Warning mortgage lending to fall in 2024 with more households in arrears

Mortgage lending is set to fall in 2024, with repossessions and the number of households in arrears to increase, according to a forecast by a lenders' trade body.

UK Finance said while affordability pressures were peaking – largely reflecting the end of the Bank of England's cycle of interest rate hikes to tackle inflation – the situation is unlikely to improve markedly until 2025.

It cited the continued pressure on household budgets from the wider cost of living crisis and the fact mortgage rates remain high compared to post financial crisis levels.

The Bank itself warned last week five million more households – roughly half – are yet to feel the burden of interest rate rises on their mortgage.

Data from Moneyfacts on Friday showed the average two-year fixed rate residential mortgage slipped below 6% for the first time in six months.

The five-year figure was 5.6%.

The financial information service said there are a growing number of two-year deals on offer below 5%, which could help stoke demand for lending and help bring the averages down further in the months to come.

However, those declines are widely expected to be limited due to the fact the Bank of England is not expected to start cutting borrowing costs any time soon.

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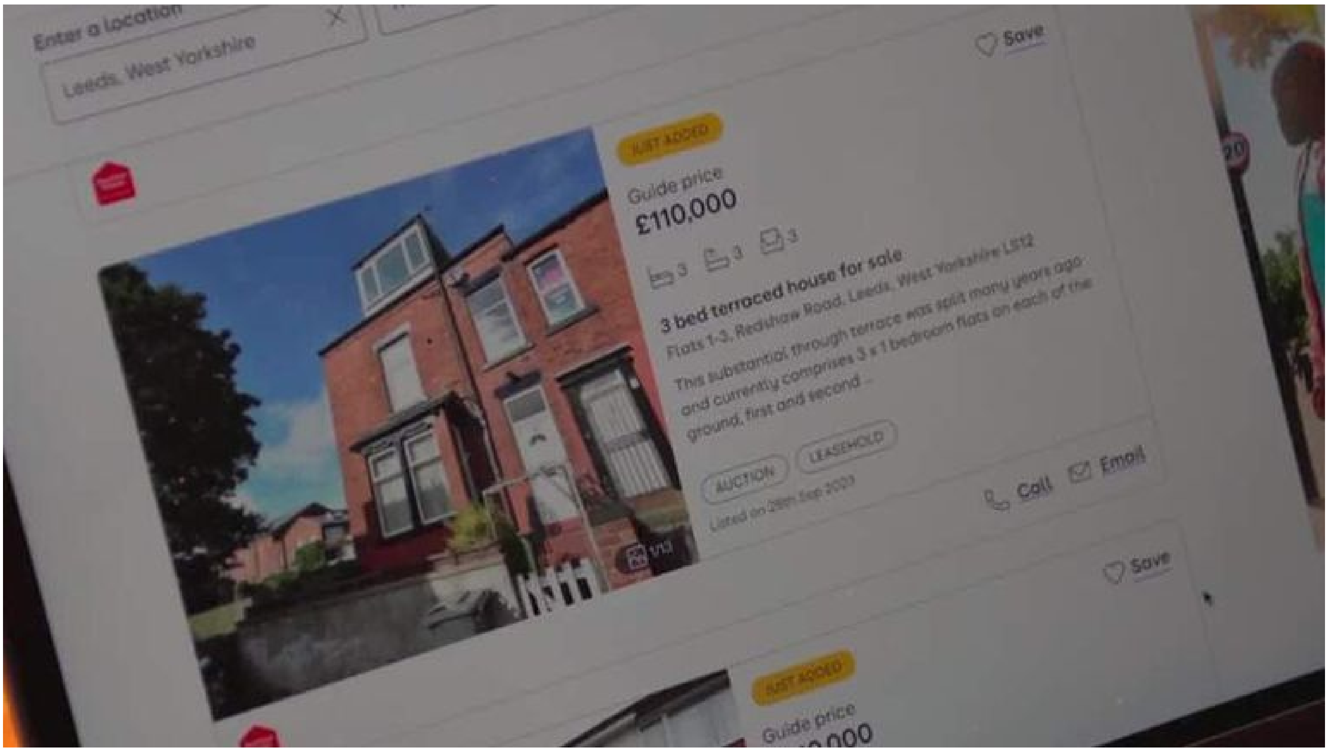

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‘People are waiting for mortgage rates to drop’

Financial markets currently see a prospect for the first interest rate cut, from the current level of 5.25%, in the third quarter of next year.

Bank governor Andrew Bailey has repeatedly warned Bank rate will remain higher for longer due to continued inflation threats.

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BoE: Inflation is ‘still too high’

UK Finance forecast that mortgage arrears – those behind by over 2.5% of their outstanding balance – would rise from 105,600 cases by the end of this year, to 128,000 in 2024.

The trade body said repossessions, while remaining “incredibly low” by historic comparisons, would go up from 4,400 this year to around 5,100 next year.

The report said: “With a continuing favourable labour market, extensive lender forbearance and gradually improving affordability, the vast majority of customers now falling behind will eventually recover their positions. The very small minority of cases where this is not possible will not feed through into any material increase in possessions over our forecast period.”

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James Tatch, head of analytics at UK Finance, said: "2023 was a challenging year for both prospective and existing mortgage borrowers, facing affordability pressures from higher interest rates and the increased cost of living, as well as house prices still at elevated levels relative to income.

"In the face of these challenges, borrowing for house purchase has been constrained. At the same time, most existing customers looking to refinance their loans chose to take a product transfer with their current lender, where affordability tests are not required.

"With these pressures unlikely to ease significantly in the short-term, we expect lending to remain weak in 2024, with a gradual improvement in affordability reflected in a modest increase in activity levels in 2025.

“The challenging environment has also pushed more households into mortgage arrears. However, the rigorous affordability tests in place since 2014 are now working to ensure that the vast majority of customers can still afford their mortgage payments even with the increased pressure on their finances.”

He added: “Although we forecast more customers will encounter arrears next year, we expect numbers to peak well below levels seen previously.

“As always, any customers who do find themselves in difficulty should speak to their lender at an early stage, as the industry continues to provide help to anyone struggling with a range of tailored support options.”