

# Debt Dashboard

## Q3 2008

### **CREDIT CARDS: THE TROJAN HORSE**

Credit card debt is increasingly starting to affect the most vulnerable, according to the UK's leading debt charity, the Consumer Credit Counselling Service (CCCS).

Overall UK credit card debt remained relatively stable in 2007, hovering around £54 billion. In 2008 it has risen steadily, increasing by £912 million since the beginning of the year.

Since January 2007 the level of credit card debt held by CCCS clients has increased by almost 19 percent, mainly in the past few months. The growth in credit card borrowing is perhaps surprising in the current economic environment.

The average UK adult owns nearly 2.5 credit cards and has debts on those cards approaching £2,300. Clients of CCCS owe on average over £14,000 on credit cards. CCCS counsellors are now dealing with almost 50,000 credit card related debts every month<sup>1</sup>, 3.5 times more than three years ago.

The level of credit card debt held by CCCS clients has appeared to increase in line with increases in the cost of living, exacerbated by soaring housing and utility costs. It is likely that Britons in debt have potentially used credit cards to meet priority living expenditure, rather than coming for advice.

An increasing reliance on credit cards, as the most accessible method of borrowing, may mean that an increasing number of people will be unable to keep control of their personal finances and risk losing their homes. In the first half of 2008 the number of houses repossessed rose by nearly half, and this trend looks likely to have continued into the

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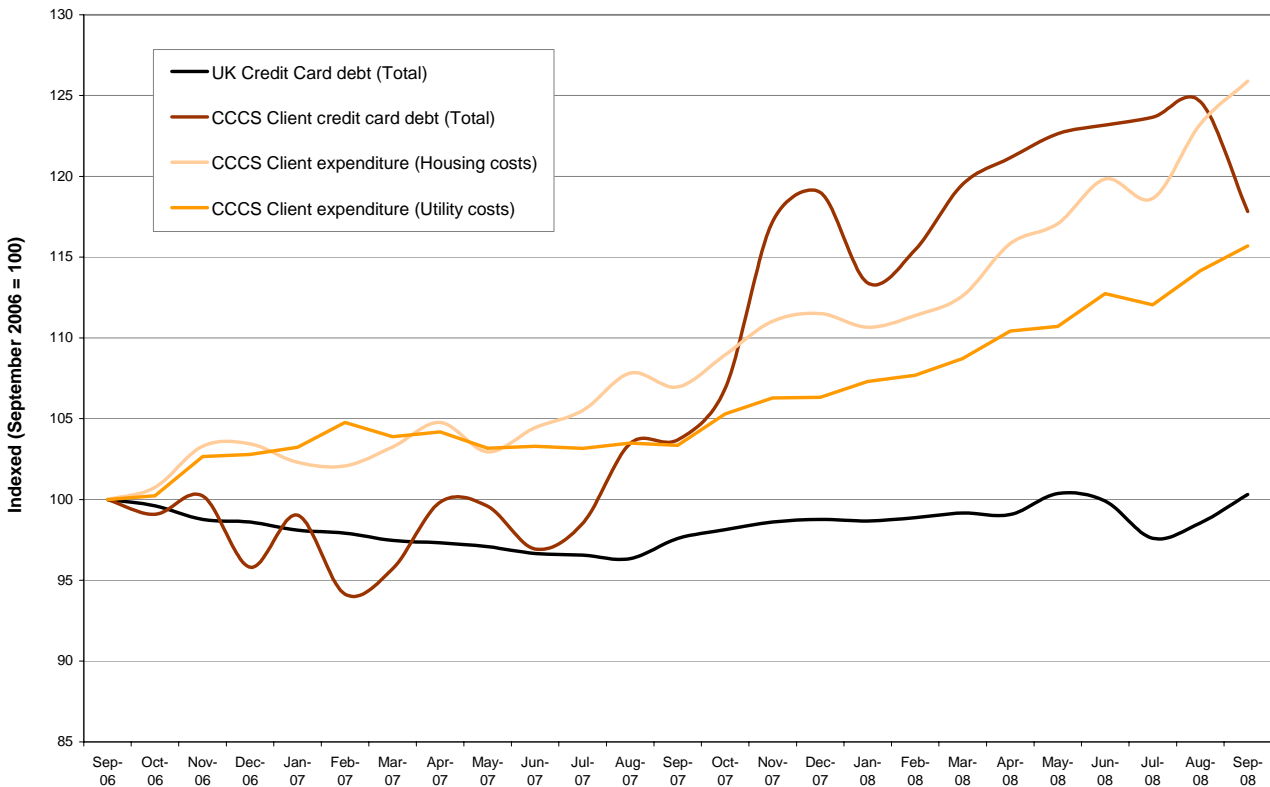
<sup>1</sup> New clients and clients who have undertaken budget reviews

second half, with the Council of Mortgage Lenders estimating that there will be 45,000 repossessions by the end of the year.

Among CCCS clients credit card debt is increasingly affecting the elderly. The outstanding credit card debt managed by CCCS, for clients aged sixty and over has increased by more than 50 percent since the beginning of the year, to almost £24 million. On average CCCS clients in that age range will now have credit card debts approaching £20,000, spread across more than four cards. CCCS counsellors are now helping 1,200 people a month in the 60 plus age group, an increase of 44 percent since the beginning of the year.

Commenting on the figures, CCCS chairman Malcolm Hurlston said: "Credit cards empower the consumer but they are the Trojan horses of personal debt, ambivalent in their status and likely to be expensive. As living costs increase and economic conditions worsen, Britons in financial difficulty may find them all too easy an option. It is debatable whether credit cards aimed at being profitable thanks to missed payments and penalties comply with treating customers fairly."

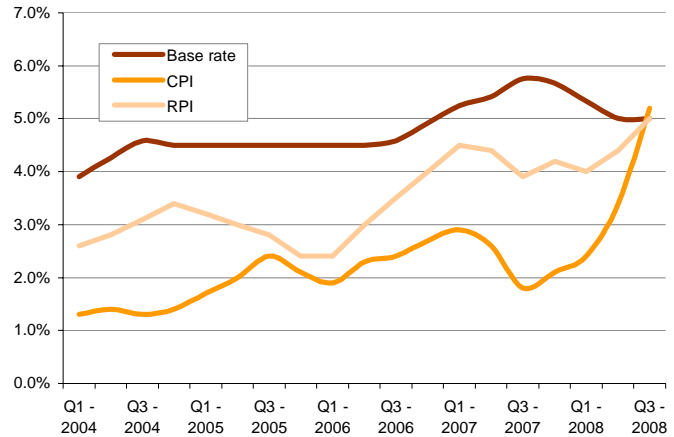
### CCCS clients' credit card debt increasing



**Interest and inflation rates**

In an effort to encourage lending the Bank of England's monetary policy committee lowered the base rate by 50 points in October to 4.5 percent as part of a organised global cut. However the inter-bank lending rate remained far higher, reaching almost 7 percent in September, its highest for eight years, negatively impacting on overall lending.

The Consumer Prices Index (CPI) now stands at 5.2 percent. Far above the government's target rate of 2.0 percent, Interestingly, the CPI is above the Retail Prices Index (5.0 percent) for the first time since April 2002.

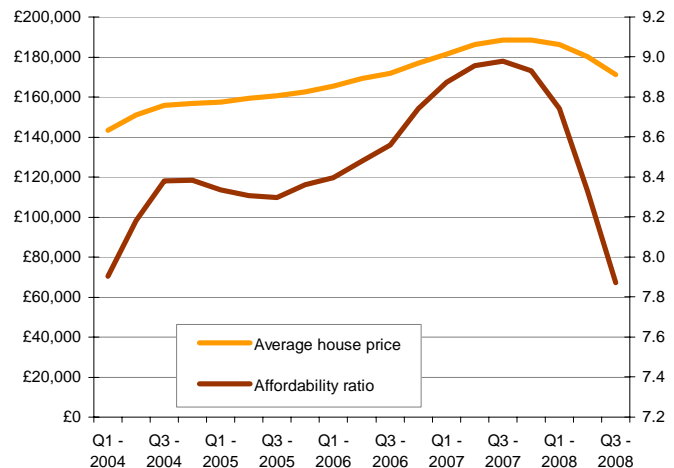


(Source: Bank of England and Office of National Statistics)

**Average house prices and affordability ratio**

The average house price continued its recent decline and fell a further £9,076 over the last quarter to £171,159. The reduced availability of mortgages in the market place along with a lower demand for property has ultimately contributed to lower property prices. We would expect this trend to continue into 2009.

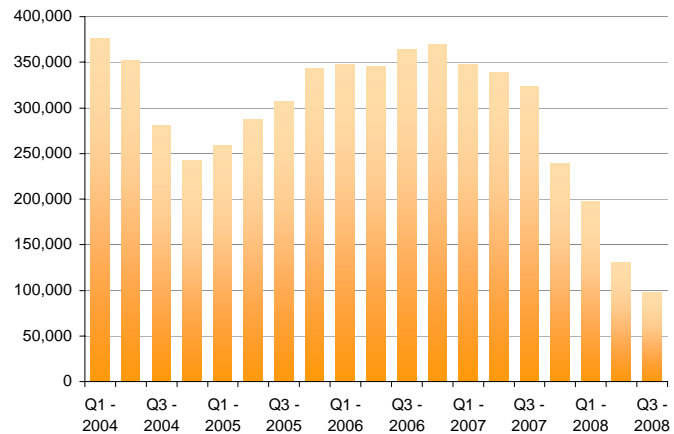
As a result of falling house prices the "affordability ratio" (ratio between house prices and average annual salary) has also fallen, from a high of 9.0 in 2007 to its current score of 7.9, the lowest since Q1 2004.



(Source: CCCS)

**Mortgage approvals**

The 99,000 mortgages approved over the last quarter, is less than a third of the number approved over the same period in 2007. Banks and building societies only approved an additional £143 million in mortgage lending in August, a fall of 95 percent from July alone. The continued uncertainty of lenders about economic conditions means that approvals rates are highly unlikely to increase going into 2009, even with the government's stamp duty "holiday" on properties worth less than £175, 000.



(Source: Bank of England)

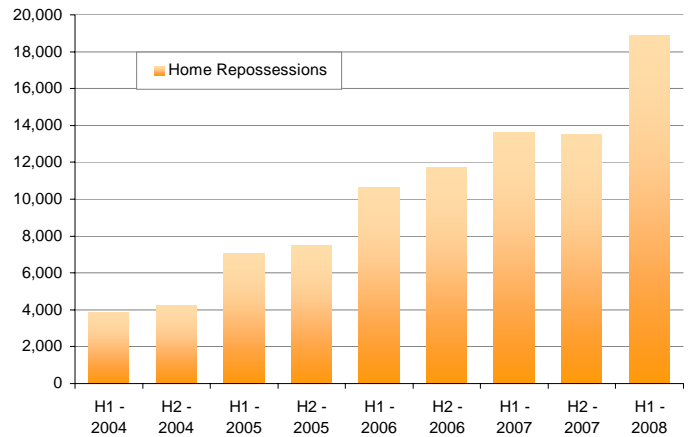
	Bank of England Base rate	Average house price	CPI	UK Households (thousands)	Mortgage Approvals	Average annual salary	Housing affordability ratio
Q3 - 2004	4.58%	£ 155,723	1.3%	24,556	281,000	£ 18,584	8.4
Q3 - 2005	4.50%	£ 160,767	2.4%	24,818	307,000	£ 19,377	8.3
Q3 - 2006	4.58%	£ 171,801	2.4%	25,080	364,000	£ 20,071	8.6
Q3 - 2007	5.75%	£ 188,535	1.8%	25,333	324,000	£ 20,998	9.0
Q4 - 2007	5.67%	£ 188,563	2.1%	25,333	239,000	£ 21,109	8.9
Q1 - 2008	5.33%	£ 186,395	2.4%	25,586	198,000	£ 21,318	8.7
Q2 - 2008	5.00%	£ 180,235	3.4%	25,586	131,000	£ 21,636	8.3
Q3 - 2008	5.00%	£ 171,159	5.2%	25,586	99,000	£ 21,747	7.9
<b>Annual Change</b>	<b>-0.75%</b>	<b>-£ 17,376</b>	<b>3.4%</b>	<b>253</b>	<b>- 225,000</b>	<b>£ 749</b>	<b>- 1.1</b>

## Home repossessions

There were 18,900 homes repossessed in the first half of 2008, almost a 40 percent increase compared to the first half of last year. In the current economic climate it is expected that this figure could rise even further in the coming months, as homeowners struggle to secure new mortgage deals.

CCCS is encouraging lenders to consider repossession as a last resort in view of the pressures on consumer budgets.

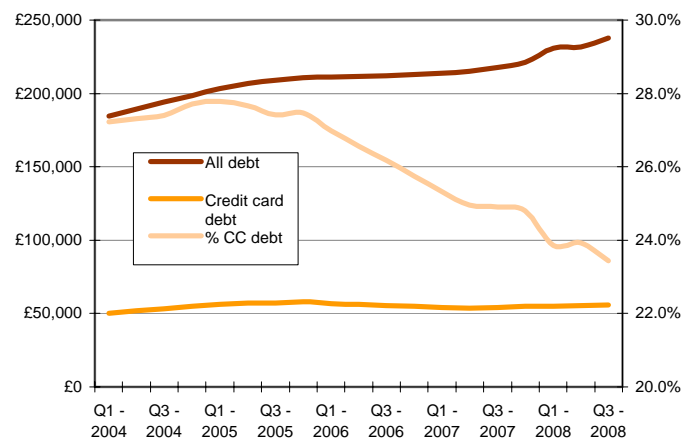
The charity's mortgage arrears and repossession team can be contacted on **0800 975 9558**



(Source: Council of Mortgage Lenders)

## UK unsecured debt (millions)

The level of unsecured debt in the UK increased by almost £6 billion over Q3 and currently stands at just under £238 billion. The average level of unsecured debt per household has increased over the last year from £8,590 to over £9,000 and there are concerns that this is a result of people turning to credit in order to pay everyday expenses.

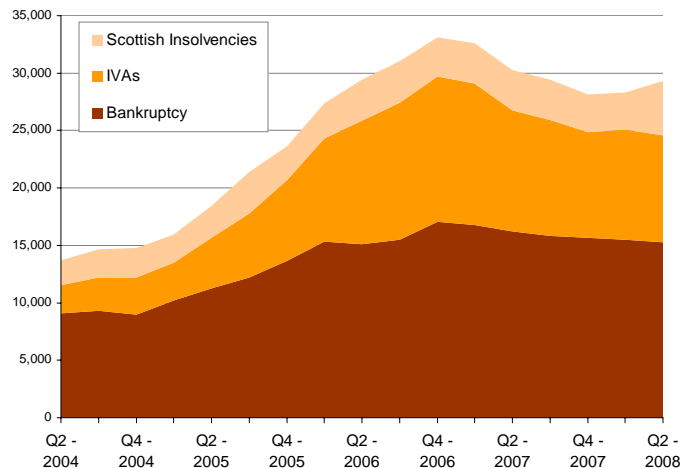


(Source: Bank of England)

## Insolvencies in the UK

There were 49,607 individual insolvencies in England and Wales during the first half of 2008, a decrease of 11 percent on last year. This was largely owing to the continuing decline in IVAs being agreed, which were down almost 18 percent.

The number of people who have gone bankrupt has not increased over the past two years, with around 15,000 being affected each quarter.

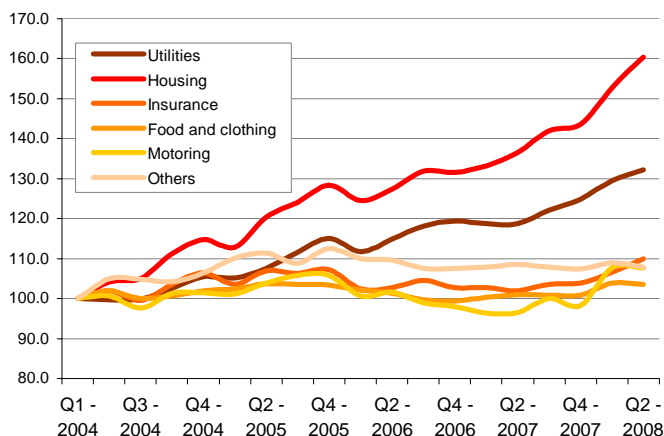


(Source: Insolvency Service)

	Total unsecured debt (millions)	Total Credit Card Debt	Average UK unsecured debt (per household)	Mortgage possession claims issued	CCJs	Bankruptcy	IVAs
Q3 - 2004	£ 194,014	£ 53,173	£ 7,901	19,447	143,750	9,315	2,912
Q3 - 2005	£ 209,139	£ 57,357	£ 8,427	30,067	192,430	12,182	5,611
Q3 - 2006	£ 212,212	£ 55,544	£ 8,461	34,600	235,765	15,486	11,944
Q3 - 2007	£ 217,698	£ 54,212	£ 8,593	35,004	190,402	15,842	10,058
Q4 - 2007	£ 221,295	£ 54,866	£ 8,735	35,662	190,798	15,636	9,218
Q1 - 2008	£ 230,892	£ 55,074	£ 9,024	38,688	213,181	15,492	9,562
Q2 - 2008	£ 231,683	£ 55,438	£ 9,055	39,078	179,076	15,297	9,256
Q3 - 2008	£ 237,605	£ 55,704	£ 9,287	-	-	-	-
<b>Annual Change</b>	£ 19,907	£ 1,492	£ 693	5,754	5,344	917	1,305

**Client expenditure index (Jan 2004 = 100)**

CCCS clients are spending on average £133 more on essential goods and services than they were a year ago. 64 percent of this rise can be attributed to housing costs. Expenditure on insurances has also increased for the second quarter in succession after a two year period of stability. However despite these recent increases in expenditure, CCCS clients are still spending 11 percent less in real terms on insurance when compared to inflationary price rises in the sector. After large increases last quarter motoring expenditure has remained stable at around £158 per month.

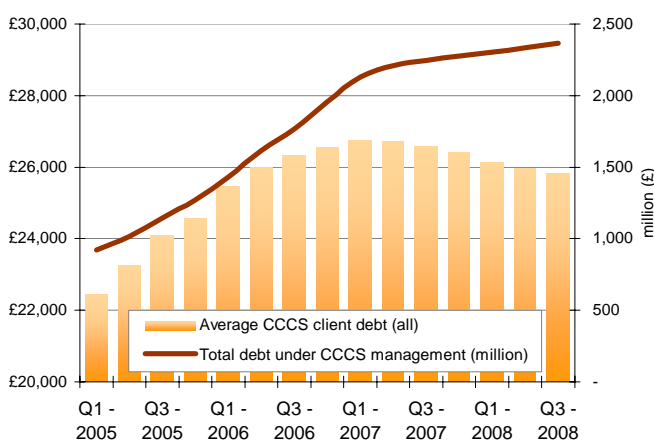


(Source: CCCS)

**CCCS client base**

CCCS now manages 91,607 debt management plans, an annual increase of 7,140.

The total amount currently under management is now over £2.3 billion, with the average CCCS client debt now £25,838, falling for the sixth consecutive month.

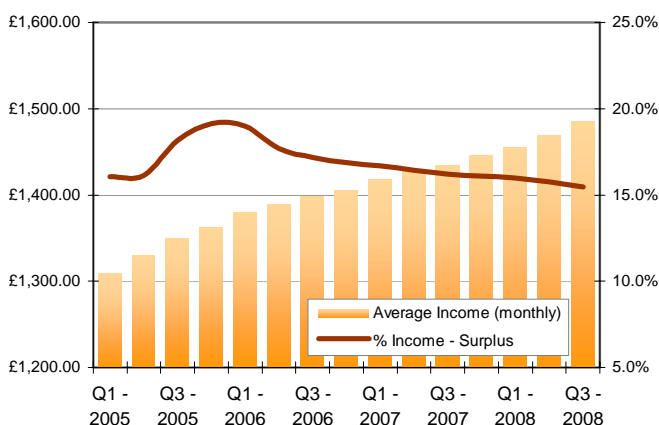


(Source: CCCS)

**CCCS client income**

The average income of CCCS clients is £17,828 per annum, which is £3,807 less than the national average salary.

Although salaries are increasing steadily, they are not keeping pace with rising costs. The surplus CCCS clients have left with which to pay their creditors has been slowly declining for almost 3 years. Currently less than 16 percent of a client's income is surplus and can be used to repay creditors.



(Source: CCCS)

	Total debt under CCCS management	CCCS Clients on a DMPs	Average CCCS client debt (all)	Average CCCS Client Income (Monthly)	Average CCCS Client Surplus (Monthly)	CCCS Client Income (indexed Jan 2005 = 100)	CCCS Client Expenditure (indexed Jan 2005 = 100)
Q3 - 2005	£1,142,847,298	47,422	£ 24,100	£ 1,350	£ 245	103.1	100.5
Q3 - 2006	£1,768,563,120	67,148	£ 26,338	£ 1,399	£ 240	106.8	105.3
Q3 - 2007	£2,245,301,177	84,467	£ 26,582	£ 1,435	£ 232	109.5	109.3
Q4 - 2007	£2,276,057,116	86,145	£ 26,421	£ 1,445	£ 233	110.3	110.3
Q1 - 2008	£2,303,031,176	88,028	£ 26,162	£ 1,455	£ 232	111.1	111.2
Q2 - 2008	£2,336,162,365	89,920	£ 25,980	£ 1,468	£ 231	112.1	112.5
Q3 - 2008	£2,366,946,028	91,607	£ 25,838	£ 1,486	£ 230	113.4	114.2
Annual Change	£121,644,851	7,140	-£ 744	£ 51	-£ 3	3.9	4.9

## Notes on Debt Dashboard:

1. *Debt Dashboard* is produced quarterly and based on data from over 90,000 people spread throughout the United Kingdom. It juxtaposes clients' levels of debts and ability to repay with broader economic variables.
2. 'CCCS clients' in this press release are people who have received a full, in-depth counselling session from the charity.
3. Notes on the data used:
  - Households with unsecured credit – data supplied by the Office of National Statistics.
  - Average number of credit cards per UK adult – data supplied by APACS
  - Total unsecured debt (in millions) – data supplied by the Bank of England.
  - Average unsecured debt by household – calculated using two statistics outlined above.
  - Charging Orders – taken out by creditors against debtor's property - data supplied by the Ministry of Justice.
  - CCJs – County Court Judgments in England and Wales - data supplied by Registry Trust.
  - Bankruptcies, IVAs – England and Wales only - data supplied by the Insolvency Service.
  - Base rate - quarterly average of Bank of England base rate.
  - Average House Price – Average calculated by using figures from Nationwide, Halifax and Land Registry.
  - UK households (in thousands) – data supplied by the Office of National Statistics.
  - Mortgage Applications - data supplied by the Bank of England.
  - Average annual salary - data supplied by the Office of National Statistics.
  - Housing Affordability Ratio – calculated by comparing wages to the average house price.
  - Total debt under management - data from CCCS.
  - CCCS clients on a DMP – data from CCCS.
  - Average CCCS Client debt - data from CCCS.
  - Average DMP payment - data from CCCS.
  - Average surplus – data from CCCS.
  - Income index – data from CCCS clients' budgets.
  - Expenditure index - data from CCCS clients' budgets.
4. CCCS can be contacted on 0800 138 1111, Monday to Friday, 8am to 8pm. Mortgage and repossessions counselling is available at the same times on 0800 975 9558. In addition, online debt advice is available through CCCS Debt Remedy 24 hours a day at [www.cccs.co.uk](http://www.cccs.co.uk)

**For further information please contact Frances Walker 020 7636 5214. Out of office hours 07771788713 or email: [fwalker@hurlstons.com](mailto:fwalker@hurlstons.com)**

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