Britain in the Red: Provisional Report

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1. Introduction

1.1. It is seven years since the onset of the global financial crisis and the 'Great Recession'. Although the credit boom prior to 2007/08 has been identified by the Bank of England as a contributory factor in causing the crisis[1], and the Bank have recently reported that the legacy of high household indebtedness has held back the recovery[2], very little has been done in that time to directly assist British households to either pay down or restructure their debts.

1.2. This is now a major concern because a number of factors have combined to increase the household debt burden in recent years. These include a lengthy fall in real wages[3]; a rise in 'underemployment' (i.e. people who would like more hours of work but cannot obtain them)[4]; record numbers of people in low paying self employment[5], and a continuing programme of severe cuts to state support for working age households[6]. For many low paid workers, the increased 'casualisation' of employment, typified by the rise in zero hours contracts, also causes cash flow problems which in turn drives increased, often high cost, credit use or arrears on household bills[7].

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[1] See, for example, the Bank's Financial Stability Report, October 2008, pp. 7-9

[2] In the Bank's Quarterly Bulletin, 2014, Q3, Bunn & Rostom report (pg.304) that: "Cuts in spending associated with debt are estimated to have reduced the level of aggregate private consumption by around 2% after 2007, unwinding the faster growth in spending by highly indebted households, relative to other households, before the financial crisis."

[3] Although there has been a recent improvement in wage growth, the median real wages of full-time employees fell by over 8 percent between 2010 and 2014. https://www.tuc.org.uk/economic-issues/britain-needs-pay-rise/

[4] Following the onset of the economic crisis the percentage of UK workers who were underemployed rose from 7.1% to a peak of 10.8% at the end of 2012. By 2014, this percentage had reduced to 9.9%, still 2.8 % higher than its pre-crisis level and a problem for 3 million workers (ONS report, 25th November 2014, based on Labour Force Survey).

[5] ONS data indicates that there are now approximately 4.5 million self employed workers: one in seven of the workforce. Despite strong growth in self employment levels, a Resolution Foundation study in May 2014 found that self employed weekly earnings have fallen by 20% since 2007. http://www.resolutionfoundation.org/media/press-releases/self-employed-see-plunge-earnings-even-numbers-surge/

[6] In its July budget the Government set out its proposals to cut £34.9 million from the welfare budget over the lifetime of the current Parliament. In addition, public sector pay rises are to be constrained to 1% in each of the next four years.

[7] Approximately 1.8 million workers are employed using zero hours contracts (ONS survey of businesses, 25/2/2015). Citizens Advice have noted (30/4/2014) that zero hours contracts "are playing havoc with

1.3. It is therefore of little surprise that the Office for Budget Responsibility ('OBR') is forecasting[8] that household indebtedness will increase further over the lifetime of the current Parliament. The household debt to gross household disposable income ratio is expected to rise by 26 percentage points to 170 percent by 2020[9]. This is slightly higher than the debt to income ratio witnessed just ahead of the crisis in 2007/08. We are concerned about this prospect both because of the damaging effects of debt problems on those who are directly affected and also because an increase in the household debt burden is likely to limit domestic demand, act as a drag on Britain's economic growth, and increase the vulnerability of the economy to external shocks.

1.4. It is important to look at the different components of household indebtedness that are included within the OBR's forecast. Approximately 80 percent of total household liabilities is secured on property in the form of mortgages[10]. The OBR expects rising house prices to feed through into an overall increase in household indebtedness, and that this will account for around 12 percentage points of the forecast increase in the debt to gross income ratio through to 2020. There has already been a great deal written concerning the possible implications of our high level of mortgage debt, especially if interest rates are raised by the Bank of England. For example:

- In May 2014, the Resolution Foundation modelled the impact of likely interest rate increases and reported that if rates were to rise to just 2.9 percent by the end of 2018 then around 2.3 million households could find their mortgages unaffordable[11]; and

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peoples' ability to make ends meet" (https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/broken-zero-hours-contracts-are-leaving-workers-in-limbo/).

[8] Economic and Fiscal Outlook, July 2015.

[9] The OBR forecasts are based on the National Accounts and derive the debt to income ratio by calculating household liabilities (including those of the not for profit sector serving households) as a percentage of Gross Household Disposable Income ('GHDI').

[10] National Accounts, Reference Table 06, series NNRP as % of NNRE

[11] 'Mortgaged future: modelling household debt affordability and access to refinancing as interest rates rise', Resolution Foundation, May 2014. The measure of unaffordability being used is 'households spending one third or more of their after-tax income on mortgage repayments'.

- Writing in the Bank of England's *Quarterly Bulletin*, Bunn & Rostom (2014) reported that the potential for household indebtedness to have 'a large adverse impact on aggregate demand and on the banking system' lay behind the Bank's Financial Policy Committee decision in July 2014 to introduce tighter restrictions on mortgage lending. These included the introduction of 'interest rate stress testing' as part of affordability assessment processes for new loans and limits on the proportion of mortgages being offered at loan to income multiples of 4.5 or above.

1.5. In contrast, the economic impact of the remaining 20 percent of household indebtedness, which comprises their unsecured liabilities (both consumer credit debts and student loans), has been largely overlooked. For example, Bunn and Rostom's research, which looked at the negative impact of household indebtedness on domestic demand, focused exclusively on the role played by mortgage debt[12].

1.6. Yet the stock of outstanding unsecured debt is large and the OBR is expecting this to grow further. In its July 2015 forecast the OBR indicated that it expected increased unsecured debt to account for 14 percentage points (i.e. more than half) of the expected rise in the overall debt to gross income ratio through to 2020.

1.7. The 'Britain in the Red' project is therefore focused on the growing unsecured debt burden of British households. It is examining the evidence from recent household surveys and aggregate datasets to determine the extent to which unsecured debts make households financially vulnerable; how the debt burden is distributed between different types of households, and the wider economic consequences of the long-term accumulation of unsecured debt that has taken place.

[12] Bunn & Rostom (2014), as footnote 2, above. The research was based on an analysis of the Living Costs and Food Survey, which the authors report does not provide sufficient detail of unsecured debt and the impact of credit repayments on household spending patterns for this to have been included in the analysis.

1.8. This preliminary report sets out the findings from the our analysis of household survey data concerning recent trends in financial vulnerability and over-indebtedness and a future final report will consider how these relate to aggregate datasets and the wider economic impacts of the household debt burden. It will also make recommendations for change. It should be noted that throughout this report we use the term 'unsecured liabilities' to refer to the combined total of consumer credit and student loan debt, and 'consumer debt' to refer to the unsecured liabilities of households excluding student loans.

1.9. The remainder of this report is structured as follows:

Chapter two presents an analysis of household debt survey evidence and comments on observed changes in the distribution of unsecured debt in recent years. In this respect we particularly focus on findings from an analysis of the Bank of England's annual household debt survey commissioned from NMG Consulting ('the NMG survey');

Chapter three then provides further detail from the NMG survey to present findings about the demographic of characteristics of households with the highest unsecured debt burdens; and

Chapter four provides our preliminary conclusions.

2. Analysis of Household Survey Data

2.1. This chapter focuses on the findings from household survey data and reports in detail on the changing distribution of indebtedness in recent years.

The main household surveys

2.2. Household surveys have played a key role in the monitoring of unsecured debt problems in the UK for many years. Table 1 below sets out the main surveys undertaken since 1991 together with a summary of their methodologies and sample sizes.

Table 1: Main household survey sources of unsecured indebtedness (1991 – present)

Survey	Methodology
British Household Panel Survey	Longitudinal household survey which collected information on the wealth, assets and liabilities of households from 1991 onwards. The original sample was just over 5,000 households. The survey is particularly helpful in respect of measuring changes in the prevalence of credit use over the period, and consistent questions concerning debts were used in the 2000 and 2005 waves.
Understanding Society	The UK Longitudinal Household Survey, or 'Understanding Society', replaced the BHPS but maintained integrity with it. It has a larger sample size (42,000 in Wave 4), but the questions concerning wealth, assets and debts are consistent with those used in the BHPS in 2005. Analysis of the 2012/13 data release has recently been conducted by the Social Market Foundation ('SMF')[13].
Wealth and Assets Survey	The Wealth and Assets Survey is a biennial longitudinal survey launched in 2006. The findings concerning the burden of financial and property debt for the third wave (2010/12) were released by ONS in July 2015. Approximately 30,000 households were interviewed in wave one, and 20,000 in each of waves two and three.
YouGov DebtTrack	The Department for Business, Innovation and Skills ('BIS') reported on the findings from the YouGov DebtTrack survey between 2007 and 2012. The survey increased in size over this period from around 3,000 adults to just under 8,000. The survey is conducted on-line with responses weighted back to national averages, including in respect of household income.
NMG Survey for the Bank of England	The Bank has commissioned an annual household survey concerning indebtedness since 2004. These surveys were initially conducted face to face and had sample sizes of approximately 2,000. In 2012 the main survey moved on-line and the size was increased to 4,000. A smaller face to face survey was also conducted that year. Since 2013, the survey has only been conducted on-line and the sample size was increased to 6,000. The latest release is for 2014, making this the most up to date source of data available.

2.3. Findings from these surveys have been reported in a large number of independent reports as well as official publications from Government, the last of which was published

[13] Broughton et al (2015). 'Wealth in the Downturn: Winners and Losers'. Social Market Foundation.

by the Department for Business, Innovation and Skills ('BIS') in June 2013 and which was based on the findings from the YouGov DebtTrack survey for 2012[14].

2.4. However, the use of different surveys and their varying methodologies mean that the findings have not been entirely consistent over time. For example:

- In 2004, the NMG survey reported that approximately 45 percent of all households had some form of unsecured debt. This was consistent with earlier findings from the British Household Panel Survey (44% in 1995 and 45% in 2000).

- In 2006/08 the Wealth and Assets Survey reported that 50 percent of households had some form of non-mortgage borrowing, and that this remained fairly constant through to 2010/12.

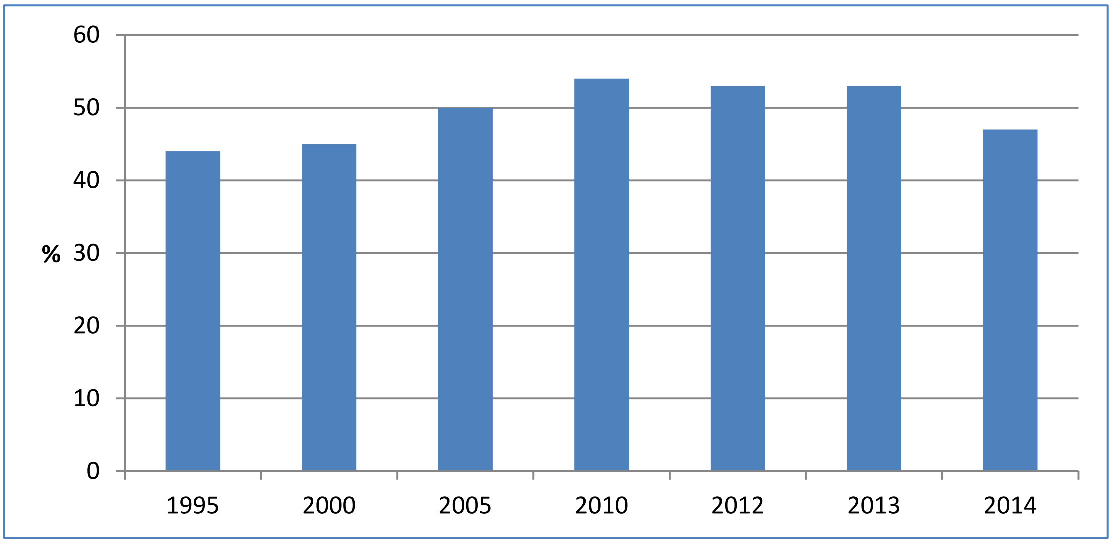
- The YouGov DebtTrack survey of 2008/09 reported that 64 percent of households had unsecured debts, although the same survey found that this fell back to 58 percent the following year; to 54 percent in 2011, and to 52 percent in 2012.

- The YouGov 2012 finding is consistent with the face to face element of the NMG survey of that year, which reported that 51 percent of households had unsecured debts. However, the on-line part of the NMG survey reported a higher percentage (63%). The survey has only been conducted on-line since 2013, and reported 60 percent of households had unsecured debts that year, and that 58 percent did so in 2014.

2.5. Taking the findings from the different surveys into account, and assuming that the NMG on-line survey reports the share of households having unsecured debt to be around 11 percentage points higher than the consensus, figure 1, below, provides our *best estimate* of the prevalence of unsecured debt over the period 1995 to 2014.

[14] Credit, Debt and Financial Difficulty in Britain, 2012: a report using data from the YouGov Debt Track survey, Department for Business, Innovation and Skills, 2013.

Figure 1: Estimated percentage of households with unsecured debt (1995 – 2014)



2.6. By way of international comparison, the European Household Finance and Consumption Survey ('EHFCS') reported the proportion of households with unsecured debts for 15 countries[15] in 2010. Across these countries, the average percentage of households with non mortgage borrowing was 29.3 percent. The highest percentage was reported for Cyprus (47.9%), followed by Slovenia (38.9%), Netherlands (37.3%), Luxemburg (36.9%) and Germany (34.6%). The lowest percentages were reported for Italy (17.8%), Portugal (18.3%) and Slovakia (19.9%).

2.7. The UK surveys show greater consistency when identifying the types of households with unsecured debts. The surveys note that although nominal levels of unsecured debt increase with income, the highest debt to income ratios are found amongst lower income households and these also have higher debt repayment to income burdens. Unsecured debts are also likely to be more concentrated in younger households, those with children, and those with low levels of savings.

[15] These were Austria, Belgium, Cyprus, Germany, Luxemburg, Malta, Spain, Finland, France, Greece, Italy, Netherlands, Portugal, Slovenia, Slovakia.

Objective measures of financial vulnerability of over-indebtedness

2.8. In line with most previous literature on the subject, the remainder of this chapter focuses on two objective measures of indebtedness:

- The unsecured Debt to Income ratio ('DTI'); and
- The unsecured Debt Servicing (i.e. repayments) to Income ratio ('DSI').

2.9. The first of these indicators should be viewed as a measure of household *vulnerability* to debt problems in the event of income or expenditure shocks. In this respect, the YouGov surveys conducted for BIS report those households with a ratio of 60 percent or more to their annual income as highly vulnerable. We therefore use this as our definition of vulnerability throughout the remainder of this report.

2.10. The second indicator is a much more current measure of the burden of repayments on the household. This seems to have crept upwards in recent years, although there has been no explanation provided for this. In a report for the then Department for Trade and Industry, Kempson (2002) used a consumer credit repayment to gross income ratio of 25 percent to identify over-indebted households, and this measure was subsequently used by the Department in its 'Tackling Over-indebtedness Action Plan' published in 2004 and in its subsequent follow-up report of March 2010. However, BIS reports since 2010 have used a 30 percent or larger ratio as an indicator of over-indebtedness.

2.11. In this report we revert to using a debt repayment to gross income ratio of 25 percent as an indicator of over-indebtedness, but also add in our own measure of *'extreme over-indebtedness'*, which we define as a repayment to income ratio of 40 percent or greater.

2.12. We also focus our analysis on the Bank of England's NMG survey, which provides the most current information concerning the unsecured debt liabilities of households and their distribution (see box 1, below).

Box 1: About the NMG Survey

The NMG household survey commissioned by the Bank of England is an annual survey which has been conducted since 2004. It is designed and weighted to be representative of British households in terms of age, social grade, region, working status, and housing tenure. For the past three years the survey has been conducted on-line in September and October. It contains questions which allow for the calculation of debt to income and repayment to income ratios based on annualised pre-tax income, and which allow for the segmentation of results by housing tenure, age, employment status, educational qualifications, and, for 2014, by the number of children present in the household. The sample size was also increased from 4,000 in 2012 to 6,000 in 2013 and 2014. Importantly, the survey gathers information separately with respect to secured and unsecured debts and, from 2013, separates out student loans from consumer credit liabilities.

The Bank of England publishes an article summarising the findings of the NMG survey once per year in its *Quarterly Bulletin*. However, these have tended to focus on mortgage borrowing and have not been particularly informative in respect of the data gathered on other liabilities. Nevertheless, the Bank does make the raw survey data available, and we have therefore conducted an analysis of this for 2012 through to 2014 in order to identify recent trends in consumer credit and student loans indebtedness and how these vary amongst different household types.

2.13. The remainder of this chapter reports on the general trends observed from the NMG survey. We begin by comparing the incomes of the NMG sample to the general population. We then explore in more detail the breakdown of debt across the income distribution and provide estimates of the numbers of over-indebted households in each of the years from 2012 through to 2014.

How representative is the NMG survey?

2.14. Although the NMG survey is designed and weighted to be representative of British households in terms of age, social grade, region, working status, and housing tenure, it does not claim to be representative of the general population by income. We therefore begin by comparing the income distribution of NMG survey participants with ONS data from the Living Costs and Food Survey ('LCF'). That survey is used by the ONS to inform its national estimates of household final consumption expenditure, and the income data is used by HM Treasury to model the impact of possible changes in tax and benefits on different households.

2.15. Table 2, below, sets out details of the income distributions of participants in the NMG survey for 2014 and 2013, and for the LCF survey for 2013 (the most recent data available).

Table 2: Comparison of income quintiles, NMG and ONS Living Costs and Food Survey

Income quintile	NMG survey (Gross household income, unequivalised)		ONS, Living Costs and Food Survey (Gross household income, unequivalised)
	2014	**2013**	**2013**
Average Q1	£9,391	£9,687	£8,840
Average Q2	£19,141	£19,842	£18,980
Average Q3	£27,933	£29,060	£30,004
Average Q4	£39,696	£39,446	£45,136
Average Q5	£71,492	£67,166	£89,180

2.16. The table indicates that the income distribution of participants in the two surveys was slightly different in 2013. NMG survey participants in the lowest three income quintiles had slightly higher average incomes (of roughly £1,000 per year) than those in the LCF survey. This may be due to the fact that the NMG survey is completed online and therefore could under-represent households without access to the internet. However, there was also a variance between the two surveys in respect of the income of households in the 4th and 5th quintiles. These had much higher average incomes in the LCF survey (£12,000 higher in quintile 5).

2.17. As previous surveys have consistently reported that levels of nominal unsecured debt rise with income, households in the lowest three quintiles within the NMG survey are likely to report a slightly higher total amount of unsecured debt than is present in the general population whilst households in the higher quintiles are likely to report much lower levels of debt.

2.18. It should also be noted that the survey substantially under-estimates the overall level of debt as a whole. Grossing up the unsecured debts reported in the NMG survey in 2014 to the general population would account for only £104 billion (34%) of the total unsecured liabilities reported in the National Accounts. Consumer debts reported in the survey are even lower, grossing up to £64 billion: just 26 percent of the figure contained in the National Accounts.

2.19. This discrepancy is not explained by sampling issues. The fact that levels of debt reported in household surveys do not gross up to aggregate data has been noted in the prior literature. For example, when commenting on the results of the NMG survey in 2004,Tudela & Young reported:

> “A common feature of household surveys is that the amount of unsecured debt reported by survey respondents falls well short of that implied by aggregate data... Some of this discrepancy can be accounted for by differences in the basis on which the statistics are calculated. For example, the survey asked respondents to exclude balances which would be paid off in full at the end of the month, whereas the official statistics include all consumer credit balances outstanding at a particular date, including balances that do not bear interest...It is unclear whether the remaining gap is a result of deliberate understatement by respondents, ignorance of debts they or other members of their household (on whose behalf they are responding) owe, or misunderstanding of what constitutes a debt: for example, some may not consider borrowings as a ‘debt’ if they are up to date with repayments.”

2.20. Moving the NMG survey online in 2012 may have been an intended to mitigate some of these problems, as online surveys have been found to have a higher disclosure rate in respect of sensitive questions[16]. However, they may also suffer from a greater degree

[16] Dayan et al (2007) cited in Bunn et al (2012)

of measurement error[17]. There were also a high number of respondents (approximately 10 percent of the sample) to the 2014 survey which, although indicating that they had unsecured debts, did not provide sufficient information to allow for the calculation of the 'Debt to Income' ('DTI') or Debt Servicing to Income ('DSI') ratios.

2.21. Whilst recognising the general nature of these problems with household debt surveys it would appear that the NMG survey particularly under-reports the level of unsecured debt. For example, grossing up the reported levels of unsecured debt from the YouGov DebtTrack survey from 2012 accounts for £126 billion, which is one third higher than the grossed up amount from the NMG survey of the same year.

2.22. Table 2, above, also indicates that the gross household incomes of NMG survey participants in the lowest three quintiles fell between 2013 and 2014. This requires some explanation as this finding contradicts those from other sources. For example, the Annual Survey of Hours and Earnings ('ASHE') reported that Gross Weekly Pay increased, albeit ever so slightly, by 0.6 percent for the lowest paid 50 percent of full time employees[18], and the latest ONS publication concerning the effects of taxes and benefits on household incomes[19] indicates that the *equivalised*[20] gross incomes of poorer households increased between 2012/13 and 2013/14. However, wages fell in a number of industrial sectors and there were also reductions in the value of some cash benefit transfers (notably in respect of Incapacity Benefit and Employment Support Allowance, and in tax credit payments to households in the third quintile). The NMG survey may therefore slightly over-represent households affected in these ways over the course of the year.

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[17] See footnote 7, page 10, in Credit, Debt, and Financial Difficulty in Britain, 2012. Department for Business, Innovation and Skills.

[18] 2014 Provisional Results, Table 5.

[19] Table 14A, The Effects of Taxes and Benefits on Household Income, 1977 to Financial Year ending 2014, released on 29th June 2015.

[20] Equivalisation is a standard methodology that adjusts household income to account for different demands on resources, by considering the household size and composition. Unfortunately the NMG survey does not collect sufficient information on household size and composition to allow for incomes to be equivalised.

2.23. Despite these issues, the consistent methodology applied within the NMG survey over the past three years does make it suitable to study *changes in the distribution* of debt over time. This is particularly the case because the survey contains a panel element, with around 50 percent of respondents having undertaken previous surveys each year. As Anderson et al put it when reporting on the survey's findings in respect of mortgage debt for the Bank of England in 2014:

> "The survey is weighted to be representative of the population of Great Britain. It is, however, possible that these survey data do not present a true picture of households' finances. That may be because certain types of individuals are more likely to respond to online surveys, or that answers given are not accurate. Nevertheless, the survey data do have broadly similar trends to the aggregate data and are a good source of information for assessing distributional issues."

2.24. In the absence of recent household survey data from other sources, we therefore use the NMG survey to show how the distribution of debt has changed over the past three years, but then use this information to update findings from the more representative YouGov DebtTrack survey for 2012 in order to arrive at estimates for the current numbers of households who are financially vulnerable and over-indebted.

Levels of unsecured debt

2.25. As indicated in figure 1, above, we consider that there has been a slight reduction in the propensity of unsecured debt in recent years. In 2012, 53 percent of households reported consumer debts or student loans, but we estimate that this has since reduced to approximately 48 percent in 2014. This section now reports on the amounts owed by these **debtor households**. In total, there were an estimated 13 million such households in 2014, containing 30 million people.

2.26. Although the propensity to hold debt reduced, the average (mean) level of unsecured debt has increased (see table 3, below).

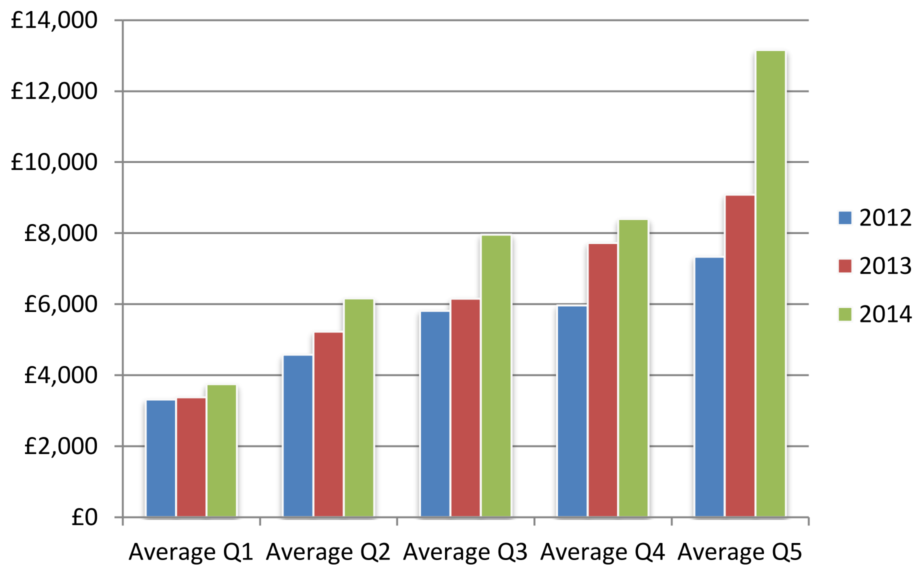
Table 3: Mean debt levels, households with unsecured debts, 2012 - 2014

	Average unsecured debt, including student loans	Average unsecured debt, excluding student loans
2012	£5,634	N/A
2013	£6,502	£4,206
2014	£8,007	£4,934

2.27. The rate of growth has been particularly apparent in households holding student loans, with the average unsecured debt increasing by 42 percent over the period. Unfortunately, the 2012 survey did not record student debts separately and we are only able to assess the growth in consumer debt across 2013 and 2014. This indicates the average level of consumer debt increased by 17 percent that year.

2.28. Turning to the distribution of these debts, we find that the average level of debt held increased across all income quintiles, but that the extent and timing of this, has varied (see figure 2, below). The growth in the average amount of unsecured debt has been particularly pronounced in respect of those debtor households in the highest income quintile. Over the past two years the amount of unsecured debt reported by this group has increased by nearly 80 percent, with the majority of this occurring between 2013 and 2014.

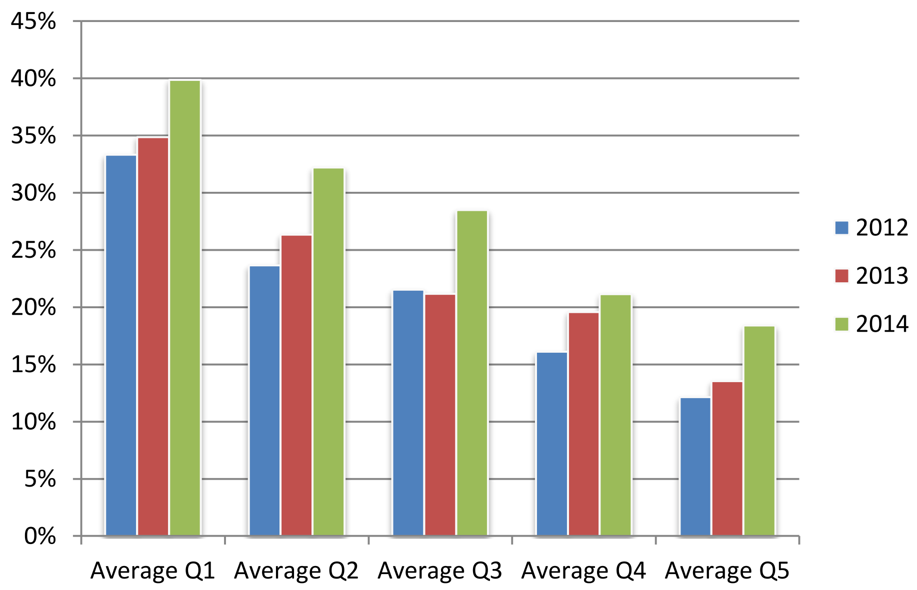
Figure 2: Average unsecured debt, incl. student loans, by income quintile



2.29. However, debtor households in the second, third and fourth quintiles have also reported that the average level of their debt has grown by around £2,000 over the period. This appears to have happened more gradually for households in the second income quintile compared to the third, where the growth in debt levels primarily occurred between 2013 and 2014. In contrast, households in the fourth income quintile reported a larger increase occurring between 2012 and 2013.

2.30. The combination of reduced incomes and increasing debt has led to a dramatic rise in the DTI ratio for low to middle income debtor households (see figure 3, below). This is now at an average of 40 percent for those households in receipt of the very lowest incomes, and lies between 28 and 33 percent for debtor households with incomes in the second and third quintiles.

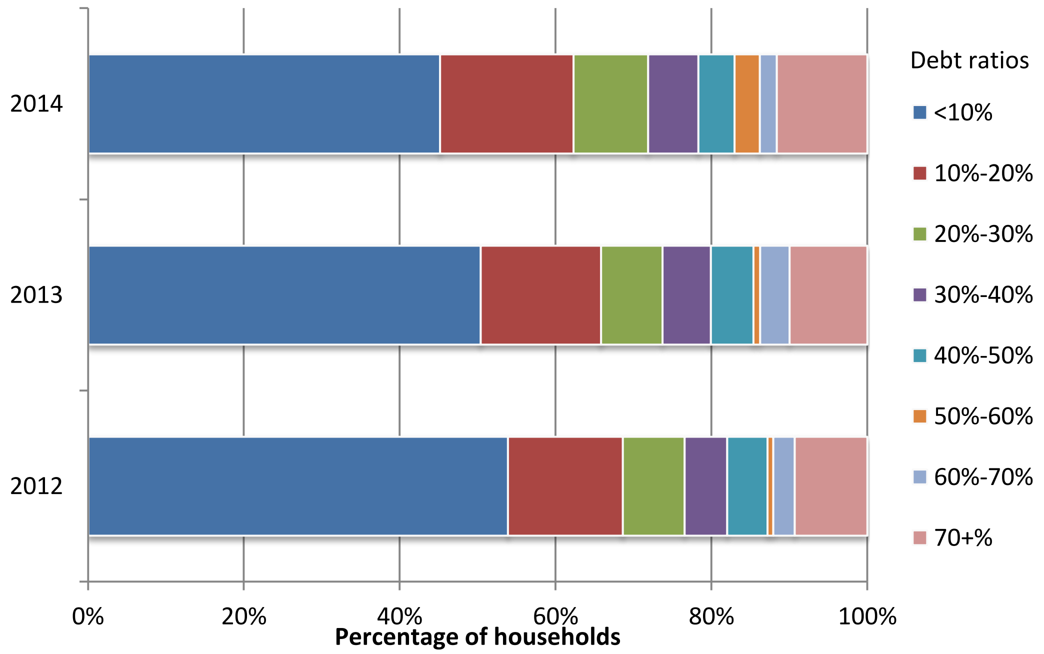
Figure 3: DTI ratios of debtor households, 2012 – 14, by income quintile



2.31. It should be noted that these are the average DTI ratios within each income quintile. There is, however, a considerable range of DTI ratios outside of these averages. The following figure illustrates how DTI ratios are distributed, and how these have changed over time. It is notable that:

- The proportion of debtor households with a DTI ratio of less than 10 percent has reduced by 8 percentage points, whilst
- The proportion of debtor households with a ratio of more than 30 percent has increased by 5 percentage points; and
- There has been a 2 percentage point increase in the number of households whose debts exceed 60 percent of their pre-tax income.

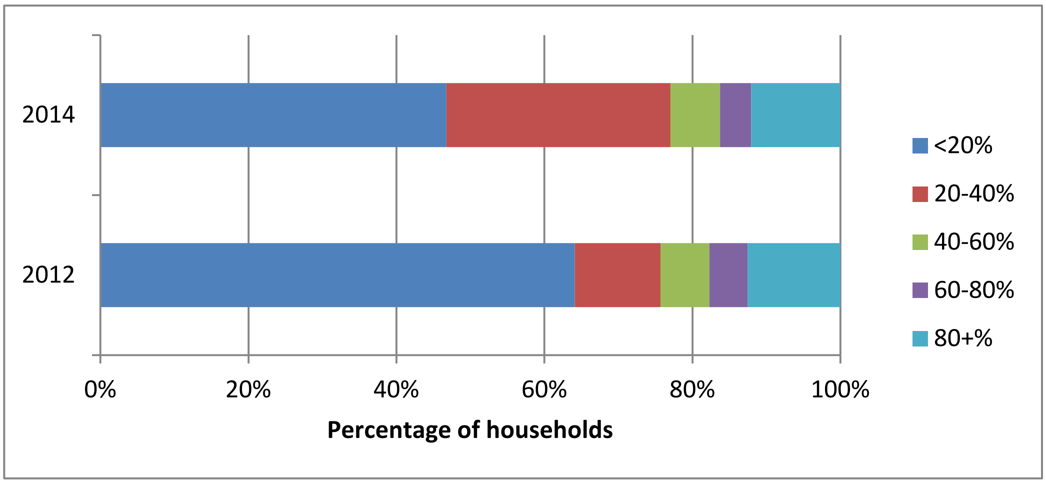
Figure 4: Percentages of debtor households within DTI ratio thresholds, 2012 - 2014



2.32. Looking at only those debtor households with incomes of less than £30,000 (figure 5, below), it is notable that there has been a 17 percentage point reduction in the proportion of these with DTI ratios of less than 20 percent, and a commensurate increase in the proportion of debtor households with DTI ratios between 20 and 40 percent.

2.33. However, the percentage of debtor households with DTI ratios in excess of 60 percent has again remained relatively constant. In 2012, nearly one in five (18%) of low to middle income debtor households in the NMG survey were in this position, and this reduced very slightly to 16 percent in 2014.

Figure 5: DTI ratios of debtor households with incomes < £30,000, 2012 & 2014



The impact of student loans on DTI ratios

2.34. The NMG survey collected information on student debt levels separately from consumer debt in 2013 and 2014. This is important because although student loans have expanded to become a larger component of household unsecured liabilities in recent years there are reasons to be cautious about the extent to which these currently pose a risk to households in comparison to consumer debts (see box 2, below)

Box 2: Student debt

Student loans for living expenses were introduced in 1990/91, and were extended to cover tuition fees in England from 1998/99 onwards. In 2012, the maximum amount of tuition fees that Universities could charge was increased from £3,290 to £9,000. Over the period from 1999 through to the end of 2014, the total amount outstanding in student loans has increased from £5 billion to £67.3 billion. Student debt now constitutes 28 percent of the total unsecured liabilities of households.

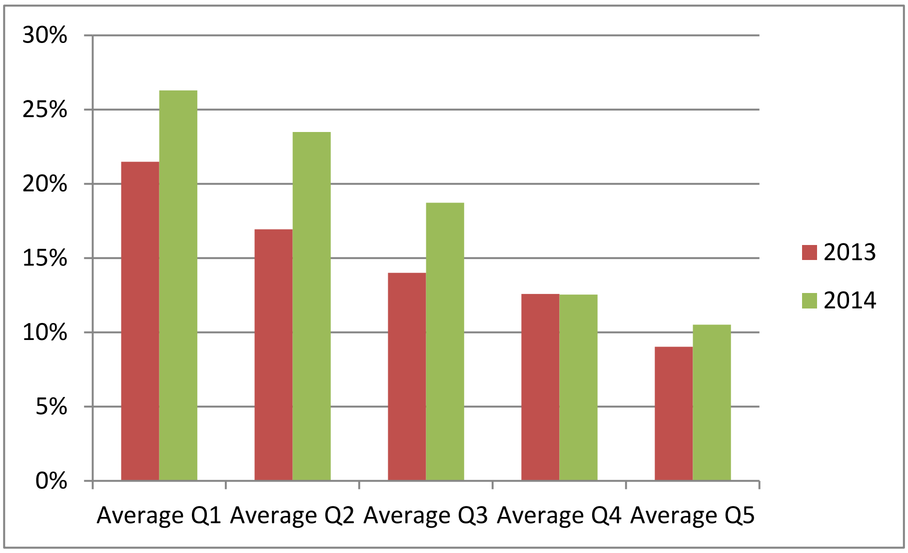
However, this rising level of student debt does not have as great an impact on households as their consumer debts. This is because the interest rates charged on student debt are much lower than for consumer credit agreements and borrowers do not need to make repayments if their earnings are below set thresholds. Repayments made against English student debt totalled £1.6 billion in 2014/15, with £1.4 billion of this collected through the tax system. This was equivalent to only 0.1 percent of total household spending[21] in that year. The repayments through the tax system were made by approximately 1.5 million people, at an average amount of £870. Those making these repayments were roughly half the total number of people who have a current liability to repay student loans. The remainder did not make any repayments either because their earnings were below the repayment thresholds; they were out of work, or their tax return was awaiting assessment.

Because of the specific structure of student loans it is therefore necessary to be cautious about the extent to which these represent a burden on households. Whilst the presence of student debt can result in a high household debt to income ratio, it does not usually feed through into a high burden in terms of debt repayments, unless combined with other consumer credit debts.

2.35. We are therefore able to strip out student debt for these years and present the average DTI ratios for debtor households with consumer debts only for each income quintile (see figure 6, below).

[21] ONS, Household Financial Consumption Expenditure, current prices, seasonally adjusted measure.

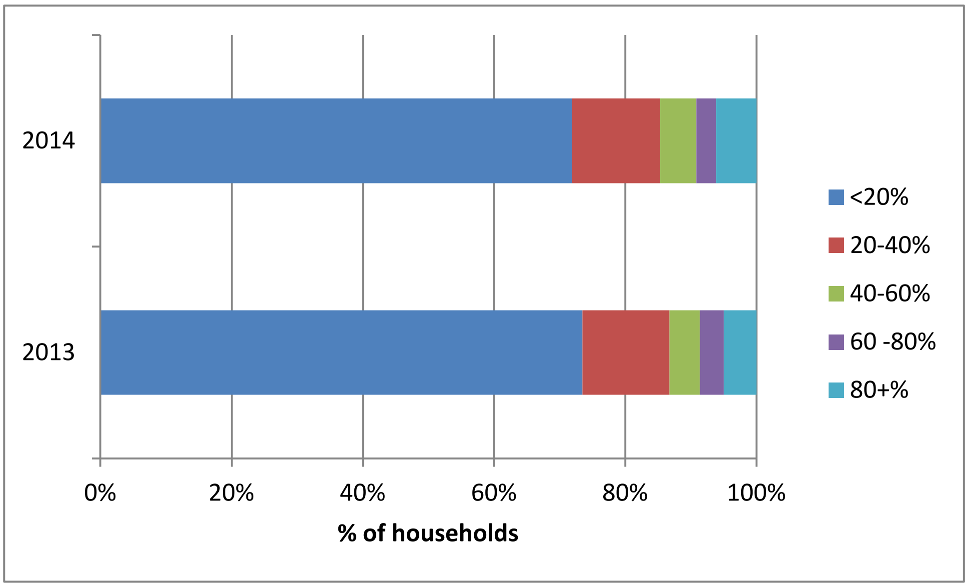
Figure 6: DTI ratios, excluding student loans, by income quintile, 2013 & 2014



2.36. Once student debt is stripped out then the average DTI ratios for all income quintiles reduces significantly. For the poorest debtor households the average DTI ratio reduces to 26 percent, and for those households with incomes between £20,000 and £30,000 per year it averages between 19 percent and 23 percent. Nevertheless, these ratios have worsened over the course of 2013/14, with low to middle income households experiencing a rise in their average consumer debt burden of 5 percentage points. In contrast the debt burden for households in the fourth quintile remained flat and it increased by only 2 percentage points for the highest income group.

2.37. Looking at the distribution of DTI ratios with student loan debt removed, we find that there was little change over the course of the year, and that roughly 10 percent of indebted households within the NMG survey can be classed as vulnerable on the basis that consumer debts exceed 60 percent of their income (figure 7, below).

Figure 7: DTI ratios, debtor households, excluding student debt, 2013 & 2014



How many vulnerable households are there?

2.38. As mentioned previously, the NMG survey reports far less debt than the YouGov Debt Track survey. In 2012, the distribution of DTI ratios reported by the two surveys were also different (see table 4, below)

Table 4: DTI ratios reported by YouGov DebtTrack and NMG surveys, 2012

DTI ratio	YouGov DebtTrack (percentage of debtor households)	NMG survey (percentage of debtor households)
<10%	37	54
10% - 20%	17	15
20% - 40%	20	13
40% - 60%	9	6
> 60%	17	12

2.39. Comparing these results, the NMG survey indicated that a significantly higher proportion of households had DTI ratios of less than 10 percent in 2012, and that there were 5 percent fewer households with DTI ratios in excess of 60 percent.

2.40. We consider the YouGov survey findings to be more accurate than those from the NMG survey. This is because the reported level of debt (as a percentage of our aggregate measure) is greater and because the YouGov survey weights its responses back to national averages in respect of household income, which the NMG survey does not.

2.41. Nevertheless, due to the consistent nature of the NMG survey methodology, and its use of a significant panel element, this provides a good indication of percentage *changes* in the distribution of DTI ratios from 2012 to 2014.

2.42. To arrive at our estimate of the number of financially vulnerable households we therefore take the 2012 YouGov survey results as our starting point and apply the percentage point changes observed from the NMG survey to these through to 2014 (see table 5, below).

Table 5: CfRC estimates of DTI ratios, debtor households, 2014

DTI ratios	2012 (YouGov Debt Track), percentages of debtor households	Percentage point change to 2014 (NMG survey)	CfRC 2014 estimates, percentage of debtor households within DTI thresholds, 2014
<10%	37	-8	29
10% - 20%	17	+2	19
20% - 40%	20	+2	22
40% - 60%	9	+2	11
> 60%	17	+2	19

2.43. Extrapolating to national data on household number and sizes, we estimate that there was a slight increase in the number of financially vulnerable households between 2012 and 2014. In 2012 we estimate that there were 2.4 million households, containing 5.6 million people with DTI ratios in excess of 60 percent. By 2014, we estimate the number of households in this position to have increased by 80,000. Approximately 9 percent of all households in the UK are financially vulnerable.

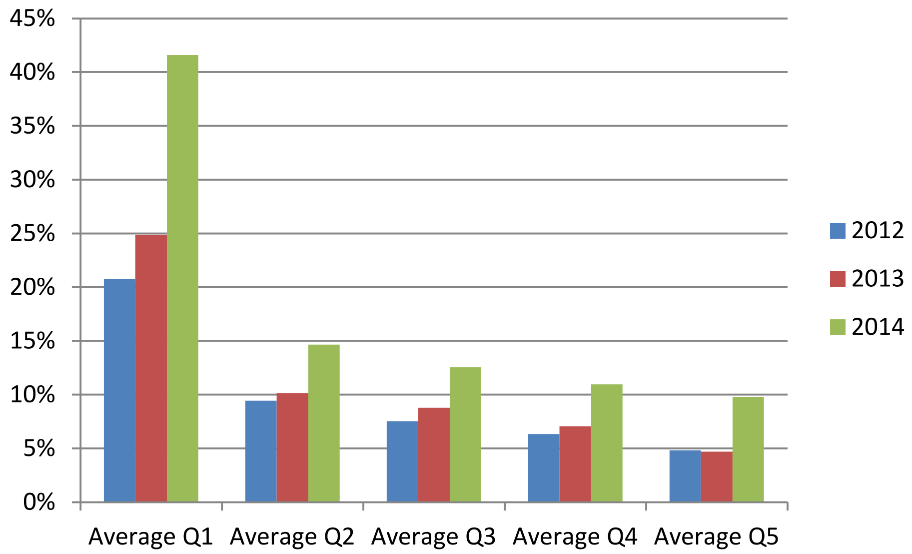
2.44. Excluding student debts, we estimate that 1.5 million households, containing approximately 3.5 million people were financially vulnerable in 2014. This is 5.5 percent of all households.

Debt servicing costs

2.45. Turning to the amount of money that debtor households are paying out to their creditors, the NMG survey indicates that there has been a general increase in debt servicing costs relative to income across all quintiles in the past three years.

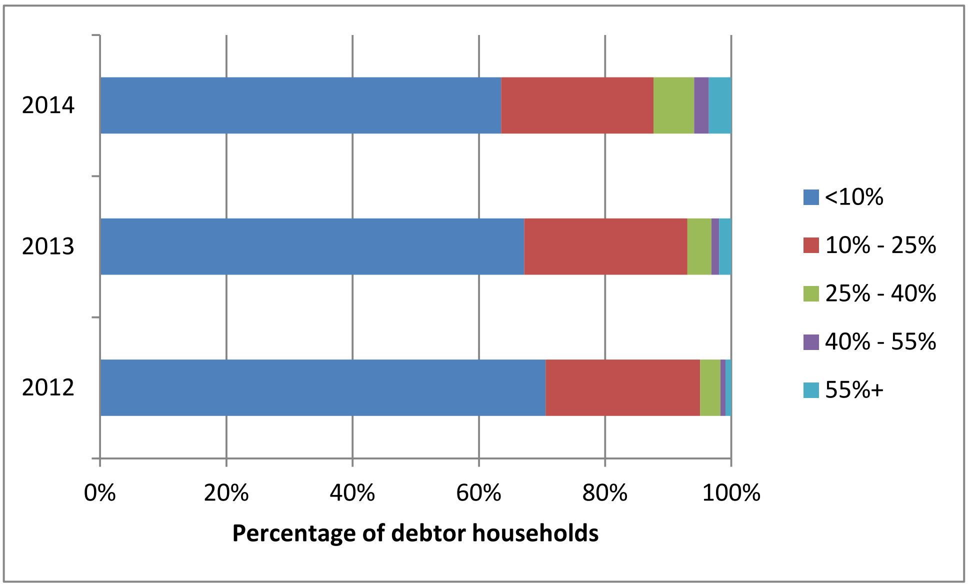
2.46. However, the increase in DSI ratios has been most apparent amongst debtor households in the lowest income quintile. These households were required to devote an average of 42 percent of their gross monthly income to debt repayments in 2014. The level of their debt repayments has doubled relative to their income in the past three years (figure 8, below).

Figure 8: DSI ratios, 2012 - 2014, debtor households by income quintile



2.47. Again, it should be noted that these are average DSI ratios and the distribution of these is important. This is illustrated for all debtor households in figure 9, below.

Figure 9: Percentages of all debtor households by DSI thresholds, 2012 – 2014

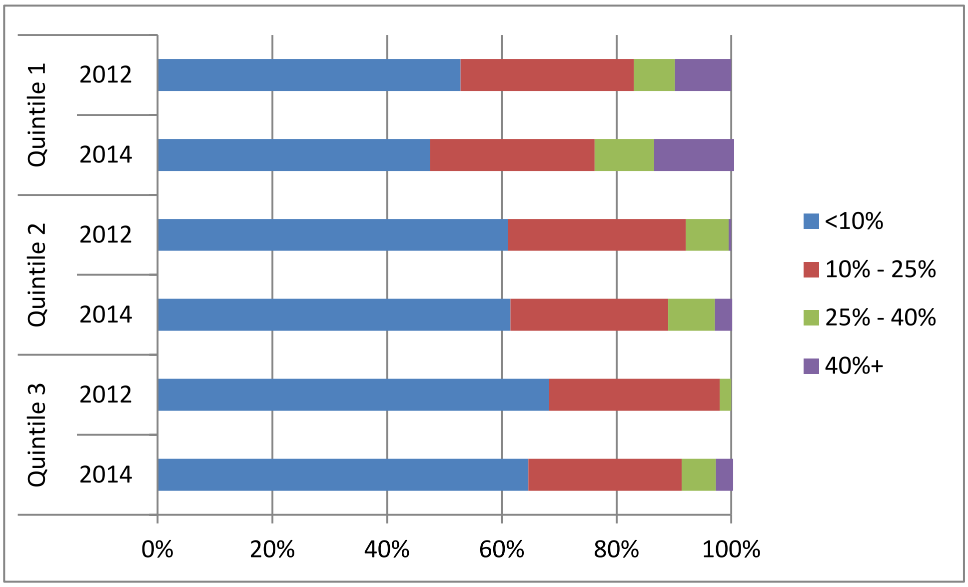


2.48. The percentage of over-indebted households reported by the NMG survey has more than doubled in recent years. In 2012, only 5 percent of households with unsecured credit commitments were paying out more than a quarter of their income in repayments. In 2013, the percentage of households in this position increased to 7 percent, and in 2014 it rose further to 12 percent.

2.49. Further to this, the percentage of debtor households who are extremely over-indebted (i.e. with DSI ratios of more than 40%) has tripled from 2 percent to 6 percent over the period.

2.50. This growth in over-indebtedness has been particularly dramatic in low income households. The number of over-indebted households in the lowest income quintile rose by 7 percentage points to 24 percent in 2014, and the proportion of extremely over-indebted households in this quintile has increased from 10 to 14 percent (see figure 10, below).

Figure 10: DSI ratios of low to middle income households, 2012 & 2014



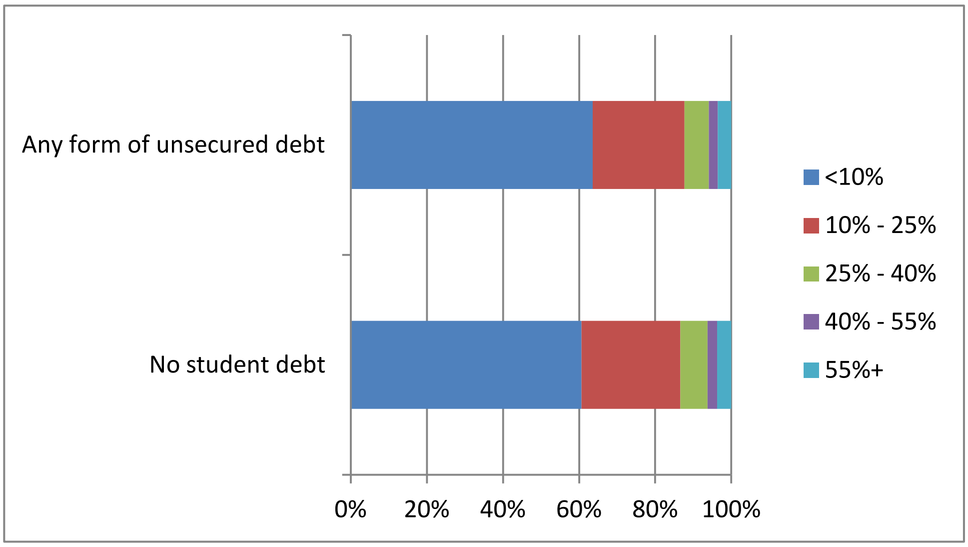
2.51. The problem of over-indebtedness has also increased for debtor households in the second and third income quintiles. Over-indebtedness in the second income quintile increased by 4 percentage points, and 3 percent of these were extremely over-indebted indebted in 2014 compared to none in 2012.

2.52. However, debtor households in the third income quintile saw a greater rise in over-indebtedness, from just 2 percent in 2012 to 9 percent in 2014, with 3 percent of these households also now extremely over-indebted.

The impact of student debt on debt servicing costs

2.53. The survey does not collect details of the amounts of student debt owed separately from consumer debts. However, we are able to provide an assessment of the impact of the increase in student debt levels on DSI ratios. We do this by comparing the DSI ratios of households without any student debts with those of households with any form of unsecured liability. Figure 11, below, provides the results for 2014.

Figure 11: DSI ratios of households with and without student debt, 2014



2.54. This indicates that the presence or otherwise of student debt does not make a significant difference to the DSI ratios of households. In fact, households without student debts were marginally more likely to be over-indebted. Although student loan debt has increased significantly in recent years its lower interest rates, and the earnings thresholds that are currently in place, are limiting the extent to which this poses a financial burden at this stage.

How many households are over-indebted?

2.55. To arrive at an estimate of the number of over-indebted households we again use the YouGov DebtTrack findings as our starting point and apply the percentage point changes identified from the NMG survey to these (table 6, below)

Table 6: CfRC estimates of DSI ratios, debtor households, 2014

DSI ratios	2012 (YouGov DebtTrack), percentage of debtor households	Percentage point change to 2014 (NMG survey)	CfRC 2014 estimates, percentage of debtor households within DSI thresholds, 2014
<10%	56	-7	49
10% - 25%	26	-	26
25% - 40%	9	+3	12
>40%	9	+4	13

2.56. Extrapolating to national data concerning household numbers and size, we estimate that in 2012 there were 2.54 million over-indebted households (DSI>25%), containing approximately 6 million people. By 2014, this had risen to 3.2 million households, containing 7.6 million people. On this basis, nearly 12 percent of all UK households are now over-indebted.

2.57. Further to this, we estimate that roughly half of all over-indebted households are extremely so, and are paying out more than 40 percent of their pre-tax income to creditors. 70 percent of these extremely over-indebted households are in receipt of incomes of less than £30,000 per year.

2.58. These estimates are broadly consistent with the StepChange 'Life on the Edge' report, published in 2014, which indicated that 8.8 million people were over-indebted. That report was based on a YouGov survey of 4,442 adults conducted in December 2013, but used a number of different indicators to determine whether or not people were struggling financially. These did not measure the level of repayments relative to income but instead focused on financial behaviours, including whether or not people used credit to pay for household bills, paid only the minimum amount on credit cards for extended periods, or were in arrears with payments. The discrepancy between our estimates between and those reported by StepChange could therefore result from the over-indebtedness indicator of 25 percent of gross income measure being set at too high a level.

3. Demographic characteristics of indebted households

3.1. The preceding chapter examined NMG survey evidence concerning the general trends in household indebtedness, reporting that there has been a significant increase in the number of financially vulnerable and over-indebted households, with this particularly concentrated in households with incomes of less than £30,000 per year. This chapter now builds further on this analysis by examining the main demographic characteristics of those households that have been most affected, reporting the findings from cross tabulations conducted using the survey's employment status, age, housing tenure and income identifiers.

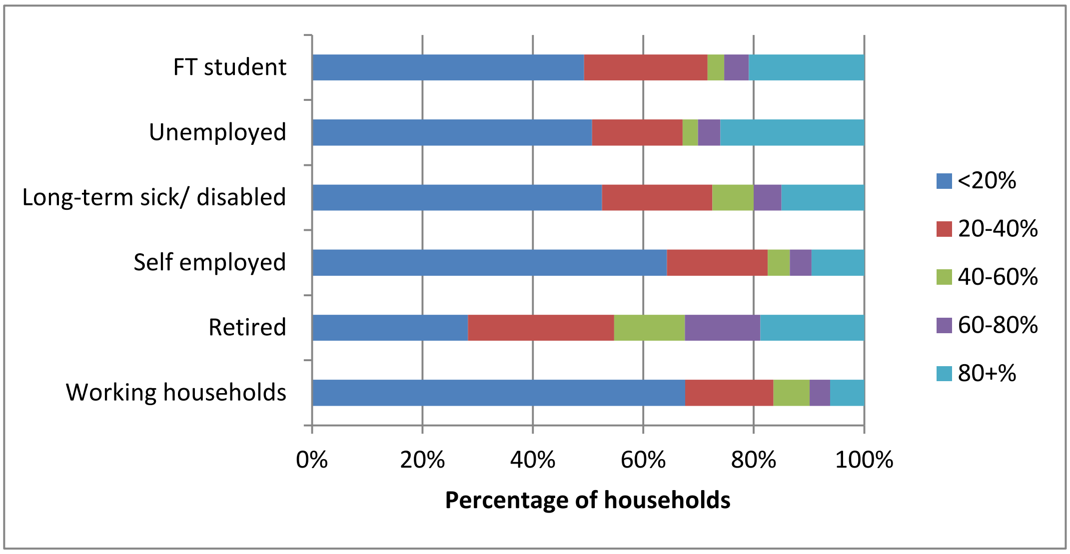
3.2. Unfortunately, we are not generally able to compare these findings to the YouGov survey of 2012, as that did not report on over-indebtedness to the same level of detail. As a result, this chapter provides a good indication of the change in over-indebtedness since 2012, but percentage estimates of over-indebtedness amongst specific groups are likely to be conservative.

3.3. This is despite the fact that 58 percent of households participating in the 2014 NMG survey had unsecured debts compared to 52 percent in the YouGov survey of 2012, because the NMG survey respondents reported much lower levels of debt than holding unsecured debts than was the case in the YouGov survey, and is due to the much lower level of debt

Employment status

3.4. Figure 12, below, provides details of the DTI ratios of households in 2012 broken down by employment status.

Figure 12: DTI thresholds 2012, debtor households, by employment status



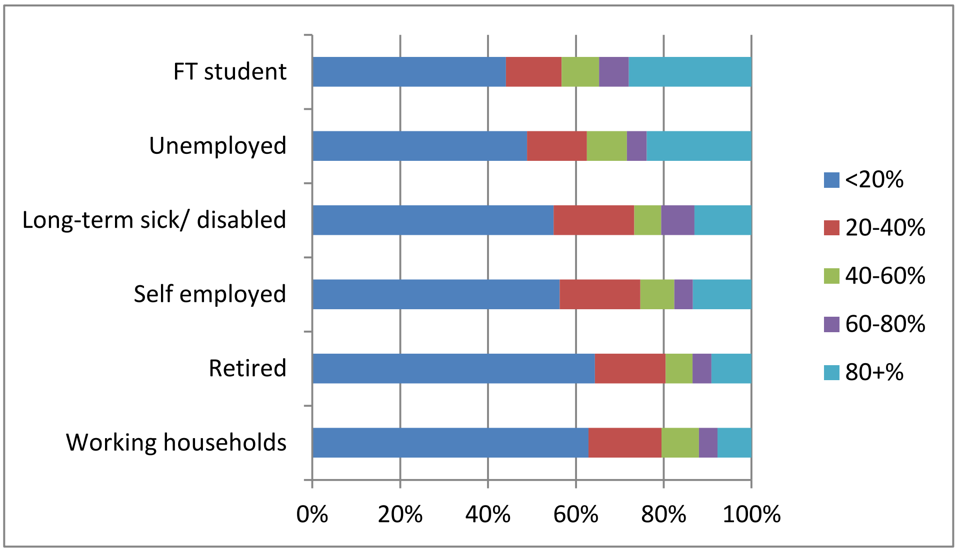
3.5. The highest levels of financial vulnerability in 2012 were found in retired households. However, this finding runs contrary to other evidence from the survey which indicates that debt levels decline with age. In the 2012 survey the sample size of retired households with unsecured debts was very small (only 117 people) and we consider this to be unreliable. The sample of retired households with unsecured debts was considerably larger in 2014 (527) and, as we report later, the observed DTI ratios for this group were found to be considerably lower that year.

3.6. We therefore locate the highest levels of financial vulnerability (i.e. DTI ratios in excess of 60%) in households containing full time students (25% of all such households in the NMG survey), the unemployed (30%), and people with a long term sickness or disability (20%). This is unsurprising as these are all recognised as low income groups and unemployment, ill health and disability have long been associated with debt problems. The expansion of student debt in recent years also explains the high DTI ratio of full time student households.

3.7. Perhaps more surprising were the findings that nearly one in seven (14%) of self employed households in the NMG survey were financially vulnerable in 2012, and that one in ten of all employees also had DTI ratios in excess of 60 percent.

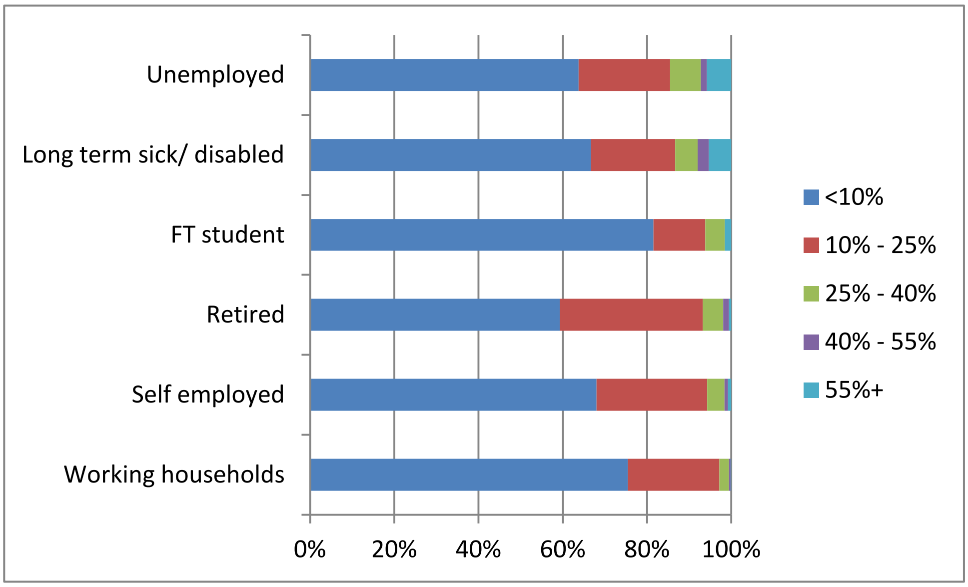
3.8. Looking at changes in these ratios through to 2014 (figure 13, below) we find that the percentages of households identified as vulnerable increased significantly amongst full time students (+10 percentage points). Less significant increases were identified amongst self employed households (+3 percentage points), and working households (+ 2 percentage points). The unemployed and households containing someone with a long-term illness or disability stayed broadly constant.

Figure 13: DTI thresholds 2014, by employment status



3.9. Despite the fact that the level of debt relative to income did not increase significantly for most groups between 2012 and 2014, the DSI ratios worsened considerably (figures 14 and 15 below) over this period. This occurred regardless of the economic status of households, with the exception of the unemployed.

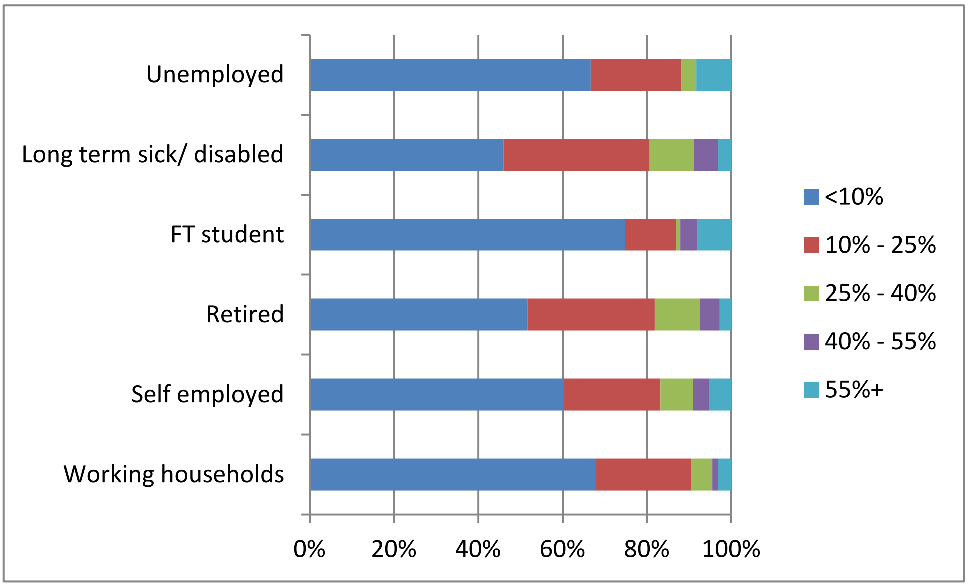
Figure 14: DSI thresholds, 2012, by employment status



3.10. In 2012, the unemployed and households containing people with long term sickness or disabilities were most likely to be over-indebted within the NMG survey. Around one in seven (14%) of these households were spending more than a quarter of their income out to their creditors. This was twice as high as the proportion of full time students, retired, and self employed households. Less than one percent of working households were over-indebted in the year.

3.11. Although the proportion of over-indebted unemployed households fell by 2 percentage points through to 2014, over-indebtedness amongst other groups rose by between 6 percentage points (full time students and households containing someone with a long term sickness or disability) and 11 percentage points (self employed households). The proportion of over-indebted working households increased from less than 1 percent in 2012 to nearly one in ten of all such households (9%) in 2014.

Figure 15: DSI thresholds 2014, by employment status



3.12. Because working households comprise the largest group within the NMG sample we have been able to further analyse the distribution of their debt amongst by cross referencing to age and to the type of credit products being used. Unfortunately the sample sizes for other groups do not allow for this to be conducted in a robust manner.

The distribution of debt within working households

3.13. Debts were common amongst households of all ages where someone was in paid employment. Two thirds of these working households reported that they had some level of unsecured debt (including student loans) in 2014. This was slightly lower than in 2012, when around 69 percent of working households had unsecured debts.

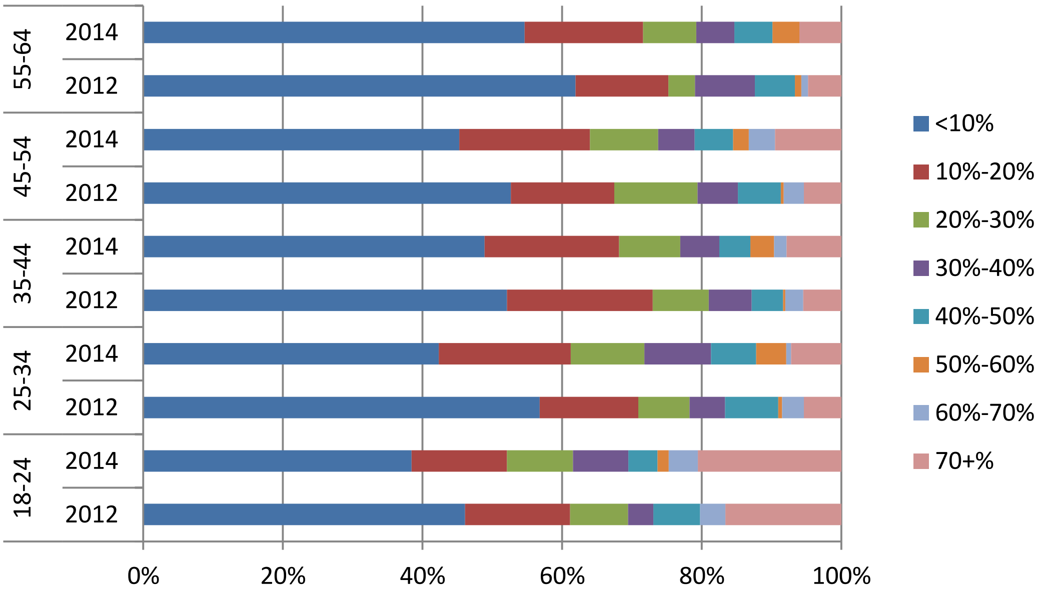
3.14. This general reduction in the proportion of households with debts was evident across all age groups with the exception of working households aged over 55, which saw a slight increase in the propensity to hold debt (from 57 to 60 percent).

3.15. However, younger working households were the most likely to have debts. Slightly less than 70 percent of households in the 18 to 24 age group had unsecured debts (including student loans) in 2014 and this rises to three quarters of working households in the 25 to 34 age bracket.

3.16. The DTI ratios of younger workers were also extremely high in many cases, with one fifth of working households aged 18 to 24 holding debts amounting to 70 percent or more of their income in 2014 (see figure 16, below). The average total unsecured debt for working households aged between 18 and 24 has nearly doubled in the past three years, from just under £7,000 to £13,190. For those aged between 25 and 34, the average debt increased as quickly but from a lower base: rising from £5,600 to £10,800.

3.17. It should also be noted that whilst the extent to which working households are leveraged declines with age, a fifth of older households (aged between 45 and 54) with someone in paid employment still have debts equal to 30 percent or more of their pre-tax income[22].

Figure 16: DTI thresholds, working households by age



3.18. A large part of the increase in average debt levels amongst younger working households can be attributed to student loans. Average student loan debt increased by 65 percent between 2013 and 2014 for working households aged 18 to 24 and now stands at just over £12,000. Student loans have also impacted on working households

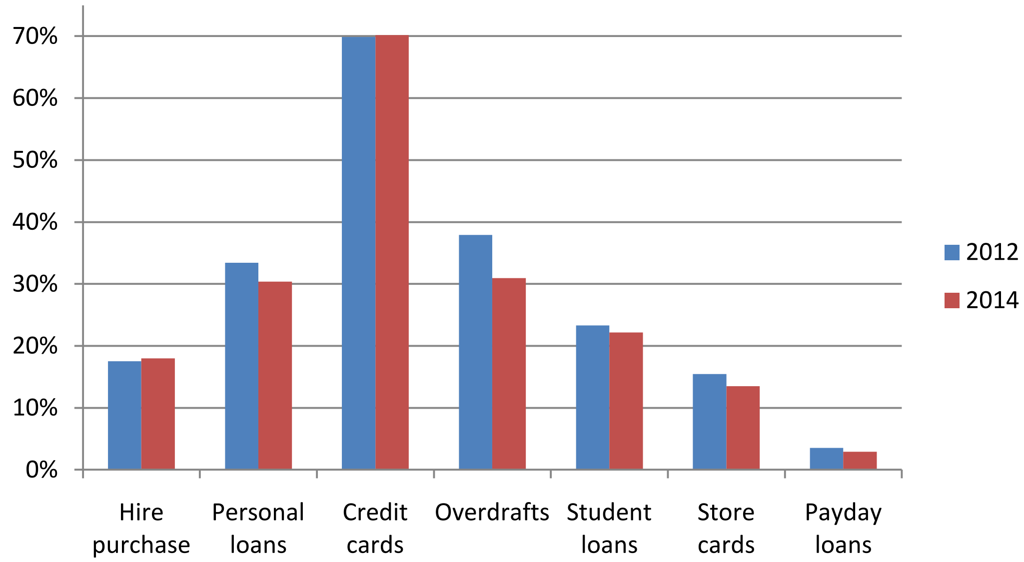
[22] The proportion of older working households with debt to income ratios in excess of 30 percent is the same as reported in 2012, indicating that there has been no deleveraging taking place amongst this group over the period.

in the 25 to 34 age bracket. In 2013, the average student loan debt reported by this group was £4,400, but this rose to £6,800 the following year.

3.19. However, student loans do not account for the totality of debt amongst younger working households. In 2014, just under half of working households with unsecured debts in the 18 to 24 group carried no student debt, but did have other forms of unsecured liabilities (most notably credit cards and overdrafts). Around one fifth of the age group had student loan debts only, and the remaining third had a combination of student loans and other forms of debt. The proportion of working households in the age group who have both student loan debt and other credit commitments increased marginally (by 2 percentage points) between 2012 and 2014.

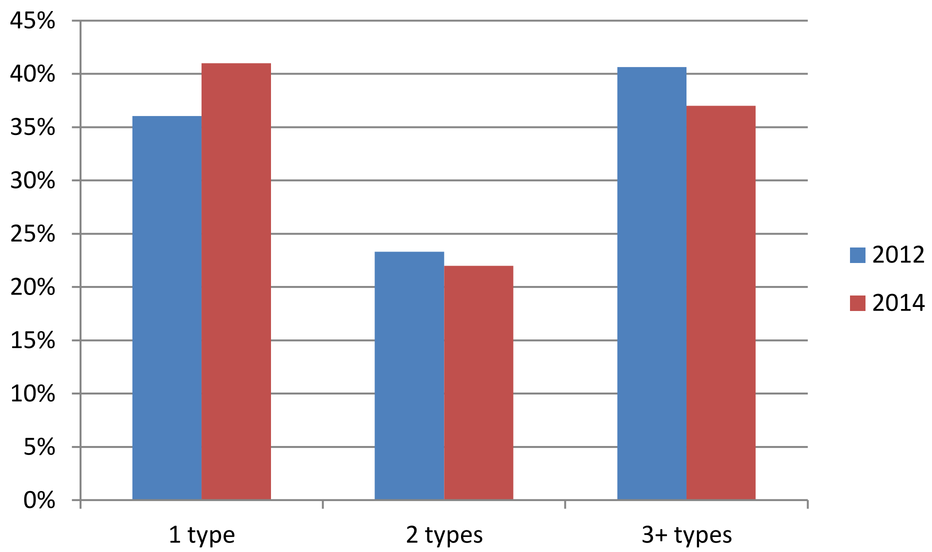
3.20. Across working households of all ages the most common form of borrowing was on credit cards, followed by overdrafts and personal loans (see figure 17, below). In 2014, around 70 percent of working households with unsecured credit commitments borrowed using credit cards, compared to around 30 percent which used overdrafts and personal loans. There was much lower usage of hire purchase (18 percent) and store cards (13 percent). Payday loans were used by only 3 percent of working debtor households in 2014. Over the period there have been some small reductions in the proportion of households using overdrafts, personal loans, store cards and payday loans.

Figure 17: Types of debt held by working households, all ages, 2012 & 2014



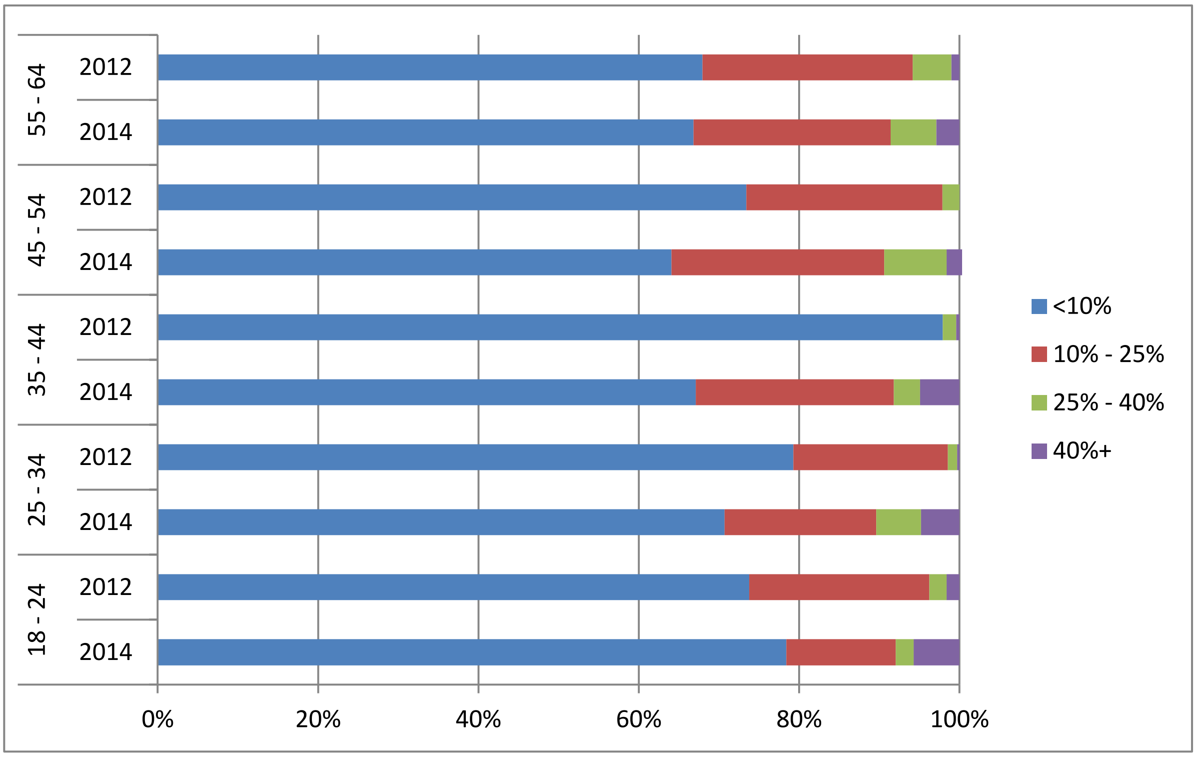
3.21. There were also some small shifts in the number of debts held by working households over the period. In 2014, just under two thirds of working households with any form of unsecured credit had one or two commitments and one third had three or more.

Figure 18: Percentage of working households by number of credit commitments



3.22. Turning to DSI ratios it is evident that there has been a significant increase in over-indebtedness amongst working households over the past three years (see figure 19, below). In 2012, the vast majority of working households with unsecured debt paid less than 10 percent of their gross incomes to their creditors. However, the proportion of working households in this position has reduced dramatically since. This has been most evident in the 35 - 44 age group where the proportion of households with debt repayment ratios of less than 10 percent has reduced by around one third (31%) over the period.

Figure 19: DSI thresholds, working households by age



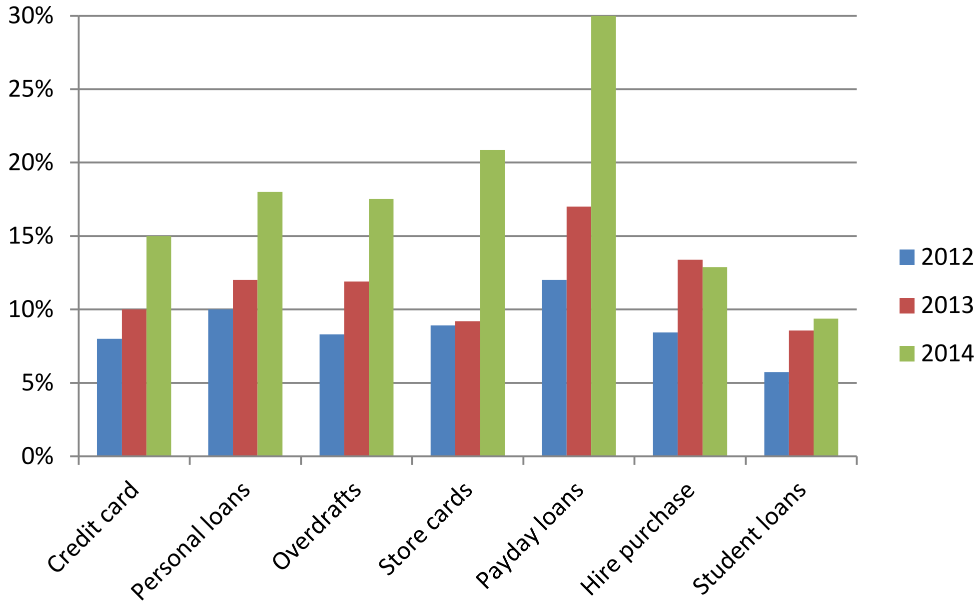
3.23. The flip side to this has been an increase in over-indebtedness. This increased across all age groups but working households in the 25 – 34 year old group were worst affected. There has been an eleven-fold increase in over-indebtedness amongst this group (from just 1% to 11%) over the past three years. In addition, 5 percent of these households were found to be extremely over-indebted in the 2014 survey compared to none in 2012.

3.24. It is also of concern that just under one in ten (9%) of older working households (aged between 55 and 64) were over-indebted in 2014, compared to 6% in 2012.

Does the type of household debt have an impact on over-indebtedness?

3.25. Figure 20, below, provides details of the DSI ratios observed for working households by type of unsecured debt. This reveals that the DSI ratios of these households increased between 2012 and 2014 regardless of the form of debt held, but that this increase has been particularly high in respect of those using payday loans and store cards.

Figure 20: Average DSI ratios by credit type, working households



3.26. Although the increase in the average DSI ratio of payday borrowers stands out, the proportion of working households using of this form of credit was low (just 3%). As credit card borrowing is the major component of debt amongst this group, changes in the average repayment requirements of these have a much greater impact on overall debt repayment ratios. In addition to the fact that interest rates on credit card balances have stayed stubbornly high (at between 17 and 18 percent), it should be noted that Government introduced new rules for credit card lenders in January 2011. These required lenders to raise the minimum monthly repayments on new credit cards. The rules ensured that minimum monthly repayments covered the interest on the outstanding balance plus at least one percent. The impact of this change has taken time to be felt as it did not apply to existing cards, but has impacted on people who transferred their balances from January 2011 onwards as well as borrowers who took out new cards from that point.

3.27. Similarly, changes to bank overdraft charges may have played a part in driving an increase in over-indebtedness amongst working households over the period. Effective interest rates on overdrafts fluctuated over the period but not by much (averaging 10.1 percent in 2012; 9.2 percent in 2013 and 9.6 percent in 2014). More significantly, a number of banks changed their pricing structures over this period to obtain greater revenue from authorised, as opposed to unauthorised, overdraft charges. Concerns about the level of unauthorised charges were raised by the then regulator, the Office of Fair Trading, in 2008, and a test case concerning their legality was brought the following year. Although that case was subsequently won by the banks, pressure from the regulators about the unfairness of the charges, which penalise those in financial difficulty, have continued. In response, banks appear to have reduced unauthorised overdraft charges but have offset lost revenue by putting up charges and interest rates on authorised facilities[23]. This is likely to have increased the burden on those households who stay within their overdraft limits but who use these facilities on a repeated basis.

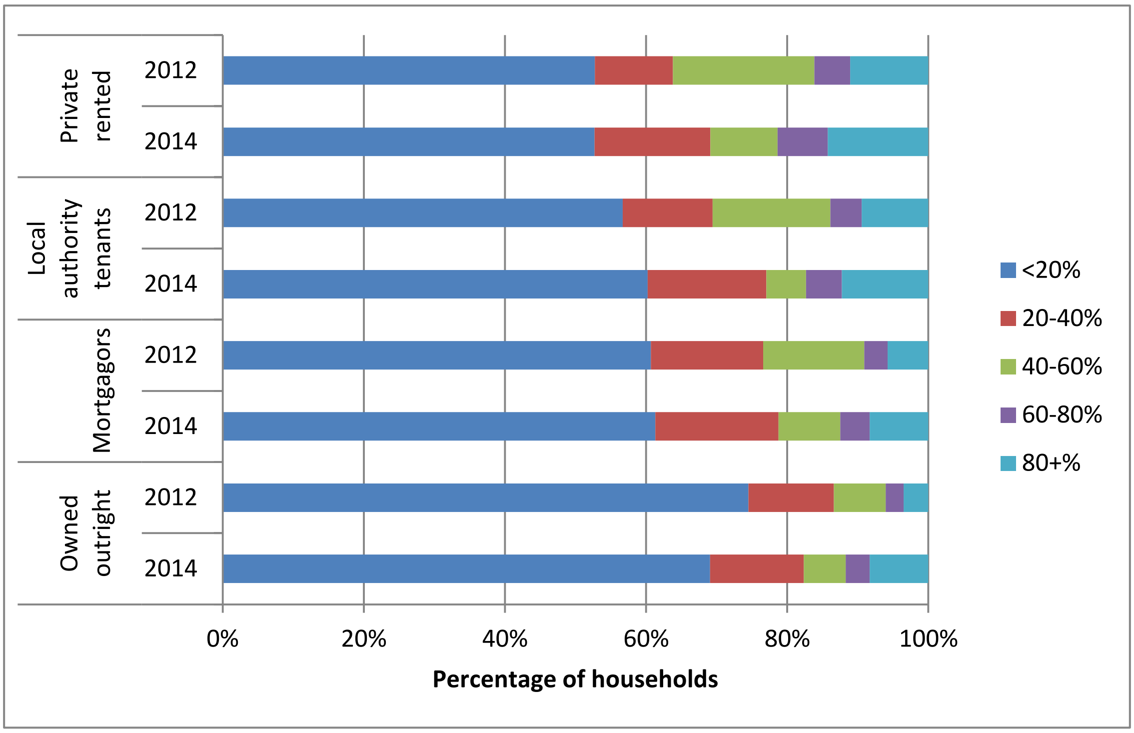
Housing status

3.28. The NMG survey allows for an analysis of the distribution of unsecured debts by housing tenure as it records whether respondents own their property outright, are buying it with a mortgage, are renting privately or are local authority tenants. It should be noted that the survey does not ask if people are renting from a housing association, and would capture these tenants in the catch all category of ‘other/ don’t know/ refused’.

[23] An impact assessment of the OFT’s intervention, published in January 2013, indicated that revenue from unauthorised overdraft charges and bounced direct debits reduced by £928 million in the four years from 2008 to 2012 but that this was partially offset by a rise in revenue of £432 in authorised fees and increased interest.

As a consequence, we are unable to report on changes that may have occurred in respect of the distribution of debt amongst housing association tenants.

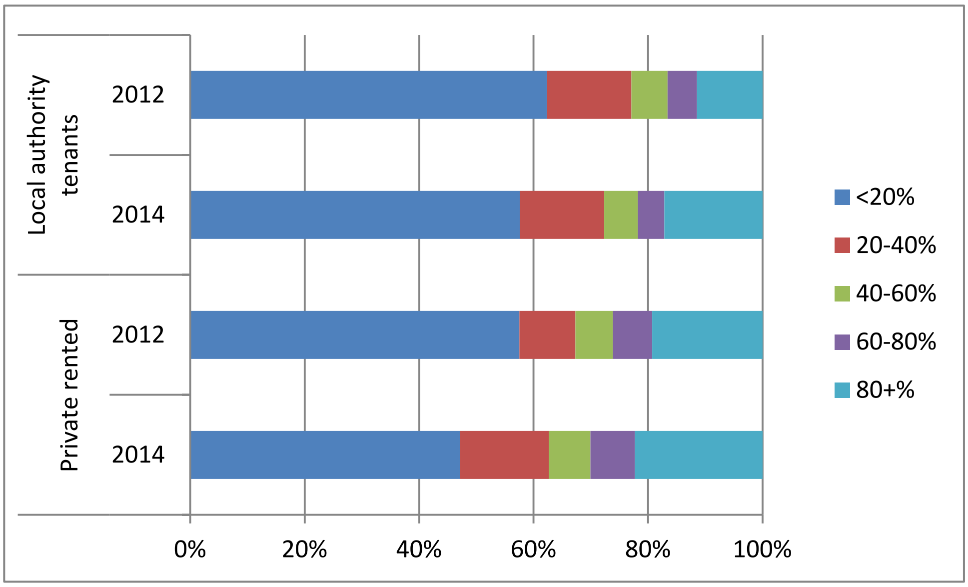
Figure 21: DTI ratio thresholds by housing tenure, 2012 & 2014



3.29. Figure 21, above, provides details of the percentage of households within each DTI threshold by housing tenure for 2012 and 2014. The proportion of households identified as financially vulnerable rose across all tenures between these years. However, this was most marked amongst local authority tenants (+4 percentage points) and private renters (+5 percentage points), with more than one in five of the latter group having DTI ratios of more than 60 percent in 2014.

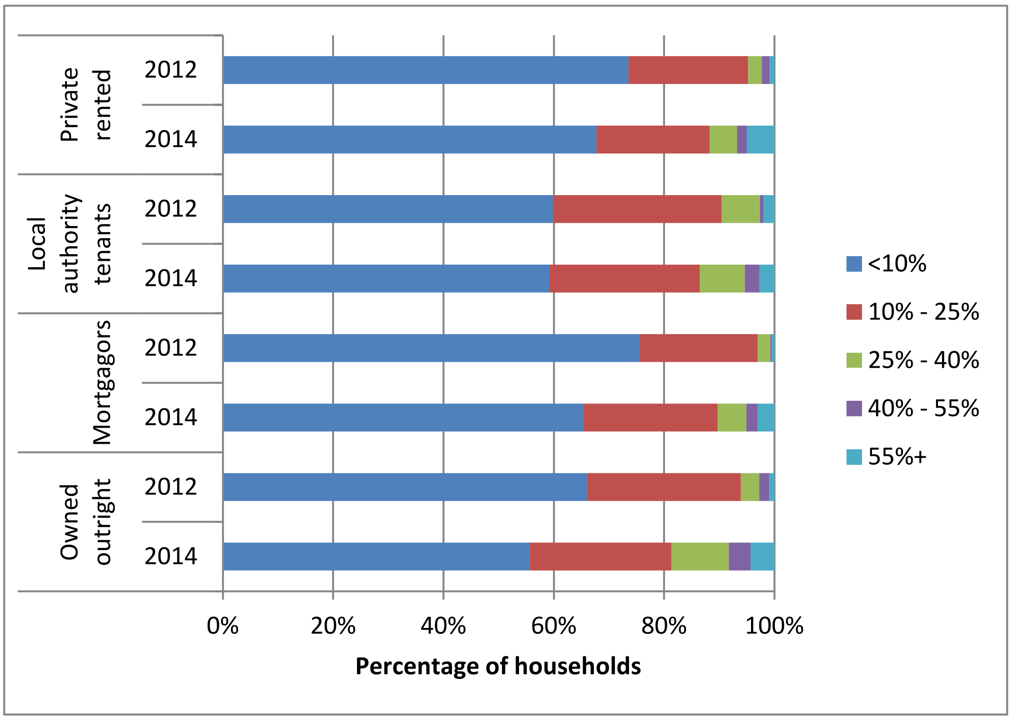
3.30. However, it is low income (<£30,000 per year) local authority and private tenants who are most likely to be financially vulnerable. In 2012, 16 percent of low income local authority tenants within the NMG survey had DTI ratios in excess of 60 percent. By 2014, 22 percent of this group was in position. The position of low income private renters within the survey was worse still, with nearly a third (30%) of these financially vulnerable in 2014 (figure 22 below)

Figure 22: DTI ratios of low income (£<30k) tenants, 2012 & 2014



3.31. Turning to over-indebtedness, we find that this increased across all housing tenures between 2012 and 2014 (figure 23, below). The proportion of over-indebted households who owned their properties outright increased by 12 percentage points, whilst the level of over-indebted tenants in the private sector rose by 8 points. Amongst households living in mortgaged property the increase was 7 percentage points, and there was a 5 point increase for local authority tenants.

Figure 23: DSI ratios by housing tenure, 2012 & 2014



3.32. The finding that nearly one in five of all households living in their own properties is over-indebted is surprising but the sample size for this sub group was reasonably high (n=509) and this compares to a finding within the YouGov survey of 2012 that 16 percent of this group were paying out more than 30 percent of their income to their creditors. In view of this, further research into the position of this group would be beneficial.

3.33. In contrast, higher levels of over-indebtedness have traditionally been found amongst tenants in both the private and local authority sectors, and the observed increases between 2012 and 2014 are likely to be explained by the concentration of lower paid workers amongst this group as well as by benefit changes (for example to Local Housing Allowance and the introduction of the ‘bedroom tax’) over the period.

4. Preliminary Conclusions

4.1. Policy makers have paid insufficient attention to the unsecured debt liabilities of households in recent years. The last BIS monitoring report was published in 2013 and utilised only household survey data gathered the year previously. Although the Bank of England conducts an annual household survey ('the NMG survey'), this appears to considerably under-report unsecured debt compared to the prior YouGov surveys used by BIS and is not representative of the income distribution. In addition, recent reporting of the findings from the NMG survey are mainly focused on mortgage debt.

4.2. Whilst mortgage debt constitutes by far the greatest part of household debt, and therefore poses a greater threat to financial stability, just under half of all households have unsecured liabilities. According to the National Accounts, British households have £305 billion in unsecured liabilities.

4.3. The household unsecured debt to income ratio has been impacted by a strong rise in the amount of student debt in recent years. This has been driven by the recent rise in tuition fees in England. Whilst this is a concern moving forwards, student debt does not have as much of an impact on levels of over-indebtedness as consumer debt. This is because student loans are at lower interest rates and there are earnings thresholds which must be met before households are required to make repayments.

4.4. In contrast, the repayment of consumer debt is causing a considerable problem for an increasing number of households.

4.5. The consumer debt burden varies according to the demographic characteristics of households. The table below summarises our main findings from the household survey data concerning the growth of over-indebtedness over the past three years[24].

[24] These estimates are arrived at by using the YouGov DebtTrack survey conducted for BIS in 2012 as the baseline and applying the percentage point increases observed within the NMG survey from 2012 through to 2014 to this.

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Table 7: CfRC estimates of over-indebtedness amongst selected household types, 2012 & 2014

	2012	2014
All households	9.5%	11.7%
Households with unsecured debts:	18%	25%
Sub groups of households with unsecured debts:[25]		
Working households	3%	10%
Low income households (<£30K)	9%	16%
Young workers (18 - 34)	2%	10%
Older workers (55 - 64)	6%	9%
Self employed	6%	17%
Long-term sick/ disabled	13%	19%
Private renters	4%	12%
Buying with a mortgage	3%	10%

4.6. On this basis, we estimate that there were 3.2 million over-indebted households, containing 7.6 million people, in 2014. This is 700,000 more over-indebted households than in 2012: a 28 percent increase. These households are paying out more than 25 percent of their gross income to their creditors.

4.7. Further to this, we estimate that approximately half of these households are 'extremely over-indebted', and are paying over 40 percent of their gross income to their creditors, before taking account of housing costs. 70 percent of these extremely over-indebted households are in receipt of incomes of less than £30,000 per year.

4.8. Our estimates concerning the sub-groups of over-indebted households are likely to be conservative, as the NMG survey has consistently under-reported levels of unsecured debt, and is not weighted to be representative of the income distribution. However, they are likely to be an accurate indication of the *extent of the increase* in over-indebtedness amongst these groups over the period.

[25] These are the percentages found within the NMG survey and are likely to be conservative. However, they are likely to be an accurate indication of the extent of the increase in over-indebtedness amongst these groups over the period.

4.9. It is clear that over-indebtedness is a growing problem. This has occurred despite a lack of significant growth in consumer credit in 2012 and 2013. Consumer credit growth was stronger in 2014, but this does not account for all of the increase in debt servicing to income ratios that we have observed. Once student loan growth has been discounted, we find that the proportion of income going towards the servicing of debts has risen more quickly than the total debt to income ratio. This would indicate that there has been an increase in the cost of consumer debt relative to income over the period.

4.10. Income growth has certainly been low, and Government has directly contributed to this by restraining public sector pay. However, there have also been changes in the cost of credit. These include the raising of the minimum payment required on outstanding credit card balances, and changes to bank charging policies in respect of overdrafts, which appear to have increased the cost of *authorised* overdrafts. Interest rates on credit card balances have also remained stubbornly high despite bank base rates being at their historic low for an extended period. Refinancing of consumer debt (especially credit card debt) may also have played a part in raising the level of interest being sought from some households to unsustainable levels although further research is required in this area.

4.11. What is clear is that any further increase in the cost of credit, as is likely if base rates rise, will undoubtedly result in an increase in over-indebtedness unless this is offset by an increase in real incomes.