

# Debt Dashboard

## Q4 2008

### **NO DIRECTION HOME**

Whatever the Monetary Policy Committee decides tomorrow (February 5) on interest rates is unlikely to benefit struggling homeowners according to the UK's leading debt charity, Consumer Credit Counselling Service (CCCS) which expects more people to be straining to meet priority payments, such as housing, in the months ahead.

The Bank of England base rate now stands at 1.5 percent, the lowest level since the Bank's creation in October 1694; some predict a further cut when the Committee meets tomorrow. Decreasing the base rate aims to stimulate our economy, but depends on banks passing on the reduction through mortgage interest rates.

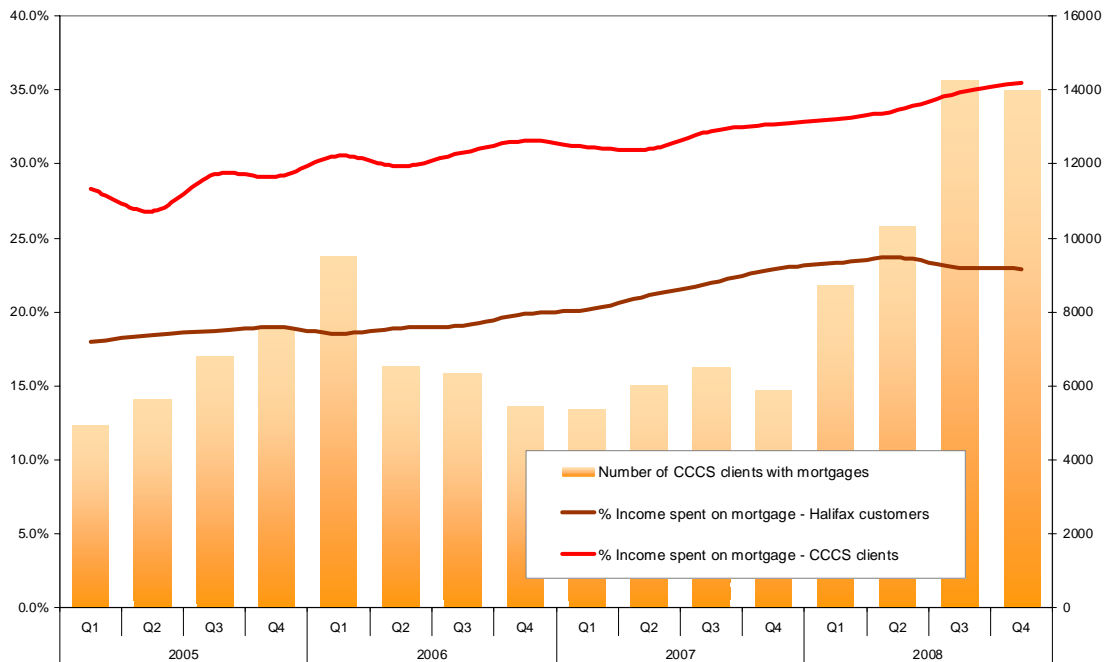
It is likely that people in debt will find their new rate does not reflect any decrease in the base rate, and are unable to access a new mortgage deal, since lenders now require larger deposits. Therefore they are forced to continue on the standard variable rates once their current arrangement ends, often attracting higher rates.

As well as being one of the largest providers of mortgages the Halifax also provides monthly housing statistics; one such measure is the ratio between incomes and the amount spent on mortgage payments.

In comparing this ratio with its own clients, CCCS has discovered that the proportion of income spent on mortgage payments has remained around 10 percent higher for CCCS clients when compared with Halifax customers. Worryingly, this difference now stands at some 12.6 percent, demonstrating the continuing difficulties faced by people in debt who have mortgages despite the reduction in the base rate.

This situation is likely to worsen over the coming year as mortgage arrears and repossession levels look set to grow.

## CCCS clients pay more for mortgages



Aware of the need to ensure the housing market is safeguarded the Government has launched a number of key initiative, which CCCS has also been involved in, these are:

- Mortgage Rescue Scheme
- Mortgage Interest Relief Scheme
- Homeowner Mortgage Support Scheme (not yet available, details being finalised)

Recognising the needs of these individuals, CCCS set up a mortgage counselling team in Leeds, which dealt with nearly 6,000 calls in 2008.

A more detailed analysis of clients with debt problems will be available in the Statistical Yearbook, due to be produced by CCCS on March 18.

**Interest and inflation rates**

In their 2008 December meeting, the Monetary Policy Committee (MPC) voted to reduce the Bank of England base rate by a further 100 base points to 2.0 percent in an attempt to stimulate the economy. During January 2009, the MPC further reduced the base rate to 1.5 percent. The lowest rate since the creation of the Bank in October 1694.

As of December 2008, the Consumer Prices Index (CPI) stands at 3.1 percent which is down 1 percent from last month. However, it still remains above the government's target rate of 2.0 percent. The main reason for this fall was attributed to the change in the VAT rate, impacting on items such as clothing and footwear, petrol and diesel.

**Average house prices and affordability ratio**

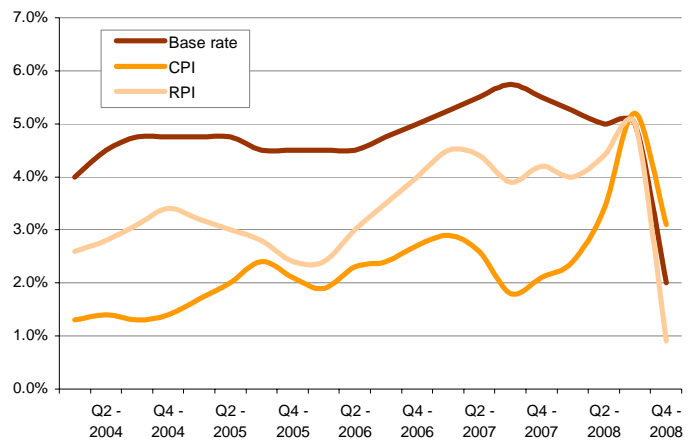
The average house price continued to decline and fell £10,026 over the last quarter to £160,736. Over the past year prices have fallen by £27,827. This price reduction has resulted in the affordability ratio falling to its lowest level since early 2004. However, the continued reduction in the number of accessible mortgage products available means the housing market slump has continued.

In recognition of the economic downturn the Bank of England has intervened to encourage stimulation within the housing market. However, unless borrowers are able to benefit from recent base rate cuts it is unlikely that this measure will produce the desired effect. The number of mortgages approved are predicted to fall further in the final quarter of 2008 to around 80,000, compared to the 239,000 approvals of a year ago.

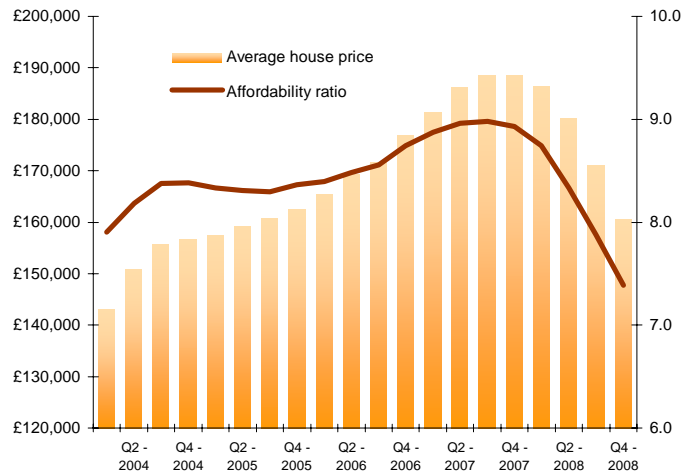
**Unemployment**

The number of people unemployed has reached almost 2 million which is 6.1 percent of the 16+ population. The last time the rate was higher was April 1999. Various household names have filed for bankruptcy over the last few months adding to the increasing numbers finding themselves out of work.

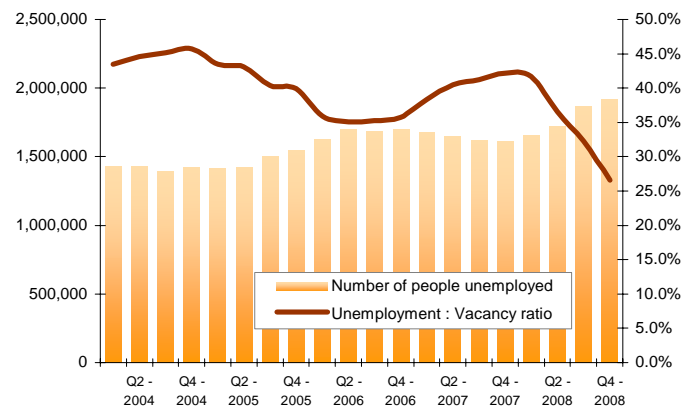
The sectors hardest hit are retail, banking, construction and manufacturing. More bad news awaits those who find themselves unemployed, as the ratio of vacancies available to the number unemployed is only 26.6 percent.



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



(Source: CCCS)



(Source: Office for National Statistics - LFS)

	Bank of England Base rate	Average house price	CPI	UK Households (thousands)	Mortgage Approvals	Unemployment (number)	Housing affordability ratio
Q4 - 2005	4.50%	£ 162,518	2.1%	24,818	343,000	1,549,000	8.4
Q4 - 2006	5.00%	£ 176,909	2.7%	25,080	370,000	1,696,000	8.7
Q4 - 2007	5.50%	£ 188,563	2.1%	25,333	239,000	1,608,000	8.9
Q1 - 2008	5.25%	£ 186,395	2.4%	25,586	198,000	1,656,000	8.7
Q2 - 2008	5.00%	£ 180,235	3.4%	25,586	131,000	1,727,000	8.3
Q3 - 2008	5.00%	£ 171,159	5.2%	25,586	99,000	1,864,000	7.9
Q4 - 2008	2.00%	£ 160,736	3.1%	25,586	81,000	1,923,000	7.4

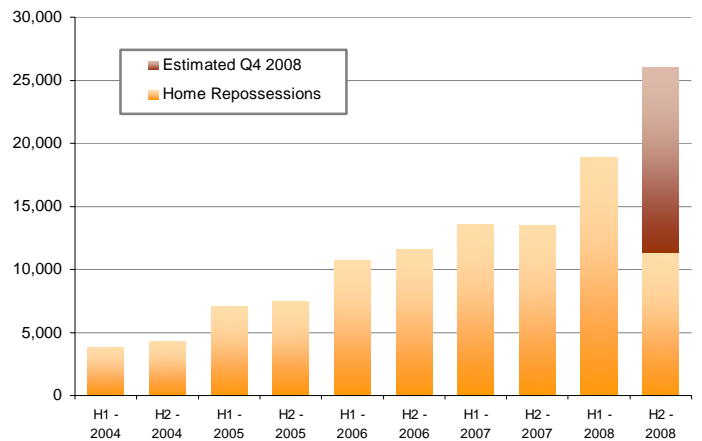
Annual Change	-3.50%	-£ 27,827	1.0%	253	- 158,000	315,000	- 1.5
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**Home repossessions**

The Council of Mortgage Lenders (CML) estimates that there will be around 45,000 repossessions by the end of 2008. In Quarter 3 there were 11,300 repossessions, an increase of 12 percent on the previous quarter. These repossessions account for 1 in every 10,000 mortgaged properties.

It is likely that this trend will continue as 1.44 percent of all mortgages were at least three months in arrears, at the end of September 2008. 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**

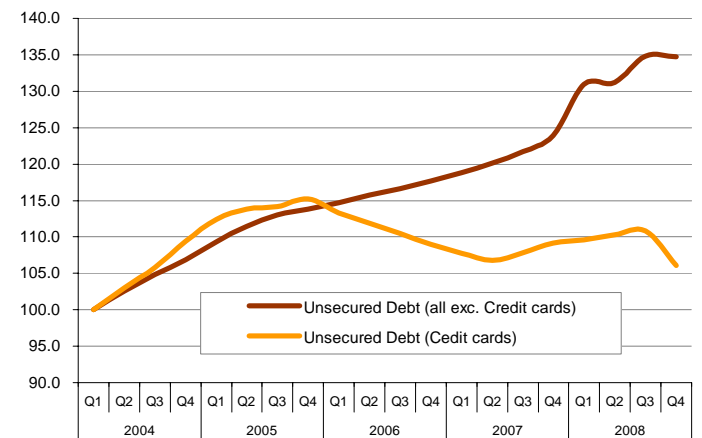


(Source: Council of Mortgage Lenders)

**UK unsecured debt (indexed Q1 2004 = 100)**

The level of unsecured personal debt in the UK has fallen over the last quarter (-£2.5 billion), driven predominantly by lower levels of borrowing on credit cards.

This coincides with the publication of the Office for Fair Trading report, which signalled the start of the end of higher penalty fees. The lowering of credit card charges has therefore impacted positively, for those with credit card debt. The availability of lower rate bank loans or interest free retail finance, has encouraged consumers to explore alternative sources of unsecured borrowing.



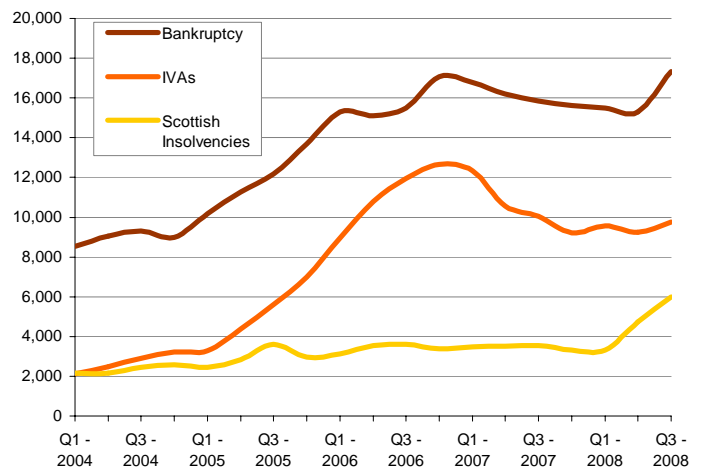
(Source: Bank of England)

**Insolvencies in the UK**

There have been 76,694 individual insolvencies in England and Wales during the first three quarters of 2008. A decrease of 6 percent when compared to the same period last year.

However, a sharp rise in both the number of bankruptcies (2,044) and IVAs agreed (490) over the last quarter may demonstrate the start of a changing trend in insolvencies.

The number of Scottish people who are now insolvent has also risen sharply over the last year, after a long period of stability increasing by 2,471. Probably because of the introduction of LILAs (Low Income Low Assets).



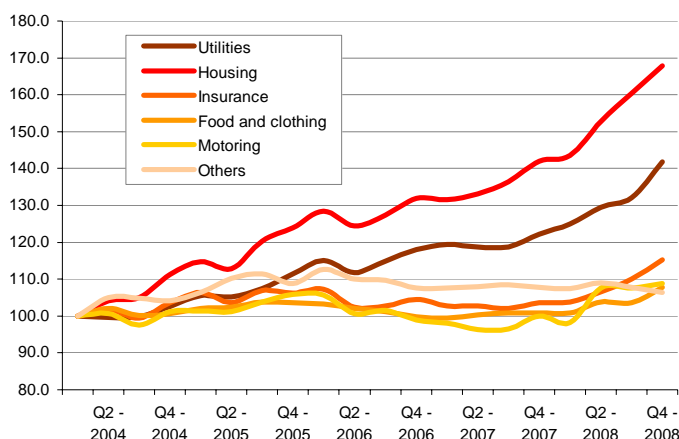
(Source: Insolvency Service)

	Total unsecured debt (millions)	Total Credit Card Debt (millions)	Average UK unsecured debt (per household)	Home repossessions	Scottish Insolvencies	Bankruptcy	IVAs
Q4 - 2005	£ 210,770	£ 57,901	£ 8,493	7,500	2,961	13,675	7,004
Q4 - 2006	£ 212,786	£ 54,768	£ 8,484	11,700	3,382	17,070	12,645
Q4 - 2007	£ 221,376	£ 54,866	£ 8,739	13,500	3,318	15,636	9,218
Q1 - 2008	£ 230,212	£ 55,074	£ 8,998	-	3,324	15,492	9,562
Q2 - 2008	£ 230,906	£ 55,438	£ 9,025	18,900	4,735	15,297	9,256
Q3 - 2008	£ 236,725	£ 55,704	£ 9,252	-	5,998	17,341	9,746
Q4 - 2008	£ 234,217	£ 53,314	£ 9,154	26,100	-	-	-
Annual Change	£ 12,841	-£ 1,552	£ 415	12,600	2,471	1,499	312

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

CCCS clients are now spending £140 more per month on essential goods and services than they were a year ago. This 14.6 percent increase is driven primarily by increasing housing costs. For CCCS clients the annual increase for insurance currently stands at 11 percent, this is the highest annual increase after long periods of lower or negative changes.

Expenditure in most areas continues to increase as CCCS clients try to keep pace with increasing prices. These increases are below comparable price changes (CPI), as CCCS clients endeavour to repay their debts.

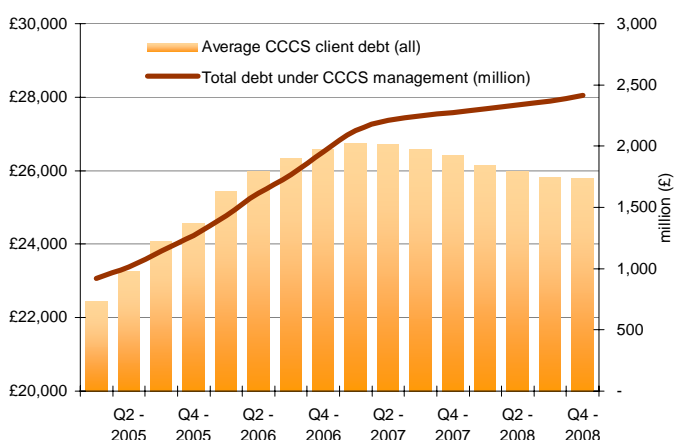


(Source: CCCS)

**CCCS client base**

CCCS now manages 93,720 debt management plans, which is an annual increase of 7,575.

The total amount currently under management is now over £2.41 billion. The average level of debt held by CCCS clients when commencing a DMP is now £25,791, this has now decreased for the last seven quarters.

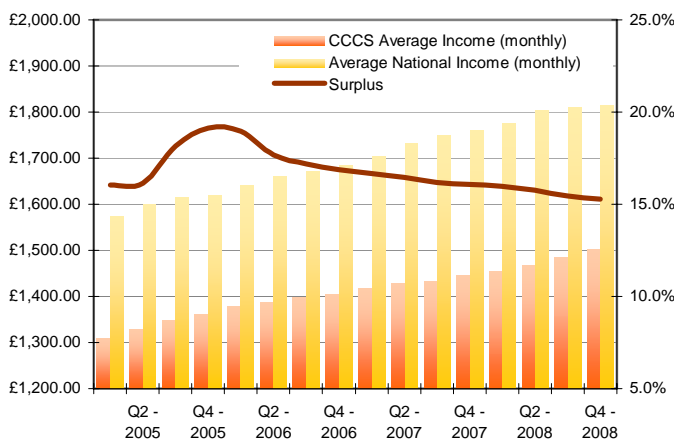


(Source: CCCS)

**CCCS client income**

The average income of CCCS clients is £18,032 per annum, which is £3,727 lower than the national average salary.

Although salaries are steadily increasing, they are not keeping pace with rising costs. CCCS clients have a limited surplus, to pay their creditors. This has slowly declined for almost 3 years and currently 15.3 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)	Mortgage Expenditure	CCCS Client Income (indexed Jan 2005 = 100)	CCCS Client Expenditure (indexed Jan 2005 = 100)
Q4 - 2005	£1,269,882,966	51,619	£ 24,601	£ 1,363	£ 509	104.1	100.2
Q4 - 2006	£1,957,217,009	73,655	£ 26,573	£ 1,406	£ 575	107.3	106.3
Q4 - 2007	£2,276,057,116	86,145	£ 26,421	£ 1,445	£ 616	110.3	110.3
Q1 - 2008	£2,303,031,176	88,028	£ 26,162	£ 1,455	£ 627	111.1	111.2
Q2 - 2008	£2,336,162,365	89,920	£ 25,980	£ 1,468	£ 643	112.1	112.5
Q3 - 2008	£2,366,946,028	91,607	£ 25,838	£ 1,486	£ 672	113.4	114.2
Q4 - 2008	£2,417,148,624	93,720	£ 25,791	£ 1,503	£ 691	114.7	115.8
Annual Change	£121,644,851	7,140	£ 744	£ 51	£ 69	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 or Tom Howard on 020 7636 5214. Out of office hours 07771788713 or email: [fwalker@hurlstons.com](mailto:fwalker@hurlstons.com)**

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