

Over-indebtedness in Irish Households

Helen Russell, Bertrand
Maitre & Nora Donnelly

Introduction

- “People are over-indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt repayments as they fall due.” (Stamp, 2009)
- Must be distinguished from indebtedness – i.e. the use of credit, which is a central and increasingly widely used, element of modern financial systems.

Context: Increasing Indebtedness & Economic Crisis

- Credit card debt per capita increased sevenfold between 1996 and 2008 (Central Bank)
- Residential mortgage credit per capita increased tenfold between 1995 and 2008 (Central Bank)
- Number of mortgages in arrears up from 26 thousand in Sept 2009 to 44.5 thousand in Dec. 2010 (Central Bank)
- Coupled with rising unemployment, declining hh incomes
- Policy interest - e.g. Law Reform Commission reports; FLAC; Expert Group on Mortgage Arrears & Personal Debt; Steering Group on Financial Education

Causes of Over-Indebtedness?

- *Institutional*: access to credit, irresponsible lending, financial exclusion
 - countries with more restrictive credit higher over-ind (Betti et al. 2007); hh with more credit greater likelihood of over-ind (UK, Kempson 2002; Norway, Poppe, 1999)
 - Financial exclusion from mainstream fin services, pushed into sub-prime sector (moneylending etc) (Corr, 2008); unable to smooth demand thru credit -> increase over-indebt. Relationship may run other way (Gloukoviezoff, 2006)
- *Individual*: money mis-management (McCarthy 2010).
- *Structural* - labour market failure, inequality of opportunity (strong link with employment status, lone-parenthood, income, poverty).
- *Income Shocks*: ill-health, job loss, relationship breakdown, children, unexpected costs.
- Appropriate policy response(s) will depend on causes.

Data

- Special module of EU Survey of Income and Living Conditions, 2008
- Carried out across EU 27
- In Ireland carried out by CSO
- Completed sample 5,247 households 12551 individuals
- Over-indebtedness questions asked at the household level.

Measure of Over-Indebtedness

Recommendations of EC study *Towards an operational definition of over- indebtedness* (Davydoff et al, 2008)

- “must capture persistent and ongoing financial problems”. Persistent arrears in mortgage/rent or utility arrears or hire-purchase/loans or other bills.

and

- Payment capacity – repayments of loans or and other financial commitments are considered a “heavy burden”

and

- Illiquidity – the household is unable to remedy the situation by recourse to (financial and non-financial) assets. “Can your household afford an unexpected expense of €985 without borrowing?”

Table 1: Persistent Financial Problems- SILC 2008 Measures of Arrears

Arrears Questions	Response
In the <u>last 12 months</u> , did it happen that the household was unable to pay rent or to make a mortgage repayment for the main dwelling on time, due to financial difficulties?	Yes, once
In the <u>last 12 months</u> the household was unable to pay utility bills (heating, electricity, gas, refuse collection) for the main dwelling on time, due to financial difficulties?	Yes, twice or more
In the <u>last 12 months</u> , did it happen that the household was unable to pay hire purchase installments or other loan payments (besides mortgage repayments) on time, due to financial difficulties?	No
In the <u>last 12 months</u> , did it happen that the household was unable to pay any other bills (education, health, ...) on time, due to financial difficulties?	

Figure 1: % of Households in Arrears, 2008

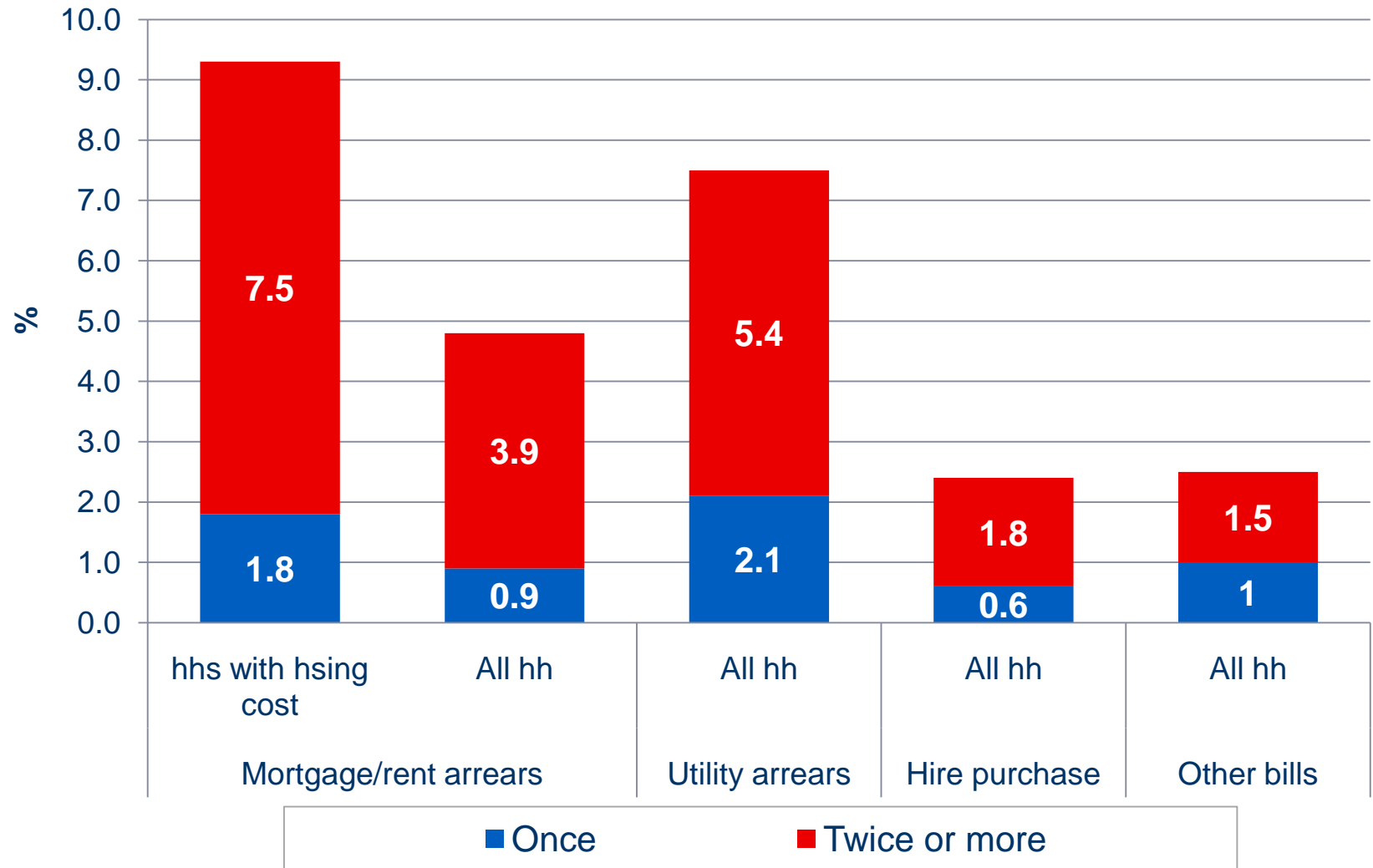


Table 2: Are Housing Costs or Loan Repayments a Burden?

	Housing costs	Repayments of debts from hire purchases & loans	
	All hhs	All hhs	HH with other loans
A heavy burden	21.6	8.1	22.2
Somewhat a burden	55.0	16.2	44.0
Not a burden	23.4	12.4	33.8
Not applicable		63.2	-
Total	100.0	100.0	100.0
<i>Weighted N</i>	<i>4440</i>	<i>4442</i>	<i>1633</i>

Figure 3: Illiquidity: Unable to meet unexpected expenses

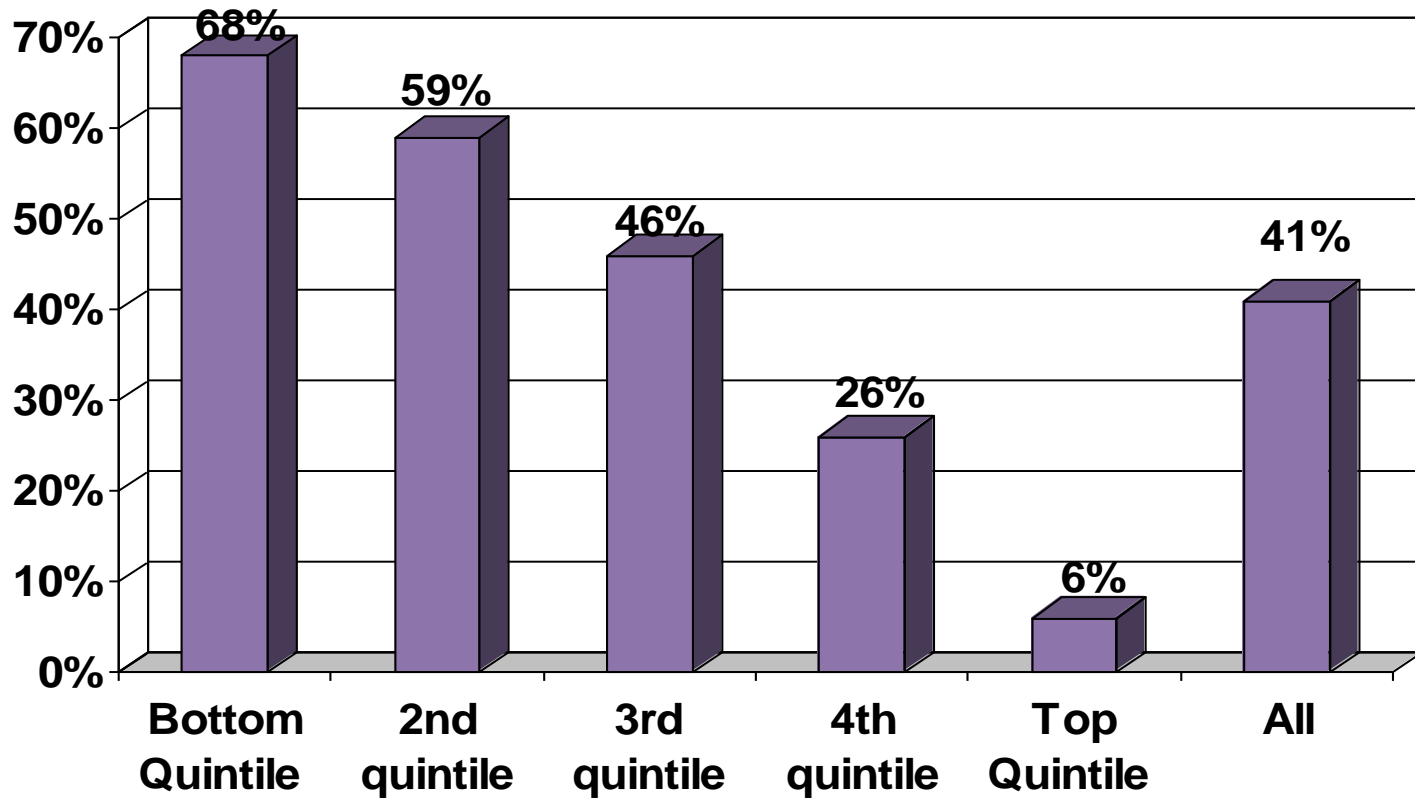


Table 3: Measure of Over-Indebtedness

	% of Households
No persistent arrears	92.4
Arrears (at least 1 out of 4 persistent arrears)	7.6
Arrears + heavy burden	5.6
Over-indebted = Arrears + heavy burden + cannot face expected expenses	5.4

Figure 4: Over-Indebtedness by HRP characteristics

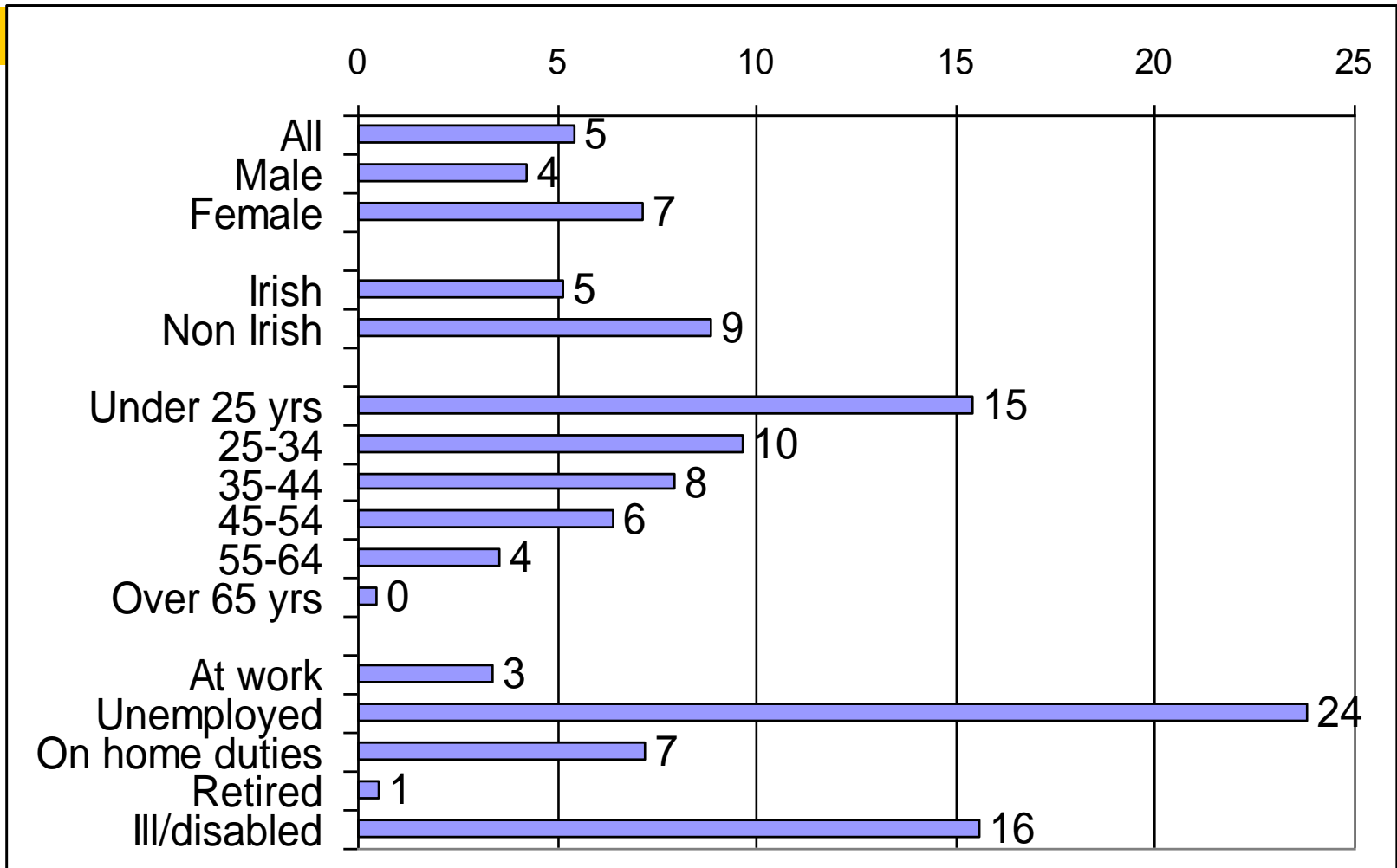


Figure 5: Over-indebtedness by hh characteristics

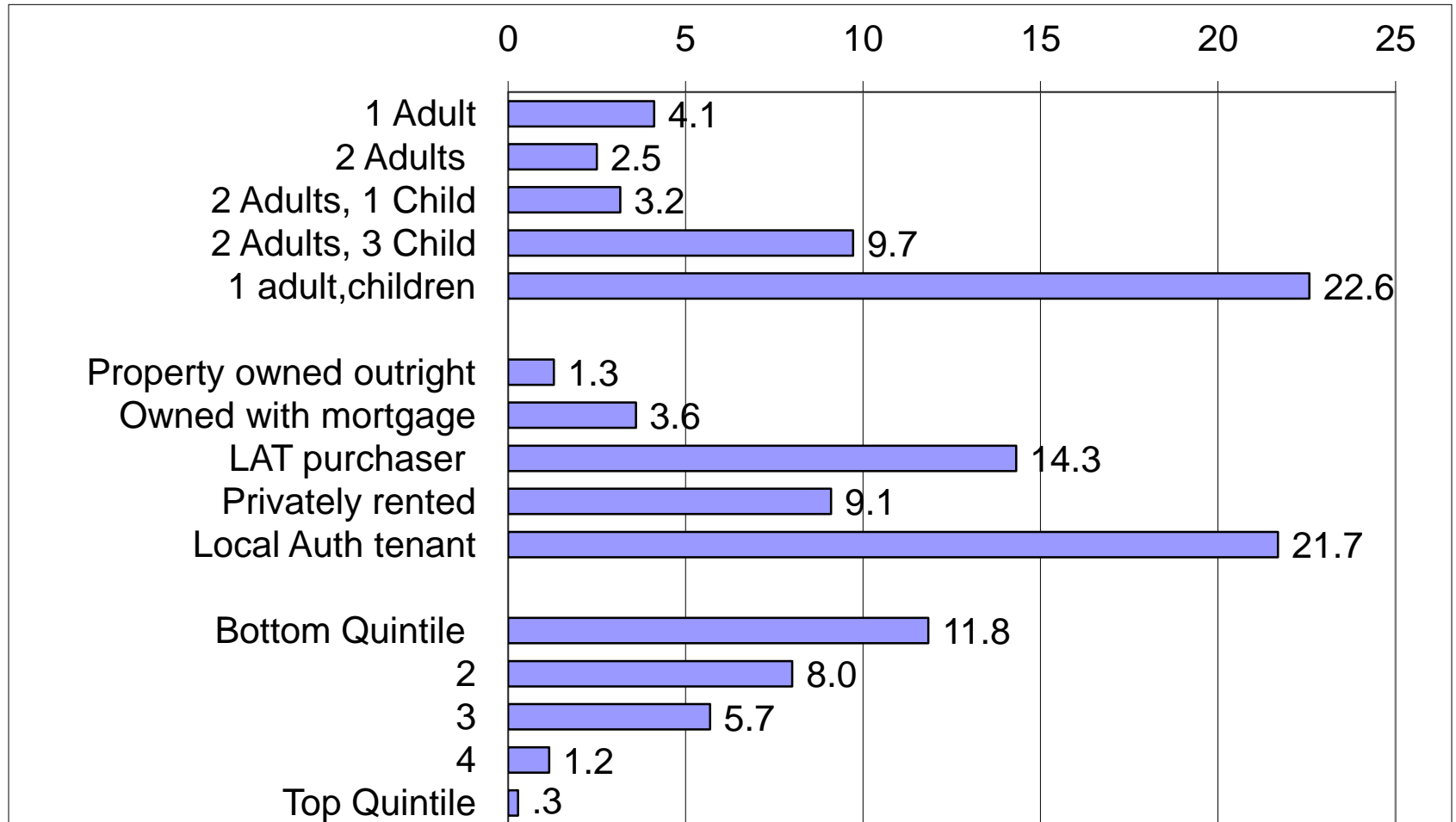
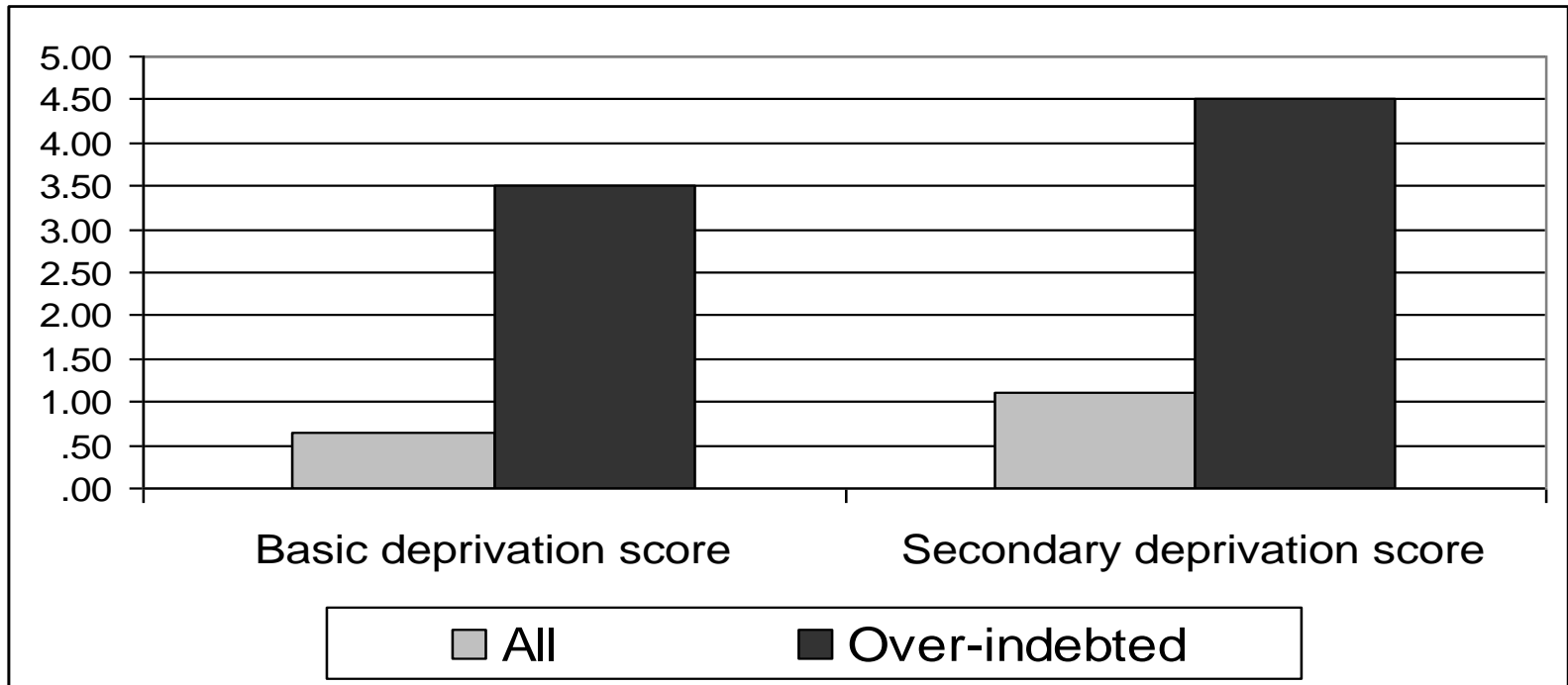


Figure 6: Over-indebtedness and Deprivation



Basic Deprivation _ inability to afford basic items e.g. clothing, food, heating, social participation

Secondary/Consumption Depriv. – 19 hh durables, video, dishwasher etc., a car, week's holidays away from home

Table 4: Triggers to Over-indebt - has HH Experienced Major Drop in Income during the last 12 Months?

	Not over-indebted	Over-indebted	Total
Yes	17.8	39.9	19.0
No	82.2	60.1	81.0
	100.0	100.0	100.0

Main reasons for income drop among over-indebted hhs:

- job loss (20%)
- sickness (19%) ;
- drop in wages/hours (18%)

Logistic Regression Results – factors affecting risk of over-indebtedness

- Low income (+++), consistent poverty (++)
- Local authority tenant (++) , private rental (++) ,
- Unemployed (++) , ill/disabled (++)
- No quals (+) , junior cycle (++) , leaving c (+)
- Lone parent hh (++) ; divorced/separated widow (+)
- Over 65 (- -)
- Financial shock in previous 12 months (++) , effect independent of income

Relationship between Over-indebtedness and Financial Exclusion

- Households with no bank account (20%) - significantly more at risk of over-indebtedness
- Credit excluded hhs (10%) = no credit (credit cards; structured loans/hire purchase; or overdraft facilities), excluding those who say “don’t need credit”
- Credit excluded not sig different from those with credit
- Those without credit who say they “don’t need credit” significantly less likely to be over-indebted (as already control for resources and age/life cycle may be an indicator of financial behaviour)

Conclusions & Policy Implications

- Inadequacy of resources (low income, poverty, unemployment, illness/disability, social welfare dependency) a key factor in over-indebtedness
- Lack of capacity to deal with financial shocks, absence of savings or other resources to draw on.
- Little evidence of high consumption or over-borrowing among over-indebted hhs: more likely to be deprived of basic items and hh durables, car, holiday etc.
- Suggests that preventative strategies base on broader anti-poverty policies important for tackling over-indebtedness, rather than those focusing solely on consumer protection, financial capability/money mangt,
- Link with banking exclusion suggests that policies to promote access such as Basic Bank Account may also have an indirect benefit on over-indebtedness
- Remedial policies remain important for HHs that become over-indebted (MABS; Law Reform Commission's recommendations; Mortgage arrears group)

Appendix: Logistic Regression of Over-Indebtedness

	Odds
Ref = top quintile	
Bottom income quintile	10.94**
2nd income quintile	15.60**
3rd income quintile	10.10**
4th income quintile	2.55
Income Shock	2.43**
No current account	1.54*
No credit don't need	0.14**
Credit excluded	.75
Consistent Poverty	2.39**
Constant	.00
Nagelkerke R Square	0.381
N	4298

Reference groups= Top quintile, no income shock in previous 12 months; have bank account, have credit. Not in consistent poverty

Appendix: Regression Cntd.

	Odds
HRP_female	1.19
18-24 years	1.92
Over 65 years	.15**
Divorced/Separated/Widowed	1.48*
Single	1.17
Lone Parent	1.86**
Unemployed	3.15**
Home duties	1.02
Retired	0.67
Ill/disabled	2.44**
No qualifications	1.86*
Inter cert	2.83**
Leaving cert	1.78*
Private tenant	2.94**
LA owner	2.66**
LA tenant	3.61**

Reference Groups - male, 25-64 years, married, not lone parent, employed, graduate, owner occupier.

Odds less than 1 indicate the group are less likely to be over-indebted than the reference groups