

# Personal Debt Snapshot:

## Growing gloom?



With the VAT increase in January and talk of interest rate rises this year, pessimism about financial outlook is on the rise, half of us are worried about the debts we owe and many of us are putting off big financial decisions. As 2011 gets into full swing, the third wave of insolvency trade body R3's Personal Debt Snapshot explores the debt and financial position of GB adults.

**Steven Law, R3 President**



Only a quarter of individuals are optimistic about their financial outlook



Half of us are worried about our debts



22% of people don't have any savings at all



28% of those with a mortgage would struggle a great deal if monthly payments increased by £100

- **Financial outlook:** Pessimism about personal finances has increased dramatically over the last two quarters. 43% of people now believe their personal financial situation will worsen over the next six months - up from 30% in October 2010, and 23% in July 2010. Only a quarter (24%) foresee their financial situation improving over the next six months.
- **Debt fears:** The number of people concerned about their debts has increased by 6% on last quarter, with almost half of people worried about the amount of debt they owe (45%). Among those who are concerned about their debts, fear about credit cards is higher than it has been in previous quarters (up by 9% on October 2010).
- **Signs of Distress:** A quarter of people are saving less than they usually do at the moment and one in five (21%) are putting off big financial decisions. More than one in ten (13%) believe they will utilise their overdraft this month, and 8% are worried they will be made redundant. The most significant change over time is the proportion of people who are putting off taking big financial decisions, which has steadily increased to 21% from 14% in July.

Credit card fears dominate concerns

One in five who struggle to payday say tax rises are to blame

- **Payday Index:** Since last quarter, the percentage of people who say they struggle to make it to 'payday' has increased to 44% - up 6% from October 2010. Of those who struggle to payday, credit card payments continue to lie at the heart of their struggle (42%), followed by spending on non-essentials (23%). The impact of recent tax rises has been felt keenly, with 20% of those who struggle now blaming this on their difficulties in making it to the end of the month.

- **Interest rate watch:** Of those who have a mortgage, more than a quarter (28%) say they would struggle 'a great deal' if their monthly mortgage repayments were to increase by £100 a month. Only 19% say they would not struggle at all under these circumstances.

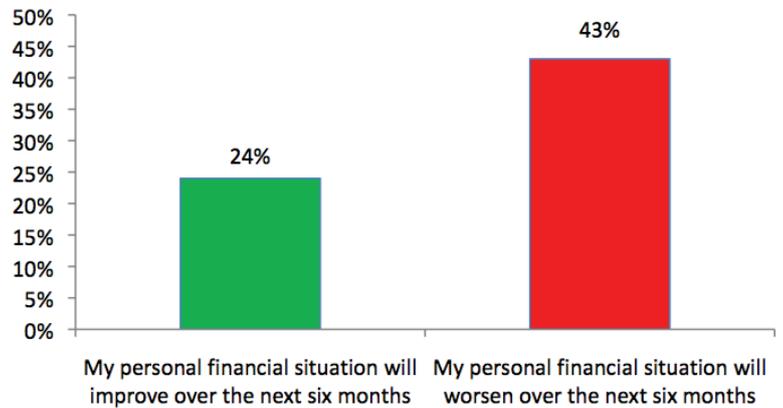
- **Saving for the unexpected:** 22% of individuals admit they do not have any savings at all. There are significant differences in savings by socio-economic group, with 32% of those in group DE without any savings.

### Steven Law explains:

*Christmas is a time of heavy spending for many individuals so it is perhaps not surprising that the number of people concerned about their debts has increased since last quarter. Many people in Britain are already under pressure due to credit card debts, overdrafts and loans; and many have had to rely on these forms of credit to fund Christmas spending. This may have affected usual monthly outgoings such as mortgage repayments, as individuals tend to prioritise Christmas spending during this time of year. This could explain why concerns about these types of debts have increased since previous quarters and why individuals have taken on more debts over the last few months.*

## ▼ Current financial outlook

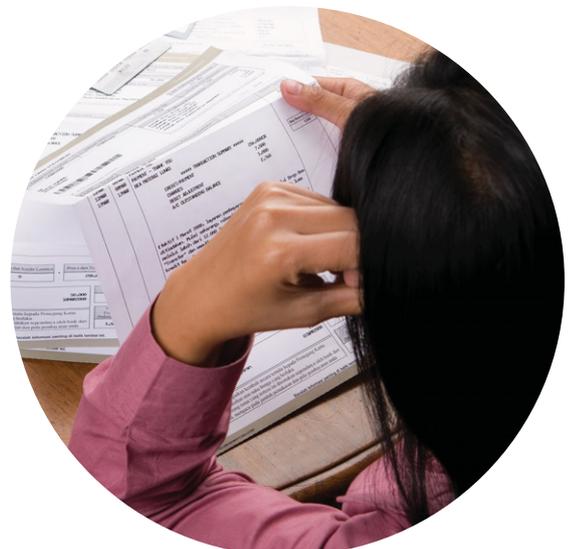
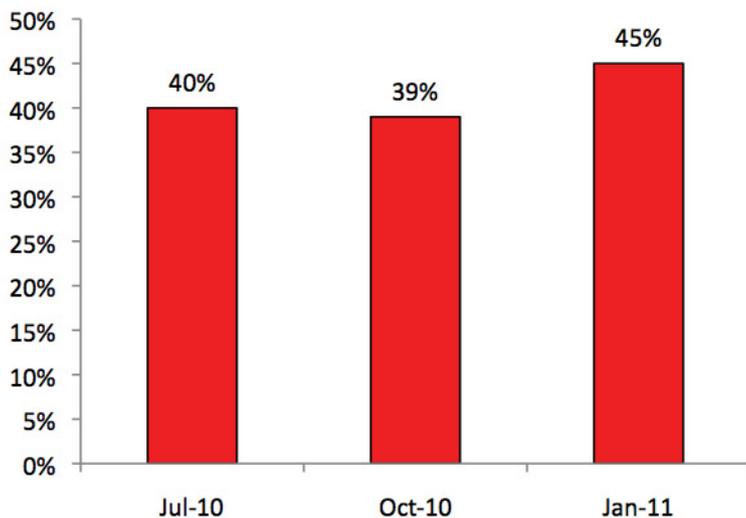
Pessimism about personal finances has increased steadily over the last few quarters. 43% of people now believe their personal financial situation will worsen over the next six months - up from 30% in October 2010, and 23% in July 2010. Only a quarter (24%) foresee their financial situation improving over the next six months.



## ▼ Debt fears

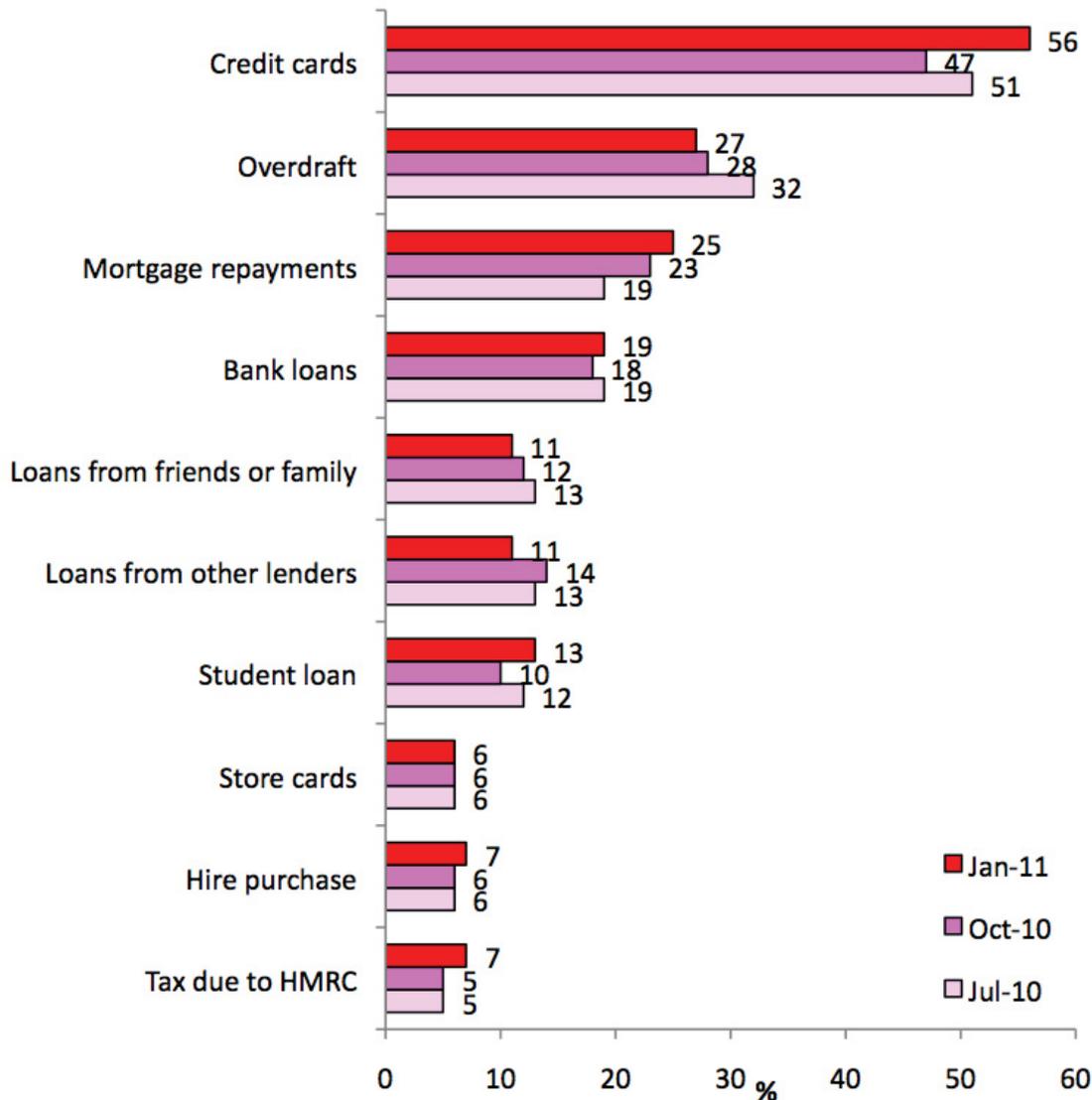
The number of people worried about their debts has increased by 6% on last quarter, with close to half of people now concerned about the amount of debt they owe (45%).

There is a clear age related trend, with younger people more likely to worry about their debts than older generations. Over 55% of those in age brackets 18-24; 25-34, 35-44 and 45-54 are concerned about the amount they owe, compared to 34% aged 55-64 and 20% aged 65 and over.



## ▼ Reasons behind debt concerns

Among those who are concerned about their debts, fears about credit cards is higher than it has been in previous quarters (up by 9% on October 2010). This kind of debt continues to dominate debt concerns, followed - as in previous quarters - by overdraft and mortgage repayments. While concern about overdraft debt has diminished since summer 2010 (now at 27%), concern over mortgage repayments has increased over this time (at 25%).



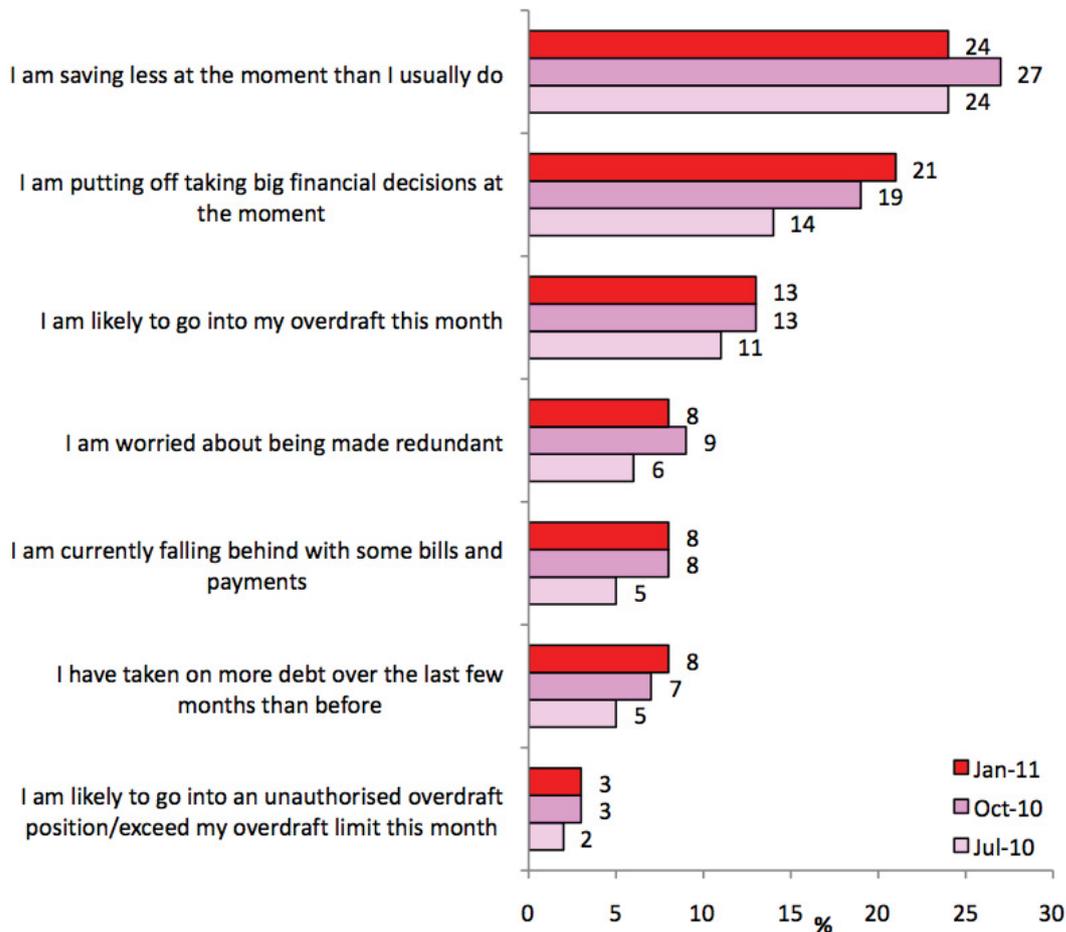
Among individuals concerned about their debts, there have been marginal increases in concerns over bank loans, hire purchase and tax debts since last quarter, and marginal decreases in concern about loans from friends, family and other lenders.

While younger worriers are more concerned than older individuals about their overdraft, student loans, and loans from family and friends; those aged 35-54 are more concerned about their mortgage repayments than other age groups; and those in older age brackets are more concerned about credit card debts than their younger counterparts.

## ▼ Signs of distress

A quarter of people are saving less than they usually do at the moment (24%) and one in five (21%) are putting off big financial decisions. More than one in ten (13%) believe they will go into their overdraft this month, and 8% are worried they will be made redundant.

The most significant change over time is the proportion of people who are putting off taking big financial decisions, which has steadily increased to 21% from 14% in July. The percentage of people likely to go into their overdraft and falling behind with their bills remains steady on last quarter, but up on summer last year. There has been a slight decrease in the number of individuals who say they are saving less than usual and those worried about redundancy.



The table below shows extrapolated figures indicating how many adults in the UK fall into each category this time around compared to the two last quarters (**in millions**):

	July	October	January
<b>I am saving less at the moment than I usually do</b>	11	13	11
<b>I am putting off taking big financial decisions at the moment</b>	7	9	10
<b>I am likely to go into my overdraft this month</b>	5	6	6
<b>I am worried about being made redundant</b>	3	4	4
<b>I am currently falling behind with some bills and payments</b>	2	4	4
<b>I have taken on more debt over the last few months than before</b>	2	3	4
<b>I am likely to go into an unauthorised overdraft position/exceed my overdraft limit this month</b>	0.9	1	2

Individuals aged 45-64 are more likely than those in other age brackets to say they are saving less than they usually would do, with 29% currently in this position. Those aged 45-54 are more likely than other ages to be putting off big decisions at the moment, at 27%. Meanwhile, those in younger age groups are more likely than other age groups to utilise their overdraft, at 20% of those aged 18-24 and 18% aged 25-34.

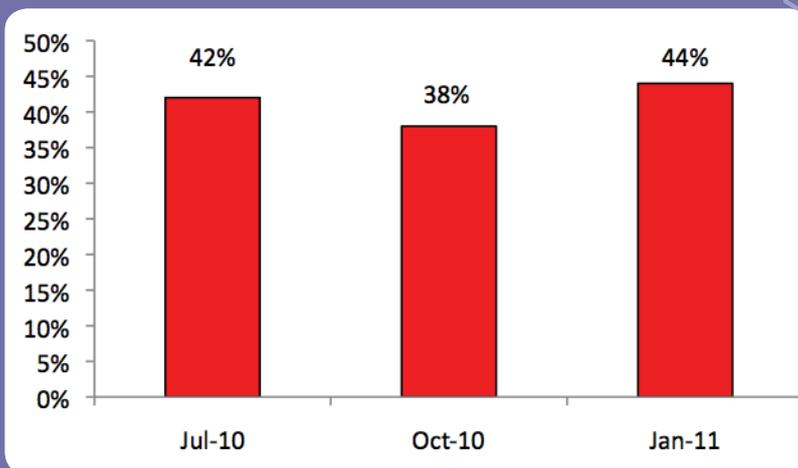
Regional analysis indicates that individuals in the Midlands are more likely than those elsewhere to be saving less than usual (30%); while Londoners are most likely to dip into their overdraft (20%); and fear of redundancy is higher in London, the North West and North East (at 13%, 12% and 10% respectively).

## ▼ 'Payday Index': the struggle to payday

Since last quarter, the percentage of people who say they struggle to make it to 'payday' has increased to 44% of individuals (up 6% from October 2010).

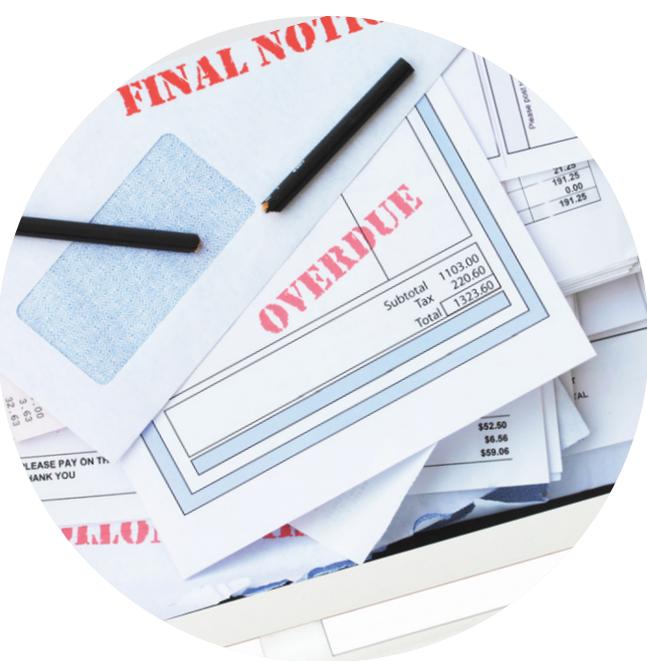
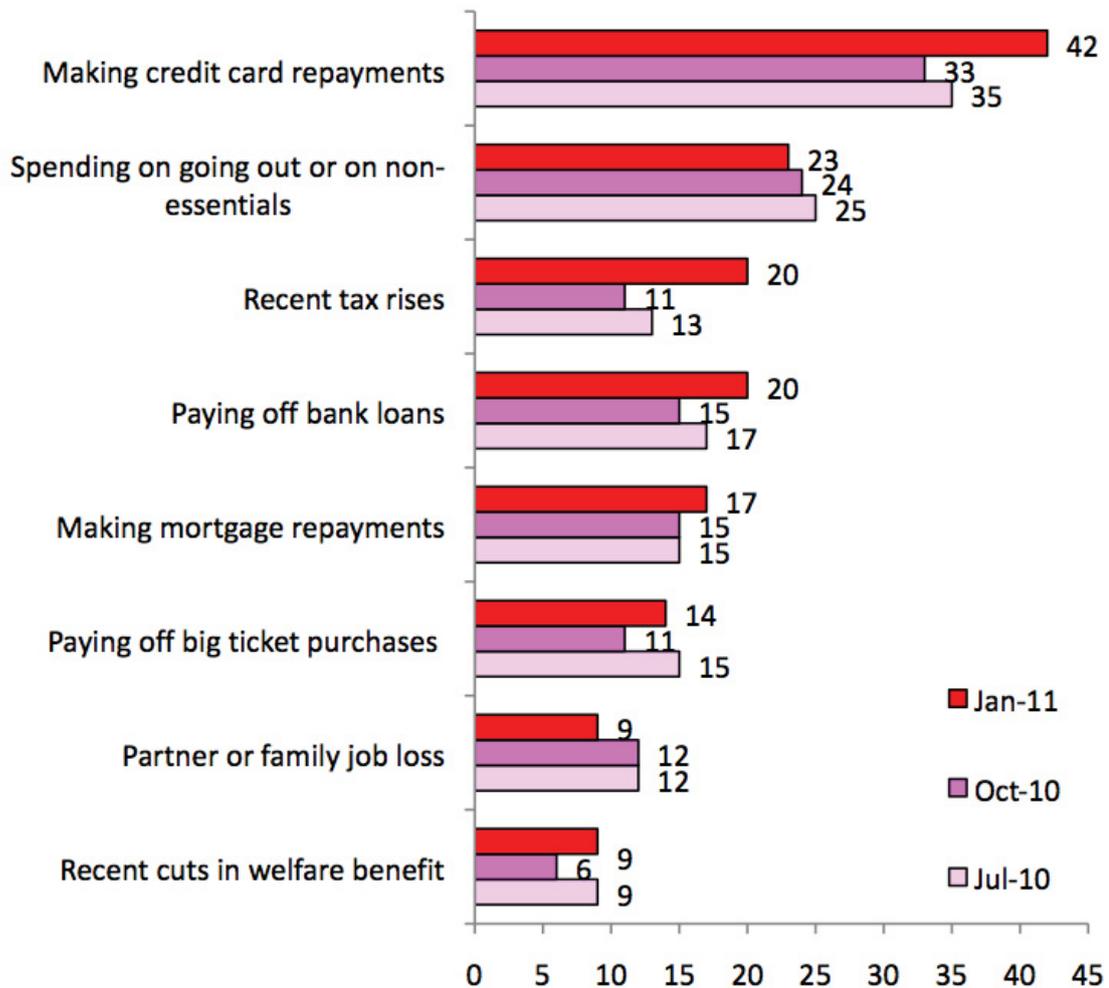
Those in younger age groups are more likely than their older counterparts to struggle to payday, with 57% of those aged 18-24, 60% aged 25-34, 55% aged 35-44 and 54% aged 45-54 in this position compared to 37% aged 55-64 and 12% aged 65 and above.

Regionally, individuals in Scotland are more likely to struggle to payday than those elsewhere, closely followed by those in the West Midlands.



## ▼ Reasons behind the payday struggle

Of those who struggle to payday, credit card payments continue to lie at the heart of their struggle (42%), followed by spending on non-essentials (23%). The impact of recent tax rises has been keenly felt, with 20% of those who struggle now blaming this on their difficulties in making it to the end of the month. This is the third most commonly cited reason for a payday struggle.



### Steven Law R3 President comments:

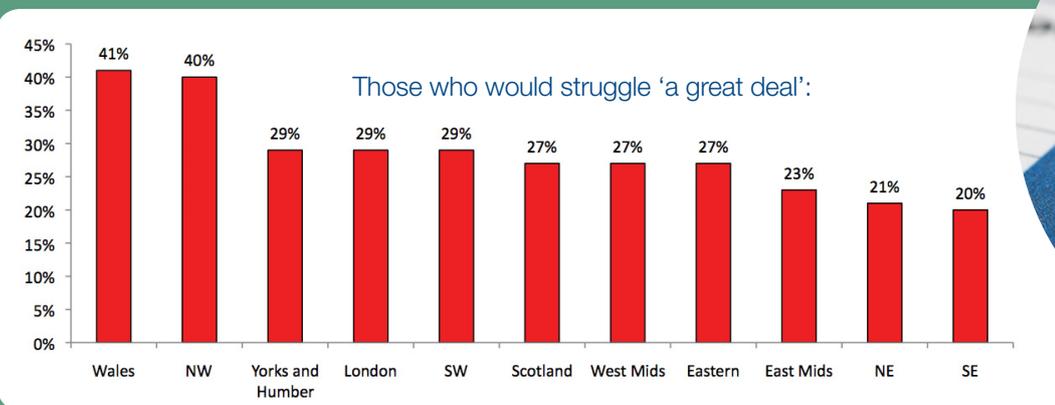
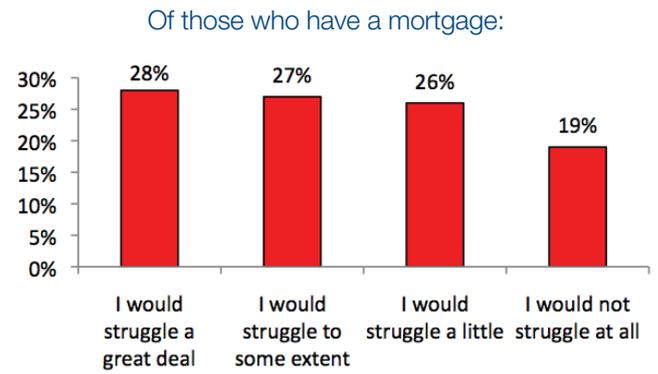
*I would expect that throughout 2011, the effects of recent tax rises will be felt more keenly. Coupled with this is the ever-increasing cost of living which will continue to impact on individuals' finances.*

## ▼ Interest rate watch

Thinking about how a possible rise in interest rates would affect your ability to make mortgage repayments, to what extent would you struggle financially if your monthly mortgage repayments were to increase by £100?

Of those who have a mortgage, more than a quarter say they would struggle 'a great deal' if their monthly mortgage repayments were to increase by £100 a month. 27% say they would struggle 'to some extent' and 26% say they would struggle 'a little'. Only 19% say they would not struggle at all under these circumstances.

Individuals in the North West and Wales are more likely to struggle than those in other regions, (i.e. their mortgage repayments increase by £100), at almost half of those with a mortgage in each area.

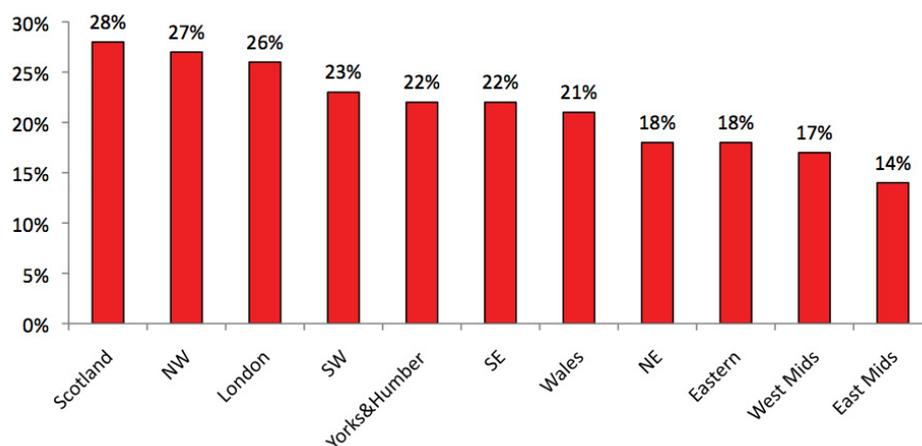


## ▼ Saving for the unexpected

More than one in five people admit that they do not have any savings at all at the moment (22%), which indicates their ability (or otherwise) to weather a change in circumstance.

Men are more likely to have savings than women, with 26% of women saying they do not have any savings at all. There are significant differences in savings by socio-economic group, with 32% of those in group DE without any savings, compared to just 12% of those in AB.

Regional analysis indicates that individuals in Scotland are most likely to say they do not have any savings than those in other regions, closely followed by individuals in the North West. The region with the greatest number of savers appears to be the Midlands.



## ▼ R3 policy recommendations

In the Government's recent Call for Evidence, R3 called for a number of changes to the personal debt and insolvency regime:

- 1** The number of formal and informal debt management and insolvency **options currently open to individuals in financial distress can be extremely confusing.** It is vital that anyone struggling with their debts enters a solution that is appropriate for their circumstances on the back of full and impartial advice, and free from creditor pressure. **R3 is calling for a four week moratorium (breathing space) from creditor action for individuals in financial distress,** during which time they are required to seek advice from a Government-approved list of impartial advisors.
- 2** It is vital that the personal insolvency regime balances the needs of debtors and creditors. In one area, **the balance has shifted in favour of creditors:** at present, creditors can threaten to petition for an individual's bankruptcy when they owe just £750. Given that this threshold was established in the 1980s, it must now be updated (we suggest to around £3000). We also believe that creditors should be required to obtain a judgement before issuing a statutory demand. **This would prevent creditors using the threat of bankruptcy as an intimidating tactic rather than a genuine means to recoup money owed to them.**
- 3** The vast majority of individuals struggling with their debts are **consumer debtors rather than traders.** However, the existing personal insolvency system was designed with trading related insolvencies in mind. **R3 believes the system should be modified so that individuals with consumer debts have access to a simple statutory solution capable of resolving their distress.** The Government considered this idea a few years ago, but decided not to proceed. R3 believes this matter should be raised again to ensure the personal insolvency regime reflects the realities of consumer debt.
- 4** **There are a number of worrying practices concerning Debt Management Plans (DMPs), and regulation in this area is largely reactive rather than proactive.** R3 believes DMP providers should be subject to the same rigorous compliance requirements as those working in the insolvency profession given that both deal with potentially vulnerable debtors, and that this market should be regulated by the Insolvency Service rather than the Office of Fair Trading to ensure informal insolvency procedures are in line with formal procedures.

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### Methodology note:

ComRes interviewed 2031 GB adults online between 21st and 23rd January 2011. Data were weighted to be representative demographically of all GB adults. ComRes is a member of the British Polling Council and abides by its rules ([www.britishpollingcouncil.org](http://www.britishpollingcouncil.org)).



## About R3

R3, the trade body for Insolvency Professionals, represents over 97% of Insolvency Practitioners. R3 members are trained and regulated accountants and lawyers who have extensive experience of helping businesses and individuals in financial distress.