The UK's Household debt crisis

Debt Justice

We do not provide debt advice

If you're a member of the public needing help with a debt problem, we recommend searching for a free and independent advice agency in your community at [Advice Local] or [Turn 2 Us.]

Summary & Intro

The UK is in the grips of a household debt crisis that requires an ambitious and urgent political response. Driven by stagnating incomes and cuts to the welfare state, the pandemic and the latest cost of living crisis threaten to push millions more people into a debt trap that is difficult to escape. It is time for a **Fair Debt Write Down.**

Nearly ten million people in the UK are now 'over-indebted', meaning they are behind on bills or are finding their debt repayments a heavy financial burden.[1]

15 million people in the UK are struggling to afford rising energy bills, food and other costs. They have taken out an estimated £13 billion of credit to pay for essentials and three million more people now expect to be pushed into debt as a result.[2]

Overall non-mortgage borrowing has now reached £200 billion[3], averaging over £7,000 per household.[4] 6.2 million people are now in debt to the government, through council tax and other debts.[5] Credit card borrowing has increased at record rates and most people are now unable clear their balance every month.[6] Energy debt has doubled, with £1 billion now owed to suppliers.[7]

People living in the poorest areas of England are twice as likely as people in the wealthiest areas to have borrowed more or used more credit than usual.[8] Workers, carers, parents, women, renters, people with disabilities and communities of colour are all disproportionately affected by debt.[9]

The household debt crisis has been decades in the making as governments have stripped back the welfare state, allowed an explosion of insecure jobs, and presided over falling incomes. The latest cost of living crisis threatens to pull millions more households into debt, with inflation increasing at double the rate of wages and three times the rate of benefits.[10]

> **“Most people are not in debt because they live beyond their means; they are in debt because they have been denied the means to live**

Astra Taylor, US Debtor's Union, The Debt Collective

The household debt crisis in numbers

Half of UK adults are now either in debt or concerned about falling into debt.

UK families currently owe **£200 billion** to lenders, an average of £7,123 per household. This doesn't include mortgage debt.

Around **10 million** people in the UK are now heavily weighed down by their debts.

£55 billion of debt was sold on the secondary market in 2019.

Over a third of people on low incomes are heavily in debt and are spending an average of **40% of their monthly incomes** on repayments.

People of Black and minority ethnic backgrounds are **almost twice as likely** to be in serious debt as white people.

“I'm always juggling debts - this month I got my TV license bill, so I've been unable to pay back my housing benefit over-payment. I've relied on food banks these past 12 months to get by and I can't afford to even pay for the bus sometimes. I've been keeping just one light on in the house at a time and I'm now worried about being able to afford to heat my home

Dean Burn, aged 62, from Manchester

The Debt Trap

Some types of credit are particularly risky because of their fees, charges, and repayment terms. In particular shorter-term, often higher cost credit, such as unauthorised current account overdrafts, credit cards, doorstep lending, payday lending, rent to own and catalogue finance. High-cost lending commonly means borrowers pay back double the amount they borrowed.

Borrowing is a survival tool, but for people who fall behind on repayments there can be severe and long-term consequences. Paying back debt, especially at high interest rates, can mean people are forced (further) into poverty and unable to afford necessities like housing, food and energy.

Due to lack of alternative options, stigma or mental ill-health, people who fall behind on repayments can take on more borrowing in an attempt to pay off the previous debt. More and more of people's income then gets swallowed up by interest and repayments. This is called the ‘debt trap’, and once people are pulled under it is difficult to escape.

Lower income households who take on debt typically find it much harder to control. An estimated 15 per cent of lower income households are behind on a debt repayment or a household bill – more than four times the national average.[11] Over a third of people on lower incomes are heavily in debt and spending at least 40% of their monthly incomes on repayments.[12]

Secondary Debt Market

When people fall behind on debt payments, their debts are often sold on by their lenders to debt collectors, at a fraction of their face value. This allows lenders to clear bad debts from their books and release capital for further borrowing. This secondary debt market is very large but opaque, involving the sale of an estimated £55billion of debt in 2019.[13]

> **My son got into over £1500 worth of rent debt during coronavirus. He was already in low-paid work and when he was furloughed, he wasn't earning enough to cover the basics. His mental health also took a dive during periods of isolation which made managing his finances even more difficult.**
>
> **Now the debt has been passed to debt collectors who are chasing him, and the council have told him that if he doesn't pay soon, he will be evicted. The stress that he has been under these past few**
>
> **Yesmin,** East London

With current outstanding credit lending totalling around £200 billlion, this suggests a significant proportion ends up being traded on the secondary debt market. These bad debts are often sold for pennies in the pound, and if debt collectors can find a way to recover the full value of the debt, they can make profits of many times what they paid for it.[14]

The Impact of the UK's personal debt crisis

The consequences of the household debt crisis are largely hidden, unfolding in kitchens and front rooms. 50% of people in debt have a mental health problem and every year over 400,000 people in problem debt in England consider taking their own life.[15] People in debt often describe the experience as being like drowning - the combination of shame and stigma, as well as a lack of available solutions can have tragic outcomes.

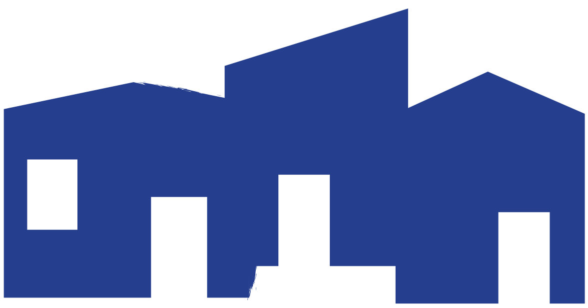
The social consequences of over-indebtedness are vast. Calculations suggest it costs national and local government nearly £10 billion a year in extra employment, social care, and housing support.[16] Obtaining affordable credit becomes more difficult after falling into unpayable debt and court actions such as County Court Judgements stay on your credit records for six years. These longer-term consequences make it harder for people to rebuild your life after debt, increasing the likelihood that they will require extra state or charitable support.

Inadequate Solutions

When debt becomes unpayable people are often forced to seek debt advice. This can be prompted by missing a payment on a 'priority debt' such as council tax, energy bill or rent, but the underlying causes are often multiple and overlapping.

The most common type of repayment agreement that is reached after seeking debt advice is a 'Debt Management Plan.' These are agreements with creditors, facilitated by debt advice charities or commercial providers. They usually involve people in debt agreeing to repay their debts in full over long periods of ten, fifteen or even twenty years. Facilitators usually receive a 'fair shares' payment of between 10-13%% from the creditors for organising these agreements.

Monthly debt repayments are based on debtors 'surplus income', but the was that this is calculated can mean people are stuck below the poverty line during the duration of their agreement.



Who wins from the debt crisis?

Illustrative example of a Debt Management Plan

Insolvency Reform

Another potential route for people seeking debt advice is an insolvency plan. This can mean that some debt is written off, but the system is in urgent need of reform. There are significant barriers to accessing insolvency solutions, meaning that only around 100,000 people access one each year.[17]

There are three insolvency options:

- Bankruptcy. Bankruptcy means all your assets, including your home can be sold. It is a difficult process that requires an application to the crown court and costs £680 in fees to complete. Bankruptcy status usually lasts a year and remains on people's credit record for five years.

- Individual Voluntary Arrangements (IVAs). The vast majority of people who access insolvency agree to an IVA, a legal agreement to pay off creditors over five years. IVAs are facilitated by Insolvency Practitioners and allow people with assets and some 'surplus income' to write off some of their debts. However, they are widely mis-sold, come with large set up fees and have high rates of failure.

- Debt Relief Orders. Debt Relief Orders allow people with very limited assets to write off their debts after a year. It is only available to people with 'surplus incomes' of £50 or less a month and total debts below £30,000.

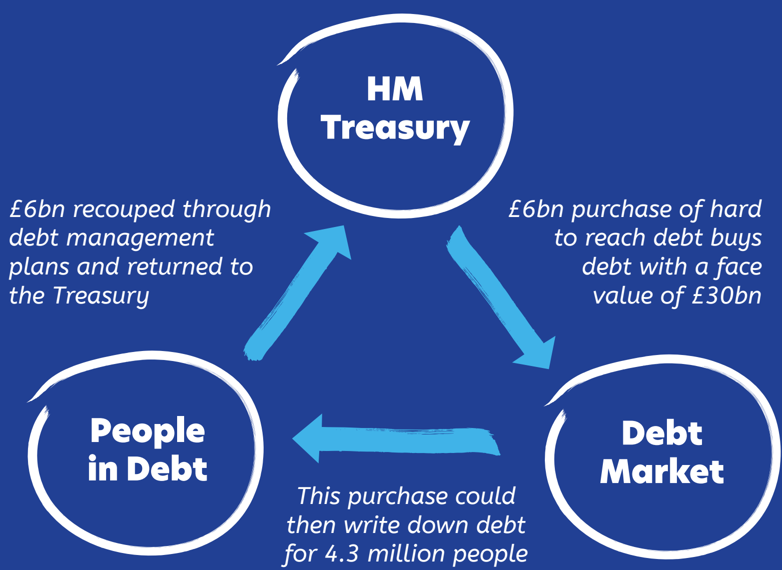
Insolvency should be reformed to allow everyone on low incomes and with no real assets the ability to become debt free over a reasonable period. People who are heavily in debt should be able to access these solutions free of charge and be supported through the process with high quality and impartial advice. Too often at present people in debt are exploited by those trying to take advantage of their situation by being sold unsuitable Individual Voluntary Agreements or trapped on debt management plans lasting over a decade. People in debt should not be forced below the poverty line by making payments under any type of agreement and they should be able to obtain a genuine fresh start at the end of it.

What needs to change

Systemic problems require systemic solutions, and nothing short of a radically reformed economy will prevent recurring household debt crises. To tackle the existing crisis, we need a **Fair Debt Write Down.**

Everyone who is heavily indebted deserves a fresh start and an opportunity to rebuild their lives. A debt restructuring fund should be created by the government to buy out those debts which have already been devalued and sold to debt collection companies at knock down rates. We estimate that as much as 80% of the face value of these debts could be written off through this mechanism, which wouldn't cost anything in the long run, and would significantly reduce the amounts that people in debt would need to repay.

How would this work?



- The average debt level of over-indebted individuals is about £120 billion and around half of this (£60 billion) has been sold on the secondary debt market
- This debt can be identified by DMP providers and bought out for £6 billion. Assuming an even spread, the £30 billion 'buy out' could therefore reach approximately 4.3 million debtors
- A face value of £30 billion of debt is written off, which would otherwise have been collected in full through debt repayment plants.
- This releases a benefit of £24 billion back to the economy.

Debt Relief can work: Croatia's 'Fresh Start'

In February 2015, Croatia launched an emergency debt relief initiative called 'Fresh Start'.[18] The aim was to kickstart the economy by cancelling the debts of poorest citizens. Only people with very low incomes qualified, who didn't own homes and had debts lower than €4,590. A wide range of debts were included such as debts due to local authorities and banks, but the strict criteria meant it would only ever reach low numbers of people and aimed to tackle just 1% of the overall household debt burden. Although the lack of ambition meant the policy was less transformative than it could have been, tens of thousands of people had their debts written off and it shows that debt write off is a viable option for advanced economies.

Leigham Court Estate residents hold their Councillors to account over Debt and Disrepair

Credit: Kristian Buus

Campaigning for change

It is only through building the collective power of people in debt and growing our political voice that we can win. Through Together Against Debt, we are building a network of local groups campaigning on debt, linking up local community organising campaigns with a strong national political voice.

Together Against Debt began organising on Lambeth's Leigham Court Estate in June 2021. One of the residents reported that she owed over £3000 in energy bills because of poor insulation and disrepair in her council owned home. This was a common problem across the estate.

The group grew quickly, developing campaigning priorities and a shared strategy. In less than a year, the group has established a relationship with their MP, Bell Ribeiro-Addy, who has visited the estate and raised their demands with the local council on their behalf, built a petition with over 450 signatories and gained media coverage.

In November 2021, the group submitted a deposition to Lambeth council, which enabled members to tell their stories and demand change at a full council meeting. As a result, they won commitments from the council to carry out home improvement works to prevent residents building up high levels of energy debt. Lambeth Council have committed to over £1 million worth of repairs on the estate.

Debt justice campaigners have come together to win big changes in the past. In 2015, the government enacted a cap on the total cost of credit of 2:1 for many types of lending including payday loans.[19] This means that nobody borrowing £100 should ever pay back more than £200 overall. Before the cap on the cost of credit was introduced, many borrowers were charged annualised interest rates of nearly 6000%.[20] The cap has been vital in protecting people from the worst excesses of high-cost lending.

In 2021, we supported proposals to raise the debt level threshold at which people can apply for Debt Relief Orders, from £20,000 to £30,000, and campaigned to raise the level of assets that people can hold. The number of people now accessing this solution is growing, enabling more people who qualify to become debt free within a year.[21]

During the pandemic we elevated our campaign for debt write off as well as calling for emergency grants for people who had built up rent and council tax arrears. The government announced two separate funding packages for local authorities, the 'Vulnerable Renters' Fund and the 'Household Support Fund' making support available to households struggling with rent arrears, utility bills and Council Tax.[22] It was a significant step forward as the government finally accepted that it has a role to play in tackling the build-up of household debt in our communities, however the funds by themselves are little more than sticking plasters.

Summary

The UK is in the grips of a household debt crisis that requires an ambitious and urgent political response. Driven by stagnating incomes and cuts to the welfare state, the pandemic and the latest cost of living crisis threaten to push millions more people into a debt trap that is difficult to escape. It is time for a **Fair Debt Write Down.**

Take Action

The Debt Justice website has a range of online tools to help you take action and get more involved in the campaign:

jubileedebt.org.uk/campaigns/end-the-debt-trap

You can also sign up for updates about our household debt and Global South debt here:

act.jubileedebt.org.uk/join-our-email-list

If you've got a little more time, consider joining the Debt Justice Activist Network. The Debt Justice Activist Network is a national community of activists all working towards debt justice:

jubileedebt.org.uk/actions/join-the-debt-justice-activist-network

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Debt Justice is a campaigning organisation working with others to end unjust debt and the poverty and inequality it perpetuates, in the UK and across the world.

Keep in touch

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Join the movement for a fair economy