# Household debt and problem debt in British cities

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# 00

# Executive summary

The amount of household debt is used by the Bank of England and others to assess the stability of the national economy but very little is understood about how this indicator varies across the country.

By providing the first detailed breakdown of debt across the country, this report finds that personal debt is a particular problem in cities and large towns in Wales and the North of England. **Northern and Welsh cities and large towns have the highest ratio of consumer debt compared to people's incomes.** Warrington, Swansea, Sunderland and Wigan's debt-to-income ratio was 21 per cent in 2018. Meanwhile, Oxford, Cambridge, Exeter and London all have consumer credit-to-disposable income ratios below 10 per cent.

Problem debt – debt that an individual is unable to pay – is a particular issue in northern and Welsh cities. County Court Judgments (CCJ) show that **problem debt is concentrated in cities with low average pay and high welfare receipt.** For example, Hull had the lowest weekly resident wages, the third highest welfare bill per person, and the third highest number of CCJs per 100,000 people in 2018.

This has been increasing in recent years. Nationally, CCJs grew by over 110 per cent between 2013 and 2018. This has resulted primarily from the growth in smaller claims, with 40 per cent of CCJs now being for debts below £500, up from 36 per cent in 2013.

This too has principally affected northern and Welsh cities and large towns, with places such as Blackpool, Hull and Liverpool seeing amongst the largest increases in CCJs.

This rise appears to have its roots in the aftermath of the global financial crisis. Sluggish pay growth as a result of stagnant productivity, cuts to welfare as a result of austerity, and a more aggressive approach to debt collection due to post-crisis regulation changes have meant that debt-burdened households in cities have faced a triple squeeze in the last decade, leading to a rise in problem and sub-prime debt.

The 2010s were the first decade since the Second World War not to have a recession. Now that a major recession is likely upon us, the geography of debt suggests that cities in the North and Wales will be the most susceptible to problem debt and the financial vulnerability associated with it.

To soften the impact of this, here is what needs to change:

- **Collect better data to give as comprehensive picture as possible on local debt**. HM Treasury should urgently review ways of increasing disclosure on the geography of consumer credit, working with the Office for National Statistics, UK Finance, the Bank of England, the Financial Conduct Authority, Ministry of Justice and the Registry Trust.
    - This review should look in particular at sub-prime debt disclosure, currently omitted from UK Finance postcode-level data, with a starting position of seeking lenders' aggregated disclosure of the geography of lending;
    - CCJ data publications should include aggregated data on defendant and claimant characteristics, while ensuring no personally-identifiable information is published, to make sure systematic geographic and demographic trends are rapidly identified.
- **Reconsider the national CCJ regime**. Over 400,000 CCJs are brought to courts each year for debts below £500. The Ministry of Justice and HM Treasury should consider whether the current system is providing public value for money relative to alternative remedies. Credit bureaus should consider how this sheer volume of CCJs and the huge variety in underlying circumstances of borrowers are reflected in nuanced credit risk assessments.
- **Customise programmes of debt support in 'debt problem' cities and large towns.** Places with prevalent problem debt should work with Citizens Advice to boost their outreach strategies and coordinate them with any other activities going on there.
- **Reduce the wait time for the first Universal Credit payment.** Currently, claimants must wait five weeks to receive their first Universal Credit payment, which is likely to increase demand for short-term loans and increase the likelihood that claimants cannot pay existing debt. This wait should be cut, starting with a fortnightly payment pilot for households most exposed to financial vulnerability.

# 01

# Introduction

Household debt is a concern nationally. The Bank of England looks at it for financial stability and for monetary policy. Social policy looks at it to spot financial and wider vulnerability. But much less is understood about how it varies across the country and what this means for policy.

Of particular focus politically in recent years has been the rise of payday lenders. The rise of companies such as Wonga, and the very large interest rates they offered on their loans, drew much political ire, and the activities of the market have been investigated by the Competition and Markets Authority.

These issues are mainly looked at through a national lens, and there is little understanding of local patterns of consumer credit. The main sources of consumer credit data are either too restricted in survey sample sizes or too narrow in their metric coverage to shine a particular light on the local geography of credit. Most analysis to date has focused on looking at the national picture using sample data from the Bank of England and Office for National Statistics (ONS).

For the first time, this report looks at the geography of consumer credit by drawing on datasets that have local-level disclosure: ONS data on borrowing provided by the credit reference agency Equifax, UK Finance postcode lending data,[1] Registry Trust data on County Court Judgements (CCJs) and Insolvency Service individual insolvency data. It also draws on commercial disclosure in the public domain to understand the supply-side drivers of credit. In doing so, it paints a picture of how consumer credit is distributed across the UK, what drives those patterns of debt, what servicing pressures might look like, and how particular aspects of credit vulnerability are spread across the country.

1 Analysis in the next section on consumer credit is primarily based on ONS/Equifax data. The trends in geographical distribution mirror those in UK Finance personal loan postcode lending data, despite its more prime nature (it is based on data from the major UK banks, primarily prime lenders).

### Box 1: Context: why and how does consumer credit matter?

When there is an urgent expense and limited money today, but the expectation of excess income tomorrow, **consumer debt allows people to spread spending over today and tomorrow**. This means that debt is not necessarily a 'bad' thing. If used wisely and prudently, it can allow people to make better use of their means.

**Debt can also constrain spending**. The burden of debt repayments can limit the amount a household has to spend on non-debt items. In a downturn, levels of consumer credit can especially affect the pace and extent of how households cut spending. In good times and bad, consumer credit matters.

**Consumer credit also matters in aggregate for financial stability**. Consumer credit accounts for around 7 per cent of UK banks' lending. In UK banks' stress tests, consumer credit accounted for 40 per cent of banks' losses.[2]

With short loan durations, without asset security, and given borrower characteristics, consumer loan portfolios can quickly turn into defaults, threatening financial stability.

**Sub-prime consumer credit and problem debt especially matter for financial vulnerability.** Financial vulnerability is damaging for individual lives. Nationally, and internationally, there is considerable evidence noting the link between debt and wider measures of vulnerability. Historical survey data has indicated common mental disorder (CMD) rates being three times as high for those in debt than those not in debt. Use of multiple debt sources and of debt from pawnbrokers and moneylenders correlated with the highest rates of CMD.[3]

2 2017 UK banks' stress tests; Bank of England, Financial Stability Report (June 2018).
3 Holkar M. (2019) 'Debt and mental health: a statistical update', London: Money and Mental Health Policy Institute.

# 02

# The geography of consumer credit

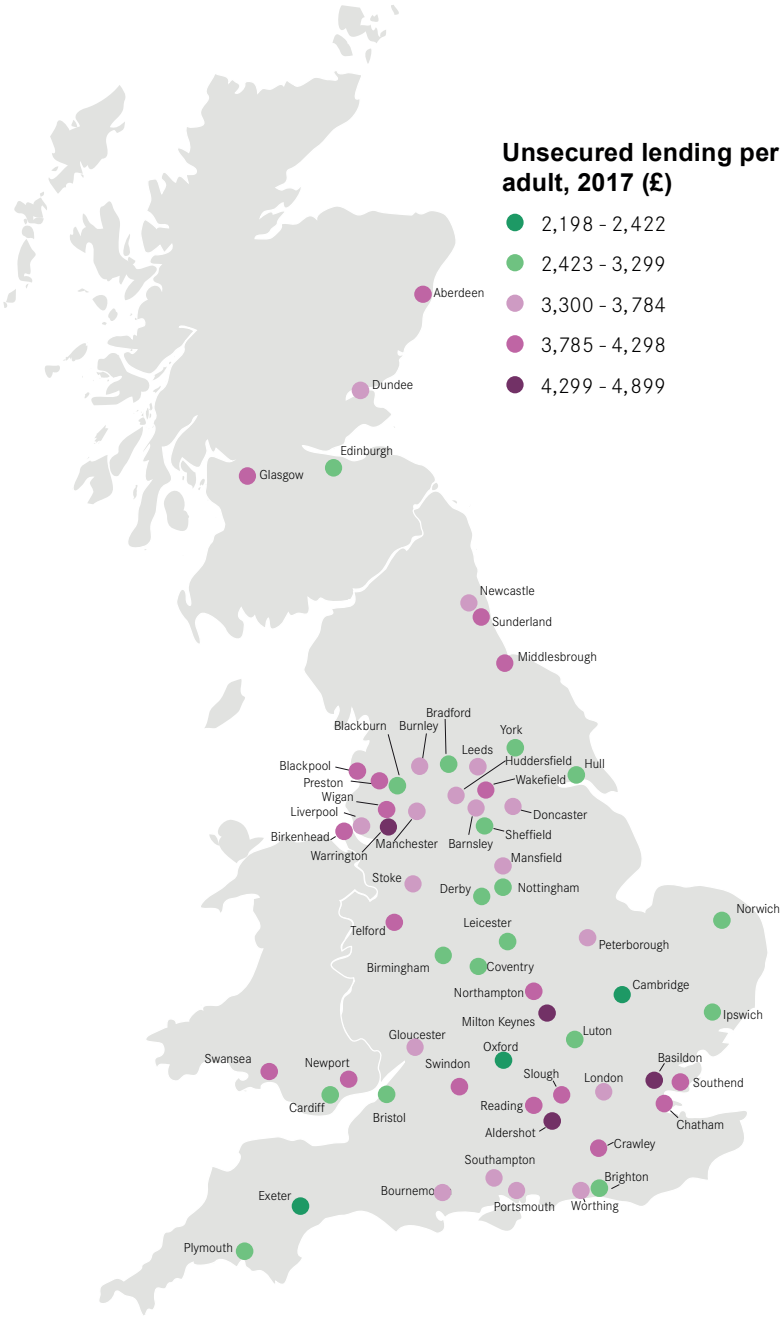
While consumer debt is usually considered only at the national level, some places have much higher levels of this type of debt than others. This section explores the geography of unsecured debt across Britain.

## The level of consumer debt per adult varies significantly across the country, but this is not linked to economic factors

Levels of overall consumer debt are fairly evenly spread between the largest cities and towns and the rest of Britain. In 2017, 55 per cent of outstanding unsecured lending was in cities and large towns, relative to 54 per cent of the adult population living in them.

These figures hide considerable variation across the country. As Figure 1 shows, Warrington, Aldershot and Milton Keynes had over £4,800 in outstanding unsecured lending per adult, around double the level in each of Exeter, Cambridge and Oxford.

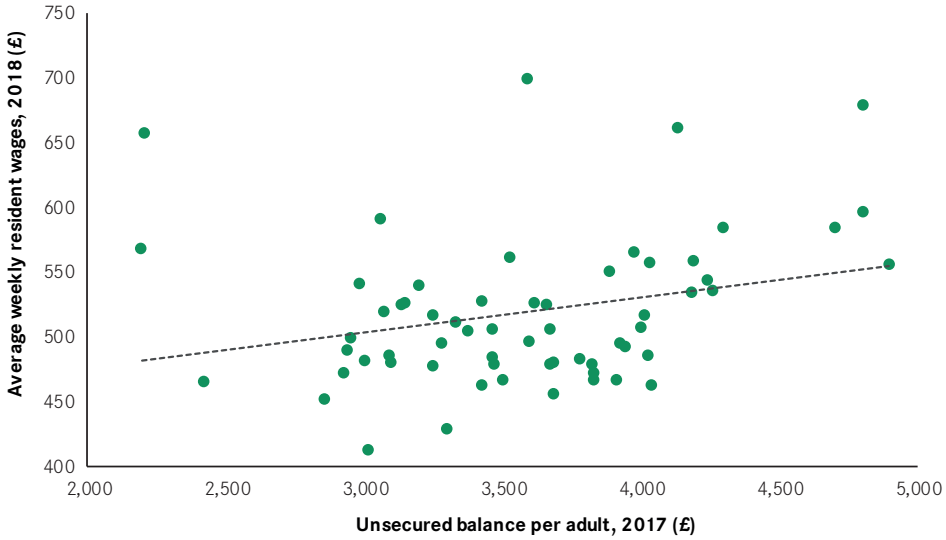
## Figure 1: Unsecured lending per adult, 2017




Source: ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS – Detailed population estimate series (2015 and 2017).

Differences in overall debt levels are not strongly linked to levels of pay (see Figure 2). In part, proximity to London seems to play a role in linking high pay and high debt. Aldershot, Milton Keynes, Southend and Basildon – all cities with high pay, but also proximity to London – have some of the highest consumer debt per adult. But beyond that, the link weakens. Cambridge, Oxford and Exeter also have high pay, but some of the lowest debt per adult. Leicester, Hull and Blackburn are among the cities with the lowest debt per adult, but they are also among the lowest-paid cities.

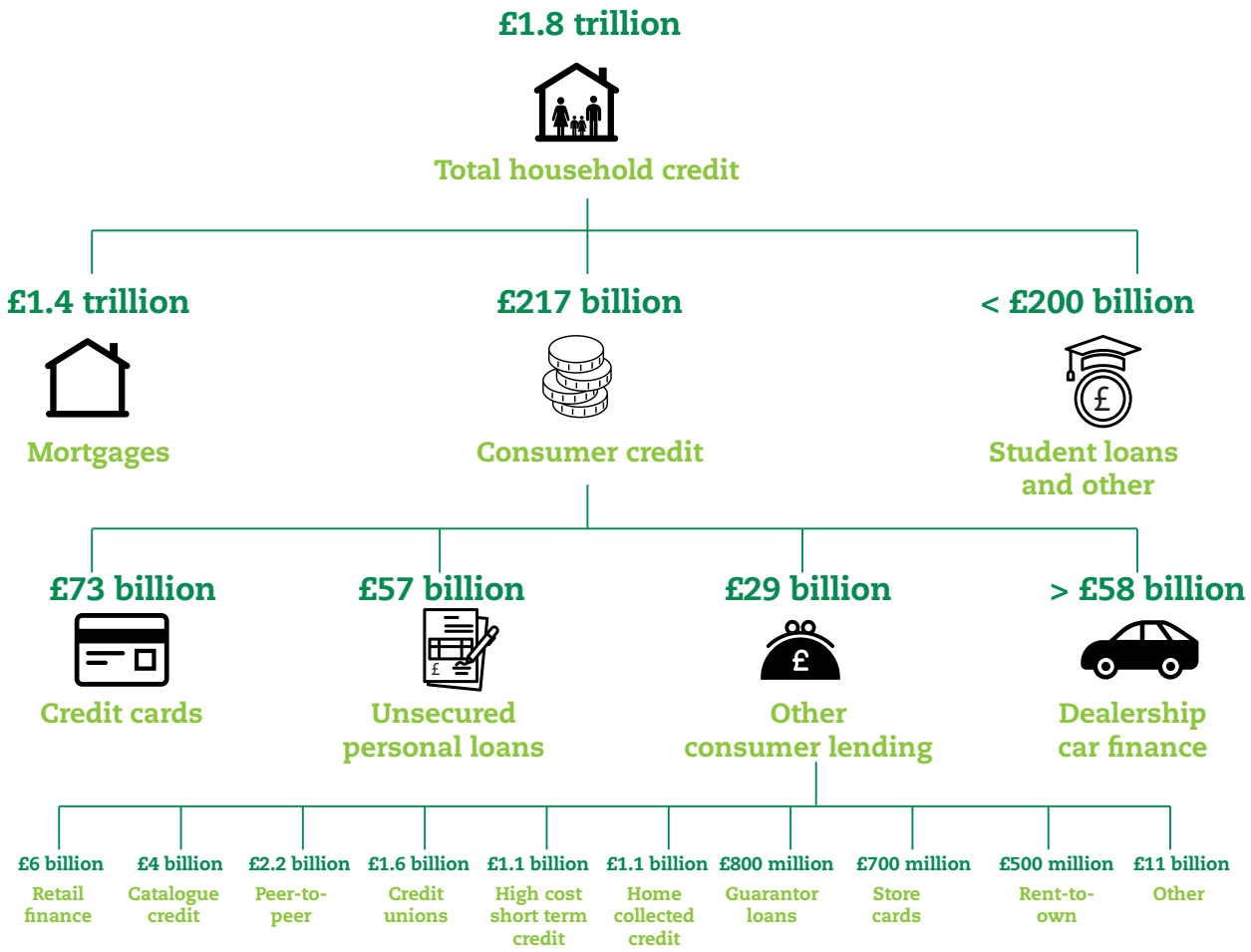
**Figure 2: The relationship between unsecured lending per adult and wages, 2017**




Source: ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS – Detailed population estimate series (2015 and 2017); ONS – Average weekly gross pay for residents (2018).

The reason for the divergence between cities' average pay and consumer credit levels is the mixed nature of consumer credit: most lending products are not accessed by either the highest- or the lowest-earning households, yielding no obvious relationship between the average pay in a city and its level of consumer debt. As Figure 3 shows, £217 billion of outstanding consumer credit is, in fact, comprised of products ranging widely in their risk levels and borrower characteristics.

**Figure 3: Breakdown of outstanding UK consumer credit, 2018/19**




Source: Bank of England – Consumer Credit statistics (May-19); Bank of England – Financial Stability Report (Jun-17); FCA – High-Cost Credit Review Technical Appendix 1 (Jul-17); Bank of England – Credit Union quarterly data (Q4 2018); Amigo Loans; Non-Standard Finance; P2P Association; Ratesetter.

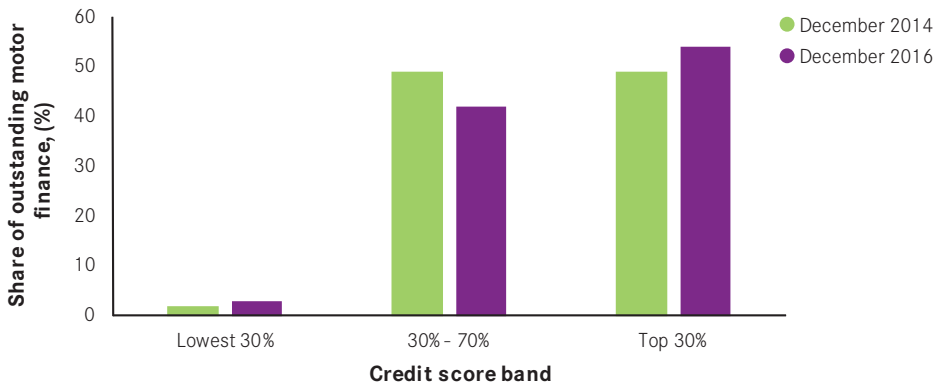
(The 'Other' category is also likely to primarily comprise of dealership car finance, for which the most recent reliable figure on the above diagram (>£58bn) is from 2016, likely missing out significant growth between then and 2019.)

The majority of consumer credit is dealership car finance and credit card debt. That pattern has been affirmed in the last two years. Sixty five per cent of consumer credit growth between 2015 and 2017 came from hire purchase credit, primarily car finance. And some 23 per cent came from credit and other store card debt.[4]

Those categories of consumer credit are predominantly 'prime' categories of debt. The majority of car finance is lent to those in the top 30 per cent of the credit score pool. That trend has strengthened in the period of extensive motor finance growth, between 2014 and 2016.[5]

4 Growth figures based on analysis of ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data).
5 Based on representative sample obtained from a credit reference agency; FCA – Our work on motor finance: an update (March 2018).

**Figure 4: Share of outstanding motor finance lending by credit score band**




Source: FCA – Our work on motor finance: an update (March 2018).

Credit card debt is similarly prime, and has grown primarily as low bank funding costs and bank competition have resulted in low borrowing rates and aggressive increases in the average length of 0 per cent credit card balance transfer periods. Most of these products require prime borrower characteristics, with borrowed money often deployed towards home improvements or substitution of existing debt. In sum, the largest, and the fastest growing, segments of consumer credit are used by the moderately well-off, neither the best-off nor the worst-off, helping to explain the lack of an obvious relationship between cities' average pay and debt.

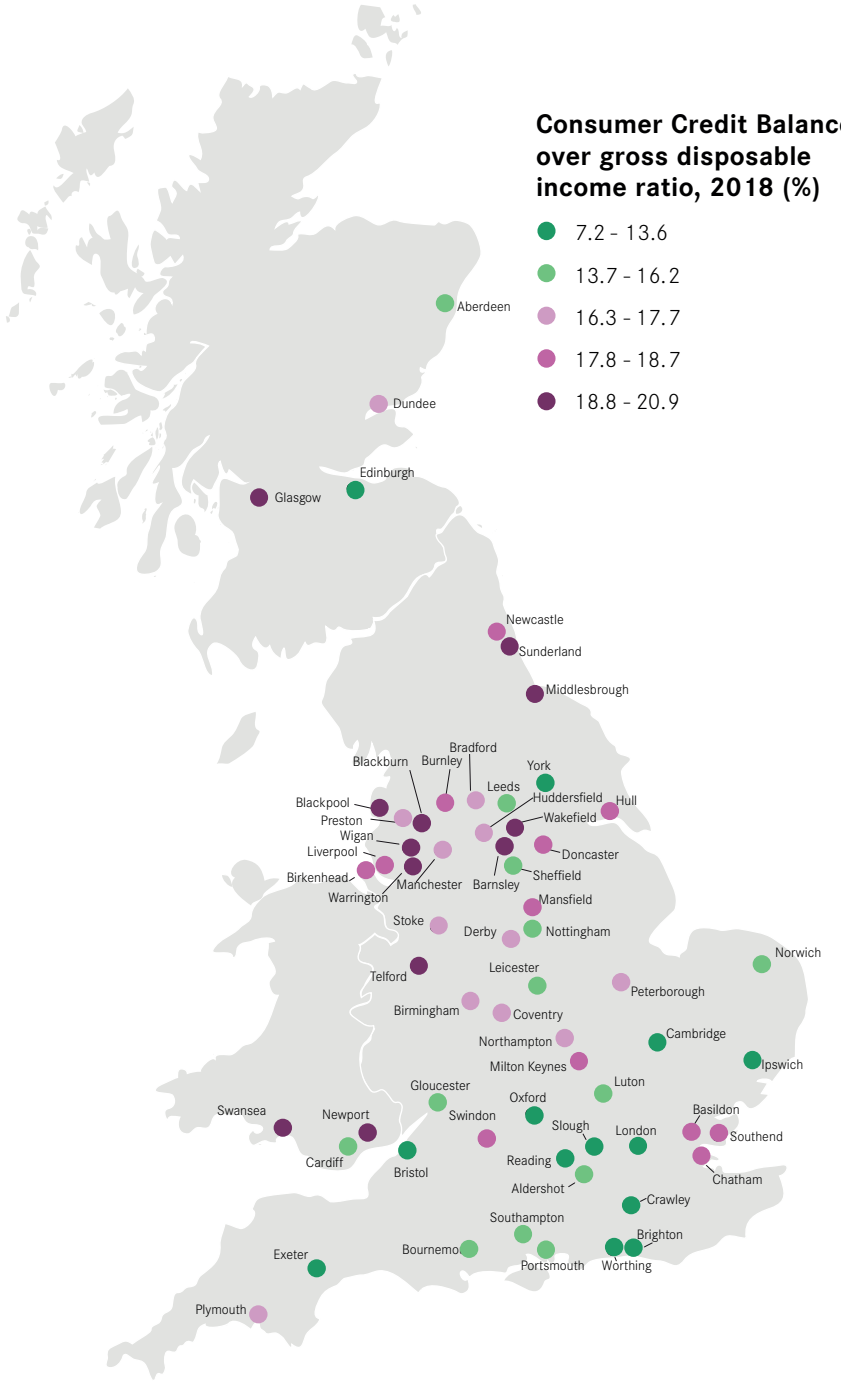
## But households in northern and Welsh cities tend to be more highly leveraged

In the absence of information specific to debtor households,[6] comparing the aggregate level of debt for each city relative to the city's gross household disposable income gives an assessment of debt affordability by geography.

On this measure, leverage levels vary vastly: **cities and large towns in the North and in south Wales tend to have the highest levels of consumer credit relative to income.** Warrington has the highest debt-to-income ratio at 21 per cent, followed closely by Swansea and Sunderland. Meanwhile, at 7 per cent Oxford has the lowest leverage ratio, followed by Cambridge (8 per cent) and Exeter (10 per cent). This means that Warrington's consumer credit-to-income ratio is three times higher than Oxford's, leaving its household sector more vulnerable to economic shocks and interest rate increases.

6 The level of debt alone tells us little about its affordability. Ideally, one would assess debt, debt repayment levels, assets and income for each debtor household to understand the actual nature of indebtedness for households, and its impact on consumption, stability and vulnerability.

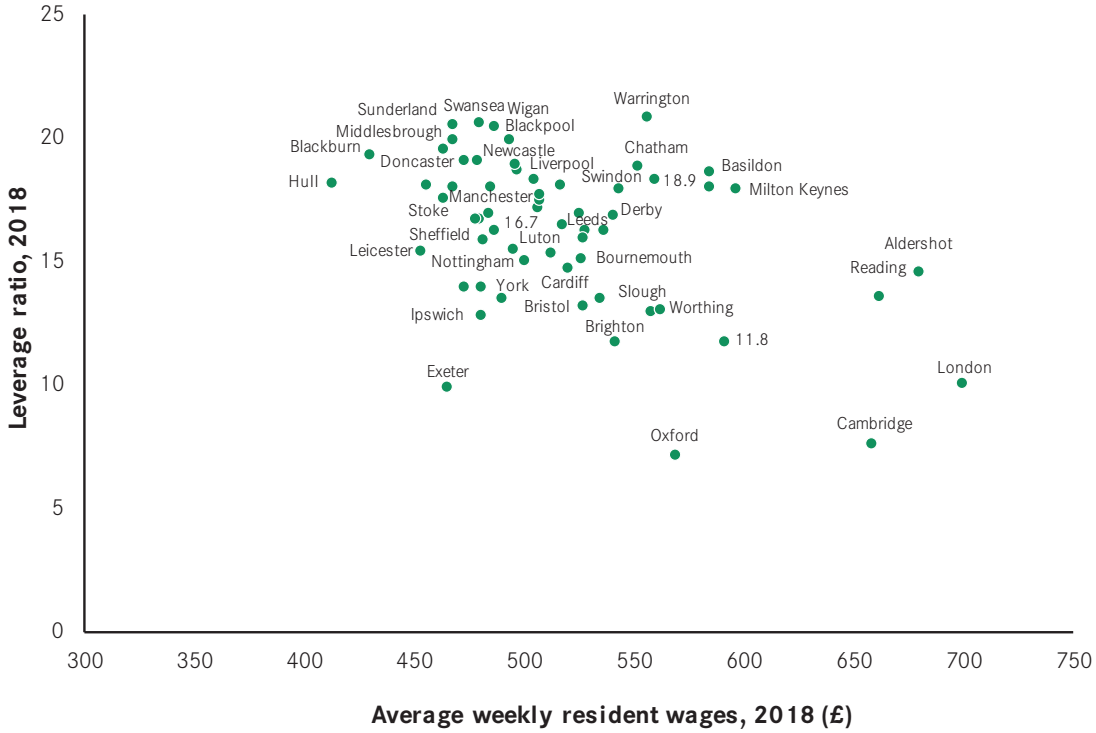
## Figure 5: Consumer Credit Balance over gross disposable income ratio, 2018




Source: ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS – Regional gross disposable household income (GDHI) local authority reference tables (2019).

Unlike debt level overall, the variation in how highly-leveraged cities are does appear to be related to the strength of the local economy. As Figure 5 shows, those cities with higher leverage ratios tended to have lower resident wages. This contrasts to the pattern seen for mortgage debt, which Box 2 sets out.

## Figure 6: Leverage ratios and average wages, 2018




Source: ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS – Regional gross disposable household income (GDHI) local authority reference tables (2019), ONS – Average weekly gross pay for residents (2018).

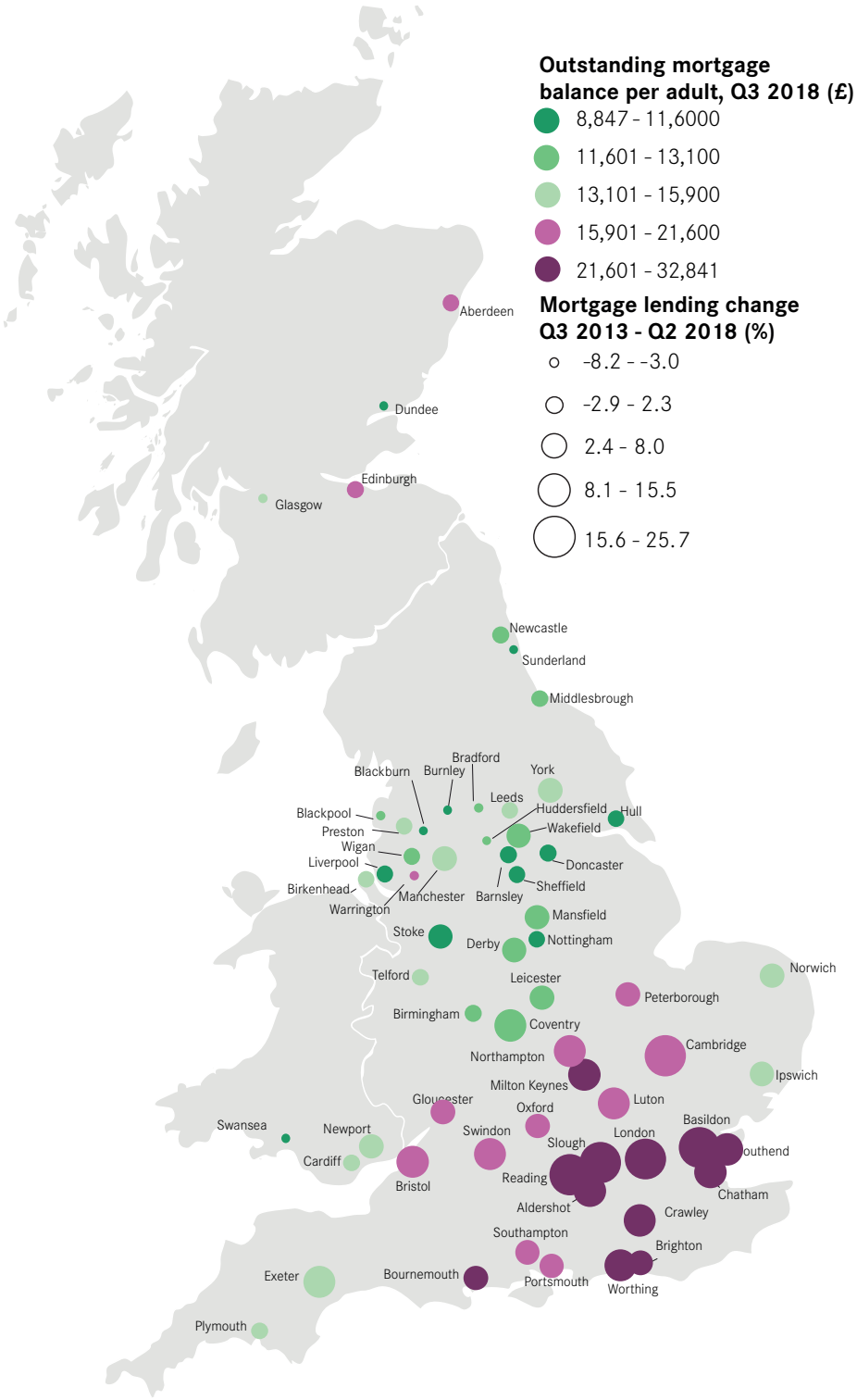
### Box 2: Mortgage market trends are vastly different

Unlike consumer credit, which is prevalent in urban and non-urban areas, mortgage credit is primarily urban. Some 57 per cent of the outstanding mortgage balance in Q3 2018 was urban. And 75 per cent of the growth in mortgages balances between Q3 2013 and 2018 came from the largest cities and towns.

The city geography of mortgage and consumer credit is also starkly different. Urban mortgages are primarily London-and-South-East mortgages, clearly correlating with average pay. Those areas have levered up, just as Wales and the North have de-levered, as highlighted in recent Centre for Cities' research on housing shortages and wealth inequality.[7]

7 Breach. A, 2019 Capital Cities: How the planning system creates housing shortages and drives wealth inequality, London, Centre for Cities

## Figure 7: Mortgage market trends




Source: UK Finance – Postcode Lending data (Q3 2018); ONS – Mid-Year Population Estimates 2012 and 2017; Breach. A, 2019 Capital Cities: How the planning system creates housing shortages and drives wealth inequality, London, Centre for Cities.

# 03

# The geography of problem and sub-prime debt

While debt in itself is not necessarily a problem, problem debt (debts that people are unable to pay) is and sub-prime debt (lending that is given to individuals that do not qualify for prime loans due to their credit history) can be.

There is no definitive data available on the geography of sub-prime and problem debt.[8] However, data on CCJs and individual insolvencies can help illustrate what the pattern of sub-prime debt looks like across the country – Box 3 discusses this data in more detail.

### Box 3: CCJs and insolvencies as sources of data on problem and sub-prime debt

CCJ data is publicly available via the Registry Trust, granular in geography and consistent across time. Datasets record the annual level and value of CCJs in English and Welsh courts, and include the geography of defendants' address (aggregated at local authority level).

CCJs can serve a dual analytical purpose. For one, CCJs illustrate problem debt 'hotspots' for individuals who have faced sufficient adversity to be taken to court for outstanding debt. The geography of CCJs is the geography of one category and severity of problem debt.

But there is an additional value in CCJ data. Given CCJs stay on individual credit reports for six years, they impact the quality of debt accessible to individuals who receive them. CCJ incidence can serve as one useful lead indicator for prospective uptake of sub-prime lending, often one of the only forms of lending available to individuals with adverse histories and CCJs on their credit report.

8 Problem debt here indicates instances of debt where the debtor is in material arrears on debt repayments. Sub-prime debt indicates instances of debt where the debtor is deemed to have high credit risk characteristics ex-ante, i.e. at the point of borrowing.

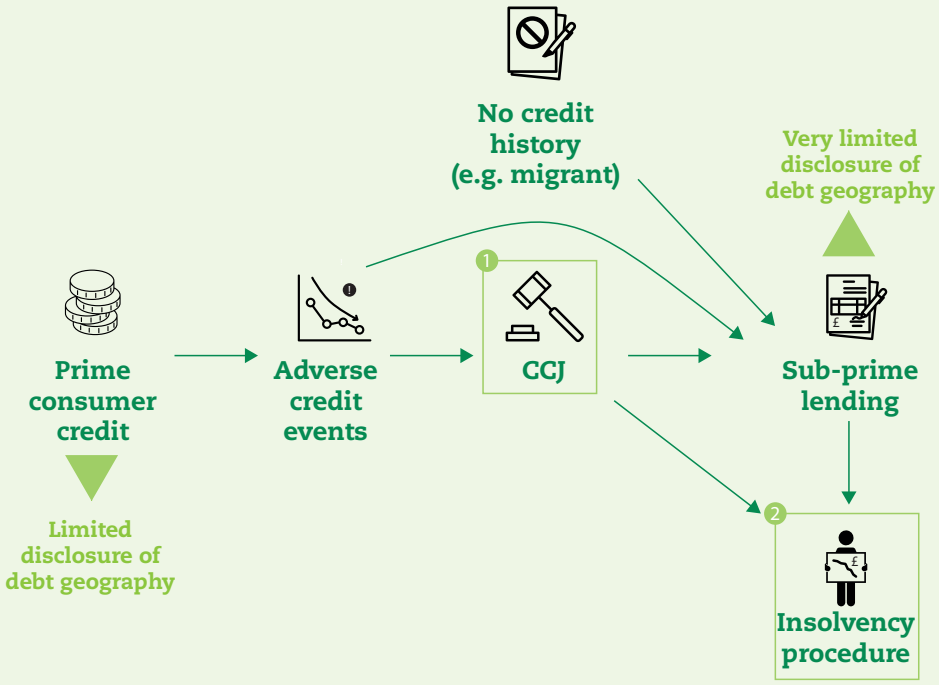
Individual insolvencies can help provide a further source of data on problem debt and wider financial difficulties. Like CCJs, insolvency data is public, has local-level granularity and has been published over time (notwithstanding changes in insolvency category specifications).

Relative to CCJ data, however, insolvency data has two limitations.

First, given insolvencies are especially severe instances, they are few in number. The average local authority had 284 insolvencies in 2017. There is much greater volatility over time in this data.

Second, insolvencies capture instances of severe financial difficulty that may not be specifically down to consumer debt.

**Figure 8: Consumer credit and County Court Judgements**



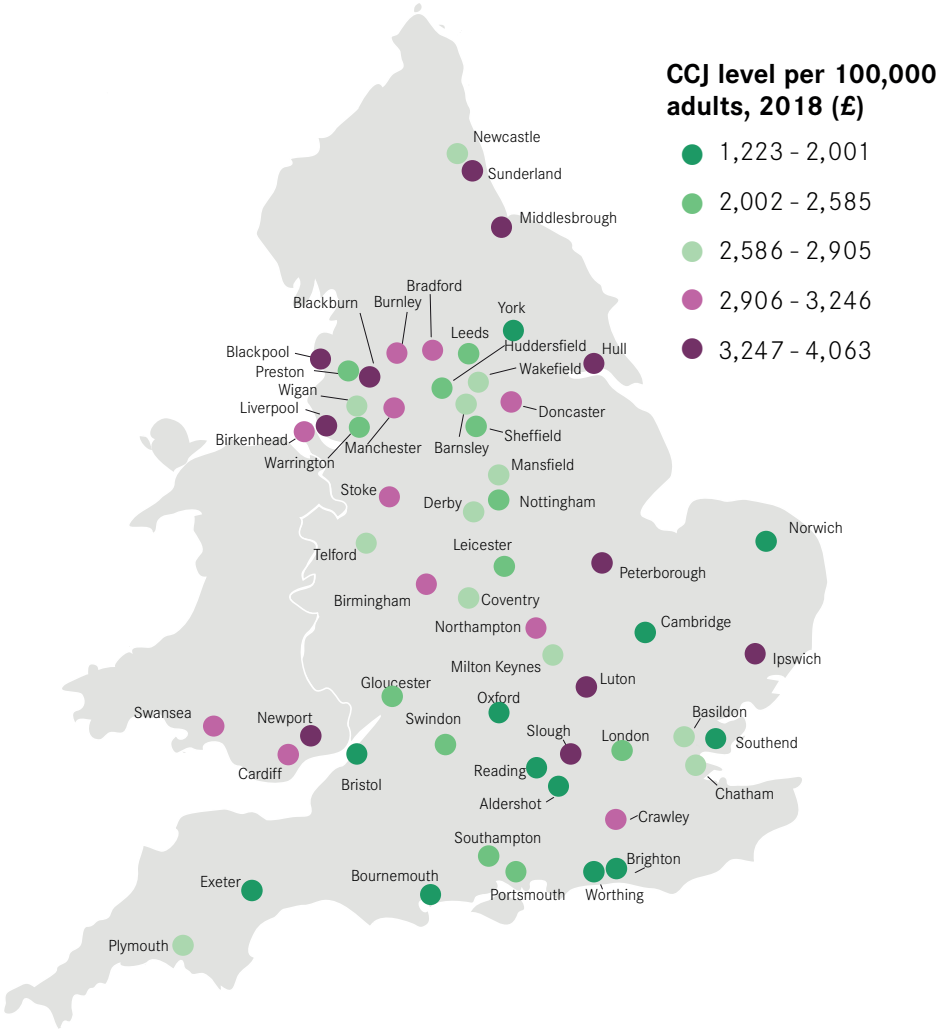

## Problem debt is also concentrated in northern and Welsh cities and large towns

These proxy measures suggest that, unlike debt overall, problem debt appears to be concentrated within the largest cities and towns. In 2018, 64 per cent of CCJs were in urban local authorities in England and Wales,[9] compared to 54 per cent of the adult population.

Ipswich had the highest number of CCJs per 100,000 adults in 2018 (4,063), followed by Liverpool (3,814) and Hull (3,663). Meanwhile Cambridge (1,223) and York (1,323) had the lowest level. And, as Figure 9 shows, there is a very clear geography to this, with cities and large towns in the North and Wales tending to have much higher CCJ rates than those in the South.

9 Given differences in the Scottish decree system, relative to the CCJ system in England and Wales, Scottish data is not included in this analysis.

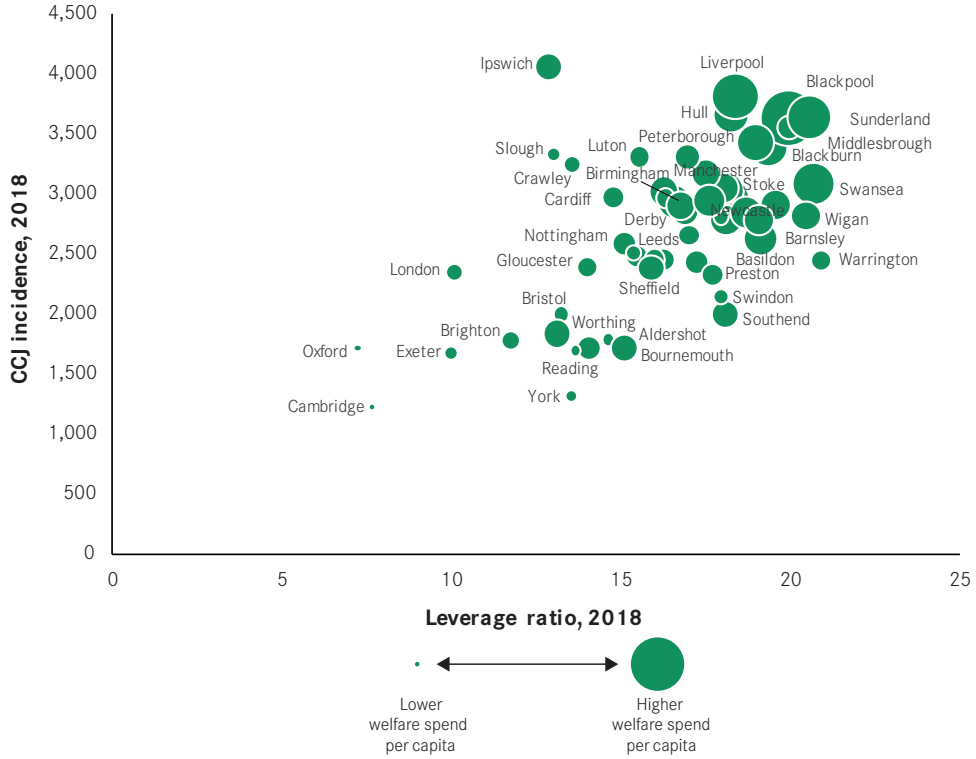
## Figure 9: CCJ level per 100,000 adults




Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2017.

CCJ rates are also higher in cities and large towns that are more highly leveraged, as Figure 10 shows. The bubble sizes in Figure 10 show that those places with the highest debt leverage ratios and CCJ incidence also had the highest levels of welfare per capita. This suggests – although the data is not available for specific households – that those cities that have higher relative levels of debt and higher default rates are also more dependent on welfare. This triple feature makes those places especially vulnerable to shocks in the economy and to changes in welfare, monetary and financial stability policy.

**Figure 10: Leverage ratios, CCJ incidence and welfare per capita**

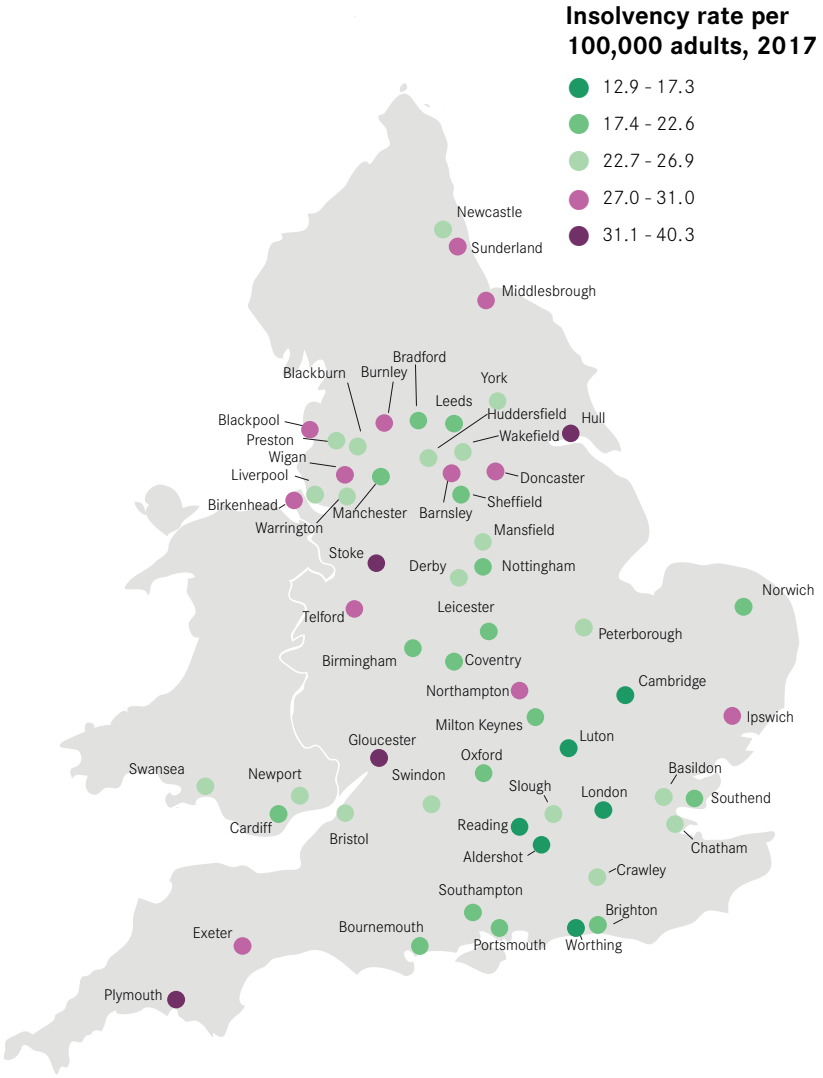



Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2017; ONS – Breakdown of borrowing using Equifax data (2015 and 2017 lending data); ONS – Regional gross disposable household income (GDHI) local authority reference tables (2019). DWP. HMRC. DCLG. Welsh Government. Scottish Government. ONS, Population Estimates. ONS, Birth summary tables. National Registers of Scotland, Births by sex, year and council area. Note: This data was only collected for the 2015 Cities Outlook.

## Individual insolvencies are rare events, but their incidence also varies significantly between cities

Individual insolvency data provides further confirmation of some of the overarching geographical pattern of CCJ data. There is large variation between places in rates of individual insolvency. In 2017, Plymouth and Hull had three times the level of insolvencies per adult as Reading and London. Insolvency rates are also distinctly higher in northern cities and large towns, mirroring patterns in CCJ indicators of problem debt.

## Figure 11: Insolvency rates per 10,000 adults, 2017




Source: The Insolvency Service – Individual Insolvencies by Location, Age and Gender for England and Wales (2017); ONS Mid-Year Population Estimates 2012 and 2017.

# 04

# The growth of problem and sub-prime debt

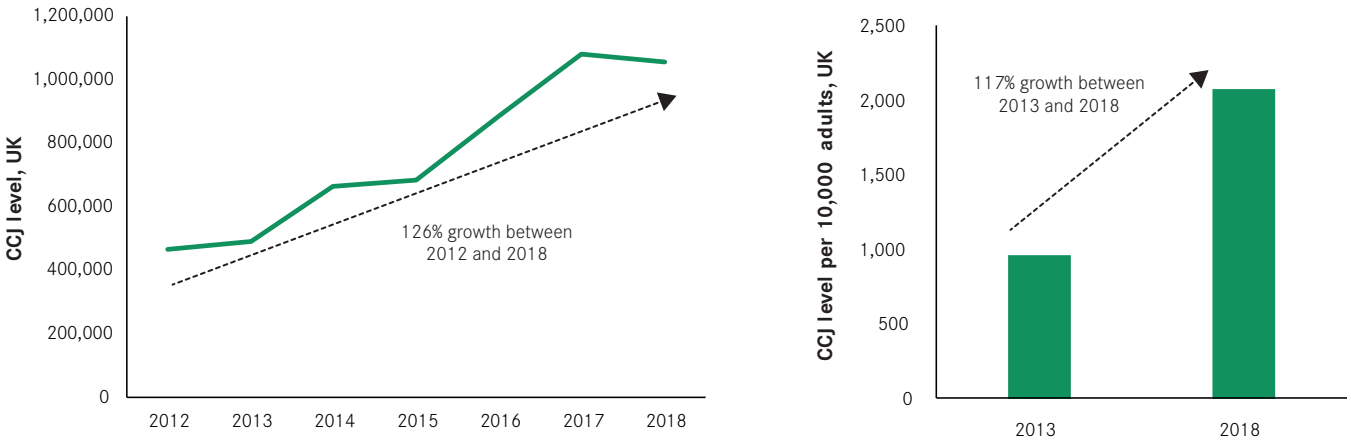
Politically, there has been growing attention on the expansion of the sub-prime debt market in recent years, with a particular focus on the sub-segment of 'payday' lenders.[10]

This section looks at the geography of this growth. Crucially, it highlights that challenges in consumer debt go well beyond 'payday' lending alone – the wider, far bigger sub-prime debt market has been growing again. Added to this, trends in debt collection, not just in initial borrowing, have had stark consequences for households.

## CCJs against indebted individuals have dramatically increased in the last six years

Between 2012 and 2018, the number of judgements made against individuals unable to repay debts has increased by 126 per cent, from 467,000 to just under 1.1 million. The incidence of CCJs – the number per 100,000 adults – has increased by 117 per cent since 2013, from 957 to 2,081 (see Figure 12).

**Figure 12: The growth of CCJs, 2012-2018**




Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2017.

10 CMA (2015), Payday lending market investigation, London: CMA

This increase in CCJ levels has been accompanied by a consistent fall in the average value of CCJs, from £2,588 in 2012 to £1,366 in 2018 (see Figure 13). They have grown in large part because CCJs for debts between £250 and £500 have grown. These small value CCJs have driven most of the overall growth, meaning that over 400,000 cases are now brought to court annually for debts less than £500.

### Figure 13: Change in CCJ average value

| CCJ value category | Share of all CCJs in 2012 | Share of all CCJs in 2018 |
|---|---|---|
| <£250 | 11% | 5% |
| £250 - £500 | 24% | 35% |
| £500 - £1,000 | 24% | 30% |
| >£,1000 | 41% | 30% |

Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2017.

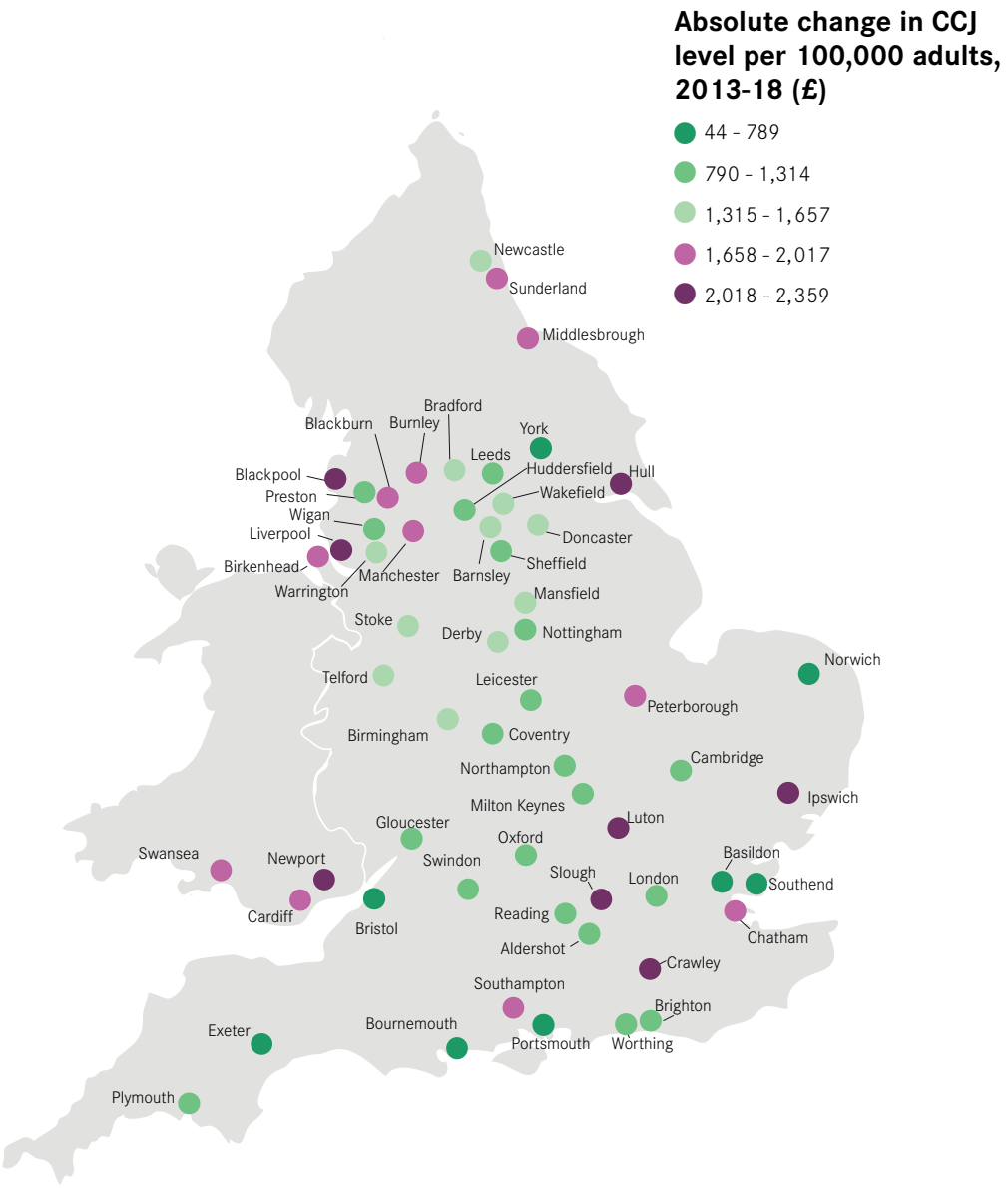
This has occurred at a time when sub-prime lending has also increased nationally. After a number of years of decline, sub-prime debt has grown consistently since 2012, and was 30 per cent higher in 2018 than in 2012.[11] This aligns with a larger number of people looking to sub-prime lenders because of CCJs blocking lending from more traditional lenders.

## Northern and Welsh cities and large towns have tended to see the largest increases in CCJ cases

The growth in CCJs has been driven by increases in cities and large towns, meaning that CCJs have become more urban in recent years. Of the overall increase between 2013 and 2018, 67 per cent were received by city residents. All the largest cities and towns have seen an increase during this time, but once again there is a clear geography to this increase, with those in the North and Wales tending to see the sharpest rises (see Figure 14). Newport saw the largest increase (an increase of 2,359 CCJs per 100,000 adults), followed by Crawley and Blackpool. Southend and Basildon had the lowest increases.

11 LEK (2018), UK Specialist Lending Market Trends and Outlook, LEK: London

## Figure 14: Absolute change in CCJ level per 100,000 adults, 2013-18

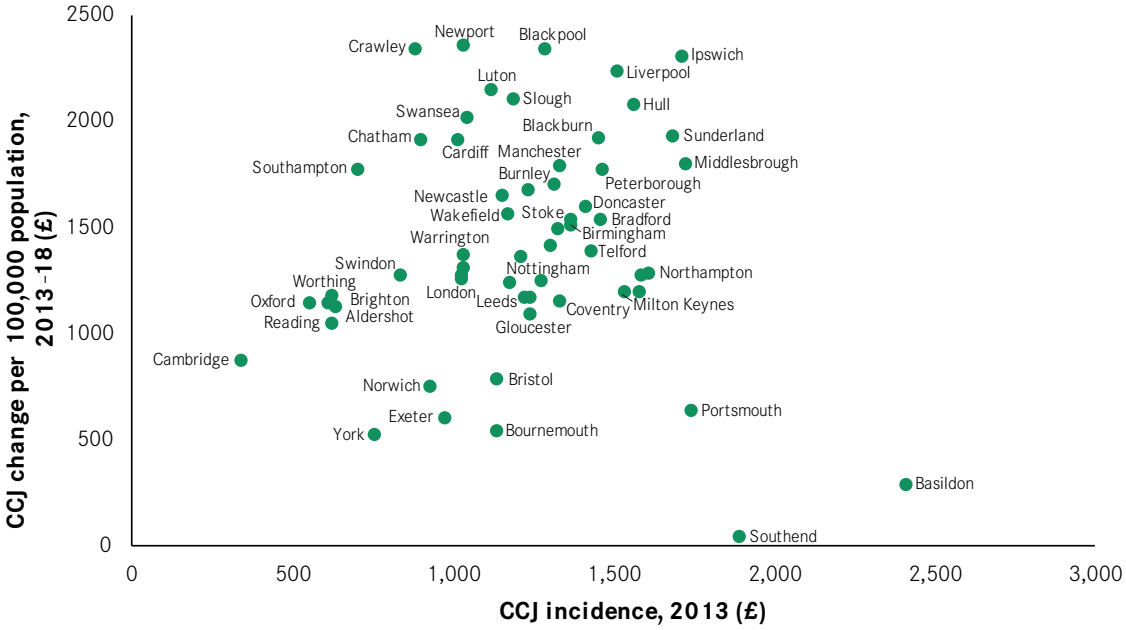



Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2012 and 2017.

In general, those cities and large towns that had the highest number of judgements in 2013 have been most affected by the subsequent increases. As Figure 15 shows, places like Hull, Liverpool and Sunderland have been particularly affected.

There are though some places where this is not the case. Crawley, Luton, Slough and Chatham – all in the South – have seen large increases. These may be driven by particular, recent patterns of indebtedness in those places: Crawley and Chatham are among the top 10 cities in terms of debt per capita; Luton and Slough are among the top 10 in terms of growth of consumer debt between 2015 and 2017.

**Figure 15: Level of CCJs and subsequent growth**




Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2012 and 2017

## Policy is likely to have had at least some effect on these changes

There are three potential reasons why CCJs have grown in the manner that they have. The first is **sluggish wage growth in the UK since the global financial crisis**. At a national level, in November 2019 real wages were still 4 per cent below their peak in February 2008. However, there is little reliable data on the change in wages over time at the local level, making such local analysis difficult. It is worth noting though that, in line with the growth in jobs seen since 2010, every city bar three had a higher employment rate in 2019 than in 2010.[12] So while the incomes of those in employment have not changed much, the number of those earning a wage has.

The second is **cuts to welfare as a result of austerity following the global financial crisis**. CCJs are highest in cities most reliant on welfare. They have also grown most in cities most reliant on welfare. Cuts to levels of welfare receipt may have exacerbated financial difficulties and driven that growth. Wider welfare policy – the difficult implementation of Universal Credit and tightening of benefits delivery and sanctions – may also explain the link between CCJ incidence and welfare receipt.

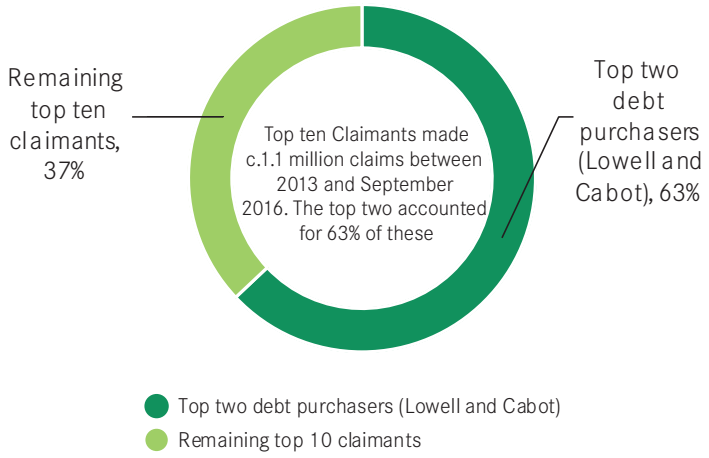
12 Year to September 2019 compared to the year to September 2010.

It is worth noting that, while the link between CCJ level, CCJ growth and welfare level is clear, there is not a clear link between cities with the highest level of welfare per capita and cities with the highest cut in welfare per capita. Changes in welfare per capita can be driven by multiple factors: changes in welfare levels, changes in the types of benefits accessed in a particular city, or changes in the city's welfare population, for example. Even small changes in welfare payments may affect an individual's ability to pay back debt.

The third is **changes in the debt and debt collection markets that came about as a result of the global financial crisis**. Since the financial crisis, bank capital regulation and accounting changes in the treatment of impairments have made it especially punitive to hold Non-Performing Loans (NPLs) on banks' balance sheets. Financial Conduct Authority (FCA) regulation has increased the complexity of debt collection. As a result of capital regulation, accounting changes and debt collection regulation, banks have sought to sell NPL portfolios to specialist debt purchasers and collectors, with large specialists taking over. These debt collectors have pursued increasingly sophisticated litigation strategies against households in debt.

Evidence from 2016 indicates that a vast number of CCJs were being brought to court by the largest debt purchasing and collecting companies. Of the top 10 CCJ claimants between 2013 and late 2016, the two largest debt collection companies comprised 63 per cent of all claims (see Figure 16).

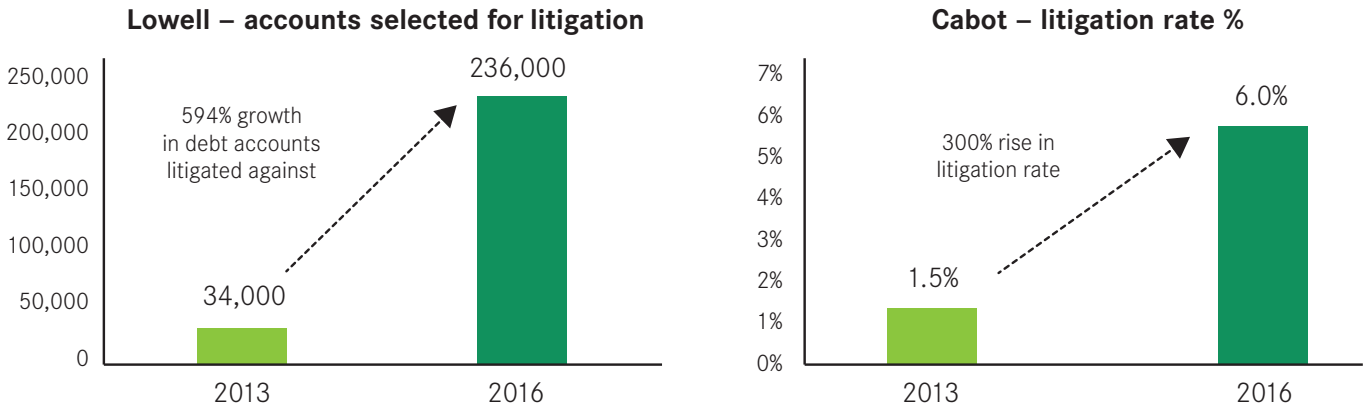
**Figure 16: Debt purchasers' share of claims by top 10 CCJ claimants (2013 – September 2016)**




Source: Freedom of Information request data, originally made by the Daily Mail in September 2016.

Since 2013, both of those debt collectors have vastly increased their use of litigation in the pursuit of debt collection, as highlighted in the data they disclose in their bond issuance documents. One increased the number of accounts it litigated against by 594 per cent (from around 34,000 to around 236,000) between 2013 and 2014 alone. The second increased its litigation rate by 300 per cent between 2013 and 2016 (see Figure 17).

**Figure 17: Growth in litigation pursued by leading debt collectors**



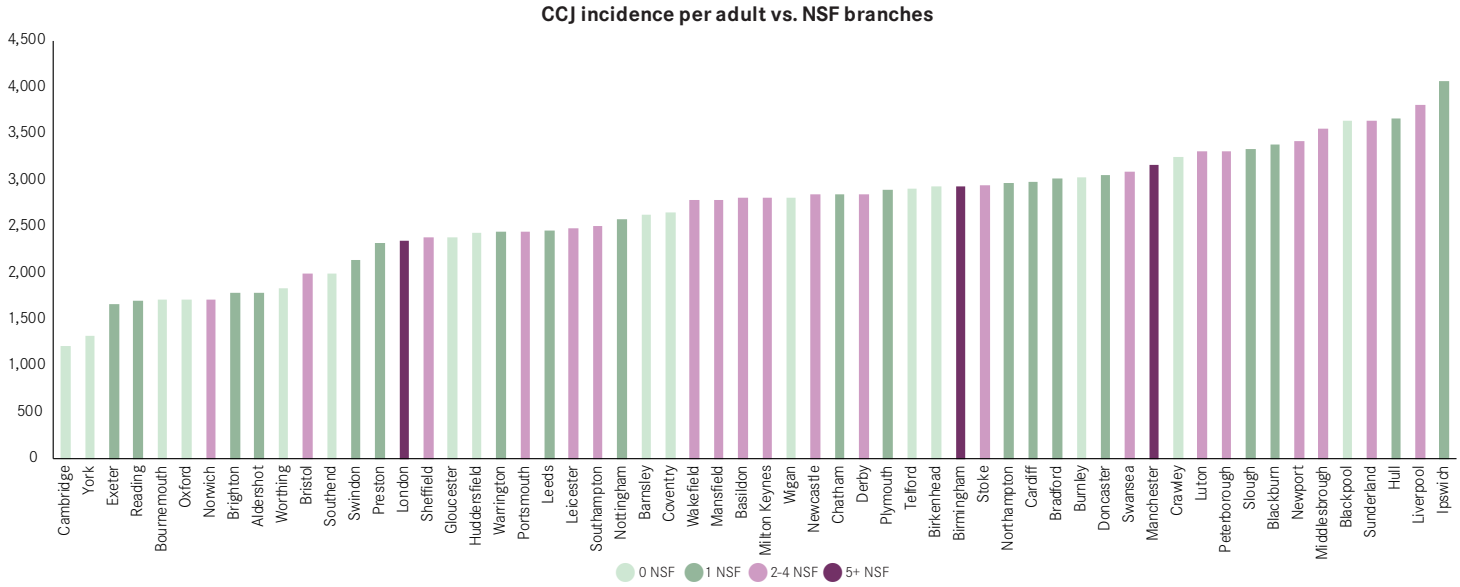

Source: Garfunkelux Holdco 3 S.A. – Listing Prospectus for Senior Secured Notes (issued in February 2016); Cabot Financial (Luxembourg) S.A. – Offering Memorandum for Senior Secured Notes (issued in July 2018).

Drawing on extensive datasets on historical litigation records, the leading firms in debt collection have developed sophisticated litigation scorecards to segment potential cases and pursue them for effective debt collection. These changes – a growth in outsourced debt collection and development of litigation expertise – are likely to be a key driver of the rise in CCJs in the last six years.

**In turn, CCJ growth may have driven sub-prime lending growth.** The location of sub-prime lenders points to greater sub-prime lending where CCJ incidence is higher. An incomplete but useful proxy of the recent growth in sub-prime debt is the branch locations of a recently established major sub-prime lender. Non-Standard Finance (NSF) set up as a business in 2015. The business would have considered branch location decisions in the run-up to and since its inception, even though it inherited some branches from some incumbent companies that it acquired. NSF is also a leading, large lender, lending to those with adverse credit histories (e.g. those with CCJs) and to those with credit histories, with a top three position in sub-prime personal loans, guarantor loans and home collected credit markets: its scale makes it a useful representative for the recent sub-prime market. In addition, NSF continues to be a primarily offline business, presenting location data that is representative of the business and useful for the present analysis.

Looking at the geography of CCJs and NSF branches makes it clear that local authorities with a higher CCJ incidence are far likelier to have sub-prime lender branches (see Figure 18). Knowsley in Liverpool, Middlesbrough and Ipswich have amongst the highest CCJ incidence; each has a sub-prime lender branch.

## Figure 18: CCJ incidence per 100,000 adults and number of NSF branches




Source: The Registry Trust – Consumer CCJ level and value, by local authority; ONS Mid-Year Population Estimates 2012 and 2017; Non-Standard Finance company website.

# 05

# What needs to change

The impact of payday lenders and sub-prime debt have come into sharp focus in recent years. But little is understood about the geography of wider sub-prime debt and of problem debt – for example, data from UK Finance is focused on prime lending and provides data only on the level of debt and not its type or affordability.

This report demonstrates that, while data is limited, proxies for sub-prime and problem debt show it to be concentrated in certain parts of the country. Particularly, problem debt is concentrated in cities and large towns with weaker economies and higher welfare dependency. These places, which are overwhelmingly located in the North and Wales, have been most vulnerable to the increases seen in CCJs, and likely as a result, to the rise in sub-prime lending in recent years.

This is especially important when it comes to assessing and addressing financial vulnerability effects of consumer debt. Debt affordability, CCJ incidence and individual insolvencies vary significantly across the country. This is relevant for aggregate consideration of the impact of debt on consumption and on financial stability. Looking only at national aggregates of credit levels, or even at more detailed leverage ratios, will miss the insight of how those aggregates play out in people's lives in the places that shape their economic opportunities and decisions.

Policy created in the aftermath of the global financial crisis appears to have played at least some role in these patterns. Welfare is the most obvious. But changes in the debt collection market, which have led to more aggressive debt collecting from third-party companies have led to increases in smaller CCJ claims across all cities and have particularly affected those places with the weakest economies.

This means that some places have felt the brunt of a triple whammy in the fallout from the global financial crisis – sluggish economic growth, with implications for wages, austerity and its impact on welfare payments, and the changes to how banks hold debt and how debt collectors pursue debts.

To soften the impact of this, the following should happen:

- **Collect better data to give as comprehensive picture as possible on local debt**. HM Treasury should urgently review ways of increasing disclosure on the geography of consumer credit, working with the Office for National Statistics, UK Finance, the Bank of England, the Financial Conduct Authority, Ministry of Justice and the Registry Trust.
    - This review should look in particular at sub-prime debt disclosure, currently omitted from UK Finance postcode-level data, with a starting position of seeking lenders' aggregated disclosure of the geography of lending;
    - CCJ data publications should include aggregated data on defendant and claimant characteristics, while ensuring no personally-identifiable information is published, to make sure systematic geographic and demographic trends are rapidly identified.
- **Reconsider the national CCJ regime**. Over 400,000 CCJs are brought to courts each year for debts below £500. The Ministry of Justice and HM Treasury should consider whether the current system is providing public value for money relative to alternative remedies. Credit bureaus should consider how this sheer volume of CCJs and the huge variety in underlying circumstances of borrowers are reflected in nuanced credit risk assessments.
- **Customise programmes of debt support in 'debt problem' cities and large towns.** Places with prevalent problem debt should work with Citizens Advice to boost their outreach strategies and coordinate them with any other activities going on there.
- **Reduce the wait time for the first Universal Credit payment.** Currently, claimants must wait five weeks to receive their first Universal Credit payment, which is likely to increase demand for short-term loans and increase the likelihood that claimants cannot pay existing debt. This wait should be cut, starting with a fortnightly payment pilot for households most exposed to financial vulnerability, as suggested by previous research by the Resolution Foundation.[13]

13 Ahmed J. & K. Henehan (2020) 'An outstanding balance? Inequality in the use – and burden – of consumer credit in the UK', London: Resolution Foundation

# Appendix
## Data on debt

| Source | Metric coverage | House-hold-level coverage | Geographic cov-erage | Frequency / timeli-ness | Other quality issues |
|---|---|---|---|---|---|
| **ONS Wealth and Assets Survey** | Range of wealth, income and debt metrics covered | 20,000 households sampled | Limited sample by region | Biennial / publication lag of c.two years | Significant underreporting of consumer credit (relative to BoE consumer credit figures) |
| **Bank of England (BoE) NMG Survey** | Range of wealth, income and debt metrics covered | 6,000 households sampled | Very limited sample by region, especially when including only debtor households with disclosure of debt metrics | Biannual / limited lag in publication | Some risk of self-selection based on unobservable characteristics; likely underreporting of consumer credit |
| **FCA Financial Lives Survey** | Range of wealth, income and debt and other financial product metrics covered | 13,000 individuals sampled | Very limited sample by place, especially when including only debtor households with disclosure of debt metrics | Single 2017 survey / results published | Likely underreporting of consumer credit |
| **BoE Credit Conditions Survey** | Very limited – qualitative assessment of credit conditions | Very limited; survey of lenders | Very limited | Quarterly / prompt publication each quarter | |
| **UK Finance postcode lending data** | Limited coverage – only absolute debt levels disclosed, and only for prime mortgages and personal loans | Limited – coverage at postcode sector level | Coverage at postcode sector level | Quarterly / c. six-month lag | Very limited consumer credit coverage (only prime personal loans) |
| **ONS Economic Statistics** | Limited coverage – only absolute and per capita debt levels disclosed, with some composition breakdown | Limited household-level information | Coverage at local authority level | One-off data from 2015 and 2017 / recently published | Experimental statistics; coverage re-stricted to one credit reference agency |
| **Registry Trust County Court Judgements (CCJ) data** | Data only on vulnerability proxy (CCJ) level and value – no data on claimant or success rates | Limited household-level information | Coverage at local authority level | Annual data / recently published | |
| **Insolvency Service individual insolvency datal** | Data only on vulnerability proxy (insolvency) | Limited household-level information | Coverage at local authority level | Annual data / recently published | |

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