LARGEST MORTGAGE LENDERS: 2020

June 2021

Written by:

Callum Bilbe
Analyst, Data & Research

Our annual largest lenders data shows annual mortgage lending and mortgage balances outstanding in 2020 for each UK Finance mortgage member. We show these figures for all mortgage lending on residential properties to individuals (table MM10) and for buy-to-let mortgage lending on residential properties to both individuals and companies (table MM11).

MORTGAGE LENDING TO HOMEOWNERS IN 2020

Gross mortgage lending to individuals in 2020 totalled almost £244 billion, down 9.3 per cent on 2019. As set out in our **Q4 2020 Household Finance Review**, the decline in lending in 2020 was driven by the impacts of the Covid-19 pandemic, particularly in Q2 2020 where the first national lockdown prevented most house purchase activity from taking place.

The market saw some contraction of product availability last year, particularly at higher loan-to-values (LTV), reflecting prudent lending in an uncertain economic environment. However, lenders have continued to provide mortgage credit for both remortgages and, once the housing markets were reopened, for home purchases throughout the pandemic. Despite the continuing economic uncertainty, appropriate LTV limits and responsible lending rules continue to ensure that loans remain affordable and that borrowers have adequate buffers, both of income and equity, to protect customers against adverse shocks.

The housing market closure and the wider impacts of the pandemic did inevitably depress lending activity last year. The operational and market impacts of Covid-19 on lending were felt across the mortgage market, with declines in lending across all lender types (Chart 1).

Chart 1: Gross mortgage lending to individuals in 2020 by lender type, year-on-year percentage change

Source: UK Finance Largest Lenders

RINGFENCING CONTINUES TO HAVE AN IMPACT, BUT THE MARKET REMAINS DIVERSE

While lending levels have fallen across the market, those seen across the largest financial institutions are smaller in relative terms than those seen elsewhere. As we set out in our 2019 data release, a potential factor in the recent increases in market share for the largest lenders was the introduction of ringfencing on January 1st 2019.

Ringfencing means that retail banking is separated entirely from investment banking activities within the largest lenders. Retail deposits can only be used for funding other retail banking activities, such as mortgage lending or personal loans and overdrafts.

Deposit levels in ringfenced banks (Chart 2) have grown gradually from £600 billion in 2010 to over £800 billion at the start of 2019. These deposit levels in retail banking are on average higher than lending levels. The increases seen in retail deposits balances of the largest banks have resulted in increased mortgage lending.

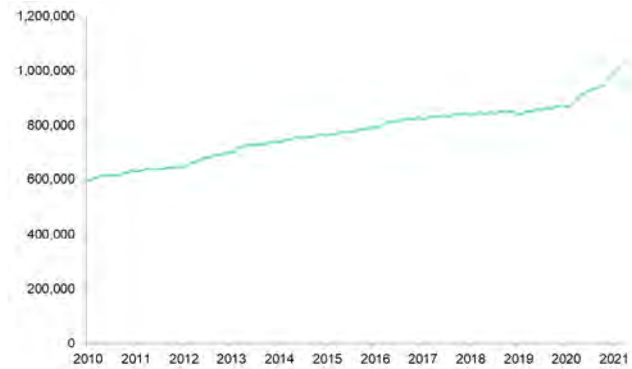
This increase in supply of mortgage credit initially led to a gradual decrease in mortgage pricing throughout 2019 and into early 2020 (Chart 3), a trend further fuelled by competition from mid-tier lenders and larger building societies.

The average interest rate of new mortgages has since risen, from mid-2020 through to 2021, as the stamp duty holiday introduced in July 2020 has increased demand for mortgages. However, average pricing in 2021 remains at the historically low levels seen over the past two years.

As a result of this increase in supply arising from ringfencing, we have seen the market share of the largest banks increase over the past two years (Chart 4). This follows a period of decline in market share for these lenders from 2009-2017 driven by an increased number of new lenders from different sectors entering the market or expanding their existing lending.

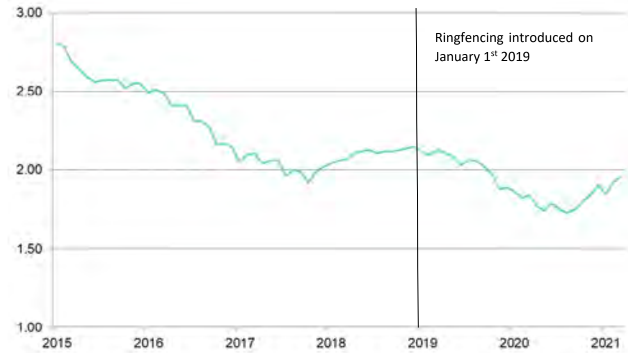
It is important to note that, while the market share of the largest banks has increased in 2019 and 2020, these are still relatively small increases and ultimately the mortgage market remains more diverse and competitive than it has been historically.

Chart 2: Level of personal deposits for all ringfenced banks, £ million



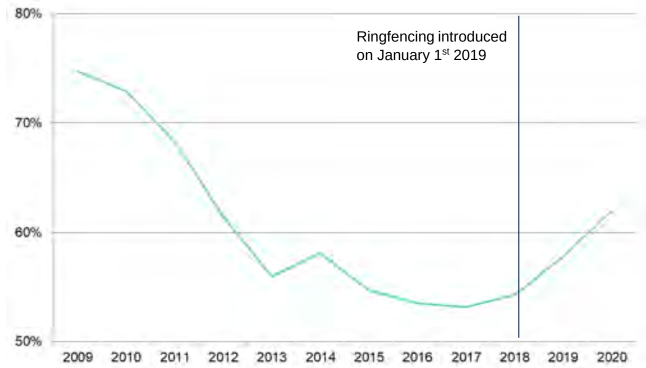
Source: UK Finance Household Finance Review

Chart 3: Mortgage rates for new mortgages



Source: Bank of England

Chart 4: Market share of largest UK banks for gross mortgage lending to individuals



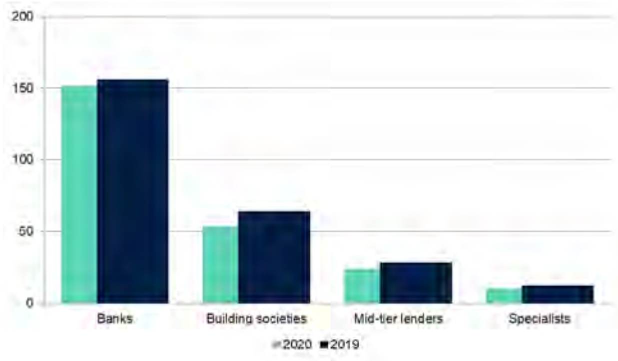
Source: UK Finance Largest Lenders

COVID-19 IMPACT ON SPECIALIST LENDING

While ringfencing helps to explain some of the differences in lending volumes between ringfenced banks, building societies and mid-tier lenders, it does not account for the declines in lending in the specialist sector, which are larger than in other sectors. Specialist lenders play an important part in the mortgage market, operating in niche areas and catering for borrowers where underwriting is often more complex. The contraction in specialist lending does not appear to be related to movement away from any specific specialist markets. This decline in lending instead likely relates to factors that impacted the specialist sector as a whole in 2020, for example falls in higher loan-to-value lending (seen across the entire mortgage market) and more limited access to wholesale funding support immediately following the shutdown of the mortgage market in April.

There are examples of this in lending to self-employed borrowers (where underwriting these loans can be harder, partly due to challenges in evidencing income) and lending on lifetime loans (made more difficult by logistical issues presented through the Covid-19 pandemic), which are two prominent parts of specialist lending. There were 60,000 homeowner purchases by self-employed borrowers in 2020, a decline of around 10,000 loans or 15 per cent compared with 2019. Similarly, there were over 41,000 new lifetime loans completed in 2020, representing a decline of around 2,900 loans (seven per cent) compared to 2019. The decreases in lending across these markets are broadly in line with declines in lending across the wider mainstream market, demonstrating that the specialist sector has continued to service borrowers with more complex needs throughout the pandemic. Additionally, the declines in specialist lending are from a low base, as shown in Chart 5, so contractions in this sector appear more pronounced than in other sectors when viewed in percentage terms.

Chart 5: Gross mortgage lending to individuals by lender type, £bn



Source: UK Finance Largest Lenders

BUY-TO-LET MORTGAGE LENDING IN 2020

Gross buy-to-let mortgage lending to individuals and companies in 2020 totalled £38.1 billion, down 12.4 per cent on 2019. There were some differences in lending in the buy-to-let sector compared with the wider mortgage sector, as shown in Chart 6, with lending by the largest banks increasing slightly on the year prior. These increases reflect significantly higher demand (due to the stamp duty holiday) offsetting the decline in lending during the Q2 housing market shutdown. As with the residential sector, it is likely that the impacts of ringfencing on the mortgage market contributed to differences in lending between larger lenders and the rest of the market. The market share of the largest banks also increased in this sector, with an increase of five percentage points compared with 2019. However, these lenders only make up 38 per cent of all buy-to-let lending, with the buy-to-let market overall remaining diverse and competitive.

Chart 6: Gross buy-to-let mortgage lending to individuals and companies in 2020 by lender type, year-on-year percentage change

Source: UK Finance Largest Lenders

SUMMARY

Lenders have continued to provide homeowners and landlords with mortgages despite the logistical challenges and tightening affordability presented due to the Covid-19 pandemic. As a result, homeowners and landlords have been able to take full advantage of the stamp duty holiday during 2020 and into 2021. The mortgage market has managed to maintain a diverse mix of lenders with different strategies and risk appetites, allowing borrowers with a range of needs and circumstances to continue to access a choice of mortgages.

NOTES TO EDITOR

Our ranking tables show members' gross mortgage lending in the calendar year and balances outstanding at the end of the year, rounded to the nearest £10 million for buy-to-let and £100 million for the full market and ranked on the same basis. This means that the very smallest firms – those with under £5/£50 million of lending respectively – do not feature.

Neither of these tables includes commercial loans used, for example, to purchase properties rented for office space etc.

As the bases for our largest lender tables for full market and buy-to-let mortgage lending differ, it is not possible to infer any one lender's residential mortgage business by subtracting one from the other.

You can find more information about ringfencing on the Bank of England's website **here**.