Household Finance Review – Q2 2020

The second quarter review of 2020 captures the latest data on household economic activity and finances during the COVID-19 pandemic.

The UK and global economy experienced an unprecedented fall in activity as a result of the pandemic and households have been buffeted by restrictions on their movement, job market uncertainty and declining incomes. Consumers have also had access to various forms of support from government schemes and, directly, from the finance sector. We look in detail at how these developments have affected mortgage market activity and trends in unsecured lending over the quarter and what this might tell us about future developments in household finances.

Eric Leenders, Managing Director, Personal Finance comments:

"The economic and logistical impacts of lockdown in the second quarter of 2020, restricting the ability of households to buy or move house, brought about a radical reduction in activity in the mortgage market and shifted refinancing further towards internal product transfers. These impacts are now receding and we are beginning to see some recovery in the housing market.

"The decline in unsecured borrowing noted in Q1 accelerated as lockdown held back spending, but with restrictions lifting, levels are now starting to rise again.

"Many borrowers have been supported through the pandemic with temporary payment deferrals and – looking forward to the third quarter of 2020 – it is encouraging to note that a significant number of customers are now able to resume repayments.

"Although economic activity is beginning to recover, the outlook in the jobs market suggests that customers will still need help and lenders stand ready to provide the appropriate support to those who need it."

HIGHLIGHTS

- **House purchase lending plummeted in Q2 as the housing market was suspended due to lockdown, with homemover activity hit most severely.**
- **Mortgage refinancing fell but held up better than purchase activity, with a significant shift towards internal product transfers.**
- **While lenders have maintained a cautious approach to underwriting in uncertain times, higher-LTV lending is still taking place and contracted less than the wider market.**
- **With England reopening its housing market in May, forward-looking data point to a strong initial recovery in early Q3, as the backlog of delayed sales complete.**
- **The end of June saw the first wave of mortgage payment deferrals come to an end, with fewer than one million customers now on a payment deferral compared with 1.8 million at the peak in early June.**
- **The unprecedented package of industry and government support in the initial months of lockdown has kept arrears to a minimum, with zero enforced possessions.**

UK economic context and outlook

The first six months of 2020 have seen an unprecedented contraction in economic activity in the UK, and globally, as a result of the COVID-19 pandemic and the steps taken by governments to contain it. In last quarter's Household Finance Review we saw the very early signs of this impact on UK activity as lockdown measures came into force.

The full effects of the closure of large parts of the economy – necessary to enforce social distancing and to stop the spread of the virus – were experienced in April, when GDP fell by 20 per cent, following a 6.9 per cent decline in March. No sector was immune from the effects of the crisis, but the biggest hit was to the construction sector (declining by over 40 per cent in April alone) and to consumer-facing segments of the service sector, such as accommodation & food services and arts & recreation, where output collapsed in April. With access to most retail outlets also temporarily closed down, consumer spending on the high street plunged. This was offset to some degree by a rise in online spending, but a slump in consumer confidence, concerns about household finances and future job prospects provided a further brake on spending activity.

The latest data from the Office for National Statistics (ONS) confirmed that the UK economy entered a recession in the second quarter of this year, defined as two consecutive quarters of declining GDP. However, there were signs of a rebound at the end of the quarter, with all of the broad economic sectors – production, construction and services – showing something of a rebound in June, as government restrictions were lifted and the economy began to gradually reopen. Further evidence from more frequent private sector surveys point to a continuation of this recovery over the summer.

Nevertheless, the economy was still some 17 per cent smaller in June compared with February, and the question now is how rapidly can that lost output be regained? There are three significant factors that will determine what shape of recovery we are likely to see in the coming quarters – what happens in the labour market, the extent of ongoing support to the economy from government and the potential path of the virus as we head into the autumn.

Starting with the labour market outlook: ONS data point to a significant fall in the number of employees on payrolls, with the decline in employment in the second quarter the largest reported since the financial crisis. While the headline unemployment rate was largely unchanged, this masks the 7.5 million employees currently on furlough, supported by the government's Coronavirus Job Retention Scheme (CJRS), and a rise in economic inactivity – that is people not in work, nor seeking employment. Additionally, recent surveys show that while private sector activity has been on the rise, firms have been shedding jobs at an accelerating rate in recent months.

These trends are reflected in economists' expectations of a more significant rise in unemployment in the second half of this year. The Bank of England's latest forecasts, for example, point to the unemployment rate rising to 7.5 per cent this year, up from the current rate of 3.9 per cent (a level which has been broadly stable since the end of 2018). But there is a high degree of uncertainty around this projection, with the Office for Budget Responsibility (OBR) taking a more negative view of labour market prospects this year. In either scenario, a significant rise in job losses will hold down consumer confidence and households' appetite to spend.

The progression of the virus itself could further weigh on consumer confidence, if there are signs that we could experience a second wave of the pandemic in the autumn. Households need to be similarly confident in the public health response to encourage them to return to high streets and entertainment venues.

Thirdly, there is a question of continued support from government. Given the widespread nature of the recession, the government's support package thus far aimed to limit the scale of job losses in the short term, offer a cash lifeline to those businesses that needed it and support household and business finances with loan and tax payment deferrals. This was critical to ensuring that individuals and businesses didn't shoulder the burden of the impact of the global health crisis. Aspects of this support package will be unwound in the coming months, and while there are calls for the CJRS to be extended, it is likely that the government will need to take a flexible approach to supporting jobs and businesses, responding to public health developments as necessary.

While the recession in the first half of this year may turn out to be short, it is also the most severe on record. A return to growth later this year and in to 2021 is widely expected, but the climb back will be gradual and dependent on developments in the labour market and a continued recovery in confidence. This is the context of the 2020 Q2 Household Finance Review, where the next sections will look at how households have responded to the economic crisis in terms of their borrowing on cards, loans and overdrafts and also the key developments in the mortgage market over the quarter.

Q2 2020 – Pause in housing market led to dramatic fall in mortgage activity

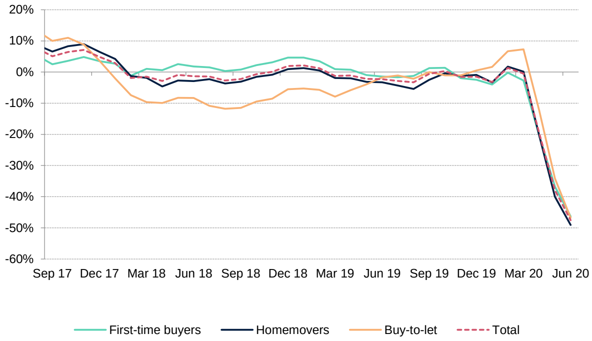
2020 began with a continuation of the broadly flat picture in residential house purchase activity seen through 2019. At the same time buy-to-let purchases, after a protracted period of substantial year-on-year declines, had finally started to show a return to modest growth, albeit from a very low base.

However, the end of Q1 also signalled the end of a period where the main drivers of subdued activity were Brexit uncertainty and affordability, and the beginning of another where the social and economic impacts of the global pandemic have eclipsed all others.

As UK-wide lockdown came into effect from 23 March 2020 the pause button was pressed on the housing market, with all but those purchases with an agreed, imminent completion date put on ice. While the mortgage industry committed to extend the period for which mortgage approvals would remain valid, allowing purchases to take place once lockdown measures had been lifted sufficiently, the effect of lockdown was immediate and dramatic.

As the end point of the mortgage transaction, our completions data for Q2 reflect the full effect of this pause on the purchase market (***Chart 1***).

Chart 1: Number of mortgages for house purchase (3-month moving average, year-on-year change)



Source: UK Finance

Following the first quarter, which showed essentially zero year-on-year growth, lending turned immediately and sharply negative. Volumes in April were less than half those seen a year previously with a similar annual rate of contraction in May.

With the housing market partially reopening in May, June saw an easing of the rate of contraction, but activity remained considerably below the levels seen in June 2019.

Within the overall contraction, the heaviest decline was seen in homemover numbers, which fell by 61 per cent year-on-year in April alone, compared to 53 per cent for first-time buyers (FTBs) and 54 per cent for buy-to-let (BTL) purchases.

Homemover activity is likely to have been disproportionately affected by the crisis for a number of reasons. Homemovers, usually needing to both buy and sell at the same time, are far more reliant on the successful formation of housing chains than first-time buyers (FTBs) and buy-to-let (BTL) investors, who are not dependent on selling property. Therefore the very significant logistical challenges of home buying and selling as a result of the pandemic, as well as those from the disruption to employment and incomes, may be exponentially amplified for homemovers, with each link in the chain usually needing to be in a position to transact for the entire chain to proceed.

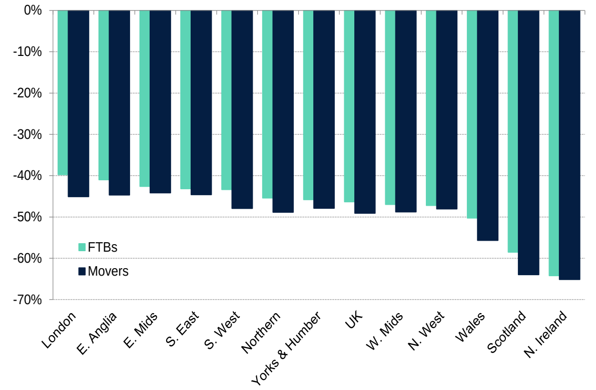
The particular weakness in homemover numbers may also reflect something of a change in some households' intentions under lockdown, even for those still able to transact. If a household lives in a property which is well-suited for lockdown conditions and home-working (for example good WiFi, spare bedroom, garden) these prospective buyers may be less willing to compromise than they may have been, pre-lockdown, if the new property is less well-appointed in respect of one or more of these features.

As lockdown is progressively eased we are likely to see any rebound more delayed for homemovers, as these chains may take longer to regroup and, in some cases, may not complete at all, at least not in their original composition.

The regional impact of COVID and lockdown has not been uniform

Although the closure of the market has affected all parts of the UK, the impact on regional markets has been far from evenly distributed (***Chart 2***).

Chart 2: Year-on-year change in new house purchase mortgages in UK counties and regions, Q2 2020



Source: UK Finance

Despite seeing the worst of the initial wave of COVID-19 infections, London and the Southern regions of England have been somewhat less severely impacted, although clearly still very significantly down by over 40 per cent year-on-year.

The deepest impacts, however, have been seen outside England. In particular, Northern Ireland saw new mortgages for house purchase fall by nearly two-thirds compared with Q2 2019.

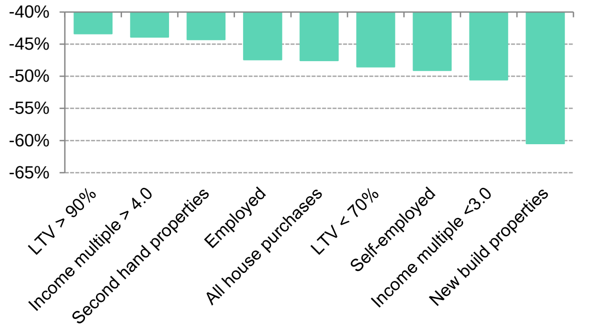
Some important historic context here is that, as we have noted previously, Northern Ireland has been seeing unspectacular but steady growth over the past few years to recover from the deep housing recession seen there following the global financial crisis. Despite this, prices there have yet to recover to their peak.

This does not in itself pose a risk to market recovery as we emerge from lockdown, and affordability in Northern Ireland is significantly better than in the rest of the UK, primarily as a result of this historic path of house prices. However, it does mean that existing homeowners in Northern Ireland are disproportionately exposed to a more pessimistic forward scenario should the housing and labour markets experience simultaneous downturns.

Whilst lockdown put the brakes on all homebuying, some segments were hit harder

For Q2 overall, house purchase activity was down 48 per cent compared to Q2 2019. However, like the geographical picture, this decline has been unevenly distributed across different borrower segments (***Chart 3***).

Chart 3: Year-on-year change in new house purchase mortgages, borrower segments, Q2 2020



Source: UK Finance

With construction hit hard by lockdown restrictions, lending for new build purchases has seen a particularly high impact, falling over 60 per cent year on year. The extension of the Help-To-Buy scheme beyond its planned closure at the end of 2020 will provide a welcome relief for those whose planned purchases of new property have been delayed, allowing an additional two months for homes to be completed and still qualify for the scheme.

Although some of the economic impacts of the pandemic have impacted disproportionately on the self-employed workforce, this has not been particularly reflected in the new lending picture, where we can see that there is only a marginally greater decline in lending to the self-employed, compared to employed borrowers.

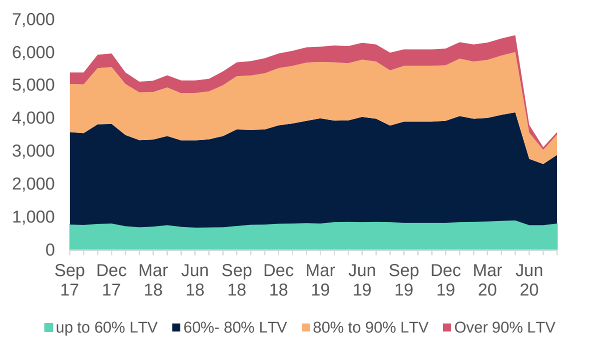
However, a more unexpected difference can be seen within the loan-to-income (LTI) and, more significantly, loan-to-value (LTV) profiles of new lending. Lending at higher (over 90 per cent) LTVs has seen a smaller decrease than the market overall, with the larger declines seen within lower LTV bands. A similar, although less pronounced divergence is seen for LTIs, with higher LTI lending seeing a smaller proportional decline than lending at lower LTIs.

Unscrambling the LTV puzzle

The proportionately smaller decline in higher LTV lending runs somewhat counter to reports that lenders have been drawing back from higher LTV lending as the pandemic took hold.

Whilst there are significantly fewer higher LTV products on the market – over an 80 per cent decline from late March to the end of June (***Chart 4)*** – firms remain willing to lend at higher LTVs, and the comparatively smaller decline suggests demand at the higher end of the LTV spectrum has also held up relatively well.

Chart 4: Number of residential mortgage products available



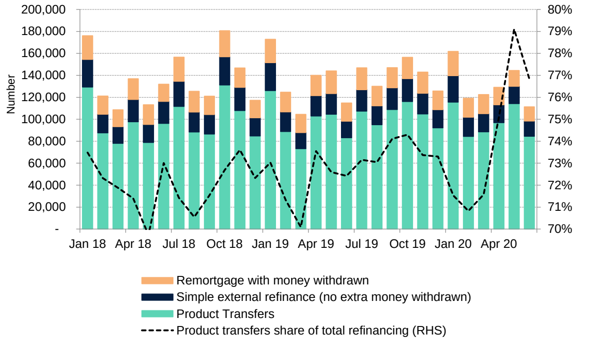
Source: Moneyfacts

However, in this hugely uncertain economic environment, lenders have needed to take a more cautious approach to granting credit in segments such as higher LTV lending which present a heightened risk to the customer in the event of a market downturn. Now, more than ever, lenders need to ensure that customers can afford to pay their mortgage, both now and on an ongoing basis, with a buffer against negative shocks to their household finances.

Refinancing held up relatively well, driven by strength in Product Transfers

Refinancing activity also saw a contraction in Q2, but the four per cent year on year fall overall is far less severe than the 48 per cent drop seen in the house purchase market (***Chart 5***).

Chart 5: Number of residential remortgages and internal product transfers



Source: UK Finance

A major part of this relative resilience stems from the fact that many refinancing transactions can be carried out entirely via online or other remote channels with no need for face-to-face interactions, making them well-suited to lockdown conditions.

However, the main source of strength in the refinancing has come from internal Product Transfers (PTs). The industry's commitment to continue to offer PTs to existing customers currently taking a COVID-related Payment Deferral (PD) or on furlough has allowed more customers to lock in to the low mortgage rates currently available.

Accordingly, PT volumes grew two per cent year on year in Q2, partially offsetting the more significant declines elsewhere in refinancing activity.

Already by far the most common method of mortgage refinancing in the UK, PTs increased further as a share of overall refinancing business. In Q2 PTs accounted for 77 per cent of all refinances, up from 72 per cent in Q1, helped by this industry initiative and the ease with which PTs can be transacted, even in the current lockdown conditions.

On the flip side to this, the largest contraction within refinancing overall was seen for those external remortgages where money is withdrawn, which require the greatest degree of interaction and are most likely to be conducted on an advised basis. These remortgages with money withdrawn fell 22 per cent year-on-year in Q2, as face-to-face access to mortgage advisers was not a viable option for most customers.

This pattern of customers' approach to refinancing under lockdown conditions is supported by a change in the profile of customers remortgaging internally, compared with those moving to a different lender.

Under "normal" conditions, customers with higher balances are more likely to look to the wider market when choosing a remortgage, as the savings from selecting the best deal are more likely to justify the time and effort of doing so. Conversely, customers with lower balances – and therefore less to gain from this – are more likely to choose the simpler, quicker option of an internal PT.

However, in Q2 the average loan size for a PT rose five per cent to £145,000, compared to a one per cent rise in the average value of an external remortgage. This suggests more customers who would, under normal conditions, have looked to the open market when remortgaging, have chosen to remain with their existing lender.

Many of these are likely to have been those customers who have taken a payment deferral or been furloughed and would otherwise have found refinancing problematic, were it not for the industry initiative. Others may have been able to look on the open market but were deterred from doing so by the logistical difficulties presented by lockdown.

Product Transfers are likely to remain even more popular through the crisis, allowing many customers to lock into better deals, including those who may experience negative income shocks in income through lockdown.

Prospects for an initial rebound in Q3

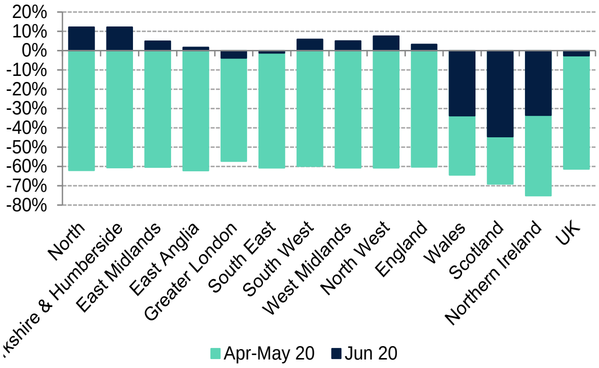
Although the social and economic consequences of COVID-19 and lockdown are still evolving, the initial closure of the housing market is now over, albeit that activity now is taking place in a socially-distanced operating environment. A range of commentators have estimated the material scale of delayed purchase activity; Zoopla, for example, estimated that 373,000 purchases had been put on hold.

It is likely that some proportion of the delayed transactions will not immediately resume, either because they are deterred by the uncertainties surrounding both the housing market and the wider economy, or because their prospective buyer and/or seller has themselves pulled out of the transaction in the intervening period. A further cohort of prospective buyers will have seen significant shocks to their incomes and will need to further delay their homebuying plans until they get back on track.

Notwithstanding this, early indicators point to a strong initial bounce back. As the English housing market reopened in May, estate agents reported a huge surge in enquiries and viewing requests as customers temporarily unable to look for a new home recommenced the process.

Internal UK Finance data on mortgage applications, which measure mortgage lending at the earliest formal stage of the process and so are a lead indicator of completions activity 1-2 months after, suggest a return to growth in early Q3 (***Chart 6***).

Chart 6: Number of residential mortgage applications, per cent change year on year



Source: UK Finance

Having fallen around 60 per cent overall in April and May, the number of applications in June were up three per cent compared to June 2019 for England as a whole.

This contrasts with the housing markets in the devolved nations, which all showed continued, significant year-on-year contraction in June. This largely reflects the fact that, while the English market was reopened on 13 May, this came later in Northern Ireland (15 June), Wales (22 June for vacant properties, 27 July for occupied property) and Scotland (7 August). A similar initial rebound in these countries is therefore likely to be delayed somewhat compared to England, according to these timelines.

Even in England, however, this initial rebound has not been uniform, with the northern regions showing up to double digit year-on-year growth in applications in June. In contrast London and the South East, despite recovering strongly from the collapse in early Q2, remained in modest contraction in June.

While not all applications will eventually become completions, this suggests July and August are likely to see a significant recovery in mortgages advanced, largely from transactions paused during the initial months of lockdown when the housing market was closed.

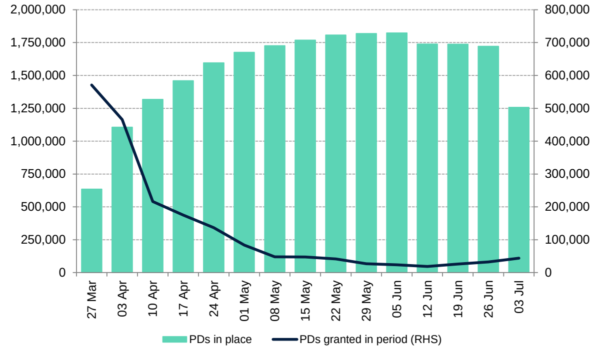
It is virtually impossible to predict either the national or regional dimension beyond this, as much depends on the incidence (or absence of) localised COVID-19 outbreaks and the associated impact on localised economies and industries.

COVID-19 related payment deferrals

As we set out in the Q1 review, lenders have put a huge effort into ensuring that borrowers are supported as much as possible if they are struggling with payments as a result (either direct or indirect) of COVID-19.

Lenders have now granted more than two million mortgage payment deferrals (PDs) since the scheme came into effect in late March. However, the number of PDs in place is now considerably lower than that (***Chart 7***).

Chart 7: Number of mortgage PDs in place and newly granted at the end of each working week



Source: UK Finance

In the ten weeks between 5 June and 14 August, around 1.5 million PDs came to an end. Almost half of these were in the week ending 3 July, reflecting the fact that many lenders have mortgage Direct Debits taken either on the first or last day of the month. The week ending 3 July then covers the three-month point following the end of March/beginning of April, when the majority of the initial wave of PDs were requested and granted.

The total number of PDs in place peaked in the week ending 5 June at over 1.8 million and, although over 250,000 more have been granted since then, as at the end of the week ending 14 August the total number in place had fallen to 731,000.

Going forward, our emerging data suggests a pattern of growth in the stock of PDs in place through each month as requests for PDs from customers arrive steadily, albeit at a far slower rate than that seen in the early weeks of lockdown, followed by a substantial decline at the end of each month as Direct Debits fall due.

The PD scheme remains open for both new requests and extensions until the end of October. Within this timeframe we may therefore see more material increases in PDs in place, if and when there are local or national spikes in the spread of COVID, with associated lockdown and employment/income implications.

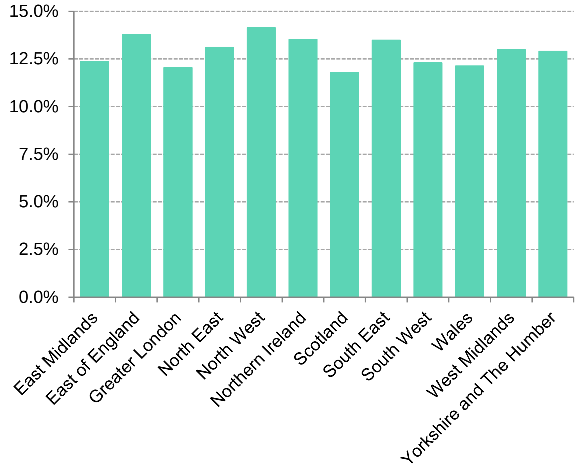
It is therefore useful to understand the characteristics of those borrowers who have taken a mortgage PD, given the potential for further increases in requests over the coming weeks.

Based on data for PDs granted to homeowners through to the beginning of May (by which time the vast majority of the initial wave of PDs had been granted) we can look in more detail at those customers who have taken a mortgage PD.

A first observation is that, like most things relating to COVID, the effects have been profound and widespread.

There is some modest variation but, as at the beginning of May, between 12 and 14 per cent of residential mortgage customers in every UK region and nation had taken a PD (***Chart 8***).

Chart 8: proportion of residential mortgage customers taking a PD, UK countries and regions

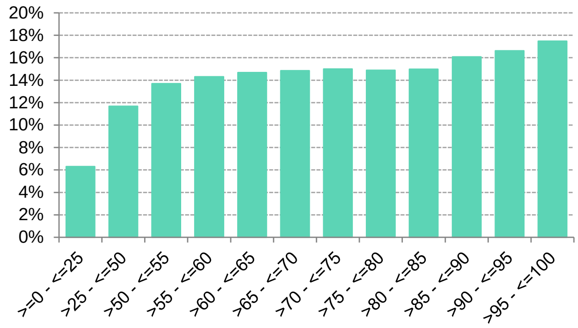


Source: UK Finance

Notes: data cover homeowner mortgages where a COVID-related PD was in place up to the start of May 2020

A second finding is that there is a clear positive correlation between current (indexed) LTV and the incidence of PDs (***Chart 9***).

Chart 9: proportion of residential mortgage customers with a payment deferral by indexed LTV



Source: UK Finance

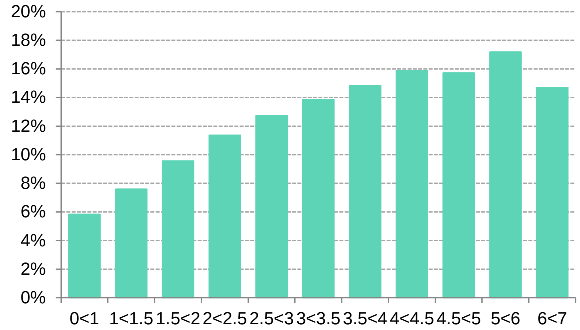
Notes: data cover homeowner mortgages where a COVID-related PD was in place up to the start of May 2020

For those at the higher end, capitalisation of the deferred payments after the PD ends, should the customer choose this, will erode their already modest equity stake.

As with all observations about low or negative equity, this is not in itself an issue but may become problematic should the homeowner need to crystallise this equity. This could occur either when the customer wants to move home or access equity withdrawal mortgage products. There is also the very small proportion of customers who may fall into arrears and cannot recover their position, making sale of property, either with or without possession (as a last resort), the only remaining option.

We can also observe a similar positive correlation between loan-to-income multiple (LTI) as measured at point of sale and the incidence of PDs (***Chart 10***).

Chart 10: proportion of residential mortgage customers with a payment deferral by initial LTI



Source: UK Finance

Notes: data cover homeowner mortgages where a COVID-related PD was in place up to the start of May 2020

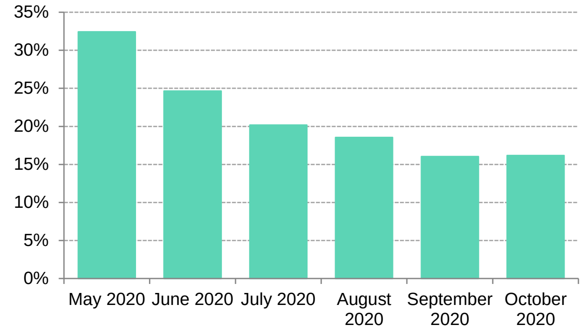
This points to further (pre-existing) layering of risk factors for those whose ability to pay has been affected by COVID.

The higher incidence of PDs for loans higher up the risk curve reinforces our earlier observation as to lenders drawing back the range of higher LTV products. This reflects responsible lending practice in uncertain times, as higher LTV customers are more likely, all other things being equal, to experience payment difficulties downstream.

Therefore, while firms are still lending at these higher LTVs and LTIs in response to continuing customer demand, they are doing so with all appropriate caution to ensure customers taking out these loans are well-placed to afford the payments.

Although we do not have details of existing borrowers' *current* income, there is also clear evidence that those on a payment deferral ending soonest are significantly more likely to have had relatively low income at the time of their original mortgage application (***Chart 11***).

Chart 11: proportion of payment deferrals coming to an end where income on application was under £30,000



Source: UK Finance

Notes: data cover homeowner mortgages were a COVID-related PDs was in place up to the start of May 2020

This chimes with the wider societal narrative of lower income households, including those in the retail and hospitality sector and in manual labour jobs, having been hit sooner and harder by the economic impacts of lockdown.

Those on higher incomes, while far from immune to these impacts, are more likely to have had a cushion of savings or may not have been furloughed immediately after lockdown and the Job Retention Scheme began in April.

Arrears & possessions kept to a minimum through extraordinary support

The global pandemic took hold in the UK at a time when mortgage arrears and possessions were near historic lows, with the overwhelming majority of borrowers paying their mortgages on time and in full.

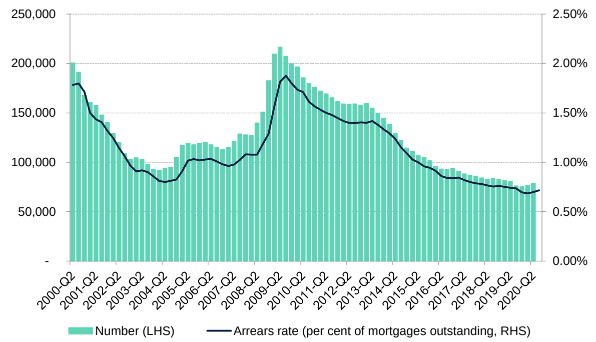
Against that backdrop, and in the face of the unprecedented challenges to household finances, it is likely that, without intervention, we would have seen very significant increases in mortgage arrears and, in subsequent periods, possessions.

However, the unprecedented package of support from the industry and government, including the Payment Deferral scheme, the moratorium in court possession proceedings and the Job Retention Scheme, has kept any increase in arrears to a minimum, even as the crisis brought significant negative income shocks for so many mortgage borrowers, with payment deferrals allowing them critical time to get back on their feet.

The Bank rate cut to 0.1 per cent will also have helped for those borrowers on variable rates, albeit that the majority of mortgage customers are on fixed rates and so will have not seen immediate benefit through their mortgage payments (but will do on any other variable rate loans they may have, including unsecured loans).

With these measures in place, mortgage arrears saw only a small uptick in Q2, following a similarly modest rise in Q1, and the 73,580 mortgages in arrears at the end of Q2 is 3 per cent fewer than the number a year previously (***Chart 12***). The modest increases in both Q1 and Q2 are likely to be largely driven by missed payments before customers took advantage of a payment deferral.

Chart 12: 1st charge homeowner and buy-to-let mortgages in arrears[1]



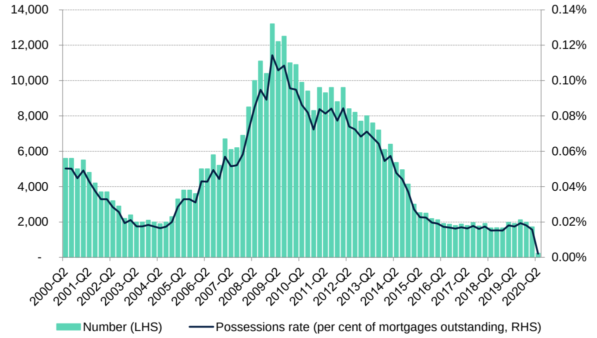
Source: UK Finance

Notes: 1. Arrears measured as those representing more than 2.5 per cent of outstanding mortgage balance

In contrast, with the moratorium fully in place in Q2, possession numbers plunged.

Following a relatively modest fall in possessions in Q1 - which reflected a completion of the unwinding of a previous backlog in court cases - Q2 saw possessions fall to essentially zero (***Chart 13***).

Chart 13: Number and proportion of 1st charge mortgages taken into possession in period



Source: UK Finance

The moratorium on court proceedings for possessions has meant that, through the whole of Q2, the only possessions that have taken place are voluntary – at the borrower's request.

This will remain the case in Q3, as the moratorium is in place until October 31 – the same date as the PD scheme comes to an end. Beyond this, however, the path of mortgage payment difficulties is hugely uncertain.

Clearly, the country was in a very strong position with respect to mortgage payment problems immediately before the crisis, but the path going forward depends hugely on the economic outlook and the impact of the Job Retention Scheme winding down. If an upside scenario on growth and employment materialises we may experience only very limited increases in arrears and possessions. However, this outcome is far from certain and there are material downside risks of a more protracted period of low growth and falling employment.

Should this be the case lenders are committed to providing ongoing support to those customers who need it, and there will remain a range of "business-as-usual" options available, including payment deferrals in appropriate cases. Possession will always be a last resort.

Initial data suggests that, for those customers whose mortgage payment deferral has come to an end, over 70 per cent have resumed making full payments. While this is a positive outcome for the majority, a significant number of customers have taken further payment deferrals and will need continued support.

However, deferred payments will ultimately need to be repaid and, as we and others, including the FCA, have noted previously, it will always be better for a customer who can afford to continue to make payments towards their mortgages or other borrowings to do so.

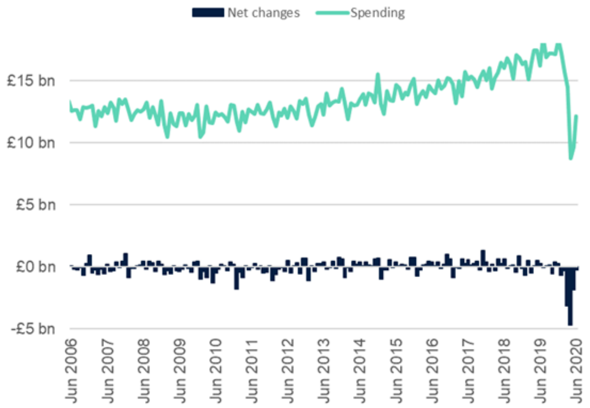
Unsecured Borrowing – Credit Cards

Credit card borrowing accounts for around half of all unsecured credit provided by banks and building societies. As reported in the Q1 2020 Review, spending on credit cards contracted by 12 per cent in Q1 compared to the previous year as lockdown restrictions implemented towards the end of March resulted in a sharp drop in spending.

In Q2 credit card spending dropped even further as large parts of the economy were closed such as entertainment, non-essential retail and travel was restricted. While there was a year-on-year increase in supermarket and food retailing as consumers continued to stockpile in early April, this was not enough to offset the falls across the board in other sectors. Borrowing did increase from April's level in May and more so in June as lockdown restrictions eased and further parts of the economy reopened.

Chart 14 highlights the impact of the lockdown at the start of Q2 and then the small increases seen in May and June. Overall credit card borrowing in Q2 2020 fell by 40 per cent compared to Q2 2019. While still at low levels, credit card spending had increased by 45 per cent in June compared with April. This is reflective of both lockdown restrictions easing as well as some tentative signs of improving confidence, however, this is still significantly lower than spending during the same time last year.

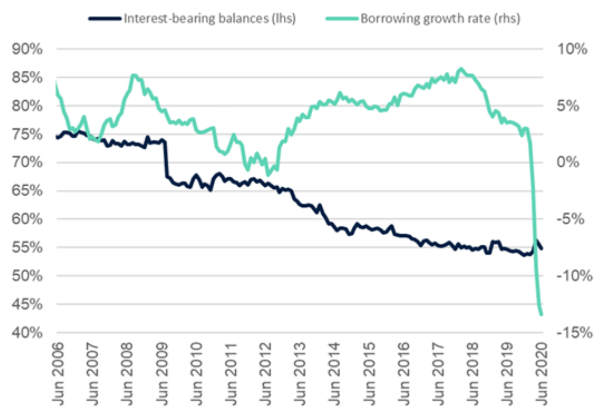
Chart 14: Credit card spending and net changes in balances outstanding



Source: UK Finance

Chart 15 illustrates the changes in borrowing on cards – mirroring the fall in spending, and also the proportion of interest-bearing credit cards. Over the past decade, the proportion of card balances bearing interest has reduced to 54.9 per cent as more credit card customers pay off balances in full when they receive their monthly statements. Whilst there was a small increase in the percentage of credit cards bearing interest at the start of Q2, this metric now sits at 54.9 per cent at the end of Q2, similar to where it was a year earlier.

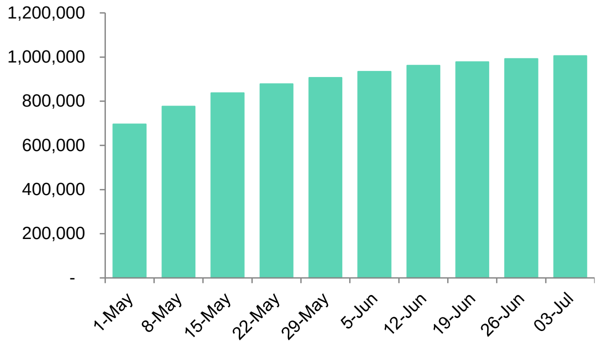
Chart 15:* *Annual growth in card borrowing and proportion of balances bearing interest



Source: UK Finance

In addition to expectations of lower levels of card spending over the coming quarters, further measures to support households through the crisis include three-month credit card repayment deferrals. The introduction of this additional support measure came into effect in April with 992,000 credit card payment deferrals having been agreed by the end of the quarter ***(Chart 16)***.

Chart 16: Number of credit card PDs in place at the end of each working week



Source: UK Finance

Unsecured borrowing – Overdrafts

Borrowing through personal current account overdrafts with banks and building societies was at a steady peak of around £10 billion between late 2005 and 2009. Since then the level of overdraft borrowing had gradually fallen to a steady rate at just over £6 billion from the end of 2015 onwards (***Chart 17***). In Q2 2020 overdraft borrowing fell to £5.2 billion. This fall in overdraft borrowing in Q2 can be attributed to some customers using their circumstances arising from the COVID-19 lockdown to repay borrowing. Due to lockdown some customers may have had lower expenses such as reduced travel costs as well as less opportunity to spend on food and beverage and non-essential retail. They may have then opted to use these additional savings to pay off any outstanding debts.

It should also be noted that, similar to credit card payment deferrals, many organisations provided customers with personal current account fee-free overdraft buffers up to £500. By the end of the quarter over 27 million personal current account holders had this applied to their account.

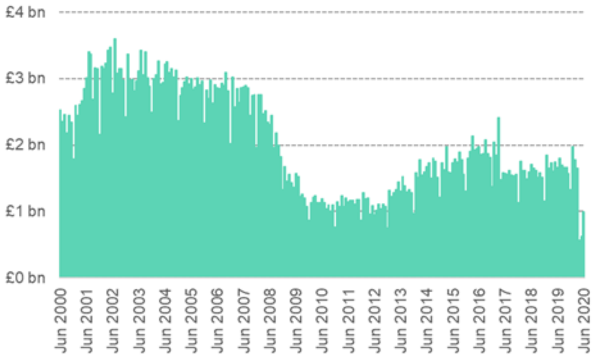
Chart 17: Overdraft borrowing

Source: UK Finance

Unsecured borrowing – Personal Loans

Demand for personal loans fell significantly in Q2 2020, with gross lending down 59 per cent compared with the previous quarter (***Chart 18***). This fall has been largely driven by the current economic environment with lower levels of consumer confidence and fear of rising unemployment seeing consumers cautious in taking on additional debt.

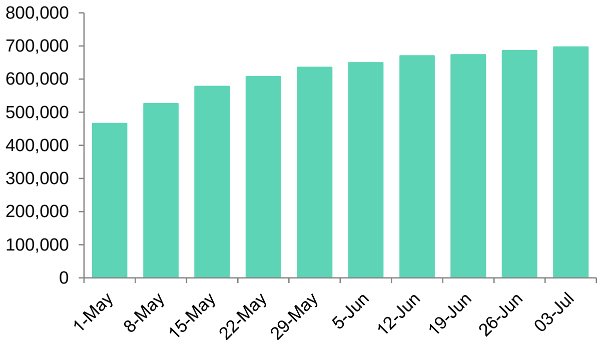
Chart 18: Amounts of new personal loans from banks



Source: UK Finance

Like the other unsecured products discussed, banks' COVID-19 support included three-month payment deferrals for personal loans. By the end of Q2 some 686,000 of these had been agreed with customers ***(Chart 19).***

Chart 19: Number of personal loan PDs in place at the end of each working week



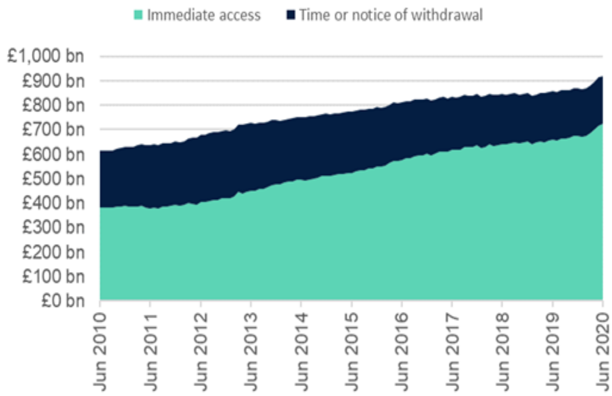
Source: UK Finance

While we expect, again, to see this translated in to an increase in amounts outstanding in the next quarter, it will take some time to understand how various payment deferrals on mortgages and other unsecured lending interact and how customers have chosen to use the flexibility of these support measures to manage their personal finances through the current crisis.

Deposits

In recent years data has signalled a build-up of savings amongst households. Households have favoured savings accounts with easy access. Lower investment returns from products, such as ISAs were also a factor contributing to the balance of savings being held in immediate access accounts.

Chart 20: Personal deposit account balances



Source: UK Finance

Chart 20 shows that over the second quarter of this year there was an accelerated growth in deposits. This was concentrated in immediate-access accounts. The wider economic effects of the lockdown and an element of increased precautionary saving, as households looked at their future finances and employment prospects with increased uncertainty, fed through to a five per cent rise in total deposits at the end of Q2 2020 compared with Q1 2020 – the largest increase in the series history, with the rise in immediate access saving coming in at six per cent over the same period.

But turning the tide of the past year there was a return to growth in ISAs over the three months to June. There has been a steady downward trend in ISA deposits through much of 2019, largely a consequence of reduced rates of return and a preference for easy access to savings through a period of elevated uncertainty. Despite the recent falls in saving rates, households have returned to ISAs in order to build up a safety net for the future. This tallies with recent consumer confidence indices, which indicate increased plans to save and economists' expectations of a sharp rise in the savings rate during the pandemic.

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