

Title:

Why We're So Deeply In Debt

Word Count:

519

Summary:

Financial experts have long warned that personal debt is a timebomb waiting to go off. How did we get into so much debt?

Keywords:

debt,debt problems

Article Body:

It's been widely reported that as a nation we're collectively in debt to a higher level than ever before, and many more people are starting to experience problems keeping their finances together. The level of personal insolvencies and bankruptcies is skyrocketing, and banks are having to put aside ever increasing amounts of money to cover bad debts that their customers are failing to repay.

Many financial experts are predicting a debt crisis in the near future, and there's talk of a severe impact to the economy as the chickens come home to roost. How did we get into this situation? Why are our debts so high?

- Easy Credit

We're constantly bombarded with advertising and marketing telling us how easy it could be to take out credit, and how much doing so could change our lives for the better. Competition between lenders has meant that many of them have relaxed their lending criteria, accepting applications that they may have rejected in previous times. Combine these two facts and it's little surprise that the number of people taking out loans has increased dramatically.

- Cheap Credit

Interest rates are, historically speaking, at very low levels. This means that we pay less in repayments on our debt, making it easier to borrow larger amounts. While interest rates remain low this is perhaps not a problem, but rates will inevitably rise at some point, which could be very bad news indeed for those already stretched to the limit.

- High House Prices

The last decade or so has seen a mammoth surge in the cost of housing, with prices spiralling upwards year after year. This has led to increased debt in two distinct ways. Firstly, people buying their first home are having to take out huge mortgages to be able to afford them. Where once it was normal to save up a deposit, even this isn't realistic for many people, and so 100% mortgages for large amounts have become more common.

Not only do high prices mean higher mortgage debt, they also give a feeling of increased wealthiness to people whose properties have doubled or tripled in value. Many people who bought houses before the property boom are now fortunate to have huge amounts of equity in their home, as their outstanding mortgage is much smaller than the value of their home. 'Cashing in' this equity by taking out a loan secured on their home is a seemingly easy way of obtaining extra cash to be used for a variety of purposes from consolidation to home improvements, and has become more and more popular as our collective equity has increased.

#### - Attitude to Debt

Society as a whole is now a lot more open to the idea of debt. Where once being in hock was anathema to most, it is now an ordinary part of life. Whether this is a cause of debt or a result of our new-found dependence on it is, however, open to question. What's certain is that more and more people are starting to question whether their personal debt levels are supportable, a trend that's likely to grow in the next few years.