The financial position of British households: evidence from the 2013 NMG Consulting survey

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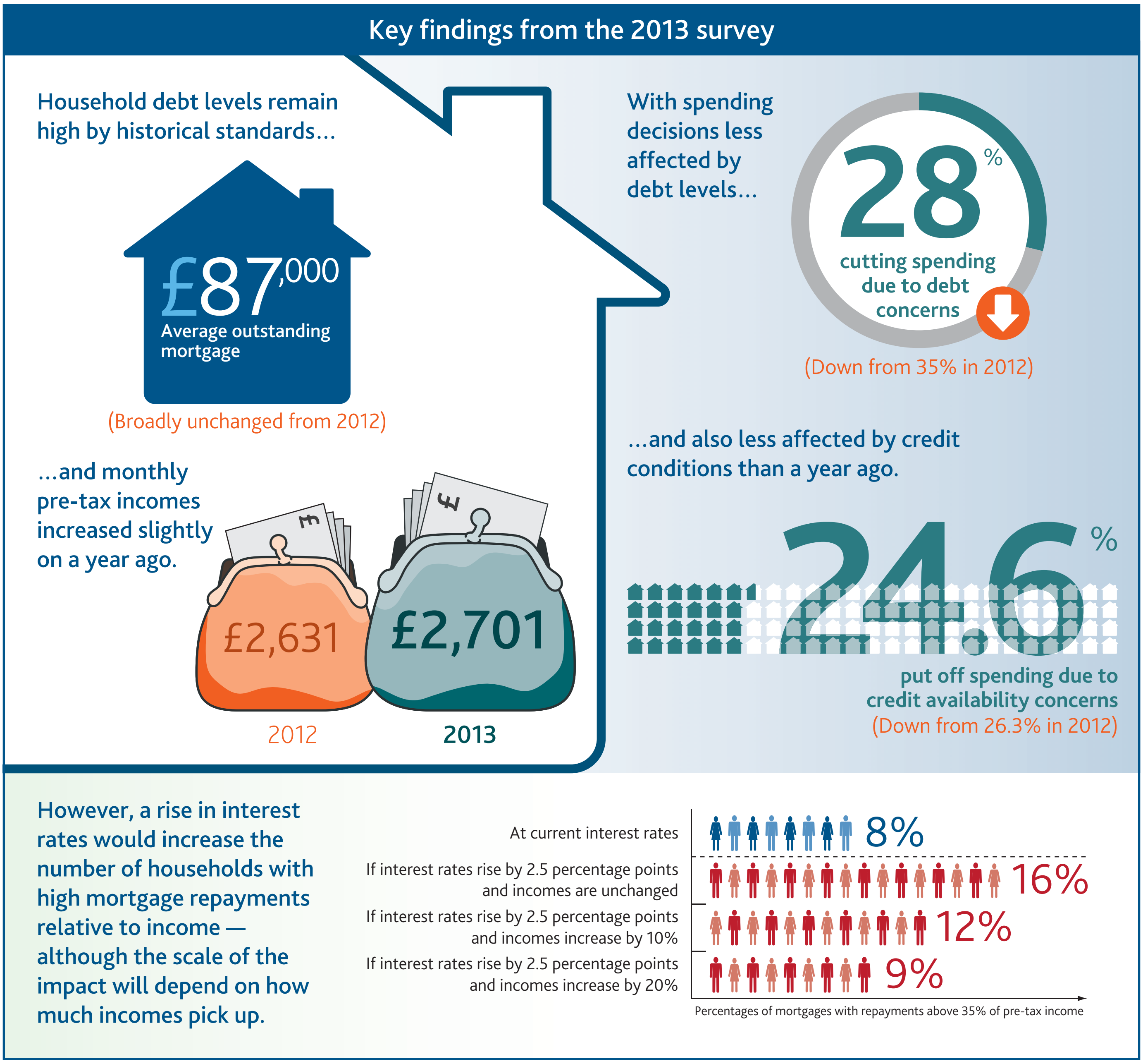
This article examines recent developments in household balance sheets using disaggregated data from an annual survey carried out by NMG Consulting on behalf of the Bank.

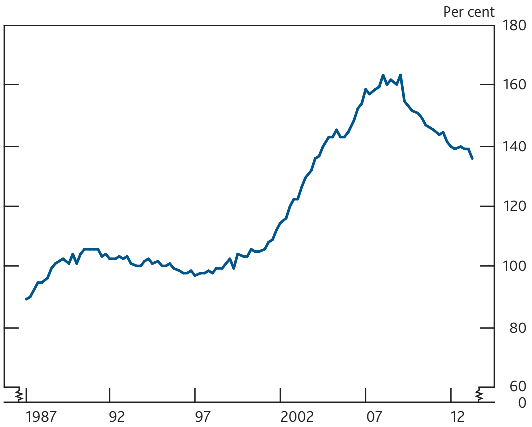


Introduction

The financial position of households has implications for both monetary and financial stability. The ease and cost of access to new borrowing affects households' ability to bring forward spending, and high debt levels can make household consumption more sensitive to shocks such as unexpected changes to their income. Also, households' ability to service their debts, and the extent to which they find debts a burden can have important implications for the stability of the financial system.

The stock of household debt rose substantially in the decade before the financial crisis, but has since flattened off. The debt to income ratio rose from around 100% in the 1990s to a peak of around 160% in 2008 (**Chart 1**). This can be largely accounted for by the rise in house prices over this period.

Chart 1 Household debt to income ratio[(a)]



Sources: ONS and Bank calculations.

(a) Total financial liabilities as a percentage of annualised total household resources.

Since 2008, the debt to income ratio has fallen back to around 140%, which reflects a broadly flat stock of debt combined with modest growth in nominal incomes. In part, the stabilisation of debt is likely to be related to a tightening in credit conditions since the onset of the financial crisis. That has prevented households from taking on as much debt as they otherwise would have done, for example because fewer households have entered the housing market. But lower house prices may also have played a role in explaining why the stock of household debt has stopped increasing.

Disaggregated survey data are a useful source of information about how households with different characteristics are adjusting their balance sheets following the financial crisis. Survey responses can also shed light on the drivers of observed household behaviour, as well as on the future sustainability of balance sheet positions.

Between 12 and 30 September 2013, NMG Consulting carried out an online survey of around 6,000 UK households on behalf of the Bank and asked them a range of questions about their finances. This is the eleventh annual survey on household finances that the Bank has commissioned from NMG Consulting.[(1)] As in previous surveys, households were asked a range of questions about their income, debt, credit conditions, uncertainty and saving.

The 2013 survey was the first to contain a substantial longitudinal element: that is, the ability to observe the same households at more than one point in time. Around 2,400 respondents from the 2012 survey were included in the 2013 survey. Tracking the same households through time is particularly useful for analysis because it removes the possibility that differences in results across years reflect differences in the sample. The results reported in this article are from the entire cross-sectional data set (which includes both returning and new respondents) unless stated, although in most cases the cross-sectional and longitudinal data lead to similar conclusions. The box on page 353 contains further details on the survey methodology and the longitudinal data set.

This article examines recent developments in household balance sheets using disaggregated data from the NMG survey and considers the implications for monetary policy and financial stability. It is structured as follows: it starts by summarising the latest data on the level and distribution of household debt, as well as debt-servicing costs and sustainability. It then goes on to discuss the extent to which households are concerned about debt and how they have responded to those concerns. The final section looks at households' ability to access new borrowing. Evidence from the survey on developments in household saving is covered separately in a box on page 354.

Debt levels and distribution

On average, mortgage debt levels were little changed over the past year, although the level of debt remains relatively high by historical standards. Households reported that the average outstanding mortgage was around £87,000, broadly unchanged from the 2012 survey. The survey results are in line with official data, which also suggest that the outstanding stock of secured debt held by UK households was little changed over the year to 2013 Q3, as it has been since 2008.

The distribution of mortgage debt across UK households remained wide in 2013. For instance, while 47% of households had a debt to income ratio of less than 2 in 2013, 16% had a ratio above 4. These proportions are similar to a

(1) The results of each year's survey have been reported in the *Quarterly Bulletin*. See Bunn *et al* (2012) for details of the 2012 survey.

Survey method

Introduction and methodology

This year, the NMG survey was carried out entirely online over the period between 12 and 30 September, covering around 6,000 households. 2013 is the second year that the main survey has been carried out online,(1) but is the first year in which there has been no parallel face-to-face survey.

Self-administered online surveys have a number of advantages over traditional face-to-face methods. The most significant of these is increased disclosure, since asking households questions in a less time-pressured situation without the presence of an interviewer may encourage information about sensitive issues, such as those related to household finances, to be disclosed more accurately.(2) It may also allow for increased accuracy in the information, for example an individual may check a pay slip to give an exact measure of their personal income. Online surveys also make it easier and cheaper to cover a larger sample, something which greatly improves the reliability of results.

In previous years, financial values have been reported in ranges in the survey. A new approach was trialled this year by asking new respondents to enter actual amounts rather than selecting bands. Returning respondents from the 2012 survey (see below for details) were still given ranges to choose from to ensure comparability across the two years.

For the purpose of consistent analysis in this article, the point estimates for new respondents were then converted into bands. Therefore, to calculate ratios, such as a debt to income ratio, the mid-point of the relevant band was taken, thus reducing the impact of any extreme outliers. Asking for point estimates could increase the accuracy of responses, for example, it may encourage respondents to think more carefully when asked to enter an actual saving amount rather than simply choosing a band. But it does potentially mean that a small number of high observations can have a large impact on the average values: for example, average income and saving appear higher when calculated using point estimates rather than band mid-points.

The longitudinal element

Conducting the survey online has facilitated the introduction of a longitudinal element, allowing some of the same households to be easily sampled from one year to the next. All 4,003 respondents from the 2012 online survey were invited to complete this year's survey and a total of 2,354 returned. Using the same sample allows changes in responses to be tracked without the influence of sampling. That is, observed changes in the responses can be taken as genuine rather than simply reflecting differences in the households sampled.

The longitudinal data can also be used to examine distributional changes, for example whether the same households are uncertain about future income from one year to the next or whether it tends to be different households at different points in time.

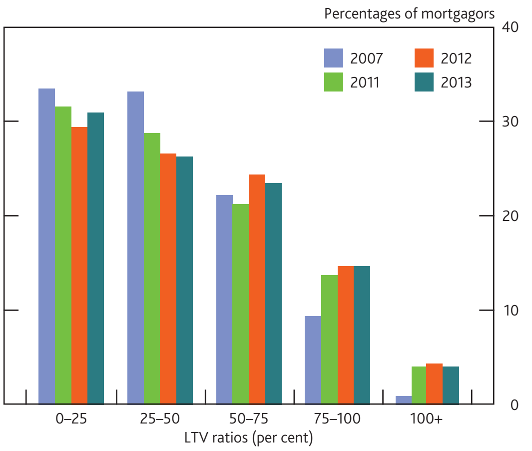
One drawback of the longitudinal data is that certain types of households may be more likely to return to the survey than others. For example, older households appear to be more likely to remain in the survey: those aged over 55 made up almost half of the sample in the longitudinal data in 2013, compared with around a third in the cross-sectional sample.

(1) This followed successful online pilots in 2010 and 2011.
(2) Dayan, Paine Schofield and Johnson (2007) find that disclosure levels to sensitive questions were higher in online surveys.

year ago. Fifteen per cent of mortgagors reported a loan to value (LTV) ratio of between 75% and 100%, while 4% were in negative equity, also broadly unchanged relative to 2012 (**Chart 2**). But the current distribution of LTV ratios remains different to before the financial crisis. In particular, the proportion of households with high LTV mortgages (including those in negative equity) is now higher.

In contrast, unsecured debt holdings increased over the past year, according to the NMG survey. For those with unsecured debt, the average amount outstanding rose from £5,400 in 2012 to £6,300 in 2013. But the increase was much smaller for returning respondents (around £150). Even so, a pickup in unsecured borrowing is consistent with official data, which show that net unsecured lending to individuals, excluding student loans, rose by 4.7% in the year to October 2013.

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



Sources: NMG Consulting survey and Bank calculations.

(a) Refers to mortgage debt owed on households' primary residences only. Results reported for 2011 to 2013 are from the online survey and results for 2007 are from the face-to-face survey.

Household saving

The outlook for household spending depends, in part, on the evolution of saving. There are many influences on household saving decisions, including balance sheet pressures, credit conditions and economic uncertainty. The NMG survey can shed light on what has happened to saving over the past year, expectations for saving over the coming year and on the reasons behind those decisions. These are discussed in turn below.

Households reported an increase in their saving over the past year. Among returning respondents, average monthly saving rose from £196 in 2012 to £255 in 2013, while the average saving ratio increased from 6.6% to 8%. Saving ratios increased for all age groups except those aged 25–34, with the largest increases being for the 18–24 group (**Chart A**).

Chart A Saving ratio by age group[(a)(b)]

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'In general over the past year, how much of your household income would you say that you put aside as savings each month (eg put into savings accounts or other assets, but excluding money paid into pensions)?'.
(b) Excludes households whose minimum possible saving exceeds their maximum possible pre-tax income. The saving ratio is defined as monthly saving divided by monthly pre-tax income. Calculations are based on households who responded in both 2012 and 2013.

The increases in saving reported in the NMG survey are somewhat puzzling and are at odds with the National Accounts saving ratio, which has fallen over the past year. They are also at odds with some other elements of the survey; for example, fewer households said that tight credit conditions or concerns about debt have held back spending than in 2012. But uncertainty about future income has not fallen, which could have encouraged some households to save more. Official data show that households have increased their holdings of bank deposits over the past year — consistent with the NMG survey asking specifically about money put aside into savings accounts. One possible reconciliation of the puzzle that households are seemingly both spending more and saving more in bank accounts is that unsecured borrowing, which has increased over the past year, is helping to finance spending.

Households reported that they plan to increase their saving over the next year: 31% of households were planning to increase saving, while 11% were planning to decrease it.(1) Holding income constant, that would add a further 0.8 percentage points to the average saving ratio. Younger households account for the largest proportion of those reporting that they plan to increase saving over the next year.

Saving for a big item, reducing debt and other personal commitments were the most commonly cited reasons why households plan to save more over the next year (**Table 1**). The share of households citing saving for retirement grew by 5 percentage points on the year, which was almost entirely driven by 35 to 44 year olds. In contrast, reducing debt and saving for a deposit were less common reasons for wanting to save more than in 2012. Fewer households wanting to save to reduce debt is consistent with them becoming more comfortable with the state of their balance sheets.

Among those households that expected to reduce their saving over the coming year, most expected to be forced to save less because of the higher cost of living or lower income (**Table 2**).

Table 1 Reasons cited by households planning to increase monthly saving over the next year[(a)(b)]

Percentages of households

	2011	2012	2013
Saving for big item	38	36	39
Reduce debts	27	34	30
Personal commitments	24	26	26
Saving for a house deposit	22	27	22
Increased income	19	22	20
Retirement	17	14	19
Worried about redundancy	15	12	11
Worried about interest rate rises	8	8	8
Future tax rises	8	6	6
Euro-area developments[(c)]	n.a.	6	5
Less guaranteed monthly income	3	5	5
Lower mortgage repayments	7	5	4
Value of assets fallen	4	2	2

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What would you say are the main factors driving this increase?'.
(b) Percentages of households that are planning to increase saving. Columns sum to greater than 100 as respondents were able to select up to four choices.
(c) This option was introduced in the 2012 survey.

Table 2 Reasons cited by households planning to decrease monthly saving over the next year[(a)(b)]

Percentages of households

	2011	2012	2013
Higher cost of essentials	43	57	46
Lower income	37	39	42
Low interest rates	18	23	24
Bought the item was saving for	16	11	15
Have enough savings	9	10	11

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What would you say are the main factors driving this decrease?'.
(b) Percentages of households that are planning to decrease saving. Columns sum to greater than 100 as respondents were able to select up to four choices.

(1) This excludes those households who answered 'don't know' or 'prefer not to state'.

Income and debt-servicing costs

Alongside debt levels, developments in income are a key factor affecting the sustainability of household debt. Results from the NMG survey suggest that nominal incomes have increased modestly over the past year (**Table A**), in line with official data. The average pre-tax income of returning respondents rose by around 3%, while 'available' income — that is, income left over after paying tax, national insurance, housing costs, loan payments and utility bills — increased by 1.5%.

Table A Monthly household income by housing tenure[(a)(b)]

	Outright owners	Mortgagors	Renters	Total
Percentage of households	42	30	26	100
Income statistics				
Mean monthly pre-tax income (£s)	2,665	3,420	2,001	2,701
Mean monthly available income (£s)	827	776	434	701
Change in mean pre-tax income (per cent)[(c)]	1.7	3.2	4.8	2.7
Change in mean available income (per cent)[(c)]	1.1	2.8	1.7	1.5

Sources: NMG Consulting survey and Bank calculations.

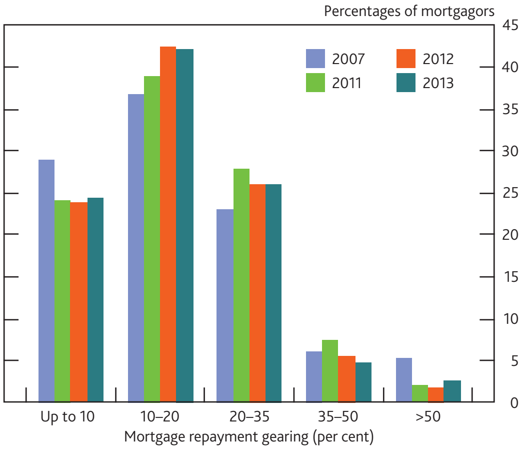
(a) Questions: 'What is the total annual income of the whole of your household, before anything is deducted for tax, national insurance, pension schemes etc?' and 'How much of your monthly income would you say your household has left after paying tax, national insurance, housing costs (eg rent, mortgage repayments, council tax), loan repayments (eg personal loans, credit cards) and bills (eg electricity)?'.
(b) Calculations are based on households who responded in both 2012 and 2013 and exclude households who reported available income greater than pre-tax income. 'Total' includes income of households who chose to not report their housing tenure.
(c) Relative to 2012 NMG survey.

Overall, the modest rise in nominal income was a little less than households had expected a year ago: income was in line with expectations for two thirds of respondents, but a net balance of around 10% of households received less than they had anticipated. The increase in nominal incomes over the past year varied across households. Renters saw faster growth in pre-tax income than homeowners, but their available income rose in line with the average across households. This suggests that renters might have experienced larger increases in housing costs.

With little change in debt levels and mortgage rates and a modest rise in income, average mortgage debt-servicing costs remained broadly unchanged over the past year. Among returning mortgagors, 'repayment gearing' — or mortgage repayments as a share of pre-tax income — fell slightly to 17% in 2013, from 18% in 2012. There were also few changes in the distribution of mortgage repayment gearing. The percentage of mortgagors with mortgage payments in excess of 35% of their income was unchanged at 8%, although that is a little lower than in 2011 and significantly lower than the 11% in the 2007 survey (**Chart 3**).

Higher unsecured debt holdings have led to some increases in debt-servicing costs. Average unsecured repayment gearing rose from 9% in 2012 to 11% in 2013, although it did fall slightly for returning respondents. The survey also suggests that more renters now have high unsecured debt-servicing costs: the percentage with gearing above 20% rose back to levels last seen before the crisis, up from 10% in 2012 to 14% in 2013 (**Chart 4**).

Chart 3 Mortgage repayment gearing[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Mortgage repayment gearing is calculated as total mortgage payments (including principal repayments) as a percentage of pre-tax income. Calculation excludes those whose reported gearing exceeds 100%. Reported repayments may not account for endowment mortgage premia. Results reported for 2011 to 2013 are from the online survey and results for 2007 are from the face-to-face survey.

Chart 4 Unsecured debt repayment gearing[(a)]

Sources: NMG Consulting survey and Bank calculations.

(a) Unsecured debt repayment gearing is calculated as total unsecured debt payments (including principal repayments) as a percentage of pre-tax income. Calculation excludes those whose reported gearing exceeds 100%. Results reported for 2011 to 2013 are from the online survey and results for 2007 are from the face-to-face survey.

The impact of a rise in interest rates

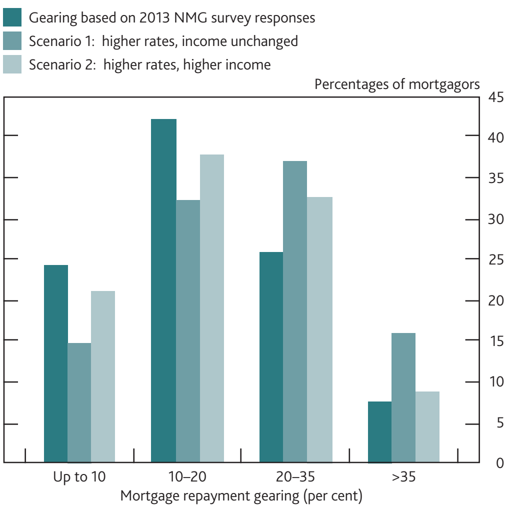
Higher interest rates would increase debt-servicing costs for households, but the extent to which that may pose problems for households in the future will depend on how much incomes increase before rates rise. Based on households' responses to a number of survey questions, it is possible to outline stylised scenarios that quantify the potential impact of a given rise in interest rates on household mortgage repayment gearing under different assumptions for income growth.

In this section, two thought experiments are considered. In the first, monthly mortgage payments reported in the NMG survey are assumed to increase in line with a 2.5 percentage point rise in effective mortgage interest rates, while incomes remain as reported in the survey.(1) In the second experiment, monthly mortgage payments are increased by the same amount, but nominal incomes are also assumed to increase relative to the levels reported by the survey respondents.(2)

The scenarios assume full pass-through of interest rate rises to all mortgagors and therefore the results could be overestimating the true effects. Indeed, households on fixed-rate contracts would not be immediately affected by a rate rise. But with many of those fixed-rate deals only lasting two to three years, these households too would eventually be affected. Also, the stock of debt is assumed to remain unchanged in all cases. The scenarios do not consider the impact on savers without debt, who would be better off if interest rates increased.

In the first experiment, a 2.5 percentage point increase in the interest rate each household is paying on its mortgage (without an increase in income) is estimated to increase average mortgage repayment gearing from its current level of 21% to around 28%. And, relative to results reported in the latest survey, the proportion of vulnerable mortgagors with repayment gearing above 35% of their income would roughly double, to around 16% of mortgagors (**Chart 5**).(3)

Chart 5 Sensitivity of the distribution of mortgage repayment gearing to higher interest rates(a)

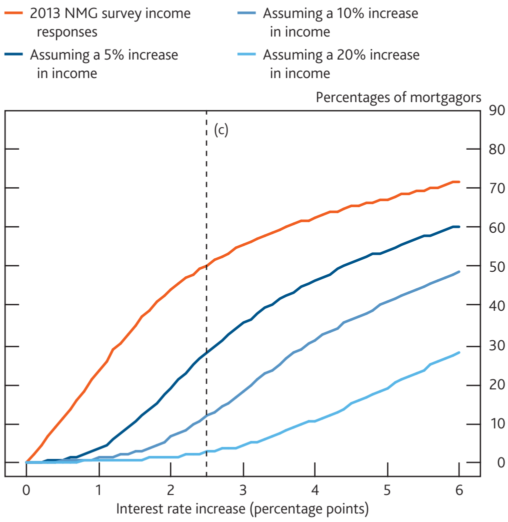


Sources: NMG Consulting survey and Bank calculations.

(a) The mortgage repayment gearing distribution based on the 2013 NMG survey responses replicates the one in **Chart 3**. 'Scenario 1' denotes the distribution under an assumed 2.5 percentage point increase in interest rates with income unchanged from its current level. 'Scenario 2' denotes the distribution under both an assumed 2.5 percentage point interest rate increase and a 20% income rise. The two scenarios assume full pass-through of higher interest rates to all mortgagors. The assumptions listed in footnote (2) also apply.

The survey also asks households about how much their monthly mortgage payments could rise without them having to take some kind of action such as cutting spending or working longer hours. From the responses provided (which are given as amounts in sterling) and the reported mortgage payments, it is possible to calculate how many mortgagors believe they would have to take action for different-sized increases in interest rates, **assuming no change to incomes**. This is shown by the orange line in **Chart 6**: if rates were to rise by 2.5 percentage points, then around 50% of mortgagors (accounting for about one quarter of total mortgage debt) would have to respond. As mentioned earlier, these estimates could overstate the true impact since they assume that all mortgagors — both on fixed and variable rates — would be immediately affected by the full interest rate rise.

Chart 6 Percentage of mortgagors that would need to respond if interest rates were to increase(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Question asked to mortgagors with discounted, base rate tracker or standard variable-rate mortgages: 'The interest payment on mortgages is often linked to the official interest rate set by the Bank of England. If the rate was to increase, your monthly payments would also increase. About how much do you think your monthly mortgage payments could increase for a sustained period without you having to take some kind of action to find the extra money eg cut spending, work longer hours, or request a change to your mortgage?' Households on fixed/capped rate mortgages were asked the following question: 'Although your monthly mortgage payments are currently [fixed/capped] we would like to understand the impact if your payments were to increase tomorrow. About how much do you think your monthly mortgage payments could increase for a sustained period without you having to take some kind of action to find extra money eg cut spending, work longer hours, or request a change to your mortgage?' The answers were provided in pounds.
(b) Households are defined as having to take action if the additional mortgage payments from higher interest rates (calculated using information on the size of the current outstanding mortgage) exceed the income available to meet higher mortgage payments. The scenario lines use the same calculation but assume that monthly disposable incomes are increased in line with a 5%, 10% or 20% increase in annual pre-tax income, compared to the NMG survey responses.
(c) Denotes a 2.5 percentage point increase in interest rates.

(1) A 2.5 percentage point increase in effective mortgage rates would take them back to 2007 levels. Lending rates facing households can be decomposed into two components, Bank Rate and a spread over Bank Rate. The 2.5 percentage point rise in interest rates considered in these experiments could therefore reflect a 2.5 percentage point increase in Bank Rate with the average spread being unchanged, or a larger rise in Bank Rate and a fall back in the spread from its current elevated level. See Button, Pezzini and Rossiter (2010) for a discussion of the factors affecting the price of new lending to households and the November 2013 *Inflation Report* for a discussion of recent developments in credit conditions.
(2) These simulations were conducted under a specific set of assumptions: they use only responses of those households in the survey that have a mortgage; do not assume any transition between renter and mortgagor status; assume that the stock of debt remains unchanged; and that mortgagors are affected by the full extent of the interest rate and income increases.
(3) The 35% threshold is an indicator of households who are most at risk of financial distress.

The impact of higher interest rates on household finances would be much less severe if incomes also rose significantly. Results from the second thought experiment show that if a 2.5 percentage point rise in interest rates were accompanied by an increase in pre-tax nominal income as large as 20%, then the estimated proportion of households with repayment gearing above 35% would be similar to the level implied by the latest survey responses (**Chart 5**). But if incomes were only to increase by 10%, the proportion with repayment gearing above 35% would rise from 8% to 12%.

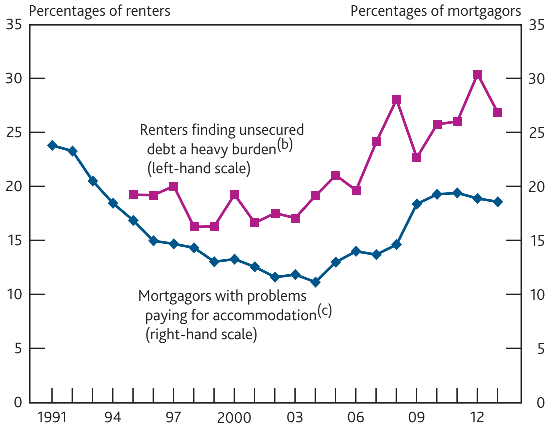
Given the uncertainty about future income developments, the range of possible outcomes is very wide. Smaller income increases would be likely to offset, only in part, the impact of interest rate rises. For instance, if rates rose by 2.5 percentage points, the estimated proportion of mortgagors who would have to take action would fall from 50%, assuming no change to current income levels, to 28% if pre-tax income were to increase by 5% before rate rises. This figure would fall to 12% for a 10% income rise and to only 3% if income were to increase by 20% (**Chart 6**).

The Monetary Policy Committee's (MPC's) forward guidance on the future conduct of monetary policy states that the MPC intends not to raise Bank Rate at least until unemployment has fallen to at least 7%, providing this does not entail material risks to price stability or financial stability.(1) At the time of the November *Inflation Report* Bank Rate was not expected to start to rise by market participants until the second half of 2015, and only reached 2.2% by the end of 2017.(2) Moreover, as discussed in the November 2013 *Inflation Report*, credit spreads are likely to fall further: this would put downward pressure on effective mortgage rates, partially offsetting a rise in Bank Rate. Nominal household disposable income has grown by around 3% a year over the past three years (a cumulative rise of about 10%) and there may be some increase in that rate of growth if the economy continues to recover and productivity picks up. It is therefore likely that incomes will rise before interest rates increase, but the extent to which higher interest rates increase financial pressure on households with a mortgage will depend on the size of that increase in income as well as the distribution of increases in incomes across households and the extent to which households repay debt (or take on more debt) in the meantime.

Financial distress and concerns about debt

As debt-servicing costs have been little changed, the proportion of households suffering financial distress associated with debt is also broadly unchanged from last year's survey. The proportion of mortgagors having problems paying for their accommodation and the share of renters finding their unsecured debt a burden rose between 2006 and 2010, but have remained relatively constant since then (**Chart 7**).

Chart 7 Mortgagors having problems paying for their accommodation and renters finding unsecured debt a heavy burden(a)



Sources: British Household Panel Survey (BHPS), NMG Consulting survey and Bank calculations.

(a) Results reported for 2011 to 2013 are from the online NMG survey. Data are spliced with results from the face-to-face NMG survey between 2005 and 2010 and BHPS before 2005.
(b) Question: 'To what extent is the repayment of these loans and the interest a heavy financial burden to your household?'.
(c) Question: 'In the past twelve months would you say you have had any difficulties paying for your accommodation?'.

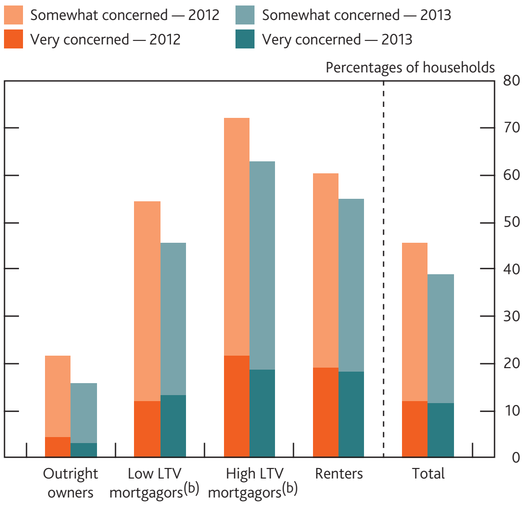
Households may also be concerned about their debts even if they are not currently facing financial problems. **Chart 8** shows that these broader concerns about debt have diminished over the past year: the share of households concerned about their level of debt fell from 46% to 39%, with falls recorded across all housing tenures. The falls mainly reflect fewer households that are 'somewhat concerned', as the share of total households who are 'very concerned' remained at 12%. A reduction in concerns about debt could be linked to healthier balance sheet positions. Indeed, among returning respondents, debt levels have fallen significantly for households who reported concerns last year but not in 2013. Reduced concerns about debt do not appear to reflect reduced uncertainty about future income, however: the proportion of respondents who thought it was very likely that their income would fall sharply over the coming year was unchanged in the 2013 survey (**Chart 9**).

Reasons for and responses to concerns about debt

A new question for this year's survey asked respondents why they were concerned about debt. The most frequently cited reason was the possibility of being unable to meet repayments if interest rates rise, which was the case for 33% of concerned households (**Table B**). That was particularly relevant for mortgagors. This result corroborates the conclusion of the experiment considered in the previous section, that household

(1) See the November 2013 *Inflation Report* for further details on the MPC's latest policy guidance.
(2) Based on market interest rates from overnight index swap contracts at the time of the November 2013 *Inflation Report* (averaged over the fifteen working days to 6 November 2013).

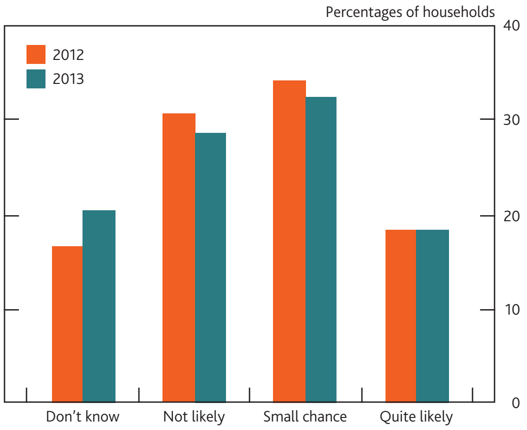
Chart 8 Concerns about debt levels[a]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'How concerned are you about your current level of debt?'.
(b) High LTV mortgagors are those households with an LTV ratio of above 75%; low LTV mortgagors are those with an LTV ratio of 75% or below.

Chart 9 Households' views on the likelihood that their income will fall sharply over the next year[a]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'To the best of your knowledge, how likely is it that your household income will fall sharply over the next year or so (for example, because you or someone in your household are made redundant)?'.

Table B Reasons for concerns about debt[a]

Percentages of concerned households

	Total[b]	Very concerned	Somewhat concerned	Mortgagors	Renters
Keeping up with repayments if rates go up	**33**	39	30	42	28
Keeping up with repayments as income may fall	**27**	25	28	26	28
Current income lower than expected	**24**	33	20	23	26
Current difficulties with repayments	**22**	46	12	17	29
Other	**10**	7	12	9	10
Banks are unwilling to lend because of current debt level	**9**	16	6	9	12
Value of the house lower than expected	**2**	3	2	4	1

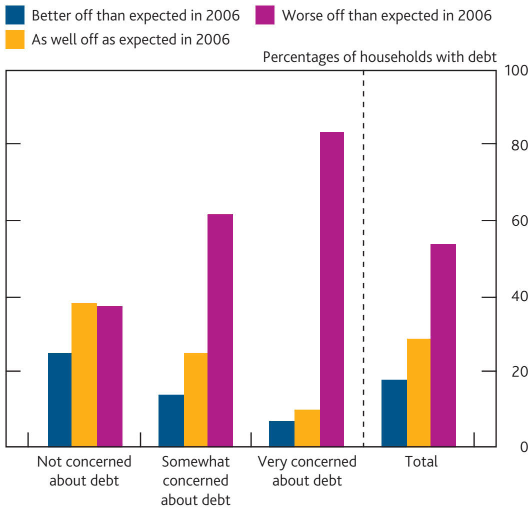
Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'How concerned are you about your current level of debt?' and 'Why are you concerned about your current level of debt?'.
(b) Of those households who were concerned about debt in 2013, 29% were very concerned and 71% were somewhat concerned; and 39% were mortgagors and 44% were renters.

finances would deteriorate in the case of an interest rate rise, particularly in the absence of substantial increases in income. Concerns about households' ability to make repayments because of the risk that their income could fall were also important (cited by 27% of concerned households). Only 2% of concerned households were worried about debt because the house they had borrowed against was worth less than they had expected.

Lower-than-expected current income was also a reason why households were concerned about debt. About a quarter of concerned households reported that this was a reason for their concerns (**Table B**). Analysis of other survey questions also suggests that this is an important factor. Among those households who were very concerned about debt, around 85% were worse off than they expected to be in 2006, compared with roughly 40% for those who were not concerned (**Chart 10**).

Chart 10 Concerns about debt and households financial position relative to expectations in 2006[a]



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'How concerned are you about your current level of debt?' and 'Would you say you are financially better or worse off than you would have expected at the end of 2006, before the start of the financial crisis?'.

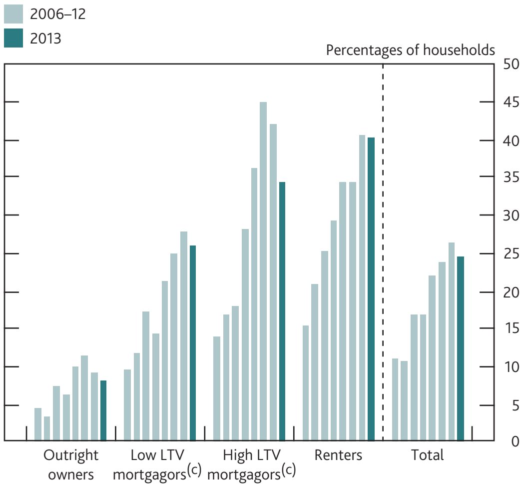
The most common response among households that were concerned about their debts has been to cut spending. But the percentage of concerned households cutting spending was lower than a year ago (73% in 2013, down from 78% in 2012). Taking together the facts that fewer households were concerned about debt combined with fewer of those who were concerned having cut spending, the overall proportion of households who had cut spending because of debt concerns fell from 35% in 2012 to 28% in 2013. The second most common response to being concerned about debt — reported by 61% of respondents in 2013 — was to avoid getting into further debt. Twenty-three per cent of concerned households reported that they had made overpayments in order to clear the debt more quickly.

Credit conditions

The extent to which households choose to take on more debt over the next year will depend heavily on developments in household credit conditions. According to the Bank's *Credit Conditions Survey*, credit conditions have begun to ease over the past year — although they still remain significantly tighter than they were before the start of the financial crisis.

The proportion of households reporting that they had put off spending due to concerns about credit availability fell slightly in 2013 (**Chart 11**). Nonetheless, a quarter of respondents continued to say that their spending decisions had been constrained by concerns about credit availability in 2013, compared to only around 10% before the financial crisis. The improvement in credit conditions over the past year was most noticeable among high LTV mortgagors, where the proportion of affected households fell from 42% to 35%.

Chart 11 Proportion of households put off spending by credit availability concerns(a)(b)

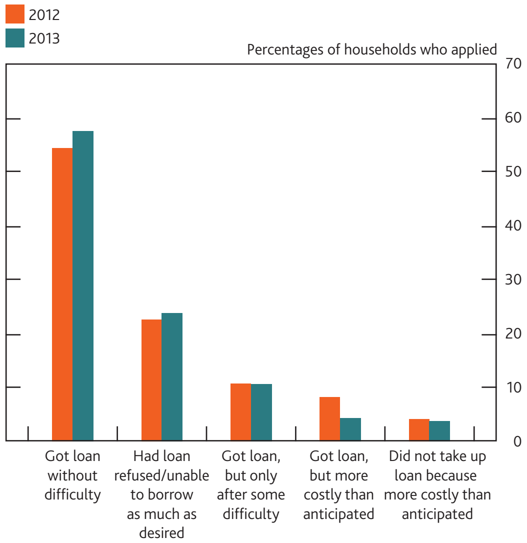


Sources: NMG Consulting survey and Bank calculations.

(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 you think your loan application will be turned down?'.
(b) Results reported for 2011 to 2013 are from the online survey and results for 2006 to 2010 are from the face-to-face survey.
(c) High LTV mortgagors are those households with an LTV ratio above 75%; low LTV mortgagors are those with an LTV ratio of 75% or below.

Consistent with an improvement in credit conditions, households also reported slightly more success with loan applications over the past year. Around 13% of the survey respondents had applied for a loan over the previous year. Of these, 57% were granted loans without difficulty, up from 54% a year ago (**Chart 12**). These households tended to be older than average and to have higher incomes than those who were refused the loan and those who experienced difficulties with the application process or the loan terms. There were signs that price constraints have eased, with only 4% of applicants noting that their cost of borrowing had been higher than anticipated, compared with 8% in the 2012 survey. There were also more applications from high LTV mortgagors than a year ago, which could also be consistent with there being fewer constraints on the availability of credit for those households.

Chart 12 Outcome of loan applications(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Have you applied for one or more new loans (including mortgage applications) over the past year?' and 'What was the final outcome of your loan application(s)?'.
(b) Calculations exclude households whose applications were still ongoing.

Nonetheless, one third of respondents living in rented accommodation reported that they were unable to get a mortgage, with those between the ages of 25 and 34 being worst affected. Not having a large enough deposit was by far the most common reason why households were unable to get a mortgage, followed by poor credit history and an inability to afford repayments (**Table C**). The survey was conducted prior to the start of the Help to Buy mortgage guarantee scheme.

Table C Reasons for households not being able to get a mortgage(a)

Percentages of households who do not own a house and are unable to obtain a mortgage

Deposit not large enough	82
Credit record not strong enough	42
Unable to afford repayments	25
Unable to afford the monthly repayments if interest rates rise	20
Personal circumstances (for example, being self-employed)	21
Other	8

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Would you like to buy a property but are unable to obtain a mortgage?' and 'What are the reasons you are unable to obtain a mortgage? Please select all options that apply'.

Conclusion

Household debt levels remain high, but the distribution of household debt has been broadly unchanged over the past year. Many households remain concerned about their debts, but the extent to which they are concerned has fallen. Doubts about their ability to make future repayments, either because interest rates may rise or because income may fall, are the most widely cited reasons for why households remain concerned about credit.

Fewer households have high debt-servicing costs than before the financial crisis. A significant increase in interest rates at current incomes may increase financial pressure on households with a mortgage, but the extent to which higher interest rates may pose problems for households in the future will depend crucially on the extent to which incomes rise before interest rates increase and on how household debt levels change before then.

Credit conditions appear to have eased slightly over the past year, particularly for high LTV mortgagors, but remain much tighter than before the crisis.

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