

The distribution of unsecured debt in the United Kingdom: survey evidence

By Merxe Tudela and Garry Young of the Bank's Domestic Finance Division.

The Bank recently commissioned a survey asking people about their unsecured borrowing and whether it is a burden to them. This article summarises the main results.⁽¹⁾ As of October, 34% of respondents had some form of unsecured debt, over and above that which they expected to pay off at the end of the month, and the average amount owed was around £3,500. Some people owed much more than the average: 26% of those with some debt owed more than £5,000. Around 10% of borrowers said that their unsecured debt was a heavy burden to their households, similar to earlier surveys. For purposes of comparison over time, the questions were based on those used in earlier surveys. The evidence suggests that the proportion of people with some debt has not changed since at least the late 1980s. While the average amount borrowed by debtors has increased, since 2000 the extra borrowing has been concentrated among those with household incomes above £17,500. Despite the rise in average debt levels in recent years, the proportion of people who consider their debt not to be a burden has increased. But, the amount borrowed and the share of unsecured debt accounted for by those who consider it a heavy burden have both increased.

The recent rapid growth in household debt has been driven by high rates of both secured borrowing, through mortgages, and unsecured borrowing, through personal loans, overdrafts and credit cards. While the aggregate stock of unsecured debt (£164 billion at end-2003 Q2) is small in relation to the stock of mortgage debt (£714 billion) and household sector gross wealth (£5,547 billion, including housing), its fast growth has raised questions about whether an increasing number of people have borrowed more than they can easily afford to repay. This would be more likely if unsecured borrowing is increasingly concentrated among those with relatively low incomes and few assets. Its build-up could also leave others more vulnerable to unexpected changes in their circumstances. These possibilities might have implications for both monetary policy and financial stability. An assessment of the extent of current and potential problems associated with the growth of unsecured debt requires some investigation of how the debt is distributed among individual borrowers. This article is solely concerned with the distribution of unsecured debt and only discusses mortgage borrowing to the extent that this is useful in distinguishing the characteristics of borrowers.

An important source of information on the financial position of individual adults and households is the British Household Panel Survey (BHPS), which since 1991 has asked broadly the same group of people about their economic and social circumstances. However, the most recent information on unsecured debt in the BHPS is for 2000. This was analysed in detail by Cox, Whitley and Brierley (2002). They found that the households with the highest levels of both mortgage and unsecured debts tended also to have the highest levels of income and net wealth in both 1995 and 2000. But they also found that debt to income ratios were highest for low-income households.

The survey

In order to update this analysis, more recent evidence has been obtained from a specially commissioned survey from NMG Research, that in October 2003 asked a nationally representative sample of 1,950 adults about their unsecured debt. Using the same questions as in the BHPS, people were asked about the types of debt they had, the amounts they owed and whether they considered the debt to be a burden to their household.⁽²⁾ A broad summary of the survey

(1) A brief summary was also reported in the *Financial Stability Review*, December 2003.

(2) The BHPS asked people about the total amount borrowed on a range of debt instruments, the NMG Research Survey also asked how much they owed on each debt instrument individually.

methodology and exact wording of questions is included in the annex.

Only 11% of interviewees refused to say whether they had any unsecured debt or not. But of those with debt, 33% did not say how much they owed. This may well reflect uncertainty about the amount they owe rather than a wish to conceal it. A recent survey, Citizens Advice (2003), explicitly asked people whether they knew how much they owed in total on all of their credit commitments. It found that 31% of those owing something on credits/loans did not know how much they owed. Information from the NMG Research Survey suggests that the perceived burden of debt among those who do not say how much they owe is not different from that among those who do report the amount they owe. On this basis, we assume that the amount owed by those who do not reveal their debt is not systematically different from the amount owed by those who do reveal it.⁽¹⁾

Participation

Table A outlines some of the key findings concerning the proportion of people using different methods of borrowing (the participation rate). For each type of debt instrument, people are asked not to include any borrowing that they expect to pay off in full by the end of the month. This is intended to exclude borrowing, mainly on credit cards, that is done on a temporary basis, because it is a convenient way of making transactions.⁽²⁾

Table A
Participation by debt instrument and household income

Per cent

	Household income of those reporting income:						Whole sample	
	Less than £4,500	£4,500–£9,499	£9,500–£17,499	£17,500–£24,999	£25,000–£34,999	£35,000–£59,999		More than £60,000
HP agreement	1	6	6	4	16	11	14	5
Personal loans	11	10	16	16	36	28	31	13
Overdraft	7	4	9	14	18	15	25	7
Credit card	5	6	22	22	33	35	20	15
Catalogue or mail order	7	9	13	9	8	8	7	8
Student loan	8	1	2	3	2	4	2	3
DSS Social Fund	4	7	4	1	1	0	0	2
Other loans	0	2	4	3	2	2	0	2
Any type of debt	33	29	45	42	62	56	48	34
<i>Memo: Proportion of sample in each income group</i>	8	28	28	12	10	11	4	100

Note: Some people have more than one type of debt so the proportion of people with any type of debt is less than the sum of those with each type of debt. Individual responses have been weighted to reflect the UK population (see Annex for further details). Bank calculations.

Source: NMG Research Survey.

Fieldwork: October 2003.

In total, 34% of respondents have some type of unsecured debt. By instrument, 15% of respondents owe money on a credit card, 13% have a personal loan, 8% owe money on catalogue purchases and 7% have an overdraft. In general, participation varies broadly positively with the level of household income for most types of borrowing, except DSS social fund loans, not available to those on high incomes, and borrowing through catalogues and mail order, which is used at a similar rate throughout the income distribution. Student loans are concentrated in the lowest-income group, probably indicating that a high proportion of borrowers are still studying. The overall rate of participation in the unsecured debt market is highest for those with annual household income of between £25,000 and £34,999, around twice that for those with household income below £9,500.

Average levels of debt by household income and debt instrument

Table B sets out the average amount of debt per borrower. In total, the amount borrowed is also strongly related to household income, with average debt of around £1,800 for debtors with household income in the range £4,500–£9,499 and nearly £6,000 for those with household income in excess of £60,000. The exception to this pattern is for debtors in the lowest-income group, where average debt is £2,400, reflecting a disproportionate number of people with student debt in this group. While the participation of low-income households as borrowers in the overdraft and

(1) The survey also asked about other individual and household characteristics, including household income. Around half of those interviewed did not provide information on their household income. While this is not the main purpose of the survey, information on income is important in assessing the affordability of debt.

(2) This is different to aggregate unsecured debt figures which include any unsecured debt outstanding at a point of time, regardless of whether it bears interest or not. This is discussed further in the box on page 421.

Table B
Average debt of debtors by debt instrument and household income

£

	Income levels of those reporting income:							Whole sample
	Less than £4,500	£4,500–£9,499	£9,500–£17,499	£17,500–£24,999	£25,000–£34,999	£35,000–£59,999	More than £60,000	
HP agreement	n.a.	1,600	2,000	3,400	1,400	3,800	3,400	2,500
Personal loans	2,000	2,000	3,500	4,800	5,300	5,400	5,300	4,400
Overdraft	700	200	700	1,000	700	800	1,000	700
Credit card	800	1,800	1,000	900	2,300	2,800	1,100	1,400
Catalogue or mail order	200	400	300	300	100	400	n.a.	300
Student loan	5,600	6,500	4,000	4,500	6,100	4,300	n.a.	6,300
DSS Social Fund	300	300	200	n.a.	n.a.	n.a.	n.a.	200
Other loans	n.a.	300	500	6,100	n.a.	n.a.	n.a.	1,400
Any type of debt	2,400	1,800	2,400	3,800	5,100	5,600	6,000	3,500

Source: NMG Research Survey.

Fieldwork: October 2003.

Bank calculations. All figures rounded to nearest £100.

n.a. indicates that the number of debtors in this category is too small for the average to be sensibly calculated. Figures in italics are indicative only as the number of respondents in these categories is less than ten.

credit card markets is relatively low, the average amount they borrow using these products is relatively high. For example, the average overdraft among those with income of less than £4,500 is close to the overall average, while the average credit card debt of those with household income of between £4,500 and £9,499 is above the overall average. By contrast, borrowing is strongly increasing with income for personal loans and (to a lesser extent) hire purchase (HP) agreements, possibly reflecting their use as a method of financing irregular large-ticket income-related spending. For these instruments, borrowers have little discretion to increase their debt without the permission of lenders. On average, borrowing through student loans, personal loans, HP agreements and credit cards is for larger amounts than through overdrafts, catalogue or mail order finance and DSS social fund loans. The overall average debt of borrowers is £3,500.

Robustness

The averages in the individual cells in Table B need to be treated with care because the sample size is small in some cases (particularly for 'other loans'), although the overall averages for income groups and types of loans are likely to be relatively reliable. More generally, the robustness of the figures on participation and average debt levels can be assessed by comparing them with other evidence. Table C summarises information on participation and average debt levels from other surveys. Some difference is to be expected simply because each survey is based on a small sample of a much larger

population. Moreover, the figures are not exactly comparable because some surveys, such as that by NMG Research, ask about the borrowing of individual adults while others consider the position of households. Evidence from the BHPS, which considers both, suggests that participation rates are about 8 percentage points higher for households than individuals. This is not the only difference in that some surveys prompt the interviewee about the types of debt they may have.⁽¹⁾ Taking these differences into account suggests that, with the exception of the KPMG and Citizens Advice surveys, there is a consensus that around 40%–50% of households and 30%–40% of adults have some form of unsecured debt. The probable cause of the high rates of participation found by the KPMG and Citizens Advice surveys is that they do not specifically exclude loans that people expect to pay off in full at the end of the month in question.⁽²⁾

The average debt of debtors in the NMG Research Survey is also broadly consistent with the findings of other surveys. It is 8% higher than the average debt of debtors in the 2000 BHPS. This difference is smaller than might be expected given that the aggregate level of unsecured debt was 35% higher in October 2003, the date of the NMG Research Survey, than it was in September 2000, when the BHPS was undertaken. This difference could reflect sampling error. The NMG Research estimate is less than the average debt of £4,600 of individual debtors in the FSA survey carried out in 2002. On a household basis, the NMG Research

(1) The Survey of Low Income Families (SOLIF), analysed by Bridges and Disney (2004, forthcoming) includes loans from employers, family and friends and the 'tally man' in addition to loans from financial institutions.

(2) Some of the surveys also provide information on participation by type of debt instrument, which may be used to check the robustness of our findings. Kempson (2002) and FSA (2003) both find that around 19% of households have credit card debt outstanding, slightly higher than our estimate of 15% for adults. They both find that around 8% of households have overdrafts and some 15% have personal loans, close to our findings for adults.

Table C
Evidence from surveys^(a)

	Date of survey	Sample size	Unit of analysis	Excludes debt paid off at end of month	Additional types of debt mentioned	Percentage with unsecured debt	Average debt of debtors (£)
Survey:							
Berthoud and Kempson	1989	2,212	Household	Yes	Store cards	48	Not given
BHPS	1995	9,249	Individual	Yes	n.a.	35	2,088
BHPS	1995	5,051	Household	Yes	n.a.	43	2,872
Bridges and Disney	1999	4,659	Low-income families	No	Loans from employers, friends, 'tally man'	49	Not given
BHPS	2000	9,006	Individual	Yes	n.a.	35	3,242
BHPS	2000	4,916	Household	Yes	n.a.	43	4,375
Kempson	2002	1,647	Household	Yes	Store cards/ accounts	47	3,500
FSA	2002	3,200	Families	Yes	Rent arrears, store loan, store card, car loan	Not given	4,600 (b)
KPMG	2003	2,304	Individual	No		71 (c)	Not given
Citizens Advice	2003	1,986	Individual	No	Includes some secured loans and remortgaging	74	3,900
NMG Research	2003	1,950	Individual	Yes	n.a.	34	3,500

(a) See references for more details of the surveys.

(b) Individual average.

(c) Based on Bank calculations.

estimate of the average debt of debtors is equivalent to £4,700, if the same relationship between the debt of individuals and households applies as in 2000. This is higher than the average figure of £3,500 given in Kempson (2002). The average value of debt of individuals is similar to the Citizens Advice estimate of £3,900, although this is not strictly comparable as it does not exclude balances to be paid off at the end of the month, raising the participation rate substantially.⁽¹⁾ The consistency of the survey-based figures with the aggregate statistics is discussed in the box on page 421.

Distribution of unsecured debt

Table D shows the amounts owed by debtors, using information from the NMG Research Survey. This is compared with other surveys containing similar information.

The NMG Research Survey shows most debtors owe relatively small amounts, with close to half of debtors owing less than £1,000 and nearly two thirds owing less than £3,000. But there is wide variation in the amounts owed and 26% of debtors owe more than £5,000.⁽²⁾ These figures are close to those of other surveys, although the KPMG survey finds higher debt levels. The

Table D
The distribution of the amount owed by debtors

Per cent	NMG Research	Citizens Advice	KPMG	Kempson
Under £1,000	43	46	25	67
£1,000–£1,999	14	13		
£2,000–£2,999	7	7	33	
£3,000–£3,999	5	6		17
£4,000–£4,999	5	5		
£5,000–£7,499	8	4	20	
£7,500–£9,999	5	3		7
£10,000–£14,999	9	6	17	10
£15,000–£19,999	2	3		
£20,000 or more	2	2	7	

Note: KPMG and Kempson figures have been recalculated by the authors as proportions of debtors. Citizens Advice figures have been adjusted to take account of refusals. Figures may not sum to 100 due to rounding.

KPMG survey is distinctive in that it is an online survey, whereas the others are carried out face to face. It is representative in terms of gender, age, region and social class, but it may be that the anonymity offered by an online survey encourages people to reveal more about their indebtedness. It could also be that an online survey attracts a sample of participants more likely, for whatever reason, to have larger debts.

The unequal distribution of debt across respondents in the NMG Research Survey suggests that a large proportion of outstanding unsecured debt is concentrated among relatively few people. If the survey

(1) There is also a broad degree of consistency across the surveys in estimates of the average amounts of debt for individual types of debt. For outstanding credit card balances, Kempson finds households owe an average of nearly £1,600 while the FSA finds families owe £2,200, both broadly consistent with the NMG Research estimate of £1,400 for adults. Similarly, average personal loans are estimated to be over £5,500 by the FSA and £5,000 by Kempson, compared with our estimate of £4,400 for adults. Overdrafts are also of a similar order across the surveys, with the average in Kempson's sample put at £450 compared with £900 in the FSA sample and £700 here. Interestingly, Kempson notes that the average overdraft in the 1989 survey reported by Berthoud and Kempson (1992) was £1,700 in 2002 prices, whereas the average credit card balance in 1989 was £550 in 2002 prices, indicating a broad shift in the method of borrowing over the past 14 years. The average student loan debt of £6,300 in the NMG Research Survey is consistent with Callender and Wilkinson (2003) who find that the average student loan debt of students was £5,500 at the end of the 2002–03 academic year. This is of course much higher for final-year students.

(2) This is equivalent to 6% of respondents, including those who do not reveal how much unsecured debt they have, and 9% of respondents for whom the level of debt is known or estimated.

Consistency with aggregate figures

While the NMG Research Survey evidence is broadly consistent with other similar surveys, there is a substantial difference between the grossed-up amount of unsecured debt claimed in survey responses and that reported in official statistics.⁽¹⁾ At the end of September, total UK consumer credit was £168.4 billion, whereas the grossed-up figure from the NMG Research Survey was only £56.8 billion.

There are a number of ways of reconciling these figures.

First, there is a difference between what the surveys and official figures intend to cover. Official estimates are derived from lenders and cover all forms of consumer credit outstanding at a particular date, including that which does not bear interest. By contrast, survey respondents are usually asked not to include credit card and other bills being paid off in full in the month of interview. So part of the difference between survey and official figures is that surveys are stating what people perceive to be their normal stock debt position, whereas official aggregate figures are also picking up credit used temporarily to make transactions. This is an issue particularly for credit card borrowing, given that many people now use credit cards for transactions in preference to cash and other means of payment, either because of greater convenience or to take advantage of insurance and cash-back special offers. The Citizens Advice

(2003) survey suggests that around half of all people who use credit cards aim to pay them off in full at the end of the month.⁽²⁾ Unpublished figures from the British Bankers' Association suggest that about three quarters of Visa and Mastercard affiliated credit card balances bear interest.

Second, despite the consensus between surveys, it may be that respondents have a persistent tendency to underreport their debt, perhaps because they do not think of goods being paid for in instalments as debt. There could also be confusion within individual families as to the amount borrowed by other family members. This should be avoided in the NMG Research Survey, which asked people about their own borrowing. To the extent that people included the debts of other family members in their replies, this would have led to an over rather than an underestimate of the total when grossed up by the number of adults.

There is some evidence that the gap between the lender-based and borrower-based estimates of aggregate unsecured debt has been increasing over time. Using information from the BHPS, the proportion of the official, lender-based aggregate estimate of unsecured debt that is accounted for by survey-based information declined from 52% in 1995 to 41% in 2000. According to the NMG Research Survey, this has fallen further to 34% in 2003.

(1) Note that this does not apply to BHPS estimates of labour income, housing wealth and secured debt which, when aggregated, largely agree with aggregate estimates. Financial assets, however, are substantially underrecorded.

(2) The recent CAB survey asked those in their sample that had at least one credit or store card (around 1,200) how much they usually pay off each month and found that: 2% pay off less than the minimum payment, 10% make the minimum payment, 29% pay more than the minimum payment but less than the full balance, 49% pay the full balance, 9% have no outstanding balance, 2% refuses or do not know.

results are grossed up to the UK adult population, then of the total unsecured debt of £56.8 billion, around £29 billion is owed by the 4.3% of the population with individual debt of over £10,000.

Distribution of debt by household income of the borrower

Table E looks at the breakdown of debt levels according to the household income of the borrower. This is derived from the NMG Research Survey and grossed up to the UK adult population. It provides a guide to the affordability of debt, given that individuals with more

debt and less income are most likely to experience debt problems. In general, it shows relatively few cases where debt levels are high relative to household income. For example, of the 770,000 individuals with debt over £10,000 whose income is known, only 185,000 have household income of less than £17,500, while 340,000 have income in excess of £35,000.

Characteristics of borrowers and those who report debt to be a burden

The NMG Research Survey also provides qualitative evidence, comparable to that in the BHPS, of the extent

Table E
The distribution of unsecured debt and income (millions, estimates grossed up from survey respondents)

	Household income:								Whole sample
	Less than £4,500	£4,500–£9,499	£9,500–£17,499	£17,500–£24,999	£25,000–£34,999	£35,000–£60,000	More than £60,000	Missing	
Debt:									
None	1.2	4.3	3.6	1.6	0.9	1.1	0.4	14.5	27.4
Under £1,000	0.3	0.9	1.1	0.3	0.2	0.1	0.1	1.3	4.1
£1,000–£4,999	0.1	0.3	0.8	0.3	0.3	0.4	0.1	0.7	3.0
£5,000–£9,999	0.1	0.0	0.2	0.1	0.3	0.2	0.1	0.2	1.2
£10,000 or more	0.0	0.1	0.1	0.1	0.2	0.2	0.1	0.4	1.2
With debt but missing value	0.2	0.4	0.6	0.3	0.5	0.4	0.1	2.5	4.9
Missing	0.1	0.6	0.4	0.2	0.1	0.1	0.1	3.8	5.4
Total	1.9	6.6	6.7	2.8	2.4	2.6	0.8	25.4	47.2

Source: NMG Research Survey.

Fieldwork: October 2003.

Bank calculations.

to which individuals consider the repayment of their unsecured debt to be a burden to their household. This is useful in making comparisons with previous years and in assessing the consistency of answers in the survey. It finds that 10% of individuals consider their unsecured

debt to be a heavy burden, 22% say that it is somewhat of a burden and the remainder do not consider it a problem. The survey enables us to examine the characteristics of those who report different degrees of financial distress. This is summarised in Table F.

Table F
The characteristics of adults with different degrees of debt problems

	Characteristics of each group:				Contribution of group to overall shares:				Mean debt for those reporting debt to be a heavy burden
	Share of population	Participation rate	Mean debt to income ratio of debtors	Proportion of debtors reporting debt to be a heavy burden	Share of those with positive debt	Share of those reporting debt to be no problem	Share of those reporting debt to be somewhat of a problem	Share of those reporting debt to be a heavy burden	
Overall		34	0.24	10	34	68	22	10	6,900
Age group									
15–24	15	33	0.45	11	16	14	18	17	5,300
25–34	19	54	0.19	13	29	26	33	37	6,600
35–44	18	50	0.18	10	25	25	25	25	5,900
45–54	16	39	0.19	9	17	18	15	15	12,400
55–64	13	26	0.13	5	9	11	6	5	Not given
65 plus	20	7	0.75	5	4	6	2	2	12,600
Income group									
Less than £4,500	4	33	1.03	24	4	4	3	10	4,300
£4,500–£9,499	14	29	0.29	15	12	9	18	18	3,300
£9,500–£17,499	14	45	0.19	13	19	18	20	25	6,700
£17,500–£24,999	6	42	0.18	7	8	8	7	5	15,800
£25,000–£34,999	5	62	0.17	7	10	11	8	7	9,700
£35,000–£60,000	5	56	0.13	0	10	11	9	0	n.a.
£60,000 plus	2	48	0.07	11	3	3	1	3	13,500
Missing income	50	26	n.a.	9	35	37	34	32	7,300
Social class									
AB	19	36	0.14	6	19	21	18	11	7,500
C1	25	41	0.35	7	30	32	30	21	14,500
C2	23	33	0.26	8	22	25	21	17	12,800
DE	34	30	0.20	17	29	25	32	50	2,400
Debt group (for debtors only)									
Under £1,000	43			4	43	49	35	18	500
£1,000–£1,999	14			10	14	13	15	15	1,300
£2,000–£2,999	7			13	7	7	6	10	2,200
£3,000–£3,999	5			8	5	3	14	5	3,300
£4,000–£4,999	5			13	5	6	2	8	4,000
£5,000–£7,499	8			8	8	7	10	6	5,500
£7,500–£9,999	5			11	5	5	3	6	8,000
£10,000–£14,999	9			23	9	6	11	20	12,200
£15,000–£19,999	2			16	2	1	2	3	18,000
£20,000 or more	2			40	2	2	11	9	23,800
With financial assets	35	39	0.21	5	40	46	33	19	6,400
Housing status									
With mortgage	33	47	0.17	4	45	50	44	17	17,700
Own outright	26	18	0.28	5	14	17	9	7	9,600
Rented local authority	23	30	0.24	20	20	18	17	41	2,200
Rented private	10	42	0.49	17	12	9	18	21	10,200
Housing association	7	45	0.18	18	8	6	11	15	7,800

Source: NMG Research Survey.

Fieldwork: October 2003.

Bank calculations.

Figures may not sum to 100 due to rounding.

By age, 37% of those who find debt to be a heavy burden are between 25 and 34. This is about double their weight in the grossed-up sample as a whole and also higher than their share in the debtor population. These individuals do not have a particularly high unsecured debt to income ratio, but their finances are likely to be put under strain by mortgage borrowing and other financial demands at a stage in their life when they are starting families and buying homes.

By income, 28% of those who find unsecured debt to be a heavy burden have household income of less than £9,500. While their participation rate is relatively low, they have an above-average unsecured debt to income ratio. Over half of those who say that unsecured debt is a heavy burden are from the DE social class.⁽¹⁾ This is much higher than their 29% representation in the debtor population. Nonetheless, the average level of debt for those from low income or social class households who report their debt to be a heavy burden is low relative to that owed by other groups.

By debt level, over 32% of those whose debt is perceived to be a heavy burden have unsecured debt of over £10,000. This is substantially larger than their 13% share in the population of debtors. The average debt of people who say it is a heavy burden is £6,900, compared with £3,900 for those for whom it is somewhat of a burden and £2,900 for those who say it is not a problem. It is not surprising that those who report their unsecured debt to be a heavy burden also tend to have more of it. This suggests that unsecured debt in aggregate is to some extent concentrated among those who experience difficulties in repaying it. Almost 20% of unsecured debt is owed by those who consider it a heavy burden, and 25% by those who say it is somewhat of a problem.

It is clear from the survey that unsecured debt is less of a problem for those with other assets. Only 19% of those reporting unsecured debt to be a heavy burden have financial assets compared with 40% in the debtor population as a whole. Only 17% of those who report unsecured debt to be a heavy burden have a mortgage compared with 45% in the debtor population as a whole. By contrast, 41% of those for whom debt is a heavy burden live in local authority rented

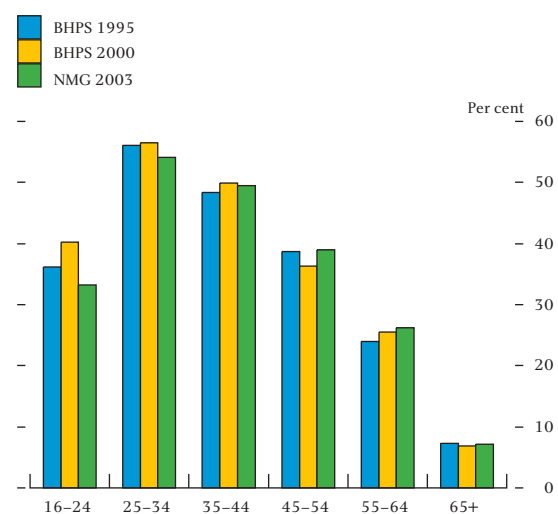
accommodation, compared with 20% in the debtor population as a whole.

These figures on the proportion of people reporting debt to be a heavy burden indicate that a significant minority of debtors are struggling with their unsecured debt. This is consistent with other evidence from debt counsellors and the Citizens Advice Bureaux.

Comparisons over time

One of the key reasons for asking the same questions in our survey as in the BHPS is to ensure, as far as possible, that the results are comparable over time. These combined results show that there has been no overall change in the participation rate between 1995 and 2003. This confirms Kempson's (2002) analysis of the 1989 to 2002 period that 'the large increase in consumer borrowing is not due to a larger proportion of the population owing money'. This may seem surprising in view of the substantial increase in credit cards in circulation in recent years, but this does not necessarily imply that a larger proportion of people borrow using these cards.⁽²⁾ Moreover, Kempson finds that greater use of credit cards has substituted for other forms of credit such as mail order catalogues and hire purchase arrangements. Chart 1 plots the participation rate for different age groups between 1995 and 2003. This shows very little change in participation rates across age groups in recent years. It also suggests that the NMG

Chart 1
Unsecured debt participation rates by age group



Sources: BHPS, NMG Research and Bank calculations.

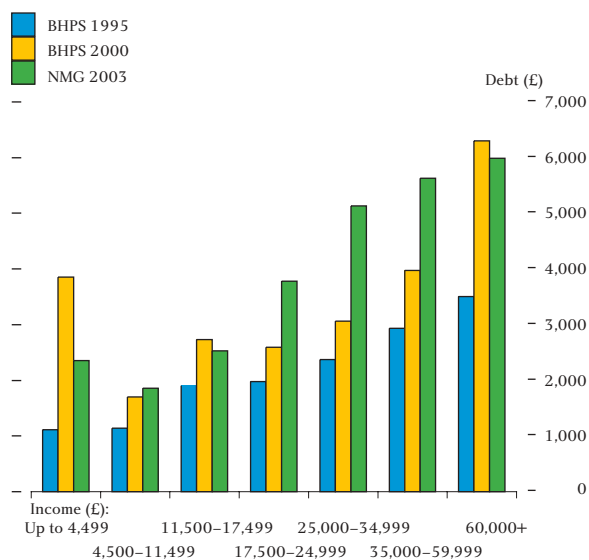
(1) Social class is defined as follows: AB: Professionals, directors, self-employed people employing more than 25 staff, employees in senior positions with professional qualifications and/or a degree; C1: Office workers without a degree, employees in junior positions with professional qualifications and/or a degree, self-employed people employing 1-24 staff, students in full-time education; C2: qualified skilled manual workers; DE: semi-skilled and unskilled manual workers, shop assistants, cleaners, unemployed, retired on state pension only.

(2) The number of credit cards issued rose from 28.3 million in 1995 to 58.8 million in 2002 according to APACS (2003).

Research Survey is comparable with the earlier BHPS results.

The surveys suggest that the average unsecured debt to income ratio of debtors doubled between 1995 and 2003, with unsecured debt levels rising from 12% to 24% of income.⁽¹⁾ The increase between 1995 and 2000 was fairly well-spread across the income distribution, albeit with the largest increase in the lowest-income group. By contrast, the increase since 2000 has been concentrated in households with income of £17,500 and above. Indeed there has been a sharp fall in unsecured debt among the lowest-income group since 2000. Chart 2 shows average unsecured debt levels by income group in the 1995 and 2000 waves of the BHPS and in the 2003 NMG Research Survey.

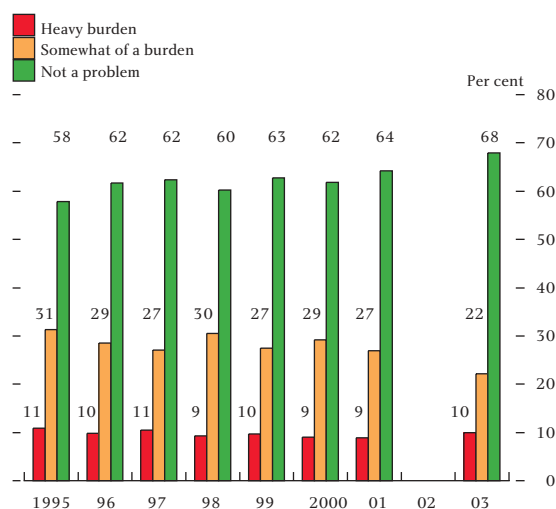
Chart 2
Mean debt by household income groups



Sources: BHPS, NMG Research and Bank calculations.

Despite the increase in average debt levels and debt to income ratios, comparable figures suggest that this has not added to the proportion of households experiencing debt problems. Chart 3 shows that the proportion of debtors reporting that unsecured debt is not a problem has increased from 58% in 1995 to 68% in 2003, while the proportion reporting that it is somewhat of a burden has declined from 31% to 22% over this period. The proportion reporting debt to be a heavy burden has been broadly stable at around 10%. It is not clear from this evidence what has caused the decline in the proportion of people reporting debt

Chart 3
Trends in the burden of debt



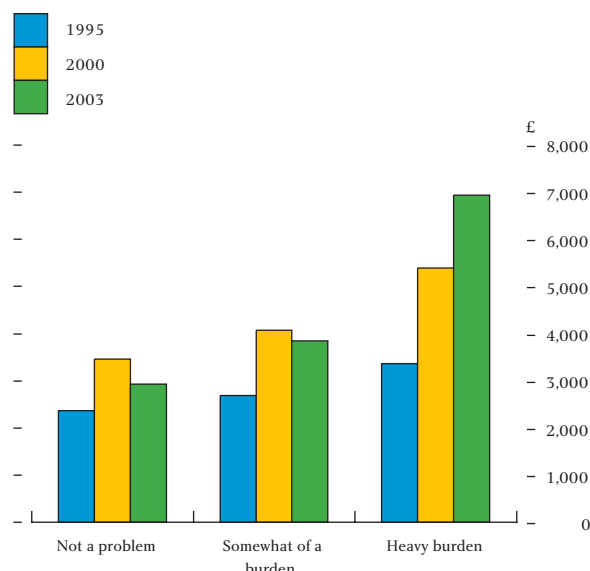
Sources: BHPS, NMG Research and Bank calculations.

to be somewhat of a burden, but it is likely to be associated with the fall in effective interest rates on unsecured debt and the fact that, in aggregate, unsecured debt has remained small relative to household wealth.

Changes in the concentration of debt

There is some evidence that the concentration of debt among riskier borrowers has increased over time, despite the fact that the proportion of people reporting debt problems has declined. Chart 4 shows that the average

Chart 4
Changes in average debt by attitude to debt



Sources: BHPS, NMG Research and Bank calculations.

(1) This is broadly consistent with the increase in the aggregate unsecured debt to income ratio from 12.6% to 21.9% of household income between 1995 Q2 and 2003 Q2 although, as pointed out in the box on page 421, the level of aggregate debt is higher than is implied by the survey evidence. The level of aggregate income is also higher because the income of non-debtors is included.

amount of debt held by individuals who consider it to be a heavy burden has increased by more than it has for those who are more relaxed about their unsecured debt. This reflects a sharp increase in the unsecured debt to income ratio of those reporting debt to be a heavy burden and implies that the level of borrowing at which debt becomes a problem is higher now than in the recent past. It also suggests that debt has become more concentrated among riskier borrowers.

Summary

The main results of the NMG Research Survey analysed in this article are as follows:

- Around 34% of adults have some type of unsecured debt. Participation in the unsecured debt market is greatest among the higher-income groups. The participation rate peaks at 62% for those with annual household income of between £25,000 and £34,999. It is about half this rate for those with household income below £9,500.
- Unsecured debt is strongly related to household income, with average debt of £1,800 for debtors with household income in the range £4,500–£9,499 and £6,000 for those with household income in excess of £60,000. The overall average debt of borrowers is £3,500. The average for households is estimated at about £4,700.
- The aggregate amount of unsecured debt implied by surveys of borrowers is substantially less than lender-based official figures. This partly reflects the exclusion of debt used for transactions from borrower-based surveys.
- Most debtors report that they owe relatively small amounts, with close to half of debtors owing less than £1,000 and two thirds owing less than £3,000. Nevertheless, there is considerable variation in the amounts owed and 26% of debtors report that they owe more than £5,000.
- The unequal distribution of debt across the sample suggests that a large proportion of outstanding unsecured debt is concentrated among relatively few people. Around half of the identified aggregate obtained by grossing up the survey results is owed by around 4.3% of adults with individual debt of over £10,000.
- About 10% of debtors say that their debt is a heavy burden. Around half of these people are in social class DE, around 40% live in local authority rented accommodation, few have other assets, and a disproportionate number are between 25 and 35.
- There does not appear to have been any upward trend in the participation rate over time. But the debt to income ratio of borrowers has doubled between 1995 and 2003. Since 2000, the increase has been concentrated among those with household income above £17,500.
- There has been an increase since 1995 in the proportion of households who consider their debt not to be a burden despite the general rise in unsecured debt. This may reflect falling interest rates on unsecured debt and the relatively small share of unsecured debt in household sector wealth. But the debt levels of those reporting it to be a burden have increased disproportionately.

In summary, the recent growth of unsecured debt has not as yet caused widescale debt problems. Moreover, the survey evidence suggests that most unsecured borrowing is arranged through personal loans and HP agreements where borrowers have little discretion to increase their debt without the permission of lenders. There is, however, evidence of large unsecured borrowing relative to income by a small proportion of individuals. This may not necessarily be a problem currently, although it could become one if these borrowers experienced adverse financial shocks, such as unexpected increases in interest rates or falls in income.

Methodology

NMG Research runs a monthly omnibus survey, MarketMinder, of the investments, savings and pensions markets. To compile this omnibus survey, a nationally representative sample of 2,000 adults aged 15 and over are interviewed each month by Ipsos Capibus.

Interviews are conducted face to face, in respondents' homes, using Computer Assisted Personal Interviewing. Interviews are carried out in around 120 areas of the country selected using a two-stage stratified random location design. Different local areas are selected for each month.

In order to correct for minor deviations in terms of the generated sample profile week on week, Capibus uses a rim-weighting system which weights to their National Readership Survey defined profiles for age, social grade, region and working status—within sex.

Three questions on unsecured debt were added to this omnibus for interviews carried out between 3 and 9 October 2003. The questions were:

- I would like to ask you now about financial commitments you may have apart from mortgages and housing-related loans. Do you currently owe any money on the following types of loan or credit agreement? (please exclude any borrowing that will be fully repaid at the end of the month, eg the settling of your credit card in full).

- 1 Hire purchase agreement.
- 2 Personal loan.
- 3 Overdraft.
- 4 Credit card.
- 5 Catalogue or mail order agreement.
- 6 Student loan.
- 7 DSS social fund loan.
- 8 Any other loans.

- Can you please tell me how much money you currently owe to the following types of lender (but please exclude any borrowing that will be fully repaid at the end of this month, eg the settling of your credit card in full).

- 1 Hire purchase agreement.
- 2 Personal loan.
- 3 Overdraft.
- 4 Credit card.
- 5 Catalogue or mail order agreement.
- 6 Student loan.
- 7 DSS social fund loan.
- 8 Any other loans.

- To what extent is the repayment of such debts and the interest a financial burden on your household? Would you say it is:

- 1 A heavy burden.
- 2 Somewhat of a burden.
- 3 Not a problem.

Table 1 summarises the number of responses to the questions about debt and household income.

Table 1
Summary of survey responses

	Has no debt	Declares debt level	Has some debt but does not say how much	Refuses	Total
Declares income	496	285	96	62	939
Does not declare income	637	120	100	154	1,011
Total	1,133	405	196	216	1,950

Source: NMG Research Survey.

Fieldwork: October 2003.

Bank calculations.

References

APACS (2003), *Plastic Card Review*.

Berthoud, R and Kempson, E (1992), *Credit and debt: the PSI Report*, Policy Studies Institute, London.

Bridges, S and Disney, R (2004), 'Use of credit and arrears on debt among low income families in the United Kingdom', *Fiscal Studies*, forthcoming.

Callender, C and Wilkinson, D (2003), '2002/03 student income and expenditure survey: student's income, expenditure and debt in 2002/03 and changes since 1998/99', Department for Education and Skills', *Research Report RR487*.

Citizens Advice (2003), *Financial over-commitment survey*, Research Study conducted by MORI for Citizens Advice, July 2003.

Cox, P, Whitley, J and Brierley P (2002), 'Financial pressures in the UK household sector: evidence from the British Household Panel Survey', *Bank of England Quarterly Bulletin*, Winter, pages 410–19.

Financial Services Authority (2003), *Financial Risk Outlook*.

Kempson, E (2002), *Overindebtedness in Britain: a report to the Department of Trade and Industry*.

KPMG (2003), *Debt crisis—an attempt to make ends meet or a frivolous approach to spending?*, Press Notice describing survey carried out by YouGov on behalf of KPMG.