Correspondence on the impact of the credit crunch

11 March 2008

The following letter was sent by a worker in the sub-prime credit industry in Britain

I would like to make some supplementary points to Chris Talbot's very good article about the impact of the credit crunch on thousands of British workers.

The first point is that the latest rise in house repossessions started to happen before the credit crunch hit Britain. The Council of Mortgage Lenders has warned that more pain is on the way and this is confirmed by a look at the underlying trends.

Historically, mortgage repossessions have risen sharply when the housing market has been dormant for a long while—say over a year—and people who are looking to remortgage their debt to get better rates are unable to do so and have to sell their homes at a discount or have them repossessed. The difference in 2007 was that the market was not dormant, but house prices hit the roof. However, due to the credit crunch many people are being refused loans. The majority of lenders have been withdrawing products and turning down loans, as the article said. The new situation is that millions of people are using their credit cards or taking out unsecured loans to pay their mortgages.

The credit crunch has thrown the spotlight on the growing financial and social misery of many workers and growing sections of the middle class, who in the past could get cheaper loans because of good credit records. For many these days are gone.

This has contributed to personnel debt in Britain reaching £1.3 trillion (an average of £30,000 for every adult in the UK). More than eight million Britons are in serious debt—a quarter of whom are struggling to make their repayments.

According to *Inside Housing*, "almost one in ten of England's most marginal homeowners are spending more than three quarters of their income on mortgages. More than 19,000 householders with a disposable income of £1,000 are using all of it to pay off their mortgage. Nearly 400,000 people spend 75 percent of their salary". In 2007, 24,000 householders were classified as "homeless at home" because of their appalling living conditions—making a total of 143,000 households over the last four years.

The figures are an indictment of a Labour government that has presided over a financial and social disaster for hundreds of thousands of people. At the same time that it has rushed to rescue Northern Rock, pumping billions into the ailing bank the government will be giving sweeping new powers to bailiffs to confiscate possessions repossess houses. Under the new Tribunals, Courts and Enforcement Act, bailiffs will be able to break in to domestic premises and enforce consumer credit card debts which are the subject of a County Court Judgement. At the moment only certain enforcement officers have these powers. In the new bill it is not even clear if the householder has to be in the house for the bailiff to enter.

A Ministry of Justice spokesperson tried to downplay the changes, saying that the new powers allowing forcible entry will be used only "as a last resort... in strictly controlled circumstances" and only "once full independent regulation of all private-sector bailiffs has been implemented". Recently it has come out that, despite the fact that bailiffs remain unregulated, MoJ officials are suggesting that bailiffs be allowed "to use reasonable force, restraint or violence against debtors thwarting the bailiff's seizure of their goods."

A report in the *Independent* (February 17, 2008) revealed that under Labour debt collection has become one of the UK's fastest-growing industries. It has been "slammed" as "legalised profiteering" by campaigners. County Court Judgments reached nearly 800,000 last year—a "staggering" increase of 48 percent since 2004—and bankruptcy orders "soared from fewer than

20,000 in 1998 to more than 62,000 in 2006."

According to the *Independent* debt collection agencies pursue over 20 million cases a year worth £15 billion in total—three times the amount that they dealt with in 2000. The membership of the Credit Services Association, which represents the majority of debt collection agencies, has doubled over the last five years, from 134 in 2002 to 291 in 2007. The majority of this debt originated with high street lenders such as Marks & Spencer, the Co-operative Bank and Lloyds TSB who are desperate to get the large amounts of bad debt off their balance sheets.

Local Authorities are responsible for four million debt collection cases, with debt counsellor Sheila Hardy saying, "Council tax debts are a money-spinner for councils and it is an absolute scandal."

Another growth area resulting from rising indebtedness is in agencies that manage the sale of repossessed houses. Residential auctioneer Allsops has been involved in selling over 400 repossessed properties in February this year alone, the majority of which belonged to people who have had sub-prime mortgages. The sub-prime lenders have sold the property on to debt agencies that in turn have put them up for auction.