



Representing Consumer & Business Finance



Over-indebtedness: How do we get Britain out of the red?

FLA (Finance & Leasing Association) is the major UK industry body for the asset finance, consumer finance and motor finance sectors. FLA members provided £57.9 billion worth of new finance to the consumer sector in 2005. Excluding credit card lending, FLA members represented over 35% of the unsecured lending sector. Martin Hall, Director General of the FLA, is Chair of the Money Advice Trust.

Perspective on financial difficulty

The debate on debt requires perspective and measured action. Debt can be viewed both in its relationship with the wider economy and its qualitative impact on people in financial difficulty. The statistics on debt give mixed messages; arrears and mortgage repossessions remain low and yet consumer debt has breached the £1 trillion barrier. That said, during the last 18 months there has been a dramatic fall in the growth of unsecured lending, notably on credit cards. It is evident that secured lending is significant in the economy although it is far from clear that aggregate levels of borrowing is a serious economic threat. The impact on individuals is however concerning, with Citizens Advice reporting a large rise in consumer debt enquiries.

Action on debt

We believe it is our responsibility to better identify those on the margins of their own level of affordability. To do this we need to access more about the full range of financial commitments. FLA would like to see banks agree to share current account data, even with other lenders who do not provide current accounts, in order that a full picture of debt may be built up. To this end, FLA advocated that Student Loan data be shared, as young people are among the most likely to suffer over-indebtedness. However, data sharing is not a panacea – even with full information, people will still suffer changes in their circumstances: death, redundancy and divorce.

We are also working to ensure that the information available to consumers about what they sign up to is clear and more transparent. Our members will be investing in money advice services, and support our complaints and arbitration service which is free to consumers. We continue to update and strengthen the consumer protection available under the Lending Code that all our members must sign up to as a condition of membership.

FLA works closely with the Money Advice Liaison Group and with National Debtline. However, financial education is needed in schools and beyond - young people need to understand what products are on offer, how credit can be used responsibly, along with the consequences if it is not. FLA commends the Government's move to include finance in the curriculum by 2009.

FLA members include banks, subsidiaries of banks and building societies, the finance sections of leading retailers and manufacturing companies, and a range of independent firms. They provide a wide range of facilities, including finance leasing, operating leasing, hire purchase, conditional sale, personal contract purchase plans, personal lease plans, secured and unsecured personal loans, credit cards and store cards.

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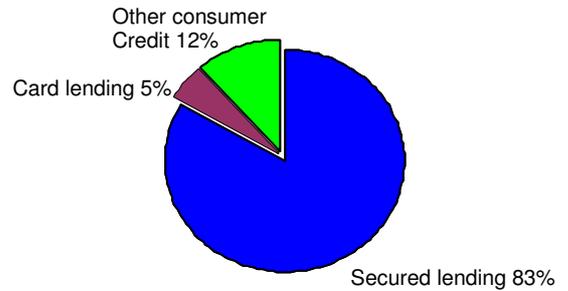
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Household sector debt 2005

In 2004, total consumer debt reached £1 trillion. The majority of this represents secured lending.

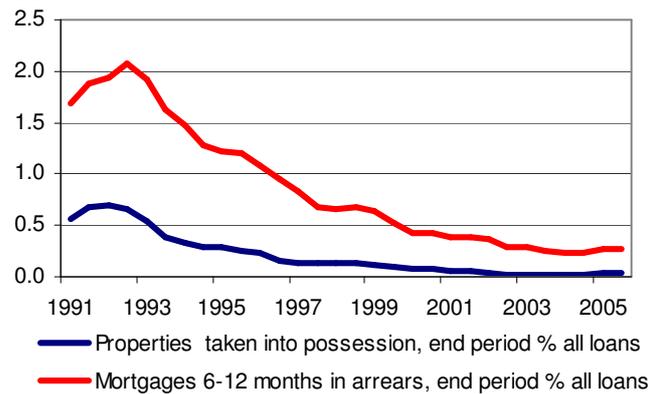
Growth in secured debt is the result of households taking out bigger mortgages due to higher house prices...



Source: Bank of England

Mortgage repossessions and arrears

... and there is little evidence to suggest that households are struggling with secured debt. Mortgage repossessions and arrears are at a historically low level and below their peak in the early 1990s.

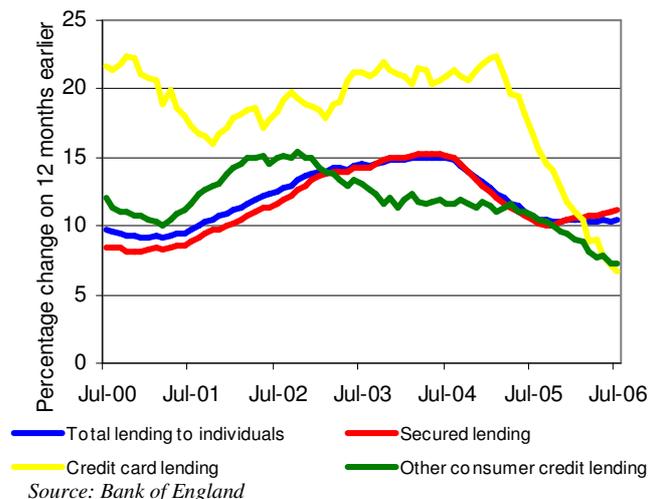


Source: Council of Mortgage Lenders

Growth in lending to individuals

Total lending to households is likely to continue to increase as the stock of secured debt does not react immediately to changes in house prices.

However, there has been a rapid fall in the growth of unsecured lending, especially credit card.



Source: Bank of England

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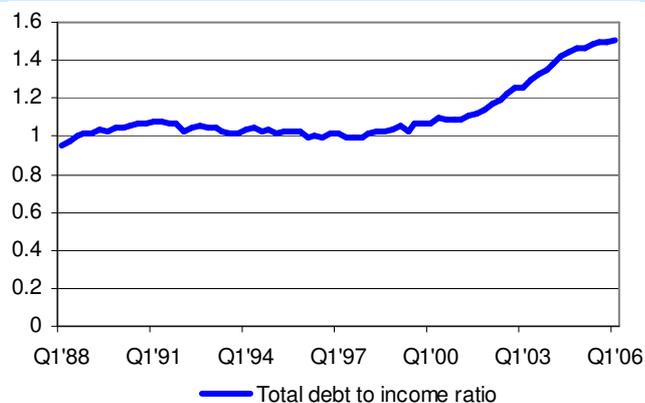
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Household sector debt to income

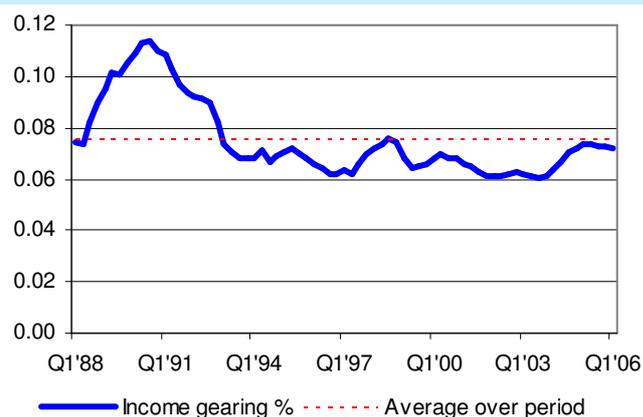
The debt to income ratio has increased...



Source: Office for National Statistics

Household sector income gathering

...but the proportion of households' income that is used to make interest payments has not increased and is close to its long-run average.



Source: Office for National Statistics

Household sector capital gathering

Capital gearing is another measure of the pressures on solvency in the household sector. It shows total financial liabilities as a proportion of total assets.

Despite the large increases in the stock of debt, increases in asset prices means there has only been a slight increase in capital gearing.



Source: Office for National Statistics

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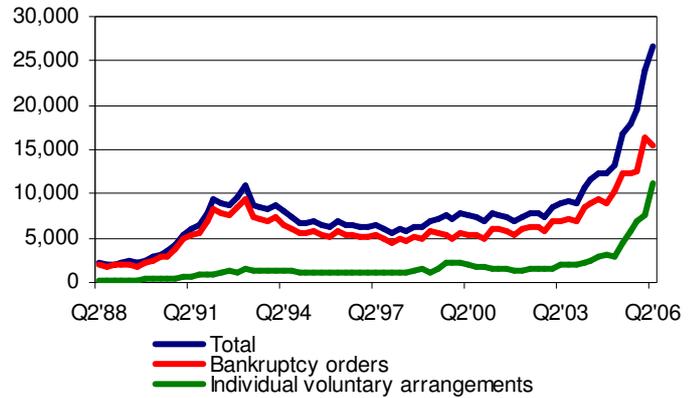
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Bankruptcy and IVA

Individual insolvencies continue to grow at an alarming rate.

Individual Voluntary Arrangements (IVAs) make an increasingly important contribution following the Enterprise Act 2002 reforms.

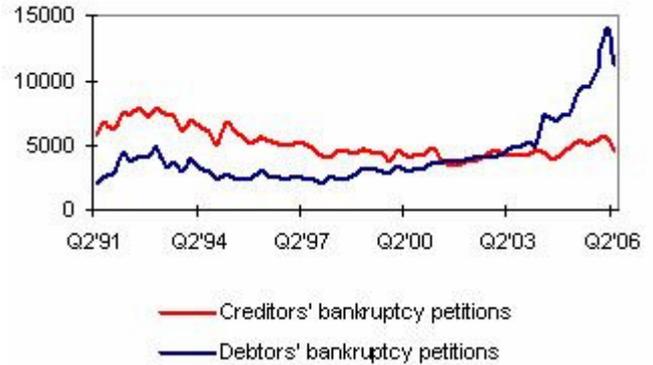
Bankruptcies may have settled at a higher but stable level.



Source: Insolvency Service

Bankruptcy petitions

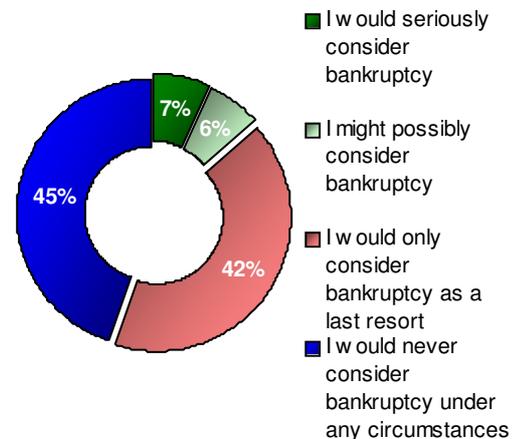
The large rise in debtors' bankruptcy petitions suggests these are driven by borrowers rather than lenders but...



Source: Department for Constitutional Affairs

Attitudes to bankruptcy

... people still take bankruptcy seriously.



Source: Bank of England, results from 2005 NMG Research survey

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