New report profiling household borrowing in the UK shows

BASE RATES MUST ALMOST DOUBLE FOR THE UK TO FACE 1990-STYLE DEBT STRESS

New research from Alliance & Leicester into mortgage and unsecured debt shows the UK is a long way away from returning to the bad old days of the early 1990s – despite rapid growth in the appetite for borrowing.

Household debt has more than tripled from £337 billion at the end of 1990 to £1,160 billion by the end of 2005. Over this period, mortgage borrowing rose threefold to £967 billion, while unsecured borrowing rose fourfold to £135 billion and balances outstanding on credit cards rose sevenfold to £58 billion.

The average UK household with a mortgage now owes £83,722 in total including the mortgage, compared to £31,238 in 1990.

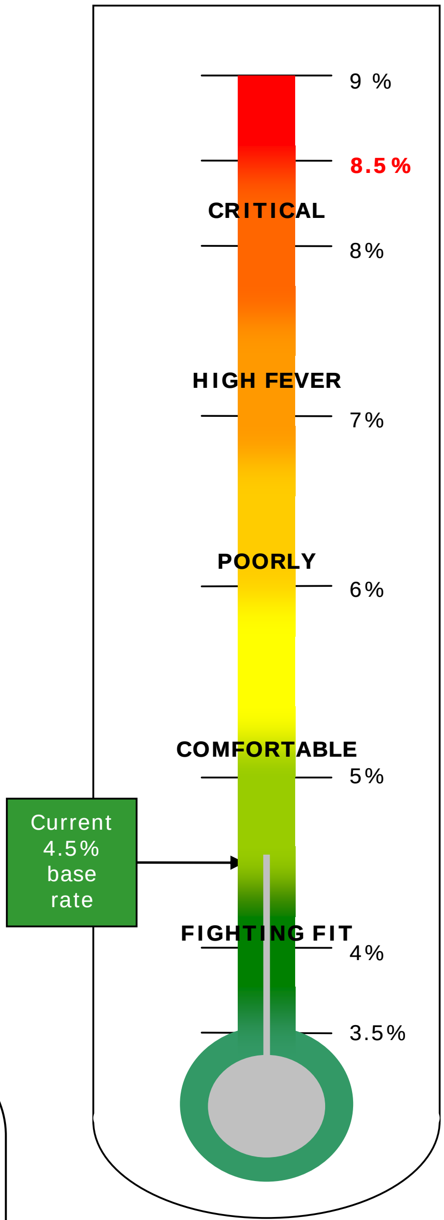
However underlying trends demonstrate that, despite this sharp growth, borrowing remains comfortable compared to historic levels – and that the UK is not on the verge of debt meltdown. For example, average mortgage interest payments in 2005 totalled £4,542 per annum, almost the same as in 1990. Meanwhile, household income has doubled.

The Alliance & Leicester Borrowing Monitor shows that base rates would have to reach 8.5% before the UK returned to the debt crunch of 1990 which led to thousands of homeowners losing their homes. If this happened, average mortgage rates would reach 10% taking average annual mortgage interest payments to £8,200. By contrast, today the average mortgage rate is 5.6%. In 1990 the base rate averaged 14.6%, today it stands at 4.5%.

Key findings

- **Total debt has more than tripled since 1990 – but relative to income the cost of borrowing has almost halved.**
- **The total cost of debt servicing for households with a mortgage stands at 13.8% of income. This is around half the level it was in 1990 when debt servicing consumed 25.7% of household income for those with a mortgage.**
- **Mortgage arrears are near to an historic low but unsecured borrowing is showing modest signs of strain.**
- **The base rate would need to hit 8.5% to raise the debt interest burden for mortgage payers to 1990 levels.**

Alliance & Leicester Borrowing Thermometer



The thermometer shows the total burden of consumer debts against the level of base rates for households with a mortgage. The base rate would need to rise to 8.5% for the cost of servicing borrowing as a proportion of household income to reach the 1990 level.

See Methodology in Notes to Editors.

Households with a mortgage can comfortably service this level of debt

Alliance & Leicester has calculated how much of their income mortgaged households spend on interest payments by looking at their mortgage, unsecured loan and credit card borrowings using a combination of published and survey data.

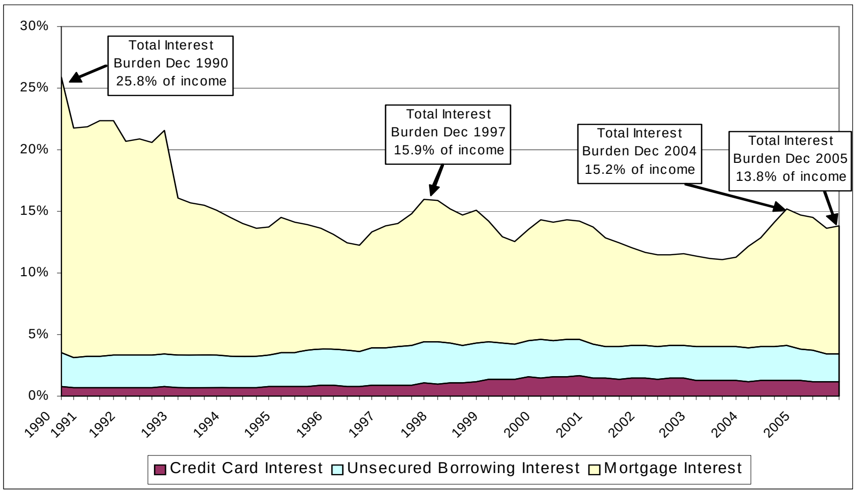
In 1990 households with mortgages were severely stretched by their interest payments. A quarter (25.8%) of average household income was consumed by interest payments alone, with the majority of it (22.3%) taken up by mortgage interest payments. Mortgage interest payments ate up almost twice the 11.7% of income that was spent on food! The picture is completely different today.

At the end of 2005, interest payments represented less than a seventh (13.8%) of income, almost half the 1990 level. Whilst mortgage payments represent the majority of this, mortgage interest today takes up just over a tenth (10.4%) of household income. Total interest payments rose to only 15.2% of income, even at the peak of the latest cycle at the end of 2004. Since then, the picture has improved as interest rates declined, borrowing grew more slowly and incomes continued to rise.

The average mortgage is £83,722 – less than two times the average household income for those with mortgages. Mortgages as a percentage of the value of the home have fallen from 58% in 1995 to 41% today. This reduction is only partly due to rising house prices, but also illustrates the fact that homeowners are keen to maintain low loan to value ratios. The average new mortgage is 64% of the home's value today, compared to 75% in 1995.

In 1990 total mortgage payments including capital took around a third of household income (33% for new mortgages) whereas today this is around a fifth (20.5%).

Debt servicing as a percentage of household income for households with a mortgage



Source: Bank of England, ODPM, CML and A&L

Chris Rhodes, Managing Director, Alliance & Leicester Retail Banking, comments: *"Our research shows that although borrowing is higher than in the past – UK households overall are in good financial shape. Total interest payments consume less than a seventh of household income for those with a mortgage – compared to over a quarter back in 1990. Over the past ten years interest rates have remained fairly stable and economists believe there is no real prospect of interest rates reaching 8.5% - the level they would need to reach to cause 1990-level stress."*

Unsecured debt is a bigger burden for non home owners

Credit card and other unsecured borrowing stands at less than a quarter of average household income (23%) for those with a mortgage, averaging £8,252 – and less than a tenth (9%) for those who own their own homes outright.

Unsecured borrowing as a proportion of household income is highest amongst those living in private rented accommodation. With average debts of £8,094, their lower levels of income means this is equivalent to 41% of their income – almost twice the UK average of 22%. However just over half this group is under 30 and their borrowing is heavily skewed to those with student loans. Although the level of debt they owe is a relatively high proportion of their incomes, the cost of servicing it takes up 4.1% of their income, compared to 3.4% for those with a mortgage.

A recent study by Capital Economics showed that the average household currently pays £1,064 a year in utility bills – this is nearly 50% more than the £723 the average household pays in interest on their borrowings.

	All UK households			**For those with this type of debt**		
TYPE OF BORROWING	**Average amount**	Percent of income	**Percent with this type**	**Average amount**	Percent of income	Interest - % of income
Overdraft	£413	1.5%	35%	£1,194	4.4%	0.6%
Credit Card	£1,855	6.9%	42%	£4,720	17.5%	2.7%
Student loan	£846	3.1%	11%	£8,117	30%	0.1%
Personal loan	£2,270	8.4%	29%	£8,368	31%	4.1%
Other	£534	2.0%	7%	£8,353	30.9%	4.0%
TOTAL UNSECURED BORROWING	£5,919	21.9%	n/a	n/a	n/a	n/a
Savings	£21,524	79.0%	72%	£29,999	111%	-
Mortgage	£29,214	-	45%*	£83,722*	186%*	10.4%*

Source: Alliance & Leicester survey data
n/a – These cannot be added together since not all households have all types of borrowing
* The average mortgage is 1.86 x income (source: BoE, CML and ODPM)

Affordability is good – but modest signs of strain in unsecured borrowing . . .

Over the last five years the level of credit card and other personal unsecured borrowing has increased by just over a third (36%) to £193 billion. During this time, according to the Bank of England, the proportion going into default has increased from 1.70% to 2.75% of outstanding balances.

The numbers of people obtaining personal bankruptcy or individual voluntary arrangements (IVAs) has doubled since 2003. The average quarterly growth in numbers has been accelerating – at 5% in 2003, 8% in 2004 and 12% in 2005. Overall the total number for 2005 was 67,580 – affecting 0.26% of households.

Mortgage arrears stand at less than a third of the level they were ten years ago

Figures on arrears and repossessions confirm the picture that mortgage borrowing remains comfortable. The proportion of mortgages in arrears by 3-6 months has fallen from 1.8% of all loans in 1994 (the earliest figures available) to just 0.5% today. Repossessions show the same picture. Despite rising recently from a low point of 1 in every 8,400 mortgaged homes, they have fallen 85% from 1 in every 860 in 1990 to just 1 in 5,600 today.

Chris Rhodes concludes: *"Overall, households with mortgages are comfortable – in sharp contrast to 1990. People are spending a smaller proportion of their incomes on their mortgages. Arrears and repossessions remain at historically low levels.*

"Credit card and personal loan arrears and defaults are showing a modest increase. Since the cost of servicing this debt remains at relatively low levels, other factors are clearly at work. With changed attitudes to debt and increasing costs such as gas, electricity and council tax, some households particularly those in the private rented sector are facing increased strain.

"However, with stable levels of interest rates and high levels of employment, the UK is far from being on the verge of a debt crisis."

-ENDS-

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Notes to Editors:

The Alliance & Leicester Borrowing Monitor measures the level of interest rates required today for the proportion of household income of the average household with mortgage consumed by interest payments to be the same as in 1990, when the UK suffered a serious debt crisis.

The data for these calculations (debt levels, incomes and interest rates) is sourced from the Bank of England, the ODPM, the CML and Alliance & Leicester survey data. For consistency, all data is calculated to the end of 2005.

In each period, using the Bank of England data, the average mortgage, personal and credit card debt per household with a mortgage is calculated and the prevailing interest rates (sourced from Bank of England and CML) applied to each portion. This interest expense is compared to household income supplied by the ODPM. The Alliance & Leicester survey supplies data on how unsecured borrowing and credit card balances are split between mortgaged and non-mortgaged households. For the Alliance & Leicester survey data, YouGov questioned 2,558 people in January 2006.