Briefing Note: Projecting the Consequence of Rising Mortgage Repayments in 2023

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Summary:

With interest rates rising at their fastest pace since the Bank of England gained independence, millions of households will be affected by higher mortgage repayments. This will have deeper consequences given it follows a decade of stagnant real-income growth, COVID-19 and a cost-of-living crisis. This briefing note contains the projected impact of this shock on households:

- **1.2 million households (4%) will run out of savings this year as a result of higher mortgage repayments:** taking the total proportion of insolvent households to around 7.8 million (28%)
- **The rising repayments will cost households with mortgages a total of £1bn per month, or £12bn per year:** worth around 0.3 per cent of GDP
- **Monthly mortgage repayments will rise by nearly 50 per cent on average**: this rise is above typical stress-tests households are subjected to when applying for a mortgage
- **Fixed-rate monthly mortgage repayments will rise from around £700 to £1,000 on average:** applying to nearly 2m households when needing to remortgage
- **Variable-rate monthly mortgage repayments will rise from around £450 to £700:** applying to 1.5m households on variable-rate mortgages
- **The largest impact will be in Wales and the North East:** 6% of households in these regions will be insolvent as a direct result of rising mortgage repayments.

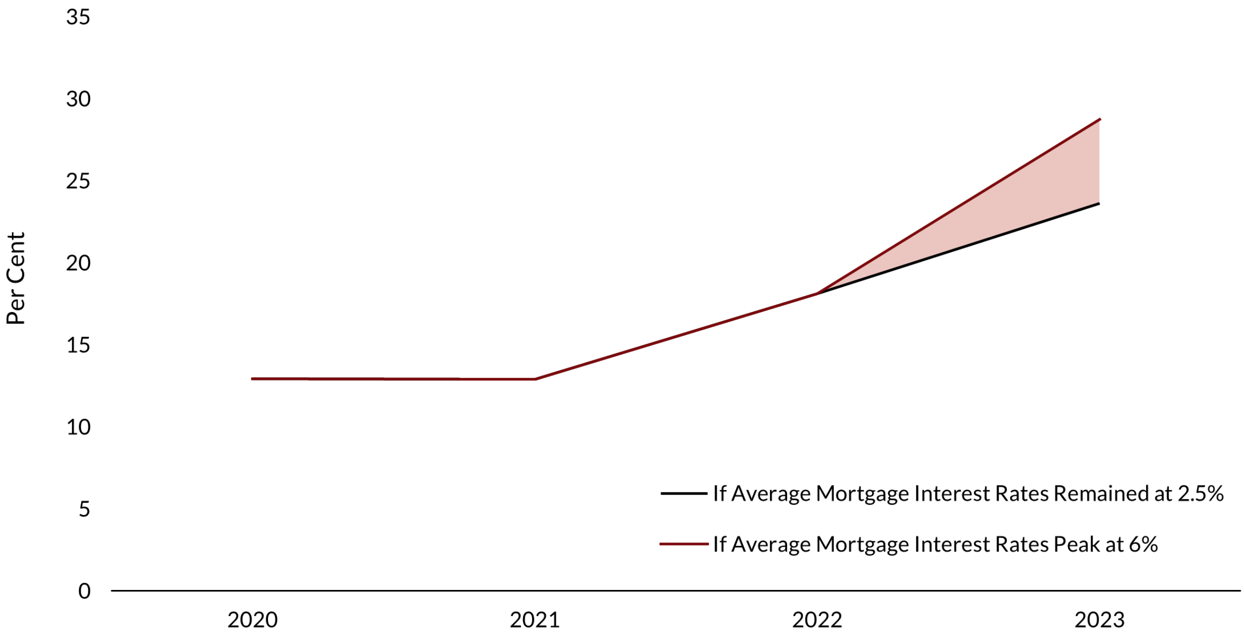
Background:

It was hoped that the period following the mini-budget in Autumn of 2022 was to be the most turbulent and worrisome for those with mortgages. However, 10 months later and UK markets are beginning to return to the fear of interest rates near 6%. Although it appeared that the mortgage market had stabilised, higher and faster than expected rises in interest rates are now confirmed, resulting in many mortgage products off the market.

The reason the markets are expecting more rate rises is driven by the fact that the Bank of England had signalled that they would be monitoring wage rises and domestic prices. Given the former has risen faster than expected and the latter remains persistently high it is a foregone conclusion that the Bank will decide on more aggressive rate rises given this has satisfied their stated conditions to do so. It appears all signs are indicating interest rates will be higher for longer than expected.

So far, around 4 million households have been affected by rising rates. That number is made up of households on a variable rate who see their repayments increase immediately when interest rates rise, and the households coming to the end of their fixed-rate deals. For these households, the average mortgage interest cost has risen from around 3% last year to 6% today. For a household borrowing £300k on a 25-year mortgage, that increases monthly repayments from £1,400pm to £2,000pm; a nearly 50% rise.

Figure 1: Proportion of Households with Insufficient Savings
The impact of rising interest rates will be to further increase the number of households with insufficient savings



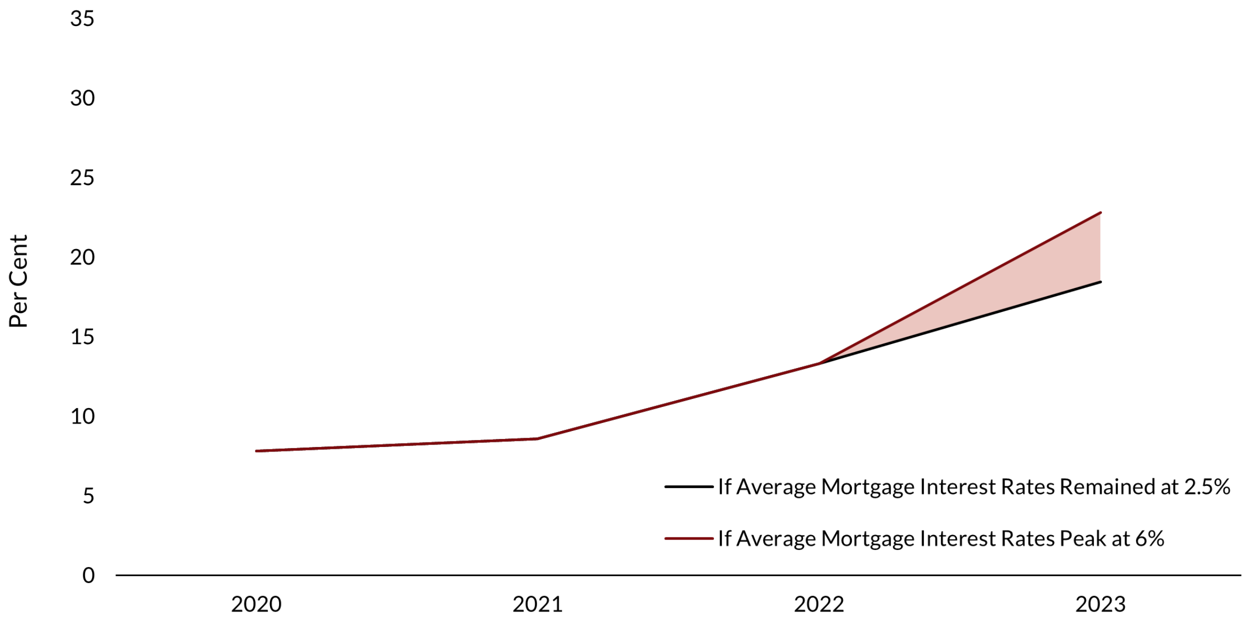
Notes: insufficient savings defined as liquidity worth less than two months household income
Source: NIESR Analysis of the UK Wealth and Assets Survey (2022)

This also hits renters in buy-to-let properties, increasing housing costs for everyone. NIESR has previously estimated the effect of the expected peak bank rate on those households with mortgages. Given the return of high expected mortgage repayments, we revisit this analysis with this briefing note.

We have found that a significant proportion of the population will see their savings wiped out as a result of the rise in interest rates and thus higher mortgage repayments. The rise in repayments on top of existing impacts from the cost-of-living crisis will likely push hundreds of thousands of households over the edge of insolvency.

Prior to this period of rising interest-rates, a household applying for a mortgage would face an affordability stress-test that would estimate their ability to withstand a 3% point rise in interest rates. We can infer that as we are now outside of this - now withdrawn - FPC regulation that we are in an environment households with mortgages would not be expected to withstand. The greatest increase in the proportion of households being pushed into insolvency as a result of higher mortgage repayments is in Wales and the North East.

Figure 2: Proportion of Households with No Savings
The impact of rising interest rates will be to further increase the number of households with no savings.

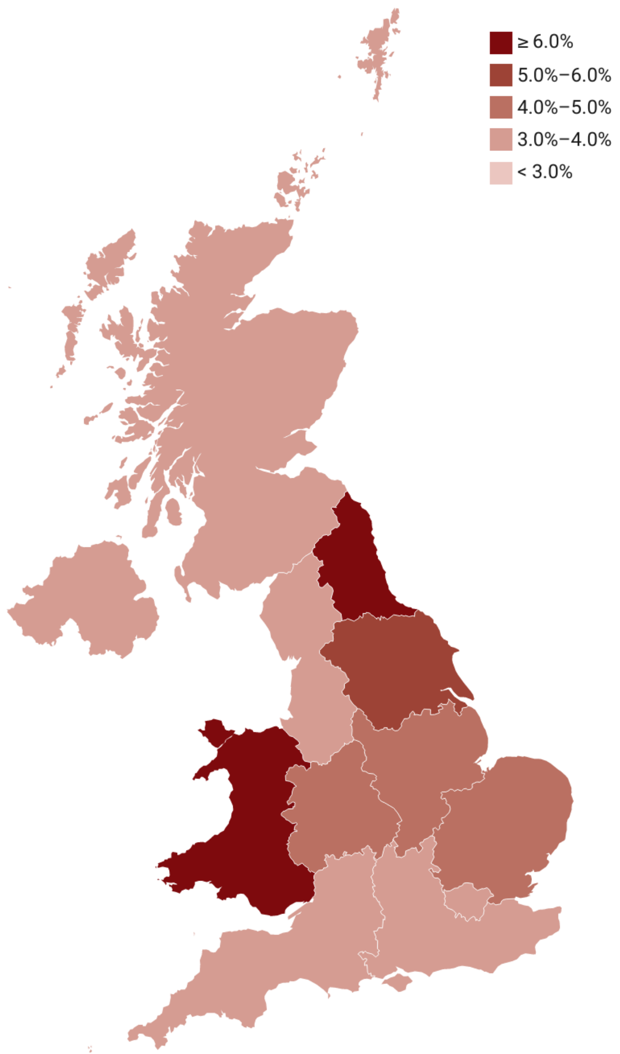


Source: NIESR Analysis of the UK Wealth and Assets Survey (2022)

The government could consider intervening in forbearance agreements, which allow households to agree to create repayment plans based on what they can afford when they're unable to repay their debt. During the pandemic, the US government provided loans to assist in forbearance agreements for federally backed mortgages. The UK also has a track record in guaranteeing mortgages for particular high-risk households. Some investment could be done in these forbearance agreements, giving households and lenders the ability to create payment plans that work for each other.

Figure 3: Households with No Savings as a Consequence of Rising Mortgage Repayments

The geographic distribution of households with no savings as a result of rising mortgage repayments.



Source: NIESR Analysis of the UK Wealth and Assets Survey (2022)