British Consumers Underestimate Their Debt To The Tune Of £100 Billion

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According to latest research from MINTEL many of those in debt are burying their heads in the sand, and completely underestimating how much they owe on credit cards, personal loans, overdrafts and other unsecured, non-mortgage loans.

When Brits with unsecured, non-mortgage loans were asked to estimate the amount of money they have outstanding on these loans, the average came to Â£5,251 per person, an incredible Â£5,050 short of the official figures held by the Bank of England (Â£10,300 of unsecured debt per borrower). Worryingly, this suggests that, on average, consumers owe almost twice as much as they think they do.

With almost 21 million adults (43% of the adult population) now owning some form of unsecured loan, this means that in Britain today there is over Â£100 billion worth of unsecured debt that Brits are simply unaware of. Considering this lack of awareness, it comes as little surprise that only one in five (21%) people with unsecured debt are worried about the amount they owe.

By contrast, when mortgage holders were asked to estimate their mortgage loans, the average was Â£92,200, which is almost exactly the same as the figure given by the Bank of England and mortgage lenders of Â£95,000, suggesting that people have a much better handle on their mortgage debt than on their non-mortagage borrowing.

"While Brits do seem to have a good grasp of their mortgage borrowing, they are wildly underestimating the amount of money they owe on credit cards and loans. Clearly, it is a lot easier to keep an eye on a single mortgage, than it is to juggle a couple of credit cards, a personal loan, a car loan and maybe even an overdraft as well," explains Toby Clark, senior finance analyst at MINTEL.

"There is a major need for financial education and for a drive to prompt borrowers to take a fresh look at their debts. Without a detailed understanding of exactly how much they owe and what rates they are paying, it is easy to see how the situation could spiral out of control," he adds.

Low income households struggle to keep their heads above water
When it comes to borrowing money, wealthier, high income earners (households with an income of Â£50,000 or more) tend to borrow to add to their assets or for education, while lower earners (households with an income of under Â£15,499) are getting into debt just to keep their head above water.

Indeed, high income earners are borrowing because they are paying for a house (63% compared to 15% of low income earners), buying a second home (13% vs 1%), or paying for their kids' university education (9% vs 2%) or for school fees (7% vs 2%).

Meanwhile, lower earners are borrowing to pay for much more everyday expenses, such as simply bringing up their kids (29% vs 21% amongst high income earners), tax bills (11% vs 6%) and regular payment commitments like phone bills (11% vs 4%).

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