Association of Business Recovery Professionals

R3

Rescue
Recovery
Renewal

Personal Debt Snapshot: Wave 11

The start of the summer sees the nation's optimism wane, with the cost of living, rent and servicing debt exacerbating financial struggles.

July 2013

Introduction

The eleventh wave of R3's Personal Debt Snapshot reveals that the relative optimism shown earlier in the year appears to have waned, as more people now feel that their financial situation will get worse in the latter part of 2013 and half of the adult population is now concerned about their current debt levels.

The cost of rent and the struggle with rent arrears are also examined for the first time, with a significant proportion of young adults citing rent as the reason for their financial struggles and Londoners exhibiting the highest level of concern about rent arrears.

Whilst payday and other short-term, high interest loans may remain the last resort for the majority of those who take them out, there is further evidence of these loans causing financial worries for borrowers, with concern about current payday and other short-term loans running at its highest level since July 2011. Perhaps, however, the risks associated with such loans have started to sink in, as it is encouraging that the potential customer market for payday loans appears to have reduced in size.

Liz Bingham,
R3 President

Executive summary

1. **There has been an increase in the number of adults who are worried about their debts**

    - **Half of GB adults, equating to just over 20 million people, say that they are worried about their current level of debt**, an increase from 42% in February this year.

    - **One in five adults say that they are very or extremely worried about their current level of debt**, up from one in ten in early 2013.

2. **The cost of rent is identified as a significant factor in the struggle to payday for young British adults**

    - **42% of UK adults – equating to nearly 17 million people – currently struggle to make it to payday, up from 38% in February.**

    - **Of these, nearly one quarter say that rent payments are the cause of this struggle**. This is seen most significantly in the 18 to 24 year old category where, of those who say they struggle to payday, one third cite rent as the reason for their struggle.

3. **Payday loans continue to give rise to concern but the potential customer market appears to be shrinking**

    - Of those adults worried about their current level of debt, **10% say that they are worried about debt from payday or other short-term, high interest loans**.

    - Encouragingly, however, **less than one in 10 British adults say they are likely to seek a payday loan in the next six months (7%)**, a drop from 11% last recorded in October 2012.

4. **Debt continues to influence spending and saving behaviour**

    - Mid-year sees the nation's mood shift, as **more adults believe that their financial situation will worsen (21%) than improve (18%) over the next six months**.

    - The ability to only pay off interest on debts continues to haunt the population's finances - **one in ten adults (almost 4.8 million) say that they are only able to pay off the interest charges on their credit card** each month but not pay off the debt itself.

    - **7% of GB adults (just over 3.3 million adults)** say that they are only able to pay off the interest charges on their overdraft each month but are not paying off the debt itself.

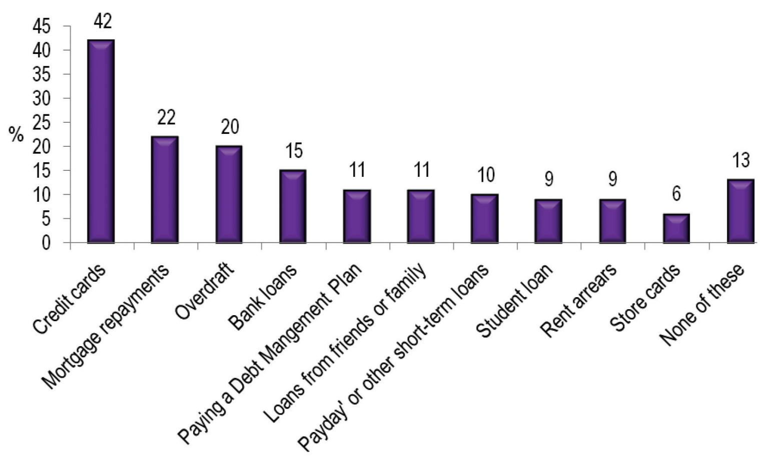
1. Increase in debt worries - living costs and credit card debt continue to stretch the nation's finances

R3's President Liz Bingham comments:

"Worrying about debt has sadly become a fact of life for many in Great Britain and the situation seems unlikely to improve soon. Credit card debts continue to bite, as do increased costs of living, which for many exacerbate the ongoing struggle to payday."

- Half (50%) of GB adults say that they are at least fairly worried about their current level of debt. This equates to just over 20 million people and is an increase from 42% in February 2013.
- One fifth (21%) of adults say that they are very or extremely worried, an increase from 12% recorded earlier this year.
- Of those who say they are worried about their current debts, credit card debt remains the primary cause of concern, with more than two fifths of adults saying that they are worried about this type of debt.

Fig 1. ***"What kind of debt is worrying you?"***



Base: all respondents who are worried about their current level of debt (n=1,029)

2. Stuck in the rent cycle – those struggling to put a roof over their heads

Liz Bingham comments:

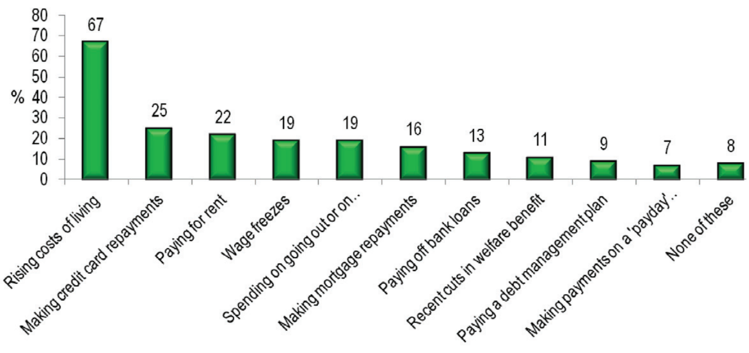
"Rent is a fundamental expense for those who are currently unable to afford to buy their own home yet, as the survey demonstrates, a significant proportion of people are struggling with rent payments.

Even more worrying is the proportion of adults who are worried about rent arrears, indicating that a not insignificant proportion of people are falling into debt just to put a roof over their heads.

This is, essentially, an issue of supply. A lack of housing throughout the country, though particularly in the capital, has maintained house prices at what could be considered an inflated level. High prices, combined with demands for increasingly high mortgage deposits, locks out many from the possibility of home ownership. This in turn sends them flooding into the rental sector which, due to the limited supply and the creation of a 'seller's market', drives up rents and leads to the sort of financial worries and difficulties we are seeing today. Without an increase in the supply of housing or action to curb rent rises, it is hard to believe that this struggle will go away anytime soon.

- Increased living costs remain the main reason for financial struggles in the lead up to payday. Of the 42% of adults who struggle to make it to payday, two thirds (67%) say that they struggle due to living costs, with a quarter (25%) indicating that their struggles are caused by credit card repayments.
- Nearly one quarter of adults (22%) who struggle to payday say that rent payments are the reason for their struggle. The younger generation of 18 to 24 year olds are significantly more likely to say that their struggle to payday is caused by rent payments – accounting for one third of this age group compared with less than one in ten (7%) of those aged 65.

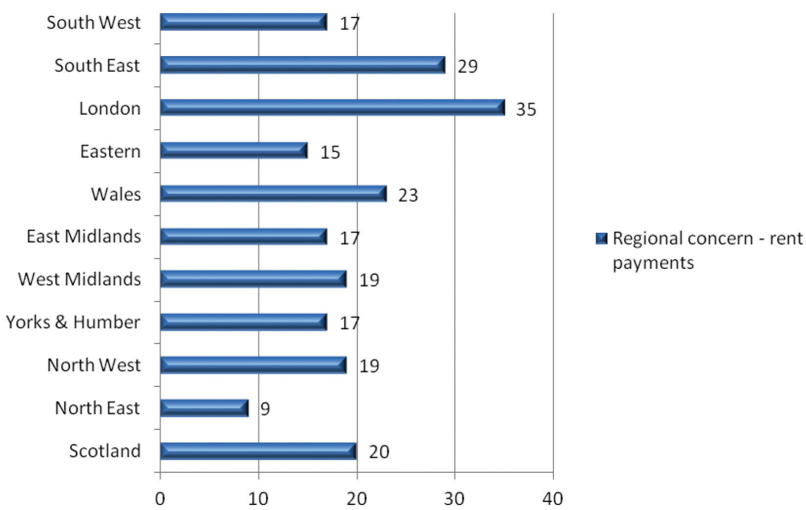
Fig. 2 ***"Leading up to payday, I struggle financially as a result of...?"***



Base: all who struggle to make it to payday (n=869)

- Of those adults who say they are worried about their current debt levels, nearly one in ten (9%) say that they are concerned about rent arrears.
- London stands out as the region where concern about rent arrears is the highest – nearly one in five Londoners (18%) who are worried about their debts say that rent arrears are a cause of concern and 35% of Londoners who say that they struggle to payday indicate that rent payments cause their struggle.

Fig. 3. ***"Leading up to payday, I struggle financially as a result of paying for rent".***



Base: all those who struggle to payday (n=869)

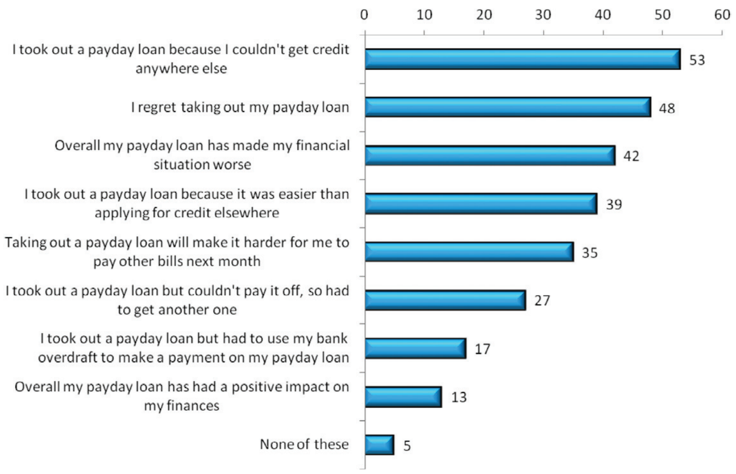
3. Payday loans still have a sting in their tail but the need for them appears to be waning

Liz Bingham continues:

The popularity of payday loans has dipped, but younger generations' relationships with these loans could be a problem.

It is the younger generations where concern about payday loan debt is highest and yet more worryingly, it is this generation who say they are the most likely to seek a payday loan in the next six months. Whilst it is encouraging that fewer people overall believe they will seek payday loans over the next half of the year, perhaps due to the increased publicity about the risks associated with such products, I would be concerned about the continuing lure of such loans for younger people, for whom the financial pressures associated with factors such as studying, renting and trying to get on the property ladder, coupled with a lacklustre graduate job market, may prove the catalyst for seeking short-term credit in order to cover day-to-day expenditure.

Fig. 4. ***"Those who have taken out a payday loan in the past six months, which of the following apply to you?"***



Base: all who have taken out a payday loan (n=94)

- Of those adults worried about their current level of debt, 10% say that they are worried about debt from payday or other short-term, high interest loans. This is an increase from 5% in February and returns to the level previously seen in July 2011.
- The highest concern about payday or other short-term, high interest loans is evident amongst 18 to 24 year olds. Of those within this generation who are worried about their debts, one in five (19%) say that they are worried about payday or other short-term loan debt, up from 8% in February and almost matching the highest levels of concern seen in this age group in July and October 2011.
- Encouragingly, less than one in ten British adults say they are likely to seek a payday loan in the next six months (7%). This equates to around 3.3 million GB adults in June 2013, compared to around 5.5 million (11%) who said they were considering taking out a payday loan in October 2012.

- However, one in six adults between 18 and 24 years old (16%), as well as nearly one in five between 25 and 34 years old (18%), say they are likely to seek a payday loan in the next six months: a striking figure when viewed alongside the level of concern amongst the younger generation who already have this type of loan.
- Payday loans remain a last resort for the majority of those who take them out. Of those who had taken out a payday or other short-term, high interest loan, just over half (53 respondents) did so because they could not get credit elsewhere. Over 40% of respondents said that their payday loan had made their financial situation worse.

4. Spending behaviour - no savings and only repaying interest charges make for a bleaker mid-year picture

Liz Bingham continues:

The nation's mood has darkened somewhat since earlier this year, as more people now believe that their situation will worsen over the next six months.

This is an interesting development, as we would normally expect the mood to be bleaker at the start of the year, when factors such as Christmas spending start to hit home. The change in outlook could, perhaps, be accounted for by the impacts of certain cuts to public spending, including cuts to child tax credit which came into force in the Spring, though may be as much about perception as reality, driven by a ramping up of the austerity rhetoric in the months following the Budget.

It is also worrying to note that an increased number of adults do not have any savings. With no buffer of savings to ride out life's emergencies, these people could find themselves in financial trouble very quickly.

The rise of the 'zombie' company is well documented but I am also concerned about the number of people who could be termed 'zombie debtors', only able to pay off interest without being able to make a dent in their overall debt level. This situation cannot go on indefinitely – we have already seen that increased living costs are playing a large part in the struggle to payday and with such costs predicted to continue increasing, it is a dangerous time to be on the edge with your finances. More adults believe that their financial situation will worsen (21%) than improve (18%) over the next six months. The number of adults who believe their situation will worsen has increased since February (when it was 18%), whilst the number of adults who believe that their situation will improve has decreased since February (when it was 21%).

- The number of 'zombie debtors' - those who are only able to pay off the interest charges on their credit card each month but not the debt itself - has increased since the start of the year from 7% to 10%, now equating to around 4.8 million people. This matches previous peaks last seen in April and October 2012.
- Similarly, 7% of adults (just over 3.3 million adults) say that they are only able to pay off the interest charges on their overdraft each month but are not paying off the overall debt. This again matches the previous peaks seen in April and October 2012.
- More than a quarter of GB adults do not have any savings at all at the moment (27%), an increase from the 23% recorded in February.

Liz Bingham concludes:

It is clear that many people across the country continue to face significant financial difficulties. From the cost of living, to rent or mortgage repayments, people are struggling to afford the absolute essentials – and it is hard to see the situation improving in coming months.

I am particularly concerned about those on the fringes; those with no saving and, expensive credit or who are only able to pay off the interest on their credit cards or overdrafts each month. The latter part of the year, involving the run-up to Christmas spending, will no doubt prove an extra burden on those already struggling with their debts or without the cushion of savings.

As ever, I would advise anyone with debt concerns should seek professional advice at the earliest opportunity."

Methodology

ComRes interviewed 2,060 GB adults online between 31st May and 2nd June 2013. Data were weighted to be demographically representative of all British adults aged 18+.

A lower sample size (94) made up the group of those who have taken a payday loan in the past six months on page 7.

ComRes also interviewed 2,007 adults online between 1st and 3rd February 2013. Data were weighted to be demographically representative of all British adults aged 18+.

ComRes is a member of the British Polling Council and abides by its rules (www.britishpollingcouncil.org). This commits us to the highest standards of transparency.

About R3:

R3, the insolvency trade body, represents over 97% of insolvency practitioners. R3's full members are all regulated by their recognised professional bodies, they can be licensed insolvency practitioners, solicitors, chartered accountants or certified accountants. They have extensive experience of helping businesses and individuals in financial distress.