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## Banks writing off £20.1m a day in loans to individuals

New research has revealed that banks and building societies in the UK wrote off £20.1m a day in loans to individuals in the third quarter of last year.

The figures were compiled by the business recovery firm, Debtfocus and published by Credit Today.

They show that in the 12 months to the end of last September, lenders wrote

off loans to individuals worth a total of £9.9bn. Debtfocus say £740m of that debt was on credit cards.

The research also showed that total personal debt in the UK in October was £1.4trn. Debtfocus say that 1,589 people a day were being made redundant in the third quarter of last year and properties were repossessed at the rate of one every 15 minutes.

It's feared that the figures could get even worse over the coming months as public sector cutbacks lead to more redundancies. The knock-on effect of those cutbacks is likely to put more pressure on private sector suppliers and service industries.

Companies need to keep a tight rein on credit control and to act quickly to recover debts when problems arise.

## Businesses fear rising debts and falling profits

New research has revealed that businesses are becoming increasingly worried about the twin problems of rising debts and falling profits.

Surveys carried out by the insolvency trade body R3 show that one in five businesses (19%) are worried about the amount of debt they owe to their creditors.

At the same time, more than 850,000 businesses are experiencing decreased profits. More than 40% of businesses had seen a reduction in sales volume and 32% had seen their market share reduce.

The R3 research shows that smaller businesses owe an average of about £110,000 to their bank, £82,000 to trade creditors and £27,000 to the Crown.

It is the debts to trade creditors that cause business owners the most concern. The President of R3, Steven Law, said: "In a fragile recovery, debt is an important part of working capital in most businesses. With VAT rises and the impact of public



sector cutbacks yet to be felt in full, many businesses are concerned about their ability to repay the money they owe in fragile conditions.

"Worry about trade debts is often more keenly felt as businesses deal with this creditor group on a day to day basis - these debts can therefore seem more obvious than those owed to the bank or the Crown.

"Early professional advice is the best way to allay fears over debt levels. Ascertaining whether your current debt levels are sustainable should fiscal and monetary policies change is an important challenge for all businesses."

It is also important, of course, for creditors to take action as soon as debts begin to mount up to avoid the risk of debtors defaulting. It is often the case that taking early legal action is the difference between recovering the debt and not being paid.



## Big reduction in the rate of corporate insolvencies in 2010

There was a large reduction in the number of corporate insolvencies during 2010, according to figures released by PricewaterhouseCoopers (PwC).

Their figures show that 15,894 firms became insolvent last year compared with a total of 19,512 in 2009, a fall of just over 18%.

A total of 3,605 companies became insolvent in the final quarter of last year. That was a 6% drop on the previous quarter and a 19% drop on the same quarter in 2009.

The business sectors worst affected last year were construction,

manufacturing, retail, hospitality and leisure, and real estate. Nevertheless, they all performed better than in 2009. The PwC figures show that London continues to have the highest number of insolvencies with 875 in the final quarter of last year. However, that was 24% lower than in the same quarter of 2009.

Mike Jervis, partner in the business recovery services practice at PwC, said: "Overall insolvency numbers are back to those seen in 2008.

"But 2008 was a year of contrasts - pre and post 15<sup>th</sup> September, when Lehmans filed for bankruptcy. 2010 has seen insolvency volumes stabilise as businesses are proactively managed in

intensive care and options other than insolvency are pursued with vigour. However, UK businesses are certainly not out of the woods yet, as we expect looming public sector cuts to hit the bottom line of many public sector suppliers.

"These actual and potential economic challenges need to be factored into company cashflow forecasts, and scenario planning should be a key discipline. Key risks are loss of demand or increases in uncontrollable costs.

"Cashflow management needs to be obsessive in companies facing these issues."

# Credit card debt falls back to 2004 levels

Credit card debt is now at its lowest since 2004, according to figures released by the British Bankers' Association (BBA). BBA figures for October showed that the total for outstanding credit card balances stood at £60.4bn.

That was the lowest it has been since August 2004 when it was £60.02bn. The number of issued credit cards has also fallen to 60.4 million. That is the lowest figure since 2002 when the figure was 60.03 million.

Meanwhile, debit card spending has overtaken cash spending for the first time, according to research by the Payments Council.

Cash spending between last July and September totalled £269bn. Debit card spending over the same period was slightly higher at £272bn. Sandra Quinn, head of communications at the Payments Council, said: "Cash is too

cumbersome for many consumers these days, they prefer a card for anything more than the smallest transactions."



Meanwhile, a total of 1.2 million people are now spending more than £1,000 per month online using their credit cards, according to research by Sainsbury's Finance.

The average online monthly credit card spend is £192, and the total value of online purchases paid for this way is now £6.4bn. People aged between 35 and 44 have the highest online credit card spend with a typical monthly average of £214.

Stuart McKeggie, Head of Cards at Sainsbury's Finance said: "The growth of online shopping in such a short time is staggering. Our research found that only 7% of credit card holders do not use their cards online."

# New official guidance on producing debt collection letters

A new document has been drawn up to provide official guidance on the production of debt collection letters.

The document has been produced jointly by the Office of Fair Trading (OFT), the Credit Services Association (CSA) and the Debt Buyers and Sellers Group (DBSG).

The purpose of the document is to provide guidance on issues of concern to the OFT including the use of misleading terms, tracing and the use of 'soft letters', legal action, and statements.



The aim is to provide "greater standardisation in consumer

correspondence across the debt collection industry". The document doesn't provide a letter template but it does highlight a number of areas that firms need to consider to ensure compliance and to minimise consumer complaints.



It's the first time the two industry organisations have worked jointly on guidance issues with the OFT. Sara de Tute, CSA Vice President, said: "Collaboration with the OFT on the document is further strengthening ties between the Association and the regulator, while also providing clear guidance on how members should be contacting debtors."

## Widespread welcome for reforms to Debt Relief Orders

Both charities and the insolvency industry have welcomed proposals to reform Debt Relief Orders (DRO).

Many people struggling with small debts have been unable to take advantage of the DRO scheme because they had pension arrangements, even though those pensions may have been of little value and not available for several years to come.

The Government is now making DROs available to debtors with an approved pension, to provide them with as much

support as possible. Steven Law, president of the insolvency trade body R3, said the move was "good common sense".

Sue Edwards, head of consumer policy at Citizens Advice, said: "We warmly welcome this announcement which will benefit those who fulfil most of the criteria for a DRO yet were having applications rejected because of very small pension funds, something that has been of great concern to us."

## Where next

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