

UK households' demand for secured debt rises in September, although availability and conditions of credit continued to tighten

- Requirements for mortgages increased during September...
- ...while perceived availability fell at slowest rate in series.
- Conditions of credit remained tight.

Movements in the HFI indexes relating to credit remained relatively modest in September. However, the data indicated some interesting movements on the previous month: demand for mortgages increased for the first time in the series' history, and overall levels of household debt were reported to have fallen for the first time in four months.

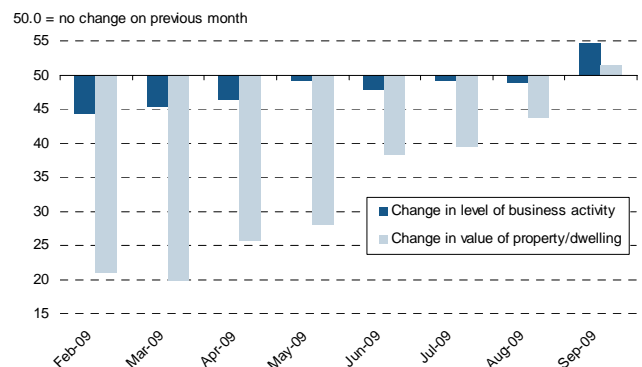
The rate at which credit availability deteriorated eased for both secured and unsecured loans. Moreover, the latest results signalled the slowest perceived tightening in supply and conditions of loans, across both debt categories, in the respective series histories.

Secured credit

Demand

The average person on the street may be starting to sense that the economic downturn is easing. This can be demonstrated through the increased level of business activity seen in the workplace during September (see dark blue bars in chart 1). The chart also shows the first rise in perceived house prices compared to the previous month. This pick up in the housing market could explain why demand for mortgages rose in September for the first time since data were first collected in February. However, the increase was only marginal and the majority of households continued to indicate that their requirements for secured credit remained unchanged.

Chart 1: Activity Levels and House Prices

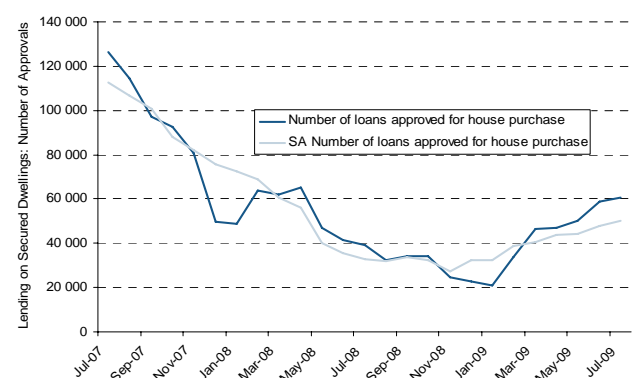


The 18-24 age group reported the largest increase in secured credit requirements in the month, suggesting that first-time buyers were starting to view the housing market favourably.

Availability and conditions of secured credit

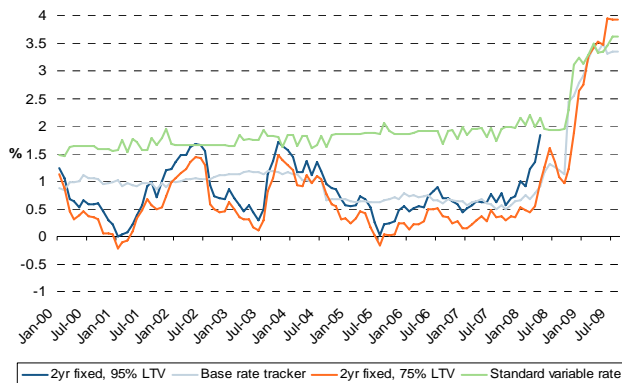
Availability and conditions of secured credit were considered to have worsened again during September, although the rate of deterioration continued to ease.

Chart 2: Number of Approvals for Lending on Secured Dwellings



The above graph, based on Bank of England (BoE) data, suggests that mortgage approvals have been rising slowly over recent months. However, the number of approvals remains low when compared with 2007 figures, and therefore indicative of an overall suppressed level of lending.

Chart 3: Spreads on Mortgage Lending



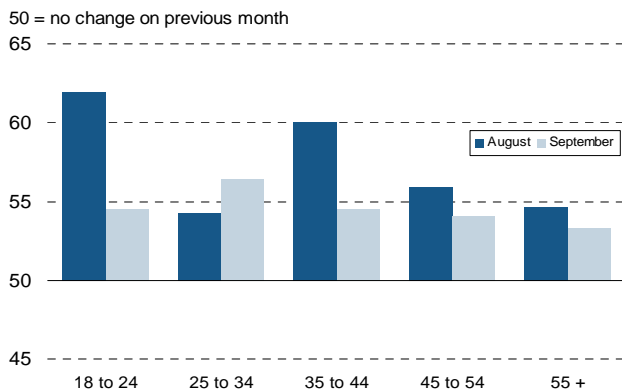
While the number of mortgage approvals are heading higher, spreads on mortgages remain high, as depicted in the above graph (derived from BoE data using the monthly average official bank rate and mortgage rate data). The 95% loan-to-value (LTV) mortgage remains unavailable, with spreads on other mortgage products rising throughout the year. The UK households surveyed have also signalled continuing tightening of credit conditions during 2009, although the extent of which is now lower than in previous months.

Unsecured Credit

Demand

Demand for unsecured loans continued to rise in September. However, the proportion of households signalling an increased requirement for unsecured credit declined slightly.

Chart 4: Requirements for Unsecured Lending by Age Group



The above chart shows that the 18-24 age group showed the largest decrease in demand for unsecured credit during the month.

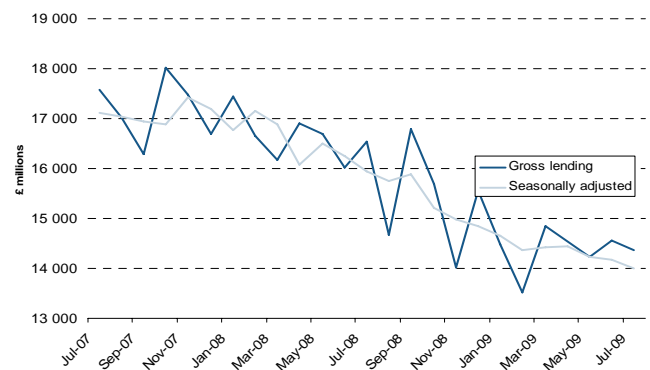
Availability and conditions of unsecured credit

Matching the trend displayed for secured credit, availability of unsecured loans was perceived to have worsened in September with conditions tightening, although both were at slower rates than in the previous month.

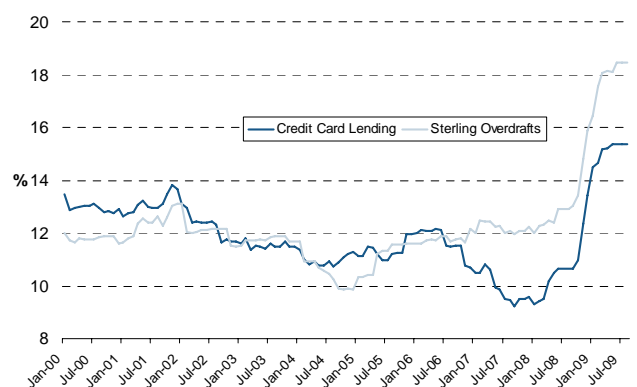
All income groups indicated that the supply of unsecured credit had contracted at a slower rate in September, although for the lowest earners surveyed, availability was still perceived to be very tight. Households with higher incomes were more confident with regards access to unsecured loans.

The following graph confirms the trend of diminishing gross lending of consumer credit (BoE data).

Chart 5: Monthly Consumer Credit



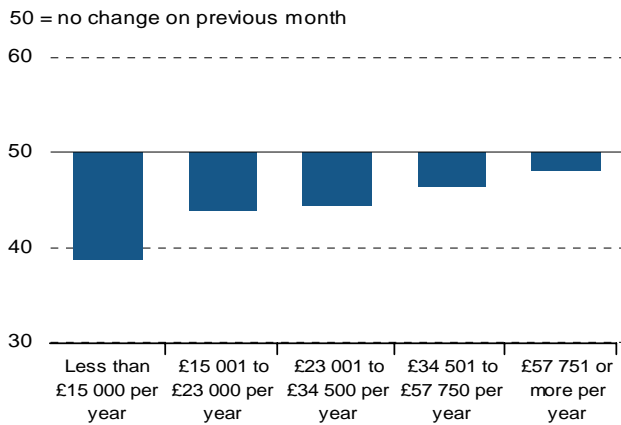
Spreads on consumer credit have increased substantially over the past year, as illustrated in the below graph (derived from BoE data). HFI data recorded during 2009 also reflects a severe tightening in conditions of unsecured credit, although this slowed to its lowest rate of contraction in September. The BoE data shows a plateau over the last three months to August, suggesting that the peak on consumer credit spreads has been reached.



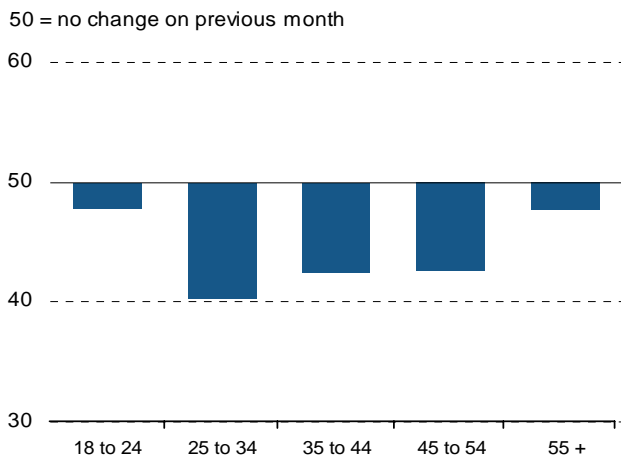
Availability of unsecured credit

September data: Compared to one month ago, how easy is it for you to get access to credit cards / overdrafts / other unsecured loans?

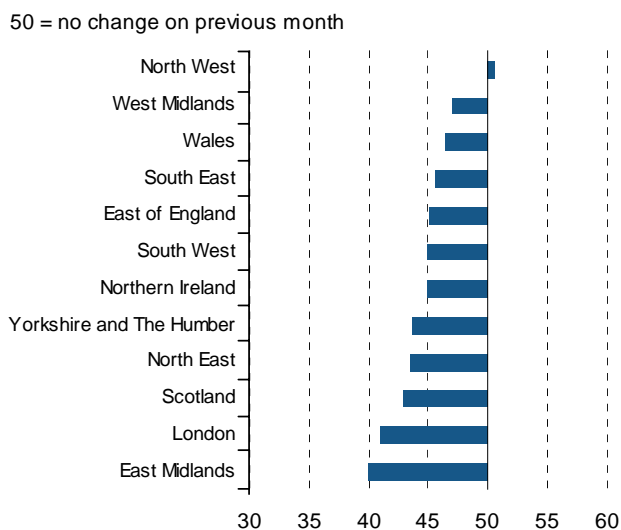
By income



By age



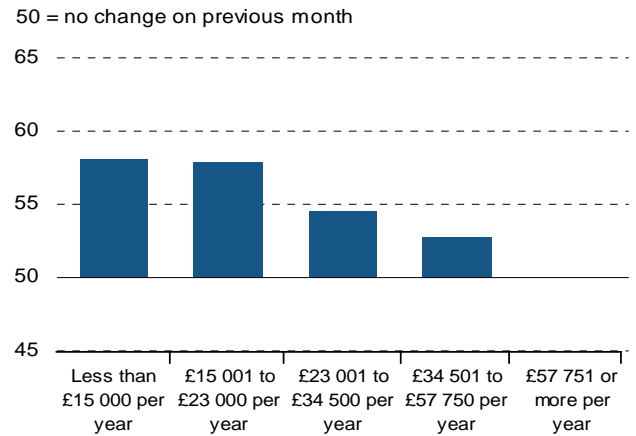
By region



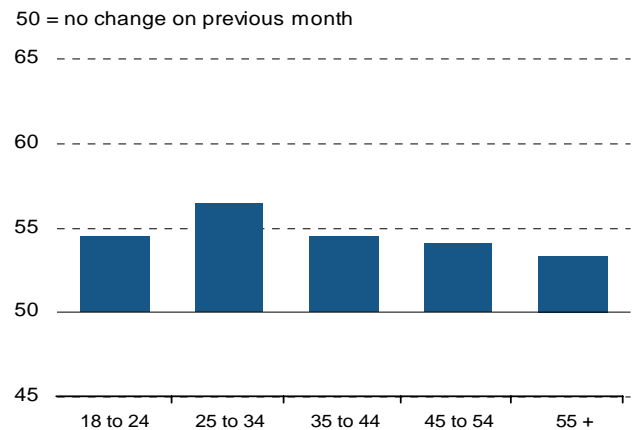
Need for unsecured loans

September data: Compared to one month ago, how has your need for additional borrowing changed in respect of credit cards / overdrafts / other unsecured loans?

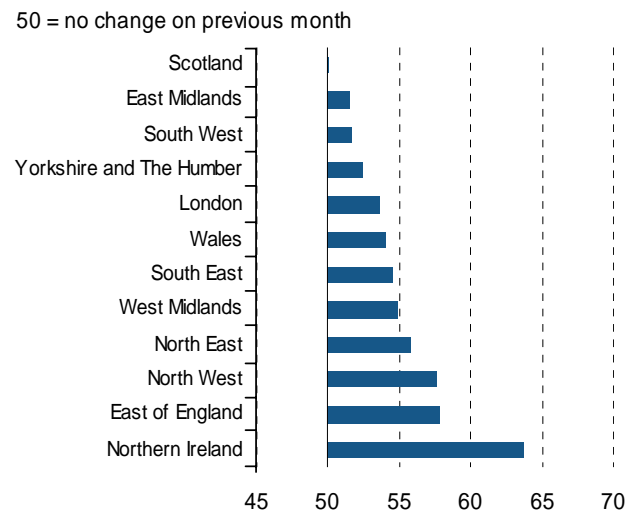
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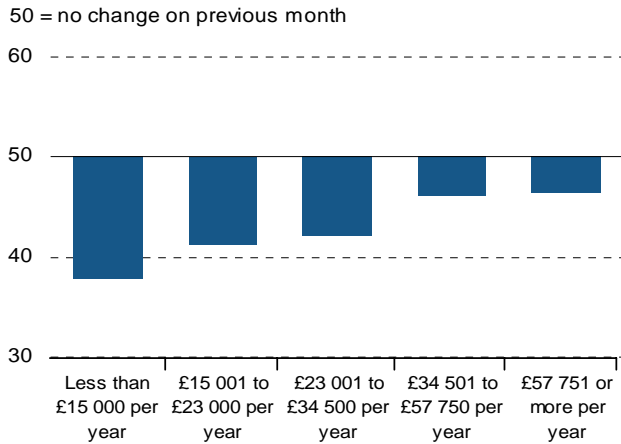
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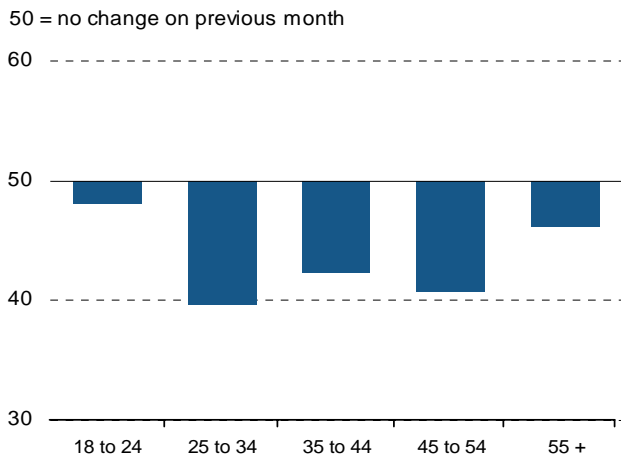
Availability of secured credit

September data: Compared to one month ago, how easy is it for you to get access to mortgages/other secured loans?

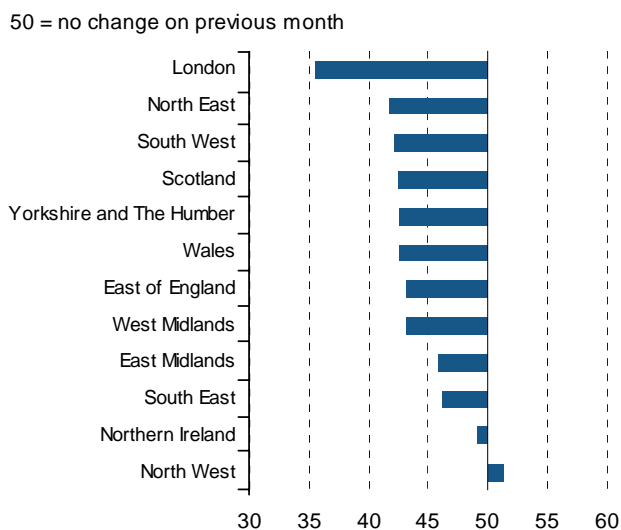
By income



By age



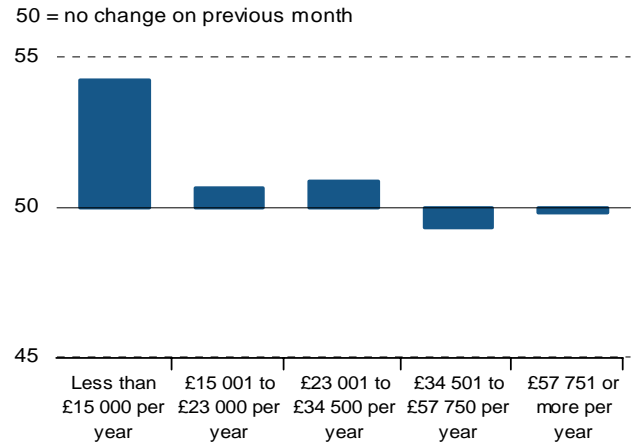
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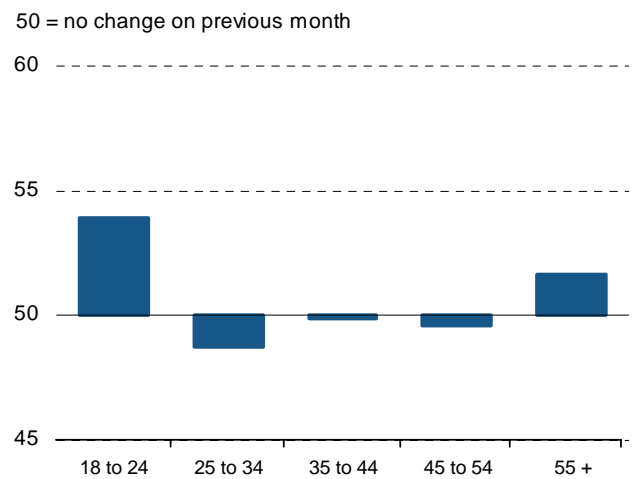
Need for secured loans

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By region

