Cost of UK home ownership pushing people over the edge

Jean Shaoul
27 November 2013

Millions of people in Britain are struggling under the weight of mortgage debt and are on the brink of financial collapse.

A report by the Centre for Social Justice think tank, entitled *MaxedOut: serious personal debt in Britain,* warned that millions of families do not have enough money to cover their rent or mortgage for more than a month, while thousands are being made homeless every year because they cannot meet their payments.

Household debt in Britain has reached its highest level ever. At more than £1.5 trillion, it is roughly equal to the nation's GDP. This means that the average household debt across the country is £56,000, which is 60 percent more than average household income and 50 percent higher than a decade ago.

Made up of mortgage debt, credit card, student, and personal loans, by far the largest component is home loans at £1.27 trillion. It reflects the exorbitant increase in the already high cost of buying a home and means that a raft of social indices, devastating though they are, fail to capture the hardship and distress in which so many families find themselves as they struggle and fail to make ends meet.

According to figures released by the Office for National Statistics, the average cost of a home in Britain has climbed to £247,000, a sum nearly 10 times the average wage—and up to £437,000 in London—following a 3.8 percent rise over the past year. Prices are now the highest on record, rising even faster than the previous peak months before the global financial collapse in 2008.

The Council of Mortgage Lenders (CML) reported that gross mortgage lending rose to £17.6 billion in October, its highest level in five years and up by more than a third on the same month last year. These figures have only just begun to reflect the government's controversial £12 billion "Help to Buy" policy, which is stoking the demand for homes at a time when the number of properties for sale in the parts of the country where there are jobs is in short supply.

The scheme, designed to increase the availability of 95 percent mortgages but in reality another subvention to the banks, enables people to buy a home of up to £600,000 on a deposit of only five percent, with the government providing a guarantee to the lender of up to 15 percent of the loan. Most of the high street banks have begun offering loans under the initiative.

The CML said gross lending had increased by 9 percent in October alone, and that it expected the figures to increase in the coming months as the Help to Buy scheme kicked in.

According to the National Institute for Economic and Social Research, more than one in four private sector workers have been hit by at least one annual pay cut or pay freeze, rising to 48 percent in the public sector, while income per hour has fallen by 6 percent in real terms since 2010. Falling wages, unemployment, underemployment and rising prices have all taken their toll on incomes and people's ability to manage their mortgages, which now average £112,727. The results have been catastrophic.

Three hundred thousand people were in arrears on their mortgages in 2012, with 34,000 homes being repossessed. While this is a reduction of 30 percent from the peak of the recession, it is a 60 percent overall increase since 2006.

The Centre for Social Justice found that almost half of households in the lowest income decile spent more than a quarter of their income on debt repayments in 2011. The real figure is far higher than that. It is not unusual for one wage in a two-wage household to go on mortgage repayment; indeed it is the norm. More than 26,000 households were accepted by local councils as homeless in the last five years, including more than 5,000 last year, because of mortgage and rent arrears.

The financial situation is likely to get far worse as today many households are able to keep the heads above water because interest rates are relatively low. The Bank of England indicated in August that it would raise interest rates from its historic low of 0.5 percent should unemployment fall below 7 percent or inflation gather speed. Since then unemployment has fallen faster than the BoE expected, to 7.6 percent in the three months to September.

When interest rates increase, many people will enter a debt spiral, with the prospect of losing their homes as they struggle to keep up their mortgage repayments. As the *Financial Times* reported recently, up to 650,000 households in the UK face "debt peril" if mortgage rates were to rise.

As well as mortgage debt, consumer debt has trebled since 1993 and now stands at £158 billion, or £3,183 per adult in September, down from a few years ago as people have cut back on spending. Credit card debt rose to £55.6 billion in 2012.

With the cost of food having gone up by 33 percent between 2007 and 2013, and the cost of butter, meat, and fruit having increased by more than that, spending on food rose by at least £14 a month across all families in the first six months of this year, equivalent to £168 per year. They have cut back on a range of non-essential items, including satellite TV subscriptions and entertainment activities, to compensate.

Maxing out said that those most vulnerable to debt problems were the unemployed, older people, single parents and the poorest. It reported that 1.1 million people over the age of 50 had debt problems, 87 percent of Citizens Advice Bureau's debt clients had annual incomes of less than £18,000, that 41 percent of StepChange's debt clients lived in social housing, and three quarters of Christians against Poverty's clients receive some form of state benefit, with more than one in five being single mothers.

The high street banks' refusal to provide credit to the less well off has led to a huge increase in the demand for short-term credit—from payday lenders, pawnbrokers and doorstop lenders—which is now worth £4.8 billion a year. More than 1.4 million people have no access to a bank account and "are effectively excluded from the entire financial sector" and pushed into the arms of the moneylenders.

One in 20 families relies on payday loans to get by. With essential bills having risen by 25 percent since 2007, one in six payday loans are used to pay outstanding household bills. Payday lenders have more than doubled their business, from £900 million in 2008-09 to just over £2 billion—around eight million loans—in 2011-12. Their interest rates are usurious, and can be as much as 5,000 percent APR.

A further three percent of families make use of pawnbrokers, while the number of people resorting to loan sharks has almost doubled to 310,000 since 2008. In Britain's most deprived areas, one in 12 families borrows from illegal money lenders, compared to just one in 200 in the general population. These criminals use all sorts of illegal means to extort money from their victims, including the arbitrary raising of interest rates, demanding payments or charging penalties, and the use of violence and intimidation to terrorise and silence people and communities.

Taken together, this means that the poor pay a "poverty premium", a £1,280 annual surcharge on everyday goods and services, further driving down their disposable income.

The total amount of interest paid on total interest payments in the last twelve months is about £60 billion, or £163 million day. That equates to an average £2,262 per household per year that is going to the banks, financial institutions, payday lenders, pawnbrokers, and loan sharks. Families are working to enrich these financial parasites.

There has been an increase in the demand by business for debt collection agencies to recover debts on their behalf, with an increased use of the courts—1,655 County Court judgements are now issued every day, with an average value of £2,383. So desperate are they that 285 people are declared insolvent or bankrupt every day.

Debt advice agencies have seen an average 30 percent increase in enquiries. The Citizens Advice Bureaux in England and Wales alone dealt with 7,420 new debt cases every working day during the year ending June 2013. Many agencies have been overwhelmed with new customers calling each and every day, building up a backlog of work, with some people waiting up to six weeks for an appointment. Some have refused to take on new customers.

Despite this demand, funding for free debt advice is at risk.

The Centre for Social Justice warned that debt is wreaking havoc on people's mental health and well-being, and is a major factor leading to family breakdown and addiction.