

Household Debt Explained?

- Personal Consumer Debt and its Relationship with Arrears

By

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Abstract

In the ten years after 1994 personal consumer debt grew by 150% and in July 2004 it rose over the symbolic £1 trillion level; this equates to £17,000 of debt for every man, woman and child in the country. The majority, four-fifths, of this debt is secured against peoples' homes and it is significant that its rise has been matched by a period of strong house price growth, particularly since 1998.

Despite, or perhaps because of, the growth in personal debt, arrears on secured and unsecured products stand at historically low levels. This presentation seeks to explore these potentially dichotomous facts by examining the household balance sheet: the current value of the home minus secured and unsecured debt. This provides an estimate of the liquidity of the household and its capacity to sustain current levels of debt.

The presentation details findings from an analysis of mortgage applications at different points in time, showing how the development of subsequent secured and unsecured arrears is related to the household balance sheet. The household balance sheet is reviewed at application and is tracked over time to explore the influence that house price growth has on a household's liquidity and the arrears experienced.

The presentation concludes by outlining the implications of the findings for application and account management strategies.