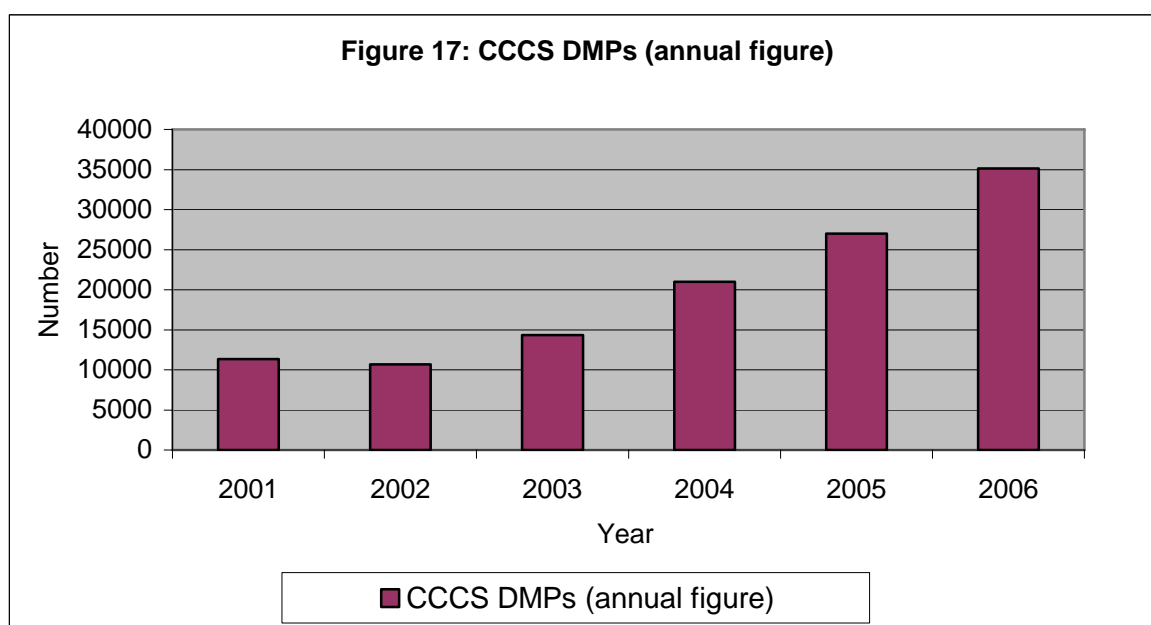
Source: Bank of England, data from *The Insolvency Service and ONS*

2.5.3 Debt Management Plans (DMPs)

A DMP is a non-statutory insolvency instrument that can be utilised to address financial difficulties related to unsecured debt (non-mortgage debt). DMPs are informal agreements between clients and creditors. No aggregate data is available for their usage, although it is suspected that they have been increasing dramatically recently.

The following section sets out the information on DMPs from the Consumer Credit Counselling Service (CCCS), a registered charity that helps clients set up DMPs with creditors as well as providing other debt advice related services including recommending bankruptcy where necessary. CCCS is considered to be amongst the largest facilitators of DMP agreements, and CCCS believes that around 10% of all debt repayment programmes within the UK fall under its management.

Figure 18 shows the annual number of DMPs set up by CCCS since 2001. In 2006 this totalled 35,135, an increase of 30% relative to 2005, and continuing the strong annual growth in DMPs that has occurred since 2002. The final quarter of 2006 saw DMPs rise to approximately 10,000, a figure that suggests that the upward trend in annual DMPs will continue into 2007.

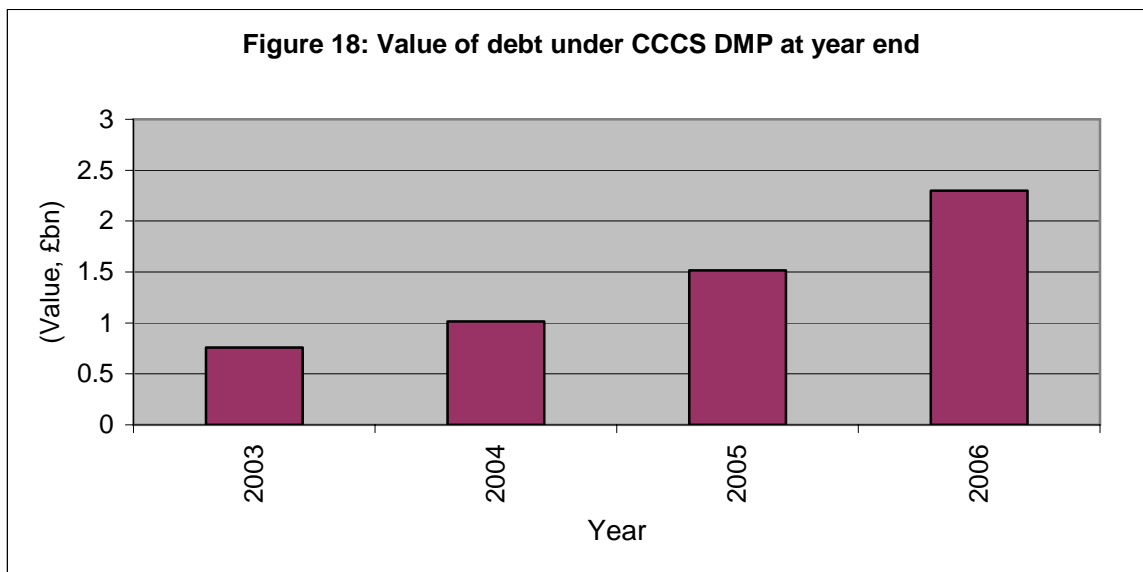


Source: CCCS Trouble Totals¹⁷

¹⁷

<http://www.cccs.co.uk/research/2007/Trouble%20totals%20Q4.pdf>

In terms of the value of total debt under CCCS DMPs, this had risen to £2.3 billion by the close of 2006, over 50% higher than the £1.5 billion held at the end of 2005.



Source: CCCS Statistical Yearbook 2006¹⁸

2.5.4 Analysis of Personal Insolvency

Personal insolvency levels can and do fluctuate. There is no definitive evidence of a single driver that might be contributing 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 / asset ratios, interest rates and employment levels all play a part.

Key Drivers of Personal Insolvency

The Insolvency Service has published a report of a study into causes of failure in bankruptcy¹⁹. The report indicates that:

- The most common cause of failure in bankruptcy over the study period was “living beyond the bankrupt's means”. This was cited as a cause of failure in 63% and 70% of bankruptcy cases in 2003/4 and 2004/5 respectively, and was the primary cause in 42% and 48% of cases in 2003/4 and 2004/5 respectively.
- Unplanned changes to the bankrupt's circumstances were cited as a cause of failure in 34% and 41% of bankruptcy cases in 2003/4 and 2004/5 respectively, and were the primary cause in 20% and 27% of cases in 2003/4 and 2004/5 respectively.
- The loss of, or significant reduction in, the bankrupt's income was the most common unplanned change to a bankrupt's circumstances that was cited as a primary cause of bankruptcy. This was primarily due to loss of employment.
- A business failure was cited as a cause of failure in 31% and 21% of bankruptcy cases in 2003/4 and 2004/5 respectively, and was the primary cause of failure in 27% and 19% of cases in 2003/4 and 2004/5 respectively.

Impact of Recent Law Changes

As previously reported, the Insolvency Service is continuing to evaluate the effect of the changes to the personal insolvency regime brought about by the Enterprise Act 2002, but it appears that the changes in legislation have had little if any effect on the number of people becoming bankrupt. Providing support to this view was evidence from a survey carried out by The Insolvency Service in 2006 assessing bankrupt's views on discharge from bankruptcy which found²⁰:

- Only 16% of bankrupts surveyed were aware of, and influenced by (in varying degrees) the reduction in the automatic discharge period when deciding to go through bankruptcy rather than another debt relief route.
- Overall, only 8% of bankrupts surveyed were aware of, and influenced by (in varying degrees) the early discharge provisions when deciding to go through bankruptcy rather than another debt relief route.

The continued rise in the number of individual voluntary arrangements, where there has been no legislative change, and which in percentage terms has seen a greater rise than

¹⁹ 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>

²⁰ The Insolvency Service (2006): *Discharge from Bankruptcy*, <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/Discharge%20from%20bankruptcy.doc>

the increase in bankruptcy numbers, also suggests that the increases in personal insolvency levels are being influenced by factors other than changes in the law.

Profile of creditors petitioning for bankruptcy

The Insolvency Service has also published reports on creditors petitioning for bankruptcy and on profiles of bankrupts. The study of creditors looks at the creditors who have petitioned in England and Wales²¹, since the early 1990s. The study showed that:

- The most common petitioner throughout the study period is the Crown.
- Local authorities and, to a lesser extent, accountants (including insolvency practitioners), have become an increasingly more common petitioner throughout the study period.
- After an initial peak, the level of bankruptcy orders made where banks and financial institution are petitioners has remained broadly consistent over the study period.

Profile of Bankrupts

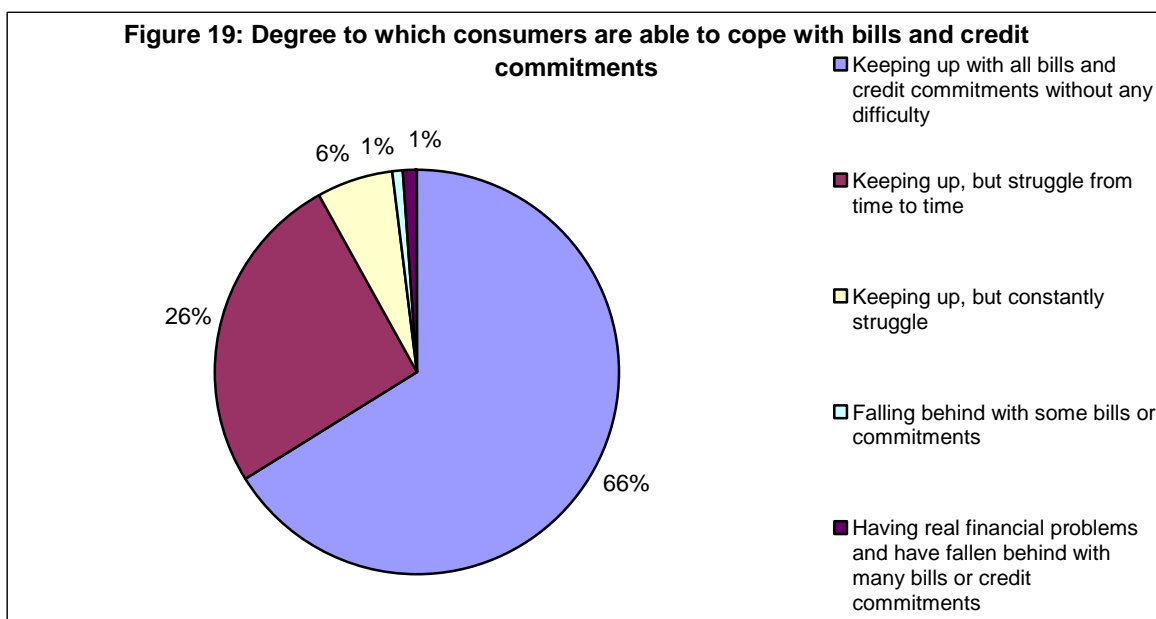
The report on profiles of bankrupts looks at the characteristics of bankrupts, collectively in England and Wales and on a regional basis, over a three year period. It shows:

- 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 was 41.
- The proportion of 'second-time' bankrupts, i.e. bankrupts who have previously been subject to bankruptcy proceedings, fell over the study period.
- The proportion of self-employed bankrupts fell and conversely, the proportions of bankrupts who were employees, had no occupation or were unemployed increased. Just under half of female bankrupts had no occupation or were unemployed. In comparison, the proportion of male bankrupts who had no occupation or were unemployed was around a third.
- A higher proportion of male than female bankrupts owned properties, although the proportion of female bankrupts owning property is increasing.
- The average level of assets of bankrupts increased. However, if property ownership is excluded, there was little change in the average level of assets. Over 50% of bankrupts had no assets, although this proportion is decreasing.
- In broad terms, the regions follow the patterns seen at the national level. However, some small differences between regions do exist.

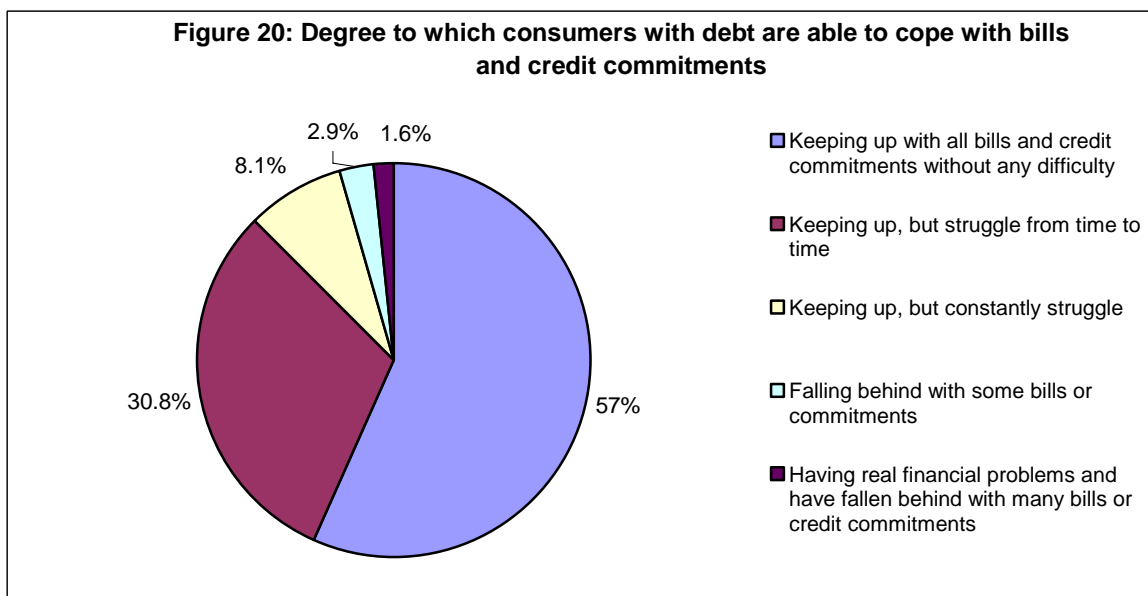
²¹ The Insolvency Service (2006): *A Study of Creditors Petitioning for Bankruptcy*, <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/BankruptcyPetitioningCreditors1.pdf>

3. Subjective measures of indebtedness

Figure 19 shows to what extent those in debt are able to cope with their current level of borrowing and is taken from research undertaken by the FSA²². The pie chart shows that 98% of consumers with debt say they were keeping up with repayments, either without difficulty (66%) or with some degree of struggle (32%). By contrast only 1% of individuals indicated that they were having real financial problems as a result of bills and/or credit commitments. The figures show an improvement across the board on the figures from the previous year's research carried out by the FSA (Figure 20), where the corresponding figures were 95.9% and 1.6%.²³



Source: FSA: *Financial Risk Outlook 2007*



Source: FSA: *Financial Risk Outlook 2006*

²² The percentages are calculated from the responses of the 5,328 individuals from the Financial Capability Survey.

²³ Figures provided in 2007 were only provided to the nearest %, unlike for 2006 when to the nearest 0.1%. Therefore the difference in proportions experiencing real financial problems between the two years might actually be very small.

Although the 2007 data represents an improvement, the figures still suggest that over one million adults are falling behind with payments and a further two million are constantly struggling. Looking further into the research, respondents living in rented accommodation, particularly those in local authority housing were more likely to show signs of financial distress than homeowners, with almost 10% of respondents having experienced financial difficulties within the last five years.

The FSA recently commissioned a survey looking at people's financial commitments and their ability to cope if interest rates rose²⁴, with the results reported below specific to those with outstanding mortgage debt. Faced with a modest increase in interest rates resulting in average mortgage payments increasing by 10% (roughly 0.25%) and 20% (roughly 0.5%), only around 3% said they would fall behind with their financial commitments from a 10% rise, with the figure rising to 6% for a 20% rise.

²⁴ Fieldwork was conducted on the August and September 2006 Office for National Statistics (ONS) omnibus survey, in which 2,404 face-to-face interviews were conducted.

Summary of household debt position

There is conflicting evidence emerging from the various debt indicators contained within this report as to the degree to which consumers are over stretching themselves, although the balance of the evidence seems to be suggesting that the situation is worsening. On the negative side, the debt to disposable income ratio continues to increase driven by the growth in secured lending, and personal insolvency levels have shown growth, although as reported this might not entirely be being driven by a worsening in people's financial situation. On the positive side, the debt to financial asset ratio is now considerably off its high, although the current level is still high when compared to the recent past, and evidence suggests that people feel better able to service their bill and credit commitments than a year earlier.

Consumer and Competition Policy Directorate
The Department of Trade and Industry
May 2006

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; Q1= Early April, Q2= Early July, Q3= Early October, Q4= 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://213.225.136.206/mfsd/iadb/NewIntermed.asp
Employment (MGRZ) and Unemployment (MGSC) Employment rate (MGSR) and Unemployment Rate (MGSX)	Office for National Statistics: Labour Market trends	M	Check: 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/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 and unsecured)	Bank of England: LPMRLMH and LPMVTVJ	M	End of following month	http://213.225.136.206/mfsd/iadb/NewIntermed.asp Search for 'LPMRLMH' and 'LPMVTVJ'
12-month growth rate of net Lending (secured and unsecured)	Bank of England: LPMVTYO and LPMVTYI	M	End of following month	http://213.225.136.206/mfsd/iadb/NewIntermed.asp Search for 'LPMVTYO' and 'LPMVTYI'
Total Household Sector Debt / Disposable Income Ratios	Office for National Statistics: Total Debt / Disposable Income (=NNPP/4*RPHQ) Secured Debt / Disposable Income (=NNRP/4*RPHQ)	Q	Check: http://www.statistics.gov.uk/statbase/tsdreleasedates.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Financial Statistics Consistent' and go to table: - 9.1M for NNRP - 12.1N for NNPP - 14.8B for RPHQ
Debt / Financial Assets Ratios	Office for National Statistics: Secured Debt / Financial Assets (=NNRP/NNML) Unsecured Debt / Financial Assets (=(NNPP-NNRP)/NNML)	Q	Check "Financial Statistics Consistent": http://www.statistics.gov.uk/StatBase/TSDtables1.asp	http://www.statistics.gov.uk/statbase/tsdtimezone.asp Select 'Financial Statistics Consistent' and go to table: - 9.1M for NNRP - 12.1N for NNPP and NNML

Individual debt write-offs (taken from the whole banking sector)	Bank of England. Monetary & Financial Statistics August 2005, Table C2.1 (TFHD, TFHE, TFHF, TFHG)	Q		http://www.bankofengland.co.uk/statistics/ms/current/index.htm - c
Household write-off rates (taken from 10 largest suppliers of banking services in the UK)	Bank of England	H (data is Q)		Financial Stability Report, Chart 2.2. http://www.bankofengland.co.uk/publications/fsr/index.htm
Mortgage arrears	Council of Mortgage Lenders.	H		http://www.cml.org.uk/cml/statistics
Mortgage possession orders	Department for Constitutional Affairs.	Q		http://www.dca.gov.uk/statistics/cjust.htm 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 Scroll down to Insolvency statistics
Personal Insolvency Rate	Bank of England	H (data is Q)		Financial Stability Report, Chart 1.9. http://www.bankofengland.co.uk/publications/fsr/index.htm
CCCS DMPs (Number of DMPs and amount outstanding)	CCCS	Q		Trouble Totals http://www.ccs.co.uk/research/CCCSReports.aspx
FSA Financial Risk Outlook	FSA	A		http://www.fsa.gov.uk/Pages/Library/corporate/Outlook/fro_2007.shtml

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