

The financial position of British households: evidence from the 2009 NMG survey

By Tomas Hellebrandt and Silvia Pezzini of the Bank's Monetary Assessment and Strategy Division and Jumana Saleheen and Richard Williams of the Bank's Structural Economic Analysis Division.⁽¹⁾

The severe recession of the past year might be expected to have put the financial position of British households under considerable strain. Unemployment has risen significantly, credit conditions have tightened and many homeowners have seen their housing equity eroded. But many borrowers have also benefited significantly from the effects of lower mortgage interest rates. Evidence from the latest survey of households, carried out for the Bank by NMG Financial Services Consulting in late September and early October, shows how these and other changes impacted on households' budgets and their decisions on whether to spend or save. Despite the weak economic backdrop, a slightly smaller proportion of households reported problems repaying their debts than in the 2008 survey. Partly this was because around half of mortgagors had benefited from lower interest rates. Around a quarter of households had increased or planned to increase saving.

Introduction

The financial position of many British households has been affected by the financial crisis that intensified following the failure of Lehman Brothers in September 2008. Acute concern over the stability of the banking system led to a seizure of interbank lending markets, making it more difficult for banks to borrow funds that they could lend on to households. Tightening credit conditions and collapsing consumer and business confidence plunged the United Kingdom into its deepest recession since the Second World War. Against this backdrop, authorities in the United Kingdom and internationally took wide-ranging measures in the latter part of 2008 and early 2009.⁽²⁾ As part of this effort, the Bank of England cut Bank Rate to historically low levels, affecting the interest rates faced by many borrowers and savers. The Bank also embarked on a programme of asset purchases, thereby injecting money into the economy to provide an additional stimulus to nominal spending in order to meet the inflation target.⁽³⁾ Output is estimated to have fallen further in the third quarter of 2009. But a range of other indicators suggest that economic activity has begun to stabilise.⁽⁴⁾

The implication of these developments for aggregate household spending and incidence of debt payment problems is likely to depend, in part, on how their impact is distributed across different households. Disaggregated data can

illuminate the differences in impact and can indicate how different groups have responded to recent developments.

In late September and early October 2009 NMG Financial Services Consulting (NMG) carried out a survey of around 2,000 British households on behalf of the Bank.⁽⁵⁾ Households were asked a range of questions about their finances. These included questions about how much they owed, whether their borrowing was secured or unsecured, whether they found it to be a burden and whether they had difficulty accessing credit.⁽⁶⁾ The survey is the seventh that the Bank has commissioned NMG to conduct on household finances.⁽⁷⁾ Some results from this year's survey were previously reported in the November 2009 *Inflation Report* (pages 22–23) to assess the extent of household difficulties in servicing their debts.

(1) The authors would like to thank Jonathan Bridges for his help in producing this article.

(2) For more detail on the financial crisis and the policy response see the June 2009 *Financial Stability Report*.

(3) For more information on the Bank's programme of asset purchases see Benford *et al* (2009).

(4) For more detail on recent developments and the outlook for the UK economy, see the November 2009 *Inflation Report*.

(5) The 2008 survey was carried out shortly after the failure of Lehman Brothers on 15 September, but before the UK bank support package was announced on 8 October.

(6) Some more detailed information about the survey is included in the box on pages 284–85. The NMG survey is carefully designed and weighted to be representative of British households. But, as in any small sample of a population, care must be taken in interpreting small changes in results from year to year because they may not be a reliable guide to changes in the population.

(7) The results of each year's survey have been reported in the *Quarterly Bulletin*. See Hellebrandt, Waldron and Young (2008) for details of the 2008 survey.

This article describes the results from the survey in more detail.⁽¹⁾ The first section discusses how weakness in the labour and housing markets impacted on households' income and housing wealth and how these shocks interacted with tightening credit conditions. The impact of the monetary policy response to the crisis is also addressed. The second section discusses how the offsetting effects of the negative shocks to household finances and the policy response affected households' ability to keep up with debt commitments and household bills, and how those suffering from payment problems were resolving them. The third section considers how households may have responded to these shocks by altering their decisions to spend and save. Household spending is important for monetary policy because it accounts for around two thirds of aggregate demand. The last section concludes.

Impact of the financial crisis on household finances

Weakness in the labour market

The recession that began in 2008 was accompanied by an increase in the unemployment rate and a reduction in the rate of growth of earnings. Both of these factors push down on aggregate household income, but their distributional effects can be quite different — the income shock from job losses affects a narrower group, while slower earnings growth tends to have a more broad-based impact. The unemployment rate of respondents in this year's NMG survey was about 7%,⁽²⁾ similar to the rate recorded in the ONS Labour Force Survey of close to 8% in 2009 Q3.

The NMG survey asked respondents about the level of their 'available' income — income left over after paying tax, national insurance, housing costs (rent, mortgage payments, council tax), loan payments and utility bills — and how it has changed over the past year. **Table A** reports the results according to employment status of the respondent. It suggests that those who said they were unemployed in September 2009 had seen the largest fall in monthly available income over the previous year, with almost half reporting a fall in excess of £100. For the employed respondents, those in manual jobs had seen a larger fall in income on average than those in non-manual jobs. This may be because manual workers had been more affected by reduced overtime and shorter working hours.⁽³⁾ Almost half of those respondents who classified themselves as inactive — that is, not participating in the labour market — had also seen a fall in their available income. Three quarters of these inactive respondents were retired and so their savings were likely to be an important source of income. The falls in income reported by this group may partly reflect the fall in interest rates on deposit accounts over the past year (see the section on the monetary policy response below) and lower returns on

Table A Changes in available income by employment status^(a)

	Employed (non-manual)	Employed (manual)	Unemployed	Inactive
Percentages of households	36	24	5	35
Characteristics				
Mean pre-tax monthly income (£s)	3,981	2,291	805	1,424
Mean available monthly income (£s)	953	518	204	533
Distribution of changes in monthly available income (percentages of households)^(b)				
Down by more than £100	27	30	49	21
Down by £51 to £100	9	22	6	15
Down by £1 to £50	4	7	5	10
Not changed	38	30	28	44
Up by £1 to £50	5	3	5	5
Up by £51 to £100	7	3	1	2
Up by more than £100	9	6	5	2
Mean change in available income (£s)	-28	-51	-71	-40

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Questions: 'How much of your monthly income would you say your household has left after paying tax, national insurance, housing costs (eg rent, mortgage repayments, council tax), loan repayments (eg personal loans, credit cards) and bills (eg electricity)?'. 'And how much would you say your monthly leftover income has changed over the past year?'

(b) Columns may not sum to 100 because of rounding.

financial assets. In comparison with the NMG survey, ONS data for household post-tax incomes showed a rise of about 1% in the year to 2009 Q2, although this was much lower than the 5% average growth rate seen over the preceding fifteen years.⁽⁴⁾

Weakness in the housing market

The price of an average house fell by around 20% between the peak in the housing market in Autumn 2007 and Summer 2009. Since then house prices have recovered somewhat such that in September 2009 they were around 16% below their peak in Autumn 2007 and around 5% below their level in September 2008.⁽⁵⁾ The average house value reported by mortgagors in the 2009 survey was broadly unchanged from the previous year, at £210,000.

The increases in house prices between the mid-1990s and 2007 meant that first-time buyers and those trading up the housing ladder had to take on increasingly more debt to fund their house purchases. In addition, high turnover in the housing market also supported growth in secured debt, as buyers were adding more to the debt stock than was being subtracted by sellers and by the repayments of existing debt. Over the past two years, there has been much less turnover in the housing market, with the number of housing market transactions in 2009 Q3 around 60% of the levels seen earlier

(1) The raw survey data are available at www.bankofengland.co.uk/publications/quarterlybulletin/nmgsurvey2009.xls.

(2) The unemployment rate is calculated as the proportion of those active in the labour market rather than as a proportion of the whole population.

(3) For a more detailed recent discussion of the labour market, see the November 2009 *Inflation Report*.

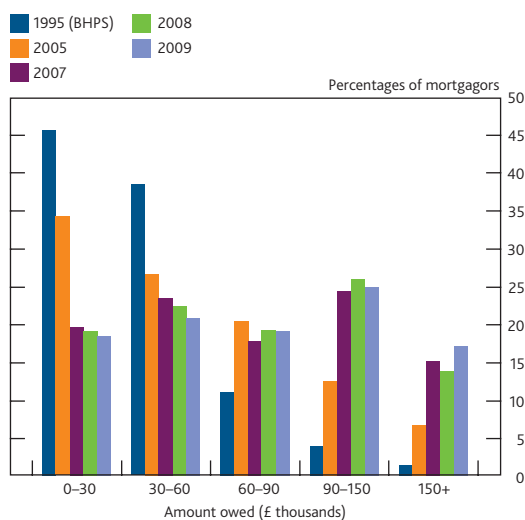
(4) The ONS data measure income after tax but before bills, for example, have been paid — so they are not directly comparable with the NMG figures for 'available' income.

(5) These statistics are based on the average of the quarterly Nationwide and Halifax house price indices.

in the decade.⁽¹⁾ At the same time prices have fallen and lenders have reduced maximum loan to value (LTV) ratios on new lending. As a result, the growth of secured debt has fallen. This is evident in the NMG survey where the shift in the distribution of secured debt among mortgagors towards higher levels of debt was much less marked between 2007 and 2009 than it was between 2005 and 2007 (**Chart 1**).

Lower house prices since 2007 have eroded the housing equity of mortgagors. This has reduced the 'buffer' of potential funds that households can draw on to smooth consumption (see Hellebrandt, Kavar and Waldron (2009)). Compared with the

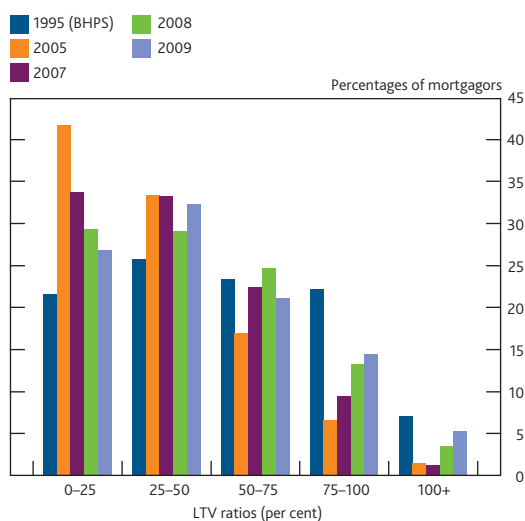
Chart 1 Distribution of secured debt among mortgagors^(a)



Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Mortgage debt from the BHPS captures mortgage debt owed by households on all properties they own. Mortgage debt from the NMG survey captures only mortgage debt owed on households' primary residences.

Chart 2 Distribution of loan to value ratios on mortgagors' outstanding secured debt^(a)



Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Mortgage debt from the BHPS captures mortgage debt owed by households on all properties they own. Mortgage debt from the NMG survey captures only mortgage debt owed on households' primary residences.

2007 survey, the proportion of mortgagors with LTV ratios in excess of 75% (high LTV mortgagors) increased as did the proportion of those in negative equity (LTV greater than 100%), which rose from 1% in 2007 to 5% in 2009 (**Chart 2**).⁽²⁾ Nevertheless, most homeowners still have a substantial buffer of housing equity. Over 80% of mortgagors had an LTV ratio below 75% in the 2009 survey.

Credit conditions

The financial crisis that began in the summer of 2007 has significantly affected households' access to credit. When assessing the impact of tightening credit conditions on household finances, it is useful to distinguish between housing tenure groups, that is, between households who own their homes outright, mortgagors and renters. Past surveys have shown that outright owners have very little debt. Most debt (including unsecured debt) is owed by mortgagors, where for most borrowers that debt is backed by substantial amounts of housing collateral. However, as discussed above, falling house prices have eroded the value of that collateral. Unlike outright owners and mortgagors, renters can only borrow unsecured and for this reason they tend to face higher borrowing costs. Given the rise in unemployment, the analysis below also assesses the impact of tightening credit conditions on this group.

In 2006 and 2007 a small net percentage balance of households, especially mortgagors, found that credit had become easier to access over the year preceding the survey. But in 2008 and 2009 a much larger net percentage balance of respondents thought credit conditions had deteriorated (**Chart 3**). The tightening in credit conditions applied particularly to renters and high LTV mortgagors, who had little or no collateral to pledge, and the unemployed, who were probably less able to service debt payments and had less chance than in the past to find work quickly.

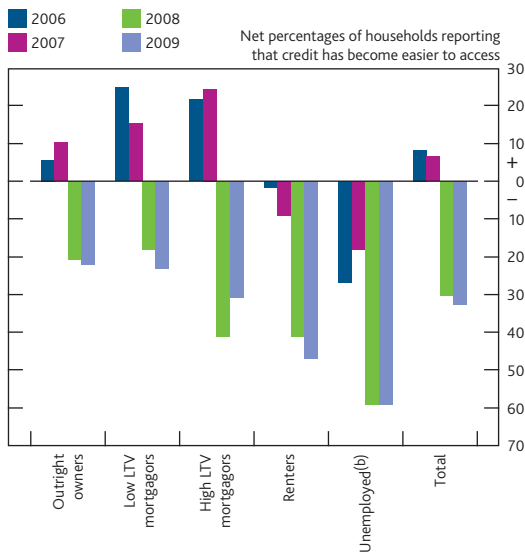
Around 17% of respondents reported being put off spending because of concerns about credit availability (**Chart 4**). Again, high LTV mortgagors, renters and the unemployed were more likely to report being credit constrained. And 8% of households also reported that they would like to borrow more, but found it too expensive.

The proportion of mortgagors who took out an additional mortgage in the year preceding the 2009 survey remained small, unchanged at 6% from 2008, and down from the higher rates of 10% and 14% in 2007 and 2006 respectively. This may reflect lower demand for additional secured loans given the shrinking buffer of housing equity, but it is also likely to reflect reduced willingness of lenders to provide such loans.

(1) Source: Her Majesty's Revenue and Customs data.

(2) The accuracy of these estimates depends on the reliability of the overall survey responses. Hellebrandt, Kavar and Waldron (2009) discuss the advantages and disadvantages of survey-based measures of negative equity and compare them to other estimates of negative equity monitored by the Bank.

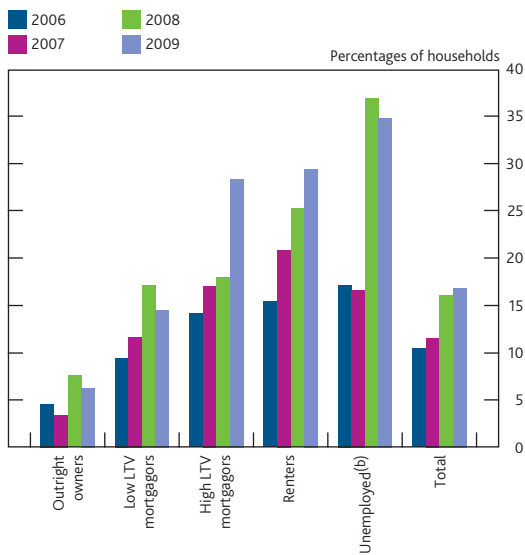
Chart 3 Change in credit conditions^(a)



Sources: NMG Financial Services Consulting survey and Bank calculations.

- (a) Question: 'Have you found it easier or harder to borrow to finance spending than a year ago?'
- (b) Unemployed respondents are included in the housing tenure categories as well.

Chart 4 Proportion put off spending by concerns about credit availability^(a)



Sources: NMG Financial Services Consulting survey and Bank calculations.

- (a) Question: 'Have you been put off spending because you are concerned that you will not be able to get further credit when you need it, say because you are close to your credit limit or think your loan application would be turned down?'
- (b) Unemployed respondents are included in the housing tenure categories as well.

Of those who took out an additional mortgage, the proportion that used it to finance consumption (car, holiday or consumer goods) fell from 31% in 2008 to 7% in 2009. And the proportion taking out an additional mortgage to repay other debts also fell from 39% to 17% over the same period.

Monetary policy response

Between October 2008 and March 2009, in response to the financial crisis and the weakening economic outlook, the Bank's Monetary Policy Committee cut Bank Rate from 5% to 0.5% and embarked on a programme of asset purchases

financed by the issuance of central bank reserves. These policies influenced the interest rates faced by borrowers and savers although lenders have not always passed on the full cut in Bank Rate to lending rates. The average interest rate on the UK stock of mortgages fell from 5.8% in September 2008 to 3.6% in September 2009. The average interest rate on the unsecured debt stock fell over the same period from 11.0% to 10.2%. Meanwhile, the average interest rate on the stock of deposits fell from 3.8% to 1.5%.⁽¹⁾

Falling interest rates benefit borrowers but have an adverse effect on the interest income of savers. However, not all borrowers benefit to the same extent. The survey can shed light on how different groups of borrowers may have been affected. Around 41% of mortgagors reported that they had remained on a fixed-rate mortgage during the preceding twelve months and therefore had not benefited from lower interest rates. Another 45% of mortgagors reported themselves to be on a continuing variable-rate deal.⁽²⁾ Almost half of them reported a fall in their monthly mortgage payments in excess of £100 and almost a quarter reported a fall of more than £200 (Table B).

Table B Characteristics of mortgagors and changes in repayments by types of mortgage

	Mortgagors on continuing variable-rate deals	Mortgagors who had a deal that expired during the preceding twelve months
Percentages of mortgagors	45	14
Mean outstanding mortgage balance (£s)	78,966	112,510
Mean last monthly instalment on mortgage (£s)	473	666
Distribution of changes in monthly mortgage repayments (percentages of mortgagors)		
Down by more than £200	23	10
Down by £101 to £200	26	15
Down by £51 to £100	18	14
Down by £1 to £50	14	12
More or less the same	16	28
Up by £1 to £50	0	4
Up by £51 to £100	2	4
Up by £101 to £200	0	6
Up by more than £200	0	7
Mean change in monthly repayments (£s)	-130	-39

Sources: NMG Financial Services Consulting survey and Bank calculations.

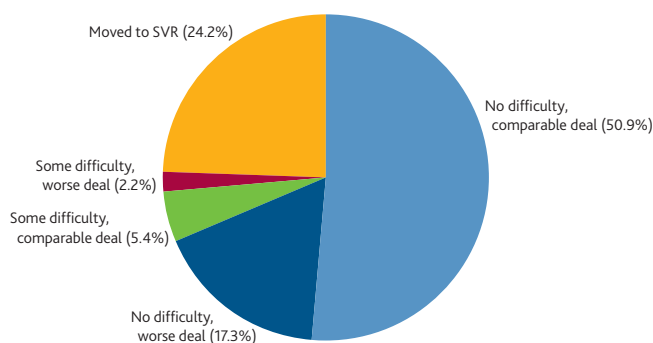
The remaining 14% of mortgagors had a deal that had expired during the twelve months preceding the survey. The majority of mortgagors in this category were able to refinance onto a new deal with lower monthly payments. But the average fall

(1) Source: Bank of England *Monetary and Financial Statistics (Bankstats)*.
 (2) Some variable-rate mortgage contracts were such that the interest rate followed Bank Rate down to a certain threshold. Once that threshold was reached further cuts in Bank Rate were not passed on.

was considerably smaller for this group than for mortgagors on continuing variable-rate deals (**Table B**). A fifth of them reported a rise in monthly mortgage payments. This could be because falling house prices had increased their LTV ratios, forcing them to refinance onto a more expensive mortgage.

Among those mortgagors whose deal had expired during the twelve months preceding the survey, about a fifth reported that they got a worse deal on their new mortgage (**Chart 5**). And only 8% reported some difficulty when refinancing. This may be because, unlike in previous years, moving to their lender's standard variable rate (SVR) was an attractive alternative to refinancing onto a new deal for many households. Almost a quarter moved to the SVR in 2009 compared to only 7% in 2008. In the 2009 survey all mortgagors who moved to the SVR saw their payment fall or remain broadly unchanged, with an average fall of £109. By contrast, monthly payments increased by £89 on average for mortgagors who reported moving to the SVR in the year preceding the 2008 survey.⁽¹⁾

Chart 5 Credit conditions when refinancing a mortgage^(a)



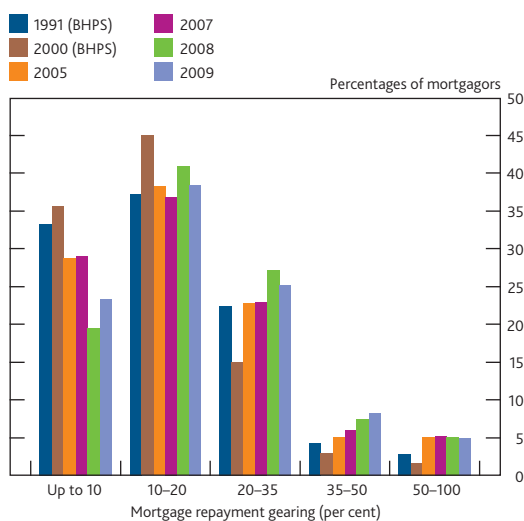
Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Did you have a mortgage deal that ended/came up for refinancing during the past twelve months? If yes, when you refinanced your mortgage which statement best describes your experience?'

Across all mortgagors (including those on fixed-rate deals who had not benefited from the fall in interest rates) just over a half reported that their repayments had fallen over the past year. And around 15% saw falls in repayments in excess of £200 per month.

Changes in interest rates faced by mortgagors affect the share of income devoted to servicing their secured debt (mortgage repayment gearing). The proportion of mortgagors devoting less than 10% of their pre-tax income to mortgage payments had increased compared to the 2008 survey, reflecting the fact that monetary policy might have eased the burden of secured debt for some households (**Chart 6**). However, it also appears that mortgagors with lower levels of gearing benefited more from the fall in payments, with the proportion who spend over 35% of their income on mortgage payments little changed from 2008. This partly reflects a higher prevalence of

Chart 6 Mortgage repayment gearing^{(a)(b)(c)}



Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Mortgage repayment gearing is calculated as total mortgage payments (including principal repayments)/gross income.

(b) Calculation excludes those whose gearing exceeds 100%.

(c) Reported repayments may not account for endowment mortgage premia.

fixed-rate mortgage deals among more highly geared households.

Repayment problems and how households respond to them

Weak wage growth, higher unemployment, a fall in housing wealth and further tightening in credit conditions might be expected to have put the financial position of British households under considerable strain and led to increased problems with mortgage and rental payments, bills and other credit commitments. On the other hand, monetary policy easing and fiscal measures are likely to have alleviated some of that strain. It is encouraging that the proportion of households that reported that they could keep up with bills and credit commitments without much difficulty increased to 64% in this year's survey (**Table C**) compared with 58% in 2008.

There was also a rise in the proportion of respondents who reported no problems in keeping up with bills and credit commitments among high LTV mortgagors and the unemployed. Among these groups the proportion who reported that keeping up with payments was a struggle was correspondingly lower. The proportion that reported more serious difficulties, involving falling behind on payments, had remained unchanged for the unemployed but increased from 4% in 2008 to 9% in 2009 for high LTV mortgagors.

The proportion of households who said that they were having difficulty keeping up with their housing payments (ie rental

(1) A further reason, besides low SVR, for preferring to move to the SVR is that this avoids having to pay the lender fees for refinancing onto a new deal.

Table C Keeping up with bills and credit commitments^(a)

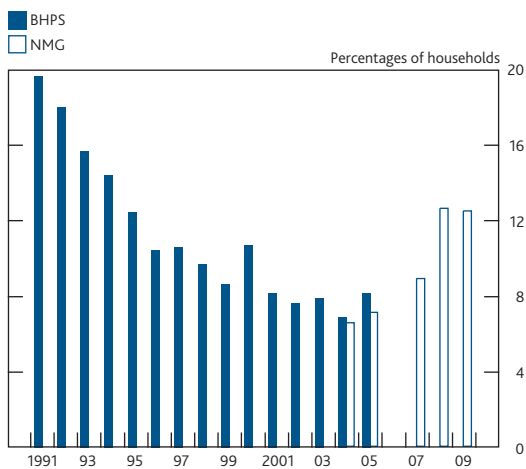
	Outright owners	Low LTV mortgagors	High LTV mortgagors	Renters	Unemployed	Total
Percentage that mentioned:						
Keep up without much difficulty	79	65	53	46	38	64
Keep up, but struggle from time to time	16	28	33	31	36	25
Keep up, but have a constant struggle	4	6	5	15	13	8
Have fallen behind on some or many payments	1	2	9	7	13	3

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Which one of the following statements best describes how well your household is keeping up with your bills and/or credit commitments at the moment?'

payments for renters and mortgage payments for mortgagors) remained broadly unchanged over the year (**Chart 7**). There were, however, some important differences across households: the proportion of mortgagors, especially high LTV mortgagors, experiencing housing payment problems increased, whereas the proportion of renters with housing payment problems fell, but remained elevated (**Chart 8**).

Chart 7 Housing payment problems^{(a)(b)}

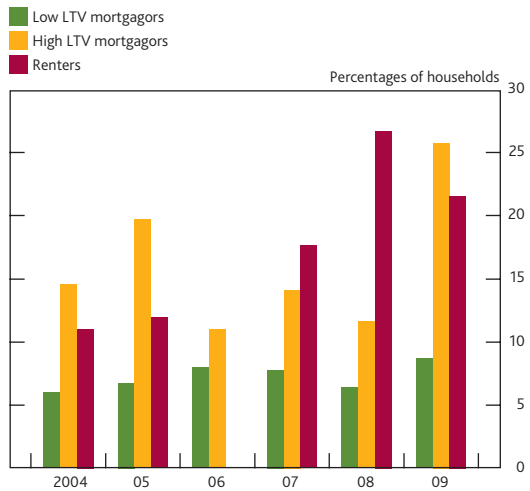


Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Many people these days are finding it difficult to keep up with their housing payments. In the past twelve months would you say you have had any difficulties paying for your accommodation?'.
 (b) In the 2006 NMG survey, renters and outright owners were not asked this question, so data for 2006 have been excluded from the chart because they are not comparable.

The pickup in housing payment problems for high LTV mortgagors relative to low LTV mortgagors could be for two reasons. Because credit availability appeared to have deteriorated by more for high LTV mortgagors, they will have been less able to access credit to help them cope with fluctuations in income or other shocks. Indeed, those high LTV mortgagors who reported housing payment problems had seen, on average, a much larger fall in available income than those who did not report problems. Also, a higher proportion of high LTV mortgagors had fixed-rate mortgages and so this group benefited less from falls in mortgage interest payments.

Chart 8 Housing payment problems by tenure^{(a)(b)}



Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Many people these days are finding it difficult to keep up with their housing payments. In the past twelve months would you say you have had any difficulties paying for your accommodation?'.
 (b) Renters were not asked this question in 2006.

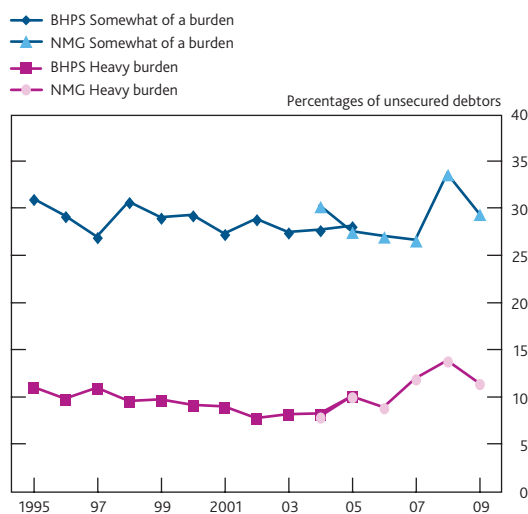
The fall in housing payment problems for renters may partly reflect lower rents, as indicated by survey data from the Royal Institution of Chartered Surveyors which suggested that rents had fallen since Summer 2008.

Respondents experiencing housing payment problems were also asked for the first time in the 2009 survey if they had missed any mortgage or rental payments. Of those experiencing problems, 39% of renters had missed a payment, compared with 32% of high LTV mortgagors and 8% of low LTV mortgagors.⁽¹⁾ Only 2% of all mortgagors reported being in arrears while 1% reported being in arrears of more than three months. This is lower than the 2.4% arrears rate (for arrears of more than three months) in 2009 Q3 reported by the Council of Mortgage Lenders.⁽²⁾

The survey also asked about the burden of unsecured debt. The proportion of households with unsecured debt who said that it was a burden fell in 2009 (**Chart 9**) and this was true across housing tenure groups and also for the unemployed.

Households who reported difficulty in keeping up with bills and credit commitments were asked for the reasons for their problems. The most common reason cited was 'lack of cash flow that has been or will be resolved in the future' (**Table D**). Higher-than-expected bills were cited by 20% of households, down from 35% in 2008. And, the proportion of respondents who said loss of income through reduction or cessation of

(1) The UK Government announced in its 2008 Pre-Budget Report a number of measures aimed at improving access for the unemployed to the 'Support for Mortgage Payments' programme, in particular by increasing the capital limit and reducing waiting periods before being able to claim payment support. For more information, see Box 5.6 in Budget Report 2009 (www.hm-treasury.gov.uk/bud_bud09_repindex.htm).
 (2) This could be because of reluctance of some survey respondents to admit to having financial difficulties.

Chart 9 Burden of unsecured debt^(a)

Sources: British Household Panel Survey, NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'To what extent is the repayment of these loans and the interest a financial burden on your household?'

Table D Reasons for difficulty in keeping up with bills and credit commitments^(a)

	2008	2009
Percentage that mentioned:		
Lack of cash flow that has been or will be resolved in future	28	31
Higher-than-expected household bills	35	20
Overspending	13	16
Loss of income through reduction or cessation of overtime	7	14
Unemployment	9	8
Illness	4	5
Higher-than-expected interest rates	8	5
Children's school or university fees	2	3
Credit card and other loan offers were too tempting	2	2
Redundancy	2	2
Divorce or separation	3	2
You or your partner leaving work to have a child	1	1
Debt legacy from being a student	1	1
Other	7	11
Don't know	5	3

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Households were permitted to make multiple responses so figures do not add up to 100.

overtime was a cause of their financial problems, increased from 7% in 2008 to 14% in 2009.

When asked what action they would consider taking to resolve the difficulty in keeping up with bills and credit commitments, the most frequently cited response was to cut back on spending (Table E). But there were also a high number of 'other' responses this year (15%). When asked to specify their reason, many respondents indicated that they would try to increase their labour income. For the unemployed and inactive, this would be through trying to find a job; and for those already employed, this would be through trying to find an additional job or a better paid job or through trying to work

Table E Action to resolve difficulties in keeping up with bills and credit commitments^{(a)(b)}

	Total
Percentage that mentioned:	
Cut back on spending	45
Use cash in savings/other assets	5
Take out another loan	4
Sell your house	3
Declare yourself insolvent (ie bankruptcy or an Individual Voluntary Arrangement)	1
Enter into another debt solution	3
Take out another mortgage on your house	1
Other (please specify)	15
None of these	27
Don't know	5

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Households were permitted to make multiple responses so figures do not add up to 100.

(b) In 2009 the list of options was extended so the results are not directly comparable to the 2008 survey.

more overtime. Over a quarter of those reporting difficulties said they would not take any of the actions presented to them.

Prospects for spending and saving

The perception of falling incomes, housing wealth and tightening credit conditions is likely to have altered households' decisions on whether to save or spend. A recent *Quarterly Bulletin* article outlined a number of reasons why the financial crisis and recession might encourage household saving.⁽¹⁾ The article noted that while a rise in household saving during a recession may seem counterintuitive — because households might instead be expected to run down their saving to smooth consumption — at times certain factors (such as increased uncertainty and tighter credit conditions) may outweigh the desire to maintain earlier consumption levels. And, as noted by Benito *et al* (2007), falling asset prices may push down on spending, particularly for households with a lot of debt relative to their assets (ie those with high leverage).

This year's NMG survey included for the first time additional questions aimed at finding out whether or not households had increased or planned to increase their saving and if so why. Around a quarter of respondents reported an increase or planned increase in saving (Chart 10).⁽²⁾ And about 35% of households said that they had 'definitely not' increased or planned to increase saving.⁽³⁾

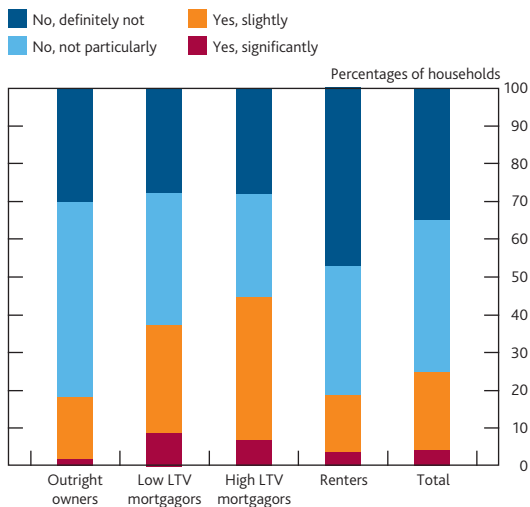
High LTV mortgagors were more likely to increase their saving than low LTV mortgagors. And outright owners were much

(1) Berry, Waldron and Williams (2009).

(2) It is not easy to infer whether these qualitative responses imply a small or large change to total household spending, because there is no information on the actual monetary increase in saving.

(3) This is consistent with the findings of the 2005 NMG survey — the most recent survey to include questions about financial assets — which showed that 30% of all households have no financial assets whatsoever. For more information, see Barwell, May and Pezzini (2006).

Chart 10 Actual or planned increase in saving^(a)



Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'

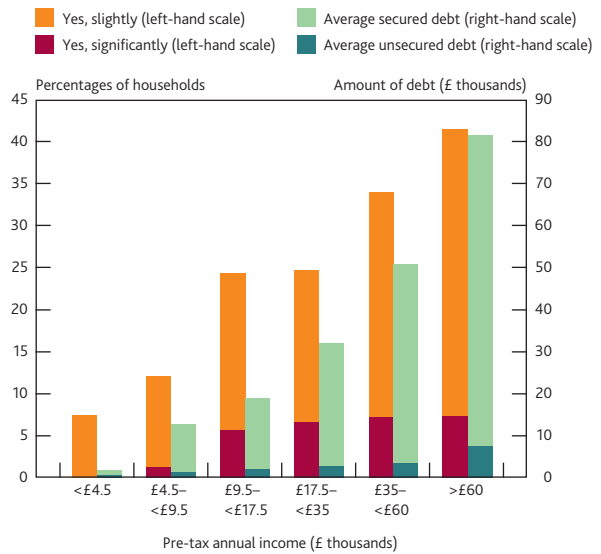
less likely to increase saving than mortgagors (Chart 10). This suggests that the desire to deleverage in the wake of falling house prices may be one of the reasons for increased saving (Benito *et al* (2007)). For a given fall in house prices, mortgagors will have seen a larger percentage reduction in their housing equity than outright owners. High LTV mortgagors will have been most affected. Since housing equity is likely to be a significant component of an individual homeowner's net worth, they may respond to a reduction in housing equity as they would to a fall in lifetime income, by reducing spending and increasing saving. Another potential explanation for the difference between mortgagors and outright owners is the fact that mortgagors are likely to have benefited the most from falling interest rates. As a result they have additional funds available that they can use to increase their saving.

Renters were the least likely group to increase saving. This may partly be because they tend to have lower incomes and so less scope to increase saving. Indeed, the survey suggests that the incidence of increased saving or planned increase in saving rises with income (Chart 11). High-income households also tend to hold the most debt (both secured and unsecured).

An increase or planned increase in saving was markedly more likely among individuals of working age than among those of retirement age (Chart 12). This may partly reflect differences in incomes between these groups. But it may also be that rising unemployment increased the uncertainty about future employment and income, increasing the need for precautionary saving for those below retirement age.

Households who had increased or were planning to increase saving were also asked to select the single main reason for the increase. Fear of redundancy, the desire to reduce debts,

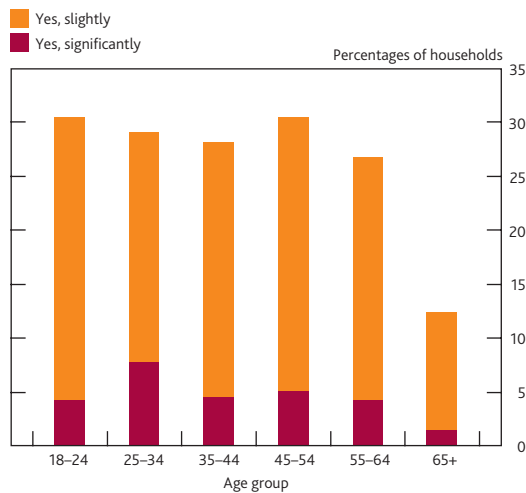
Chart 11 Actual or planned increase in saving and debt levels by income^(a)



Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'

Chart 12 Actual or planned increase in saving by age group^(a)



Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'Are you planning to/or have you already started to increase the amount of money you save?'

additional personal commitments and extra cash from falling mortgage payments or bills, were the reasons most often cited (Table F). More than a quarter selected 'other' reasons. Those respondents who selected 'other' were then asked to specify their reason and the answers tended to fall into three categories: saving for retirement, saving for the future and saving because they had extra money from a new job or an inheritance.

There was some variation in the reasons for increased saving across age groups. For young people (aged 18-24), the most commonly cited reason was to save up for a deposit for a house or flat. A large proportion of those between 35 and 44

Table F Reasons for actual or planned increase in saving^(a)

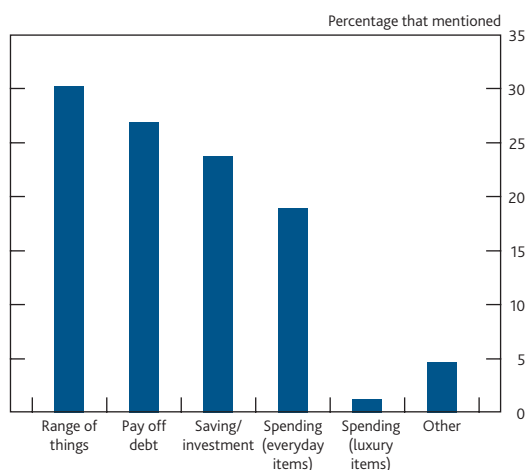
	Per cent
Percentages of those who planned to/or had already increased saving^(b)	
Fear of redundancy/job insecurity	10
Trying to reduce debts	9
Additional personal commitments	9
Extra cash from decrease in mortgage pay	9
Extra cash from fall in other bills	8
Saving for deposit on house/flat	6
Less guaranteed monthly income	6
Value of existing investments fallen	5
Worried about future tax increases	2
Other reasons	28
Don't know	7
Refused	2

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'What would you say is the main factor driving this increase (in actual or planned saving)?'.
 (b) Percentages do not sum to 100 because of rounding.

had increased saving in order to pay off debts. For those aged over 65, the most commonly cited reason was a fall in the value of their existing investments. Fear of redundancy was commonly cited among all those of working age.

This year the survey also included a new question on how those households that had benefited from a fall in mortgage payments over the past year had used that extra money. Over a quarter of households benefiting from lower payments used the money to pay off debt (**Chart 13**), while another quarter used the extra money to increase saving. Around a fifth reported using the money for spending although very few reported using the money to purchase luxury items. Around 30% said they had not been using the money on anything in particular and that it went on a range of things.

Chart 13 Use of money saved on mortgage payments^{(a)(b)}

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) Question: 'How are you using this extra money that you are saving on your mortgage payments?'.
 (b) Respondents were allowed to give more than one use of their additional saving. As such, the categories may not sum to 100%.

Reassessment of debt levels

As already mentioned, the desire to deleverage was an important reason for increased saving (**Table F** and **Chart 13**). Around 6% of all respondents reported either that trying to reduce debt was the most important reason for their increase in saving or that they had used the additional money from lower mortgage payments to pay off debt. Such deleveraging could have a material effect on the level of aggregate debt in the economy, if those who were keen to reduce their debts held the largest amounts of it and if they were successful at paying off a significant share. The survey suggested that the average secured and unsecured debt of all those respondents who had some form of debt was £50,000 and £5,000 respectively. But those who explicitly reported paying off debts had on average £85,000 in secured debt and £7,000 in unsecured debt. And the debt to income ratio of those seeking to pay off debts was nearly five compared to an average debt to income ratio of two, across all households who had some form of debt.⁽¹⁾

A higher proportion of households with unsecured debt had increased or planned to increase saving compared to those that had no unsecured debt (**Table G**, Panel A).⁽²⁾ But increased saving was less likely if households reported the burden of debt to be 'heavy', presumably because debt-servicing costs were higher for these households leaving less funds available for saving (**Table G**, Panel B).

Table G Saving for those with and without unsecured debt

Per cent	Actual or planned increase in saving ^(a)	
	Yes	No
Panel A		
All households	26	74
Those that do not have unsecured debt	22	78
Those that have unsecured debt	30	70
Panel B		
Those that have unsecured debt and:		
debt is heavy burden	11	89
debt is somewhat of a burden	30	70
debt is not a burden	33	67

Sources: NMG Financial Services Consulting survey and Bank calculations.

(a) The 'Yes' column reports the share of each group of households (described in the first column) that increased saving (significantly or slightly).

Summary and conclusions

The latest NMG survey shed some light on the impact of the events of the past year on British households' finances. It suggested that households had experienced rising

(1) These calculations use the mid-point value for debt (and income) that is derived from the lower and upper monetary values that households select, eg £5,000–£10,000.
 (2) Households with unsecured debt make up 52% of all households in the sample.

unemployment and weak wage growth, erosion of their housing equity and a further tightening in credit conditions. However, despite the worst recession since the Second World War, the proportion of households who reported difficulties keeping up with bills and credit commitments had fallen slightly compared to the previous year's survey. This partly reflected the effects of the reduction in interest rates on borrowers' loan repayments. Over half of all mortgagors in the survey reported a fall in their monthly mortgage repayments.

The survey also highlighted that the impact of the weak economy and tight credit conditions differed substantially across households, with some groups particularly vulnerable. Those that reported themselves to be unemployed at the time of the survey reported the largest fall in their available income over the past year. And lenders' efforts to reduce the riskiness of new lending had borne down most heavily on high LTV mortgagors, renters and the unemployed, who reported the greatest constraints on borrowing. At the same time fewer

high LTV mortgagors benefited from lower interest rates because a higher proportion were on continuing fixed-rate deals. In contrast to the general trend, a higher proportion of high LTV mortgagors reported arrears on bills and credit commitments and housing payment problems than in the previous year's survey.

The perception of falling available incomes and tightening credit conditions is likely to have borne down on consumer spending. Monetary policy is likely to have had some stimulatory impact, with one in five of mortgagors who benefited from lower interest payments reporting that they had used the money to finance spending. Going forward, the prospects for consumer spending depend to a large extent on household attitudes to saving. Around a quarter of respondents reported that they have increased or plan to increase the amount of money they save. The survey suggests that the increase in saving is more common among people of working age, in employment, and particularly among mortgagors.

Survey method

The survey was undertaken between 25 September and 1 October 2009 by adding 35 questions related to household finances and housing wealth to a regular monthly survey, MarketMinder, carried out by NMG Financial Services Consulting. Interviews were conducted on 1,933 households in the respondents' homes using Computer Assisted Personal Interviewing (CAPI). The results were weighted to help correct for any bias in the sample using nationally defined profiles for age, social grade, region, working status and housing tenure.

A limitation of all surveys about sensitive issues such as household finances is that some people are reluctant to discuss them in face-to-face interviews. Because of embarrassment, those who face the most financial stress might be more likely than others to refuse to answer certain questions or to understate their difficulties. As in previous years, the survey was designed to reduce these possibilities. In order to encourage respondents to divulge sensitive information, they were told that the survey was being carried out on behalf of the Bank of England and would be useful in assessing how spending might be affected by its monetary policy decisions and in judging the risks to financial stability. They were assured that their replies would be treated in the strictest confidence, would not be passed to any third party at any stage in the future and would not under any circumstances be used for sales or marketing purposes. Also, to avoid embarrassment in revealing sensitive information to the interviewer, replies to questions were coded on show cards and recorded on a computer in such a way that the interviewer would not know the content of respondents' answers.

Response rates for the 2009 survey were generally higher than those obtained in previous years. Only those respondents who were the chief income earner or main shopper were asked for their income. On a weighted basis, this meant that 9% of respondents were not asked about their income. A further 26% of households refused to provide (12%) or did not know (15%) their household income. And 13% of respondents refused to say or did not know how much secured debt they owed. A similar percentage of households did not provide information about their unsecured debts, with 8% not knowing how much they owed and 3% refusing to say how much. There was quite a large overlap between those households who did not provide information about their income and those that refused to provide information about their debts.

Several possible approaches can be used to adjust for missing values arising from non-response to particular survey questions. Effectively, these all involve imputing a value for

missing observations. All calculations reported in this article have been carried out using all available responses, implicitly assuming that non-response is distributed in the same way as recorded responses: that is, regardless of the characteristics of non-respondents. But in practice non-response for individual survey questions is not distributed uniformly across groups in the survey population. For example, older people were more likely to refuse to say what their household income was. Nevertheless, internal analysis shows that the overall conclusions from the survey are not very sensitive to the imputation method used.

But the extent to which the sample of households surveyed can be considered representative of the population as a whole also depends on other factors. For example, collectively, survey respondents may systematically misreport information about their finances. Redwood and Tudela (2004) perform an aggregation exercise using the British Household Panel Survey and conclude that mortgage debt is underrecorded, the value of households' housing assets is overrecorded and that unsecured debt is substantially underrecorded. Internal analysis shows that those broad conclusions also apply to the NMG survey. But there is less evidence that these biases vary over time. So, changes in the distribution of balance sheets between different survey years may be taken as representative of changes in the population as a whole.

Finally, in an attempt to encourage as many households as possible to provide information about their finances, the respondents were offered a list of categories from which they could select their responses. For example, mortgagors were asked roughly how much they had left to pay on their mortgage and other secured debts. Those who were prepared or able to provide a response were offered a list of 25 buckets from which to choose: 'Less than £10,000', '£10,000–£19,999', '£20,000–£29,999', ... , '£1,000,000 or more'. And similar response lists were associated with other questions (eg household income, house values etc). In each case, the buckets were chosen so that there were smaller increments in parts of the distribution that tend to draw more of the responses. But regardless of how the buckets were chosen, it is not possible to determine the distribution of responses within each bucket in the absence of additional information. For example, a mortgagor who reported having an outstanding mortgage balance of '£10,000–£19,999' could owe £10,000, £19,999, or anything between the two. Some of the statistics reported in this article require an assumption to be made about the distribution of responses within each bucket. This applies in particular to calculation of the mean (eg mean house value) and ratios of two variables (eg loan to value ratios). The approach taken in the *Quarterly Bulletin* articles that discussed NMG surveys up to 2007, was to use the mid-points of the buckets for all such calculations (eg Waldron and Young (2007)). When calculating means, this implies that

all values between the minimum and maximum in each bucket are assumed to be equally likely (that is, observations are uniformly distributed within the bucket). This method was retained for calculating means in subsequent articles.

However, using mid-points generates lumpy aggregate distributions of ratios (eg distribution of loan to values) with too few respondents falling in the extremes of the distribution (eg the percentage of households in negative equity). For this reason the ratios calculated in this article (including all NMG data covering previous surveys as well) assume that each respondent's weight is uniformly distributed between the minimum and maximum value of the ratio consistent with the buckets selected. For example, a mortgagor who reported having an outstanding mortgage balance of '£20,000–£29,999' and a house worth '£100,000–£124,999' is

assumed to have a loan to value ratio of anywhere between 16% (for a mortgage of £20,000 and a house value of £124,999) and 30% (for a mortgage of £29,999 and a house value of £100,000), with all values in between equally likely. This means that in producing **Chart 2**, 64% of this mortgagor's weight would be assigned to the 0–25 bucket and 36% would be assigned to the 25–50 bucket. The percentages are obtained by calculating the proportion of the mortgagor's range of possible loan to value ratios that lies in each of the two buckets. While this approach has shortcomings of its own (the ratio of two uniform distributions is not uniform) internal analysis has shown that it is a more accurate representation of the raw information provided by the respondents than the method using mid-points. It has also shown that the results are not very sensitive to the method used.

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