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# Household Finance Review – Q4 2025



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This review explores trends in consumers' financial behaviour in the final quarter of 2025.

Despite weak consumer sentiment and affordability pressures, the final months of 2025 saw growth in both spending and borrowing. Here we look in more detail at households' financial activity through the quarter and for 2025 as a whole.

## Q4 2025 highlights

Confidence was weak in Q4, with consumers continuing to show pessimism for the year ahead. There was some growth consumer spending, however, with particular strength in a number of areas of discretionary spend.

2025 was a strong year for mortgage lending, both in house purchase and refinancing markets. However, despite modest changes to lending rules, further growth in house purchase activity may be limited, with affordability pressures approaching previous peaks.

Refinancing showed sustained strong growth in Q4. Even as affordability pressures ease for external remortgage deals, the preference for internal Product Transfer deals seen through the pandemic and cost-of-living crisis shows little sign of falling back.

Household savings increased, concentrated in notice accounts and cash ISAs which deliver above-inflation returns on longer term deposits. With real wage growth stalling in recent months, the pace of further growth may be more limited.

Indicators of financial difficulty in unsecured credit markets remain stable at very low levels. Meanwhile mortgage arrears are on a downward path and moving steadily back towards the historic lows seen in 2022. Although possessions continue to rise, absolute numbers remain low by comparison with any period before the artificially suppressed activity of the past decade.

## UK economic context and outlook

2025 started with heightened concerns about the global economic outlook. The threat of sweeping tariffs from the newly inaugurated President Trump, in addition to ongoing geopolitical tensions, saw forecasters predict more subdued growth through 2025. While some of these risks dissipated throughout the year, trade policy uncertainty remained elevated and new geoeconomic risks emerged.

Despite this, growth proved relatively resilient. The latest estimate from the International Monetary Fund (IMF) expects global growth of 3.3 per cent in 2025, 0.5 percentage points higher than its post-liberation day forecast last April.

The UK economy also looks to have performed more strongly than expectations at the start of the year. First estimates from the ONS point to full-year GDP growth of 1.3 per cent in 2025, up from 1.1 per cent in 2024. However, this was front-loaded to the first half of the year, with activity pulled forward ahead of the expected introduction of US tariffs.

The latter half of 2025 saw only a modest expansion of 0.1 per cent in each of the third and fourth quarters. Production activity was impacted by the significant cyber-attack on Jaguar Land Rover, while construction output contracted sharply. In the final quarter

of 2025, services posted no growth – the weakest quarter of growth for two years. There was a bit of an uplift in consumer-facing services and government-related activity, but this was offset by falls in B2B-related sectors.

Survey indicators also pointed to subdued business and consumer sentiment at the end of 2025. The late autumn budget was a contributing factor in depressing confidence, particularly across private sector activity, with concerns that further remedial action on the public finances would again fall disproportionately on businesses.

In the end there were no significant revenue-raising measures for businesses in the budget and the extension of personal allowance freezes at the end of the parliament gave the Chancellor some additional headroom against the fiscal forecasts. There are some tentative signs that business confidence had edged higher post-Budget.

We have not, however, seen the same improvement in consumer confidence (further detail on page four). Households remain downbeat about UK economic prospects and while there has been a recovery in sentiment about their own finances, the shadow of cost-of-living pressures remains. Inflation remained above three per cent for most of 2025, with food and energy prices continuing to accelerate. The proportion of people saying their cost-of-living has increased was running at around three-fifths last year – an increase on 2024 ([ONS Public Opinion and Social Trends survey](#)).

While forecasters, including the Bank of England, expect CPI inflation to drop sharply from spring 2026 as energy prices fall, household inflation expectations remain elevated. This, combined with labour market worries, is contributing to weak spending growth and continued precautionary saving by households.

Unemployment ticked higher through 2025, ending the year at 5.1 per cent. Business surveys have indicated a notable slowdown in hiring intentions, particularly after last year's NICs increase. However, it is the decline in the inactivity rate – in other words an increase in labour supply – which has been more material in pushing up the unemployment rate. Analysis by the National Institute for Economic Social Research (NIESR) notes that flows from inactivity into unemployment have increased sharply since 2022, while job losses have been relatively contained.

These dynamics should bear down on wage inflation in the coming year. This is a key metric for monetary policy makers in 2026. In 2025 the Monetary Policy Committee (MPC) cut Bank Rate four times, to end the year at 3.75 per cent. Recent decisions to cut have been a close call, including the last cut in December 2025. While MPC members expect CPI to head lower from April, they are divided on the risks for the year ahead.

As we outlined last quarter, some members are concerned about the weak demand outlook and inflation undershooting the Bank's target. On the other side, members

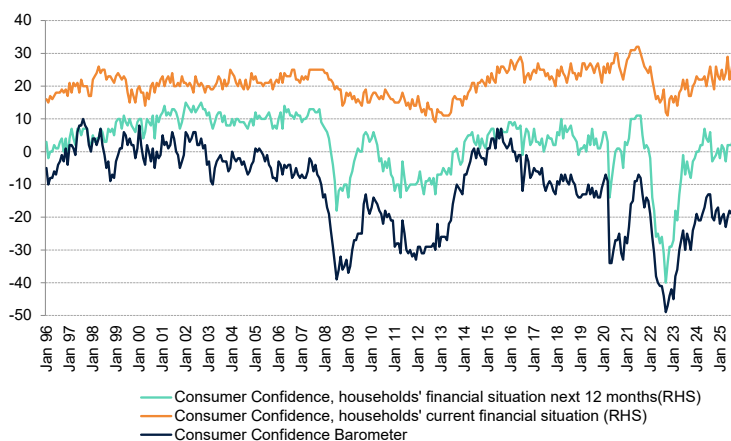
identify persistently high inflation expectations and elevated wage growth as a bigger risk to the outlook. Economists are, however, expecting at least one more interest rate cut this year.

## Household sentiment flat in Q4 but remains weak

Consumer confidence was broadly flat in the fourth quarter of 2025. The GfK headline Barometer reading fluctuated just above the -20 mark, as it has done for over a year (**Chart 1**).

As observed recently it has now been ten years since this index showed a reading above zero (indicating more consumers feel positive overall than negative).

**Chart 1: Consumer confidence**



Source: GfK

However, this is actually more reflective of weak sentiment across a generation of readings, not just a decade. That positive reading ten years ago was very short-lived, and prior to that, sentiment had been firmly negative ever since the onset of the Global Financial Crisis.

Despite this generation of pessimism, negative household sentiment is not the forever norm. In the ten years up to 2005, confidence was positive as often as it was much as negative (and so an average reading of zero).

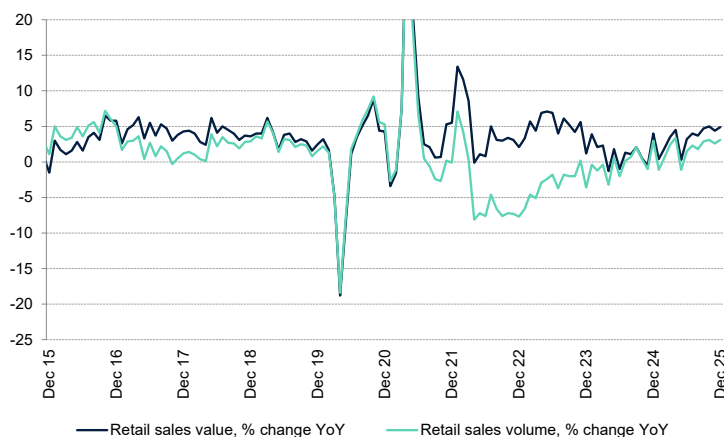
One of the key differences over that period was that, within the composite index, households were consistently positive about the prospects for their finances over the coming year. In more recent times, negative expectations have been far more common and, following a profound collapse in late 2021 and subsequent recovery, this indicator is now only broadly neutral. Households are also downbeat about the prospects for the wider economy, as well as for the level of unemployment.

Despite these weak overall readings, and pessimism for what the year ahead holds, households are more positive about their current financial situations. Alongside this, their stated intentions to make major purchases are also on the rise.

## Retail sales continue to grow, but overall spending is flatter

Potentially aligned to the improvement in households' sentiment as to their current financial position, some elements of consumer spending saw sustained growth through the fourth quarter of 2025. This continues the trend of year-on-year growth seen through last year, with retail spending having recovered from the slump seen through the worst of the cost-of-living crisis.

**Chart 2: Retail sales, annual percentage change**



**Source: ONS**

Retail sales saw growth at the end of 2025, boosted by Black Friday sales (which lasted well into December) and increased festive spending. Sales volumes grew by 3.1 per cent compared with the same month of 2024, and the value of these sales was up by 4.9 per cent, with particularly robust growth in clothing and household goods stores (**Chart 2**).

Separate UK Finance data on spending via credit and debit cards show a return to annual growth in activity in a number of sub-sectors of entertainment, which had seen consumers cutting back on non-essential spend through the worst of the cost-of-living crisis.

As an example, spending on digital entertainment, which had fallen away very sharply since 2023, returned to growth for the first time in Q4 2025. Other sectors relating to leisure activities also increased year-on-year, including sports and hobbies.

Elsewhere, spending on some more expensive items, including jewellery and household appliances, remained weak.

However, the overall growth in retail sales – which only accounts for around 40 per cent of total consumer spending – was largely offset by a contraction in services, with particular weakness in spending in hotels, resulting in a flatter overall spending picture over the quarter. It remains to be seen whether the growth in some – but by no means all – sectors will carry through to more buoyant total consumer spending in 2026.

# Mortgage market in 2025 saw lending growth and improvement in arrears

2025 was, as a whole, a year of robust growth in the mortgage market, but activity through the year was a game of two halves.

House purchase lending saw very strong growth in the first quarter, as buyers rushed to beat the stamp duty changes which took effect from April. Following the expected Q2 correction (from transactions that had been brought forwards to Q1), activity then normalised somewhat in the second half of the year.

Even with this there remained some underlying strength, with effective demand supported by tweaks to lending rules set out by the FCA and Bank of England.

Overall, purchase lending grew by some 16.3 per cent to reach 720,000 loans, the highest number since 2021 (**Table 1**).

**Table 1: Key mortgage market figures**

	2020	2021	2022	2023	2024	2025	Annual change
Number of residential purchase loans:							
First-time buyers	304,000	405,000	370,000	287,000	332,000	391,000	17.8%
Homemovers	310,000	444,000	339,000	251,000	287,000	329,000	14.6%
Total	614,000	849,000	709,000	538,000	619,000	720,000	16.3%
Number of residential refinances							
Residential - external remortgage	352,000	322,000	382,000	311,000	285,000	322,000	13.0%
Residential Product Transfers	1,169,000	1,248,000	1,274,000	1,490,000	1,351,000	1,538,000	13.8%
Total	1,521,000	1,570,000	1,656,000	1,801,000	1,636,000	1,860,000	13.7%
House Prices (UK average, Q4)	229,819	253,113	265,195	259,157	268,518	273,077	1.7%
Gross mortgage lending (£ million)	245,716	308,058	313,176	225,538	241,935	290,815	20.2%
Mortgages in arrear (end of year)	89,310	85,660	81,240	107,260	104,770	90,050	-14.0%
Mortgage possessions	2,620	2,270	4,620	4,810	6,450	8,430	30.7%

Source: UK Finance, Nationwide BS, Bank of England

Mortgage refinancing was expected to show healthy growth in 2025, but this failed to materialise in the first half of the year. However, activity surged in the second half, with some customers likely to have delayed securing a new deal, as rates fell gradually through the year, anticipating cheaper rates to come.

Overall, there were some 1.86 million refinancing transactions in 2025, 13.7 per cent up on 2024.

As rates within the mortgage book came down through 2025, and cost pressures continued to gradually recede, we saw a drop in arrears numbers, which fell by 14 per

cent to 90,050 mortgages in arrears by the end of the year. However, possessions rose to 8,430 cases as the industry continued its return to normal operations following the disruptions of the pandemic years.

## House purchase borrowing continued to rise in Q4, but further growth may be constrained

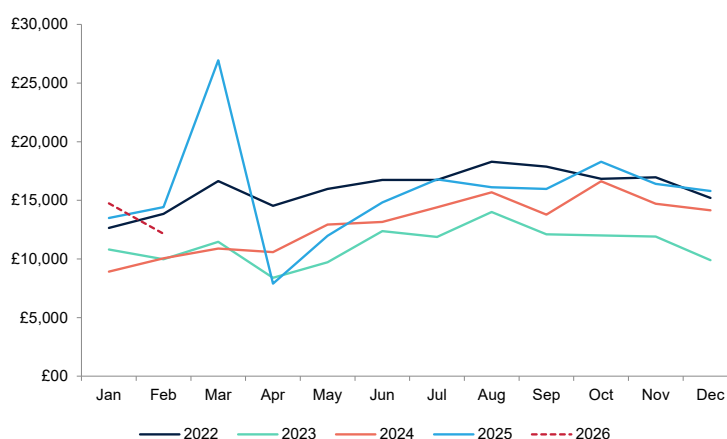
Following the dislocations in activity early last year, from the rush to beat stamp duty changes and subsequent lull in activity, borrowing for house purchase then settled into a more stable pattern.

Through Q3 and Q4 the value of lending fluctuated around the levels seen in 2022, a year of relative stability before rate and cost pressures bore down on effective demand (**Chart 3**).

Internal forward data suggest the value of house purchase lending has continued along a similar path in the early months of 2026.

We expect a relatively flat picture for house purchase activity through 2026, with modest growth in the value of lending coming largely from higher prices.

**Chart 3: House purchase lending, 2022-2025, £m**



Source: Bank of England/UK Finance

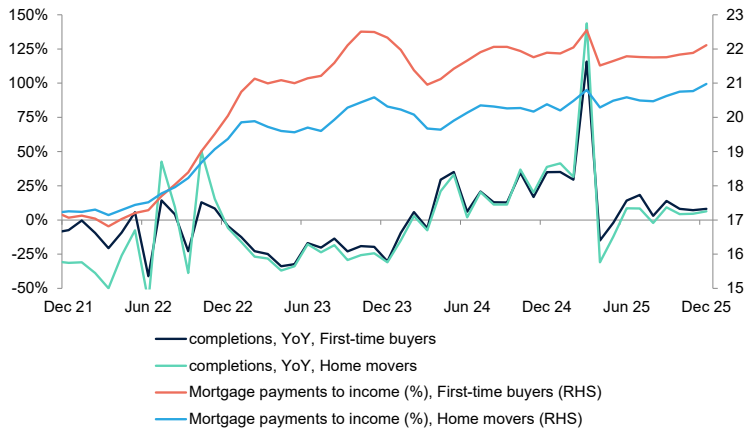
1. Dotted lines reflect UK Finance estimates

## Affordability pressures drifting back up towards post-GFC peaks

Although we continued to see annual growth in purchase activity through the second half of 2025, we expect this to taper off in 2026, as affordability pressures come increasingly to the fore.

The welcome measured changes to lending rules from the regulators have allowed more customers at the margins to access mortgage credit, but there will always be a limit to how far this can help. Indeed, the underlying affordability framework ensures that, regardless of what changes are made within it, borrowing must remain affordable for the customer.

**Chart 4: First-time buyers and homemovers, lending and affordability**



Source: UK Finance

As shown in **Chart 4**, affordability – as measured by initial payments as a proportion of income – is at very stretched levels.

Even with the gradual but sustained easing of new mortgage rates since their peak in late 2023, this metric has crept back up through last year.

By December 2025, first-time buyers were typically

committing 22.1 per cent of their gross income to meet initial mortgage payments, only slightly below the level seen at that peak of interest rates in 2023.

Lending volumes have been supported by those rule tweaks. Additionally, we have seen product development and innovation within the industry to help more customers at the margins pass these affordability hurdles.

With affordability metrics already at these very stretched levels and rising, even as rates fall, there is a limit to how much further customers will be able to extend themselves to access mortgage credit. The regulatory framework, however, continues to ensure that where customers do manage this stretch, it is within the bounds of what they can afford.

## Consumer spending and borrowing: Summary

Consumer confidence remained weak as 2025 drew to a close but, despite this, spending on goods saw growth, including in some discretionary elements of expenditure. Helped by a modest relaxation of lending regulations, borrowing for house purchase also continued to grow but, with affordability increasingly tight, prospects for further growth through 2026 are uncertain.

## Refinancing showing sustained growth

After a slow start to the year, the strong growth in refinancing activity seen in Q3 continued into the final quarter of 2025. There were 511,000 refinancing loans advanced in the quarter, 25 per cent up on Q4 2024 (**Chart 5**).

Customers continue to show a strong preference for internal Product Transfer (PT) deals, which accounted for some 83 per cent of all refinancing transactions in the fourth quarter.

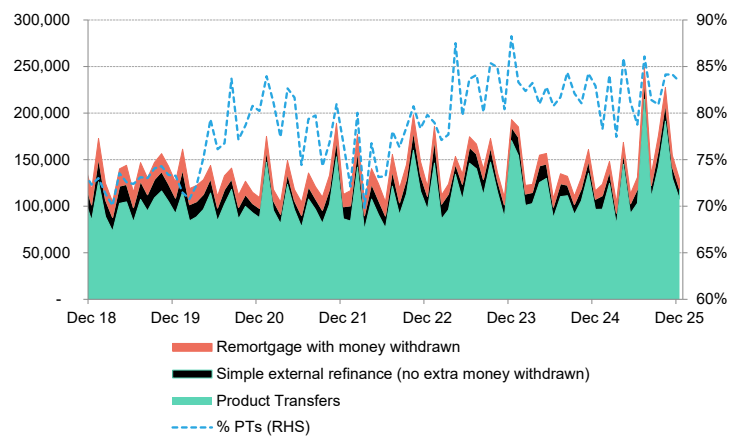
This compares with a fairly stable 75 per cent before 2020. The social restrictions during the pandemic then triggered a partly enforced shift towards PTs, which can be carried out simply and quickly by remote channels, in particular online.

As the pandemic and associated social restrictions eased, we began to see a gradual shift back towards external remortgaging, but this was derailed by the rapid increase in interest rates from late 2021 through to 2023. Those higher rates brought additional affordability challenges to the remortgage market. By contrast, PTs are not subject to affordability tests, and this was undoubtedly a key factor in the renewed – and in fact increased – shift back towards PTs.

Customers coming off fixed-rate mortgages taken out at the bottom of the rate cycle (in 2021) still face affordability pressures when looking to remortgage on the open market, but these pressures are progressively easing as rates creep back down. Despite this, we have yet to see any sustained shift back towards external remortgaging.

We expect further growth in refinancing through 2026, with increased numbers of customers' coming off their fixed rates and looking for a new deal. It is unclear whether we will see any movement within this back towards the pre-pandemic share of external remortgage, given the continuing strong preference for internal Product Transfers.

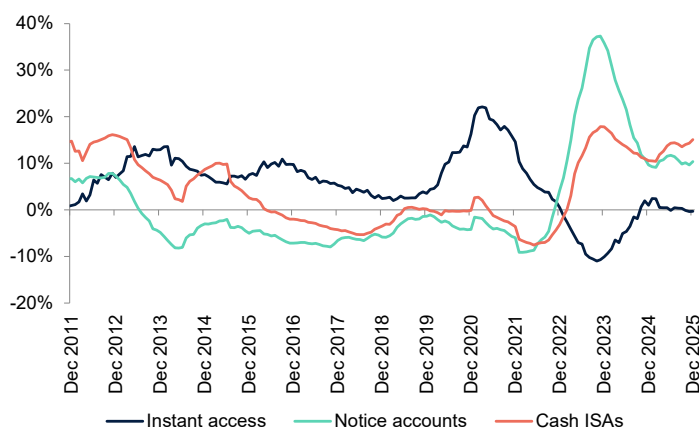
**Chart 5: Number of mortgage refinancing transactions**



**Source: UK Finance**

## Savings growth moderates but still at decade highs

**Chart 6: Household deposits, annual growth rates**



Source: UK Finance

Household savings continued to increase through the fourth quarter of 2025, with strong growth in longer term products. Deposits in Cash ISA accounts were up some 15 per cent in December, compared with the same month of 2024, and notice accounts by ten per cent. By contrast, deposit levels in instant access accounts, were down marginally (0.3 per cent) (**Chart 6**).

With inflation pressures receding and Bank Rate on a gradual downward path, we have seen a similar downward drift in savings rates since late 2023. Despite this, the savings market remains competitive and rates on both notice accounts and cash ISAs continue to offer a positive real rate of return on longer term deposits.

As the cost-of-living crisis peaked, real wage growth turned positive from around the middle of 2023, and this was a factor supporting growth in savings. However, wage growth stalled in the final months of 2025 and, with this, it is uncertain whether household deposits will continue to increase at the pace seen over the past three years.

## Household refinancing and savings: Summary

The fourth quarter of 2025 showed continued strong growth in longer term savings, particularly in Cash ISAs. With wages flatter in recent months, however, the increase in savings may be less robust.

Mortgage refinancing was also robust through the quarter, with the increased preference for internal retention deals remaining, even as affordability for open-market remortgaging improves.

## Overdraft levels rooted at low levels

As 2025 drew to a close, levels of overdraft debt saw a seasonal uptick in December. This pattern is normal, reflecting short-term use of overdrafts to fund increased spending over the festive season. The December rise is typically followed by a compensating decrease in January, when consumers put their finances in order.

Notwithstanding this relatively modest increase, the aggregate value of overdraft debt remains rooted at historic lows. The total has not exceeded five billion since the summer of 2023 and, even after two decades of inflation, is half the amount seen in 2005 (**Chart 7**).

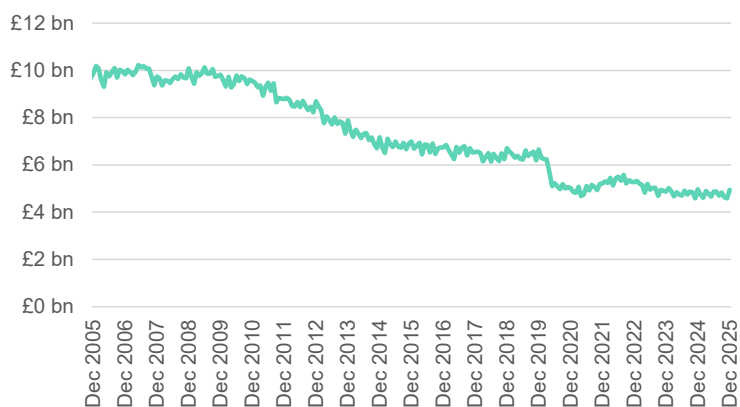
Within the aggregate figures, internal UK Finance data indicate that the incidence of households using overdrafts as a means of coping with financial stress remains limited.

Since 2024, there has been a modest increase in use of overdraft facilities, but only on an isolated, not repeat basis. 25 per cent of overdraft facilities were used in this one-off or occasional way in the second half 2025, a proportion which has crept up gradually up from around 23 per cent at the start of 2023.

However, the incidence of *repeat* overdraft usage, month after month, has fallen away slightly over the same period and less than two per cent of accounts showed any sign of actual or potential financial difficulty.

With almost 70 per cent of overdraft facilities remaining unused, there are no signs of households increasingly using overdrafts to cope with strain on their budgets.

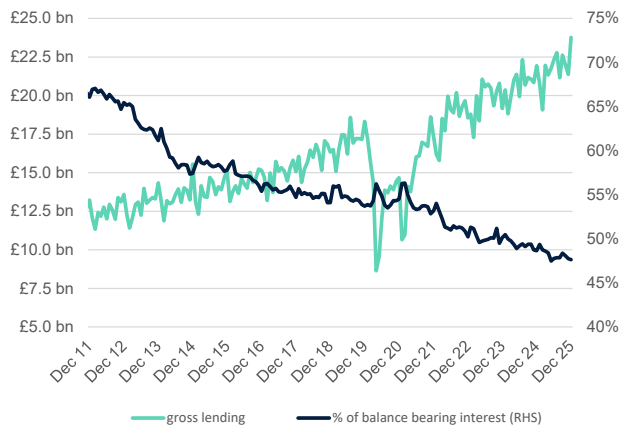
**Chart 7: Household sector overdraft debt outstanding at end of period**



Source: UK Finance

# Card borrowing maintains steady growth with payments on track

**Chart 8: Credit card lending and interest-bearing balances**



**Source: UK Finance**

Borrowing on credit cards continued to grow in line with long-run trends in Q4 2025. Alongside this, the slight uptick in the proportion of card debt that is interest-bearing, seen in Q3, was reversed. By December 47.6 per cent of card balances were interest-bearing, just above the record low of 47.5 per cent seen in May (**Chart 8**).

This metric of interest-bearing balances (IBBs) continues to trend down, as it has done since the turn of the millennium. With most cards free to use so long as they are paid off in full

each month, the growth in both the number of credit cards held, and in their use, reflects their increasing adoption as a convenient payment method rather than as a borrowing tool.

Within overall card lending figures there was a notable dip in Balance Transfer (BT) activity at the end of the year. BTs accounted for just four per cent of credit card gross lending in December, compared with a peak level in the year of 11 per cent in May, and a seven per cent average over the past decade.

BT activity does typically see a drop-off in December, followed by a bounce-back in January. Like the use of overdrafts referred to earlier, this seasonal movement likely reflects a degree of consumers “putting their house in order,” financially speaking, following the elevated spending patterns seen in the previous month. As such, a compensating uptick in BTs in January 2026 is expected.

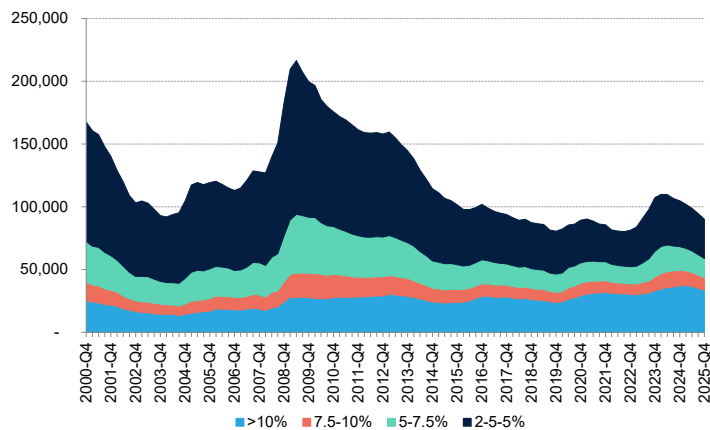
Although there remains a wide range of BT offers on the market, there has been a trend over recent months towards less attractive terms for these offers (including transfer fees and the length of interest-free periods).

It is possible, therefore, that the dip in activity in December to some extent reflects this trend. Should that be sustained, it may translate into somewhat slower growth in gross card lending and, potentially, a slowdown in the declining trend of IBBs.

# Mortgage arrears continue to fall back towards historic lows

The number of mortgages in arrears continued to fall in Q4 2025, the seventh consecutive quarter of contraction. At the end of the year there were 90,050 mortgages in arrears representing over 2.5 per cent of the outstanding balance, down 4.8 per cent compared with the number in September (**Chart 9**).

**Chart 9: First charge mortgages in arrears, per cent of balance measure**



Source: UK Finance

Arrears numbers fell across the board, from the lightest, early arrears cases through to the heaviest, many of which have been in arrears for some time.

With this sustained decline in arrears, numbers are now just 12.3 per cent above the recent historic low (80,180 in September 2022). In line with the path of Bank Rate, mortgage interest rates are falling back at a slower pace than the rate at which they rose from late 2021. Arrears numbers, however, are falling back at almost the same rapid rate, with the vast majority of mortgage customers now having a built-in resilience against rate shocks from the lending rules in place since 2014.

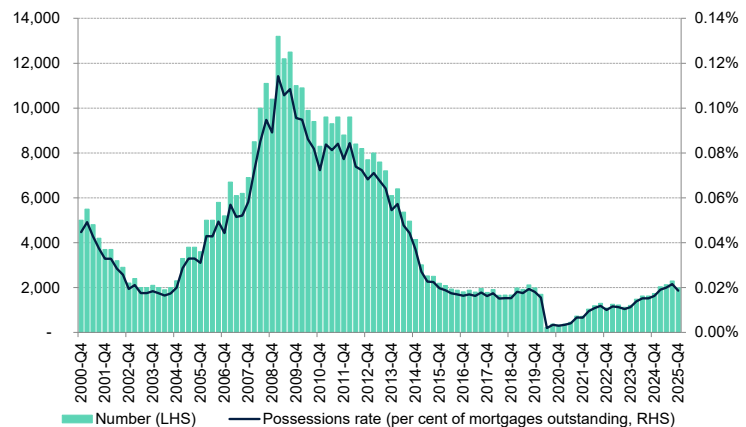
Helped by a further gradual downwards movement in average rates for existing customers, we expect arrears numbers to continue to fall through this year.

## Possession numbers saw expected seasonal lull in Q4

As expected, there was a slight dip in possession numbers in the fourth quarter of 2025, as the industry enacted a voluntary pause in its possession activity over the festive period.

There were 1,980 mortgaged properties taken into possession in the three months to December, a 13.5 per cent drop compared with the number in Q3. It was, however, a 14.5 per cent increase compared with Q4 2024 (**Chart 10**).

**Chart 10: Mortgage possessions in period**



Source: UK Finance

In total there were 8,430 mortgage possessions (including both homeowner and buy-to-let) through 2025, some 31 per cent up on 2024. This trend reflects the steady increase in activity as the industry and courts move back to business-as-usual practice, moving those cases where the customer is in an unrecoverable arrears position through to possession and sale as quickly as possible, to help them exit their debt with the maximum amount of equity.

To give the full historic context, 2025 saw the highest number of possessions made in a decade, but that decade had seen artificially suppressed numbers throughout.

Between 2015 and 2019, many possessions that would normally have taken place were delayed as the industry awaited – and then worked through – FCA guidance on the treatment of arrears following a key court ruling ([BoS vs. Rea](#)). Then, in 2020, just as the industry was approaching a return to normal practice, the pandemic took hold and activity was brought to a halt again.

As a result, we have seen ten years where the mortgage industry has effectively been unable to operate normal possession activity in the best interests of their customers – that is, where borrowers cannot recover their positions and exiting their debt is the best, final option.

We expect 2026 to show a continuation of this return-to-normal trend, with modestly increasing possession activity through the year. However, numbers will remain low

by normal historic comparisons. The 9,400 [forecast](#) represents a return to the low but stable levels of a well-functioning market, such as we saw just before the last decade of dislocations.

## Household debt: Summary

Unsecured borrowing showed no material signs of payment stress in the final quarter of 2025, with very few customers using overdrafts on a repeat basis. The proportion of credit card debt that has interest applied continues to trend down and more customers now use cards as a convenient payment method rather than a debt tool.

Mortgage payment problems also continued to decrease and are approaching the historic lows seen in 2022, with further improvement expected through this year. Whilst possessions are still rising, numbers remain low, reflecting a normalisation of activity towards a well-functioning market.

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