Contents >

A report from the Personal Finance Research Centre

Easy come, easy go: borrowing over the life-cycle

STANDARD LIFE

Foreword

Standard Life is delighted to be supporting this important research by the Personal Finance Research Centre. The last year has seen increased levels of public concern over personal borrowing and debt. This is reflected in the extent to which these issues, together with financial advice, education and exclusion, have risen rapidly up the public policy agenda. The challenge for policymakers is how to respond to these concerns.

No one disputes the fact that consumer borrowing has now reached unprecedented levels. This research brings into sharp focus some of the key pressure points:

- High levels of reliance on borrowing among the 20 – 50 age group
- Borrowing, particularly among younger people, is increasingly used to finance lifestyles rather than to reflect need
- There is a direct correlation between levels of borrowing and its availability and cheapness
- Housing equity is seen as the solution to all future financial needs
- Young people increasingly use insolvency and debt consolidation as ways of dealing with debt problems and see no stigma in bankruptcy

What is particularly worrying about these findings is the attitude towards borrowing and debt which is becoming increasing prevalent amongst younger people who are primarily from reasonably affluent backgrounds. The lack of concern about taking on high levels of debt, the belief that want overrides need and a casual approach to insolvency all point to a mindset in which there is little room for the future and making provision for it.

The public policy implications arising from this are considerable. What we are looking at is a generation where the propensity to save is weak but where the requirement to make provision for the future is greater than ever before. These are people who are going to live longer than their parents and could easily be facing 30+ years of retirement and on whom the burden of long term elder care is also likely to be considerable. Without a seismic shift in attitudes how are they going to manage? Governments cannot and should not tell people how to run their lives. However what they can do is provide an environment where people will make better and more informed decisions about their life choices. This could mean:

- Reinforcing and strengthening significantly current financial education and capability initiatives. The emphasis here will increasingly have to be on those who are coming into education to counter from the outset the negative impacts of the consumer driven culture in which they live. A more coordinated approach to bring together and maximise the benefits of the myriad of initiatives which are currently coming out of government, regulators and providers would be a good start.
- Using tax policy proactively to provide greater incentives to people to make provision for their futures. This means developing policies with long time horizons in common with the approach to pensions policy.
- Proactively working though high profile public information campaigns and other mechanisms to counter some of the myths which have developed about money management e.g. that housing equity is sufficient to fund future pension needs and that insolvency is an acceptable way to manage and clear debt.

However these are not issues for government alone. Standard Life is a major provider of financial services and, as such, has a clear responsibility and duty to its customers to ensure they are best placed to make the most effective use of their assets across the various stages of their life cycles and their changing circumstances. Standard Life is already involved in a number of initiatives in this area including one with children of primary school age which helps them to understand how money works and how it can work for them. We have particularly looked for innovative, memorable and flexible approaches to ensure real impact and the ability to tailor to achieve inclusivity.

As a responsible provider we will now want to use the outcomes of this research to explore how we can best utilise our resources to help address what are significant long term challenges. For it is clear that there are worrying numbers of people who do not know how to save properly and consequently are storing up major long term problems for themselves. Potentially the most significant issues here and which might benefit from further research are inter-generational i.e. how can people save if they are building up their own debt burdens and will, over time, increasingly be faced with meeting the costs and debts of their parents. In addition we will want to look, for example, at how a public information campaign might secure maximum impact and effectiveness alongside ongoing financial capability initiatives and the roles within such a campaign for providers, government, consumer organisations and others working in alliance.

Above all, we must continue to meet the high standards of responsible lending we set for ourselves, where we have a direct role to play with our customers.

Anne M Gunther
Chief Executive Standard Life Bank

Types of credit used
See page 15

The reasons for borrowing
See page 27

Alternatives to borrowing
See page 39

Contents

Acknowledgements		**5**
Authors' credits		**6**
Executive summary		**7**
1	**Introduction**	**10**
1.1	Research methodology	11
1.2	The remainder of the report	12
2	**Extent and nature of borrowing in the UK**	**13**
2.1	The number of active credit commitments	14
2.2	Excess credit and constrained supply	14
2.3	Types of credit used	15
2.4	Credit use as a source of financial difficulties	16
3	**Who borrows**	**17**
3.1	Age and family circumstances	17
3.2	Economic characteristics	20
3.3	Other socio-demographic characteristics	21
3.3.1	Ethnicity and religion	21
3.3.2	Disability	22
3.3.3	Region	22
3.3.4	Housing tenure	23
3.4	Changes in income and circumstances	23
3.5	Attitudes and personality	24

Contents

4	**Why people borrow**	**27**
4.1	The reasons for borrowing	27
4.1.1	Borrowing for reasons of hardship and everyday living	28
4.1.2	Borrowing for discretionary reasons	29
4.1.3	Borrowing for pre-requisite reasons	30
4.2	Drivers	31
4.2.1	Pull factors	31
4.2.2	Push factors	32
5	**Mitigating borrowing**	**39**
5.1	Alternatives to borrowing	39
5.2	Reducing borrowing	40
5.3	‘Problem debt’	41
5.3.1	Meanings and causes	42
5.3.2	Consequences and solutions	42
6	**Conclusions and policy implications**	**45**
6.1	Borrowing at three life-stages: a summary	45
6.1.1	Young adults	45
6.1.2	Family years	47
6.1.3	Post-family years	47
6.2	Policy implications	48
References		**52**
Appendix 1 – Focus Groups		**55**
Appendix 2 – Additional Tables		**57**
Appendix 3 – Workshop participants		**65**
Bibliography		**66**

Acknowledgements

The authors would like to thank Standard Life plc, both for the financial support they have given us in undertaking the study and for the intellectual freedom they have allowed us with the content of this report.[1] We are also grateful to Lansons Communications for their assistance throughout the project.

We would like to thank everyone who did such a good job in assisting us with the focus groups despite the tight timetable: specifically, Jennie Droy and her colleagues who recruited the participants and organised the focus group venues, Michaela Cummings who transcribed the discussions, and Dr Sally Taylor, who facilitated many of the groups. Thanks are also due to David Collings, whose constant support throughout the project, including editing and proofing the report and coordinating invitations to the workshop, is greatly appreciated.

We would like to acknowledge the use of data from the Financial Services Authority's 2005 baseline survey of financial capability and the Department for Business Enterprise and Regulatory Reform's 2002 survey of over-indebtedness which have been drawn on heavily in our analysis.

Finally, sincere thanks are due to all those who participated in the focus groups, whose valuable contributions to the discussions has given this new insight into borrowing behaviour and attitudes across the life-cycle, and to the participants of the workshop of experts for their valuable input to discussion of the policy implications of the study.

[1] Standard Life plc provides an extensive range of financial products and services - principal activities consist of the provision of life assurance and pensions, investment management, banking and healthcare insurance in eight countries across the world - UK, Germany, Austria, Ireland, Canada, China, Hong Kong, India with a customer base of 7 million. The first of its companies was established in 1825. It is a leading pensions provider, manages over £10 billion of mortgages and is recognised for the high quality of its customer service, winning various awards including 5 Star Life and Pensions Provider 1996 – 2006 (Financial Adviser Service Awards.) For more information visit www.standardlife.com.

Authors' credits

Andrea Finney has seven years' experience of conducting and managing social research projects, both quantitative and qualitative in nature. Andrea is experienced in managing research into sensitive topics in a policy context, having previously worked at the Office of National Statistics on the longitudinal study of wealth and assets, and at the Home Office.

Sharon Collard has more than nine years' experience of conducting social research around personal finance, including studies of credit use, problem debt and debt advice services. In a personal capacity, she is a trustee of Bristol Debt Advice Centre.

Professor Elaine Kempson has been researching personal financial services and household money management for more than 20 years and has a detailed understanding of key policy areas around banking, savings, credit use and debt, and financial decision-making. Elaine is currently a member of the Social Security Advisory Committee, HM Treasury Financial Inclusion Taskforce and the DTI Advisory Group on Over-indebtedness. In February 2005 she was appointed to the Banking Code Standards Board as an independent director. Elaine was awarded a CBE in the Queen's 2007 Birthday Honours for her services to the financial services industry.

Executive summary

A marked increase in wealth in recent years has been matched by a similarly marked increase in borrowing. With total outstanding UK consumer borrowing now exceeding £1.35 trillion we are seeing the highest levels of unsecured credit supplementing the highest ever levels of mortgage borrowing. This research project was undertaken to understand better why people borrow, and how borrowing may be mitigated and even avoided among three life-stage groups: young adults, people in the family years, and people in their post-family years. The research involved primary analysis of eight focus groups comprising people at these different life-stages, and was supported by a review of the existing literature, secondary analysis of national survey data and a workshop with experts in the field.

The extent and nature of borrowing in the UK

About three-quarters of the population have some form of credit facility, although only a half are active credit users. Although this proportion has remained relatively stable in recent years, the amounts owed by credit-users have increased; there has also been a shift away from the use of credit tied to a particular purchase in favour of sources, like credit cards, that can be used more widely.

Heavy credit use is concentrated among a tiny minority of the population. Credit use can be a direct cause of financial difficulties both following a drop in income, and in the absence of an earned income.

Who borrows

Borrowing was most common among people aged between 20 and 50, when demands on the family budget are greatest. Compared with others, unsecured borrowing was more common among people with a mortgage, even when all their other circumstances were the same.

A change in income – particularly following job loss – was related to credit use and had a stronger effect than income itself.

Credit use was common among people with modest levels of savings – of between £3,000 and £5,000 – even once the influence of other factors such as income was taken into account. Far from being irrational, borrowing serves to protect the “safety net” that modest savings provide.

Attitudes towards spending, saving and borrowing were important for explaining who was likely to be a credit user, and especially a heavy credit user. People were much more likely to be credit users if they were impulsive, preferred to use credit rather than to save, or lived for the day.

Reasons why people borrow

The essential function of borrowing is to smooth the ebbs and flows of income and expenditure throughout life. Previous research has distinguished borrowing to alleviate financial hardship and borrowing to augment a consumer lifestyle.

In the current strong economic climate there was little evidence of borrowing purely to relieve financial difficulties. However, for many heavy credit users, discretionary borrowing was contributing to a need to borrow in order to get by.

The current research provides new evidence that the distinction between consumers’ needs and wants is not clear cut. Among young adults in particular there was clear evidence of routine borrowing for everyday spending for discretionary purposes, although it may not have been perceived as such. For them, borrowing for wants and needs were virtually indistinguishable.

Pre-requisite borrowing to buy a home or to fund further or higher education was seen as a legitimate form of financial investment. However, some people were borrowing far more than they strictly needed for these purposes.

Drivers of borrowing

In the context of a highly competitive credit market, it is perhaps not surprising that factors associated with the supply of credit – such as the perceived ready availability and cheapness of borrowing – made borrowing attractive.

Among a small core of young adults, the availability and benefits of debt solutions – such as debt consolidation, Individual Voluntary Arrangements and bankruptcy – outweighed the drawbacks of over-borrowing, even to the extent that they made borrowing beyond one's means all the more desirable.

Across the life-stages, borrowing behaviour often reflected the rising expectations of living standards and wealth born out of increased prosperity in the UK in recent years, as well as the social pressures of a 'want it now' society.

Among young adults in particular, credit use was a way of life and seen as socially acceptable. The increase in demands on finances for large and legitimate expenses, such as home ownership and higher education, were central to a shift in norms for young adults and people in the family years compared to older generations.

There was both a sense of inevitability around borrowing large sums to support higher education and home ownership and that borrowing for these purposes was a form of investment. In particular, a belief that property is the best investment was compounded by a belief that mortgage borrowing is itself a form of investment, having been relatively cheap in recent years.

Among young adults, the perception of credit as 'money' predominated. Higher education students tended to see credit as seen as a legitimate form of income; that they had a 'right' to this money as their own. Among a minority of other young adults, a perception that credit was someone else's responsibility seemed to underlie a feeling that it could be spent frivolously.

Mitigating borrowing

Against a backdrop of widely available credit and a pervasive consumer culture, there was clearly little desire or perceived need among borrowers to cut back on spending or go without, nor was there a motivation to reduce levels of borrowing. There was also a sense of impatience: people did not want to wait and save up. It was, however, accepted that avoiding credit use would be difficult among lower-income families.

Some people – younger and older people alike – felt it was impossible to save quickly enough to keep up with rising prices. This seemed counter-intuitive given low inflation in the UK at the time of the study, but related specifically to new technologies. There was a feeling that by the time you had saved up for something, there would be a newer, higher specification, more expensive version on the market.

Across all life-stages, problem debt was seen predominantly as arising through irresponsible spending and borrowing behaviour by the individual, although concerns about irresponsible lending were also expressed in some groups.

People in the family and post-family years tended to identify internal definitions and warning signs of problem debt, such as worry about money and losing track of spending; young adults referred more to external warning signs such as final demands for payment and threatened court action, and perceived the fewest personal negative consequences of problem debt.

Stricter lending criteria, financial education in schools, and advice at the point of need were among the diverse solutions perceived as being needed to prevent problem debt.

Whilst the need for people to take more personal responsibility was discussed by people in their family years, some young adults seemed to circumscribe personal responsibility for their spending and borrowing behaviour.

Conclusions and policy implications

Young adults seemed especially susceptible to strong societal pressures to consume and were prepared to borrow to do so. A core minority were circumscribing personal responsibility for their credit use and saw debt consolidation and insolvency as an easy way out.

There were two key routes to over-commitment among the family years groups: the pressures to provide for all their children's needs and wants; and a belief that housing equity can provide for all future financial needs.

People in the post-family years had generally cautious attitudes towards borrowing, and were willing to borrow for only a narrow range of purposes.

Three important policy issues emerge which raise questions about greater risks of payment default and the implications for longer-term financial planning. These are:

- The connection between consumption and borrowing;
- A belief in housing equity as the solution to all future financial needs;
- A disconnect between the perceptions and reality of 'debt solutions'.

In discussion with a panel of experts, the research concluded that policy responses need to focus on providing a counterbalance to the 'want it now' consumer culture, promoting financial capability through a coordinated approach. This should centre on the positive message of 'making money work for you', which must be delivered consistently and repeatedly to all age groups to be effective.

1 Introduction

Recent years have witnessed a strong economic climate in the UK. In the ten years to 2004 employment rates rose gradually and unemployment fell by almost a half to 1.4 million.[i] With net household wealth rising to £6,341 billion in 2005 and with wage increases and house-price increases outstripping consumer price increases, the UK population is wealthier than ever before. Still, wealth distribution remains uneven.

The increase in wealth witnessed over the past decade or so has been aligned with a similar growth in levels of borrowing. The Bank of England recently noted that "[a] feature of the past decade has been the build-up of household debt" (2007). Personal debt owed by UK consumers now exceeds £1.35 trillion, of which £215 billion was in the form of unsecured consumer credit, such as credit cards, bank loans and hire purchase agreements. Put simply, we are now seeing the highest ever levels of outstanding unsecured credit sitting on top of the highest ever levels of outstanding mortgages. Notwithstanding the period uncertainty facing the UK as the effects of problems in the US sub-prime mortgage filter through fully, signified in September 2007 by the feared collapse of Northern Rock bank, the scale of this growth in borrowing raises concerns about the consequences for consumers and lenders alike in the event of economic downturn.

Rather than increases in participation rates, it is the amounts owed by borrowers that have increased markedly in the past few years.[ii] The relatively low interest rates during this period have facilitated the affordability of borrowing, so balancing out the effects of increased amounts borrowed. However, following the impact of five base-rate increases by the Bank of England during 2006 and 2007 on borrowing interest rates, the burden of debt-servicing has increased quite substantially.[2] There are also growing signs that the high level of consumer borrowing is beginning to show in raised levels of financial difficulties in County Court Judgement and mortgage arrears and repossessions statistics[iii] as well as debt advice agency statistics.[iv] Although there has been a decrease in insolvencies for the first time in the second quarter of 2007 this follows a general trend upwards in recent years.[v]

Recent figures suggest that home buyers are responding to the rising interest rates, with record numbers of first-time buyers and increasing numbers of home movers taking out fixed-rate loans to protect themselves from further increases in the short term.[vi] At the same time, there are reports that some high-street mortgage lenders have begun to offer prospective home-buyers secured loans of five or more times combined salaries.[vii] Additionally, there are indications that sub-prime lenders issue most of the secured loans that are taken explicitly for the purposes of debt consolidation.[viii] This reflects both a willingness to take on even greater amounts of borrowing, at least by a minority, as well as a willingness to supply – even to borrowers with a history of default – by some lenders.

There are seemingly increasing financial pressures on people. Moreover, people seem to be facing an increasing range of financial pressures. The effects of the continued house-price increases and university tuition fees disproportionately affect younger people. Salary-related pension schemes, often seen as more secure and lucrative than money-purchase schemes, are becoming scarcer as time goes on. This affects people in their middle years most acutely, and has implications for future generations. Finally, there is emerging evidence that levels of borrowing among older people may

[2] The five quarter-point increases have brought interest rates to 5.57 per cent at the time of writing. The increase in August 2006 marked the first increase in the base rate in two years.

have increased over time,[ix] raising concerns about people reaching retirement still with substantial debts.[x] The burdens on pensions savings are increased by longer life expectancy, and whilst the market for equity-release schemes remains small it is expected to grow in the future to help meet these growing demands, raising questions about financial risks being extended into the older age groups.[xi]

1.1 Research methodology

The overall aim of this research project was to provide a better insight into the triggers that drive borrowing and how borrowing may be mitigated and even avoided at different stages of the life-cycle.[3] The study focused on three life-cycle stages:

- Young adults aged 18 to mid-20s.
- People in their family years, aged mid-20s to mid-50s.
- People in their post-family years, aged in their 50s to early 70s.

The research comprised three related elements. The first phase of the study involved a review of the existing body of empirical literature on the extent and nature of borrowing in the UK and secondary analysis of two national survey data sets:[4] the 2005 UK Baseline Survey of Financial Capability (BSFC) undertaken on behalf of the Financial Services Authority and the 2002 survey of over-indebtedness in Britain (ODS) undertaken on behalf of the former Department of Trade and Industry.[5] The purpose of the literature review and secondary data analysis was to understand which groups in society are likely to borrow – and to borrow heavily – and to help inform an understanding of why people accumulate borrowing at different ages and stages in their lives.

This initial phase also informed the design of the main stage of the study, which involved primary analysis of eight focus groups aimed at understanding why people borrow and exploring their attitudes towards reducing borrowing and problem debt. Eight focus groups were held in two different areas (one in a low-to-middle income neighbourhood and the other a middle-to-higher income neighbourhood) with participants drawn from the three life-stages of interest: young adults, family years and post-family years.[6] Three groups were held with young adults: one comprising higher education students; one comprising recent graduates; and one comprising young people who had not taken the higher education route and who were in employment. Another three focus groups were held with people in the family years and a further two were held with those in the post-family years.

The final element of the study involved a workshop of experts from the field to discuss the policy implications of the research findings and inform the possible policy responses to the issues raised.[7]

---

[3] The study focused primarily on unsecured credit use. Informal borrowing, e.g. from friends and family, was considered where relevant, particularly where it explained low levels of commercial borrowing. Although first-charge mortgages were not directly considered (the reasons for their use being self-evident) secured borrowing was considered where it related to further borrowing.

[4] Details of the methodology of the 2005 BSFC are given in BMRB Limited (2006). Details of the methodology of the 2002 ODS are given in Kempson (2002).

[5] The relevant functions of the former Department of Trade and Industry have been brought together with the Better Regulation Executive (BRE) to form the Department for Business, Enterprise and Regulatory Reform.

[6] The focus groups were held on the 5th and 6th of June 2007. Each focus group comprised seven to ten participants. Details of the composition of the groups are given in Appendix 1.

[7] The workshop participants are detailed in Appendix 3.

1.2 The remainder of the report

We begin in section 2 by providing a summary of the extent and nature of borrowing and its relation to financial difficulties in the UK, with reference primarily to the existing body of research literature.

Section 3 examines the socio-demographic and attitudinal characteristics of credit users, including heavy credit users. In doing so, it draws primarily on re-analysis of the two national survey data sets, supplemented with evidence from the existing body of research and the current qualitative research. The section also considers the relative importance of the characteristics for explaining credit use when the influence of other factors is taken into account.

Section 4 draws mainly on primary analysis of the focus groups, supplemented with secondary analysis of the 2002 ODS and previous research to consider why people borrow. It sets out the main reasons for borrowing as well as the factors that push and pull people towards borrowing which are evidenced clearly in the focus group discussions.

Section 5 considers the process involved in mitigating borrowing, again drawing primarily on the focus group discussions. It considers how people view the alternatives to borrowing and the situations in which people expect to reduce their borrowing. The section also examines how people perceive 'problem debt' in terms of its meaning, its causes and consequences, and how it may be resolved.

Section 6 summarises the main evidence relating to the accumulation of borrowing at the three life-stages: young adulthood, the middle years and the pre- and early- retirement years.

The final section concludes by drawing out the main policy issues raised in the research and considering appropriate policy response to these issues. It is informed by discussions at the workshop of experts.

2 Extent and nature of borrowing in the UK

Key findings

- About three-quarters of the population have some form of credit facility, although only a half are active credit users.
- Whilst the proportion of people using credit has remained stable in recent years, the amounts owed by credit-users have increased.
- Heavy credit use is concentrated among a tiny minority of the population.
- During the past two decades, there has been a shift away from the use of credit tied to a particular purchase in favour of sources, like credit cards, that can be used more widely.
- Credit use can be a direct cause of financial difficulties both following a drop in income, and in the absence of an earned income.

National surveys indicate that access to consumer credit is widespread in the UK. The vast majority of households have some form of consumer credit facility, although a significant number of these are not making active use of the facilities they have at any point in time. The 2002 ODS found that three quarters (75 per cent) of households had some form of credit facility although only half of them (47 per cent) were active credit users; the remainder either had unused overdraft facilities or they had a credit card which they had either not used or they settled the account in full each month.[xii] This finding is supported by other survey research.[xiii] Re-analysis of the 2005 BSFC also shows that about a half (47 per cent) of individuals had a current credit commitment.

Moreover, despite a doubling in the sums of money outstanding in consumer credit in the ten years to 2007, surveys show that the proportion of households and individuals with outstanding credit commitments has remained relatively stable over time. Instead, it is the amounts owed by credit-using households that have increased [xiv] with the increased borrowing concentrated among a very small number of heavy credit users.[xv] This finding is all the more remarkable as, over the same time period, attitudes to credit in the British population have softened somewhat.[xvi] As a consequence, the larger sums remain concentrated placing this small group of households at even greater risk of financial difficulties in the event of economic recession.

Although the proportion of people using credit has remained stable, it is not always the same people who are using credit from one point in time to the next: there is a degree of movement into and out of the credit market. Interviews with the same individuals in the 1995 and 2000 waves of the British Household Panel Survey (BHPS) revealed that, whilst about a third were using credit at either time point (36 per cent at each survey), only a quarter had credit commitments in both surveys. [xvii]

Use of secured loans for reasons other than house purchase remains relatively rare. Re-analysis of the 2005 BSFC data shows that 15 per cent of all mortgages taken out in the previous five years involved re-mortgaging in order to access equity, representing two per cent of the population overall borrowing in this way. Similarly, previous research found that 12 per cent of all current or previous home owners had borrowed against the value of their home at some point in the past with a further one per cent having used equity release schemes.[xviii]

Re-analysis of the 2005 BSFC shows that the vast majority of those who had taken out additional borrowing against the value of their home also had some form of current unsecured credit commitment (76 per cent). For the most part, therefore, this group is not a distinct set of borrowers from those who use unsecured sources (aside from being, by definition, mortgage borrowers), suggesting the drivers for use of unsecured credit and equity-release are likely to be similar.

2.1 The number of active credit commitments

Re-analysis of the BSFC data shows that the majority of credit users had only one commitment (42 per cent) and a further quarter (25 per cent) had two active commitments (Table 1). That said, a significant minority of credit users had a large number of credit commitments: one in ten had five or more active sources. Those who had also re-mortgaged for reasons other than purchasing property in the past five years were represented equally among the higher and lower level credit users.

Table 1 Percentage of people by the number of active credit commitment

Row percentages

Number of credit commitments	None	One	Two	Three	Four	Five or more	Weighted base
Active credit users		42	25	15	7	10	2,504
All individuals	53	20	12	7	3	4	3528

Source: 2005 BSFC

Note: percentages do not sum to 100 as a small number of cases had an unknown number of commitments

Expressed as a proportion of the population as a whole, only a small minority (four per cent) had five or more unsecured credit commitments (Table 1). This figure is identical to that identified by the 2002 over-indebtedness survey, [xix] while research undertaken by the Bank of England found that the same proportion – four per cent – of individuals accounted for about a half of the amounts outstanding in consumer credit.[xx] The 2002 survey additionally found that similar proportions owed £10,000 or more (four per cent), and were spending more than a quarter of their income on repaying consumer credit (five per cent), and that there was some overlap between these heavy credit-user groups.[xxi] In other words heavy credit use is clearly concentrated among a tiny minority of the population.

2.2 Excess credit and constrained supply

As we noted above, the 2002 survey of over-indebtedness in Britain (2002 ODS) found that 75 per cent of households had credit facilities but only 47 per cent actually owed money when they were interviewed. [xxii] That is, almost three in ten (28 per cent) had overdraft or credit card facilities but owed nothing.

New analysis of these data shows that some people were a long way from being credit constrained: almost one in five households (18 per cent) had two or more unused credit facilities available to them and six per cent had three or more.

Credit constraint refers to the role that supply factors such as lending policies and practices – as well as people's expectations of these – play in credit use. Low levels of credit use among some groups such as younger people and those on lower incomes may be related less to a need or choice not to borrow and more to a (real or perceived) lack of availability of consumer credit. Previous research has considered the evidence of credit constraint in relation to credit industry refusals and borrowing from sources other than commercial providers.[xxiii] The study found that there were about three instances of refusals and 11 instances of informal borrowing for every one hundred households, compared with 136 instances of active commercial credit facilities, suggesting there were many more credit opportunities than constraints. Re-analysis of the 2005 BSFC similarly shows that 11 per cent of people owed money to friends, families or from someone else in the community at the time of the interview.

2.3 Types of credit used

New analysis of the BSFC data shows that in 2005 cash loans and credit cards were the two most common sources of unsecured commercial credit. At the other extreme, store cards and hire purchase agreements were much less common (Table 2). This is consistent with the findings of earlier research. [xxiv]

Moreover, there have been significant shifts in the types of credit used over time. Although not directly comparable, analysis of the 2005 BSFC data together with the findings of earlier household surveys in 2002,[xxv] 1989 and 1979 [xxvi] indicate that household use of mail order and hire purchase has declined steeply, while use of credit cards and personal loans has increased (table 2).[xxvii] The use of overdrafts has, in contrast, fluctuated over the last 18 years. In other words, there seems to have been a shift away from the use of credit that is tied to a specific purchase in favour of sources, like credit cards, that can be used more widely.

Credit sources can also be divided into those which offer a line of credit (credit cards, store cards and overdrafts) and those which are lump sum advances over a fixed term and with fixed (usually monthly) repayments (loans, hire purchase, mail order). Re-analysis of the BSFC data shows that use of fixed-term credit (32 per cent) is slightly more common in the general population than use of revolving credit (29 per cent).

Table 2 Credit use, by type, 2005, 2002, and 1989

Column percentages

	2005	2002	1989
Any credit	47	47	51
Loan	25	15	16
Credit cards	21	19	15
Overdraft	13	9	12
Mail order	10	17	23
Store cards	5	8	7
Hire purchase/credit sale	4	13	17
Weighted base	5,328	1,647	2,224

Source: 2005 BSFC, Kempson (2002) and Berthoud and Kempson (1992)

Note: the figure for loans in the 2005 BSFC differs from that previously published as hire purchase/credit sales are reported separately here.

2.4 Credit use as a source of financial difficulties

Borrowing is not problematic per se: it undoubtedly helps smooth out the ebbs and flows of income and consumption. Paying off a mortgage can additionally be viewed as a form of saving.[xxviii] However, at any point in time a significant minority of households are experiencing financial difficulties and there is clear evidence that credit use can be linked to such difficulties.[xxix] The more consumer credit commitments people have, the greater the odds of falling into arrears with household commitments after controlling for the influence of other factors.[xxx] Moreover, this was true even when drops in income were taken into account. This suggests that credit use can be a direct cause of financial difficulties, regardless of whether or not there has also been a drop in income.

This is borne out by the reasons that people give for their financial difficulties [xxxi] and also by recent qualitative research, which has shown that over-borrowing, linked to poor money management, is a significant reason why a minority of people get into financial problems and need to seek the assistance of a debt adviser. [xxxii]

3 Who borrows

Key findings

- Borrowing was most common among people aged between 20 and 50, when demands on the family budget are greatest.
- Borrowing was also common among people owning a home on a mortgage, even after controlling for other factors.
- Likewise, credit use was common among people with modest levels of savings, independently of other factors.
- A change in income – particularly if due to job loss – was related to credit use, independently of other factors, and had a stronger effect than income itself.
- Attitudes towards spending, saving and borrowing were important for explaining who was likely to be a credit user, and especially a heavy credit user. People were much more likely to be credit users if they were impulsive, preferred to use credit rather than to save, or lived for the day.

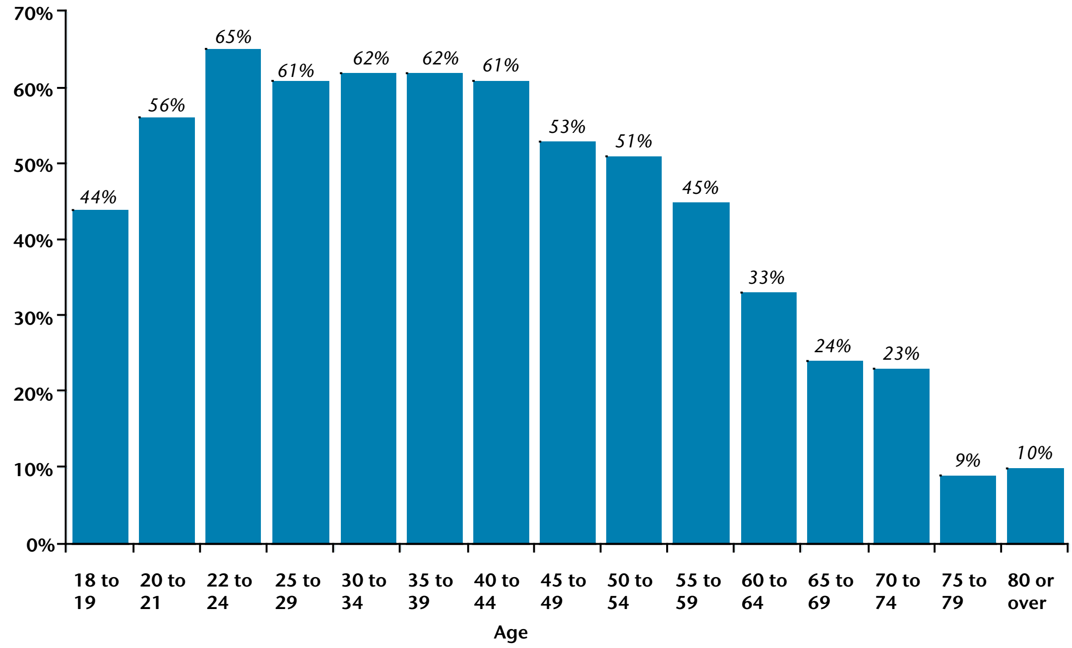
As reported above, about a half of the population are active credit users at any point in time. However, previous research and re-analysis of the BSFC data show that credit use is distributed unevenly among the population, varying according to a range of socio-demographic and attitudinal characteristics (Table A 1 to Table A 3). These include age and family circumstances, socio-economic status, ethnic background, and attitudes towards saving, spending and credit use. BSFC data shows that heavy credit users (the small minority who have five or more commitments) are drawn from borrowers of all ages and walks of life.

3.1 Age and family circumstances

Borrowing tends to be highest among people aged between 20 and 50 when demands on the family budget are greatest: the costs of setting up home, getting married, and having children are concentrated in these years. Credit use then declines fairly steeply with age so that it is very low among people over pension age. [xxxiii] In the focus groups carried out for this study those in their post-family years, aged in their 50s and 60s had the most limited range of items that they would be prepared to borrow for, and these tended to be the larger, one-off and more essential purchases such as cars and medical treatment. In contrast, many young adults, and to a lesser extent those in their family years, were borrowing for a wide range of purposes, from the less frequent larger purchases to smaller everyday items that might be classed as lifestyle purchases (such as going out, designer clothes and mobile phones).

The large sample in the 2005 BSFC allows finer analysis of borrowing by age (Figure 2.1; Table A 1). This shows that credit use is only just below the average of 47 per cent among people in their late teens (44 per cent) and then rises fairly steeply up to a peak among those aged 22 to 24 (65 per cent). It then remains at this high level up to the age of 45, when it begins to decline fairly steeply. Consequently credit use among people aged over 75 is very rare indeed. Furthermore, multivariate analysis of the BSFC data shows that age is the single most important characteristic for explaining the propensity to borrow (Table A 4). [8]

Figure 1Percentage of people with one or more active credit commitments, by age



Source: BSFC 2005

With regard to young people, analysis of the BSFC shown in Figure 1 supports previous assertions that those aged between 18 and 25 are not a homogenous group in terms of their need or propensity to borrow. [xxxiv] This earlier research has shown that young people who remain living in the parental home use rather less credit than those who have set up home independently. [xxxv] In part this will because there is less need to borrow (setting up a home often necessitates borrowing). But other factors are also likely to be at work, for example, lenders are likely to be more wary about lending money to them. [xxxvi]

[8] Many of the factors that are linked to credit use are, themselves inter-related. For example, we do not know whether home buyers are more likely to use credit because they need to borrow as a consequence of buying a home, because they are young and, possibly also have children, or because they tend to be in work and, therefore, better off. Multivariate analysis techniques enable us to disentangle the effects of different factors in order to understand the influence of one factor independently of all others tested.

Perhaps surprisingly, re-mortgaging as an alternative to unsecured borrowing is also disproportionately likely among people aged in their 30s, 40s and 50s, and to a certain extent those in their 20s (although this will partly reflect differences in housing tenure by age). Re-analysis of the 2005 BSFC shows that 31 per cent of people who had re-mortgaged in the last five years to release equity from their property were in their 30s, despite this age group making up only 19 per cent of the population as a whole. One in five who had released equity were aged in their 40s (19 per cent), a similar proportion in their 50s (19 per cent), and 18 per cent were in their 20s. In contrast, only seven per cent were in their 60s and only eight per cent were aged 70 or older (treat with caution due to small bases), despite those in their 70s, for example, representing 14 per cent of the population in general.

Consistent with previous research [xxxvii] re-analysis of the 2005 BSFC data demonstrates a clear relationship between the presence of children in the household and higher levels of credit use, explaining the high levels of use over the peak child rearing years. This was equally true for lone parents and couples with children, though the link was stronger for couples (64 per cent of whom were credit users compared with 55 per cent of lone parents). Re-mortgaging to release equity was also disproportionately high among couples with children: 42 per cent of all those who had released equity in the past five years were in a couple with children at the time of interview, although this group made up only 22 per cent of the population as a whole. The difference in the percentages borrowing commercially among couples and lone parents appears to be compensated for, however, by higher rates of informal borrowing among lone parents (21 per cent compared with 11 per cent among couples with children).[9] Previous research has also found that the arrival of a new baby was clearly linked to higher than average rates of credit use. [xxxviii] Notably, heavy credit use was especially high among people with two children (11 per cent compared with four per cent on average; Table A 1).

The steep decline in credit use after the middle years raises the question of whether it is the result of a generational or ageing (life-cycle) effect. In other words, do older people use less credit because they have less need to do so at this stage in their life-cycle, or because they are of a generation that is not pre-disposed to borrow? In a previous qualitative study, half of lower-income pensioners reported that they had never used credit and held negative attitudes towards borrowing saying that that they were 'brought up to save'. In other words, this was indicating a possible generational effect. [xxxix] Conversely, many modest users of credit in this same study said they had used credit a lot more when they were younger, especially when they had had children, suggesting an ageing effect.

Comparisons of data from national surveys undertaken in 1969, 1979 and 1989 showed each age cohort was using more credit than their counterparts ten years earlier but that their levels of use declined as they aged. [xl] This led the authors to conclude that the pattern was most likely the product of two independent factors: on the one hand an increase in the supply of credit from each time point to the next, affecting all age groups, and on the other a decline in the propensity to use credit with increasing age, affecting each cohort as it ages.

In other words, the relationship between age and credit use is complex and mediated and moderated by many factors. Across the age groups there are variations in the need to borrow, the availability of credit and attitudes towards borrowing. [xli]

[9] Informal borrowing is defined as borrowing from friends, family and others in the community.

3.2 Economic characteristics

The 2005 BSFC data shows that rates of borrowing increase fairly consistently with higher levels of income (Table A 2). Those who were most likely to have current credit commitments were in the two highest income quintiles (57 per cent and 59 per cent); in full-time work (61 per cent); and lived in households with two or more paid workers (62 per cent). When tested in multivariate analysis, however, income was found not to be significantly related to credit use independently of other factors, a finding that supports earlier survey research (Kempson, 2002; Berthoud and Kempson, 1992).[10] Even so, commercial borrowing was relatively common even among people in the lowest income quintile (37 per cent) and the unemployed (38 per cent) with informal borrowing also relatively high in the lowest income quintile (14 per cent compared with 47 per cent on average).

As expected given the links with age, the BSFC data identifies low levels of credit use among retired people (20 per cent). However, this headline finding is likely to mask differences between wealthier and poorer pensioners. As we have noted above, qualitative research found that half of lower-income pensioners had current credit commitments. [xlii]

The BSFC data also shows that full-time students, who we would expect to be on some of the lowest incomes, had very high rates of borrowing (65 per cent).[11] The most recent survey of higher education student finances carried out in 2004/05 for the Department for Education and Skills found that more than four in five full-time students (84 per cent) had taken out a student loan, averaging £5,600 outstanding and around a half were overdrawn on their current accounts, averaging £536. A further quarter had taken out commercial loans, averaging £2,480. [xliii] The focus groups we held for this study indicated that not only were students borrowing to pay their tuition fees and their accommodation and other living expenses, they were also predominantly borrowing to fund discretionary life-style spending, especially socialising, seeing this as a legitimate part of the university education experience. They were therefore borrowing far more than was strictly necessary for their education.

Credit use appears to vary by highest level of qualification achieved, although not systematically (Table A 2). Those qualified to first degree or A level (or equivalent) were among those with a higher likelihood of using credit after other factors were controlled (Table A 4). The relationship is, however, hard to explain. Qualifications may be acting as a proxy for something else, for example, increased access to credit or income. Additionally, the focus group discussions highlighted a sense of 'deserving' among some recent graduates of higher education that they should have the sorts of consumer items that reflected their new young professional status, even if meant having to borrow heavily to do so (discussed further in section 4.2.2 below).

Current analysis of the BSFC supports the findings of previous research showing that borrowing was most common in households with small to moderate levels of savings. [xliv] Sixty-five per cent of people with savings of between £500 and £1,000 had active credit commitments, compared with 41 per cent of those with no savings, and 41 per cent with savings of £10,000 or more. Multivariate analysis shows that the relationship of savings to borrowing – and to heavy borrowing – is independent of other factors, such as income and work status. Moderate savings of between £1,000 and £3,000 are associated with odds at the higher end of the range for both any credit use and heavy credit use (Table A 4 and Table A 5).

[10] This may be explained by the mediating effects of qualifications, work status or the number of earners in the household, which were found to have significant independent relationships with credit use (Table A 4)

[11] Multivariate analysis confirms that, after other factors are controlled for, being a full time student is associated with significantly higher likelihood of any credit use than all other work status groups (Table A 4).

People with no savings are more likely to be excluded from the credit market altogether, or may find it too risky to take on credit commitments, while high levels of savings, if accessible, almost certainly provide an alternative to borrowing. Earlier research among low-to-middle income groups found that only one fifth of people had both credit and savings. [xlv] Single people in their 30s were particularly likely to be borrowing as well as saving. Far from being irrational this approach serves to protect the "safety net" provided by modest savings. There was additionally a substantial overlap between the types of people who had savings and those who used credit – across the types of credit – with two exceptions. Those with children were less likely to have savings and more likely to have credit, and savings increased steadily with age whilst credit use peaked between the mid 20s and mid 40s. [xlvii]

The BSFC indicates that people who described themselves as facing a constant struggle to keep up with bills and financial commitments were much more likely to have current credit commitments than those who were keeping up without any difficulties (66 per cent compared with 38 per cent; Atkinson et al, 2006). [12] They were also much more likely than the general population to be heavy users of credit (12 per cent; Table A 2). We do not know if the financial difficulties they were experiencing had caused them to borrow or, conversely, if their borrowing had contributed to the financial difficulties they faced. It is likely that there is interplay between the two.

Finally, expectations about the future financial situation of the household have also been found to have an independent effect on credit use. [xlviii] Analysis of longitudinal data from the BHPS found that optimistic expectations about future finances in 1995 were positively associated with an increased level of borrowing in 2000. Importantly, this finding held true regardless of whether or not the expectations about the future financial situation were correct.

Our analysis of the 2002 ODS provides mixed support for this finding. Credit use was certainly a good deal higher among those who thought their financial position would improve in the next twelve months (55 per cent) than it was among those who thought they would stay the same (40 per cent) and a similar pattern was found in relation to heavy borrowing (Table A 2). However, unlike the earlier research, this relationship did not hold true when other factors such as income, family type and attitudes were taken into account in multivariate analysis (Table A 4 and Table A 5). Notably, half (52 per cent) of those expecting a worsening of their economic condition of their household were also credit users, suggesting that both credit use and financial expectations may have been reflecting financial hardship.

3.3 Other socio-demographic characteristics

There is a range of other socio-demographic characteristics which might be related to levels of borrowing, including ethnicity and housing tenure.

3.3.1 Ethnicity and religion

Most surveys are based on samples that are too small for analysis of credit use by different ethnic or religious groups. The 2005 BSFC data, however, not only has a large sample, but also included a booster sample of ethnic minorities. Analysis of this data shows that credit use was not especially high among any particular ethnic or religious group (Table A 3). On the other hand, rates of credit use were low among people from an Indian background (34 per cent; compared with an average of 47 per cent), Pakistani background (37 per cent), as well as people describing their religion as Muslim (35 per cent; treat with caution due to small bases), and relatively low among people from an African (40 per cent) and Bangladeshi (40 per cent) background. Although the relationship

[12] This holds true independently of other factors (Table A 4)

between religion and any credit use holds true when other influences are controlled in multivariate analysis, ethnicity and religion were not independently related to heavy credit use (Table A 4 and Table A 5).

An earlier study of low-to-middle income groups found that people from Bangladeshi and Pakistani backgrounds were least likely to have credit commitments or savings accounts. [xlix] This was most likely due to Islamic teaching of Shariah law, which prohibits payment and receipt of interest. The lower credit participation rates among Pakistanis compared with Bangladeshis in this study and the BSFC analysis is most likely explained by the greater availability of and access to community-based savings and loan schemes in Pakistani communities and higher levels of formal borrowing. [l]

Re-analysis of the BSFC confirms these findings. People from a Pakistani background were more than twice as likely than the average to owe money borrowed from friends, family or someone else in the community (23 per cent compared with 11 per cent overall). Sixteen per cent of people with a Bangladeshi and 16 per cent with an Indian background owed money in this way.

These findings illustrate a particular way in which commercial credit use occurs as a function of both supply (in this case availability of appropriate products) and demand factors. In recent years the Government, regulators and the financial services industry have recognised the importance of addressing supply-side issues to all sections of the community. [li] This will most likely have the effect of widening participation in consumer credit use among black and ethnic minority communities that have so far been partly or wholly excluded.

3.3.2 Disability

Existing research on the relationships between disability and credit use is limited, although studies have found a relationship between disability (and poor health) and problem debt, such as arrears. [lii] Re-analysis of the BSFC data showed that credit use was lower than average among people who reported having a long-term limiting illness or disability (39 per cent; Table A 3). However, this relationship is spurious: presence or absence of a long-term limiting illness or disability does not relate to credit use independently of other factors (Table A 4 and Table A 5). The lower rates of credit use participation in this group are likely to be an artefact of the lower employment rates and income of this group, [liii] which in turn have implications for constrained supply (as discussed in section 2.2).

3.3.3 Region

Credit use does not appear to vary substantially or systematically by region, and multivariate analysis of the BSFC confirms that there is only a weak independent relationship between region and any credit use. Overall, people in the North East of England were at the higher end of the range, with 54 per cent of people there with at least one current credit commitment, and people living in the East of England at the lower end of the range (40 per cent; compared with 47 per cent on average). Rates of heavy credit use were especially low in Northern Ireland (two per cent) where there has historically been less breadth in the financial markets than elsewhere in the UK, although this is not confirmed in multivariate analysis.

3.3.4 Housing tenure

Conversely, there were wide variations in credit use by housing tenure, with people owning a home with a mortgage being most likely to have unsecured current credit commitments (63 per cent). They were also highly likely to have five or more credit commitments (seven per cent).[13] This is consistent with previous research, which has identified home ownership as one of the main 'gateways' to credit use, [liv] perhaps reflecting the costs associated with owning a home and the availability of credit to this group. Consumer credit use was also relatively high among private renters (56 per cent), and this may partly reflect the demographic profile of this group who tend to be relatively young and in full-time work. It was about average among those renting from their local authority (44 per cent) and low among those who owned their homes outright (23 per cent).

3.4 Changes in income and circumstances

Previous research has identified that domestic changes – such as setting up or moving home, the birth of a child and relationship breakdown – and job loss, drops in income and the onset of illness or disability are triggers to the onset of financial difficulties. [lv] The same events have been associated with lower levels of saving. [lvi] It can be hypothesised that such changes in circumstances are also associated with a higher likelihood of credit use.

Previous research has shown that households with stable incomes have lower than average rates of borrowing (36 per cent) whilst those who experience both falls and increases are highly likely to be credit users (74 per cent; [lvii]). Those with a fall (55 per cent) or a rise in income (52 per cent) are marginally more likely to have at least one current credit commitment than the average (47 per cent).

Re-analysis of the 2002 ODS shows that experiencing both a fall and a rise in income is also clearly associated with heavy credit use, with almost two in five households that experienced a fall and a rise having four or more current credit commitments (18 per cent, compared with seven per cent on average).

New multivariate analysis of the 2002 ODS shows that a change in income was significantly related to any credit use, and had a stronger effect than income itself. Households that had experienced a fall in income and those experiencing both a fall and a rise had higher odds of using any credit than those whose incomes had not changed, by a factor of 1.6 and 2.5 respectively. A change in income, however, was not independently related to heavy credit use.

Re-analysis of the 2002 ODS additionally shows that the reasons for people's falls in income are important in explaining rates of credit use. Four out of five people (80 per cent) who had experienced a drop in wages and almost three quarters of people who had experienced job loss or redundancy (73 per cent) had some form of credit. Additional multivariate analysis confirms that falls in income for these reasons are independently related to any credit use. These falls are presumably unexpected, to a greater or lesser extent. Conversely, those who had experienced a fall in income due to retirement were very unlikely to be using credit (19 per cent) and, as expected, a fall for this reason was not independently related to credit use in multivariate analysis.

From these findings we can hypothesise that people who experience unexpected falls in income turn to borrowing to help maintain an accustomed standard of living and meet necessary expenses, whereas those with falls that can be anticipated are able to avoid borrowing. Qualitative research

[13] Multivariate analysis shows that housing tenure has a strong independent relationship with both any credit use and heavy credit use.

has suggested that people do not take account of the potential for changes in circumstances (such as job loss or relationship breakdown) when they take on credit agreements. [lviii] Other research suggests that there is at least one exception, which appears to deter credit use. In a qualitative study of low income pensioners, low levels of credit use partly reflected a concern about not being able to meet repayments in the event of a partner dying. [lix]

As reported above, previous research has found that higher credit participation rates were evident among households with new babies (64 per cent). Other types of household changes, such as setting up home with a new partner, were also associated with higher rates of credit use (58 per cent; [lx]). Earlier research found that both a new baby and a child leaving home appeared to add to the number of credit commitments a household had. [lxi]

Re-analysis of the 2002 ODS suggests the relationship between heavy credit use and any change in circumstances is not so clear-cut, although it is in the expected direction (eight per cent of people experiencing any change had four or more credit commitments compared with seven per cent on average). Perhaps surprisingly a change in circumstances (of any kind) did not relate to any credit use or heavy credit use once other factors were taken into account.

3.5 Attitudes and personality

Favourable attitudes towards credit might be expected to relate to a greater propensity to use credit. Re-analysis of the 2002 ODS data confirms this to be the case. Although only a minority of people held the view that credit is "a convenient way of buying", current credit use was disproportionately high in this group (68 per cent compared with 46 per cent overall). It was also higher than average among people who thought credit was "a sensible way of buying, helping you manage your money" (58 per cent). Perhaps unsurprisingly, use was very low among people who described credit as "never a good thing" (21 per cent). Nonetheless, this suggests that one in five people with such negative views were borrowing against their better judgement. This may be because they are borrowing for reasons of hardship, or for pre-requisite reasons (see section 4.1.3 below).

We do not know, however, whether favourable attitudes towards credit occur as a precursor to credit use or as a result of it. Commentators caution that the relationship between attitudes and credit use is complex and that the direction of the causal relationship is unclear. [lxii] Indeed, previous research suggests that adopting a positive attitude towards credit may be a means of coming to terms with one's own credit use. [lxiii]

There is strong evidence from existing research that the propensity to use credit relates more broadly to attitudes towards spending, saving and credit. [lxiv] Reanalysis of the 2005 BSFC data (Table 3) shows that people were much more likely to be credit users if they were impulsive, preferred to use credit than to save or lived for the day. Conversely, people who described themselves as savers, as organised money managers and as being never late with bill-payment were much less likely to owe money on consumer credit. Significantly, multivariate analysis of the BSFC data shows that several attitudinal factors are independently related to credit use, some strongly (Table A 5).

Attitudes were seemingly even more important for explaining who was likely to be a heavy credit user. They were much more inclined than others to see using credit as a sensible way of buying things and to say that they bought things using credit rather than wait and save up. They were also very unlikely to say they made sure they had money for a rainy day (Table 3). In multivariate analysis, attitudinal dimensions were the most important factors for explaining variations in the propensity to be a heavy credit user. They contributed an additional 10 per cent of the variation in heavy credit use – whilst the demographic and socio-economic variables alone explained just 13 per cent of the variation – and so contribute substantially to our understanding of the personal and situational influences on levels of credit use. This is consistent with previous work. [lxv] Agreeing with the statement that indicates a consumerist attitude "I would rather buy things on credit than wait and save up" was the strongest predictor: the odds of being a heavy credit user were more than three times higher (3.2) for those who agreed than those who disagreed (Table A 5).

Table 3 Percentage with any credit commitment and five or more credit commitments among those who agree and disagree with attitudinal statements

Cell percentages

	Any active credit commitments (%)	Five or more credit commitments (%)	Weighted base
I am impulsive and tend to buy things even when I can't really afford them			
Agree	65	9	1,113
Disagree	42	3.	4,207
I am more of a saver than a spender			
Agree	336	2	3,976
Disagree	62	8	1,340
I prefer to buy things on credit rather than wait and save up			
Agree	71	12	1,086
Disagree	41	3	4,224
I am very organised when it comes to managing my money day-to-day			
Agree	43	3	4,308
Disagree	62	9	1,016
I am never late at paying my bills			
Agree	43	4	4,221
Disagree	62	8	1,093
I tend to live for today and let tomorrow take care of itself			
Agree	54	6	2,108
Disagree	43	4	3,201
I always make sure I have money saved for a rainy day			
Agree	41	3	3,976
Disagree	65	10	1,340

Source: 2005 BSFC

The cell values indicate the percentage of people with any and five or more active credit commitments among those who agreed and disagreed with the statement.

Moreover, when attitudes were included in the multivariate analysis the effects of age were reduced, especially in the 20 to 35 age groups, but continued to have large independent effects. In other words, younger people appear to use more credit partly because of their attitudes but also partly because of the financial demands at this life-stage. [14]

Many of these attitudinal statements betray underlying personality traits, the relatively persistent personal characteristics that lead to more or less consistent patterns of behaviour over time. A recent review of research on consumer credit use has identified a number of important personality characteristics in borrowing behaviour, such as people's levels of self-control, autonomy, their preference for immediate or delayed gratification, whether they are more likely to see events as controlled by external or internal forces ("locus of control"), materialistic values and risk aversion. [lxvi]

Although focus groups do not provide the scope to explore these influences in depth, there was indicative evidence of the influence of many of these personality traits among the participants of the focus groups carried out for this study, which to a greater or lesser extent promoted or inhibited credit use. For example, a male graduate who had borrowed extensively described the influence of his risk-taking father on his outlook and behaviour; whilst a young woman in the same group seemed naturally cautious:

> *I just don't know enough about it really and it's, and it does scare me because it's not my money.*

Another man in the same group hinted at being driven by materialistic values and a preference for immediate gratification:

> *…every single day I want to be the person who's got a nice flat…so I've got a nice place, a nice car and I just think well what the hell, you know, what's the point, I could die tomorrow.*

A minority of individuals across the groups indicated an underlying desire to be autonomous, for example a woman in the young adult working group expressed a preference to use savings rather than borrow because that way '[y]ou don't have to rely on anyone else'. A post-family years woman (low-to-middle income area) demonstrated an internal locus of control in the respect that she saw her behaviour as determining the outcome of events:

> *I'll go into debt as long as I can pay for it. I don't want people knocking on my door if I haven't got the money, you know…*

Previous research has distinguished between hedonistic and conservative profiles of young people in terms of their attitudes and behaviour towards financial matters. [lxvii] Influences on their attitudes towards credit and debt were primarily parental attitudes and behaviours, with their own beliefs, television, banks and building societies, and, among hedonists, their friends' views and experiences also providing some influence. This distinction also probably holds true throughout people's lives although moderated and mediated with age and experience. Analysis of the current focus groups in sections 4 and 5 supports this model of categorisation.

[14] For example, the odds of credit use among 22 to 24 year olds relative to people aged 80 or over fell from 7.6 to 5.3.

4 Why people borrow

Key findings

- For many heavy credit users, discretionary borrowing was contributing to a need to borrow in order to get by.
- The distinction between consumers' needs and wants was not always clear-cut. In relation to the everyday, lifestyle spending among the young adults, wants and needs seemed virtually indistinguishable.
- Pre-requisite borrowing to buy a home or to fund further or higher education was seen as a legitimate form of financial investment. However, some people were borrowing far more than strictly required for these purposes.
- Factors such as the perceived ready availability and cheapness of borrowing – and, among some young adults, the availability of debt solutions – made borrowing attractive.
- Across the life-stages, borrowing behaviour often reflected the rising expectations of material belonging and wealth – born out of increased prosperity in the UK in recent years – as well as the social pressures of a 'want it now' society. Among young adults in particular, credit use was a way of life and seen as socially acceptable.

Why people borrow at a particular point in time reflects a combination of the tangible goods and services people borrow for and the material circumstances they find themselves in, as well as the less tangible drivers – the more subtle and dynamic factors associated with societal structure and influence – that pull and push people towards borrowing. This section draws mainly on primary analysis of the focus groups, supported with evidence from the literature, secondary survey data analysis to understand the reasons for and drivers of borrowing.

4.1 The reasons for borrowing

Put most simply, borrowing helps to smooth the ebbs and flows of income and consumption through the life cycle. However, throughout their lives different people will take on different forms of credit, to differing levels and for different reasons. As such, the 'typical' credit user might not exist. [lxviii]

Previous research on credit use has distinguished between borrowing to alleviate financial difficulties and borrowing to augment a consumer lifestyle. [lxix] On the whole, poorer families who have access to credit facilities tend to borrow to ease financial difficulties, whereas wealthier households borrow to enhance their standard of living. This is not, however, a straight-forward dichotomy. Some less well-off people borrow to buy discretionary goods such as video-recorders or a holiday, whereas some better-off people use overdrafts or credit cards for everyday spending, such as to pay bills or buy food, because they are short of money. [lxx]

Moreover, using credit to augment a consumer lifestyle presupposes a desire and choice to borrow. The focus groups carried out for this research, however, indicate that the distinction between consumers' needs and wants is not always clear-cut. Additionally, the focus groups also highlighted the role of pre-requisite borrowing at different stages in people's lives, particularly in order to buy a home or to fund further or higher education.

4.1.1 Borrowing for reasons of hardship and everyday living

Previous research shows that, between 1989 and 2002, there was a considerable drop in the proportions of people reporting that they found themselves short of money 'more often than not'. [lxxi] The fall from 18 per cent to eight per cent suggests fewer people would have the need to borrow. Of course, this masks differences between different groups in society. In a qualitative study of lower income pensioners, for example, almost all those who were heavy credit users had built up credit due to reasons of hardship. [lxxii] A lower need to borrow at the same time as a softening in attitudes towards borrowing [lxxiii] may explain the relative stability in the proportions of people using credit that was noted above.

It is, therefore, perhaps not surprising – especially given the deliberate exclusion of the people on the very lowest incomes – that borrowing for reasons of hardship was uncommon among our focus group participants. All the groups felt that, in the absence of alternatives such as drawing on savings, it made sense to borrow in order to deal with emergencies such as washing machines and central heating boilers breaking down. In the family and post-family years, there was also some discussion about borrowing in order to access medical treatment more quickly for either themselves or family members. There was little disagreement about the value and justifiability of borrowing in these situations. However, given the relatively rare nature of such situations, discussion around these points remained largely hypothetical.

Despite this, there was clear evidence of routine borrowing for everyday spending among the focus group participants. This was predominant in the young adult groups, and in the case of higher education students arose from a short-term situation entered into voluntarily. However, much of the routine borrowing described by these participants better reflected borrowing for discretionary spending, although it may not have been perceived as such (see section 4.1.2 below).

The 2002 ODS provides a measure of borrowing for everyday living (which may in some cases encompass borrowing to alleviate hardship) as distinct from borrowing to spend on particular items (which reflects the more discretionary spending). [15] Re-analysis shows that borrowing for everyday living among commercial credit-users is relatively rare (31 per cent compared with 94 per cent for particular items; Table 4). Those who used credit for this purpose were even more likely than credit users generally to be young (in their 20s and 30s), without children and renting from a private landlord, and were also slightly more likely to be on moderate to higher incomes (£10,000 upwards) rather than the lowest incomes (Table A 6).

Table 4 Reasons for borrowing among credit users and heavy credit users

Reason for borrowing	Any active credit commitments (%)	Four or more commitments (%)
Everyday living	31	59
To buy particular items	94	100
Weighted base	762	112

Source: 2002 ODS

1. Elements sum to more than total as more than one response was permitted

[15] Borrowing for everyday living is defined as any use of an overdraft, and using credit to make ends meet, to pay bills, to re-finance other borrowing or to pay off other debts. The 2002 ODS asked current credit users the reasons they have used loans, credit cards and credit cheques in the past 12 months. Hire purchase, mail order and store cards are, by definition, used for purchases of particular types of items. Use of an overdraft can also indicate financial strain (Kempson and Atkinson, 2006).

Use of credit for everyday living was about twice as common among people with heavy credit commitments (59 per cent).[16] Nonetheless, it was very rare for any credit-using households to report having borrowed only for reasons of everyday living expense (four per cent). This suggests that for many credit users, and especially heavy credit users (all of whom reported using credit for discretionary purposes), credit use was contributing to a need to borrow in order to get by.

4.1.2 Borrowing for discretionary reasons

As we have noted in section 4.1.1 above, quantitative data analysis indicates that almost all credit users (and all heavy credit users) borrowed to buy particular items. Consequently, it is not surprising that all the focus groups discussed borrowing for purchases that to a greater or lesser extent fulfil aspirations or consumerist functions. These purchases ranged from larger, one-off expenses, such as cars and holidays, to more everyday but discretionary expenses such as clothes, shoes and mobile phones. Compared with borrowing for emergencies or to cover unexpected expenses, there were far more mixed views between and within the different life-stages about the extent to which it made sense to or was justifiable to borrow for these things. The general consensus seemed to be that while people at all stages of life borrowed for discretionary reasons, it was far more common among young people, and this was acknowledged by the younger focus group participants themselves.

The focus group discussions highlighted that the distinction between ‘needs’ and ‘wants’ for these types of discretionary purchase was neither fixed nor clear. For example, participants talked about buying a car on credit as fulfilling a need or a desire, or both. There was consensus that borrowing to buy a car could be justified if it was needed for work, but there were examples of participants borrowing to buy a more expensive car than their needs demanded, for example because they wanted the latest model or a particular make of car. In relation to the everyday, lifestyle spending among the young adults, wants and needs seemed virtually indistinguishable, perhaps reflecting the powerful influence of drivers to use credit among these groups, discussed further in section 4.2 below.

Perhaps the clearest example of the blurring between needs and wants was raised in relation to borrowing to spend on children, ranging from everyday items such as clothes and trainers to more expensive things like family holidays. In this case, wants seem to have been restructured psychologically as needs. Spending on children was discussed at some length in the low-to-middle income family years group (and to a lesser extent in the post-family years group with similar incomes), but received far less attention among the better-off family years groups, possibly because they were better able to afford to spend on their children without borrowing.

Among the low-to-middle income family years group (and to a lesser extent the post-family years group), there was a general view that the cost of raising a family made credit use more or less inevitable. On top of this, these parents felt under pressure to spend on their children, despite a feeling that children nowadays ‘have too much’. There were various reasons for this - to compensate for what they felt they had missed out on in their own childhoods; because of a pressure to provide an equivalent lifestyle to that of their children’s friends; and a sense that it was necessary to do so in order to be a good parent. This might involve borrowing to spend or cutting back spending on themselves, a common strategy among lower income parents.

[16] Due to the lower sample size of the 2002 ODS, heavy borrowing is defined as having four or more credit commitments (as opposed to five in the 2005 BSFC) to ensure sufficient numbers in this group for robust analysis.

I want to give my kids a good holiday, I don't want them to think they can't go on holiday, or cancel Christmas…at the end of the day if all their mates are going away, getting presents and so on, it's really hard to see your kids without anything. That's why we borrow. (Man, family years group, low-to-middle income area)

These examples of blurring highlight the different rationales for borrowing that individual consumers may employ in a modern consumer society. As such, the distinction between a 'want' and a 'need' varies from person to person. Where individuals draw the line between a need and a want appears to be the foundation for whether or not they decide to borrow. This will change over time as living standards rise and there is a resulting upward societal shift in what is regarded as essential to everyday life.

4.1.3 Borrowing for pre-requisite reasons

As we go on to discuss in detail in section 4.2.2 below, the drive to greater home ownership and widening participation in higher education has seen increasing numbers of people borrowing to buy (or improve) a home or to attend university. There was widespread agreement among the focus group participants that these were acceptable and sensible reasons for borrowing. Committing to such expenditure could not be reasonably met through other means, making it a pre-requisite to borrow in these situations. Moreover, there are specific types and sources of credit that have been designed to meet these borrowing demands.

We reported earlier that just over one in ten current or previous home-owners had borrowed against the value of their home at some point. [lxxiv] The same research suggests that money released from housing equity was rarely spent on non-essentials (Rowlingson, 2005):[17] the most common single reason for accessing housing equity was improving or repairing the home (39 per cent) although more than half reported using the money either to pay bills or debts (28 per cent) or to spend on essential items of daily living (23 per cent).

Among our focus group participants who were home-owners, and especially those who were relatively well-off, there was a view that borrowing against housing equity (i.e. re-mortgaging) was a cheap and rational option to borrow money, particularly to finance things like home improvements which would increase property values further. In some cases this was the main form of borrowing in terms of the sums of money involved. Reflecting the findings from previous research, [lxxv] there was a commonly-held belief among higher-income homeowners that the investment they made in their property could be drawn on at later stages in their lives (for example, by down-sizing to a smaller property or re-mortgaging), to provide income in retirement or to cushion future financial shocks (discussed further in section 4.2.2 below).

Additional instances of pre-requisite borrowing identified by the focus group participants related specifically to credit cards that were used for reasons other than access to credit. There was a sense in some groups that a credit card was a necessary tool of everyday life, for example to guarantee a car hire booking or hotel reservation. Taking out a credit card was also a means to building up a credit history and credit rating sufficient to enable higher value borrowing such as mortgages. Some participants talked about taking out credit cards for reasons of security, such as a financial safety-net when travelling or fraud protection when making purchases online. As such, these examples of credit card use did not necessarily result in revolving balances.

[17] Access to housing equity through trading down as well as borrowing against the value of the home or selling a share to an equity release company.

4.2 Drivers

The drivers to borrowing that the focus group discussions identified or alluded to are characterised by push and pull factors, where push factors are those associated with demand-side consumer needs and wants, and pull factors related to supply-side factors that make borrowing an available and attractive source of funding.

It is natural for people to look outside themselves for external reasons that explain their behaviour, especially when that behaviour may be subject to criticism from others, rather than looking inside themselves for explanations. Therefore we might expect that pull factors are especially salient in people's minds. This is borne out in the current research, but only to a degree. Perhaps surprisingly a wider range of push factors driving borrowing were recognised, prompted and unprompted, and discussed in the different groups.

4.2.1 Pull factors

The past two decades have seen a dramatic expansion in the UK credit market, both in the range of credit products and in the number of credit providers. In this highly competitive market, the customer base has expanded to include people who would previously been excluded because of an impaired credit history or a history of bad debt. Coupled with high levels of employment and rising incomes, this means that more people than ever have the capacity and the opportunity to borrow. [lxxvi]

In this context, it is not surprising that across all the focus groups the major pull factor in credit use was identified as the **ready availability** of consumer credit in what was described as our 'buy now, pay later' culture. There was awareness among participants (including the younger groups) that consumer credit is easier to access now than it was in the past. Additionally, the role of advertising and marketing (such as mailshots for pre-approved loans) in creating the impression of easy access to consumer credit was also discussed:

> *My first loan that I took out, I remember I went to see the bank manager and we grovelled and he made us list all our outgoings to work out whether you could afford to borrow this money, it was a Mini car we wanted…there's a humiliation process to have this money. And I had a letter yesterday from the bank telling me if I want £17,000.00 they can tell me within 30 minutes if I can have it and I needn't start paying for it until the end of July and it's there in my account, I mean I am sorely tempted.* (Woman, post-family years' group, low-to-middle income area)

The seemingly common practice among lenders of unilaterally raising credit card and overdraft limits was also mentioned as a way in which people were encouraged to borrow, possibly more than they could afford to repay. Previous research has highlighted concerns around such increases to credit limits, [lxxvii] an issue which is being explored in the 2007 independent review of the Banking Code.

Linked to easy access to credit was the fact that (recent interest rate rises notwithstanding) it remains relatively cheap to borrow money, particularly for homeowners. Moreover, as competition in the credit market has intensified it has become increasingly common for lenders to advertise special rates and deals on consumer credit, such as 0% finance on cars, furniture and other products, loyalty and reward points, and introductory store and credit card offers. Moreover, sales staff are often incentivised to sell credit alongside the goods bought:

> *…in relation to store cards when you're not looking for credit at all but you're offered it almost as an advantage if you do, you get 10% off your purchases…*(Women, family years group, Berkshire)

There was a view, notably in the higher-income family years' groups and the graduate group, that by taking advantage of these types of offers, and 0% finance offers in particular, it was possible to make credit 'work for you'. This was particularly attractive for some participants who were generally averse to using credit.

I think the only way that I'd borrow for a car is if it's 0% finance, because I hate the idea of paying interest. I pay my credit card off every month so I use it but not as credit as such, and I think what attracts me is 0% finance deals because even if it's pay in a year that just defers the payment... (Man, family years' group, Berkshire)

There was very little discussion about possible drawbacks of these special deals, such as higher purchase prices.

Among higher education students and recent graduates, discussion focused on the use of low-interest student loans and interest-free student overdrafts and credit cards. There was a perception among the student and graduate groups that the types and social acceptability of credit available to students, combined with the expense of higher education and a lack of alternatives, acted to educate students into borrowing and erode any inhibitions they might have:

And also because it's a student loan it's, for some reason when you're at Uni you're like it's not quite the same, then you kind of might begin to have that attitude about loans and credit cards that it's kind of free money until you have to pay it back, and then it's not quite free. [Woman, graduate group]

Even some of the most credit-averse graduates had been encouraged by others (generally family members) to take out student loans that were not needed and to save or invest the money elsewhere. Direct experience of credit use has been previously found to increase the likelihood of future credit use. [lxxviii]

A final supply-side factor identified by the focus groups related not to the credit market per se, but to the availability of debt solutions (such as debt consolidation, IVAs and bankruptcy). A minority of participants, particularly the young adults, expressed the view that it was possible, and even desirable, to borrow beyond one's means because these types of debt solutions provided a way of writing off or reducing at least some of the debts incurred. The benefits of these debt solutions, they believed, outweighed the drawbacks. This is discussed further in section 5.3 below.

4.2.2 Push factors

The focus groups identified a number of inter-related push factors that seemed to be important in driving credit use and credit accumulation. These included the political and economic environment in which UK consumers operate; the social pressures that we face as consumers; the emergence of credit use as a behavioural norm; the perception of pre-requisite borrowing (e.g. for home ownership, higher education) as a form of investment; and the perception of credit as money. Responses to each of these push factors were shaped by people's attitudes and personalities, and also by their perception of the pull factors (discussed in the previous section) associated with the UK credit market.

Political and economic environment

Alongside the liberalisation and expansion of the credit market in the past two decades, there has also been a considerable improvement in standards of living and prosperity in post-war Britain, especially since the early 1980s. With this has come an increase in home ownership[18] and participation in higher education[19], promoted in part by direct Government policies and initiatives (targets to increase rates of home ownership and participation in higher education) and more indirectly through targets to reduce and ultimately end child poverty.

Rising prosperity has been matched by rising expectations of material belongings and wealth over time. These are reflected in the annual changes made to the basket of items that make up the consumer and retail price indices. These baskets are designed to be representative of the goods and services for which there is significant spending, and in 2007 saw the introduction, for example, of three high-technology goods: DVD recorders, satellite navigation systems and DAB radios. [lxxix] They are in turn reflected in the questions that were included in the Family Resources Surveyfrom 2004 to provide an index of material deprivation, which needed to be robust to technical innovations and changes in taste and relative prices (McKay and Collard, 2004).[20]

As a result the UK is characterised by a credit-financed consumer culture, which many participants were conscious of, if not responding to, through their borrowing behaviour. Within this context, there was a sense that each generation wanted more for their own children and, reciprocally, that each generation wanted more than their parents had.

> *She (my wife) wants to give our kids a good time and she doesn't want them to miss out. So she doesn't mind running up the debt* (Men, family years, low-to-middle income area)

> *I think we seem to have more than our parents had and the next generation are wanting more than we've got* (Woman, post-family years, low-to-middle income area).

The influence of the wider political and economic environment that many people appeared to be responding to, however, appeared diminished among the older participants in their post-family years. There was some circumspection among older people arising, at least in part, from their lived experience of more difficult economic times: post-war hardship, economic downturn and soaring high interest rates.

> *I think our generation is a bit cautious as well because we've gone through extremely high interest rates, 13% and 15% and things like that… I think it crippled most of us probably*.(Man, post-family years, middle-to-high income area).

Young adults, in contrast, had only ever experienced a buoyant economy and cheap and accessible credit; as such they recognised the advantages of borrowing but had no concrete reason to be cautious of it. Meanwhile, many of the family years participants, who would have been aware of if not affected personally by the recession of the early 1990s, described borrowing behaviour – especially mortgage borrowing – that seemed to disregard these experiences. This suggests they had either forgotten those times or did not consider them real risks for themselves in the future.

---

[18] For example, in 2003/04, 70 per cent of dwellings (18 million) in Britain were owner-occupied, an increase of 45 per cent from 12 million in 1981. (www.statistics.gov.uk).

[19] The total number of higher education students in the UK (including undergraduates and postgraduates) increased by 36 per cent over the decade 1995/96 to 2005/06, from around 1.72 million to over 2.3 million (www.hesa.ac.uk).

[20] The Family Resources Survey is undertaken on behalf of the Department for Work and pensions and provides the best available source of income data for a large national sample of households in the UK.

Social pressures

Aside from the wider political and economic influences, there were examples across the focus groups of social pressures fuelling borrowing at different life-stages in order to buy and to have particular goods or a 'nice' lifestyle. There was widespread recognition of the pressures to spend and borrow money in a consumer, materialistic and impulsive, 'want now' society.

This was especially apparent among the young adults. Young people (notably the working young adults) admitted to an influence of a 'celebrity culture' on their spending and borrowing, and students were additionally affected by social expectations around student lifestyles. There were pressures to live for the day,[21] especially among the student groups:

> *… you've got your studying for 3 years, you have to enjoy yourself in that time otherwise there's just no point in doing it. You need, unfortunately you do need money to have a good time.* (Woman, student).

The willingness to use credit to fund a social life among the students and young working adults is likely to relate to the role that spending and consumption plays in maintaining social relations, observed in previous research. [lxxx]

Perhaps related to this was the fact that a small number of graduates were borrowing to buy the sorts of things that signalled their new professional status to themselves and to others. At one level there was an apparent sense of 'self-deserving'. At another, there may be some real instrumental value to career progression and earning potential – in certain career structures at least – in seeking to conform to social expectations.

> *I had a little Peugeot and driving to work in a little Peugeot in your suit you looked like a right plonker…I didn't want to be lumbered with that 'I'm a student label' anymore, I'm a working professional now.* (Man, graduate)

Social pressures were not unique to these young adults, however. As outlined in section 4.1.2 above, the family years groups, and particularly those on low-to-middle incomes, talked about being subject to social influences indirectly through their children's expectations and demands. Limiting spending on children (for example at Christmas) was regarded by parents as requiring great parental will-power, and something that needed to be implemented when children were young, presumably so that children did not develop such high expectations.

Among the post-family years participants, social pressures to borrow were less evident but, similar to the young adults who discussed 'living for the day', some described borrowing to meet 'once in a lifetime' needs (a family holiday to the USA; a car big enough to transport the grandchildren) that they perceived they might not have the opportunity to fulfil later in life.

[21] Similar pressures were also noted as being a barrier to saving in a recent study among young people (Pettigrew et al, 2007).

Credit use as a behavioural norm

The impact of these wider economic and political influences combined with social pressures to borrow has been to shift norms in credit use. It has been observed elsewhere that there is an increasing acceptance among young people that their lives will be spent in debt. [lxxxi] In the focus groups there was a general consensus across the life-stages that borrowing has become a way of life and is now socially acceptable, although this was especially the case for the younger generations, as observed by themselves and others. The increased demands on finances for large and legitimate expenses, such as home ownership and higher education seemed central to this shift, both in accepting borrowing as normal and necessary.

> *It's become the norm hasn't it, people going into higher or further education to borrow money, it's socially acceptable* (Man, student).

> *There's barely anyone that doesn't [borrow to go to university], surely, unless your parents are very, very wealthy.* (Man, student)

Previous commentators have associated an external locus of control (control lying outside of one's self) with positive attitudes towards credit and higher levels of borrowing. [lxxxii] The extent to which prospective student and home-owners perceive their borrowing as inevitable and necessary, and hence out of their own control, therefore has potential implications for the amounts they will borrow in pursuit of these goals.

Pre-requisite borrowing as a form of investment

In section 4.1.3, we saw that pre-requisite borrowing, to buy a home or to attend university, was identified by the focus group participants as an acceptable and rational reason to borrow. Building on from this, a recurrent theme in all the focus groups, regardless of life-stage, was borrowing as a form of investment. This was discussed primarily in relation to mortgage borrowing as a means of building up housing equity and with regard to funding higher education as a gateway to higher earnings, which we discuss below. A small number of participants also mentioned borrowing to invest in the context of business enterprise, both as primary (self-employed) and secondary sources (notably car and property renovation) of income.

In many of the groups, and particularly among the better-off participants, mortgage borrowing was seen as psychologically distinct from other forms of credit because of the concomitant build-up of capital.

> *I know I'm in debt with my mortgage but I don't think of it as being a debt if you like, I suppose, because of houses having loads of equity in them* (Woman, family years, middle-to-high income area)

The financial value of building up housing equity was discussed in terms of: trading down to provide an income during retirement; a cheap source of future borrowing; helping to fund children through higher education; providing an inheritance; and a general financial security in case of unexpected events.

There was some indication that, among a minority at least, there was a conscious move away from conventional methods of pension funding to housing equity.

> *I'm not going to bother having a pension, I'm going to buy, hopefully have a couple of properties, that's my overall plan* (Man, graduate)

As such there appeared to be a widespread perception of housing equity as a financial panacea, with the ability to service all possible future income needs, whether planned or unexpected. This was most profound among the family years and some young adult groups.

The extent to which housing equity can realistically meet all these needs is questionable, given the real economic value and relative lack of liquidity it carries. Equally, there was limited acknowledgement of this over-reliance or the risks associated with it, underpinned perhaps by an enduring optimism in the property market. A belief that property is the best investment was compounded by a belief that mortgage borrowing is itself a form of investment, being relatively cheap as it has been in recent years. The perception appeared to be driving heavy mortgage borrowing, especially among the higher income family years groups:

> *I've got a similar attitude and I've got a fair sized mortgage, and I mean I made a sort of mental agreement with myself and my wife that the mortgage would be our debt, that would be our one debt and we wouldn't get debts in other areas because that's when I think it starts to spin out of control. So I've got a big debt with the mortgage but anything else we just save up until we can get it.* (Man, family years, middle-to-high income area)

An over-reliance on housing equity, and the levels of borrowing associated with accruing it raises important questions around financial planning and capability among some home buyers, particularly when only 12 per cent of mortgage borrowers have short, medium and long-term safety-nets. [lxxxiii] This over-reliance was less apparent among the post-family groups, presumably because this generation had pensions in place, because their mortgages were lower and because, as discussed above, they were more aware of the risks of recession.

Borrowing to meet the expenses of higher education was also described as justifiable in terms of the financial investment a university education offered. Among the younger adults who had taken this route, this justification extended beyond the essentials of tuition fees and accommodation to lifestyle expenditure.

Many of the students and graduates seemed unconcerned about the amounts they had borrowed (or expected to borrow further) and this was influenced by a number of related factors. First, there was an acceptance that future earnings would be sufficient for loan repayment (fairly comfortably), if not straight away then within a few years of graduation.

> *It's an investment for the future isn't it, you accept the fact that when you've graduated and got a decent job you can pay it off, but for the time being…*(Man, student)

In any case, current students and graduates took into account the fact that the repayment of student loans would be deferred until they had earnings above the stated threshold (currently £15,000 per annum), meanwhile accruing interest only at on-inflation levels. Moreover, subsequent repayments would be tapered to reflect their gross incomes. In other words, there was an underlying sense that checks of affordability are built in to the system. Compounding this was, again, the consensus view that borrowing for higher education was 'a special case' on account of it being necessary and unavoidable, but disagreement around whether it was really 'credit': some graduates described it as being more like a tax (partly because it is deducted at source) others feeling that it was 'still money you owed'.

Finally, there was an expectation that at least some graduates would have to work long hours in their chosen careers (notably professions such as law), thereby limiting their opportunities to spend. In turn this final consideration appears to square with their justifications for 'living it up' whilst at university.

However, with the exception of some limited recognition that jobs for graduates were not guaranteed and may come with token wages (at least in the short-term), there was little discussion around the real earning potential of graduates,[22] how long they would realistically expect to be paying off their loans, or how these may conflict with other interests and aspirations they might have later in life. Additionally there was little reference made to the repayment of student overdrafts and credit cards, which though described as being currently interest-free would be subject to interest or other charges at some point in the future.

Perception of credit as money

A final set of push factors related to the perception of credit as 'money'. There were two general aspects to this, both apparent among the young adults. On the one hand, further to discussion above, there was evidence that young adults who were in higher education tended to see credit as a legitimate source of income (also observed in credit users in previous research [lxxxiv]). Earlier qualitative work with 18 to 24 years olds similarly found that many borrowing situations are not construed as 'debt' among this group, including student loan borrowing. [lxxxv] In the current research, there was an underlying notion among young people that they had a 'right' to this money as their own:

> *It does it feels like it's your right as a student to go out and have that money and spend it, without a doubt pretty much every student I know has done in the long run. Even if you start with the best intentions. Like I didn't use my overdraft in my first year and barely touched it in my second year, but like then once I touched it that was it, it was just right I've got £1000 to spend how am I going to spend it?* (Man, Student)

This perhaps related to the consensus view that credit at this point in one's life was in lieu of future earnings.

Conversely, there was an underlying perception among some of the young people who had gone into employment rather than higher education that less personal responsibility could be taken for borrowed money. Previous research has described young people as being 'flippant' about their debts (OMD Insight in May 2007 reported in CCCS, 2006). In the current research there were suggestions that borrowed money was not your own money to care about (unlike hard-earned and hard-saved cash), and because it was less tangible than spending from your own bank account. This applied to commercial borrowing and also to borrowing from parents, who were seen by some as having a responsibility to lend, or give (since many had no intention of paying their parents back) them money. Perceiving credit as being someone else's responsibility, therefore, seemed to underlie a feeling that it could be spent frivolously. This extended to some of the group, albeit a small minority, describing insolvency as a legitimate route for 'repayment' of credit.

> *My mate done it [bankruptcy] and he had, he said he borrowed loads of money, he hasn't got nothing to show for it, but he said he had a good time on it, but now he's, it was 50 odd grand it doesn't own a penny now. So alright his credit is a bit crappy for the next 6 or 7 years but you'd probably deal with that if you had a good 5 years on 50 grand, I'd do it for 6 years to have a bad credit rating.* (Man, young adult working, low-to-middle income area)

A similar view was expressed among the higher education students, in relation to debt consolidation loans. In fact, among the young focus group participants as a whole (a total of 24 people), at least three people knew a close friend or relative who had declared themselves bankrupt in their early to mid 20s.

[22] Recent research indicates that most degrees carry a significant financial benefit, an estimated additional £160,000 in lifetime earnings compared with holding two or more A-levels. There are, however, significant variations by factors such as degree subject and level obtained (PricewaterhouseCoopers, 2007). The average starting salary for a graduate has been estimated to be around £14,000 (Bosanquet and Gibbs, 2005).

The extent to which these attitudes and perceptions towards accessing debt solutions translate into behaviour is difficult to determine. However, insolvency statistics have shown a gradual increase in the proportion of bankrupts who are aged under 30 in recent years [lxxxvi] and these are mirrored by an increase in clients aged under 35 who are seeking debt advice from the Consumer Credit Counselling Service. [lxxxvii] Two-thirds of administration order applicants are aged under 40 and the age profile is much younger than the population as a whole and even the population in arrears with their commitments. [lxxxviii] Additionally, debt consolidation loan users tend to be slightly younger than loan users as a whole. [lxxxix] Together, such findings suggest that these attitudes are gradually being borne out in behaviour.

5 Mitigating borrowing

Key findings

- Overall, there was evidence of little desire or perceived need to seek alternatives to using credit, or motivation to reduce levels of borrowing. There were mixed views about how easy it was in practice to reduce credit use.
- Across all life-stages, problem debt was predominantly seen as arising through irresponsible spending and borrowing behaviour by the individual, although irresponsible lending was also mentioned in some groups.
- People in the family and post-family years tended to identify internal definitions and warning signs of problem debt, such as worry about money and losing track of spending; young adults referred more to external warning signs such as final demands for payment and threatened court action, and perceived the fewest personal negative consequences of problem debt.
- Stricter lending criteria, financial education in schools, and advice at the point of need were among the diverse solutions perceived for preventing problem debt.
- Whilst the need for people to take more personal responsibility was discussed by people in their family years, some young adults seemed to circumscribe personal responsibility for their spending and borrowing behaviour.

The earlier sections of this report present a powerful picture of how credit-financed consumption has become a part of people's everyday lives, particularly (but by no means exclusively) among younger people. At a time when credit is relatively cheap (particularly for homeowners), there was a strong sense among focus group participants at all life-stages that borrowing was a sensible option, as long as you could afford to repay your credit commitments, reflecting earlier research. [xc] How 'affordability' is defined by individuals, however, is not necessarily straight-forward or intuitive. Previous work has found that people tend to focus on levels of repayments rather than total amounts [xci] and there was some evidence in the current work that affordability was defined in some younger groups, especially the students and graduates, by future earning potential.

Against the backdrop of widely available credit and a pervasive consumer culture, the desire and the need to seek alternatives to credit may arguably be diminished. There may also be little motivation to reduce levels of borrowing. There seemed to be some evidence of both these phenomena in the focus groups.

5.1 Alternatives to borrowing

There was some discussion among the focus group participants about the possibility of **cutting back on spending** or **going without things** as alternatives to borrowing. Participants questioned how feasible or desirable this was. In particular, they doubted the feasibility of lower-income families with children cutting back further or going without when parents may already be cutting back spending on themselves to provide for their children. **Earning additional income**, either through working overtime or taking a second job, was thought by better-off participants at all life-stages to offer a realistic alternative to borrowing. It was recognised that this might, however, put a strain on individuals and on family life. It was not mentioned at all by people on low-to-middle incomes, perhaps because their earning power was more limited.

The possibility of **borrowing from family** as an alternative to using commercial credit was raised by several of the focus groups, across different life-stages. Some of the older participants mentioned helping their children out financially, having received similar help from their own parents, indicating that there may an inter-generational element to this type of borrowing. Indeed, it was fairly common for better-off participants in the family years' groups to have received financial support from their parents, particularly to get on the housing ladder, and they anticipated helping their own children in the same way.

As mentioned earlier, there was a view among some of the younger people that parents had a responsibility to support their children financially. Several young people (both students and workers) talked about occasions when they had borrowed from their parents instead of using commercial credit. The advantages were clear: if the money was paid back at all, it did not incur interest charges and there was no threat of action if repayments were missed. At the same time, there was a sense that there were limits to the amount and frequency with which it was acceptable to borrow from parents, particularly if they were less well-off.

Almost all the focus groups talked about **saving up** to buy things as an alternative strategy to borrowing. The satisfaction of saving up to buy something outright and not having to pay any interest were the main attractions over using credit. But the balance of discussion tended to focus on the downsides. All of those on low-to-middle incomes (including students) highlighted the difficulties of being able to save, in terms of affordability. There was also a sense of impatience: people did not want to wait and save up. Linked to this was a view that it was impossible to save quickly enough in order to keep up with rising prices, something that was mentioned by younger and older people alike.

> *R1: Things are getting more expensive while you're trying to save up.*
> *R2: By the time you've saved up enough, whatever it is you're saving up for has usually gone up.*
> (Woman, post-family years, low-to-middle income area)

> *You can't save with the rate of inflation* (Woman, young working group)

This seems odd, given the low rate of inflation in the UK at the time, but it seemed to refer particularly to rapid technological advances, which meant that goods with ever higher specifications were continually coming on to the market. In other words, by the time you had saved up for something, there would be a newer, higher specification, more expensive version on the market.

It was notable that, while drawing on savings was not the focus for much discussion, among the better-off focus group participants the idea of **drawing on housing equity** (i.e. re-mortgaging) was regarded as an alternative to using unsecured credit for things like home improvement, even though it is a form of borrowing itself. This further supports the notion of mortgages and re-mortgages as an investment rather than a source of credit, as discussed in section 4.2.2 above.

5.2 Reducing borrowing

Even though there were generally felt to be limited alternatives to credit use, focus group participants acknowledged that there were times or situations when it might make sense to reduce credit use or not borrow any more. There were mixed views, however, about how easy it was in practice to reduce outstanding borrowing. On the whole, the better-off groups felt it would be fairly easy to pay off more of what they owed either by cutting back on spending (particularly on luxuries such as holidays or eating out) or by increasing their income. Among participants on lower incomes, particularly younger people, there was some scepticism about how far these options were possible on a limited income.

Across the life-stages, there was agreement that it made sense to try and reduce borrowing if you expected your income to drop, the main example being **retirement**. Certainly, the quantitative data indicates that active credit use tails off sharply among people in their 60s and above. There was a view among the focus group participants that it was easier for older people to constrain their spending and reduce their borrowing, because they had worked to achieve a comfortable life, but also because they would be more likely to be content with what they had.

Set against this, however, was a view among some older respondents that pre-retirement (mid-50s and 60s) was a time to enjoy life while you could – which might be funded, in part at least, by credit. There are increasing concerns about older people entering retirement owing large sums of money in credit, and possibly continuing to use credit to make up for shortfalls in pension provision. [xcii] This might be compounded by an over-reliance on housing equity to fund retirement in the absence of any other provision, as discussed in section 4.2.2.

The other time of life when some participants in the young adult and post-family years groups felt it might make sense to cut back on borrowing was when **starting or expanding a family**. There was less consensus about this, however, than for retirement. Two-earner households would, it was felt, need to 'rein in' their borrowing because of the impact on the affordability of additional borrowing of a drop in income if one of them gave up work or reduced their working hours, but also because of the expense of a new baby (in other words, reducing borrowing in the expectation of a greater need to borrow in the future). As outlined in section 3, the quantitative data indicates that households with new babies are more likely than average to be credit users. Other research indicates that, unsurprisingly, having a new baby also impacts adversely on a household's ability to save. [xciii] Among the lower-income family years focus group, there was a strong view that it was not possible to reduce levels of borrowing once you had a family.

Besides expected drops in income, some focus group participants also identified that it did not make sense to borrow at a time of **high interest rates**, when borrowing would be more costly to repay. As we have seen elsewhere, the ability to borrow comparatively cheaply has been one of the drivers of secured and unsecured credit use in recent years. It was notable that this reason for reducing borrowing was mentioned by the group of higher education students, and two of the better-off groups (family years and post-family years) who would be very likely to be homeowners – all of whom have access to relatively cheap forms of borrowing, students in the form of student loans and interest-free overdrafts and credit cards, homeowners in the form of re-mortgaging.

Finally, there was a strong view across the life-stages that it did not make sense to borrow when you were already **'up to your eyeballs'** in debt or struggling to repay what you owed. People in this situation, it was felt, should aim to reduce what they owed, most likely by maximising their income or minimising their expenditure. It was notable that among the focus groups of young people (both students and workers), debt solutions such as debt consolidation, insolvency and bankruptcy were mentioned as ways in which the amount of outstanding debt could be reduced. This was not the case among the family years or older groups.

5.3 'Problem debt'

Aside from the aspects of personality that predispose individuals to being more or less averse to borrowing, the recognition by individuals that borrowing is becoming (or at risk of becoming) problematic is important for mitigating the situation and inhibiting further borrowing. This depends implicitly on people's own understanding of what 'problem debt' is and how it arises. Moreover, the earlier in this process a person identifies the warning signs, the greater opportunity there is to intervene to prevent or resolve over-commitment with as few negative consequences as possible. An awareness of the potential consequences of over-commitment is in turn crucial for making these warning signs meaningful and hence motivating action to address their situation.

5.3.1 Meanings and causes

Among the focus group participants there were various perceptions of what it means for borrowing to 'get out of control' and what the warning signs of this are. Across all life-stages and incomes, reference was made in some way to *expenditure being greater than income* (or, more simply, running out of money among the students and working young adults) as denoting that borrowing had got out of control.

Apart from this, the definitions and signals of problem borrowing discussed in the focus groups fell largely into two broad categories. At one end of the spectrum, there were the somewhat **subtle and internal mechanisms**, such as sleepless nights, losing track of spending and borrowing (e.g. being surprised by the size of the credit card bill), or paying off only the minimum required or re-financing debts. At the other, there were the **external and more extreme** signs of problem debt when action is taken against debtors, in the form of final demands, bankruptcy and bailiffs etc.

Although examples from each category were discussed across the life-stages, the balance of discussion varied slightly. The balance of discussion among the graduates, the family years (especially the better-off family years) and post-family years groups tended to be away from the starker consequences of problem debt and more towards the internal definitions and indicators. In contrast, the focus among the young adults (students and those who were working) tended to emphasise the external warning signs. This suggests that younger adults may be less likely to identify problem borrowing in their own behaviour until it has escalated into a need for outside and drastic intervention.

Nonetheless, the predominant view across all the groups was that problem debt arises mainly because of **irresponsible spending and borrowing behaviour** and poor money management on the part of the individual. The role that 'invisible money' – electronic payment and banking systems – played in compounding this was discussed in some groups. There was, additionally, discussion across the life-stages and income groups of external or uncontrollable events giving rise to problem debt, such as mental health problems, unexpected expenditure and sudden shocks to income through job loss and relationship breakdown. The post-family years group also mentioned unexpected interest rate rises.

Irresponsible lending was raised in some groups as a reason for people getting into 'problem debt'. For example, participants referred to lenders continuing to lend when people are in difficulties and, as mentioned earlier, the unilateral raising of credit and overdraft limits. Notably, however, the culpability of lenders was not discussed to any great extent by those in either the better-off family years groups or the graduate group.

Perhaps not surprisingly, on account of their greater life experience, the post-family years groups discussed the widest range of causes of problem debt.

5.3.2 Consequences and solutions

The focus groups identified a wide range of potential consequences of 'problem debt' for the consumer. The relatively **severe consequences** for health (e.g. depression), stress and relationship breakdown were discussed across the life-stages. The particular consequence of homeowners losing their home was also mentioned across all but the post-family years (for whom it is less likely to be of personal concern if mortgages are fully or almost repaid). The negative consequences of default – having a poor credit rating or having the bailiffs seize goods – were identified amongst some people in the family and post-family years. Only one group (family years, middle-to-high income area) raised the possibility that the individual's conscience would be negatively affected by over-indebtedness, in the context of taking personal responsibility for one's borrowing, and only one group (post-family years, low-to-middle income area) said that spending would need to be constrained.

On balance, the students and young working adults discussed the fewest negative consequences. There was a perception among a minority in these groups that it is **easy to resolve problem debt**, underpinned by the notion that mechanisms exist to remove or reduce the problem. Being 'bailed out' by parents was seen as an available and likely option among the students. As we discussed earlier (see section 4.2.1 above), insolvency was even described by some individuals within the student and young adult working groups as being a feasible route to solving problem debt. Additionally, in these groups and the graduate group debt consolidation was seen as a viable solution by some, a finding that is echoed in other recent research with young adults. [xciv] There was some perception that this solution was 'pushed' by banks.

At the same time, however, discussion highlighted at least some misunderstanding among them and confusion about the different debt solution mechanisms:

> *It's the only way to do it once you're in that situation is either someone bails you out of it, like your parents, or you've got to do one of those debt consolidation things … They can write off a certain amount of the debt so it can actually work out a lot cheaper to do it because there's some Government clause where they can write off a certain amount of your debt and then because you're just paying one rate of interest to one company it works out a lot, lot cheaper than obviously paying lots and lots of different rates of interest.* (Man, student group)

This confusion is perhaps understandable given the increasing advertising of consolidation loans, debt management plans and IVAs (introduced in 2002) in recent years. Additionally, these attitudes appear to reflect the wider perception – expressed among some of the family years and post-family years groups – that IVAs make writing-off credit easier and that there is less stigma attached generally to both borrowing and the solutions to over-borrowing (such as insolvency) now compared with the past.

Against this backdrop, the consequences of problem debt for lenders were seen widely as either neutral – since their risk analysis takes default into account – or positive. In particular, there were strong and widely felt views that lenders even benefited financially from consumer borrowing and over-borrowing, and that they could compensate for any losses incurred through debt write-offs, mainly by increasing the borrowing interest rates paid by other customers. Where the potential consequences of problem debt on the Government were discussed by the groups, the predominant view was that its main concern was limited to managing the economy, but that allowing inflation to rise inexorably would result in a loss of credibility in the government of the day.

The perceived solutions for the prevention of problem debt were equally diverse: the responsibilities of government, regulators, lenders and consumers were all discussed. ***Stricter lending criteria***, such as capping the amounts that can be borrowed, were discussed spontaneously across all life-stages largely as a welcome measure for preventing problem debt. However, some participants did not regard this as a realistic solution since it was not in the lenders' nor the government's interests to curb borrowing. There was also some concern by a minority that they did not wish lenders to know their incomes. As a reaction to what some saw as irresponsible lending, there was general consensus among the graduate group suggesting they would find it helpful to be able to set their own credit limits to prevent lenders unilaterally increasing the limits.

Financial education in schools, designed to equip individuals with the skills needed to prevent them getting into financial difficulties, was discussed as a viable option in all the family years groups. There were more mixed views on this intervention among the young adults. Although there was consensus among the graduates that financial education in schools would be beneficial, there was a greater focus among the young adult groups on the need for **advice** at the point of need, either when people found they were facing difficulties with their credit arrangements, or at the point of purchase of them. Moreover, whilst the need for people to take more **personal responsibility** in preventing problem debt was discussed among some of the family years groups, there were concerns expressed among the student and working young adult groups that it was not always possible to plan financially, given limited incomes and high costs of living. Some in the graduate group alluded to lenders needing to limit their marketing of credit. As such, these younger people seemed to be circumscribing personal responsibility for their spending and borrowing behaviour.

A range of other measures were raised in the group discussions to help prevent people getting into difficulties with their borrowing. Some groups referred to the role the media plays in encouraging both spending and borrowing, and the role it could play in educating the public about the dangers of over-commitment. Finally, a minority in the family and post-family years discussed the use of interest rates by lenders and the government as disincentives to borrowing and incentives to saving. Measures that are specific to students and prospective students would be the removal of tuition fees and encouragement of attending local universities with a view to reducing the spending burden on this group.

6 Conclusions and policy implications

Key findings

- Young adults seemed especially susceptible to strong pressures to consume and were prepared to borrow to do so. A core minority were circumscribing personal responsibility for their credit use and saw debt consolidation and insolvency as an easy way out.
- There were two key routes to over-commitment among the family years groups: the pressures to provide for all their children's needs and wants; and a belief that housing equity can provide for all future financial needs.
- People in the post-family years had generally cautious attitudes towards borrowing, and were willing to borrow for only a narrow range of purposes.
- Three important policy issues emerge from the research:
  - The apparent interconnect between consumption and borrowing;
  - A belief in housing equity as the solution to all future financial needs;
  - A disconnect between the perceptions and reality of 'debt solutions'.

  These raise questions about greater risks of payment default and have implications for longer-term financial planning.
- Policy responses need to focus on providing a counterbalance to the 'want it now' consumer culture, promoting financial capability through a coordinated approach. This should centre on the positive message of 'making money work for you', which must be delivered consistently and repeatedly to all age groups to be effective.

Standing at a total of over £1.3 trillion, the UK now has the highest levels of outstanding secured and unsecured borrowing ever recorded. National surveys indicate that attitudes towards borrowing have softened somewhat in the UK in recent years, however, the current research provides the clearest evidence yet that attitudes have shifted more markedly than statistics show.

This final section begins by considering the key triggering, compounding and protective factors for credit use for each of the three life-stage groups identified in this study. Three main policy concerns emerge clearly from this new evidence: the apparent interconnection between consumption and borrowing; a belief in housing equity as the solution to all future financial needs; and a disconnect between the perceptions and reality of 'debt solutions'. The report concludes by discussing possible policy responses to these concerns, informed by the results of a workshop of experts from the field.

6.1 Borrowing at three life-stages: a summary

Many of the socio-economic characteristics associated with credit use and the reasons for and drivers of it are relevant at each of the three life stages to a greater or lesser extent. Nonetheless, this research has identified a number of features that distinguish each of the life-stages, providing a clear understanding of the influences on credit use, and, therefore, the propensity to borrow among these life-stage groups.

6.1.1 Young adults

We have shown in Section 3 that credit use is prevalent among people in their early adult years, starting from near average levels in the late teens and climbing to a peak in the late 20s.

Early adulthood is a time characterised by change and uncertainty. [xcv] The need to borrow to meet high levels of expenditure (relative to income) and lumpy expenditure among young people is compounded by their low levels of savings. [xcvi] People in their 20s are among those most likely to have borrowed money from friends and family but, with the exception of such support, the alternatives to borrowing among this group are limited. Low levels of financial knowledge, literacy and financial consumer confidence [xcvii] additionally put younger adults at risk of getting into financial difficulties with their borrowing. This is likely to be further compounded by the fact that some younger people purposively postpone active financial decision making until their lives “settle down”. [xcviii]

For a subset of young people paid employment is deferred whilst qualifications are secured with the expectation that these will enhance earning potential in later life. Research indicates a high uptake of student loans among university students. [xcix] As such, and in the absence of alternatives, the higher education route itself presents a trigger to borrowing or increased levels of borrowing for rising numbers of young people, both in terms of demand (the need to fund tuition fees and daily living) and supply (availability of this form of loan). The availability and conditions of credit facilities available to students can also facilitate more favourable attitudes towards credit generally, leading potentially to further borrowing through overdrafts and credit cards.

For young people moving into paid work, there is likely to be an interaction effect between real rises in income, expected rises in income in the future and also heightened risks of falls in income due to job instability at this time of life. The costs associated with moving out of the parental home are also concentrated in this group. [c] We have seen that all these factors relate either directly or indirectly to increased likelihood of credit use.

The current research has shown most clearly that young adults are especially likely to be influenced by the celebrity culture, to feel strong pressures to consume, and to be prepared to borrow to do so. In this context, ‘needs’ and ‘wants’ are almost indistinguishable. Although there are exceptions, many young people do not think twice about borrowing even for transient things, and there is evidence of a real misunderstanding of inflation leading to people thinking that, even when inflation is low, it makes more sense to borrow than to save. Equally ‘credit’ is often recast as ‘money’, which some young adults (especially students) feel they have the right to in lieu of future earnings, which others feel they can spend without much regard, and which others still use to satisfy a sense of deserving and status (notable among the graduates).

At the same time, the research has highlighted little understanding among young adults of the risks of borrowing. This may not be surprising given their age and a lack of experience of economic downturn. Some younger adults seemed to be looking for external curbs on their borrowing and solutions to over-borrowing, with a high level of awareness of the solutions available. As such, many appeared to be circumscribing personal responsibility for their behaviour. Whilst debt consolidation and insolvency were perceived as being viable options, bolstered by a lack of stigma, there was evidence of misunderstanding and confusion around the mechanisms of the different solutions by some, and a disregard for their implications by others. Consequently, disincentives to excessive borrowing appear diminished.

6.1.2 Family years

The family years are associated with the highest rates of any borrowing and of heavy levels of borrowing. The pre-defining feature of people in the middle-years group is that they are of typical child-rearing age, yet it is their age rather than the presence of children that is the single most important predisposing factor in credit use. Nonetheless, the presence of children in the household does add to the likelihood of credit use. Heavy credit users spanned all ages from the 20s to the late 50s; however, they are disproportionately two-parent families with children.

Demands on the family budget, and a corresponding need for borrowing, are acute when people set up home and have young children. [ci] In these circumstances the effects of a fall in – as well as an unstable – income are likely to be amplified. Having savings to draw on and effective financial planning are important protective factors in this context. Over-representation of the middle years group among those borrowing for discretionary purposes and indications that many people who get into financial difficulties do so for reasons of over-commitment [cii] additionally suggests that effective money management has an especially important role to play at this life-stage.

The current research throws new light on the understanding of two key routes to over-commitment that are concentrated in the family years. The first is the pressure as a parent to provide for all their children's needs and wants, influenced indirectly by the social pressures to have particular lifestyles to which their children are susceptible (or are perceived to be susceptible).

The second is the belief that housing equity provides the solution to all future financial needs (a belief that was also in evidence among some of the graduates). An ostensible willingness to be mortgaged to the hilt appears to be underpinned by unrealistic expectations of the functionality and liquidity of housing equity. Informing these expectations are the notions that property is the best form of investment – highlighting an enduring and unquestioning optimism in the housing market – and that borrowing (especially mortgage borrowing) makes for good investment in its own right. Such over-emphasis, to the possible exclusion of other forms of investment, has serious implications for the future financial stability of such households, particularly if the economy was to slow, and for longer-term financial planning.

6.1.3 Post-family years

Credit use declines with age so that towards the end of the 50s borrowing is relatively low, falling away almost completely by the late 60s. However, there are new challenges for the post-family years age group with increasing concerns about people moving into retirement with unprecedented levels of borrowing. [ciii] Credit use remains a reality for a substantial proportion of people at this life-stage: one in five retired people had some form of unsecured borrowing and about a half of those in their 50s were using credit. Credit use is also especially relevant for certain groups, such as pensioners on low incomes. [civ]

The defining feature of this life cycle group is the transition into retirement. Previous qualitative research suggests borrowing among people in their retirement years relates more to reasons of hardship than consumerism, at least among those on low incomes. [cv] It therefore might be expected that a drop in income associated with retirement is a predisposing factor in borrowing for this group. However, perhaps due to the typically expected nature of retirement, a drop in income in this context does not appear to be related to credit use.

For the small group of older people who are borrowing heavily, having access to savings is a relevant protective factor, especially for being able to cope with the effects of unexpected expenditure. Previous qualitative research found that most lower-income pensioners who chose consumer credit to deal with unexpected income had no or little money saved up. [cvi] There are also other challenges for this group, however, which are likely to impact on the ability to rely on savings. [cvii] In addition to planning for their own retirement, those in their 50s also face potential costs of care for their elderly parents, supporting children through education, and early retirement forced by redundancy.

A particularly potent protective factor for this group appears to be their generally cautious attitudes towards borrowing. [cviii] This is mirrored in the current analysis, and appears to be underpinned by a greater acceptance of personal responsibility for credit use at this life-stage. Despite unconstrained access to credit, people in their post-family years are willing to borrow for only a narrow range of purposes. An awareness of the uncertainties associated with this time of life, reflected in concerns about the impact of one partner dying on repayments, also appears to be protective. [cix] However, a minority at this life-stage are still susceptible to some of the pressures to borrow that younger people tend to feel more acutely, in terms of fulfilling 'once in a lifetime' experiences.

6.2 Policy implications

This study has provided new evidence and clarity on at least three important policy issues. The first is a seemingly inextricable connection between consumption and borrowing affecting most acutely, though not exclusively, young adults. The second issue is a widespread belief that housing equity is a panacea for all future financial needs, driving excessive secured borrowing, particularly among those who are relatively well-off and in their family years and some aspiring young graduates. The third is the apparent disconnect between the reality and perceptions of the accessibility and impact of 'debt solutions' (such as debt consolidation and insolvency) among some young adults.

The extent to which borrowing against this backdrop carries greater risks of payment default or insolvency or presents longer-term implications for financial planning are important questions faced by policy makers and the financial services industry alike. This final section discusses possible policy responses to these issues, and is informed by the results of a workshop of experts from the field who were convened to discuss the headline findings of the study.[23]

Cutting across the three areas of policy concern is an apparent need for a counterbalance to the influences of both the 'have now', celebrity culture (which provides many of the pressures to spend and borrow) and the perception that borrowing and over-borrowing are risk- and cost-free. The issue is essentially one of a coordinated approach to promoting financial capability – raising public awareness of the risks of over-borrowing, and improving knowledge and financial skills sets through a variety of messages, mechanisms and tools – with the aim of empowering people to take better control and ownership of their finances.

There was widespread consensus among the workshop participants that, rather than focusing on the negative messages relating to 'debt', the focus must be overwhelmingly on the positives of money management, in particular, 'making money work for you'.

Equally, it was emphasised that the messages need to be delivered repeatedly and consistently by all the various stakeholders and players and through various available channels to ensure target groups are reached and the messages reinforced. Coordination would fall naturally to the Financial Services Authority (FSA) through its ten year National Strategy for Financial Capability, which brings together representatives from the financial services industry, consumer and voluntary organisations, government and media to find ways to improve financial capability in the UK.

The obvious place to start to tackle the issues raised in this research is with children still at school. With financial support from the FSA, the Personal Finance Education Group (*pfeg*) provides practical support to teaching in schools. Their Learning Money Matters programme is designed to provide

[23] The participants of this workshop are listed in Appendix 3.

teachers with the skills to teach personal finance education effectively. The Qualifications and Curriculum Authority has announced that personal finance education will be made explicit within the new 'economic wellbeing and financial capability' programme of study from September 2008 and that financial capability education is expected to form a part of every school's curriculum in England. However, some commentators have expressed concerns that inclusion of personal finance as part of other programmes of education may not be effective in achieving their goals. There are early indications that the *ifs School of Finance Certificate* in Financial Studies (CeFS) is effective in helping students to manage their personal finances, and that part of this success may be due to personal finance being taught as a designated topic (Davis et al, 2006). [24]

Schemes aimed at adults are also vital, though, as school education is a long-term strategy. Through its National Strategy for Financial Capability the FSA has supported a number of initiatives and is in the process of developing others, including projects aimed at HE students, employees, parents of newborn children and people who are approaching retirement, as well as providing information for consumers through its *moneymadeclear* website.[25] The community-based programme Skills for Life, which is run by Citizens Advice and has been funded for the last three years by Prudential, has additionally been piloting nine face-to-face personal finance education projects in England and Wales to a range of adult audiences.[26]

In addition to these formal programmes of work, however, there are more informal, everyday channels for reinforcing the positive messages around 'making money work for you', raising awareness around the risks and consequences of over-indebtedness, as well as educating people about the realities of debt consolidation and insolvency as 'debt solutions'. The role of the media appears to be crucial. There are potential roles for the popular press in carrying more finance-related stories in their main pages, for mainstream television programmes aimed at children (such as Blue Peter) to include items on effective money management as well as programmes aimed at aspiring property-developers warning about the consequences of over-borrowing. Equally, whilst celebrity culture appears to play a role in promoting consumption and borrowing, it could also have a role to play in deterring over-commitment, perhaps through informative case-reports of popular celebrities who have experienced financial difficulties.

A need was recognised to involve families in ensuring messages heard by children in schools are continued through into their everyday family lives. A book of four children's stories published in June 2007 by Standard Life is aimed at just this.[27] The stories, which centre on different aspects of money and finance management, are designed to entertain and educate the primary school-age children who read them as well as the parents and grandparents who read them with the children. However, finding new ways for parents to feel able to share financial matters with children is additionally important. Schemes that promote coaching of financial skills – as opposed to formal education – perhaps through mentoring schemes in forums such as schools and youth groups present one possible avenue.

There was overwhelming agreement among the workshop participants that regulation is unlikely to provide a solution to the policy concerns raised by this research. However, there is a potential further role for some players in the financial services industry to review the way they approach the

[24] The CeFS is one of four qualifications in a programme of study aimed at students aged 14 to 19 and is available to all schools and colleges in the UK. More details about this programme and others can be found at www.ifslearning.com.

[25] See www.moneymadeclear.fsa.gov.uk for further information

[26] See www.citizensadvice.org.uk for more information.

[27] Launched by Standard Life in partnership with Learning and Teaching Scotland and Scottish Book Trust, 'On the Money' introduces financial topics and dilemmas via four fictional stories to school children in Scotland and will eventually be available to schools throughout the UK. The book has received accreditation from *pfeg* through the Quality Mark accreditation system.

marketing of credit cards and credit products so that the benefits are balanced with the responsibilities and costs that borrowing brings. At the same time, this research draws attention to the need for creditors to take a 'whole customer view' when they increase credit limits on cards and overdrafts and when customers transfer the whole balance on cards to another provider. The credit industry has made great strides to ensure that it lends responsibly and many of these principles are mandated through the Finance and Leasing Association Lending Code and the Banking Code. Nonetheless, consumers need to be reminded that borrowing is a service and, as such, costs them money. Equally, consumers need to be made aware of their obligations to encourage them to borrow responsibly.

Finally, the potential role that credit reference agency data can play in encouraging consumers to take control of their financial lives should not be overlooked in this process of raising awareness. In the United States it is commonplace for consumers to feel some ownership of their credit records and to be concerned to avoid developing an adverse record. Despite a very similar credit marketplace in the UK, this feeling of ownership has been slow to develop and the average UK consumer is not aware of what is held on their credit reference files nor are they fully aware of how it is used. The popular misperception is that such files are 'blacklists' recording the names and/or addresses of people whose applications for credit should be refused.

In reality, credit reference files now hold much more information than ever before, providing a far more complete picture of individuals' previous financial histories. They include both details of outstanding credit commitments ('positive' information) as well as information about default ('negative' information). Moreover, a wide range of organisations share data, including mobile phone companies, cable television companies as well as banks and other credit granting institutions. Young people are, consequently, unlikely to be aware that default on mobile phone contracts or heavy borrowing on unsecured credit could affect their ability to obtain a mortgage in future years.

The range of uses that credit reference data are put to is also expanding over time. For example, some employers now screen prospective employees for any history of insolvency or county court judgements using the public information that credit reference agencies hold. Some financial services organisations and some public sector bodies have access to full data. Additionally, the data are used increasingly for identity verification purposes when conducting financial transactions. Awareness of this is also likely to be low among the general public.

Individuals need, therefore, to be made aware of the range of information held by credit reference agencies and how this is utilised as well as the potential consequences should they fail to handle their borrowing and other commitments responsibly. Raising awareness that consumers are able to access their credit records themselves at any time – and are available from all three credit reference agencies operating in the UK – to monitor their own financial situation may help to inform their financial planning and decision-making.

Experts participating in the workshop also felt there could be scope for expanding to other consumers the recent innovation of agreement to use "Notices of Correction" statements, which all lenders are required to access and read, for consumers with mental health problems. This facility allows people with mental health problems to indicate that they do not want further credit. Something similar could enable other consumers who may be vulnerable to further borrowing to indicate that they do not wish to be approved for further borrowing while the "Notice of Correction" is active.

In conclusion, levels of borrowing have continued to increase in recent years with heavy borrowing becoming increasingly concentrated among a minority of people. Moreover, attitudes to borrowing would appear to have become more favourable than survey data indicate. Whilst this has not yet manifested in high levels of default there is wide expectation that this period of economic buoyancy cannot last indefinitely, and with a series of interest rate rises during 2006 and 2007 there are early signs of some instability. It is those who are the most over-stretched financially who are most vulnerable in times of recession. We hope that the information contained in this report helps to inform the policy debate on how to prevent problem debt escalating and to limit the effects of an economic downturn, if or when that occurs.

References

[i] Self and Zealey, 2007

[ii] Kempson, 2002; Waldron and Young, 2006

[iii] Registry Trust, 2007; Council of Mortgage Lenders, 2007a

[iv] CCCS, 2006

[v] Insolvency Service, 2007

[vi] Council of Mortgage Lenders, 2007b

[vii] thisismoney, 2006

[viii] Munro and Ford, 2005

[ix] CCCS and Age Concern, 2004

[x] Kempson, 2002

[xi] Hosty, 2005

[xii] Kempson, 2002

[xiii] Berthoud and Kempson, 1992; Kempson, McKay and Willitts, 2004

[xiv] Kempson, 2002; McKay et al, forthcoming; McKay and Willitts, 2004; Tudela and Young, 2003

[xv] Tudela and Young, 2003

[xvi] Kempson, 2002

[xvii] Kempson, McKay and Willitts, 2004

[xviii] Rowlingson, 2005

[xix] Kempson 2002

[xx] Tudela and Young, 2003

[xxi] Kempson, 2002

[xxii] Kempson, 2002

[xxiii] 'informal borrowing'; Berthoud and Kempson, 1992

[xxiv] Kempson, 2002; Kempson, McKay and Willitts, 2004; Tudela and Young, 2003

[xxv] Kempson 2002

[xxvi] Berthoud and Kempson, 1992

[xxvii] Kempson, 2002

[xxviii] Building Societies Association, 2007

[xxix] Kempson, 2002

[xxx] Berthoud and Kempson, 1992; Kempson, McKay and Willitts, 2004

[xxxi] Kempson, 2002

[xxxii] Elliott, 2005

[xxxiii] Berthoud and Kempson, 1992; Cox et al, 2002; Del-Rio and Young, 2005; Kempson, 2002

[xxxiv] Kempson, 2002; Berthoud and Kempson, 1992; Ford, 1990

[xxxv] Kempson, 2002; Atkinson and Kempson, 2004

[xxxvi] Berthoud and Kempson, 1992

[xxxvii] e.g. Kempson, McKay and Willitts, 2004

[xxxviii]Kempson, 2002

[xxxix] Kempson, Collard and Taylor, 2002

[xl] Berthoud and Kempson, 1992

[xli] Kamleitner and Kirchler, 2007

[xlii] Kempson, Collard and Taylor, 2002

[xliii] Finch et al, 2006

[xliv] Berthoud and Kempson, 1992

[xlv] Whyley and Kempson, 2000a

[xlvi] Whyley and Kempson, 2000b

[xlvii] Whyley and Kempson, 2000a

[xlviii] Brown et al, 2003

[xlix] Whyley and Kempson, 2000a

[l] Herbert and Kempson, 1996

[li] Atkinson, 2007

[lii] Kempson, McKay and Willitts, 2004; Balmer et al, 2005

[liii] Atkinson, Finney and McKay, 2007

[liv] Bridges and Disney, 2004; Pannell, 2002

[lv] Kempson, McKay, and Willitts, 2004

[lvi] McKay and Kempson, 2003

[lvii] Kempson, 2002

[lviii] National Consumer Council, 2002

[lix] Kempson, Collard and Taylor, 2002

[lx] Kempson, 2002

[lxi] Berthoud and Kempson, 1992

[lxii] Kamleitner and Kirchler, 2007

[lxiii] Webley and Nyhus, 2001

[lxiv] Berthoud and Kempson, 1992; Kempson, 2002; Lea et al, 1995; Livingstone and Lunt, 1992

[lxv] Livingstone and Lunt, 1992

[lxvi] Kamleitner and Kirchler, 2007

[lxvii] NOP Research, 2004

lxviii Kamleitner and Kirchler, 2007

lxix Berthoud and Kempson, 1992

lxx Atkinson et al, 2006; Berthoud and Kempson, 1992

lxxi Kempson, 2002

lxxii Kempson, Collard and Taylor, 2002

lxxiii Kempson, 2002

[lxxiv] Rowlingson, 2005
[lxxv] Personal Finance Research Centre, 2005
[lxxvi] Personal Finance Research Centre, 2005
[lxxvii] Kempson, 2002
[lxxviii] Kamleitner and Kirchler, 2007
[lxxix] Wingfield, 2007
[lxxx] Kamleitner and Kirchler, 2007
[lxxxi] Consumer Credit Counselling Service, 2006
[lxxxii] Kamleitner and Kirchler, 2007; Webley and Nyhus, 2001
[lxxxiii] Centre for Housing Policy, 2004
[lxxxiv] Kamleitner and Kirchler, 2007
[lxxxv] Synovate, 2005
[lxxxvi] The Insolvency Service, 2006, 2007b
[lxxxvii] CCCS, 2006
[lxxxviii] Kempson and Collard, 2004
[lxxxix] Office of Fair Trading, 2004
[xc] Personal Finance Research Centre, 2005
[xci] Kamleitner and Kirchler, 2007
[xcii] CCCS and Age Concern, 2004
[xciii] McKay and Kempson, 2003
[xciv] Mintel, 2007
[xcv] Berthoud and Kempson, 1992
[xcvi] Atkinson and Kempson, 2004
[xcvii] Ford, 1990; Atkinson and Kempson, 2004; Collard, 2001
[xcviii] Skinner and Ford, 2000
[xcix] Finch et al, 2006
[c] Berthoud and Kempson, 1992
[ci] Berthoud and Kempson, 1992
[cii] Elliot, 2005
[ciii] CCCS and Age Concern, 2004
[civ] Kempson, Collard and Taylor, 2002
[cv] Kempson, Collard and Taylor, 2002
[cvi] Dominy and Kempson, 2006
[cvii] CCCS and Age Concern, 2004
[cviii] Kempson, 2002
[cix] Kempson, Collard and Taylor, 2002

Appendix 1 – Focus Groups

'Young adults': aged 18 to mid 20s (without children)

Students

Four men; four women.

Mostly are aged in their early 20s.

Drawn from three universities. Five just finishing their courses, one going into final year, two going into their second years.

Young working people

Five women; three men.

Aged in their late teens and early 20s.

All are working, and all are living at home except one woman who lives with boyfriend.

Graduates

Five women; three men.

Age from 22 to 28.

Most have graduated from higher education in the past 5 years.

'Family years': aged mid 20s to mid 50s (mostly with dependent children)

Low-to-middle income area

All with children.

Five men; three women.

Mainly aged in their 30s and early 40s

Middle-to-high income area

All with children.

Four men, four women.

Aged from 33 to 55.

Middle-to-high income area (mix with and without children)

Three with children; five without

Five men; three women.

Aged from 28 to 43.

‘Post-family years’: aged in 50s to early 70s without dependent children

Low-to-middle income area.

Four men; four women.

Aged from 50s to early 70s.

Middle-to-high income area

Four men; six women.

Aged in their 50s and 60s.

Appendix 2 – Additional Tables

Table A 1 Likelihood of credit use by personal and family characteristics

Cell percentages

	Any active credit commitments	Five or more credit commitments	*Base*
Age			
18 to 19	44	2	188
20 to 21	56	-	162
22 to 24	65	8	240
25 to 29	61	9	438
30 to 34	62	7	550
35 to 39	62	8	484
40 to 44	61	7	532
45 to 49	53	5	416
50 to 54	51	5	400
55 to 59	45	4	432
60 to 64	33	1	390
65 to 69	24	1	346
70 to 74	23	-	278
75 to 79	9	0	232
80 or over	10	-	235
Family type			
Single Adult	34	2	1,080
Couple no dependent children	39	3	1,516
Lone parent with dependent children	55	6	603
Couple with dependent children	64	8	1,180
Other	48	4	950
Number of children in the household			
0	41	3	3,775
1	56	6	544
2	68	11	659
3	66	9	230
4 or more	56	6	120
Highest qualification achieved			
Higher degree/post graduate qualifications	51	4	397
First degree (including B. Ed) Postgraduate diplomas/certificate	57	7	621
Diplomas in higher education/other H.E. qualifications, HNC/	51	5	57
A/AS levels/ SCE Higher/ Scottish Certificate 6th Year Studies	59	7	785
Trade Apprenticeships	41	4	303
O Level/GCSE grades A-C/SCE Standard/ Ordinary grades 1-3, CS	52	4	947
*O Level/GCSE grades D-G/SCE Standard/ Ordinary below grade 3	41	5	348
Other qualifications (including overseas)	28	1	200
Don't know or Refused	41		21
None of these	32	3	1,132
All	**47**	**4**	**5,328**

Source: 2005 BSFC. Note bases do not always sum correctly due to missing values.

Table A 2 Likelihood of credit use by economic circumstances

Cell percentages

	Any active credit commitments	Five or more credit commitments	*Base*
Work status			
In full time education	65	8	251
Working full time (30+ hours) including temporarily off work	61	6	1,944
Working part time (Up to 29 hours) including temporarily off	50	4	738
Looking after the home or family	51	6	529
Retired from paid work	20	1	277
Unemployed	38	3	349
Permanently sick or disabled	52	7	233
Quintiles of household income			
Lowest	37	3	1,065
2	33	3	1,065
3	48	4	1,067
4	57	6	1,066
Highest	59	6	1,064
Full or part time workers in household			
0	32	3	2,215
1	54	5	1,774
2	62	6	1,340
Savings			
None	41	4	2,424
Some but less than £500	61	6	699
£500 but less than £1000	65	8	220
£1000 but less than £3000	60	7	414
£3000 but less than £10000	53	5	545
£10000 or more	41	3	1,027
Keeping up with bills and credit commitments			
Keeping up without any difficulties	38	2	3,445
A struggle from time to time	63	7	1,374
Constant struggle to keep up or falling behind	66	12	508
All	**47**	**4**	**5,328**

Source: 2005 BSFC. Note bases do not always sum correctly due to missing values.

Table A 3 Likelihood of credit use by other personal characteristics

Cell percentages

	Any active credit commitments	Five or more credit commitments	*Base*
Ethnic background #			
White - British	47	5	4,694/4,247
White - Irish	42	4	106/197
White - Other	45	4	162/127
Mixed **	55	6	49/87
Asian or Asian British - Indian	34	3	62/147
Asian or Asian British - Pakistani	37	5	43/110
Asian or Asian British - Bangladeshi **	40	10	20/46
Asian or Asian British - Other **	45	9	22/44
Black or Black British - Caribbean	51	3	61/131
Black or Black British - African	40	3	60/111
Other answers **	46	4	48/81
Religion			
No religion, atheist, agnostic	56	7	1,408
Christian	44	4	3,684
Muslim	36	5	123
Hindu **	39	3	38
Other answers **	49	8	74
Longstanding illness or infirmity			
Yes	39	3	1,221
No	49	5	4,106
Housing tenure			
Mortgage	63	7	1,875
Private rent	56	6	543
Local authority rent	44	4	1,124
Other	50	3	415
Own outright	23	1	1,371
Government Office Region			
North East	52	4	227
North West	48	5	607
Yorkshire and the Humber	49	6	451
East Midlands	48	4	380
West Midlands	45	4	473
East	40	5	491
London	42	5	652
South East	54	5	728
South West	48	4	456
Wales	51	5	261
Scotland	44	3	458
Northern Ireland	44	2	144
All	**47**	**4**	**5,328**

Source: 2005 BSFC

***treat with caution due to small bases*

 # Bases are shown weighted and unweighted respectively

Table A 4 Significant predictors of any credit use

Measure	B	S.E.	Wald	Sig.	Odds ratio
Age - 80 and over (reference)			62.60	0.00	
18 to 19	0.73	0.37	3.88	0.05	2.1*
20 to 21	1.19	0.37	10.58	0.00	3.3*
22 to 24	1.67	0.35	22.56	0.00	5.3*
25 to 29	1.52	0.34	20.10	0.00	4.6*
30 to 34	1.56	0.34	21.67	0.00	4.8*
35 to 39	1.59	0.34	22.41	0.00	4.9*
40 to 44	1.53	0.34	20.74	0.00	4.6*
45 to 49	1.22	0.33	13.23	0.00	3.4*
50 to 54	1.49	0.33	20.17	0.00	4.4*
55 to 59	1.42	0.32	19.61	0.00	4.2*
60 to 64	1.26	0.31	16.27	0.00	3.5*
65 to 69	0.97	0.31	9.69	0.00	2.6*
70 to 74	0.98	0.32	9.15	0.00	2.7*
75 to 79	0.14	0.37	0.15	0.70	1.2
Agreement: "I prefer to buy things on credit rather than wait and save up"	0.98	0.09	131.46	0.00	2.7*
Housing Tenure - Own outright (reference)			59.95	0.00	
Mortgage	0.73	0.11	48.07	0.00	2.1*
Private rent	0.28	0.14	4.14	0.04	1.3*
Local authority rent	0.25	0.12	4.15	0.04	1.3*
Other	0.19	0.16	1.33	0.25	1.2
Disagreement: "I am more of a saver than a spender"	0.40	0.07	29.22	0.00	1.5*
Savings - None (reference)			70.46	0.00	
Some but less than £500	0.57	0.10	32.80	0.00	1.8*
£500 but less than £1000	0.58	0.16	12.33	0.00	1.8*
£1000 but less than £3000	0.79	0.13	37.01	0.00	2.2*
£3000 but less than £10000	0.51	0.11	20.39	0.00	1.7*
£10000 or more	0.19	0.10	3.63	0.06	1.2
Highest qualification - O Level/GCSE grades D-G/SCE Standard and equivalent (reference)			48.81	0.00	
Higher degree	0.30	0.18	3.00	0.08	1.4
First degree and equivalent	0.65	0.16	17.15	0.00	1.9*
Diplomas in higher education and equivalent	0.55	0.16	11.96	0.00	1.7*
A/AS levels/SCE Higher/ Scottish Certificate	0.61	0.15	16.31	0.00	1.8*
Trade Apprenticeships	0.43	0.19	5.45	0.02	1.5*
O Level/GCSE grades A-C/SCE Standard and equivalent	0.35	0.15	5.78	0.02	1.4*
Other qualifications (including overseas)	-0.07	0.21	0.11	0.74	0.9
None of these	0.03	0.15	0.06	0.81	1.0
Disagreement: "I always make sure I have money saved for a rainy day"	0.38	0.09	19.54	0.00	1.5*

Measure	B	S.E.	Wald	Sig.	Odds ratio
Work status					
In full time education (reference)			45.91	0.00	
Working full time (30+ hours)	-0.54	0.16	10.84	0.00	0.6*
Working part time (Up to 29 hours)	-0.84	0.18	22.61	0.00	0.4*
Looking after the home or family	-0.86	0.19	20.15	0.00	0.4 *
Retired from paid work	-0.90	0.22	16.90	0.00	0.4 *
Unemployed	-1.06	0.19	30.18	0.00	0.3 *
Permanently sick or disabled	-0.48	0.22	4.56	0.03	0.6 *
Religious background - Muslim (reference)			26.40	0.00	
No religion, atheist, agnostic	0.80	0.17	23.18	0.00	2.2 *
Christian	0.69	0.16	18.71	0.00	2.0 *
Hindu	0.46	0.29	2.46	0.12	1.6
Other answers	0.21	0.29	0.54	0.46	1.2
Disagreement "I am never late at paying my bills"	0.39	0.08	21.55	0.00	1.5 *
Family type - other (reference)			21.89	0.00	
Single Adult	0.08	0.10	0.53	0.46	1.1
Couple no dependent children	0.30	0.13	5.38	0.02	1.4 *
Lone parent with dependent children	0.50	0.12	18.09	0.00	1.6 *
Couple with dependent children	0.18	0.12	2.47	0.12	1.2
Region - London (reference)			31.79	0.00	
North East	0.51	0.20	6.62	0.01	1.7 *
North West	0.22	0.14	2.54	0.11	1.2
Yorkshire and the Humber	0.40	0.17	5.80	0.02	1.5 *
East Midlands	0.27	0.16	2.78	0.10	1.3
West Midlands	0.04	0.15	0.07	0.79	1.0
East	-0.02	0.16	0.02	0.90	1.0
South East	0.50	0.14	12.48	0.00	1.7 *
South West	0.16	0.17	0.84	0.36	1.2
Wales	0.40	0.14	7.48	0.01	1.5 *
Scotland	0.06	0.14	0.19	0.66	1.1
Northern Ireland	0.03	0.15	0.05	0.82	1.0
"I am impulsive and tend to buy things even when I can't really afford them"	-0.21	0.09	5.91	0.02	0.8 *
Constant	-5.08	0.56	81.24	0.00	0.0

Source: 2005 BSFC

Notes:

1. The table reports results of Forward Stepwise (likelihood ratio) Logistic Regression. R2 = 0.322(R2 for the same model after excluding the attitudinal measures = 0.258)
2. Measures of income, ethnicity, long-standing illness or disability, having needed to borrow to make ends meet in the past, and agreement with "I tend to live for today and let tomorrow take care of itself" were tested but were not significant.
3. Significant measures are shown in order of strength (strongest first)

* indicates a significant difference between this category and the reference

Table A 5 Significant predictors of heavy credit use

Measure	B	S.E.	Wald	Sig	Odds ratio
Agreement: "I prefer to buy things on credit rather than wait and save up"	1.18	0.15	62.64	0.00	3.2*
Age[4] - 18 to 21 (reference)			29.54	0.00	
22 to 29	2.55	0.62	16.66	0.00	12.8*
30 to 39	2.14	0.64	11.27	0.00	8.5*
40 to 49	2.05	0.64	10.10	0.00	7.7*
50 to 59	2.04	0.66	9.50	0.00	7.7*
60 or over	0.54	0.83	0.42	0.52	1.7
Disagreement: "I am more of a saver than a spender"	0.60	0.18	11.14	0.00	1.8*
Disagreement: "I always make sure I have money saved for a rainy day"	0.66	0.17	15.18	0.00	1.9*
Housing Tenure - Own outright (reference)			14.47	0.01	
Mortgage	1.04	0.38	7.63	0.01	2.8*
Private rent	0.36	0.40	0.83	0.36	1.4
Local authority rent	0.61	0.39	2.41	0.12	1.8
Other	0.37	0.49	0.55	0.46	1.4
Savings - None (reference)			11.77	0.04	
Some but less than £500	0.27	0.21	1.53	0.22	1.3
£500 but less than £1000	0.26	0.32	0.64	0.42	1.3
£1000 but less than £3000	0.76	0.23	10.59	0.00	2.1*
£3000 but less than £10000	0.49	0.25	3.87	0.05	1.*
£10000 or more	0.23	0.25	0.83	0.36	1.3
Work status - In full time education (reference)			16.28	0.01	
Working full time (30+ hours)	-0.98	0.30	10.70	0.00	0.4*
Working part time (Up to 29 hours)	-1.04	0.34	9.45	0.00	0.4*
Looking after the home or family	-1.11	0.37	9.01	0.00	0.3*
Retired from paid work	-0.57	0.57	0.99	0.32	0.6
Unemployed	-1.27	0.44	8.25	0.00	0.3*
Permanently sick or disabled	-0.43	0.43	0.97	0.32	0.7

Measure	B	S.E.	Wald	Sig	Odds ratio
Family type - other (reference)			10.33	0.04	
Single Adult	0.34	0.28	1.53	0.22	1.4
Couple no dependent children	0.62	0.27	5.21	0.02	1.9*
Lone parent with dependent children	0.71	0.23	9.64	0.00	2.0*
Couple with dependent children	0.36	0.28	1.61	0.20	1.4
Disagreement: "I am very organised when it comes to managing my money day-to-day"	1.18	0.15	62.64	0.00	3.2*
Highest qualification - O Level/GCSE grades D-G/SCE Standard and equivalent (reference)			16.87	0.05	
Higher degree	-0.01	0.39	0.00	0.98	1.0
First degree and equivalent	0.47	0.34	1.92	0.17	1.6
Diplomas in higher education and equivalent	0.12	0.36	0.11	0.75	1.1
A/AS levels/SCE Higher/Scottish Certificate	0.53	0.33	2.58	0.11	1.7
Trade Apprenticeships	0.02	0.45	0.00	0.97	1.0
O Level/GCSE grades A-C/SCE Standard and equivalent	-0.21	0.34	0.39	0.54	0.8
Other qualifications (including overseas)	-1.05	0.78	1.83	0.18	0.3
None of these	-0.10	0.35	0.07	0.78	0.9
Constant	-9.98	0.95	110.01	0.00	0.0

Source: 2005 BSFC

Notes:

1. The table reports results of Forward Stepwise (likelihood ratio) Logistic Regression. R2 =0.232 (R2 for the same model after excluding the attitudinal measures = 0.128)
2. Measures of income, region, ethnicity, religion, long-standing illness or disability, having needed to borrow to make ends meet in the past, and agreement with "I tend to live for today and let tomorrow take care of itself" were tested but were not significant.
3. Significant measures are shown in order of strength (strongest first)
4. Age categories have been combined in order to maintain sufficient cell sizes for reliable analysis

* indicates a significant difference between this category and the reference

Table A 6 Percentage of credit users borrowing for discretionary purposes, hardship or both.

Cell percentages

	Discretionary	Everyday living	Both	Base
Age				
20-29	88	43	36	141
30-39	91	37	31	181
40-49	98	29	28	184
50-59	96	25	23	120
60+	95	20	17	133
Annual household income				
under £5,000**	83	23	18	40
£5,000 to £7,499**	92	24	21	62
£7,500 to £9,999**	88	31	29	51
£10,000 to £24,999	95	36	33	237
£25,000 to £34,999	95	38	35	102
£35,000+	98	35	33	124
Employment status (head of household)				
Working full time	96	34	31	430
Working part time**	86	34	27	70
Unemp. & seeking work**	96	30	30	45
At home /not seeking work**	91	15	13	47
Long-term sick/disabled**	88	21	19	43
Retired	96	23	21	105
Family type				
Single adult 60 or over**	95	22	19	37
Two adults at least one 60 or over**	96	19	18	73
Single adult under 60**	90	39	34	88
Two adults both under 60	93	37	33	153
1-parent family with child/ren at least one under 16**	90	19	15	73
2-parent family with child/ren at least one under 16	95	34	30	244
Other**	96	29	27	94
Housing tenure				
Mortgaged	96	36	33	412
Owned outright	95	29	27	110
Rented from social landlord	89	18	14	174
Rented from private landlord**	88	41	34	67
All	**93**	**31**	**28**	**762**

Source: 2002 ODS; base those with active credit commitments

** Treat with caution due to small bases

Appendix 3 – Workshop participants

Joanna Elson
Chief Executive, Money Advice Trust

Ann Gunther
Chief Executive, Standard Life Bank

Wendy van den Hende
Chief Executive, Personal Finance Education Group

Gillian Key-Vice
Director of Regulatory Affairs, Experian International

Trevor Matthews
Chief Executive, Standard Life Assurance Ltd.

Steve Nuttall
Finance Strategy and Risk, Financial Services Authority

Fiona Price
Director, Cross Market Interventions, Department for Business, Enterprise and Regulatory Reform

Sandra Quinn
Director of Corporate Communications, APACS, the UK payments association

Robert Skinner
Chief Executive, Banking Code Standards Board

Stephen Sklaroff
Director General, Finance and Leasing Association

Jan Smith
Manager, Corporate Client Relations, Consumer Credit Counselling Service

Matt Waldron
Money Assessment and Strategy Division, Bank of England

Cathy Willis
Skills for Life Strategy Unit, Department for Children, Schools and Families

Chaired by Professor Elaine Kempson CBE
Director of the Personal Finance Research Centre

Bibliography

Atkinson, A. (2007) 'Meeting immigrants demands for financial services'. *Argent Vol 6*(2). London: The Financial Services Forum.

Atksinon, A., Finney, A. and McKay, S (2007). *Health, disability, caring and employment: longitudinal analysis*. (DWP Research Report 461). Leeds: Corporate Document Services.

Atkinson, A. and Kempson, E. (2004). *Young people, money management, borrowing and saving.* London: Banking Code Standards Board.

Atkinson, A., McKay, S., Kemspon, E. and Collard, S. (2006) 'Levels of financial capability in the UK: Results of a baseline survey.' *Consumer Research 47*. London: Financial Services Authority.

Balmer, N. Pleasance, P. Buck, A., and Walker, H.C. (2005) 'Worried sick: the experience of debt problems and their relationship with health, illness and disability'. *Social Policy and Society, 5*(1): pp39-51.

Bank of England (2007). *Treasury Committee Inquiry into the monetary policy committee of the Bank of England: Ten years on.* The Bank of England submission regarding the economic context. Memorandum, February 19th 2007.

Baxter, L. and Bennett, J. (2006) 'Building confidence in the equity release market'. *CML Housing Finance Issue 05/2006*. London: Council of Mortgage Lenders.

Berthoud, R. and Kempson, E. (1992). *Credit and debt*. London: Policy Studies Institute.

BMRB Limited (2006). 'Financial Capability baseline survey: methodological report'. *Consumer Research 47a*. London: Financial Services Authority.

Bridges, S., and Disney, R. (2004) 'Use of credit and arrears on debt among low-income families in the united Kingdom'. *Fiscal Studies, Vol., 25,* no., 1, pp. 1-25.

Bosanquet, N. and Gibbs, B. (2005) *The Class of 2005: The IPOD generation – insecure, pressured, over-taxed and debt-ridden.* London: Reform

Brown, S., Garino, G., Taylor, K. and Wheatley Price, S. (2003). *Debt and financial expectations: an individual and household level analysis*. Department of Economics, University of Leicester.

Building Societies Association (2007) *The individual's saving decision*. London: The Building Societies Association.

Centre for Housing Policy (2004). *Homeowners risk and safety-nets: Mortgage Payment Protection Insurance (MPPI) and beyond.* Norwich: HMSO.

Collard C (2001) *Consumers in the financial market: Financial Services Consumer Panel annual survey of consumers, 2000.* Financial Services Consumer Panel.

Consumer Credit Counselling Service (2006) CCCS Statistical Yearbook 2005. Leeds:CCCS

Consumer Credit Counselling Service and Age Concern (2004). *"Baby boomers" build up debts not pensions, warns new report.* Money Basics press release 22nd September 2004: http://www.moneybasics.co.uk (accessed May, 2007).

Council of Mortgage Lenders (2007a) *CML arrears and possessions statistics.* Press release 3rd August 2007: http://www.cml.org.uk/cml/media/press/1239 (Accessed August 2007).

Council of Mortgage Lenders (2007b) *Record numbers of first-time buyers take out fixed-rate loans*, says CML. Press release 10th April 2007: http://www.cml.org.uk/cml/media/press/1139 (Accessed April 2007).

Davis, P., Ralph, S., Farnsworth, V., Chi, X., Black, L., Kambalouka, A. and Farrell, P. (2006) *The influence of financial literacy education on students' personal financial management and aspirations: Briefing report*. Manchester: University of Manchester.

Del-Rio, A., and Young, G. (2005). 'The impact of unsecured debt on financial distress among British households'. *Bank of England, Working Paper 262.* London: Bank of England

Dominy, N. and Kempson. E. (2006). *Understanding older people's experience of poverty and material deprivation* (DWP Research Report 363). Leeds: Corporate Document Services.

Elliot, A. (2005). *Not waving but drowning: Over-indebtedness by mis-judgement*. London: CSFI.

Finch, S., Jones, A. Parfrement, J., Cebulla, A., Connor, H., Hillage J., Pollard, E., Tyers, C., Hunt, W. and Loukas, G.(2006). Student income and expenditure survey 2004/05 (DfES Research Report 725). London: DfES.

Ford, J. (1990). 'Credit and default amongst younger adults: An agenda of Issues.' Journal of Consumer Policy, Vol. 13 (2) pp. 133-154.

Herbert, A, and Kempson, (1996). *Credit use and ethnic minorities*. London: Policy Studies Institute.

Hosty, G. (2005) 'Pricing, risk and potential in the equity release market'. *CML Housing Finance 03/2005*. London: Council of Mortgage Lenders.

Kamleitner, B. and Kirchler, E. (2007). 'Consumer credit use: a process model and literature review'. *Revue europeenne de psychologie appliquee, doi 10.1016/*j.erap.2006.09.003. (in press).

Kempson, E. (2002). *Over-indebtedness in Britain*. London: Department of Trade and Industry.

Kempson, E., and Atkinson, A. (2006) *Overstretched: People at risk of financial difficulties*. Bristol: University of Bristol.

Kempson, E., and Collard, S. (2004) 'Managing multiple debts: experiences of country court administration orders among debtors, creditors and advisors.' *Department for Constituional Affairs Research Series 1/04.* London: DCA.

Kempson, E., Collard, S., and Taylor, S. (2002) *Social Fund use amongst older people* (DWP Research Report 172). Leeds: Corporate Document Services.

Kempson, E., McKay, S. and Willitts, M. (2004). *Characteristics of the Households in Debt and Nature of Indebtedness* (DWP Research Report 211). Leeds: Corporate Document Services.

Lea, S.E.G., Webley, P., and Walker, C.M. (1995) 'Psychological factors in consumer debt: money management, economic socialisation and credit use'. *Journal of Economic Psychology, Vol 116*(4) pp. 681-701.

Livingstone, S.M., and Lunt, P.K. (1992). 'Predicting personal debt and debt repayment: psychological, social and economic determinants'. *Journal of Economic Psychology, Vol 13* pp. 111-134.

McKay, S. and Collard, S. (2004). 'Developing deprivation questions for the Family Resources Survey'. *Research Working Paper No 13.* London: Department for Work and Pensions.

McKay, S. and Kempson, E. (2003) *Savings and life events* (DWP Research Report 194). Leeds: Corporate Document Services.

McKay, S., Kempson, E., Atkinson, A., and Crame, M. (forthcoming). *Debt and older people.*

Mintel (2007) *Consumer attitudes towards debt.* Press Release 8th August 2007 http://www.mintel.com (Accessed August 2007).

Munro, M. and Ford, J. (2005) *Sub-prime lending, risk and sustainability for owner-occupiers*. Draft report prepared for submission to the Journal of Social Policy

National Consumer Council (2002). *Credit: choice or chance*. London: National Consumer Council.

NOP Research (2004). 'Young people and financial matters'. *Consumer Research 25.* London: Financial Services Authority.

Office of Fair Trading (2004) *Debt consolidation*. London: Office of Fair Trading.

Pannell, B. (2002). 'Coping with mortgage debt.' *CML Housing Finance, 54* (pp.48-59).

Personal Finance Research Centre (2005). 'Measuring financial capability: an exploratory study'. *Consumer Research, 37.* London: Financial Services Authority.

Pettigrew, N., Taylor, J., Simpson, C., Lancaster, J. and Madden, R. (2007). *Live now, save later? Young people, saving and pensions.* (DWP Research Report 438). Leeds: Corporate Document Services.

PricewaterhouseCoopers (2007). *The economic benefits of a degree.* London: Universities UK.

Registry Trust (2007). 2006 *Annual Statistics.* London: Registry Trust Ltd.

Rowlingson, K. (2005) 'Attitudes to housing assets and inheritance'. *CML Housing Finance*, 10/2005. London: Council of Mortgage Lenders

Self, A., and Zealey, L. (2007). *Social Trends 37.* (Office for National Statistics) Basingstoke: Palgrave Macmillan.

Skinner, C. and Ford, J. (2000) *Planning, postponing or hesitating: understanding financial planning.* York: Centre for Housing Policy.

Synovate (2005) Young people (18-24) and their financial information needs. *Consumer Research 44.* London: Financial Service Authority.

The Insolvency Service (2006) *Characteristics of a bankrupt*. London: The Insolvency Service.

The Insolvency Service (2007a). 'Statistics release: insolvencies in the second quarter 2007'. *Statistics Release* 3rd August 2007. http://www.insolvency.gov.uk (Accessed August 2007).

The Insolvency Service (2007b) *Profiles of bankrupts: 2003/4 to 2005/06.* London: The Insolvency Service

thisismoney (2006) *The five-times mortgage salary*. thisismoney.co.uk 1st November 2006: http://www.thisismoney.co.uk. (Accessed April 2007).

Tudela M. and Young G. (2003). 'The Distribution of Unsecured Debt in the United Kingdom'. *Bank of England Quarterly Bulletin* (Winter 2003). London: Bank of England.

Waldron, M. and Young, G. (2006). 'The state of British household finances: results from the 2006 NMG research Survey'. *Bank of England Quarterly Bulletin 2006 (Q4).* London: Bank of England.

Webley, P. and Nyhus, E.K. (2001) Life-cycle and dispositional routes into problem debt. *British Journal of Psychology, 92,* pp423-446

Wingfield, D. (2007). 'CPI and RPI: the 2007 basket of goods and services'. *Economic and Labour Market Review, Vol 1* (4). London: Office for National Statistics.

Whyley, C., and Kempson, E. (2000a). *Understanding small savers I: Patterns of saving amongst low-to-middle income groups.* Peterborough: AMP-Pearl.

Whyley, C., and Kempson, E. (2000b). *Understanding small savers II: Saving behaviour amongst low-to-middle income groups*. Peterborough: AMP-Pearl.

For more information on this report please call us on this number or go to the website below:

0131 245 0102

www.standardlife.co.uk

PERSONAL • FINANCE • RESEARCH • CENTRE