



USEFUL LINKS

ABCUL - Promoting Quality Credit Unions

www.abcul.coop/page/index.cfm

Citizens Advice

www.adviceguide.org.uk/index/life/debt.htm

Consumer Credit Counselling Service

www.cccs.co.uk

Credit Action

www.creditaction.org.uk

Financial Services Authority

www.fsa.gov.uk

Money Basics

www.moneybasics.co.uk

National Debtline

www.nationaldebtline.co.uk

A CHRISTIAN RESPONSE

Christians Against Poverty

- a national UK debt counselling charity working through a network of centres based in local churches. Centres in South Wales include Rhondda Cynon Taff (in conjunction with the ACTS Community Church), Swansea (in conjunction with The LifePoint Church), Llanelli (in conjunction with Myrtle House Elim Pentecostal Church) and Carmarthen (in conjunction with Towy Community Church).

www.capuk.org

Community Money Advice

- assists churches and other community organisations in setting up debt advice centres in their local community.

www.communitymoneyadvice.com

Red2Black - an organisation focusing on how churches can help neighbours in debt. Follow the web link for downloadable resources.

www.red2black.org.uk

PAUSE FOR THOUGHT

"Owe no one anything, except to love one another; for the one who loves another has fulfilled the law."

(Romans 13:8, NRSV)

We pray for the Church, that it may be a compassionate community, ready to stand alongside those who suffer the burden of debt.

Lord, in your mercy, **hear our prayer.**

We pray for those who work in government, finance and the law, that they may work towards practical solutions for the problems caused by debt.

Lord, in your mercy, **hear our prayer.**

We pray for those individuals who, because of their debts, feel they have nowhere to turn: that they may know your presence, guidance and peace.

Lord, in your mercy, **hear our prayer.**

We pray for those countries affected by the enormous burden of international debt: for a just and lasting solution to the problems they face.

Lord, in your mercy, **hear our prayer.**

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Faith in Families

Swansea and Brecon
Diocesan Board for Social Responsibility,
7 Talfan Road, Bonymaen, Swansea, SA1 7HA
Tel: 01792 644106
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A matter of life and debt



In recent years there has been a growing concern expressed about the growth of personal debt and its implications, especially for poorer families.

A very small proportion of the UK population are declared insolvent, but serious debt, or the risk of serious debt, is a far greater problem. Whilst 1.5 million people are finding it difficult to pay off their debts, many more are vulnerable to debt. This could be because of:

- * losing employment
- * ill health
- * other major financial incidents

Statistics compiled by Credit Action worrying indicate that 18% of adults in Britain have £10,000 or more of unsecured debt. This is a rise of 30% over the figure they published for 2006.

The term "credit crunch" refers to a crisis caused by banks being too nervous to lend money to the public or to each other. Where they will lend, high rates of interest are charged in order to cover risk. This in turn means more expensive mortgages, dearer credit cards, pain for those who are pension savers and other investors, wide stock market fluctuations and increased fears of repossession and bankruptcy.

Striking UK Numbers

6,923

Number of new debt problems dealt with by Citizens Advice Bureau each day

£58,316

average household debt (including mortgages)

£180m

interest paid in UK daily



every 11.2 minutes

a property is repossessed

2,247 people

made redundant every day

1000 people

seek some form of formal debt rescheduling plan every day

£4,268 a second

increase in Government national debt

These are December 2009 statistics available on the web from Credit Action. They are not for the faint hearted!



WHAT ARE THE CAUSES OF THE PRESENT CRISIS?

Years of lax lending inflated a huge debt bubble as people borrowed cheap money and ploughed it into property.

Lenders were free with their funds, especially in the US, where billions of dollars of so-called Ninja mortgages - no income, no job or assets - were sold to people with weak credit ratings (sub-prime borrowers).

The notion was that if they ran into trouble with repayments rising house prices would allow them to remortgage their property.

This worked when Central Bank interest rates were low; the trouble was it could not last.

Interest rates hit rock bottom in America in 2004 at just 1 per cent, but in June that year they began to rise. As interest rates jumped, US house prices started to fall and borrowers began to default on their mortgage payments.

HOW DID THIS TURN INTO A GLOBAL CRISIS?

The way the debt was sold on to investors gave the crisis global significance.

The US banking sector packaged sub-prime home loans into mortgage-backed securities known as CDOs (collateralised debt obligations).

These were sold on to hedge funds and investment banks who decided they were a great way to generate high returns (*and big bonuses for the bankers that bought them*).

When borrowers started to default on their loans, the value of these investments plummeted resulting in huge losses for banks globally.

HOW DID THIS AFFECT THE UK?

Many UK banks had invested large sums in sub-prime backed investments and have had to write off billions of pounds in losses. But it got worse. Investors became nervous about buying any investment linked to mortgages, no matter how high their quality.

Many of the UK's banks had been using the investment markets to fund large chunks of their mortgage business (a process which is known as securitisation).

TROUBLE ON THE TYNE

In the UK the first major victim of the banking crisis was Northern Rock. Once known as a building society based on financial prudence, the Rock demutualised in 1997. This was allowed under the Conservative governments legislation that promoted a wider deregulation of financial markets. Northern Rock took borrowing to extremes, even allowing 125% "Together" mortgages (a 95% mortgage plus a 30% top up loan) on the assumption that ever increasing house prices would more than pay off the debt. It seemed too good to be true and indeed it was. In September 2007 the model collapsed. Vince Cable in his book "The Storm" provides a full critique of the background to the financial boom and bust.

WELSH CREDIT UNION APPLAUDED

Speaking in the House of Lords, the Archbishop of Canterbury has highlighted that the credit crunch has exacerbated the plight of the poorest and most vulnerable in our society. In particular, debt has led to increased child poverty and social exclusion. The Archbishop further went on to argue that greater support should be given to the work of Credit Unions as a means of controlled and responsible lending. As an example he highlighted the valued work of the Wales Co-operative Centre, a national agency supporting community regeneration plus economic development and social justice through co-operative and mutual solutions. Further information at

<http://www.walescoop.com/>

DEBT IN WALES

The Consumer Credit Counselling Service operates across the United Kingdom. Its latest report for Wales notes that:

Due to less easily available credit over the past 12 months, the average amount of debt has declined. But this is not necessarily good news. It most probably means that the impact is being delayed.

What is worrying, in the meantime, is the increasing pressure on the household budgets of those in debt caused by super-inflationary rises in everyday living costs. The money available to an average client to pay off debts has fallen to just £21 a month compared with £130 five years ago. The rising costs of food, housing and utilities will push more people over the edge into bankruptcy.

At the same time people in debt are getting older: for the first time in 2008 the over 60s accounted for 10 percent of clients and more than half of CCCS clients are now aged over 40. This has been a marked trend in Wales over the past five years, and is one which is mirrored in the UK as a whole, but Wales has a higher proportion of homeowners, 47 percent compared

with a UK average of under 40 percent. This suggests that repossession may face more households in Wales.

CCCS helped around 6,000 people from Wales with their debt problems in 2008, two-thirds over the telephone and one third online via CCCS Debt Remedy. In 2003 they helped just under 1,400 people.

Although those with higher incomes have the largest debts, it is the poor who face the greatest difficulty in dealing with their debts. In 2007, those earning less than £10,000 per year had an average debt to income ratio of over 30 percent, compared to an average of under 23 percent.

A report by the Royal College of Psychiatrists (October 2009) highlighted debt as a significant contributor to mental health problems. Joanna Elson, chief executive of the Money Advice Trust, said: "Half of adults in debt may have a mental health problem."

CCCS is a registered charity offering free, confidential advice and support to anyone who is worried about debt. More information

CASE STUDY - A REAL STORY

Claire lives in Cardiff. Her problems started in 1993 when Claire changed jobs from part to full-time employment.

Previously she had been paid weekly but the new job paid her monthly. So she took out a small loan to cover the month in hand. Next she applied for a credit card which she used to fund nights out as well as buying lots of high-fashion clothes.

After a couple of years Claire had acquired lots of store cards as well as credit cards. Feeling anxious because many of them were approaching their limits, she took out another

loan of £4,000 which she meant to use to pay off all her debts. Alas, despite good intentions, she continued to use her cards to buy lots of things she otherwise could not have afforded.

Conscience struck again a few years later. This time she borrowed £8,000 to clear the old loan and consolidate all the cards. This worked for a while before Claire reverted to her old habits and began using the cards again, and yet again she took out a loan intending to use it to sort out her finances. This time it was £15,00.

By the time she was 27, she owed £28,000.

Claire's friends urged her to seek counselling advice. She agreed to a debt management plan.

"I am now on top of the situation. I can finally see my balances coming down and I try to curb my spending cravings by not going anywhere near the shops. It is hard but I'm getting there."

Claire is now free having repaid her creditors.

