

The background of the slide is a dense, overlapping pattern of various UK coins, including 1p, 2p, 5p, 10p, 20p, and 50p denominations, in different colors like copper, silver, and gold. The coins are slightly faded and serve as a decorative backdrop for the text.

*Presentation, IFS,  
January 24<sup>th</sup> 2007*

# The UK's household debt problem:

*Is there one? - and if so, who's at risk?*

Richard Disney

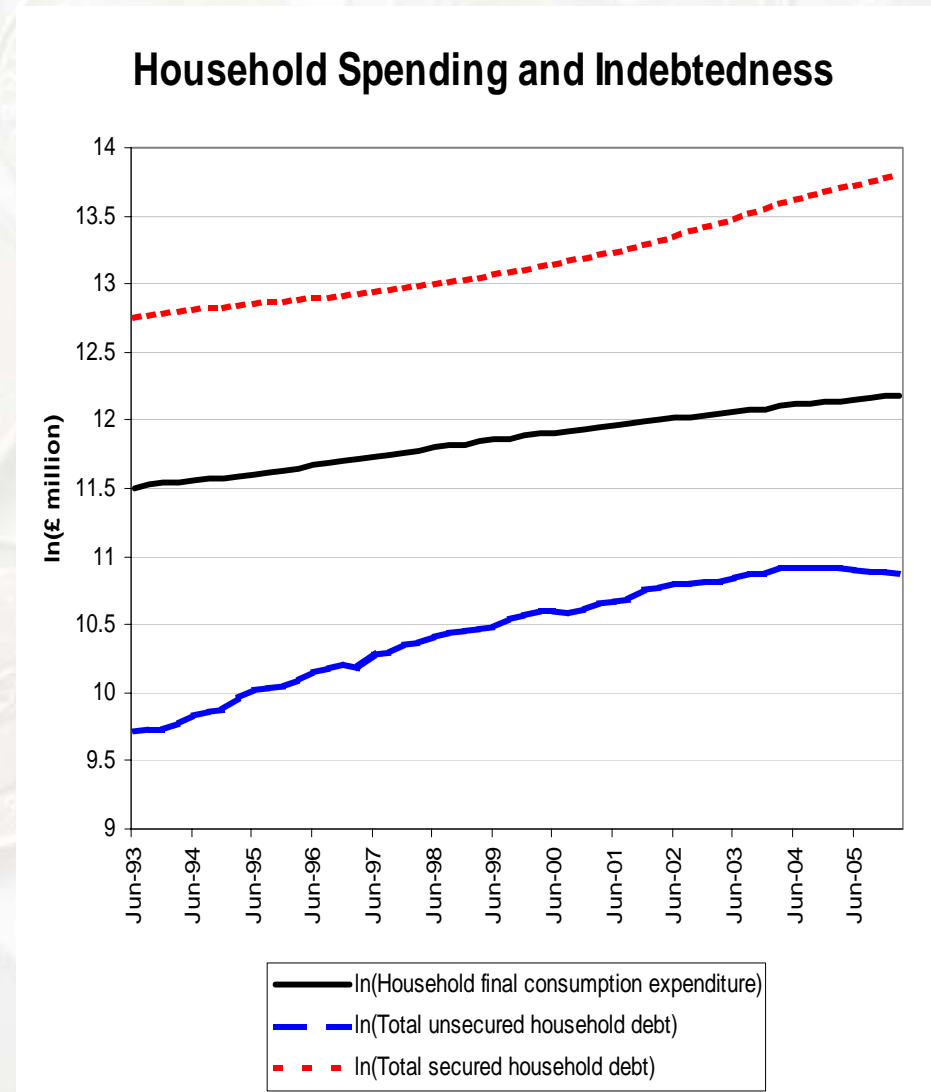
Institute for Fiscal Studies, &  
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Economics, University of Nottingham

The background of the slide is a dense, overlapping pattern of various US coins, including pennies, nickels, dimes, and quarters, in shades of copper, silver, and gold. The coins are slightly out of focus, creating a textured, metallic backdrop.

## The UK's debt problem?

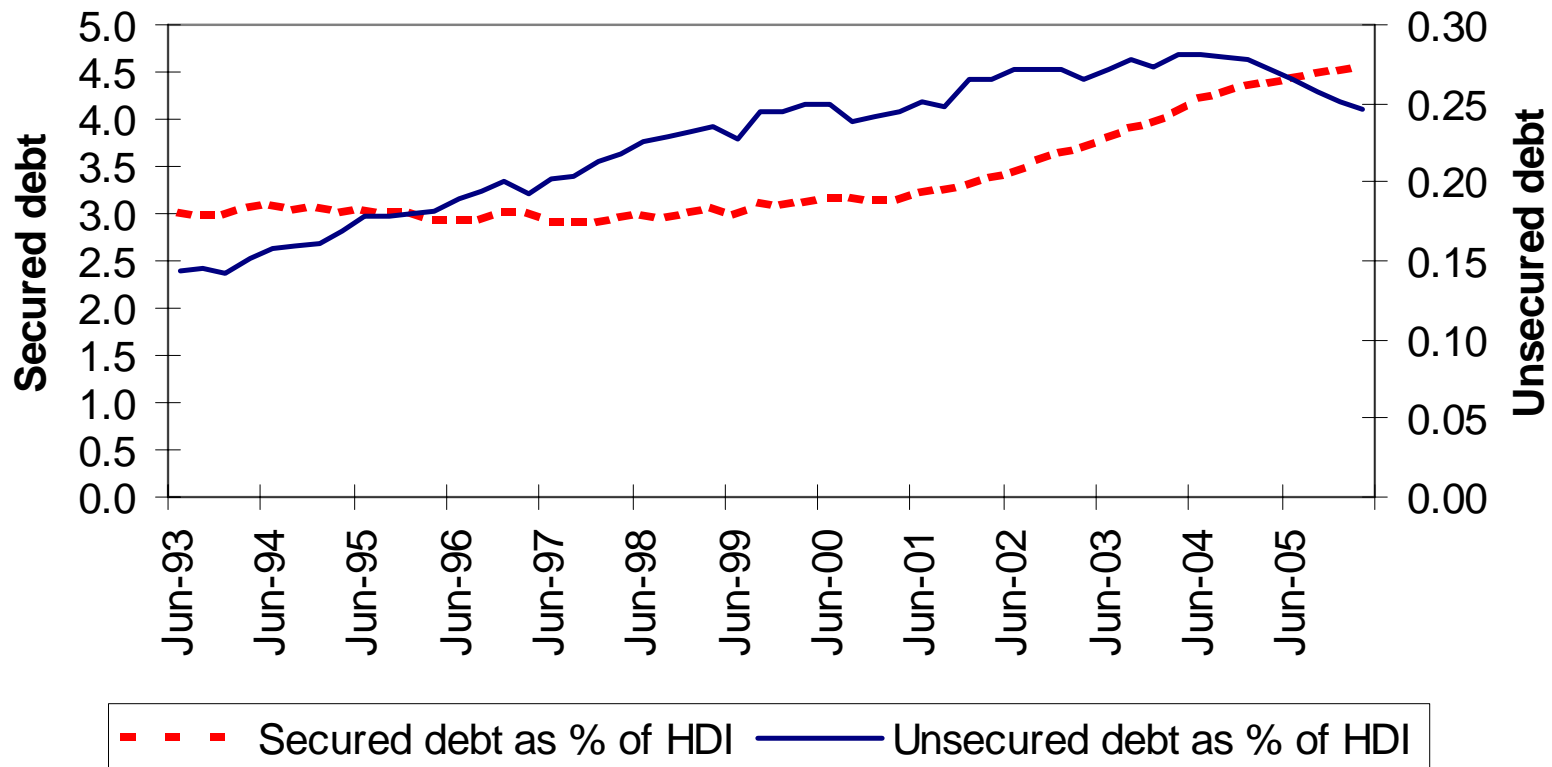
- January is a time of short cold days, high winds...
- ...and also a time of media attention to households' debt problems
- What aspects warrant genuine concern about household debt in the UK?
- Let's look at:
  - The aggregate data
  - Household data
- A new book on the economics of the consumer credit industry in Europe and the US...

- The macroeconomic story...
- Household debt in the UK has increased rapidly...both secured on property and unsecured...
- But so have disposable income, assets, wealth...



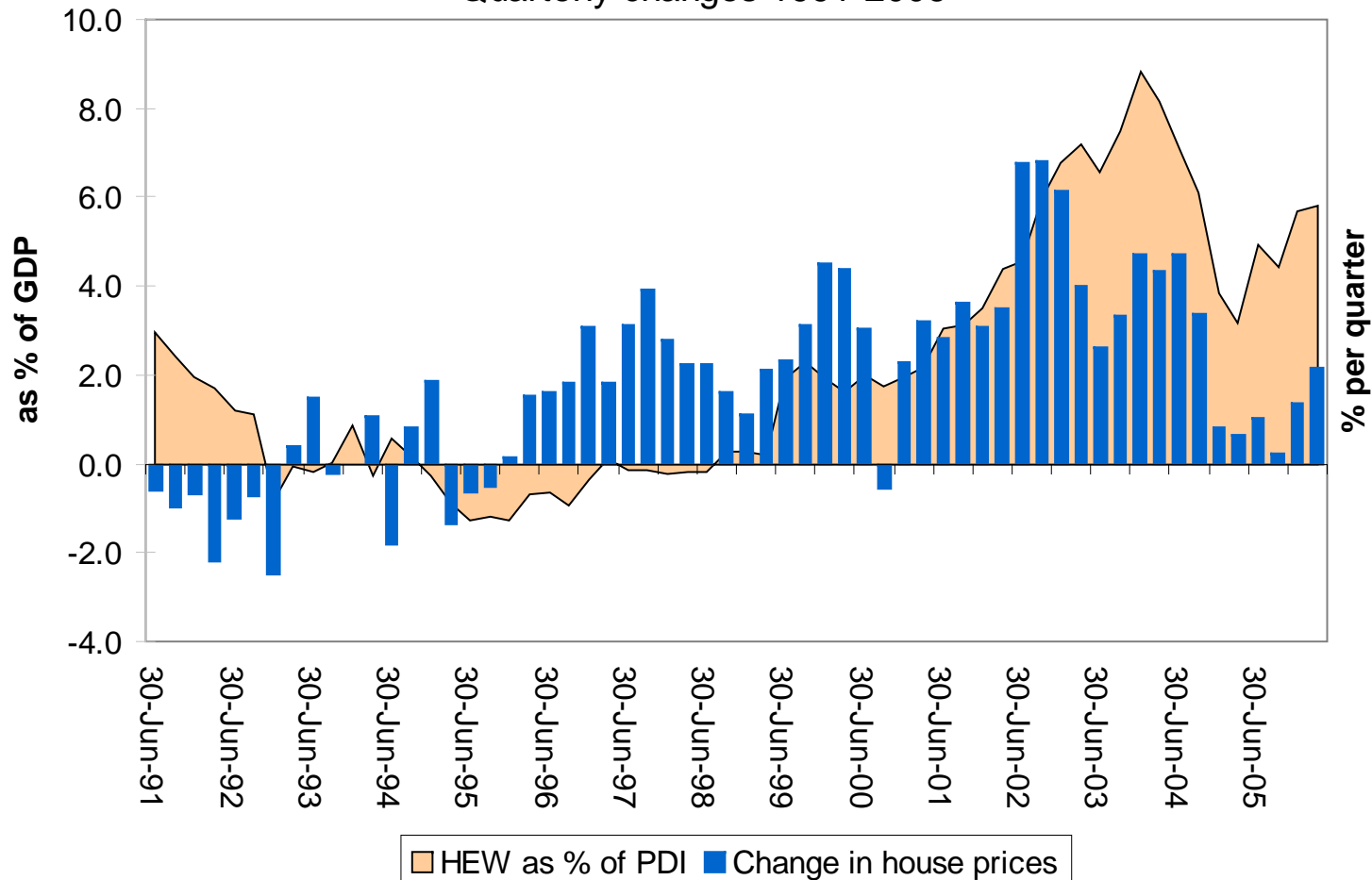
# Secured, rather than unsecured debt should be the current concern?

## Total Debt as % of Household Disposable Income



# House price increases lead to extra secured debt ('mortgage equity withdrawal') with a time lag

**Housing equity withdrawal and house price changes**  
Quarterly changes 1991-2006



## But which are the households 'at risk'?

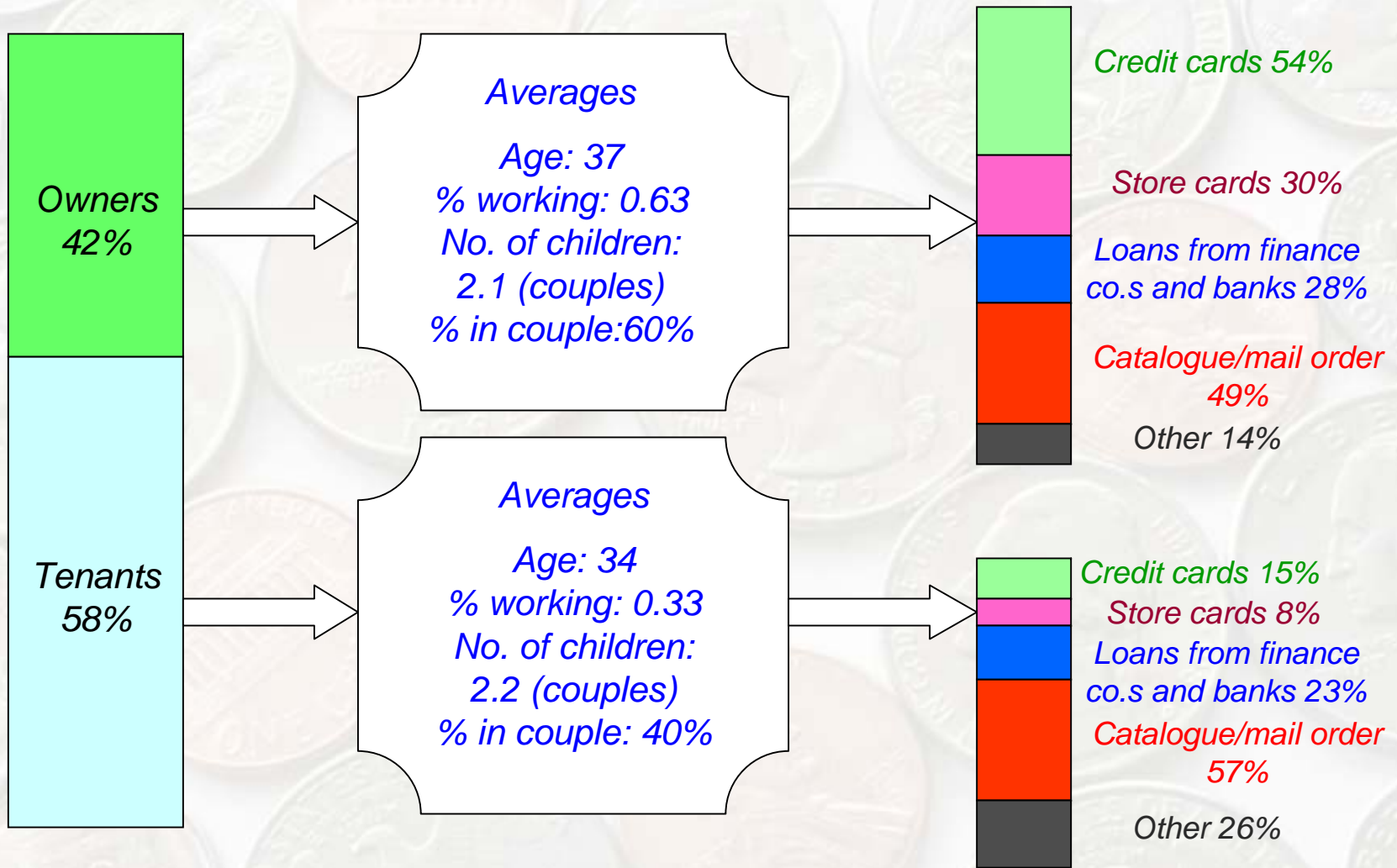
- Examine data at the household level on:
  - Use of credit arrangements by type
  - Households' self-reported debt problems
- Evolution of household debt over time:
  - How the pattern has changed over the last 5 years
  - Tracking individual households – the 'life cycle' of debt (and wealth)
- Few household data sets report debt – the **Family and Children Survey** (since 1999) is an ideal, random survey of a panel of (potential) 'at risk' households

## Our previous research....

- Research published in **Fiscal Studies** early in 2004 with colleague Sarah Bridges
- Used the **Survey of Low Income Families 1999**: a sample of 5000 families with children: 50% lone parents, 50% low income couples (income not more than 35% higher than tax credit eligibility).
- The survey was subsequently boosted to include more representative sample of couples with children (**FACS**).
- We update SOLIF families 5 years on (2004) using FACS:
  - The same households (the 'panel')
  - Households with same sampling frame in 2004 as 1999
- We look at how their debt situation has changed.

# Our families in 1999\*

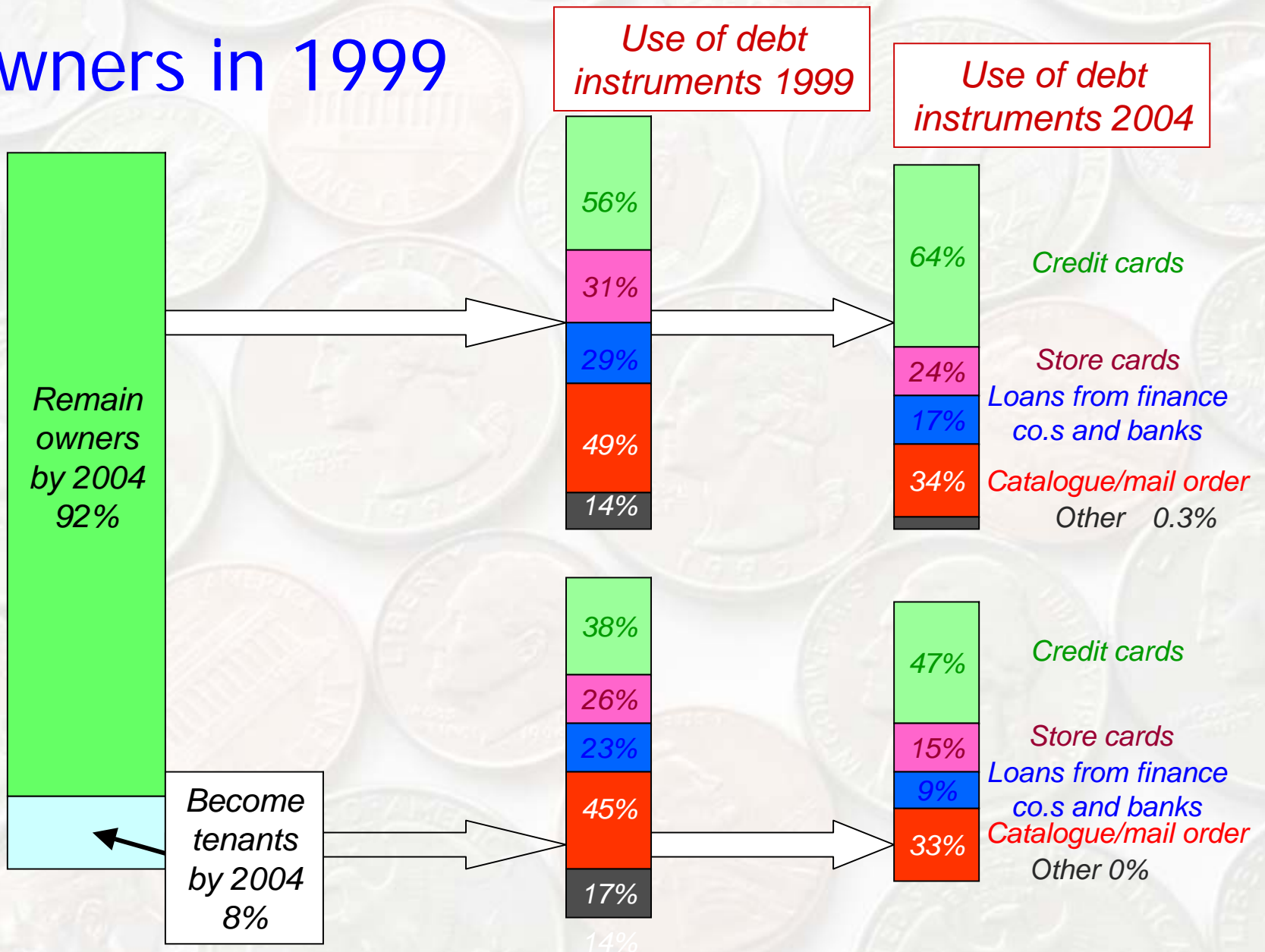
## Use of debt instruments 1999



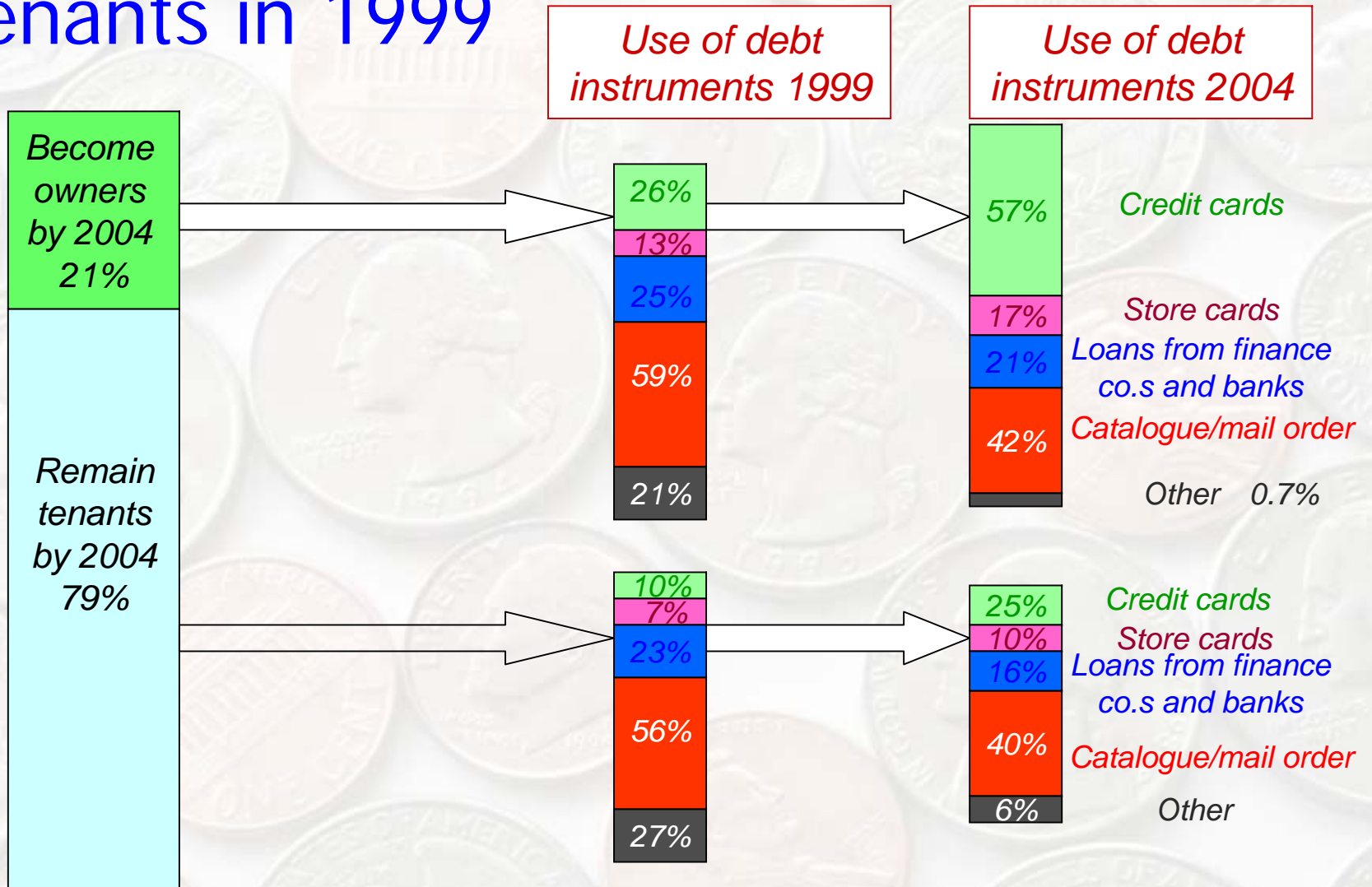
\* That we also observe in 2004



# Owners in 1999



# Tenants in 1999



14%

# Summary on use of credit 1999-2004

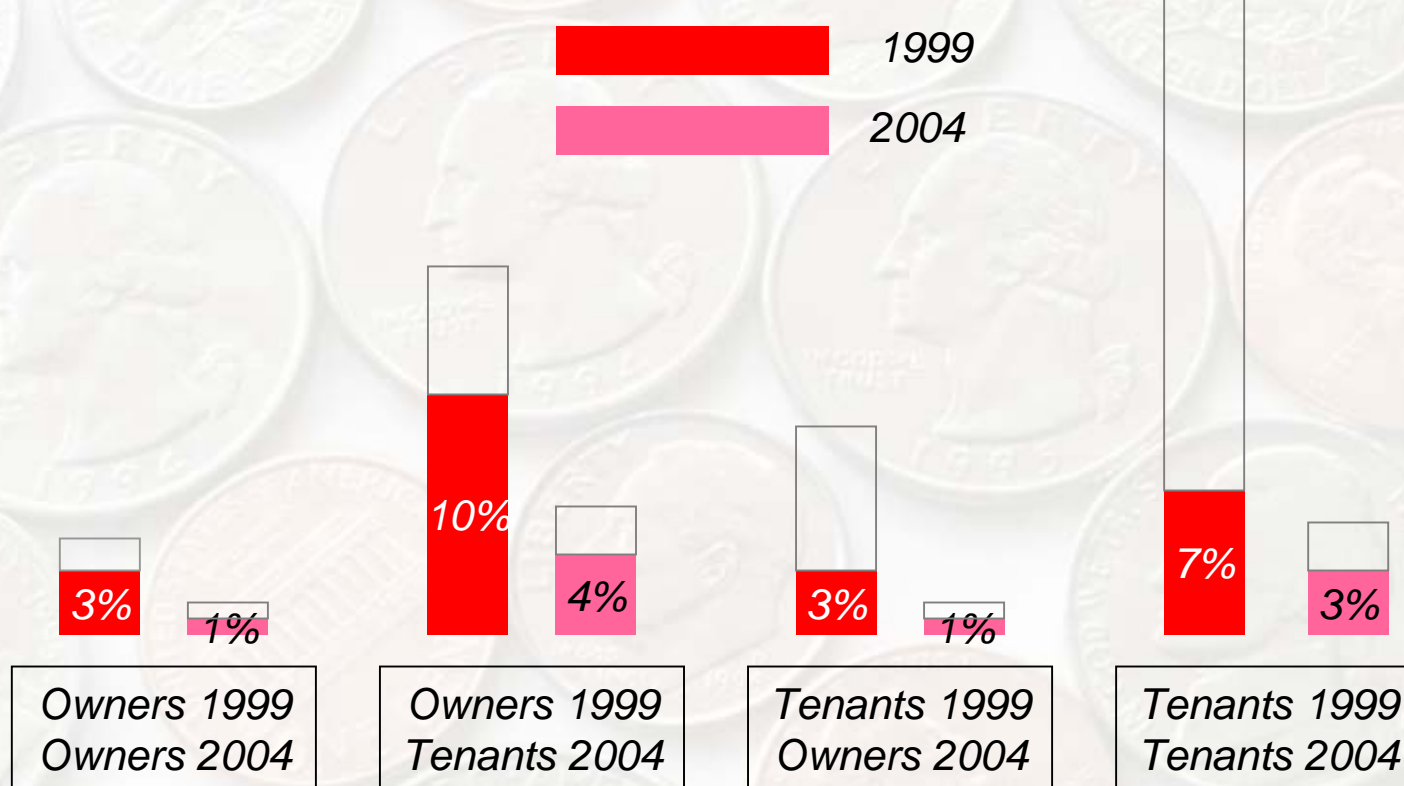
- Nearly 60% of our sample of families were tenants in 1999; by 2004 almost half were homeowners
- Owners use credit cards more than tenants
- From 1999 to 2004:
  - Increase in use of credit cards among all groups
  - Especially among homeowners, and fastest among those who became homeowners in the period
  - Corresponding reduction in use of 'inferior' types of credit e.g. mail order, catalogues, 'other' (e.g. moneylenders, informal loans)
- Why more access to 'superior' types of credit?
  - Our sample built up credit history and obtained credit score
  - Home ownership increased (improves credit score)
  - Increased market penetration and better credit scoring methods



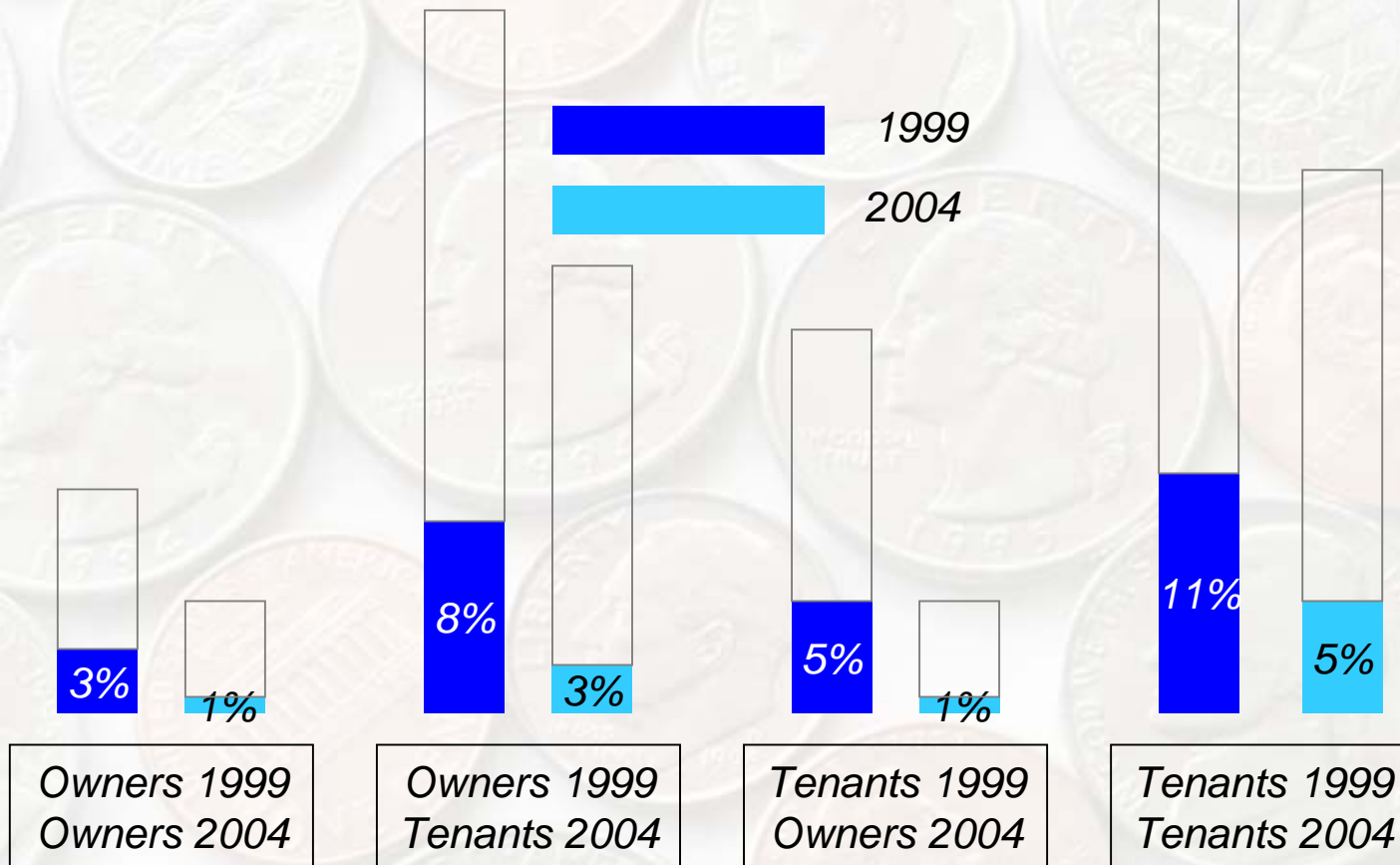
## Household debt problems

- SOLIF/FACS asks a series of questions about household 'debt' problems.
- Whether households are unable to make minimum payments on credit/charge/storecards
- Whether households are unable to keep up with repayments on financial loans, in arrears on utility bills etc.
- Total value of arrears (mostly on loans/bills)
- Stress related to financial problems

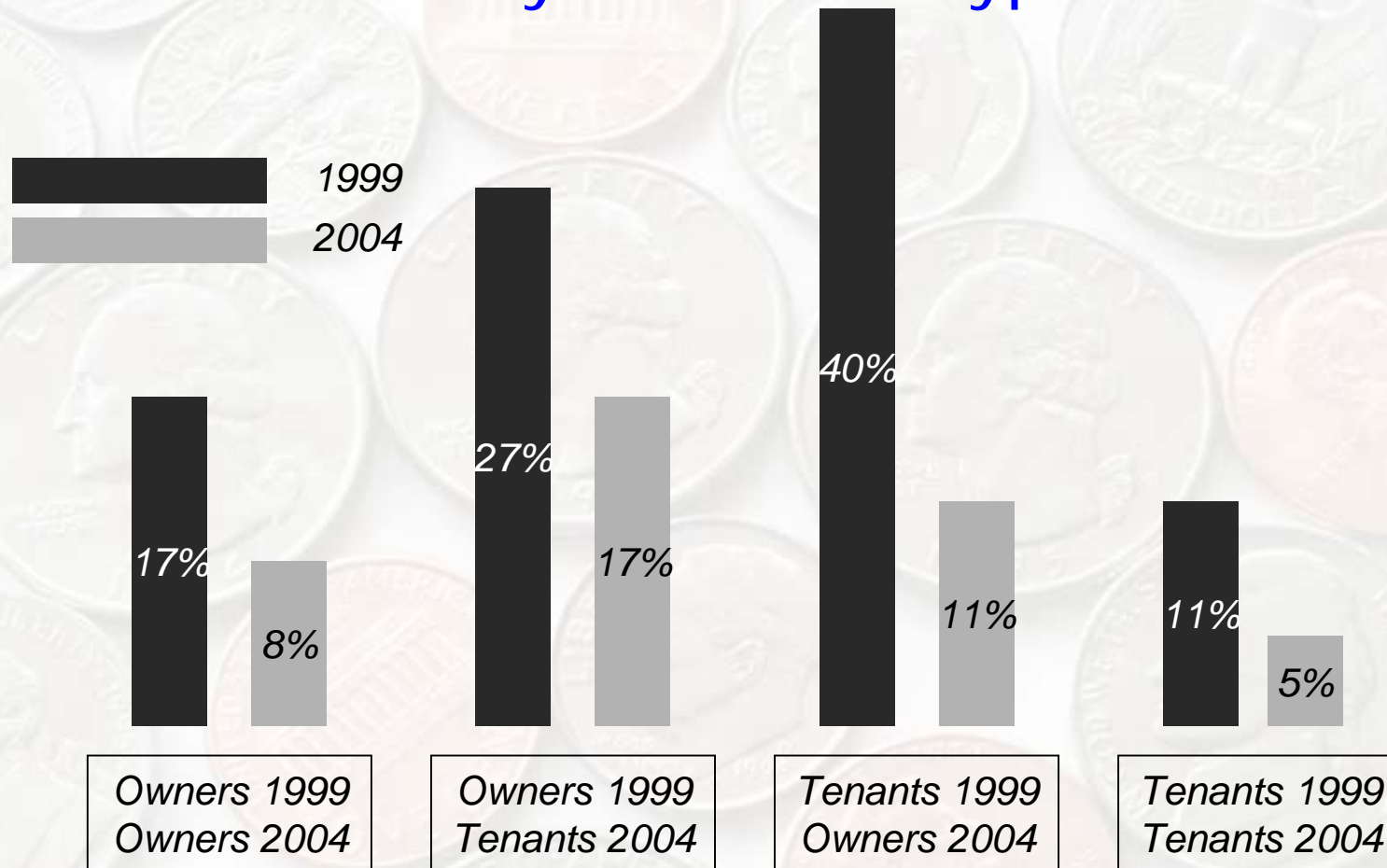
# Proportion unable to make payment on cards by household type 1999 & 2004



# Proportion unable to make repayments on loans by household type 1999 & 2004



# Proportion in arrears on at least one utility bill or council tax by household type 1999 & 2004



## Household debt problems

- Have reduced considerably as sample has aged 5 years
- **Least** important debt problems (in incidence) arise from credit/charge/store cards
- Debt problems are primarily associated with...
- **...being poor**
- Purchase of house carries risk of problems with utility bills & council tax
- 'Revolving arrears'
- Debt problems may also be associated with moving out of home ownership



# Priorities in policies towards household debt?

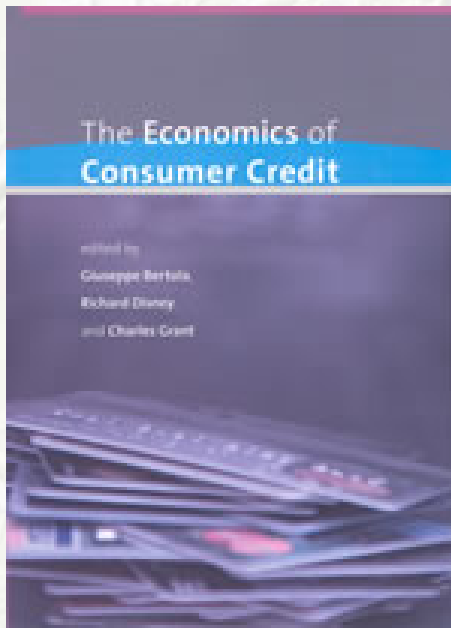
- Cooling-off periods for 'store cards'?
  - Store cards of declining importance?
  - Effective sharing of credit information should cap overall access to credit
- Banks are 'too generous' in offering credit?
  - Arguably, the problem instead is that some households rely on 'bad' credit and need 'good' credit
  - Credit scoring is getting more sophisticated and this allows identifying of potential clients previously regarded as 'bad risks'
- Greater importance of secured debt?
  - 'puts house at risk'
- Bankruptcy alternative – too tough, now too lenient??

## Low income households

- Size of 'home credit' and unregulated market – less clear from surveys. Our data suggest significant in 1999 but becoming less important over time?
- Looser regulation than credit markets (Farepak)
- Loans to finance shopping vouchers: APRs >400% are common – not regulated?
- Lack of security/collateral leads to high cost 'doorstep' lending
- Interest ceilings? OK if eliminates 'excess' APRs but issue is - how to price risk? Doorstep selling generates 'captive' clients?
- Local credit unions are probably a much better alternative. But regulated sub-prime market provides a 'route' to a better credit score for households.

# Many debt issues not covered in this talk

## An unashamed plug....



- Surveys the economics of consumer credit
- Empirical evidence on credit in Europe & USA
- Secured & unsecured debt in UK
- Bankruptcy
- Credit cards
- Credit industry: regulation, counselling
- Formal and informal enforcement