Household Finance Review – Q2 2024

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This review explores trends in consumers' financial behaviour through the second quarter of 2024.

The recent cost-of-living challenges are not fully over, but the signs that things are improving are more evident. In this review we look at how households' spending, borrowing and saving is changing amidst this improving picture.

Q2 2024 Highlights

- Household confidence rose overall in Q2 2024 but nervousness about employment prospects, and a “wait-and-see" attitude to the election, dampened the appetite to take on larger purchase commitments. Consumer spending data showed weak annual growth, but with continuing strength in the travel sector.
- Following continuous contraction since the start of 2023, the strength in mortgage applications seen late last year finally translated into lending growth in Q2 2024. However, forward data suggest that further growth in completions through the second half of 2024 is uncertain.
- Many new borrowers are still taking out mortgages over longer terms than in the past. Whilst customers may choose to take longer terms for various reasons, the recent spike looks to have been primarily in order to stretch affordability to get the loan size they need.
- Despite the rise in longer term borrowing, there are currently very few households still paying mortgages in retirement. Where lending does extend into later life, FCA affordability rules ensure that customers are able to maintain existing pension contributions alongside their mortgage before retirement, as well as to continue to pay any remaining mortgage when they do retire.
- The extent of ‘rate shock’ for customers reaching the end of their fixed-rate deals and looking to refinance appears to have passed its peak. Even at the height of this “rate shock”, customers were refinancing at rates well below the stressed rates which their lender had previously assessed would be affordable.
- As the rate of inflation continues to fall, the unprecedented running down of savings seen through the last year, to meet higher expenses looks to have ended, and savings levels are starting to rise again. At the same time, households have largely managed to avoid reliance on overdraft or card borrowing to cover budgetary shortfalls through the cost-of-living crisis.
- Following six quarters of increasing mortgage arrears, numbers were unchanged in Q2. Whilst very welcome, pressures from cost-of-living and interest rates remain, with an additional uncertainty from a slightly weaker employment picture. Further data points will be required to establish whether we have seen the peak in arrears.

UK economic context and outlook

After a stronger than expected bounce back after last year’s shallow recession, GDP growth was again firmer than expected in Q2, posting a quarterly expansion of 0.6 per cent. The service sector continued to be the main driver of growth, particularly non-

consuming facing sectors. On the less positive side, production output fell, and construction activity remained in the doldrums.

Above-forecast growth in the first half of this year has led to upward revisions for the economy's performance for 2024. The Bank of England now expects growth of around 1.3 per cent, however, this includes some moderation in growth rates in the second half of the year.

Stronger activity is also likely to be fuelling some of the gradual improvement in consumer sentiment, which has been creeping up since the turn of the year. The drop in inflation, back to the Bank's target rate will also be helping ease pressure on household budgets. There had been notable drops in food and energy price inflation, but some of the fall in the latter will be partially reversed from October with Ofgem's announcement of a ten per cent rise in the energy price cap.

The other side of the equation for households is the pace of wage growth. Increases in regular pay have drifted down somewhat in recent months but are still rising at an annual rate of more than five per cent, supporting some recovery in real incomes.

As such, the ONS Opinions and Lifestyle survey reported that the number of people reporting a rise in their cost-of-living in July (at 45 per cent) was the lowest since the series began in November 2021. While cost-of-living challenges are still very much present, there has been notable moderation this year. However, as we will discuss in this report, these trends are not yet sufficient for households to loosen the purse strings for bigger-ticket items.

Indeed, ONS data also show that households' savings rate remains elevated (and above that seen prior to the pandemic. Some of this is likely precautionary as concerns about the outlook, and labour market prospects in particular, linger.

In response to easing inflationary pressure and a bit more confidence that second round effects from rising wages will moderate, the Monetary Policy Committee (MPC) voted for the first cut to Bank Rate in over four years. The decision was finely balanced; five of the nine members voted for a quarter point cut, with the remaining members preferring to wait for more evidence that CPI inflation was heading sustainably back to target. The Bank's Market Participants Survey expects one more cut to Bank Rate this year, when the MPC meets in November.

Looking to the remainder of 2024, business surveys indicate generally positive expectations for trading activity and with this, some moderately positive recruitment intentions. But with a difficult Budget for the new government on the horizon, consumers and businesses will be watching closely for what this means for the balance of tax and spending decisions.

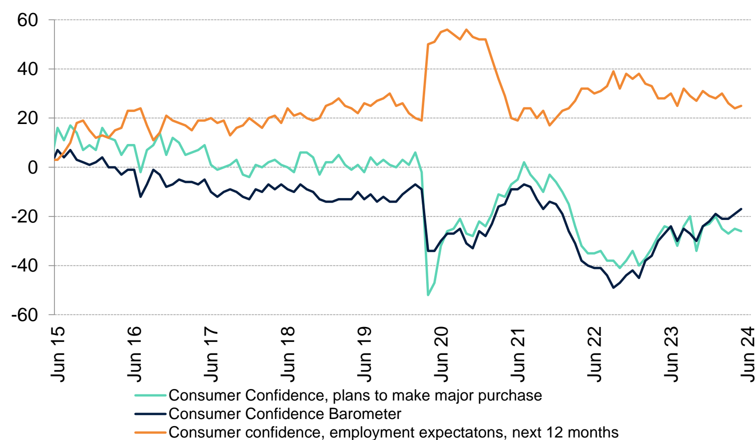
Sentiment less pessimistic, but households are still cautious

Consumer sentiment overall continued to trend upwards through Q2, as it has done since the final quarter of 2023 (***Chart 1***). Within the composite index, however, there are some diverging patterns.

Consumers have been feeling more optimistic about the path of the economy in general, and this is driving the overall positive movement in sentiment.

However, their expectations as regards employment appear to be more fragile and have deteriorated a little since Q3 2023. This chimes with movements in unemployment numbers which, whilst still at very low levels by historic comparisons, have been ticking up since the start of the year.

Chart 1: Consumer confidence



Source: **GfK**

Possibly aligned to this uncertainty about employment prospects, consumers' intentions to make major purchases remain weak.

As the short, shallow recession recedes and cost pressures begin to ease, households appear to have a measure of increased optimism. Countering this, the weaker labour market figures seen in early 2024, as well as the now higher prices following two years of elevated inflation, look to have dampened households' appetite to make larger spending commitments.

With inflation back under control – at least for the time being – we can expect wage growth to gradually ease the pressure on household budgets. In the meantime, while this comparative labour market weakness persists, it is likely that some households will remain hesitant to loosen the purse strings until they have more certainty on the employment front.

Consumer spending fragile but recovering

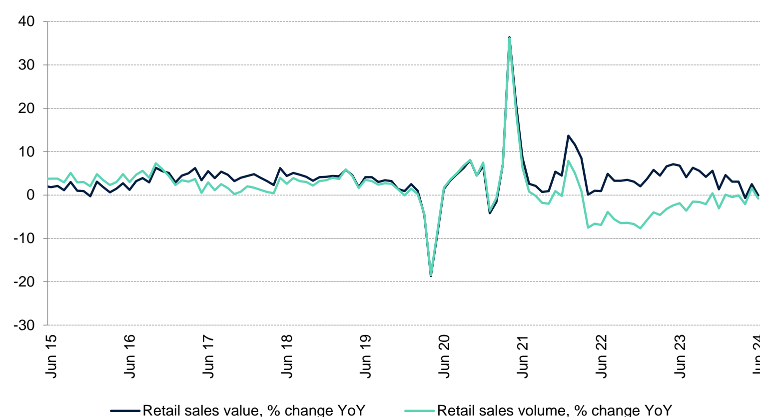
Through the cost-of-living squeeze we have seen clear patterns in the data of how this is affecting household spending. Whilst the value of retail sales has shown continued growth, the number of transactions fell, on a year-on-year basis, in each month since

April 2022. This reflected the reality for households of having to spend more but getting less and less for their money.

As monetary policy worked to bring inflation back under control, we saw these trends gradually reverse from early 2023 and, by Q1 2024, the contraction in spending looked to have almost ended.

In Q2, we saw a mixed picture for retail sales, beginning with a significant year-on-year contraction in April (***Chart 2***). This has been attributed partly to the unseasonably wet weather, dampening spending through what is normally a quite buoyant time around the Easter holidays.

Chart 2 Retail sales index, annual percentage change



Source: ONS

Following this, spending returned to annual growth in May, in both the number and value of sales, before falling away again in June.

Separately, UK Finance card spending data up to May shows similar trends in the volume and value of activity. Within the total, there was continued weakness in spending on household goods. In part, this reflects the negative sentiment reading in respect of consumers' intentions to make larger purchases. Additionally, this is a secondary effect of the sharp contraction in house purchase lending figures seen through 2023 and into 2024, meaning fewer households are now looking to remodel and refit their newly purchased homes.

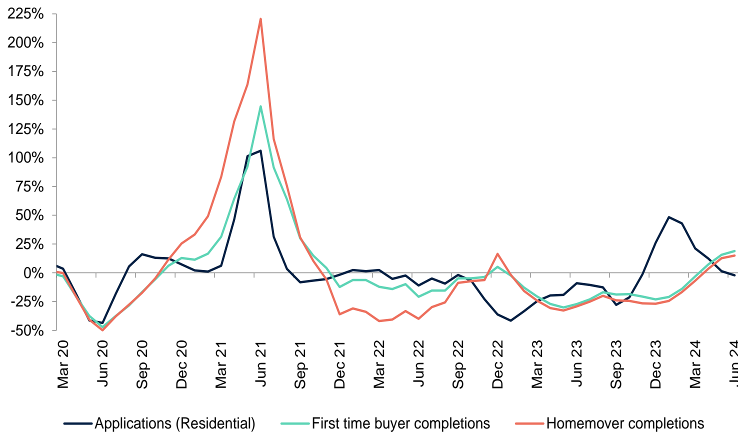
In contrast to the subdued purchase activity for household goods, Q2 saw a continuation of another persistent theme of the post-pandemic consumer landscape with sustained strength in the travel sector.

Notwithstanding monthly volatility, these trends are consistent with our central outlook of a slow "return to normal" as wage growth gradually brings households' spending power back towards the levels seen before the cost-of-living crisis took hold.

Mortgage lending returned to growth in Q2

In Q2 we finally saw the surge in mortgage applications, observed in late 2023 into early Q1 2024, translate into annual growth in lending. Overall, first-time buyer (FTB) numbers were up 19 per cent and movers by 15 per cent compared with levels seen in Q2 last year (***Chart 3***).

Chart 3: Mortgage applications and completions, 3-month moving average, year-on year change



Source: UK Finance

However, following the spike in late 2023 we have since seen application volumes tail off, as the downwards movement in pricing that triggered the increased demand came to a halt from late January.

Applications continued to slow and, by the end of Q2, were slightly below the levels seen in the same quarter of 2023.

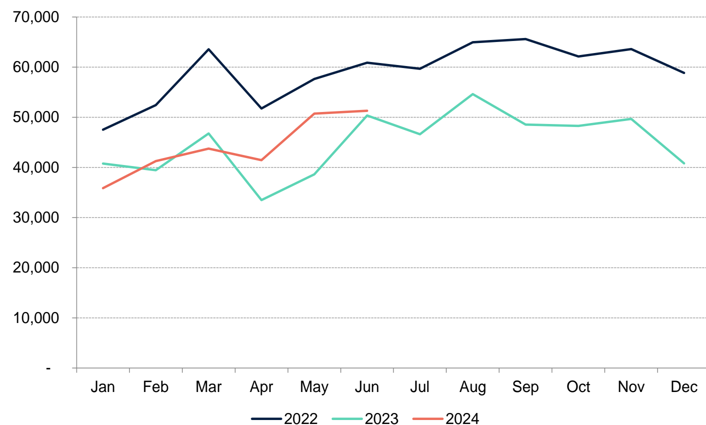
Given the timeline from application through to completion, it is likely that we will see some continued growth in mortgage completions into Q3, compared with the third quarter of 2023, as the stronger application numbers seen in Q1 work through the pipeline. Beyond this, however, the weaker application numbers in Q2 suggest that this comparative strength in lending outturn may not continue through to the end of the year.

Despite Q2 growth, levels of mortgage lending are still well below “normal levels”

As shown in ***Chart 4***, lending in Q2 was above the levels seen at the same time a year previously, following continuous contraction throughout 2023 and into early 2024.

The growth so far is, however, relatively modest. In absolute terms, activity is still around 16 per cent lower than that seen in 2022, which is, amidst all the dislocations of the pandemic and post-pandemic years, the most recent year of relative stability and “normal” lending levels in the market.

Chart 4: Number of new loans for house purchase, 2022,2023 and 2024



Source: UK Finance

Our outlook for 2024, as set out in our Housing and Mortgage Market Forecasts, was for another year of subdued activity, dominated by affordability pressures – most significantly from interest rates, but also high house prices and general cost-of-living pressure – constraining demand in the market.

Despite the growth seen in Q2, our overall view remains essentially unchanged, supported by the drop-off in mortgage applications back to the depressed levels seen in 2023.

Whilst the forces constraining affordability – high prices, high interest rates (compared with the low levels for over a decade since the Financial Crisis) and cost-of-living pressures – are still very much in place, they are showing signs of easing. However, the fall in mortgage rates – which have had the greatest negative impact on affordability – has been relatively modest. Market expectations are for perhaps two or three quarter-point cuts in Bank Rate through the second half of the year (including the cut already made in August). This will help ease more of the pressure on affordability but still leave rates considerably higher than those seen before 2022, particularly with respect to fixed rates, which remain the overwhelming product choice for mortgage customers.

These welcome positive movements in affordability pressures look to have moved the dial slightly, enabling some customers who were at the margins to now satisfy underwriting requirements to get the mortgage they need. However, there looks to be some way to go before conditions ease enough to bring the equation back into line for the significant numbers who look to have been affordability-constrained through the last year or so.

As such, the greater challenge to pass an FCA-mandated income-expenditure affordability test will remain largely in place for the time being, easing slowly as conditions improve.

Term stretch still at elevated levels

Despite some modest easing in affordability pressures since the end of 2023, the proportion of borrowers borrowing over much longer terms remains far higher than seen in the past.

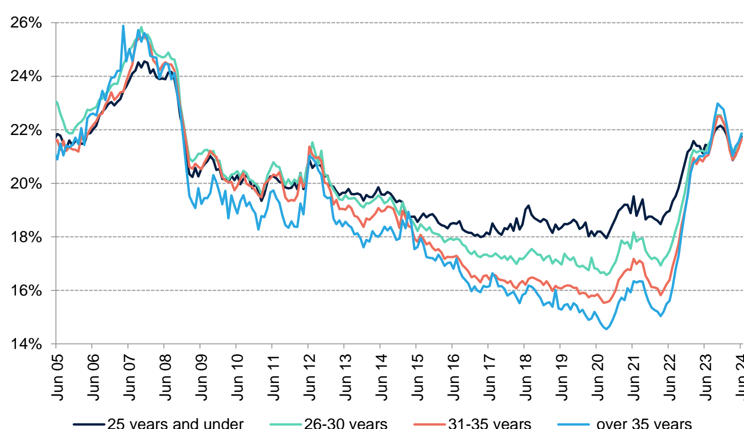
More than one in five of all FTBs, one in ten home movers and one in twenty of those remortgaging took out loans at terms of 36 to 40 years in Q2 2024.

We have previously observed that the first significant increase in term stretch coincided with the introduction of FCA lending rules in 2014, which had effectively ruled out other means of stretching affordability that mortgage customers previously

used. More recently, as rates rose rapidly through 2022 and 2023, we saw a corresponding sharp increase in the incidence of customers stretching terms to the limits allowed within lending policies.

However, term stretch is not always used to meet underwriting criteria. In many cases, a borrower may choose to borrow over a longer term when they could have passed affordability requirements with a shorter mortgage term but opted for the longer term to keep payments lower and thereby free up more income for other household outgoings.

Chart 5: Payment-to-income ratio, new FTB loans at different mortgage terms



Source: UK Finance

Notes: excludes interest-only borrowers

When we look at the payment to income ratio – a proxy for overall affordability – for borrowers at different terms, we can see two quite distinct patterns (***Chart 5***). In the years leading up to the Financial Crisis – when borrowing over 25 years was still the norm – those choosing longer terms were also facing higher payments, relative to income, when compared with those borrowing over a 25-year term. This suggests that, at that time, many borrowers were needing to max out their affordability. They did this both by stretching terms to the limit and, at the same time, pushing the level of payments as far as they were able.

Following the 2008/09 Global Financial Crisis and through the era of ultra-low Bank Rate, this pattern reversed. Borrowers choosing longer terms now had significantly *lower* payments as a proportion of their income than those borrowing over shorter terms. The inference is that these borrowers could have borrowed more over this term, or alternatively chosen to pay more per month over a shorter term for the same mortgage. Instead, they chose a longer term to keep their monthly payments lower.

Most recently, and coinciding with the increase in rates since 2022, we have seen this revert to the pattern we saw in the pre-Global Financial Crisis years, with those borrowing over longer terms again facing higher payments than those borrowing for borrowing shorter, although now the differential is much smaller.

This suggests that, in the face of higher interest rates, term stretch has again become in effect a necessary condition for some customers to pass affordability tests to qualify for the loan size they need. However, responsible lending policies are preventing these

customers from combining this with other forms of income stretch that may have been used in the years before underwriting standards were tightened.

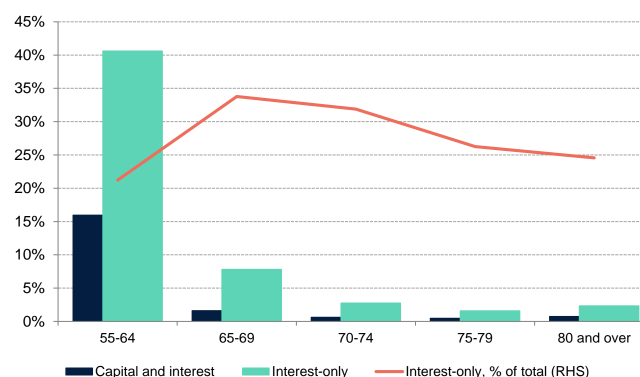
…but proportions still paying their mortgage in retirement are very small

Despite the increase in longer term borrowing, with many terms stretching into later life, there are currently very few borrowers still paying off a homeowner mortgage in retirement.

For mortgages on a capital and interest basis – which now make up nearly 90 per cent of all outstanding homeowner loans – only three per cent are held by borrowers who are now over age 65. However, a further 16 per cent still paying their mortgage are aged between 55 and 65 (***Chart 6***).

Borrowing that extends into later life all takes place within FCA responsible lending rules. This means the lender has taken into account the applicant's existing financial commitments, including payments into a personal pension. They will also consider any forecast of retirement income in the cases where the loan extends past retirement age, with the weight given to this forecast increasing the closer the applicant is to retirement.

Chart 6: Residential mortgages outstanding, Dec 2023, proportion held by older borrowers



Source: UK Finance
Note: excludes lifetime mortgages and retirement interest-only

So, whilst borrowing over longer terms may constrain customers' capacity to increase contributions or make other additional retirement income provision, their ability to maintain any existing payments, as well as continue to pay their mortgage in retirement where applicable, was established during the original mortgage application.

Although customers with interest-only mortgages make up only around ten per cent of all borrowers, a significantly higher proportion are now in or close to retirement. Some 41 per cent are currently aged between 55 and 65, and a further 15 per cent are aged 65 and over.

However, to a large extent this reflects the fact that hardly any new interest-only borrowing has taken place for over a decade, meaning the vast majority of interest-only mortgages now are considerably older, with a commensurately older age profile of the customer base.

Since 2014, the mortgage industry has run a continuous proactive communication campaign to ensure that all interest-only customers are aware of the need to repay at the end of term and have the means to do so. The success of this program means that there are now far fewer interest-only mortgages outstanding, and the vast majority of those that remain are in a good position with respect to repayment.

Going forwards there will therefore be progressively fewer interest-only mortgages, in particular amongst older cohorts. It is possible that the recent increase in longer term borrowing may act in the opposite direction to push up the numbers still making mortgage payments in later life, whether this is approaching or in retirement. However, responsible lending rules ensure that this does not compromise customers' ability to meet existing pension commitments at the time of lending, and that the mortgage payments will remain affordable throughout the life of the loan.

Consumer spending and borrowing: Summary

Although cost-of-living pressure has not disappeared, there are increasing signs that things are getting better. As households' outlook becomes less pessimistic, we are seeing some stabilisation in spending, although caution remains with respect to taking on larger commitments.

Meanwhile, after over a year in retreat, the mortgage market saw some growth in Q2, with demand fuelled by an easing in mortgage pricing. However, with affordability still much tighter than in recent years, it is not clear that the market will see continued growth through the remainder of the year.

Refinancing down in Q2, with most long-term SVR customers now having moved off historic rates

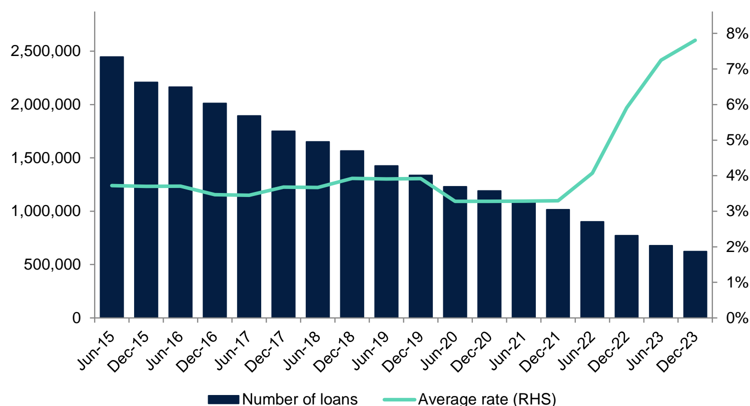
Mortgage refinancing was relatively subdued in Q2. There were 408,000 refinancing loans in Q2, down five per cent on the 431,000 seen in Q1 and 12 per cent down on the 463,000 in Q2 last year. As we have seen throughout the past two years, in the face of tighter affordability, internal Product Transfers (PTs) dominated the market. PTs, which are not subject to affordability tests, accounted for 82 per cent of the overall refinancing pot in Q2.

Volumes of remortgage business are largely a function of the schedule of existing loans coming to the end of their deal rate periods, with a smaller proportion of refinancing stemming from customers who have been on their lender's Standard

Variable Rate (SVR) for a longer period. Some customers may opt to remain on SVR if it is a relatively attractive rate. Others may only have a small remaining balance or a short period of time left on their mortgage, and the costs of refinancing outweigh the savings from a cheaper rate. Moreover some also be mindful of a falling rate environment and may be willing to "float" for a period before locking into a fix

In 2015, there were almost 2.5 million customers on SVR (***Chart 7***). Many of these were on favourable reversion rates from loans written in the years leading up to the Global Financial Crisis. This number had been slowly but steadily reducing in the years following. From 2022 however, as Bank Rate began to increase, we saw the number of customers on SVR fall more rapidly, as the scales tipped towards refinancing onto a new market rate becoming more worthwhile.

Chart 7: Outstanding residential mortgages on SVR



Source: UK Finance

As a result, there are now around 600,000 mortgages remaining on SVR, a quarter of the number in 2015.

Going forwards, around 700,000 fixed-rate mortgages are set to reach the end of their deal rate in the second half of 2024, and a further 1.8 million in 2025. This will support a strong refinancing market, although the lower numbers of customers on historic SVRs will, to a lesser extent, reduce the numbers looking for a new deal.

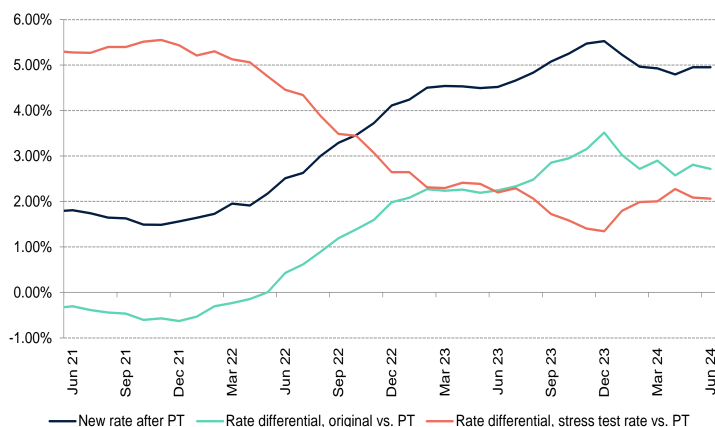
Within the total, as affordability pressures gradually recede though the second half of this year and into 2025, we are likely to see some shift back towards external refinancing.

Refinancing payment shock looks to have peaked

Through the last two years, in the face of rapidly-rising Bank Rate, much attention has been given to “payment shock” – that is, the increased payments faced by those coming off fixed-rate deals and looking to refinance onto what are now much higher rates on offer, particularly when compared with those taken out two and five years ago (which accounts for the majority of fixed-rate lending).

This time last year, in our Q2 2023 Review, we looked at evidence from our loan level data. This showed that, whilst customers refinancing did face significantly higher rates than on their previous fixed deal, these were well below the stress test rate which their lender had used to assess their ongoing affordability when underwriting the original loan.

Chart 8: Product transfer rate compared against previous deal rate and stress test rate



Source: UK Finance

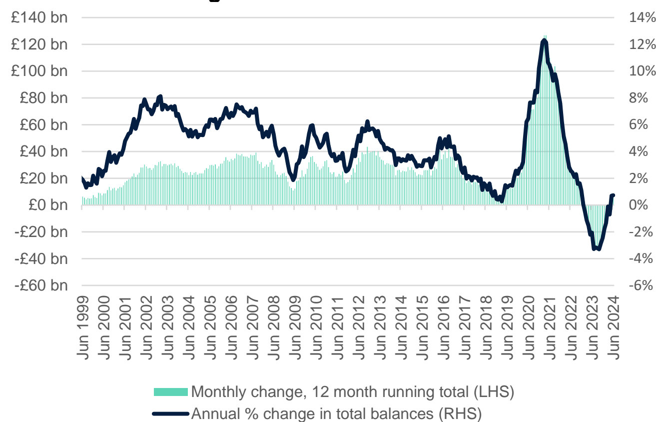
Re-running this analysis for more recent refinancing, we can see that the extent of "rate shock" peaked at the end of 2023. And, whilst at this point customers' refinance rates were typically over three per cent higher than their previous rate, they were paying, on average, over one per cent *less than* their stress test rate. That is, at the time of their original loan their lender had established that they could have afforded a rate more than one per cent above what they did in fact refinance onto.

Since then, refinancing rates have come down somewhat, as has the extent of rate shock compared with customers' previous fixed-rate deals. Therefore, we can infer that that FCA lending rules – which have been in place for a decade now – have worked exactly as intended. In the absence of further, unexpected, increases in market rates, borrowers have largely been able to weather the storm of a significant rate rise scenario with their affordability intact.

After a year of contraction, household savings returned to growth

In Q2 2024, we saw the level of household savings return to annual growth. The growth was relatively small – one per cent, compared with around three per cent through the decade leading up to the pandemic (***Chart 9***).

Chart 9: Monthly change in personal deposit account, 12 month running total



Source: UK Finance

Although modest, this growth marks a significant step. It follows nearly a year of contraction in deposit levels through 2023, as households needed to access their savings to cover the much higher monthly costs faced through the cost-of-living crisis.

As inflation started to come down from the second half of 2023, wage growth began to reduce the deficits in households' monthly budgets. This lessened the need to draw down 'rainy day' funds and, by the middle of 2024, households were again able to start rebuilding their reserves.

At the aggregate level it is a positive story that, despite the significant pressure on their finances from higher prices and interest rates, households were able to navigate this through just under a year of running down savings, which has now come to an end.

However, we know from other sources that this isn't the case for everyone. In particular, those on lower incomes are unlikely to have been able to build significant savings. These households will have needed to either find other ways to cover budget shortfalls, or else cut back on spending. Given the extent of price rises, many are likely to still be facing these challenges.

Notwithstanding this, the recovery of household deposits back to annual growth points to an improvement in the financial situation of the household sector as a whole.

Household refinancing and savings: Summary

Following two years of elevated price increases, inflation is currently back to target levels and we have seen real wage growth for a number of months. This has eased some of the pressure on household budgets and, as a result, the running down of savings to cope with higher costs seen last year has come to an end.

Meanwhile, the "payment shock" for mortgage customers refinancing their loans looks to have passed its peak late last year. Even the with significant rate increases through 2022 and 2023, customers who were on low fixed-rate deals written two and five years ago are now paying comfortably below the levels at which their previous loans were stress-tested. The extent of this payment shock is likely to ease further through this year and next.

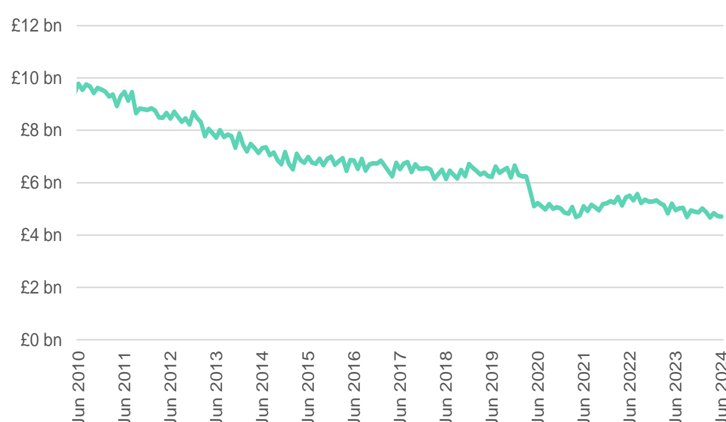
Overdraft levels still trending down

At the same time, we have still seen only limited signs – for those without savings to draw upon – of households turning to unsecured borrowing to cover higher outgoings.

In particular, utilising a current account overdraft is one of the most widely-available means of using unsecured debt to cover shortfalls in the household budget. Whilst it is relatively expensive if used extensively or for long periods, it can be a useful tool to cover short-term gaps between income and outgoings.

Overdraft debt had dropped sharply through the pandemic as households were able to pay down debt whilst their spending was restricted during periods of social restrictions.

Chart 10: Household sector overdraft debt outstanding at end of period



Source: UK Finance

As the cost-of-living crisis gathered pace, overdraft debt rose, from mid-2021, but peaked in the Summer of 2022, well below the levels seen before the pandemic. Since then, overdraft debt has fallen away again, and continues to trend down (***Chart 10***).

The long-term path of overdraft debt is less clear; prior to the pandemic we had seen broadly stable levels of outstanding overdrafts since around 2015, following a steady decumulation of debt since the peak of the Global Financial Crisis. However, overdraft debt had more than doubled in the ten years leading up to that point.

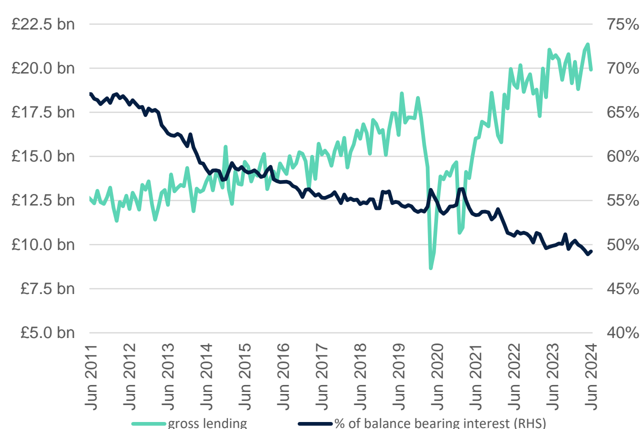
Even in the face of rapidly escalating consumer prices and interest rates, the last two years did not see a build-up of unsecured debt. Given this, it seems unlikely that levels will build up now that these pressures are easing, and a return to broad stability is most likely.

Growth in credit card balances slows

As well as the continuing downward trend in overdraft debt, we have also seen no evidence that households have turned to borrowing on credit cards to cover higher outgoings through the cost-of-living crisis.

In Q2 2024 credit card borrowing continued to grow at broadly long-term trend levels, as it has done since the dislocations of the pandemic era in 2020 and 2021 (***Chart 11***).

Chart 11: Credit card lending and interest-bearing debt



Source: UK Finance

Within overall card debt, the proportion that is interest-bearing remained just under 50 per cent – a record low since at least 1995. The availability and take-up of interest-free periods for Balance Transfers has contributed to this trend but does not entirely account for it.

There will be some households – again disproportionately further down the income scale – who still face monthly budget shortfalls and do not have a savings buffer to cover this. We do not have sight of data for other unsecured products, including Buy Now, Pay Later, (BNPL) although UK Finance's recent **UK Payment Markets report** indicates only a modest increase in the use of BNPL services, with the proportion of consumers using this ticking up to 14 per cent in 2023, compared with 12 per cent in the previous year. At the aggregate level then, the household sector appears to have been able to adjust spending and saving through the cost-of-living crisis, rather than any increased reliance on relatively expensive unsecured borrowing products.

Mortgage arrears stabilised in Q2

As Bank Rate rose from 0.1 per cent in late 2021 to reach 5.25 per cent by August 2023, adding to the considerable cost-of-living pressure felt by all households at the same time, we saw inevitable pressure on mortgage payments. Whilst reportable arrears take some time to accrue, the number of customers in arrears representing 2.5 per cent per cent or more of their outstanding balance (our headline measure of arrears) began to rise from the end of 2022, around a year after rates started to increase. Following this, we saw the rise in arrears becoming larger in each quarter through 2023.

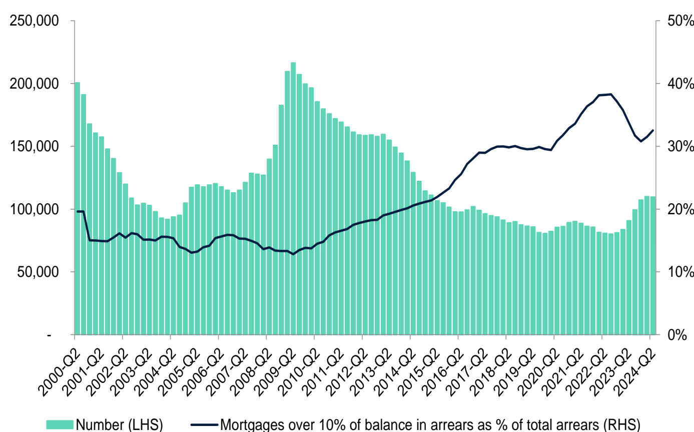
However, Q1 2024 recorded a much smaller increase, and within the total, the number of early arrears cases fell slightly. This was partly a reflection of more early arrears cases not curing and instead moving into more serious bands, as the pressure from higher interest rates and wider cost pressures continued to take their toll but was also driven by fewer customers newly entering arrears. In addition, there was a decrease

in arrears cases that fall below the 2.5 per cent balance threshold. This pointed to no increase, or even a potential modest fall in total numbers in Q2.

This proved to be correct and, at the end of Q2 2024, there were 109,700 mortgages in arrears, a marginal fall compared with 109,900 at the end of Q1 (***Chart 12***).

Within this overall headline number – and as with the movements in Q1 – there were similar falls in early arrears numbers. This suggests Q3 could also see flat or modestly decreasing, arrears. However, at the other end of the scale, we again saw more customers moving from early arrears into deeper shortfall positions.

Chart 12: 1st charge mortgages in arrears[1]



Source: UK Finance

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

The levelling-off of arrears is very welcome, but it is too soon to call a trend. Cost-of-living and interest rate pressures may have peaked but they are still very much present and felt acutely by many households, as evidenced by the numbers in arrears seeing their positions worsen as these pressures persist.

It does, however, appear the more stringent lending rules in place for a decade now have ensured mortgage customers have a very welcome level of additional resilience, compared with what may have been the case in previous cycles.

There remains a question as to whether customers' reserves – and their resilience – can outlast the strain they still feel on their wallets. The rise in unemployment seen in Q2, as well as the uncertainty about employment prospects evidenced in consumer confidence data, highlights a further risk. As such, further falls in arrears are far from guaranteed.

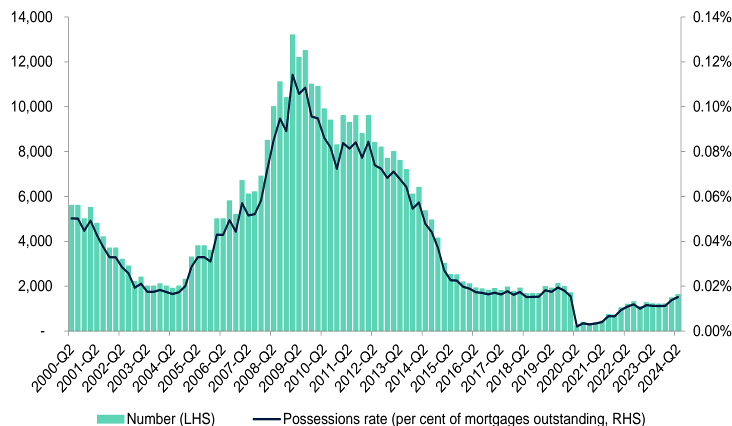
Notwithstanding this uncertainty, we do expect the pressure on mortgage payments to ease gradually, as wages catch up with higher prices and interest rates are cut modestly through the remainder of 2024 and 2025.

For the minority who are in difficulty, lenders' extensive tailored forbearance programmes are helping customers negotiate this period of increased costs in the best way to suit individual circumstances. It remains critical that customers worried about their finances speak to their lender at the earliest opportunity so that they can help identify the best solution.

Possessions rose again in Q2 but still at abnormally low levels

Whilst mortgage arrears rose through 2023, possessions remained broadly flat and at very low levels compared to those seen in previous years (barring the period of suppressed activity through the pandemic).

Chart 13: Mortgage possessions in period



Source: UK Finance

In Q2 2024 there were some 1,620 mortgage possessions (***Chart 13***). This is up 34 per cent from 1,210 in the same quarter in 2023. However, the increase does not signal any increase in the propensity of the industry to take this action. A lender will only seek to repossess a property after all options to repay arrears have been explored with the borrower(s). Rather, it largely reflects the industry and courts working back towards business-as-usual levels of activity, following the dislocations and suppressed activity during the pandemic.

As we observed in our Q1 Review, the possessions taking place now relate almost entirely to cases where the customer has been in arrears for some time, pre-dating both the cost-of-living crisis and the pandemic.

By way of historic comparison, the average number of quarterly mortgage possessions in the five years before the pandemic – which was itself a period of low possessions activity compared with previous cycles – was a little over 2,000. Despite the increases seen in Q1 and Q2 of this year, levels are still around 20 per cent below even those low levels.

As we move forward through this year, we expect to see further modest increases in possession figures as this normalisation of operations continues, but numbers will remain well below levels seen in previous market slowdowns. Whilst responsible lending rules cannot prevent customers experiencing life events which impact their ability to pay, the combination of the strong underwriting standards in place for over a decade and continuing strong employment figures means relatively few will fall into arrears. For those who do, with the assistance of extensive lender forbearance, the vast majority will cure back to performing status over time.

Household debt: Summary

As the cost-of-living crisis appears – tentatively – to have peaked, so it seems has the pressure on mortgage payments. At the same time the household sector has largely avoided needing to build up higher levels of unsecured debt.

With both consumer prices and interest rates still much higher than they were two years ago, it is too early to call the end of tougher times for households, and many will continue to feel the strain for some time to come. However, with a relatively benign employment picture and extensive, tailored forbearance, the industry will be able to help the vast majority of struggling customers to get back on track. As conditions slowly improve mortgage possessions – the last resort when all other options have been exhausted – are forecast to remain lower than we have seen in previous decades.

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