

Debt Index Q2 2008

Market conditions for debt collection remain stable but tougher times ahead

Improvement in credit losses offset by decline in household savings

Despite the continued economic slowdown, market data produced by TDX Group, the leading provider of debt management services to creditors, demonstrates a marginal improvement in the macro conditions affecting the ability of banks to collect outstanding balances. Yet its data reveals a significant deterioration in household wealth that is likely to result in a dramatic increase in consumer debt problems in the second half of the year.

The TDX Group Debt Index, which tracks these conditions on a quarterly basis, fell by 1% between Q1 2008 and Q2 2008, suggesting that conditions for creditors have improved slightly. A rise in the index reveals that the environment for creditors to collect their debt has worsened, whereas a fall means it should be easier for them to do this. This is the third consecutive quarter in which the Index has reported a fall, suggesting that conditions have stabilised. Yet the underlying indicators are extremely volatile and TDX Group believes that conditions are set to worsen in Q3.

In this latest analysis, improvements in creditor performance indicators are offset by a sharp deterioration in household wealth indicators. Historically, the worsening witnessed in the creditor indicators were linked to increases in lending to broader sections of the population and less stringent risk management by creditors. However, this has now largely been addressed through a change in approach from the banks and today an increase in the indicators within this category would indicate that borrowers are finding it more difficult to repay their debts. Despite this improvement, we see a worsening outlook over the coming months for creditors.

A key reason for this is the 18% increase in the wealth and cost of living indicators of the Index – a rise in this category denotes a worsening of conditions for creditors. The rising cost of living – evidenced by a decline in the household saving ratio to just over 1% - and the continued downturn in the housing market are putting consumers under increasing financial pressure, which TDX Group believes will result in an increase in the number of Individual Voluntary Arrangements (IVAs) and Debt Management Plans (DMPs). According to TDX Group data, DMPs account for approximately £10 billion of personal debt and a further £5 billion is set to be added this year as refinance and remortgage options continue to dwindle.

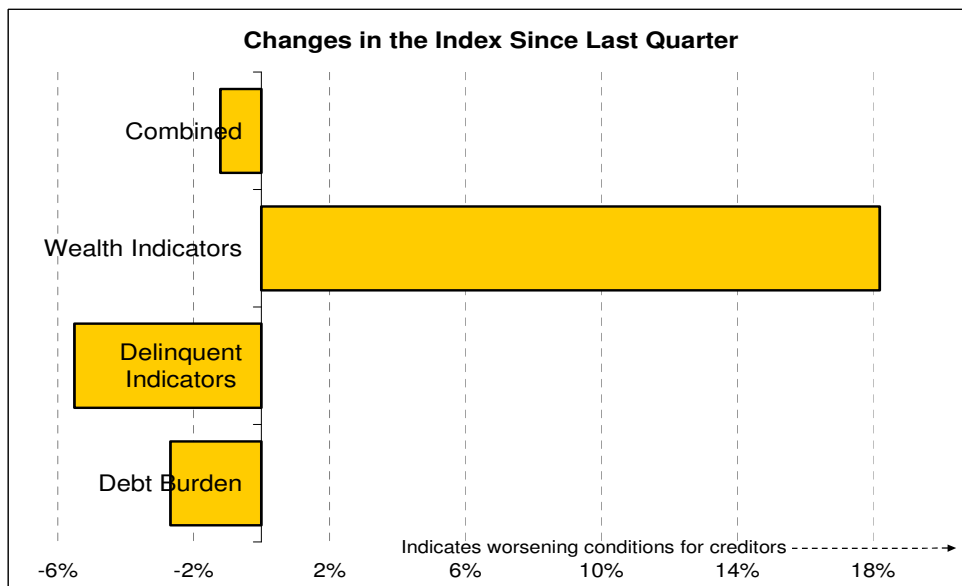
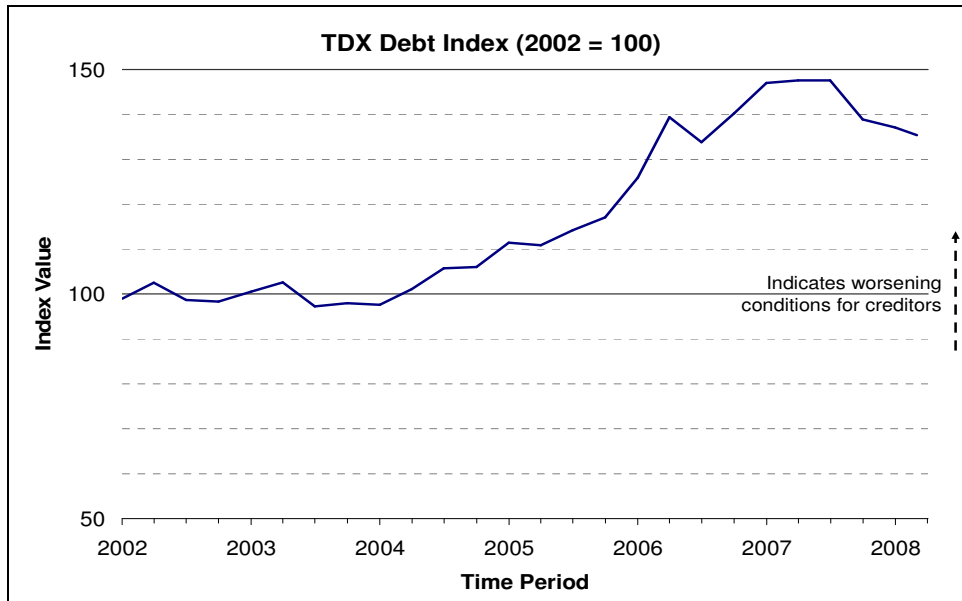
Despite the problems facing consumers, creditor conditions have improved marginally over the past quarter due to a 2.7% fall in the debt burden indicators of the index and a 5.5% decline in its delinquent indicators. TDX Group believes that a key underlying reason has been the success achieved by creditors in reducing credit losses, suggesting they are managing risk more effectively through introducing tighter underwriting criteria. This would account for the 17% reduction in unsecured write-off rates in the past quarter. Creditors are also benefiting from a reduction in the interbank lending rate to levels observed before the onset of the credit crunch in second half of 2007.

Mark Onyett, Chief Executive of TDX Group said, “The latest findings from our Debt Index show a mixed picture, with lower credit losses offset by a rapid decline in household wealth. But given the bleak economic backdrop, it’s unlikely that the picture will be positive for much longer. We’re already seeing far higher numbers of consumers struggling with personal debts and the pressure is set to intensify over the coming months.”

The TDX Group Debt Index is made up of three components:

- **Debt Burden Indicators:** These track the overall level of personal debt and the servicing costs incurred by creditors. These fell by 2.7% between Q1 2008 and Q2 2008.
- **Delinquent Indicators:** These indicate the level of adverse behaviour amongst people with debts and the adult population as a whole, and include factors such as insolvencies and unemployment. These fell by 5.5% between Q1 2008 and Q2 2008.
- **Wealth and cost of living Indicators:** This category contains factors that indicate the overall wealth level of the UK population and changes in the cost of living. This rose by over 18% between Q1 2008 and Q2 2008 as the general cost of living increased and property price increases stalled or fell in some parts of the country.

Since its launch in 2002, the Debt Index has risen by 36% and is 22% higher than the same period in 2005, demonstrating that creditors have found it far harder to collect debts over this period.



* Based on data trends through the end of Q1 2008

About The Debt Index

The Debt Index has been developed by TDX Group to represent the impact of current macroeconomic and credit sector factors on creditors' efforts to collect on their outstanding balances. The index is based on 2002 = 100 and has been calibrated such that a rise in the index value represents worsening conditions from a creditor's perspective. The index comprises of a number of macroeconomic variables and industry performance measures which are weighted based on their predicted impact. Each variable is assigned to one of three categories, with each category representing an underlying cause for a worsening debt market;

ENDS

About TDX Group

TDX Group is the leading provider of analytics-based debt management, and it has revolutionised the debt management industry with this approach.

TDX Group sells over 40% of all debt sold in the UK; manages debt portfolios for leading financial services companies, utility providers and debt portfolio owners; and runs The Insolvency Exchange, providing an industry-wide solution for IVAs. They are one of the UK's fastest growing companies.

Because of its unique intermediary position, TDX Group has a client focus that is independent of collection agencies, debt purchasers, insolvency practitioners and technology providers. The company's breadth of services and scale of operations gives it unrivalled data on debt sale, debt purchase, IVAs and recoveries strategy and performance. This data, when combined with TDX Group's core analytics capability, supports its analytics-based debt management approach.

TDX Group works for creditors and debt portfolio owners to deliver improved returns from their semi- and non-performing assets. Key clients include Halifax-Bank of Scotland, HSBC, Alliance & Leicester and Powergen.