Lloyds Bank debt fears as talk of house price crash grows

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RESH fears about the UK economy emerged today when Lloyds Bank set aside more than half a billion pounds to deal with bad debts and warned on a “deteriorating” outlook.

Since it dominates the mortgage and savings market, Lloyds is regarded as a close proxy for the wider UK economy — 98% of its business is in Britain.

Today it said profits in the last three months tumbled by 26% to £1.5 billion, and it put £670 million aside as an “impairment” charge against possible loan defaults.

That is a worrying call for the UK economy and bad news for new PM Rishi Sunak, hoping for signs that the winter may not be as tough as many fear.

Yesterday, Barclays set aside £380 million for expected bad debts. Tomorrow NatWest will unveil more of the same as banks fret that customers cannot cope with rising costs of everything, particularly energy bills and mortgages.

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The banks ought to be booming. Lloyds net interest margin – the gap between what it pays savers and charges borrowers – is at a healthy 2.8%. That itself is far higher than rivals, which ought to give it a decent cushion against bad news.

Instead it warned of a “deterioration in the macroeconomic outlook”, a clear threat that it may not be able to issue loans demanded by customers to keep afloat.

Sophie Lund-Yates at Hargreaves Lansdown said:“Lloyds has seen its profits wiped out as it puts almost £700m aside in readiness for a weak economy. This non-cash charge is a buffer in case a high number of customers default on their loans. The best case scenario is that the group has over-egged its estimates and some of that hoard will be released, ultimately boosting profits. The more difficult scenario comes if the economic dive is steeper than predicted, which would see impairment charges swell. To a large extent, Lloyds can’t control the external forces that govern its customers’ behaviour, but its particular exposure to traditional lending, especially mortgages, puts it in the firing line when conditions sour.”

The Lloyds figures do at least suggest that talk of a windfall tax on “excess” bank profits might be shoved aside.

The already beleaguered shares fell 1.5% today to 42p. They have underperformed the stock market for years.

Analysts at Jefferies called today’s “glass half-empty focus” and “front-loading of provisions” to be reminiscent of worst of the Covid era in 2020.

Graham Cox of SelfEmployedMortgageHub.com said: “The higher impairment charges and reduced profits Lloyds is seeing are likely to be replicated across the banking sector. After having pandemic life-support switched off, many businesses are now struggling with much higher input costs and reduced demand. And with property prices inflated by Rishi Sunak’s stamp duty holiday and ultra-cheap credit, the chickens are now coming home to roost in the mortgage market. It’s quite conceivable house prices could fall 20-30% over the next couple of years, meaning impairment charges could start to get a whole lot bigger.”