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New approaches to mortgage market regulation

The impact of the MMR and the risks and benefits for consumers, society and the wider economy

Supplementary material on mortgage affordability, the role of low rates on distress and the profile of those failing the proposed affordability test

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1.0 Background

This supplementary material around the affordability of mortgages and the impact of both recession and the current low interest rate environment is intended as an extension of our main report "New Approaches to Mortgage Market Regulation – The impact of the MMR and the risks and benefits for consumes society and the wider economy". It can be read as a stand alone document but readers are referred to the main document for the wider context. The supplementary material extends the analyses around affordability and particularly the differences between those who have suffered more or less extreme income shock and those who have and have not experienced rate reductions. We also provide extended analysis of the profiles of those who may find themselves unable to borrow or to borrow as much as they are currently under the proposed new regulatory regime, as envisaged in the draft proposals for responsible lending, at the time of writing being consulted upon.

The authorities are concerned that low interest rates and lender forbearance are disguising a potentially significant affordability crisis

The authorities are concerned that a significant proportion of mortgagors, potentially as many as half of the total, may not be in a position to afford their mortgage borrowing. There is a concern that a significant minority, somewhere slightly less than one in five, will be suffering under current recessionary conditions and at risk of serious financial distress. The concern has been that current low levels of arrears on mortgage payments (circa 3%), are not so much indicative that mortgagors are coping through what is a deep and prolonged recession but are rather a function of low interest rates on the one hand and unsustainable levels of lender forbearance on the other. The fear is that as rates rise from their current historic low, an affordability crisis will be starkly revealed and that large numbers of mortgagors will struggle to afford mortgage payments and thus be at risk of losing their homes and even financial breakdown.

Our earlier analyses suggested a high degree of financial resilience among mortgagors and that the scale of real distress was close to that of arrears

Our earlier analyses suggested however that the fears of an affordability crisis are overdone and that for the most part mortgagors have exhibited a high degree of financial resilience through the recession. That said almost one in five (19%) are under considerable pressure, albeit coping in the sense that they are largely keeping on top of commitments even if it is a struggle to do so. The scale of serious financial distress, however, appears largely consistent with the arrears picture, in that some 5.5% of mortgagors are struggling and failing to the point that they are falling behind on a range of commitments. Of the former group that we described as "coping but pressured", one in five have at some point missed or made a late mortgage payment. About half of those we describe as "struggling" have missed payments with almost a quarter of the group having negotiated lower pro tem payments with their lender. Four in ten of the "strugglers" (2% of mortgagors overall) feel that they can see no way that they can recover their current position.

The analysis also indicated that the key driver of distress appeared to be job loss rather than affordability over-stretch

The analysis also showed that the key driver of distress was job loss and reduced income rather than affordability over-stretch, with a half of the “strugglers” and more than a third of the “coping but pressured” having lost their job or been made redundant.

The evidence suggested that there was little difference in the incidence of arrears among those who had and had not experienced rate reductions

The evidence also shows that there is in fact very little difference in the levels of mortgage arrears and missed payments between those who have benefited from rate reductions and those who have not. That said, among the 5% who are “struggling” and in most serious distress, there is a significantly higher than average incidence of long term fixed rate mortgages.

Many mortgagors have considerable slack in their budget while pressured mortgagors have adapted budgets to new conditions

The analysis contained in the main report suggested that the explanation for consumer resilience is two-fold. On the one hand, the balance of outgoings to income is comfortable in any case for many mortgagors, with considerable slack in budgets. On the other, the explanation is the priority placed on mortgage payments and the degree to which mortgagors under pressure have been able to flex their budgets to accommodate reduced incomes by cutting back on non essential expenditure. Savings have also had a role to play and have been more important than borrowings, with those who have experienced a rate reduction only slightly more likely to have borrowed and no more likely to have missed payments on their mortgages.

Budget flex and the prioritisation of mortgage payments have been more important in minimising distress and arrears than rate reductions

Taken together these factors have been more important in ameliorating potential affordability and payment problems than rate reductions, albeit that rate reductions have also had a role to play in mitigating distresses for the most pressured.

The research suggested that even among those who have experienced a reduced income, more than eight out of ten have been able to accommodate this within their budget. This appears to rest either on prioritising mortgage payments and essential spending or because a significant minority always spend less than they earn in any case. Alternatively overall expenses have reduced, with the latter much less important than either of the former.

Concerns on mortgage affordability may have taken insufficient account of consumers’ ability to flex budgets and prioritise mortgage payments

It would appear therefore that thinking on mortgage affordability and concerns around the potential for distress may not have taken sufficient account of the dynamics of consumer attitudes and behaviour when faced with financial pressures and a recession. The importance placed by mortgagors on home ownership as both an emotional and financial investment has meant that consumers have adapted their budgets, prioritised mortgage payments and that even where they are under considerable pressure, they have overwhelmingly not fallen into arrears. Even among those who have lost jobs and experienced reduced income this appears to be largely the case, albeit that serious financial distress and missed mortgage payments are a feature of a minority of cases even so.

In this extended report we present further detailed analysis to provide additional insight on these key themes arising from the evidence and a more detailed understanding of the effects described in the main report.

1.1 The impact of interest rate reductions on financial stress and mortgage affordability

Clearly there are limits to how far the process of economising can be taken in the event of job loss or where individuals are facing serious financial pressure or an income famine. It is intuitive also that a reduction in outgoings would work to reduce affordability pressure and to provide relief for those in distress, regardless of the drivers of those pressures. In order to unpick these dynamics and understand how rate rises have impacted on mortgagors, particularly those under stress, and how this in turn relates to the degree to which borrowers are able to keep up with mortgage payments or experience affordability pressures we now examine in more detail the role and impact of rate reductions on coping behaviour and a range of indicators of financial stress. We examine also how rate reductions have impacted those who have and have not lost their jobs.

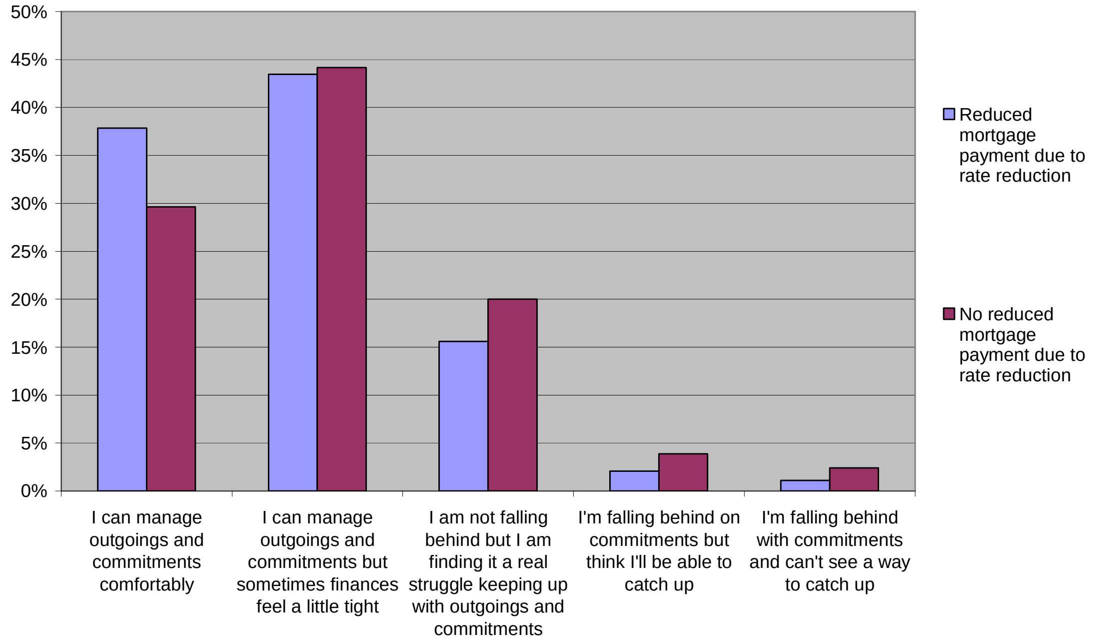
To place the analyses that follow in context and to provide a feel for scale it should be noted that 55% of mortgagors have experienced a rate reduction, some 6.2 million individuals, and that a little under one in ten (9%) of mortgagors, some 1 million individuals, have experienced job loss. Some one in twenty (5%) of mortgagors have experienced both job loss and a rate reduction. As earlier noted the “coping but pressured” are 19% of mortgagors, some 2.2 million, while the “struggling”, where arrears and distress are most concentrated are a little over 5%, 0.6 million, of whom 0.4 million believe their position is recoverable and 0.2 million see no way to catch up.

Rate reductions have clearly had some impact on how tight budgets feel and on ability to meet commitments, most markedly for those under greatest pressure

It has been easier for those who have experienced rate reductions to keep on top of commitments but not dramatically so. Some 38% of mortgagors with reduced rates and 30% of those without say they are comfortably on top of their outgoings and commitments. Very similar proportions of each group (43% and 44% respectively) say they are on top of commitments though finances are sometimes a little tight. Some 16% of those with reduced rates and 20% of those without reductions are coping but finding it a real struggle. As might be expected, rate reductions are clearly having an impact on the small proportion (5%) of the total who are really struggling, particularly where this is due to job loss. Among the small proportion who are most pressured, the reduced rates make the greatest difference in that 3% of those with reduced rates compared to 6% of those without a reduction say that they are struggling and falling behind.

Rat reductions have shifted some mortgagors from a "tight" to a "comfortable" position while also preventing some of the most pressured from falling behind

Chart 1: Perceptions of how well managing outgoings and commitments by whether have had reduced mortgage payment due to low interest rates



Base: 1213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

Impact of low rates has been to reduce numbers struggling from a potential 0.8 million to 0.6 million and those under pressure from 2.5 million to 2.2 million

On the basis of comparison between the two groups who have and have not had rate reductions, it would seem that overall circa 512,000 more mortgagors are able to manage outgoings and commitments "comfortably" as a result of their rate reduction, while there are some 44,275 fewer finding finances manageable but sometimes tight than would have been the case without a rate reduction. On the same basis there are 274,600 fewer falling into the "coping but pressured" group and almost 193,000 fewer "strugglers" than would have been the case had low interest rates not been in place. In broad terms therefore, without the impact of rate rises the vulnerable "coping but pressured group" would thus have been closer to 2.5 m than the 2.2 million it is currently while the "strugglers" would have been closer to 0.8 million than the 0.6 million they are currently. The group comfortably on top of commitments, now some 3.6 million would be reduced to a little over 3 million while the largest group managing effectively but who sometimes find finances tight would be little changed at circa 5 million. This would seem to imply that rate reductions have resulted in a 25% decrease in the numbers of the most hard-pressed "strugglers" and a 12% decrease in the numbers of the "coping but pressured". Mortgagors comfortably on top of commitments have increased by some 16% while those managing effectively but for whom finances are sometimes tight is little changed, with a less than 1% decrease.

Rate rises therefore would seem likely to make the balance of outgoings to income less comfortable for the 3.6 million with considerable slack in their budgets, tend to swell the numbers of those who are managing to stay on top of commitments but finding it a real struggle to circa 2.5 million while causing a significant minority of the small numbers under severe stress and now falling behind to shift from a recoverable to irrecoverable position, potentially increasing the numbers in the most distress from circa 200,000 to circa 300,000. The impact on mortgage arrears would likely be concentrated in this latter group

Among those who have lost their jobs and benefitted from a rate reduction, the incidence of serious financial distress is clearly lower than for other job losers

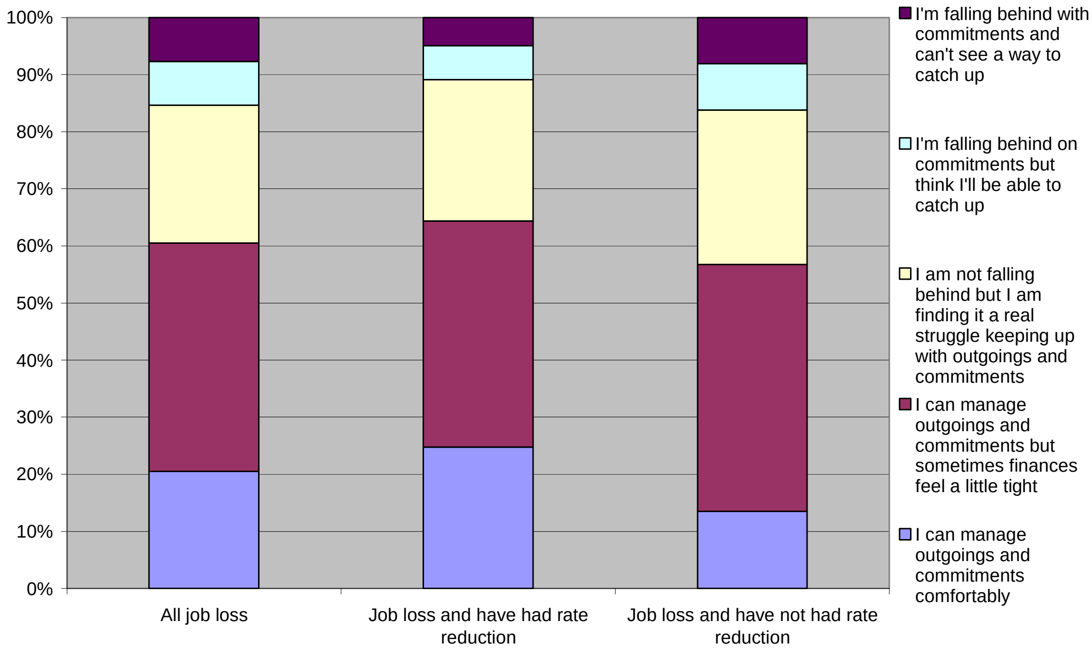
The importance of job loss as the driver of distress is clear in that 11% of those who have lost their job are struggling and falling behind, despite the rate reduction, compared to 3% of those who have had a reduction and remained in work. By comparison among all those who have lost their jobs the incidence is 16%. By contrast there is little difference among those who have lost their jobs and who have and have not had a rate rise in the proportions who claim to coping but under pressure, keeping on top of commitments but struggling to do so, (at 25% and 24% respectively).

Even for job losers two thirds are coping with little difficulty - low rates appear to have a relatively small impact outside the most hard-pressed

However even among those who have lost their jobs, many are in fact coping well and exhibiting considerable resilience. Here it is less clear than among those who have lost jobs and who are really struggling that rate reductions have had a significant impact on the manageability of budgets and whether individuals feel able to keep on top of commitments and outgoings. A quarter (25%) of those who have lost their jobs and had a rate reduction claim to be coping with outgoings and commitments “comfortably”. This compares with 21% for those who have lost their jobs overall and 14% for those who have lost their jobs and not experienced a rate reduction. Some 40% of all those who have lost jobs, regardless of whether they have had a rate reduction or not, say that they are managing to keep on top of commitments and outgoings but that finances are sometimes tight.

The majority of those who have lost their jobs are coping well through the recession with low rates important in minimising distress for the most troubled

Chart 2: Perceptions of how well managing outgoings and commitments



Base: 195 All job loss. 101 Reduced mortgage payment due to rate reduction and job loss. 94 Reduced mortgage payment due to rate reduction and no job loss.

Rate reductions have worked to reduce distress among the most hard pressed but appear to have made less impact than might have been anticipated

Rate reductions have clearly been important for the most hard-pressed and have worked to reduce the numbers facing both serious financial distress and pressure more widely. That said, it would appear that mortgagors generally, including those under pressure, are more resilient and that their coping strategies have more successful than policy makers might have anticipated. At the same time rate reductions have also made less difference to affordability and picture of stress and the incidence of arrears than might have been expected.

In order to understand why this is we need to explore how those who have and have not experienced rate reductions have adapted their budgets. The importance of flex and prioritising spend and focusing on essentials relative to the impact of rate reductions becomes clear in comparing the budgeting approaches of those who have and have not experienced rate reductions and those who have experienced more or less pressure.

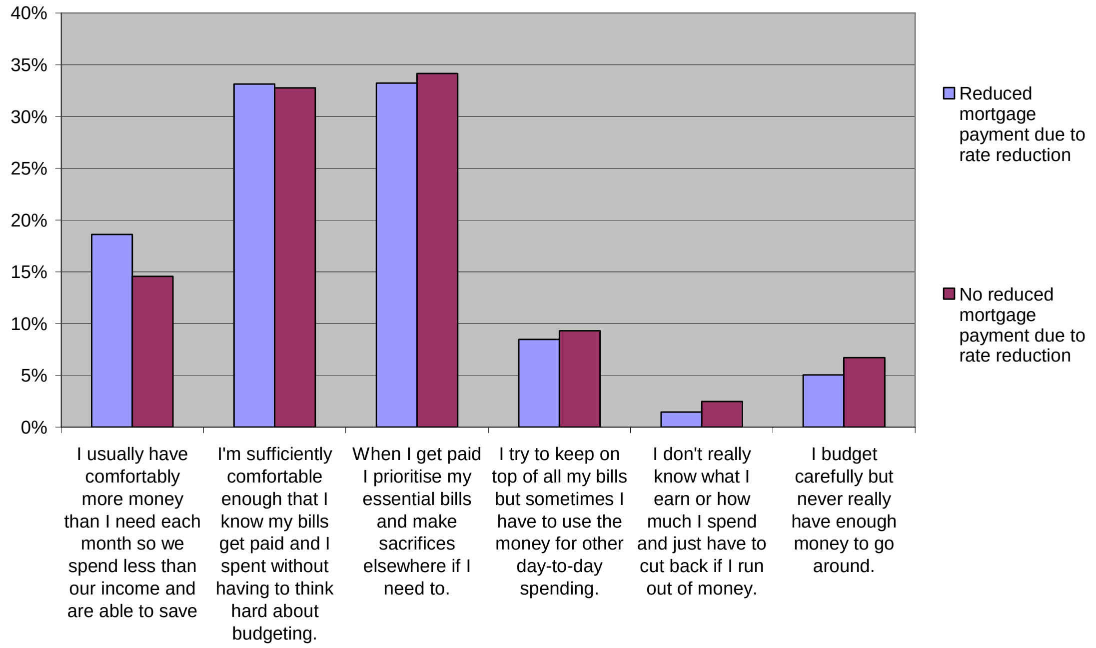
No significant differences in budgeting practice between those who have and have not experienced rate reductions among generality of borrowers

Taking those who have and have not experienced rate reductions overall there are no significant differences between the two groups in terms of their approach to budgeting and the degree of comfort and flex in their budgets. A little short of half of both groups have sufficient flex in their budgets so that they either have comfortably more than they need each month or know that their bills will be paid without having to worry too much about budgeting (49% of those with rate reductions and 48% of those without).

A similar proportion of both groups, a further third in each case, have coped effectively by prioritising spend on essentials. Less than one in ten (8% and 9%) of either group sometimes have to divert money earmarked for bills to day to day expenditure, with only 5% of those with a reduction and 7% of those without saying that they budget carefully and still never seem to have enough money to go around.

Those on reduced rates are more likely to be able to save while a little more of those who have not had reduced rates are struggling but differences not large

Chart 3: Budgeting practice and degree of comfort and flex in household budget by whether have had reduced mortgage payment due to low interest rates



Base: 1213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

Even among those on reduced incomes a large majority have been able to adapt budgets with little difference between those with and without rate reductions

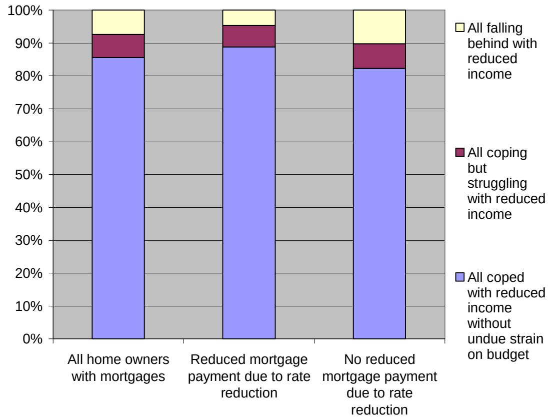
A similar pattern pertains even when looking at those who have a significantly reduced income as a result of the recession, some 37% of total mortgagors. Even among those on reduced income, a large majority have been able to adapt their budgets with little undue strain, in large part by prioritising essentials. Even within this group the differences between the mortgagors who have and have not experienced a rate reduction are not large.

A quarter (26%) of those who have experienced reduced incomes and who have had a rate reduction say they have coped because they always spend less than they earn, compared to 18% of those who have had a reduction. A little over half of both groups (51%and 52%) respectively, say that they have coped with a reduced income by reducing spending and prioritising essentials. Some 8% of those who have benefitted from a reduced rate and 7% of those who have not say that they have coped without having to cut back too much because their expenses have gone down. Taking these various responses together, this would imply that close to nine out of ten (89%) of those who have experienced a rate reduction have adapted to a reduced income without undue strain on their budget, primarily by prioritising essentials, compared to a little over eight out of ten (82%) of those who have not had a rate reduction. Only 7%

of both those with and without rate reductions say that they have only coped because their expenses have gone down. The impact of rate reductions only becomes more evident among those who are under most pressure, and for whom economising is not sufficient to moderate financial pressure. Some 4% of those who have had a rate reduction saying that they are falling behind compared to 10% of those who have not.

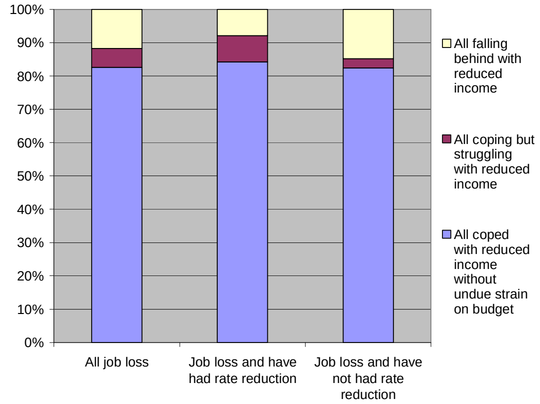
The overwhelming majority of mortgagors have been able to adapt their budgets to changed conditions without significant stress or hardship

Chart 4: How far mortgagors have been able to adapt budgets to reduced income without undue stress– mortgagors with and without rate reductions



Base: Mortgagors with reduced household income in the last two years. 417 All home owners with mortgages. 322 Reduced mortgage payment due to rate reduction. 243 No reduced mortgage payment due to rate reduction.

Chart 5: How far mortgagors have been able to adapt budgets to reduced income without undue stress– mortgagors who have lost their jobs with and without rate reductions



Base: 195 All job loss. 101 Reduced mortgage payment due to rate reduction and job loss. 94 Reduced mortgage payment due to rate reduction and no job loss.

For those who have lost jobs rate reductions have had more impact but are far less important than budgeting practice and prioritisation of spending

The importance of prioritising and budget adaptations becomes clearer in looking at those who have been under more pressure. As might be expected, far fewer of those who have lost their job have a comfortable degree of leeway in their budgets (30% compared to 47% of all mortgagors). More than four in ten (43%) of those who have lost their job have coped by prioritising spend and careful budgeting, compared to a third of other mortgagors with 12% having to divert bill money to day to day spending. Only 13% of those who have lost their job say that though they budget carefully they still never seem to have enough money to go round, with 12% of those who have lost their jobs and had a rate reduction saying the same. As noted above, this compares to 7% of mortgagors who have not lost their job. As with mortgagors overall, some 83% of mortgagors who have lost their jobs appear to be coping without significant stress, with little difference between those who have and have not had rate reductions. Almost six out of ten of those who have lost their job ascribe their ability to cope on a reduced income to prioritising essentials (57% of those who have had a rate reduction and 56% of those who have not) and slightly less than one in five to always spending less than they earn in any case (18% of those with rate reductions and 15% of those without). Only 7% of those who had lost their job and benefitted from a rate reduction said that they had coped primarily because of reduced expenses and only 5% that they were falling behind despite reduced expenses.

Those who have had a rate reduction are slightly less likely than those who have not to have faced affordability pressures across a range of dimensions

Unsurprisingly in the depths of a prolonged recession, some consumers have faced affordability pressures across a wide range of items. Relatively few have faced difficulties in affording essentials but, in line with the focus on core spending in hard times, a significant minority have had trouble affording discretionary items such as holidays and entertainment.

In examining the difference in affordability pressures across a wide range of categories of expenditure, it would seem that mortgagors who have not experienced a rate reduction are not under hugely greater pressure than those who have. In all categories, as might be expected, those who have experienced a rate reduction are less likely than those who have had a reduction to be under pressure but differences are not large.

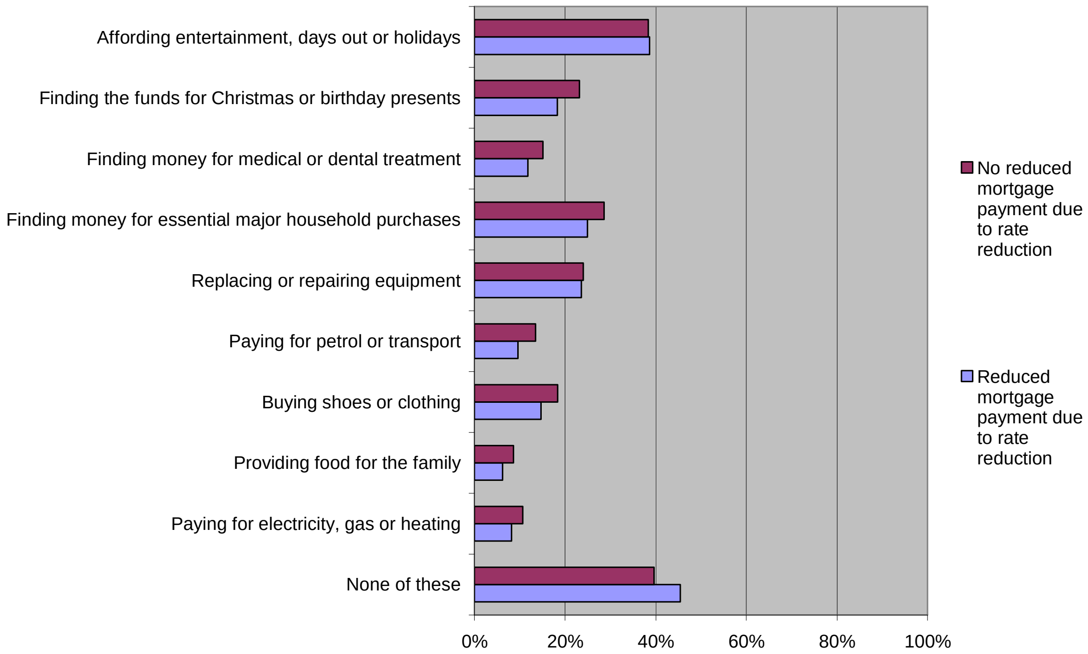
A small minority facing affordability pressures on essentials with more facing difficulties in affording holidays, entertainment or luxuries

Only a small proportion of mortgagors have had difficulties affording essentials such as fuel (8% of those who have experienced a reduction and 11% of those who have not), food (6% of those with a reduction and 9% of those who have not) or buying shoes and clothing (15% of those with a reduction and 18% of those who have not). There is very little difference between the two groups on affording discretionary items and luxury spending. Some 18% of those who have had a reduction have faced some difficulties funding Christmas and birthday presents while 39% have faced difficulties affording entertainment, days out or holidays. This compares with 23% and 38% of those who have not had a reduction.

Overall 45% of mortgagors who have had a reduction in rates have not experienced any difficulties in the last twelve months in affording a wide range of items compared to 40% of those who have not had a rate reduction.

The differences in affordability pressures between those who have and have not had reduced rates are small across both essential and discretionary spending

Chart 6: Whether have had difficulties affording various commitments, outgoings, essentials and discretionary spending in last 12 months



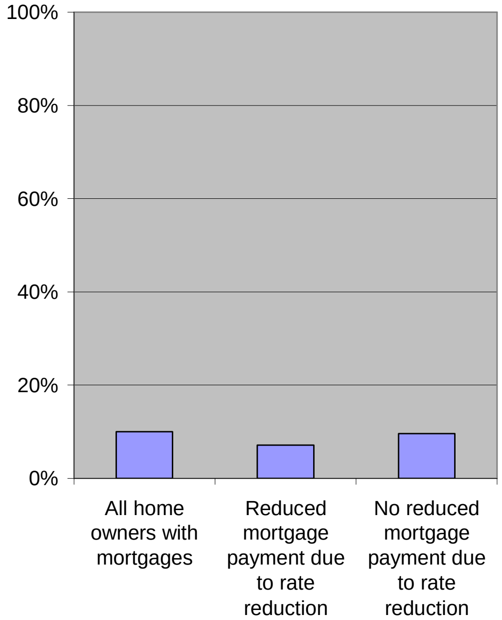
Base: Mortgagors with reduced household income in the last two years. 213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

Some 7% of those with rate reductions and 10% of those who have had reduced rates have faced some difficulties in affording mortgage payments

Relative few claim to have faced pressure in affording their mortgage, reflecting perhaps the priority placed on mortgages within the budget. Only 7% of mortgagors who have experienced a rate reduction have faced pressure in finding mortgage payments compared to 10% of those who have not. There appears to be greater affordability pressure around unsecured borrowing on credit and loan agreements than around mortgages however, with 12% of those who have not had rate reductions having had difficulties affording loan and credit repayments compared to 16% of those without reductions.

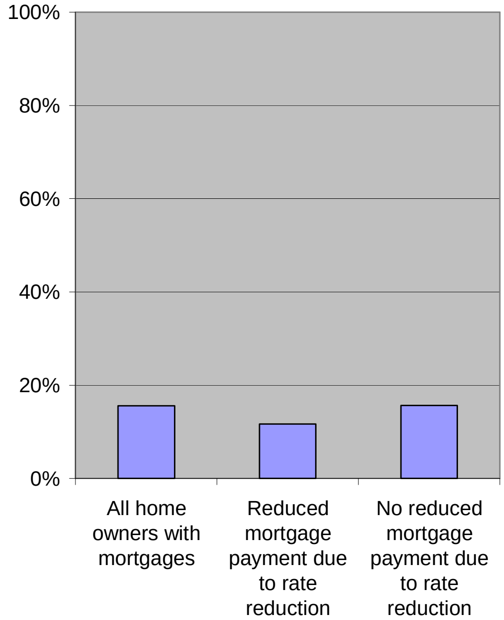
Affordability pressures on mortgages have been felt by one in ten mortgagors in the recession with those on reduced rates experiencing slightly less pressure

Chart 7: Whether have faced difficulties in affording mortgage payments in the last 12 months – mortgagors with and without rate reductions



Base: Mortgagors with reduced household income in the last two years. 417 All home owners with mortgages. 322 Reduced mortgage payment due to rate reduction. 243 No reduced mortgage payment due to rate reduction.

Chart 8: Whether have faced difficulties in affording credit and loan repayments in the last 12 months – mortgagors with and without rate reductions



Base: Mortgagors with reduced household income in the last two years. 417 All home owners with mortgages. 322 Reduced mortgage payment due to rate reduction. 243 No reduced mortgage payment due to rate reduction.

Affordability pressures among those who have lost their job have been higher but there appears little difference between those with and without reduced rates

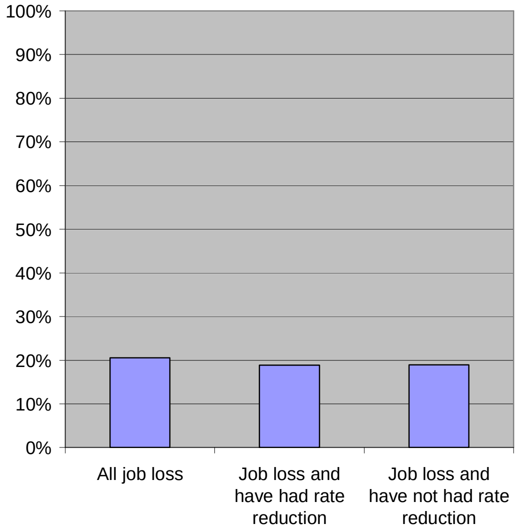
More of those who have lost their job have faced affordability pressures. Some 15% of those who have lost their job have experienced difficulties in affording food, 16% have experienced difficulties affording fuel and 29% shoes and clothing. There is however little difference between those who have and have not experienced a rate reduction. Among those who had lost their job and had a rate reduction the equivalent figures were 14% for food, 16% for fuel and 29% for shoes and clothing.

Eight in ten of those losing jobs have not had difficulty in affording mortgages with little difference between those who have and have not had reduced rates

Unsurprisingly, levels of difficulty affording mortgage payments are also higher than among mortgagors as a whole. Although the majority of those who have lost their job (79%) have not had difficulties in affording mortgage payments with the last twelve months, some one in five (21%) of all mortgagors who have lost their job have done so. Those who have lost their job and have had a rate reduction are slightly less likely (19%) to have faced difficulties affording mortgage payments in the last twelve months compared to 22% of those who have not had reductions.

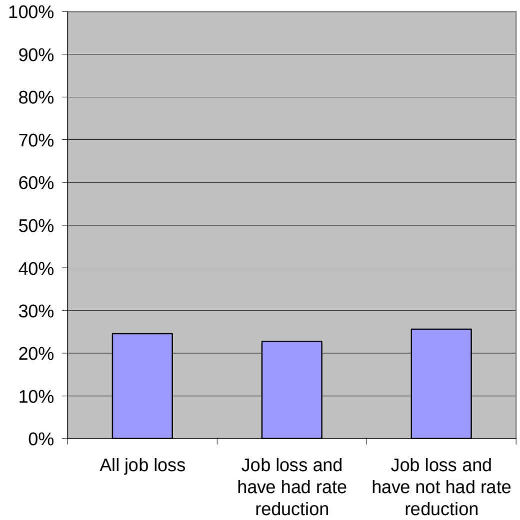
One in five of those who have lost their job have faced affordability pressures on mortgage payments and a little less than a quarter on credit repayments

Chart 9: Difficulty affording rent or mortgage payments in last twelve months



Base: 195 All job loss. 101 Reduced mortgage payment due to rate reduction and job loss. 94 Reduced mortgage payment due to rate reduction and no job loss.

Chart 10: Difficulty in affording repayments on credit or loan agreements



Base: 195 All job loss. 101 Reduced mortgage payment due to rate reduction and job loss. 94 Reduced mortgage payment due to rate reduction and no job loss.

Policy concerns on credit and mortgage affordability have centred on fears that unsecured credit is being used to disguise or defer affordability stress

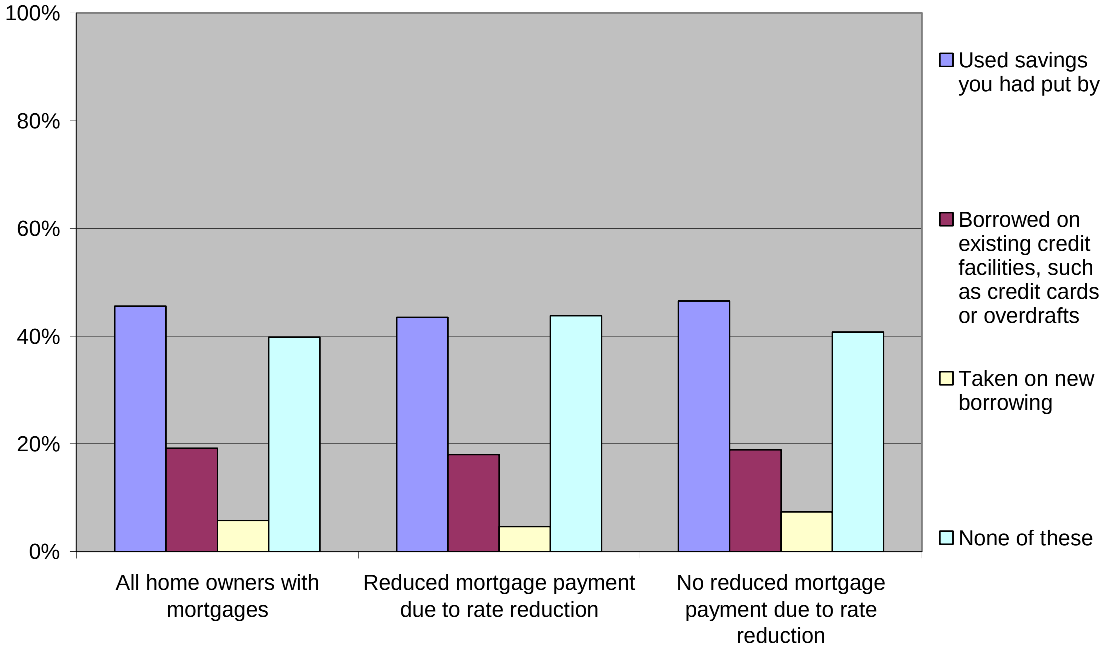
There have been further policy concerns that financial distress is causing those under pressure to draw on existing credit lines and to disguise affordability pressures and defer an affordability crisis - while also stacking up unmanageable and unsustainable debt and cost for the long term. The fear has been that those who are facing reduced income and job loss through recession will seek to manage cash flow shortfalls by using revolving and other credit lines. It is anticipated that rate reductions will have worked against this, allowing those facing pressure sufficient leeway not to have to borrow to bridge cash flow gaps, and especially to keep up mortgage payments.

Savings more important than credit with those who have not had rate reductions slightly more likely to draw on savings but not to use credit

In fact savings appear to have been more important than credit in adapting to recession. Mortgagors who have experienced a rate reduction are slightly less likely to have drawn on savings (43%) than those who have not (47%) while those most likely to have drawn on savings are those who have experienced job loss. Around one in five (19%) of mortgagors who have experienced reduced income through recession have drawn on existing credit lines such as credit cards and overdrafts, with no difference between those who have (19%) and have not had a rate reduction (19%).

Those without rate reductions only slightly more likely to draw on savings and no more likely to turn to existing credit lines to cope with reduced income

Chart 11: Role of savings in credit in helping to cope with reduced income - % drawing on savings or credit to help cope through recession on reduced income



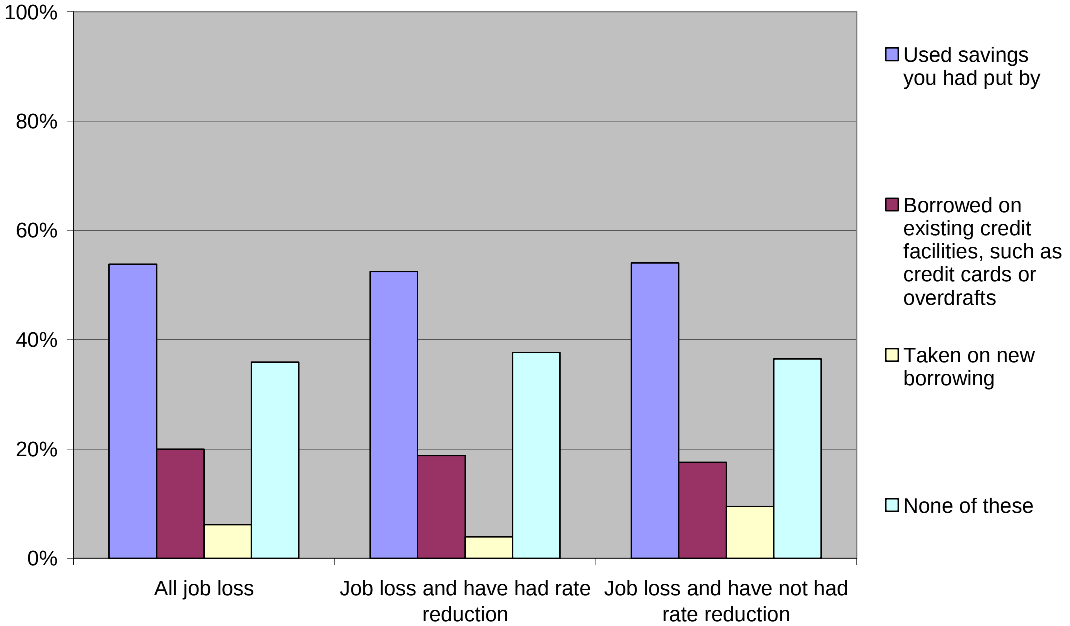
Base: Mortgagors with reduced household income in the last two years. 417 All home owners with mortgages. 322 Reduced mortgage payment due to rate reduction. 243 No reduced mortgage payment due to rate reduction.

Those who have lost their jobs are more likely to have drawn on savings but no more likely than all mortgagors to be using credit to help them cope

The same broad pattern holds true even for those who have sustained job loss. Those who have lost their jobs are more likely to have drawn on savings to help them cope through the recession than all mortgagors (54%), with those losing jobs and having a rate reduction only slightly less likely to do so (52%). Those who have lost their job are no more likely than other mortgagors to have drawn on existing credit facilities and slightly less likely to have taken on new borrowing.

Those who have lost their jobs do not appear to be relying on credit to moderate pressure to a greater extent than other mortgagors

Chart 12: Role of savings in credit in helping to cope with reduced income - % drawing on savings or credit to help cope through recession on reduced income



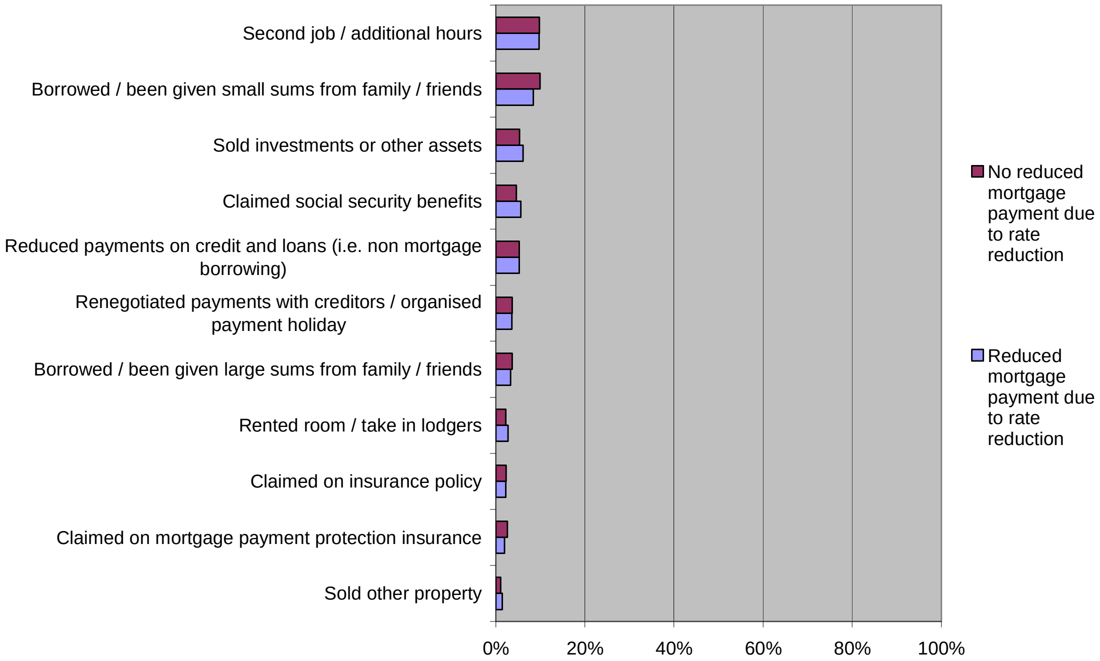
Base: 195 All job loss. 101 Reduced mortgage payment due to rate reduction and job loss. 94 Reduced mortgage payment due to rate reduction and no job loss.

Mortgagors have adopted a wide range of strategies to boost cash flow but rate reductions appear to have had little influence on these

Apart from budgeting discipline and prioritising essentials, mortgagors have used a wide range of coping strategies to mitigate cash flow pressures. There is again however very little difference between those who have and have not experienced a rate reduction. The most common coping strategies have been taking on a second job (10% of both those who have and have not experienced a rate reduction) and borrowing small sums from family and friends (8% of those with a reduction and 10% of those without).

Those who have not had a rate reduction are not adopting a wider range or different coping strategies to those who have had a reduction

Chart 13: Strategies adopted to help cope through recession



Base: 1213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

Those who have lost their jobs are more active than other mortgagors in pursuing a range of mitigation strategies

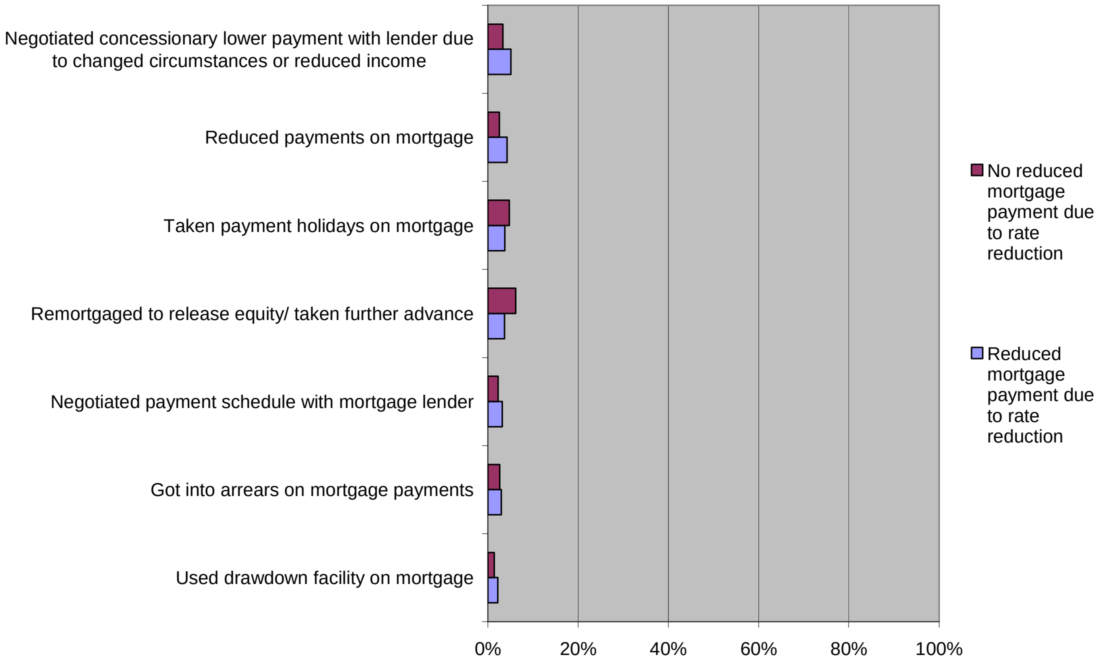
The role of financial pressure in driving deployment of a range of coping strategies is evident in the differences between those who have and have not lost their jobs, with those who have lost their job more likely to have adopted a wide range of coping strategies. Rate reductions however have had little influence on the overall pattern. Some 24% of those who have lost their job and experienced reduced rates have claimed social security benefits while 18% have borrowed small sums and 5% large sums from family. Some 14% have reduced payments on loans and credit agreements compared to 5% of others with reduced rates. The pattern among all those who have lost their jobs is very similar, with 27% having claimed social security benefits and 12% reducing payments on credit and loans.

Comparatively few have looked to their mortgage itself or their housing equity to mitigate cash flow pressures

Few mortgagors have looked to their mortgage or to draw on housing equity, with slightly more of those who have not had a rate reduction doing so. Some 6% of those who have not had a rate reduction have taken a further advance or raised cash on their housing equity compared to 4% of those who have. Some 5% of those who have not had a reduction have taken payment holidays on their mortgage compared to 4% of those who have.

Very few mortgagors have looked to renegotiate payments, use flexible product features or draw on housing equity

Chart 14: Mortgage related strategies for coping through recession and the impact on mortgage payments



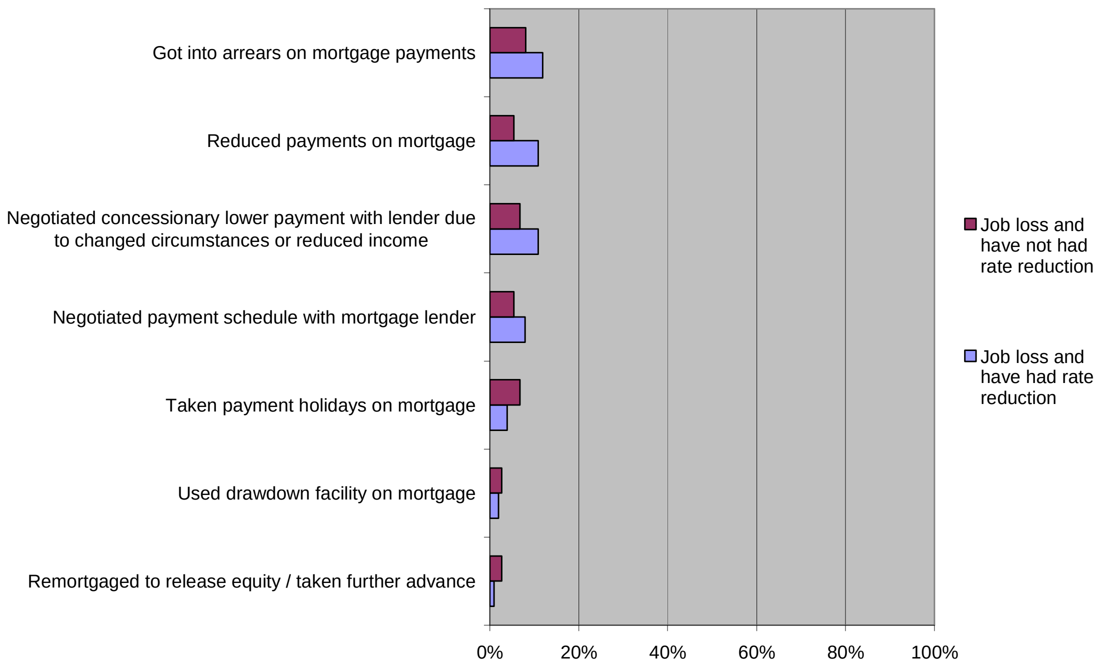
Base: 1546 All home owners with mortgages. 1213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

One in ten of those who have lost their jobs have renegotiated a payment schedule with those with rate reductions only slightly less likely to do so

Those who had lost their jobs were in fact less likely to have remortgaged to release equity or taken a further advance (2%) with 5% taking a payment holiday, in line with all mortgagors. Among those who have lost their jobs, however, 11% have negotiated a concessionary payment with lenders and 8% have renegotiated their overall payment schedule. The incidence among those who have benefitted from a rate reduction is slightly lower, with 9% of all mortgagors who have lost their job and who have had a rate reduction claiming to have negotiated a lower payment and 7% to have renegotiated their payment schedule.

More of those who have lost their jobs have looked to lenders for flexibility and forbearance with those on reduced rates only slightly less likely to do so

Chart 15: Mortgage related strategies for coping through recession and the impact on mortgage payments



Base: Reduced mortgage payment due to rate reduction and job loss 101. Reduced mortgage payment due to rate reduction and no job loss 94.

Six in ten mortgagors regardless of whether or not they have had rate reductions have not had to adopt any special coping strategies

Having described the various coping strategies that mortgagors under pressure have adopted, both in relation to their mortgage and more widely it is worth noting that the majority have not had to resort to any special measures, with little difference between those who have had a rate reduction and those who have not in this respect. Almost two thirds (63%) of those who have benefitted from a rate reduction and six in ten (60%) of those who have not had a reduction did not have to adopt any of the various coping strategies described.

Those who have lost their jobs have been more active in pursuing coping strategies with little difference between those with and without reduced rates

The proportions are almost reversed for those who lost their jobs. Among those who have lost their jobs, the majority (63%) have put in place at least one of the coping strategies described, with little difference between those who have and have not a rate reduction.

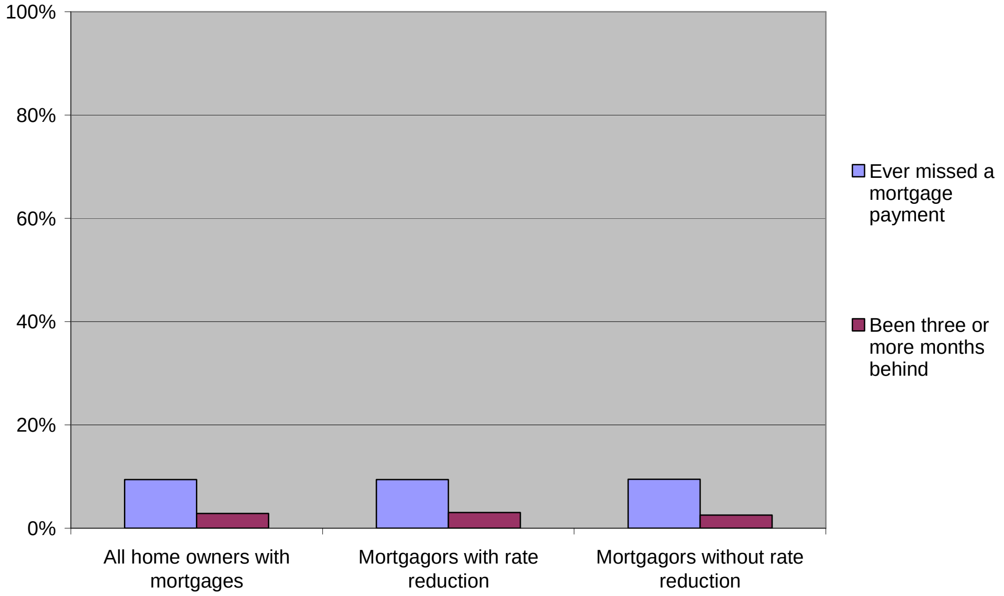
The incidence of missed and late payments on mortgages and of more serious arrears is identical for those who have and have not had rate reductions

The evidence is most telling on the impact of rate reductions in relation to the incidence of mortgage payment delinquency and arrears. There is no difference between those who have and have not had a reduction in their mortgage payments due to low interest rates in their level of mortgage arrears, at 3% for both groups.

Similarly 9% have of both groups have ever made a late or missed mortgage payments and 3% of both groups have ever been three or more months behind on their mortgage.

Despite the differences in affordability pressures on mortgages, those not on reduced rates are not exhibiting any higher delinquency

Chart 16: Missed mortgage payments and more serious arrears - those with and without reduced rates



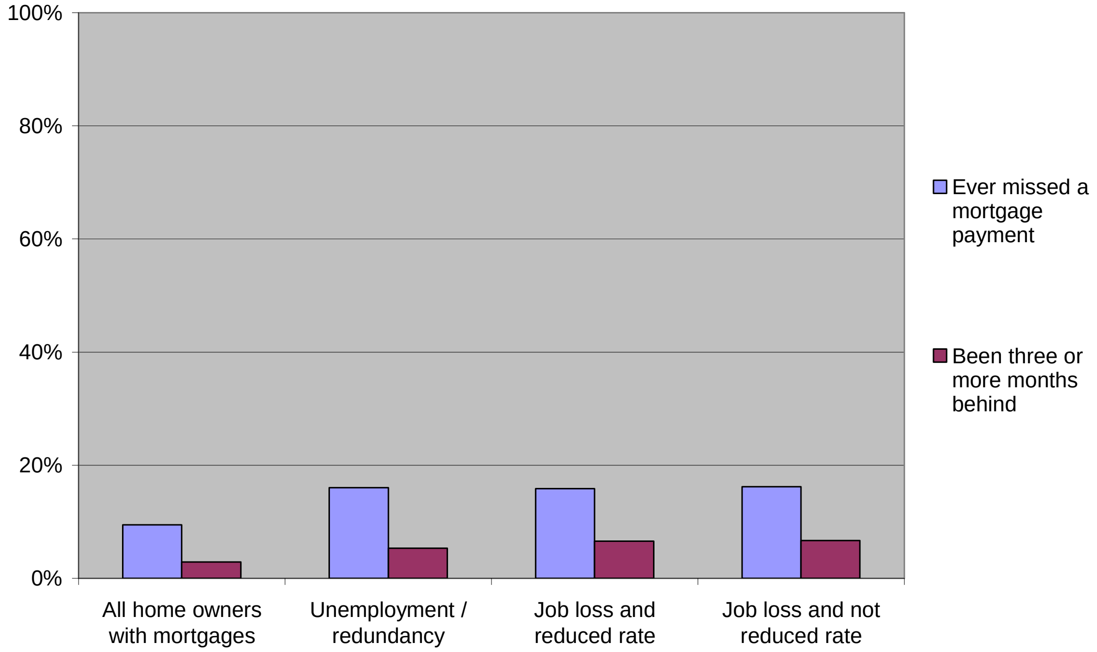
Base: 1546 All home owners with mortgages. 1213 Reduced mortgage payment due to rate reduction. 1010 No reduced mortgage payment due to rate reduction.

For those who have lost their jobs the incidence of delinquency is higher but there is no difference between those with and without rate reductions

Among those who have lost their jobs however, the incidence of having ever missed or made late payments on mortgages is significantly higher, at 16%, while 6% had been more than three months behind on their mortgage payments at some point, almost double the incidence among mortgagors overall. There was however no difference in either the incidence of having missed or made a late mortgage payment or getting three months behind for those who had and had not had a rate reduction.

Even among those who have lost their jobs reduced rates do not seem to be a major factor in the incidence of arrears

Chart 17: Missed mortgage payments and more serious arrears - those who have lost their jobs with and without reduced rate



Base: 2223 All home owners with mortgages. 195 Unemployment / redundancy. 195 Job loss and reduced rate. 74 Job loss and not reduced rate.

Some of the funds arising from reduced mortgage payments have been absorbed by reduced incomes and rising living costs

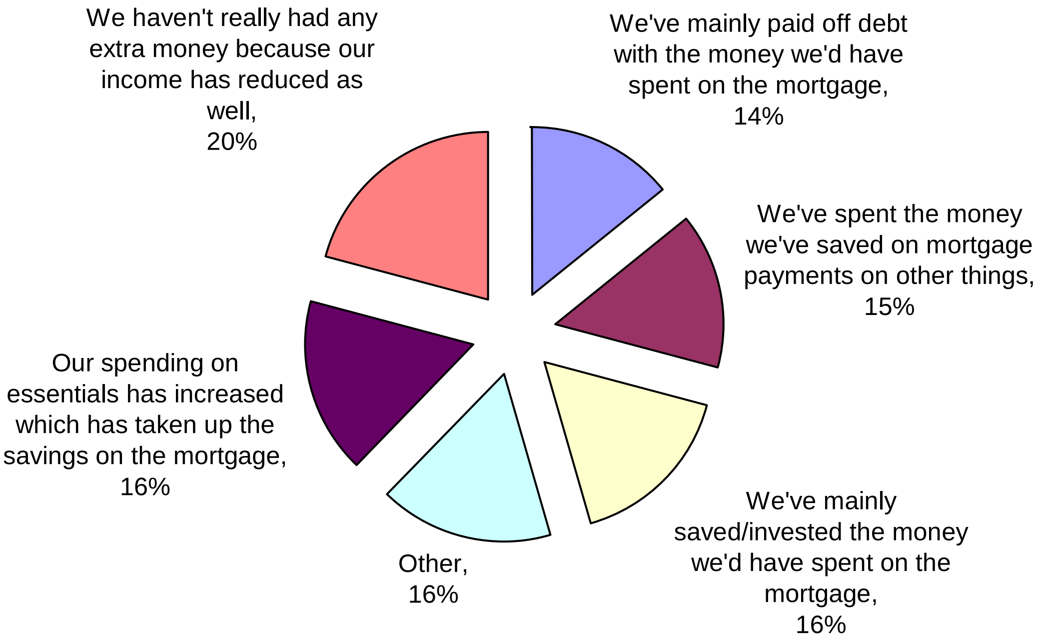
Part of the story on the impact of reduced rates has to do with consumer caution, rising living costs and lack of confidence in recessionary conditions. Of those who have benefitted from a reduced rate, one in five claim that they have not felt a real benefit because their income has also reduced. This is most true of course of those who have lost their jobs, almost two thirds (63%) of whom say that they have not really felt the impact of rate reductions because their income has reduced. A further 15% say that the benefit has been countered by increased cost of living and spending on essentials.

Some have used extra monies to boost savings while others have used funds to pay down debt - but little has been diverted to consumption

However some 17% of mortgagors say that they have diverted the reduced mortgage payment to savings while 15% claim to have paid down debt with the additional funds, some 80% of which has been unsecured credit.
Very little of the savings appear to have been diverted to consumption. Only 15% say that they have spent the money they have notionally saved on the mortgage on other things.

Much of funds absorbed by increased living costs and reduced income but funds diverted also to savings and paying off debt

Chart 18: Impact on household budgets of reduced mortgage payment due to low interest rate



Base: 1184 Those with reduced payments due to low interest rates.

The evidence would seem to point to budgeting and coping strategies being more important than rate reductions in shaping the degree of distress

Taking the evidence together, it suggests that it is the coping strategies and budgeting adaptations adopted by consumers rather than the rate reductions that have most significantly influenced outcomes for consumers. The explanation for why reduced mortgage payments appear have made less difference than might have been expected either to short term financial resilience or to the degree of financial distress being experienced appears to be two-fold. It lies primarily with pressured consumers' ability to adapt their budgets on the one hand. On the other, a high proportion of mortgagors appear both to have slack in their budgets and a comfortable balance of outgoings to income.

It would appear clear also that distress has been driven primarily by job loss, albeit that many of those who have lost their jobs are coping effectively

It is clear also that it is job loss rather than any affordability over-stretch on mortgages that has driven distress. That said, even those who have experienced job loss have shown a high degree of financial resilience though the recession, albeit that for a small number of the most vulnerable and pressured, job loss has proved very difficult to manage (see following section on the most pressured consumers).

Taken together therefore the detailed analysis of the impact of current low interest rates would seem to suggest that for those relatively few who have lost their job or the even smaller proportion of mortgagors who are struggling and failing, low rates have had an impact in alleviating distress. For the overwhelming majority, however, low rates have made little difference to the incidence of mortgage delinquency. The evidence does not support the idea that low rates are holding back or disguising an affordability crisis on any scale. The far greater influence on consumers' financial resilience and their ability to manage their finances and mortgage payments through the recession has been their ability to flex their budgets and to prioritise spending on essentials. Even with that said, there is a very significant proportion of mortgagors who have been able to cope even despite reduced incomes with relatively little adaptation to their budgets.

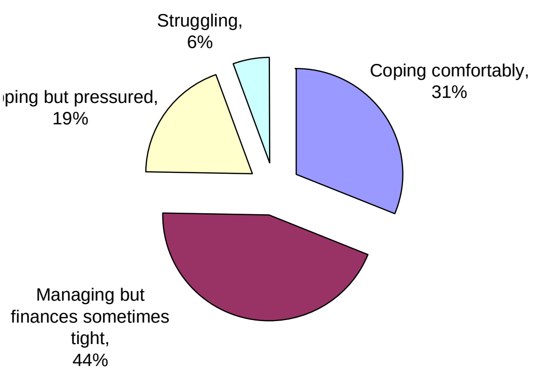
1.2 The experience of the most pressured

We now examine the position of those who are under most pressure and struggling to the greatest extent, alongside those who have reduced income as a result of the recession (37% of mortgagors) and those who have lost their jobs (12% of mortgagors).

We have defined the "coping but pressured" (19% of mortgagors") as those who say that while "they are not falling behind on outgoings and commitments they are finding it a real struggle" while those we have designated as "struggling" (5.5%) are those who say that they are "falling behind on outgoings and commitments", albeit that only slightly less than half of these (2% of mortgagors) feel that they won't be able to catch up. Both of these groups are generally more stressed than those who have lost their jobs or experienced reduced income through the recession as a whole, albeit that the incidence of job loss is much higher than average among both groups, with circa half of the "struggling" and a little more than a third (36%) of the "coping but pressured" having lost their jobs.

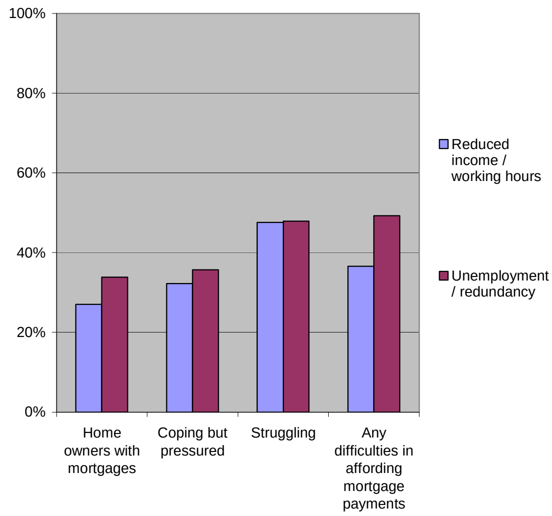
Among the groups who are most pressured there is a higher incidence of both job loss and reduced income and working hours

Chart 19: Those who have suffered reduced income through recession



Base: 1546 Home owners with mortgages.

Chart 20: Impact of job loss through recession



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 183 Any difficulties in affording mortgage payments.

The strugglers have a distinctive profile with a strong bias to women, low income households, families, single parents and relationship breakdown

The small group who are under the most pressure – "the struggling" appear to have a distinct profile in comparison to other mortgagors. These mortgagors appear to be lower income households than other mortgagors, with 43% falling into the bottom 50% of household income. They are also more likely to be family households (51%) than other mortgagors with a high proportion of single parents, and seven out of ten of the “strugglers” women. A third have been divorced or been through a major relationship breakdown. It should be noted however that average incomes will reflect the high incidence of job loss and reduced income among this segment, with 84% having a lower income than they did two years ago, with mortgages overwhelmingly having been taken out before the advent of the financial crisis.

A strong bias also to interest-only mortgages with almost six in ten on fixed rates and are thus suffering given the high rate of job loss in this group

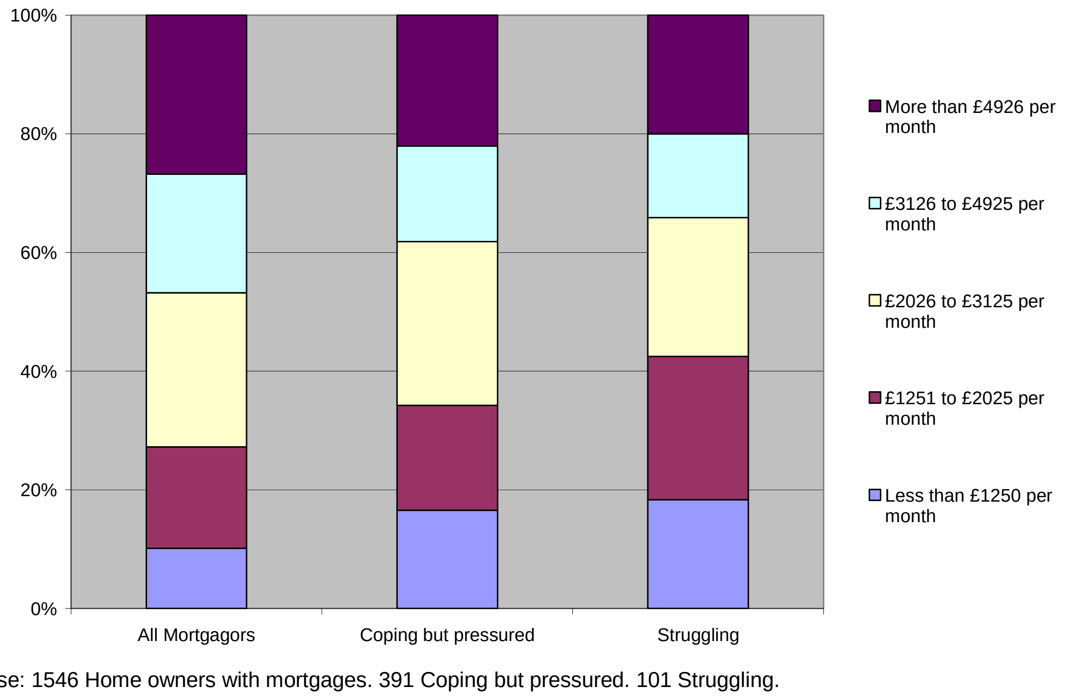
They are more likely than other mortgagors to have an interest-only mortgage (38% compared to 25% overall) but strikingly, also to have a fixed rate mortgage (57% compared to 43% overall) and to have mortgage rates fixed for a longer term. Given that half of these borrowers have lost their jobs and many of the remainder are on reduced incomes, these borrowers have suffered “a double whammy”, being also those least likely to have been helped by low interest rates. Although borrowings are low and attitudes to taking on borrowing cautious, these mortgagors appear to be those least well equipped to deal with a reversal in fortunes or a period of income famine in that few have reserves and many are over-stretched on credit commitments.

The “coping but pressured” are much closer to the profile of all mortgagors

The “coping but pressured”, although also lower income than mortgagors overall, are closer in profile to all mortgagors, although a little more likely to be family households (48% compared to 44% overall). They are only slightly more likely than other mortgagors to have an interest only mortgage (28% compared to 25% overall) and no more likely to have a fixed rate product than average.

The more pressured segments are lower income than mortgagors as a whole with this most marked for the most troubled

Chart 21: Household income profile of most pressured mortgagors



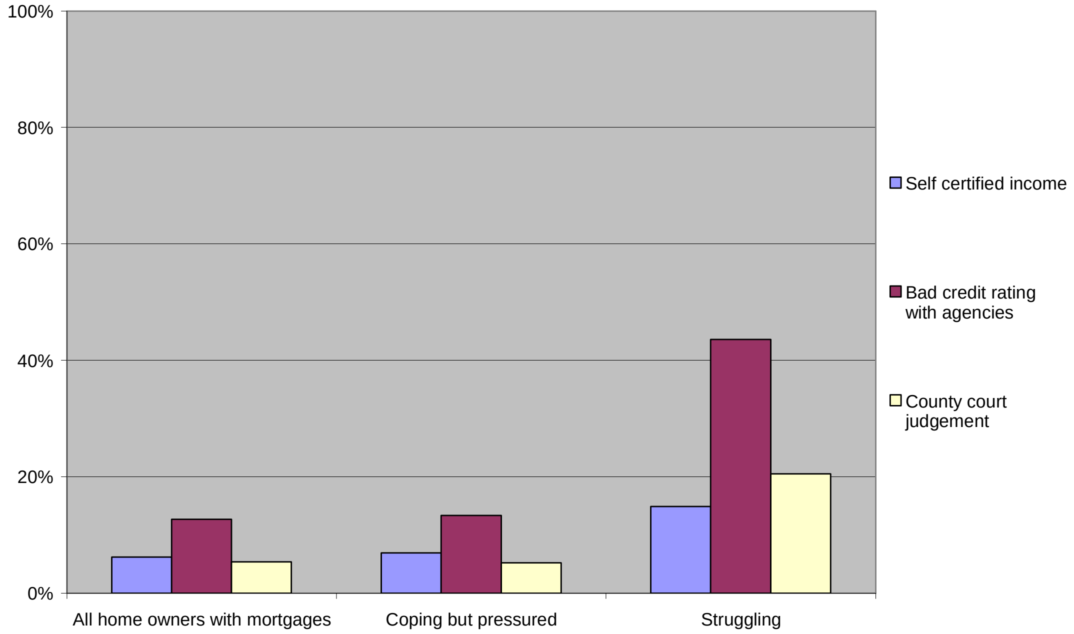
Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling.

There is a high incidence of self certification and CCJs among the "struggling" while the risk profile of the coping but pressured is in line with all mortgagors

There are more self certified and credit impaired borrowers among the mortgagor groups who are under greater pressure and there is a greater bias towards interest only mortgages. The great majority are not high risk or self-certified borrowers however. Among the "struggling" group, 15% had self-certified income when they took out the last mortgage and 20% now have a CCJ and almost 44% a blemished credit record (much of which has arisen as a result of their difficulties in the last two years). For the "coping but pressured" groups, the incidence of high risk factors and self certification is in line with the wider mortgagor population as a whole.

A large majority of the larger "coping but pressured" segment have no high risk factors with many of the "strugglers" acquiring adverse credit recently

Chart 22: Presence of high risk factors among most pressured borrowers



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy.

The degree of stress that the strugglers are under is of a different order to others under pressure and those who have lost jobs

The difference between the most pressured "struggling" and other groups under pressure is immediately apparent in examining their budgeting patterns and the degree of flex within them. While 57% of the "coping but pressured" group and 43% of those who have lost their jobs are able to cope with pressures on their budgets by prioritising their spending, only 17% of the "struggling" feel this way. More than a third (36%) of the struggling rather say that " they budget carefully but never really have enough money to go round" while 38% try to keep on top of bills but have to divert funds to day to day spending. One in ten (9%) appear not to have budgeting skills in that they say they don't really know what they earn or how much they spend and just have to cut back when they run out of money.

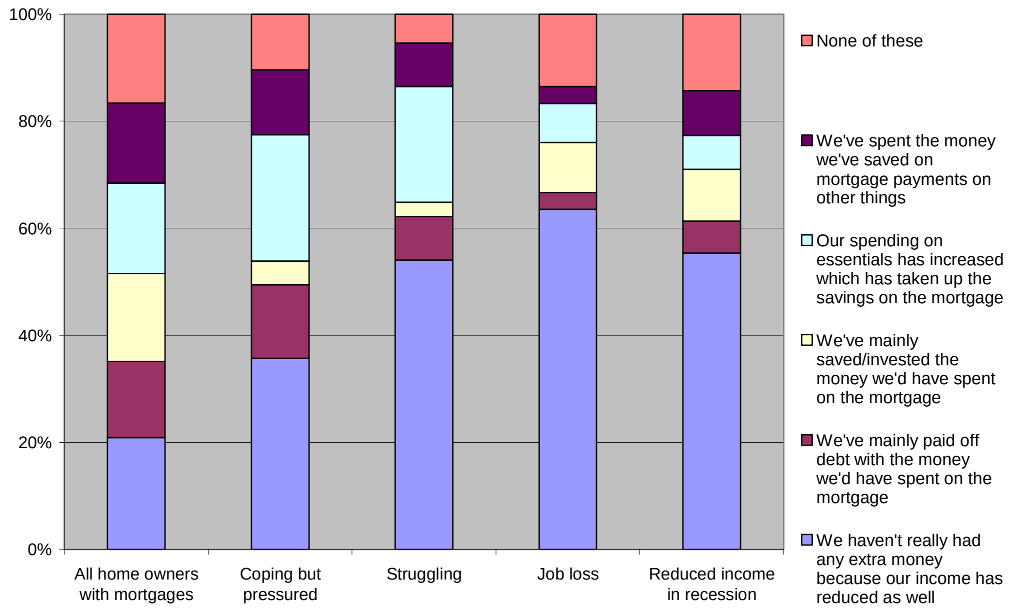
This would seem to indicate that this small and highly distressed group are fundamentally over-stretched, and not only because half have lost their jobs, albeit that 84% are on a significantly reduced income compared to the position two years ago. They are certainly far more stressed than the generality of those who have lost their jobs or who are on reduced incomes. Among those who have lost their jobs as a whole only 13% budget carefully but never have funds to go round, while the same is true of only 10% of those on reduced incomes. Indeed 30% of those who have lost their jobs and 38% of those on reduced income still have sufficient slack in their budget to be comfortable that commitments can be met without having to prioritise spending. Only 1% of the “struggling” and 6% of the “coping but pressured” claim to be in this position.

Rate reductions have been helpful to those under pressure but have largely been taken up by reduced income or increased expenses

For those who have struggled to the greatest extent rate reductions have been largely absorbed by reduced income in the case of those who have lost their jobs or are on reduced working hours or by a combination of reduced income and increased cost of living for the “coping but pressured” and the “strugglers”. Fewer of those who have been under the most pressure have been able to save their income or pay down debt in the way that those who are not facing financial difficulties have been.

Rate reductions have largely been absorbed by reduced income though less so for the “coping but pressured” where increased expenses are more of a factor

Chart 23: The impact of rate reductions on household budgets for those under pressure



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

Those coping but pressured and those who have lost their jobs and suffered reduced income are largely able to cope through adaptations to their budgets

The degree of pressure being experienced within household budgets is well captured in a series of statements relating to how those on reduced incomes have adapted their budgets. Overall nearly nine out of ten (86%) of mortgagors who have faced reduced income have been able to adapt their budgets to changed circumstances without undue strain while around 7% have coped albeit with a real struggle and 7% have fallen behind. This pattern of coping without significant strain remains broadly consistent even for those who have lost their jobs (83%) and to a lesser extent the “coping but pressured” (75%). That said, one in five (18%) of the latter group say that they are coping because their expenses have gone down but that it remains a real struggle. For this group, prioritising spending is clearly key, in that 60% say that they are coping because they are able to reduced unnecessary spending and prioritise expenditure.

For six out of ten of the "struggling" the pressures are such that budget adaptation cannot address cash flow shortfalls

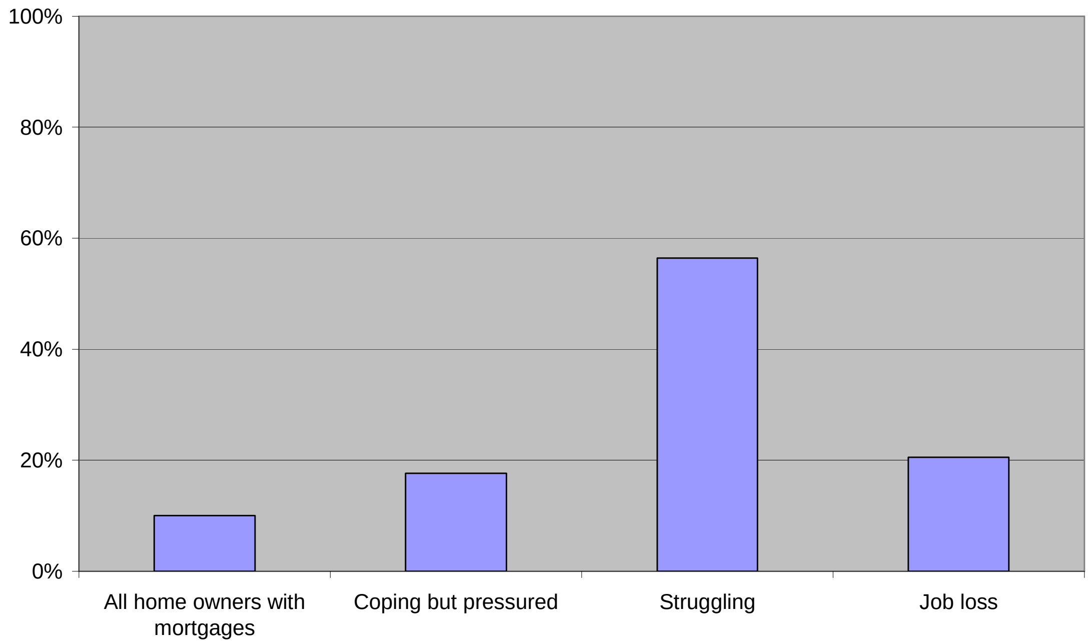
The pattern is reversed for the "struggling", however. For the "strugglers" 60% admit that they are falling behind in the face of reduced income and 10% that they are coping financially only because their expenses have gone down but that it is a real struggle. A little over a quarter (27%) have been able to cope by reducing spending and prioritising essentials with none feeling that they can be comfortable that bills will be met without budgeting too hard

Six in ten of the strugglers and one in five of the "coping but pressured" and those who have lost jobs have had difficulties affording mortgage payments

This pattern of budgeting and flex and resilience within budgets (or lack of it) is mirrored in the affordability pressures across a range of different categories of expenditure. Almost six in ten (56%) of the "struggling" and a little less than one in five of the "coping but pressured" have had trouble affording mortgage payments in the last year. This compares with 21% of those who have lost their jobs overall and 12% of those on reduced incomes. The "struggling" are also facing difficulties with affording a range of essential expenditure, including food (41%), fuel (46%) and shoes and clothing (53%). The equivalent for the "coping but pressured" is 21%, 23% and 37%. Those who have lost their job and those who have experienced reduced income in the recession appear less pressured overall, albeit that one in five (21%) have had difficulties affording a mortgage payment in the last twelve months.

A significant minority of all groups under pressure face difficulty in affording mortgage payments, but much less so than among the strugglers

Chart 24: Difficulty affording rent or mortgage payments in last twelve months for most pressured mortgagors



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

The strugglers face extreme affordability pressures across a series of dimensions but other groups facing difficulty are nowhere near as pressured

The strugglers face difficulties not only in finding mortgage payments but also a wide variety of other categories of expenditure, most notably payments on unsecured credit (68%). Many in this group are however struggling to find funds for essentials such as food (41%), fuel (46%), clothing (53%), transport (50%) or to fund major purchases (69%). These mortgagors are clearly under very significant stress.

"The coping but pressured", on the other hand, though under more strain than the generality of those who have lost their jobs or who have faced reduced income in the recession, are nowhere near as stressed as the strugglers, and are able for the most part to keep on top of their affordability stresses through careful budgeting and adaptations to spending.

Coping but pressured under more strain than generality of those who have lost jobs but not in same territory of stress as strugglers

Table 1: Whether have had difficulties affording various commitments, outgoings, essentials and discretionary spending in last 12 months – most pressured mortgagors

	All home owners with mortgages	Coping but pressured	Struggling	Unemployment / redundancy	Reduced income in recession
Paying for electricity, gas or heating	11%	23%	46%	16%	13%
Providing food for the family	9%	21%	41%	*15%	9%
Buying shoes or clothing	18%	37%	53%	29%	21%
Paying for petrol or transport	13%	27%	50%	19%	14%
Replacing or repairing equipment	26%	48%	62%	33%	29%
Finding money for essential major purchases such as washing machines or furniture	28%	52%	69%	34%	32%
Repaying credit or loan agreements	16%	33%	68%	25%	18%
Finding money for medical or dental treatment	14%	31%	36%	25%	18%
Finding the funds for Christmas or birthday presents	22%	45%	61%	34%	27%
Affording entertainment, days out or holidays	39%	64%	66%	52%	47%
None of these	40%	8%	3%	28%	33%
Base:	1546	391	101	195	565

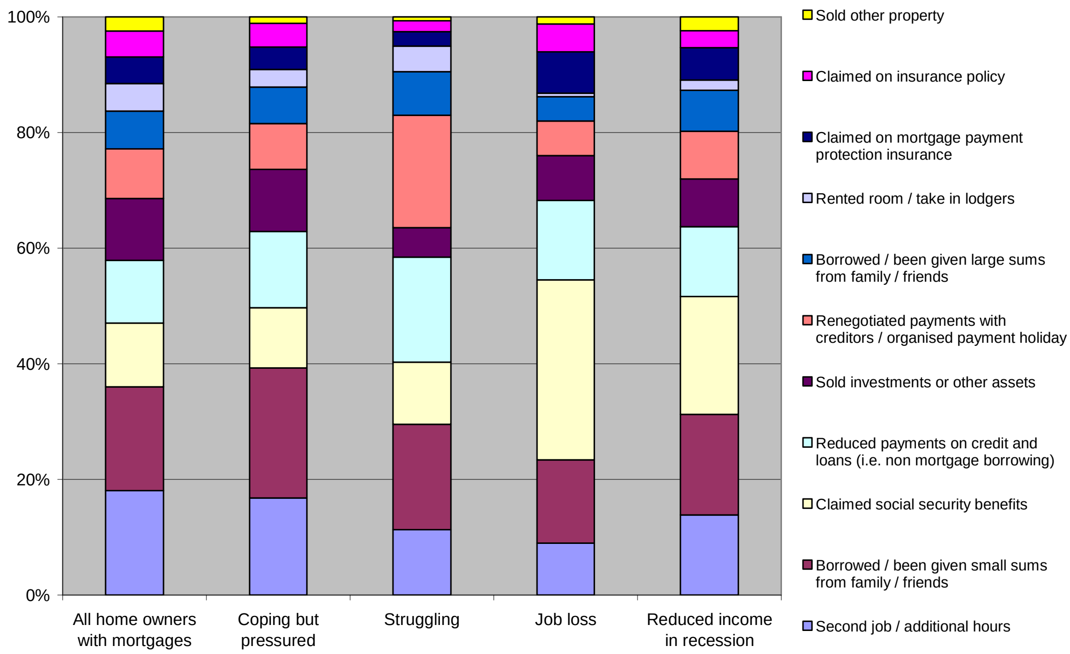
A variety of coping strategies adopted by those under pressure with the "coping but pressured" particularly active in doing so

Those under pressure have however adopted a variety of strategies to help them cope. As discussed in 1.2 earlier, these have included taking on a second job or doing additional hours, borrowing small sums from family, reduced payments on credit and loans, the negotiation of payment holidays and reduced rates and the sale of assets. Only 8% of those who have lost their job or seen reduced income in recession have taken on other work compared to 16% of the "coping but pressured" and 18% of the "struggling." Around 12% of both the "coping but pressured" and those who have lost their job have reduced payments on loans and credit cards. Slightly more of the "coping but pressured" than those who have lost their jobs have sold assets (10% and 7% respectively), renegotiated payment schedules with creditors or organised a payment holiday (7% and 5% respectively) or borrowed relatively large sums from family (6% and 4% respectively). Few outside those who have lost their job have been in a position to claim social security benefits.

The pattern is very different for "the struggling" and exhibits all the signs of extreme financial stress. Some 29% have borrowed small sums and 12% large sums from family, 29% have reduced payments on credit and loans and 31% have renegotiated payment schedules or a payment holiday with creditors.

The strugglers have relied most heavily on reduced credit payments, re-negotiated repayment schedules and informal borrowing

Chart 25: Strategies adopted to help cope through recession for most stressed mortgagors



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

Many mortgagors even under pressure have not had to adapt their finances and behaviour much further than careful budgeting

In considering the range of coping strategies adopted by those under stress it is important to bear in mind that for the most part, even mortgagors under pressure have been able to rely on belt tightening and careful budgeting to accommodate pressures on the budget. Relatively few borrowers have had to take more extreme measures such as working longer hours to cover bills or borrowing from family. Overall some 43% of those who have lost their job did not adopt any of a wide range of coping strategies, with the same being true of 55% of those on reduced incomes and 36% of the "coping but pressured." The same is true of only one in five of the "strugglers" however.

Savings have been more important than credit for all of those under pressure except the "strugglers" for whom the reverse is true

Savings are more important than credit as part of coping strategies for all of those under pressure except "the strugglers", for whom the reverse is true. Savings have been drawn on through the recession by 56% of the "coping but pressured" and 54% of those who have lost their job and 45% of those on reduced incomes. A third (33%) of the "coping but pressured", one in five (20%) of those who have lost their job and 18% of those on reduced income have drawn on existing credit lines while 10% of the "coping but pressured" and 6% of both those who have lost their job and those on reduced incomes. Savings have been used by the "strugglers" too but to a lesser extent (21% having drawn on savings to help them cope) but taking on more credit existing credit lines have been more important (used by 44%) while 10% have taken on new credit.

Half of the strugglers have been in arrears on credit and loans repayments as are one in ten of the coping but pressured and those who have lost their jobs

Indeed for the strugglers, one of the major issues appears to be wider credit commitments as much as mortgage borrowing. As noted earlier, some 68% of the strugglers have had difficulties affording credit commitments in the last year, as have a third 33% of the "coping but pressured" and a quarter (25%) of those who lost their job and almost one in five (18%) of those who are on reduced incomes. Some 48% of the "strugglers" have fallen into arrears on credit and loan repayments in the last couple of years, compared to 11% of the "coping but pressured" and 10% of those who have lost their jobs and 7% of both those who have experienced a reduced income through the recession and mortgagors overall.

A significant minority of those who have suffered an income shock reduce payments on cards to a minimum or get close to card limits

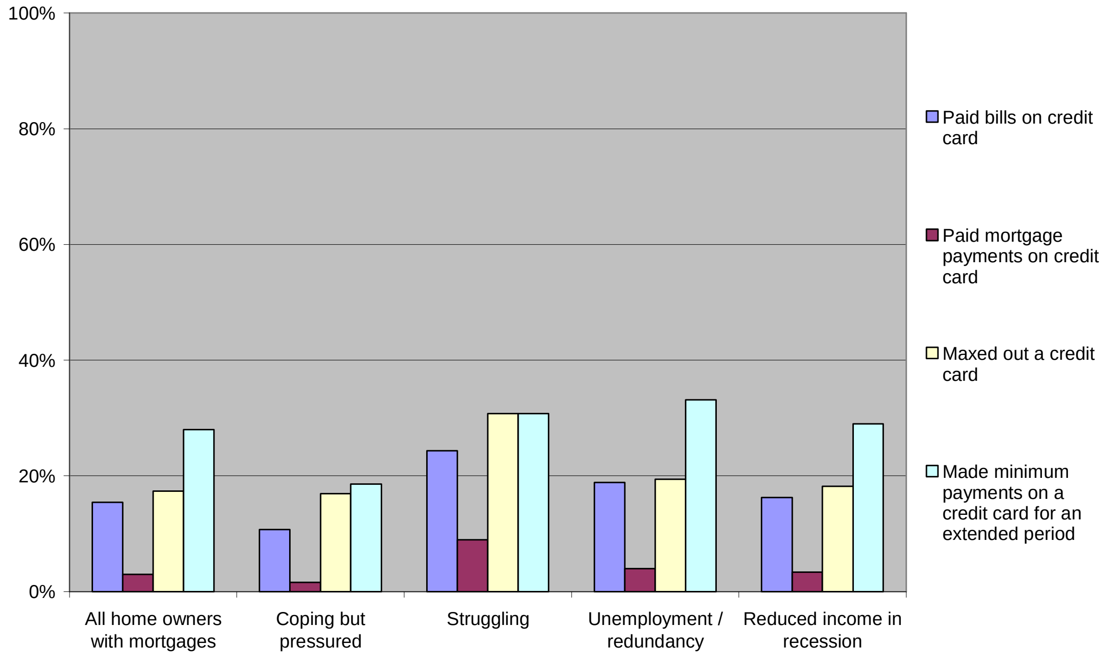
Reducing payments on revolving credit is, as earlier discussed, one of the strategies adopted to reduce outgoings when under pressure. A third of those who have lost their jobs (33%) and three in ten (29%) of those with reduced income admit to having paid a minimum payment on their card for an extended period, with around one in five of both groups admitting to having maxed out their card at some point. The "coping but pressured" are less likely to feature either behaviour, largely as a result of being less likely to have suffered a severe income shock. The "strugglers" were much more likely than others under pressure to have maxed out their cards (31%) though no more likely to have been making minimum payments for extended periods.

The "coping but pressured" less likely than other groups to rely on cards while almost one in ten of the "strugglers" had paid their mortgage on a credit card

Some 4% of those who had lost their jobs and 3% of those on reduced incomes had made at least one mortgage payment on a credit card while 19% of those who had lost their job and 16% of those with reduced income had paid bills on a credit card. The "coping but pressured" were again less likely to have used credit cards in this way, with 2% having made a mortgage payment on a credit card and 11% having used a card to pay bills. Almost one in ten (9%) of the most pressured "strugglers", on the other hand, had used a credit card to make a mortgage payment while almost a quarter (24%) had had used a card to pay bills.

Some of those under pressure get close to card limits or pay debt over greatly extended period to maximise cash flow but very few pay mortgages on cards

Chart 26: Problematic card use for most stressed mortgagors



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

Relatively few of the "coping but pressured", those with reduced income or who have lost a job have reduced mortgage payments or drawn on housing equity

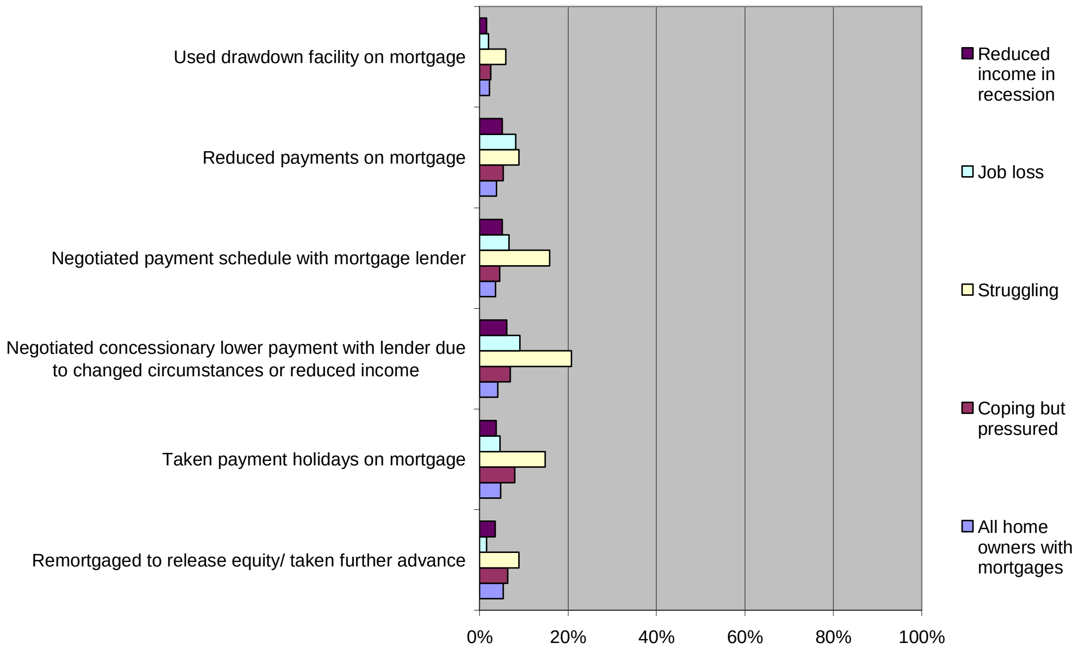
Payment behaviour and strategies on mortgages reflected these different degrees of pressure on affordability and the differing dynamics behind them. Only a small proportion of mortgagors - less than one in twenty in each case – have sought to cope with the financial pressures of the recession by releasing more equity, taking mortgage holidays, using drawdown facilities or renegotiating payments with lenders. Among the 12% of mortgagors who have lost their jobs, 7% have negotiated a new payment schedule with their lender and 8% reduced mortgage payments. Among the 37% of mortgagors who have experienced a reduced income, only 5% have done either with the same true of the "coping but pressured".

Those under the greatest pressure have been much more likely to reduce payments, withdraw equity and to renegotiate payment schedules

Those under the greatest pressure, the "struggling" have however been much more likely than other borrowers to withdraw equity and take further advances, to take mortgage holidays and to reduce payments on their mortgage. Some 21% have negotiated a lower payment and 16% a revised payment schedule.

Relatively few mortgagors under pressure have needed to reduce payments, take payment holidays or use drawdown facilities

Chart 27: Mortgage related strategies for coping through recession and the impact on mortgage payments for most stressed mortgagors



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

Despite the stresses they have faced relatively few borrowers under pressure have missed mortgage payments and even fewer have got seriously behind

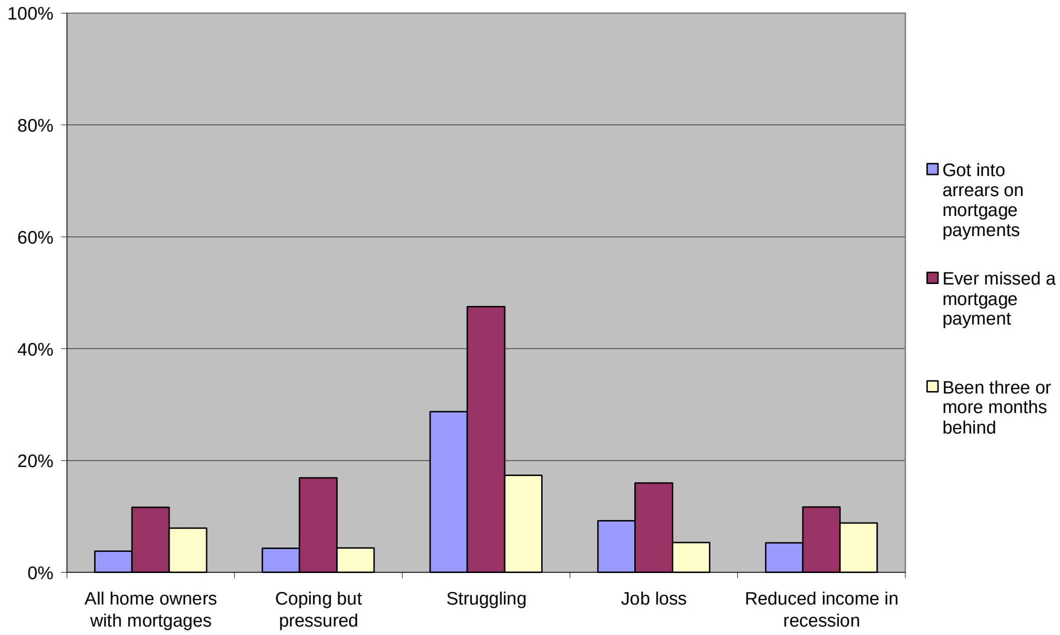
Despite the financial pressures however, even those who have lost jobs and coped with reduced incomes and other pressures, relatively few have missed payments and even fewer have got seriously behind. Overall some 12% of mortgagors have ever missed a mortgage payment. This rises to 17% among the “coping but pressured group and 16% among those who have lost their jobs. Some 12% of those with reduced income have ever made a late or missed payment. Far few have been three or more months behind. Some one in twenty of the “coping but pressured” and of those who have lost their job have at some point been three or more months behind. The majority of these have recovered their position.

Difficulties are concentrated in the deeply troubled “struggling” segment but even here only half have missed a mortgage payment

Difficulties appear to be largely concentrated in the small and deeply pressured “struggling” segment, some 5% of all mortgage borrowers. That said, even among this most troubled segment, only half of borrowers (48%) have actually missed or made a late mortgage payment. Three in ten (29%) are in arrears on their mortgage however while 17% have been three or more months behind.

"Strugglers" apart, even among those under financial pressure few have got in serious trouble with arrears

Chart 28: Missed and late payments on mortgages and more serious arrears for most stressed mortgagors



Base: 1546 Home owners with mortgages. 391 Coping but pressured. 101 Struggling. 195 Unemployment / redundancy. 565 Reduced income in recession. 101 Reduced mortgage payment due to rate reduction and job loss.

Taken together the evidence suggests that the scale of distress is in fact closely aligned with levels of arrears

Overall this more detailed analysis of these most pressured mortgagors would seem to demonstrate that the level of mortgage arrears is actually fairly closely aligned to the scale of serious financial distress. Even those who are clearly under pressure or who have lost their jobs or suffered an income shock appear to be exhibiting a considerable degree of financial resilience and capability under pressure.

Financial stresses would not appear to be driven by affordability over-stretch on mortgages. Indeed even among these more pressured consumers described in this section there appears to be a degree of financial slack in budgets. The primary drivers of distress appear rather to be recessionary conditions, falling incomes and job loss.

There is clearly a small and deeply troubled and vulnerable group who are over-stretched on unsecured credit as much as mortgages

There is clearly a small and deeply troubled group of low income mortgagors, some 5% of mortgagors overall, who appear inherently over-stretched, on credit commitments as much as mortgages. Some of these appear to lack a degree of financial capability. A minority sub-segment are high risk, problematic borrowers likely to struggle in any case but the majority appear rather to be relatively vulnerable households, often single mothers and women who have suffered a relationship breakdown and on low incomes who have been unable to cope with the income shock attendant on job loss and reduced working hours. Around half of even this group, despite the pressure they are under, appear to be less over-borrowed or financially incapable than victims of the recession and job loss, with many struggling to meet ongoing credit commitments on a greatly reduced income. Ironically these struggling consumers are also those most likely to have relatively high fixed rate mortgages and thus also those least likely to have benefitted from the effect of rate reductions.

The evidence is that this deeply troubled group in whom distress is concentrated have little in common with other segments under pressure

The characteristics of these borrowers are however a long way from those of the larger group of "coping but pressured" who would also seem to be finding it a struggle to keep on top of their outgoings, albeit that they are largely managing to do so. There is little comparison between the degree of pressure these borrowers are under and that experienced by the more deeply troubled "strugglers". Equally the position of the overwhelming majority of those who have lost their jobs or experienced reduced income in the recession is not in the same territory as the "strugglers" where distress is most concentrated.

The evidence does not support the idea that there is a wider affordability crisis waiting but rather speaks to the resilience of consumers under pressure

These differences and the much lower degree of stress being experienced outside the struggler group, particularly when combined with the evidence earlier presented on the impact of low interest rates in section 1.2, would appear to suggest that while there is clearly cause for concern around the position of the small number of most vulnerable borrowers, there does not appear to be a wider affordability crisis in prospect.

1.3 The profile of those potentially impacted by the draft responsible lending rules

This section seeks to expand on the analysis in the main report which simulates the impact of the draft responsible lending rules as contained in CP 10/16. The simulation was undertaken on the basis of a variety of scenarios allowing for requirements for greater or lesser net free cash flow, a more or less stringent stress test and other variables. The central scenario for the test assumed an affordability requirement of some 10% net free cash flow after all expenditure had been accounted for against allowable income. The outputs of the model are detailed in Chapter 3 of the main report. A brief description of the methods is contained in the short appendix to the main report with further details in the separate technical appendix.

A significant body of current mortgagors would be impacted by the proposed rules as drafted

The model outputs suggest that on the central scenario, if the affordability test were to be implemented as drafted some 19% of current borrowers, some 2.2.million individuals, would not be allowed to borrow at all in the future while 30%, 3.9 million individuals would be allowed to borrow less than their current mortgage.

In this section we describe these mortgagors who would either be shut out of the market or allowed reduced borrowing in future. References in this section are all to this central scenario.

The impact would be to exclude or disadvantage low income borrowers and shift the profile of home ownership to more affluent sections of the population

The test would appear to have the potential to change the profile of home owners, shifting the profile of home owners significantly up the socio-economic scale and excluding a high proportion of low income borrowers.

Currently the average household income for all mortgagors is a little over £46,000 p.a.. Those who pass the affordability test, however, have an average income of a little over £62,350 while those who would not be allowed any borrowing have an average income of £33, 535 while those allowed reduced borrowing have an average income of £52,315.

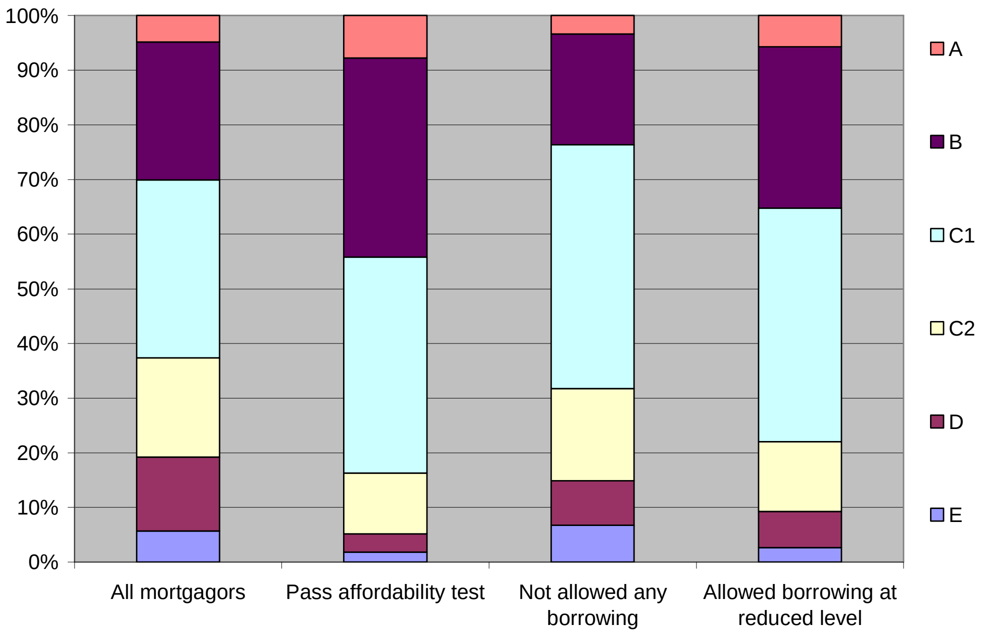
Many of those potentially excluded or facing reduced borrowing appear to be relatively low LTV borrowers with modest mortgages

There would seem little difference in the LTV profile of those passing and failing the test however, with both those passing the test and not allowed any borrowing having an average of 45% LTV with those allowed reduced borrowing having an average LTV ratio of 58%. Housing equity values, at an average of a little over £141,000 for both those who pass and those who would not be allowed any borrowing are also similar, but are slightly lower for those allowed less than their current mortgage borrowing (an average of £135,600). Current mortgage borrowing is highest for those allowed reduced borrowing (£115, 415) and lowest for those not allowed any borrowing, at a little short of £86,000. Those who pass the test have current mortgage borrowing of £101,560.

C2DE borrowers currently represent around a third of mortgagors. Of those who pass the affordability test under the central scenario, however, only 16% are C2DEs, with C2DEs representing around a third (32%) of mortgagors not allowed any borrowing and only 22% of those allowed borrowing at a reduced level.

The rules as drafted would appear to have the potential to shift the profile of mortgagors and home owners sharply up the socio-economic scale

Chart 29d: Socio-economic group by outcome of current scenario* affordability test



Base: 1546 All mortgagors. 387 Pass affordability test. 148 Not allowed any borrowing. 227 Allowed borrowing at reduced level.
*Based on current borrowing, stated income and expenditure and net free cash flow of 10% plus additional layers to cover income verification, assess borrowing on capital and repayment basis, 2% stress test, term limited to 25 years and cap at aged 65

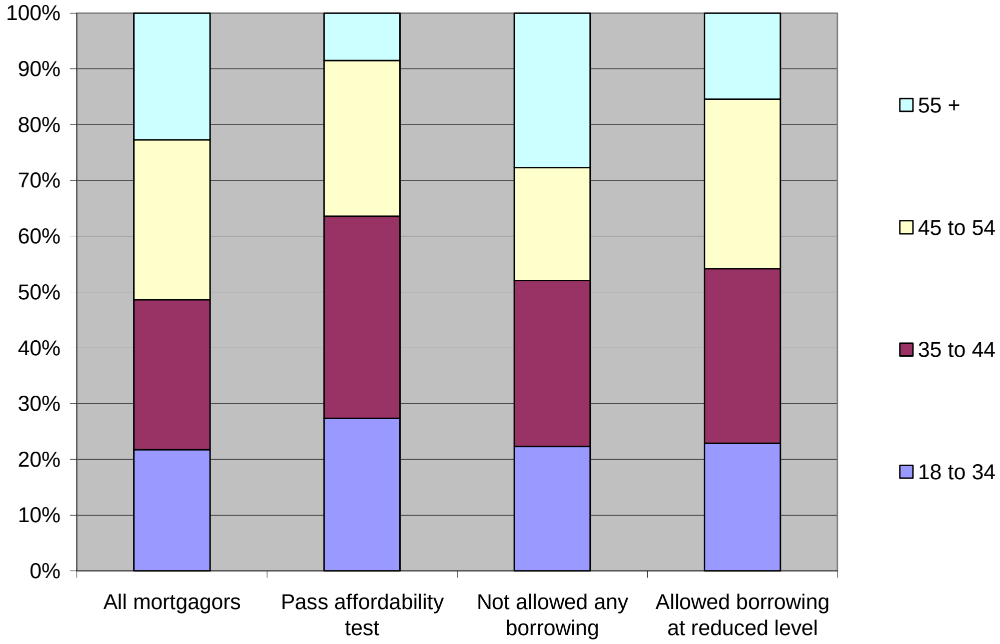
Older workers and the self employed appear potentially particularly disadvantaged

The age profile of borrowers would also seem likely to change and shift down the age scale. This is not because the regulator intends to prevent borrowing into retirement but because lenders have already responded to the affordability test requirements for older borrowers by capping borrowing terms for older borrowers at age 65 on the grounds that the test requirements are impracticable to apply in advance of retirement. Currently 23% of borrowers are aged over 55. Of those who pass the affordability test, only 9% are over 55. Of those who would not be allowed any borrowing, 28% are aged over 55 and of those allowed reduced borrowing, only 15% are over 55. This is the effect both of older borrowers being more likely to have interest only mortgages and of the term for repayment of loans assessed on a capital and repayment basis being capped at age 65, with the combination causing many older borrowers to fail on affordability grounds.

Of those who would not be allowed any borrowing, 30% currently have a retirement term that would take them past retirement while 16% are retired. Self employed borrowers are also disproportionately represented among those who would not be allowed any borrowing, being 18% of the total.

Affordability implications for lending into retirement has potential to frustrate planning for later life for large group of low risk, high LTV mortgagors

Chart 30: Age by outcomes of central scenario* affordability test



Base: 1546 All mortgagors. 387 Pass affordability test. 148 Not allowed any borrowing. 227 Allowed borrowing at reduced level.
*Based on current borrowing, stated income and expenditure and net free cash flow of 10% plus additional layers to cover income verification, assess borrowing on capital and repayment basis, 2% stress test, term limited to 25 years and cap at aged 65

Interest only borrowers are over-represented within those potentially excluded or facing reduced borrowing

Interest only borrowers are over-represented among those who would be impacted by the proposed draft rules, partly because more older borrowers have interest only mortgages but more fundamentally because of the requirement to assess interest only borrowing as if on a capital and repayment basis. Those with an interest only mortgage represent only 18% of those who would pass the test, 34% of those who would not be allowed any borrowing and 31% of those who would be allowed to borrow less than their current mortgage.

Many of those potentially affected appear to be borrowers with few affordability pressures and a long track record of unblemished mortgage payment

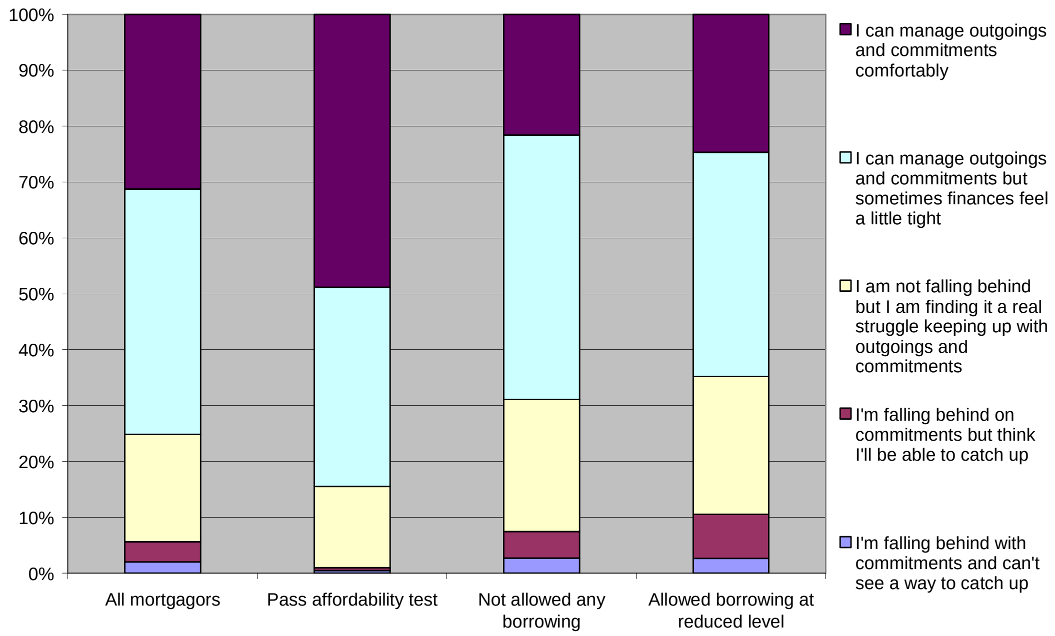
The affordability test would appear to have the potential to impact large numbers of individuals who appear to have few serious affordability pressures. Half of those who pass the test say that they can manage all outgoings and commitments comfortably, a much higher proportion than among current mortgagors, among whom only three in ten (31%) claim to be in this position. However 22% of those who would not be allowed any borrowing say that they can afford their outgoings and commitments “comfortably” as do a quarter (25%) of those who would be allowed less borrowing than their current mortgage.

Those who would not be allowed any borrowing are more likely to be stressed than current mortgagors overall but only slightly so, with 47% saying that they can manage commitments but that finances sometimes feel a little tight (compared to 44% of all mortgagors). Almost a quarter (24%) fall into the "coping but pressured" group who are largely staying on top of commitments, albeit with something of a struggle.

Some 8% fall into the troubled "strugglers" group, compared to 5.5% in the wider mortgagor population. The profile of those who would be allowed to borrow less than their current mortgage is not in fact dissimilar to that of those who would be shut out from new borrowing. Individuals are both slightly more likely both to be comfortably on top of commitments and to be "strugglers", with 11% of those allowed reduced borrowing falling into this group.

Many of those who would be impacted by the test would not appear to be under any particular affordability stress

Chart 31: Whether can manage outgoings and commitments by outcomes of central scenario affordability test



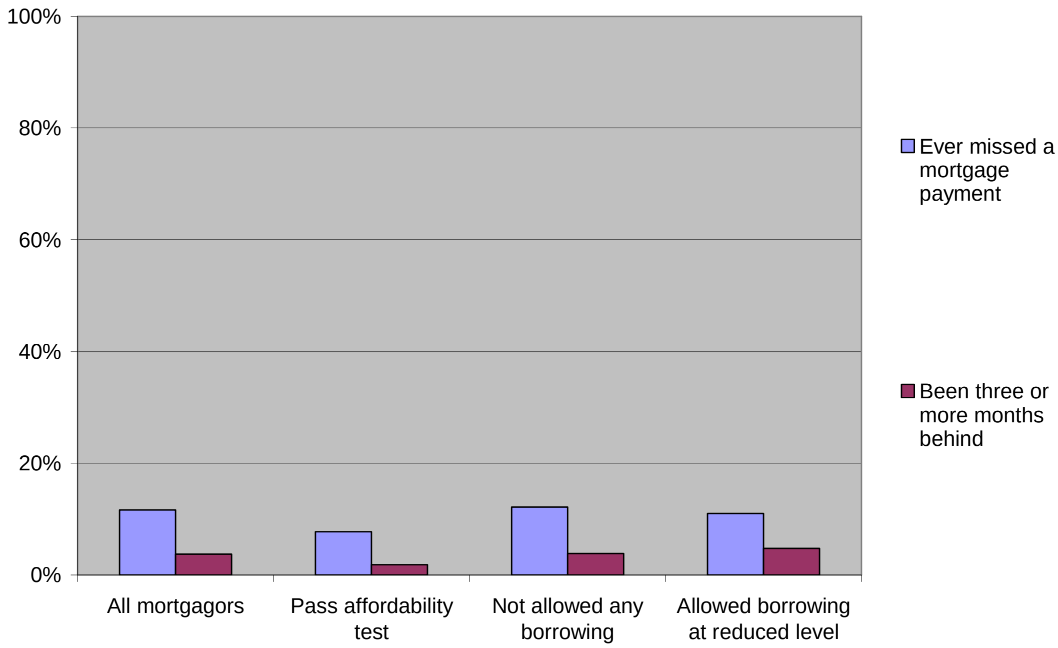
Base: 1546 All mortgagors. 387 Pass affordability test. 148 Not allowed any borrowing. 227 Allowed borrowing at reduced level.

Only a small minority of those likely to be impacted have experienced payment difficulties

Only 11% of those who would not be allowed any borrowing and 12% of those who would be allowed reduced borrowing have faced difficulties in affording their mortgage over the last twelve months. Similar proportions (11% and 12%) respectively have ever missed or made a late mortgage payment while only 4% of those not allowed any borrowing and 5% of those allowed reduced borrowing have been three months or more behind on their mortgage. Only 9% of those not allowed any borrowing and 14% of those allowed reduced borrowing have ever been in arrears on bills or credit arrangements (compared to 11% of mortgagors overall). Some 86% of all those not allowed to borrow and 88% of those allowed reduced borrowing have an entirely unblemished mortgage record, in the case of those not allowed any borrowing in particular, largely proven over many years.

Those who have any history of payment delinquency are a small proportion of those failing the affordability test

Chart 32: Missed mortgage payments and more serious arrears by outcomes of central scenario affordability test



Base: 1546 All mortgagors. 387 Pass affordability test. 148 Not allowed any borrowing. 227 Allowed borrowing at reduced level.

A profile of those likely to be shut out of the mortgage market or to be able to borrow less than their current mortgage

Clearly the affordability test would reduce the risk of affordability stress by confining lending to the lowest risk and more upmarket borrowers who would pass the test. The profile of the large numbers who might potentially be excluded or who would only be able to borrow less than their current mortgage is fairly mixed however. Both the group that would be shut out of the market and those allowed reduced borrowing contains both some very high risk borrowers but also low risk borrowers and those who may be under a degree of strain in recessionary conditions but who have demonstrated a high degree of responsibility and financial resilience. The chart below shows how those who would be shut out of the market or would be allowed reduced borrowing segments.

The largest group among those who would be allowed reduced borrowing are **Dual Income Employed Families** (37% of all who fail the affordability test on their current borrowing), whose finances are tight but well managed, whose credit use is modest and considered and who have very low incidence of missed payments on either credit or mortgages.

A smaller group within those who would be allowed reduced borrowing, **The Relationship Survivors** (17% of the total who fail the affordability test) are largely women, single person households whose finances are well managed but tight. Around a third have survived a rocky financial patch following divorce or relationship break-down.

A much smaller segment within those who would be allowed to borrow less than their current mortgage (6% of the total who fail the affordability test) is the **High Risk Credit Impaired.** These are highly problematic borrowers, many of whom have a

CCJ and a history of struggling with both mortgages and unsecured credit. All the lender interviews suggest however that even if the responsible lending rules would allow for the service of such borrowers, there is now no appetite for serving such borrowers and most doubt that there is any real prospect of credit impaired borrowers being able to gain access to mortgage borrowing in the foreseeable future, though this may change as the market normalises and / or new players enter the market.

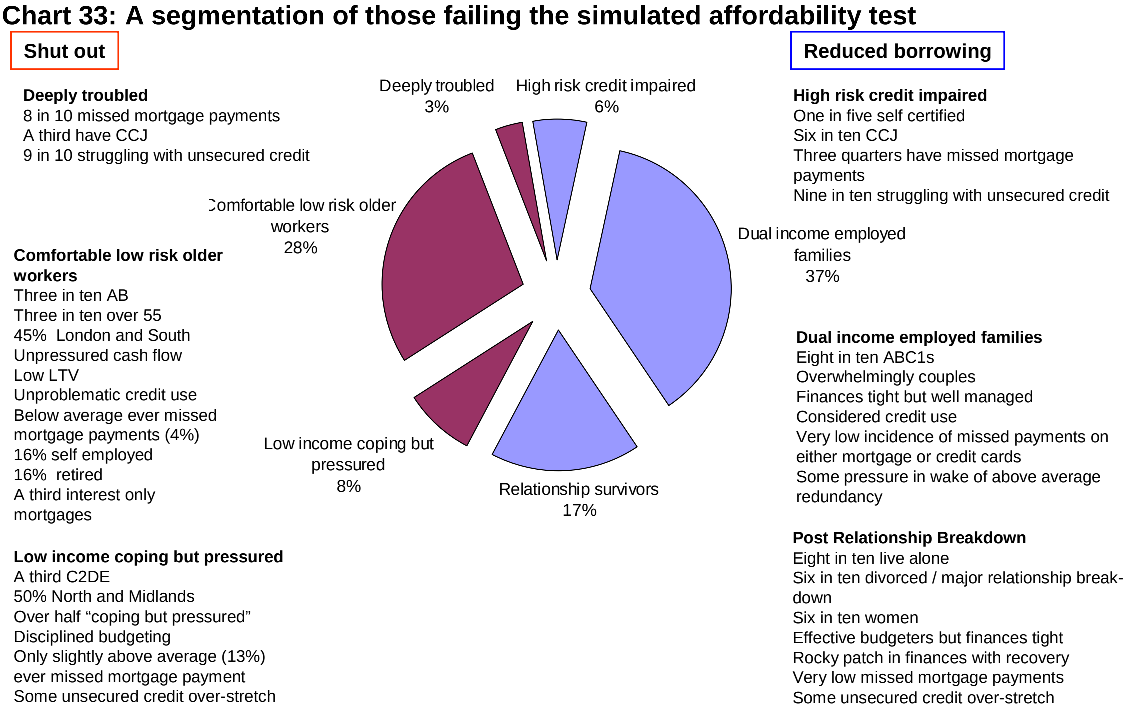
Among those who would be shut out from borrowing, the largest single segment is that of **Comfortable Low Risk Older Workers** (27% of all those who fail the affordability test), who fail largely as a result of a relatively high incidence of interest only mortgages and of self employment and because of the difficulties the affordability test poses for lenders who have become unwilling to lend into retirement. This group are largely upmarket, have unpressured cash-flow, unproblematic credit use and very low incidence of payment problems on their mortgage. Many of these mortgagors are based in the South and London.

A much smaller segment of **Low Income Coping but Pressured** mortgagors who would be shut out of the market (8% of the total who fail the affordability test) are more down-scale, with a third C2DE and a half based in the North and Midlands. There is a degree of credit over-stretch associated with this segment, who have slightly above average incidence of mortgage payment problems. Most are disciplined budgeters.

The proportion of those shut out who are deeply troubled appears smaller than among those allowed reduced borrowing. **The Deeply Troubled** (3% of the total who fail the affordability test) are struggling with unsecured credit, have adverse credit records while eight in ten have missed mortgage payments.

The test would exclude many viable borrowers without necessarily identifying those who are at greatest risk of failing

Chart 33: A segmentation of those failing the simulated affordability test



The proposed rules as currently drafted would appear to have the potential to significantly disadvantage large numbers of consumers

Taken together, if the draft responsible lending rules were to be implemented as drafted, these various effects would appear to have the potential to create radical change in the profile of mortgagors and of home ownership, which would shift decisively upmarket. Many low income borrowers would be excluded while older mortgagors and the self employed in particular would be disadvantaged. Large numbers of borrowers with a proven track record and little serious affordability stress would be disadvantaged, with many individual's legitimate plans and aspirations frustrated. The evidence is that even at this cost, relatively little in the way of distress and financial breakdown would be averted. As discussed in the main report, we are confident that the authorities would not wish to see such outcomes, which would aris as unintended effects of an approach intended to protect consumers.

1.4 Regional analysis

This section of this supplementary report seeks to provide a regional dimension to the main analysis.

Big differences between London and South East and other parts of the country which rest on local economic conditions as much as the housing market

There are some important differences between London and the South East and other parts of the country, which reflect local economic conditions as much those of the housing market. In the regions and devolved economies, particularly in Wales, employment prospects are less certain, the fear of the impact of public sector cuts is greater and the housing market is seen as more fragile.

Housing market seen as more fragile in the North and Midlands with greater uncertainty on economic prospects

As a result there is greater diffidence about both entering the market and about trading on, because the future of both the housing market and the local economy feels uncertain. There is greater concern that the housing market may stagnate or decline, which is seen to leave prospects for certain types of property particularly uncertain, notably new build development and developing areas. People have more concern about the volatility of local micro-markets and are less confident about buying into developing or disadvantaged areas where property is thought more likely to be subject to house price decline or difficulties in selling on.

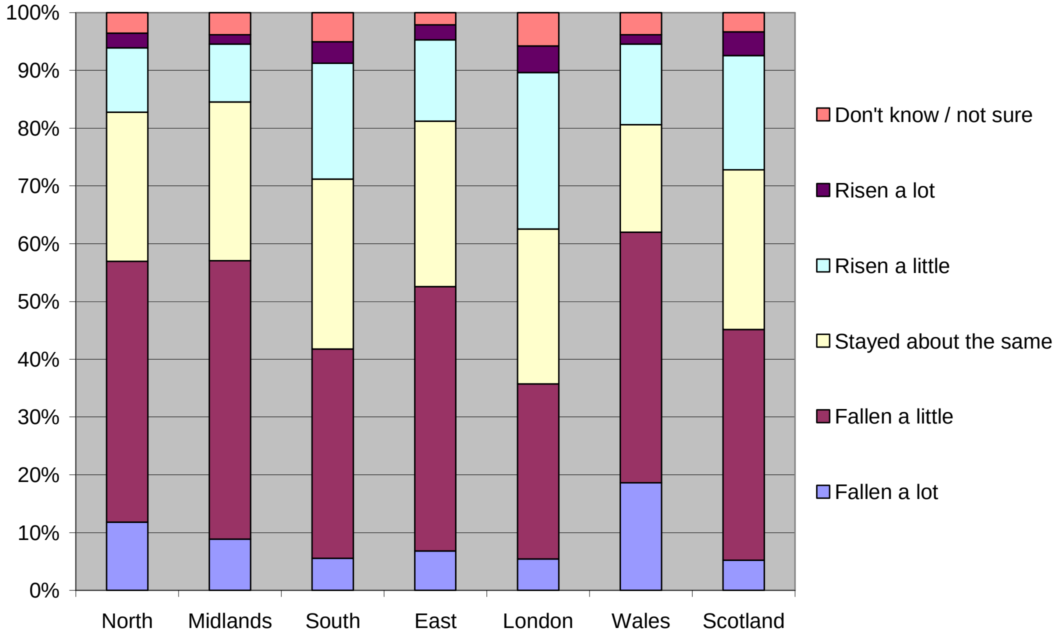
In London and the South East on the other hand there is greater confidence that the market fundamentals and underlying drivers are such that the market and mortgage supply will ultimately revive. As a result there is a stronger investment motive, with individuals confident that demand and lack of supply will ultimately "get the market moving again" as confidence returns and the recovery becomes established.

Some regional differences are apparent in the impact of the credit crisis and recession on house prices and confidence in housing markets

On average, around half (52%) of mortgagors thought that house prices in their local area had fallen in the recent past, with one in ten (9%) saying that local prices had fallen a lot. This had impacted most in Wales, however, where six in ten (62%) homeowners reported a drop in local house prices, while almost two in five (19%) thought that prices were now a lot lower. House prices appear to have remained more buoyant in London, the South of England and Scotland, where people were both less likely to report a fall in house prices and more likely to say that local prices have risen in the last couple of years.

Greater confidence in London and the South East than elsewhere with views more subdued in North, Midlands and Wales

Chart 34: Perceptions of house prices in local area in last couple of years by region



Base: 442 North. 269 Midlands. 526 South. 155 East. 213 London. 94 Wales. 149 Scotland.

Greater sense that house prices may decline or stagnate in North and Midlands while those in the South more buoyant

Regional patterns were also discernable in levels of confidence regarding the future direction of house price movement in the near future. Around one in four (24%) mortgagors expected house prices to increase within the next two years, while those living in Scotland, Wales, the South of England and London were slightly more optimistic about the likelihood of house price increases. A belief that house prices will rise in the longer term remained fairly steady across the regions, with more than eight in ten (84%) mortgagors predicting that prices will rise over the next ten to twenty years.

In all regions people are more confident that property will be a good long term investment but no longer expectations of rapid house price inflation

Chart 35: Perceptions of prospects for house prices over next couple of years by region

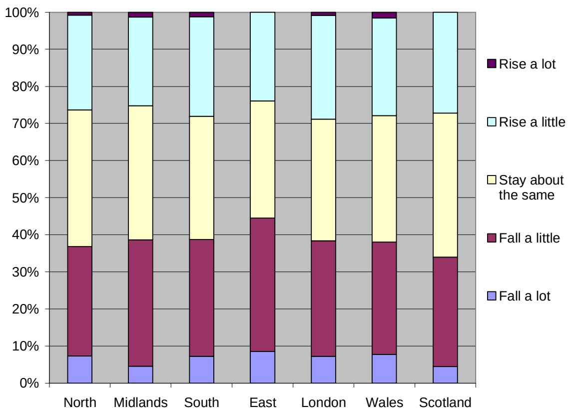
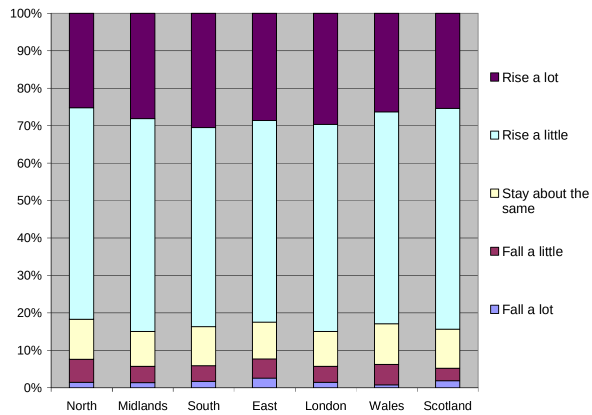


Chart 36: Perceptions of house price change over a ten to twenty year term by region



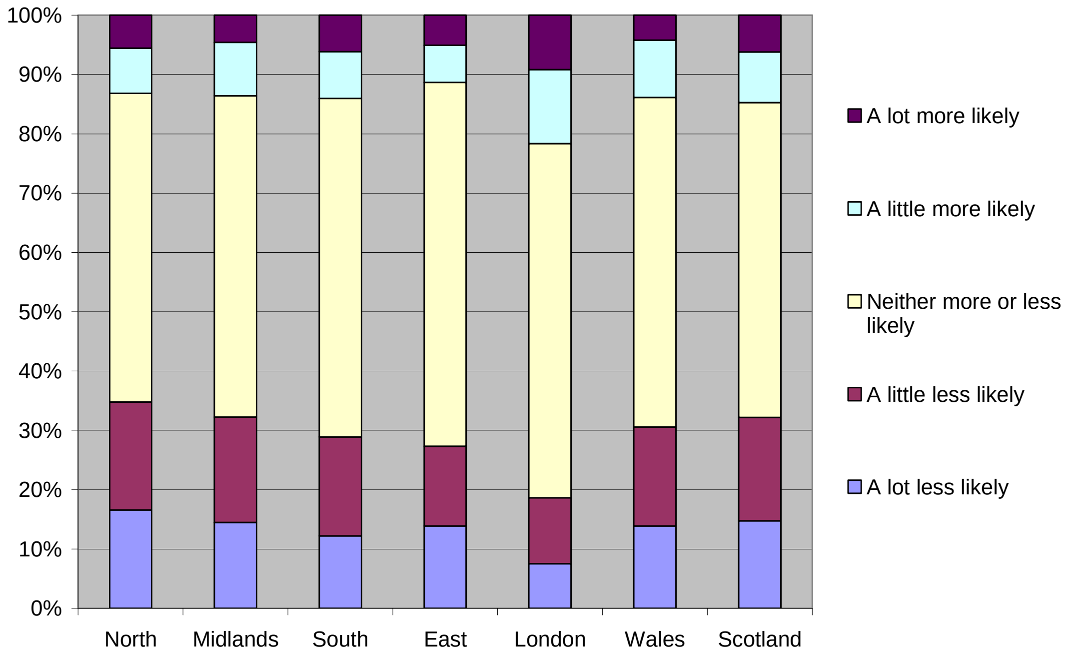
Base: 442 North. 269 Midlands. 526 South. 155 East. 213 London. 94 Wales. 149 Scotland.

Confidence in house-buying has been hit hardest in the North of England, while those in London remain relatively optimistic

Overall, three in ten (31%) mortgagors said they were less likely to want to buy a home following the credit crisis and just one in ten (12%) were more likely to buy now. Consumers in the North of England were most likely to express reluctance to buy property following the credit crunch, with more than one in three (35%) reporting this. In London, however, just one in five (19%) people said they were less likely to buy now and were, in fact, almost twice as likely as average to say they are more likely to buy a property now than they were in 2007, with one in five (22%) feeling this way. In fact, almost one in ten (9%) London consumers said they were a lot more likely to buy a property now than in 2007, compared with just one a national average among mortgagors of one in twenty (5%).

Confidence is lower in the North than the South

Chart 37: Whether more or less likely to want to buy a home than before the credit crunch started in 2007 by region



Base: 442 North. 269 Midlands. 526 South. 155 East. 213 London. 94 Wales. 149 Scotland.

Homeowners in London feel more insulated against the risk of falling house prices and remain confident in their ability to realise equity by leaving the capital

The qualitative research illustrated a clear distinction between London homeowners and those living elsewhere in terms of confidence about house prices and property values. While they recognised the disadvantages associated with higher property prices in the capital, they also felt that their properties were more likely to retain their value, due to the likely continued demand for housing in London.

> *"...in London, certain areas do come up even now. If you're near Northcote Road, Wandsworth... I mean there's high demand for property there. You know, all the upper middle class cats want to live there." (Self-employed tradesman, London)*

Most were also confident that, should they struggle to afford their current mortgage or want to trade up, the value of London property would provide a significant equity cushion to fund a move to a different area and enable them to achieve, at least, an equivalent quality of life.

> *Respondent 1: "I've had thoughts of downsizing even further."*
>
> *Respondent 2: "I thought you lived in a shoebox?!."*
>
> *Respondent 1: "I do! But I could downsize by not living in Covent Garden! It's very expensive so a shoebox there is transferrable to a larger place that might cost a great deal less."* (Older workers, London)
>
> *"I keep thinking about selling the house in about ten years and moving back to Wales and getting something like a five bedroom house in Wales for the same money I pay for the house I got here."* (Self-employed tradesman, London)

Homeowners outside London, by contrast, were more aware of 'ultra local' markets where house prices could be very volatile

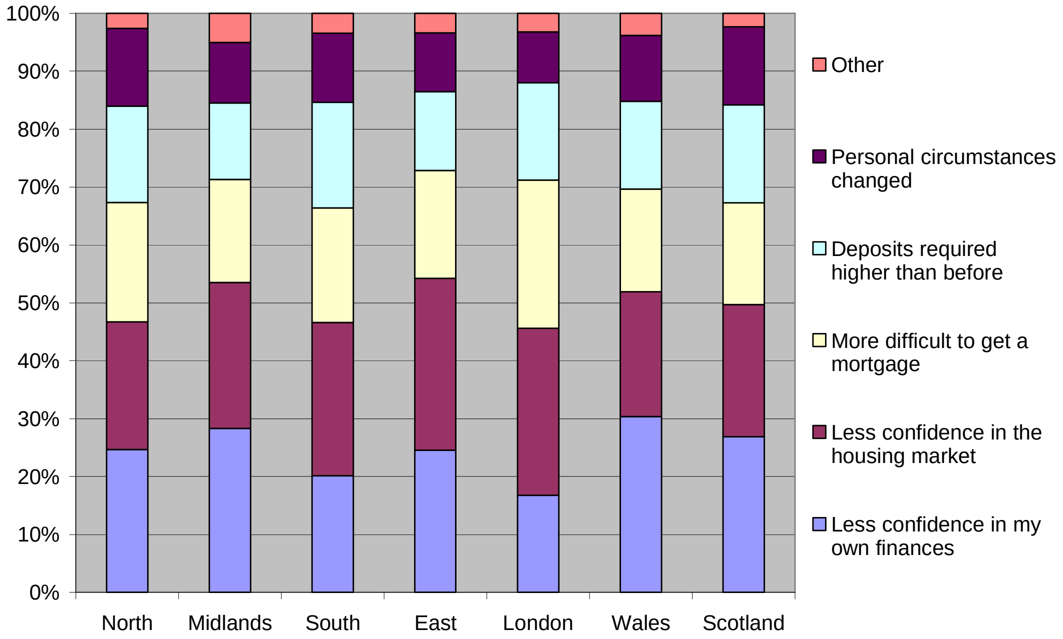
People who took part in the focus groups held outside London were less confident both about current property prices and the prospects for house-price recovery. Most thought that the value of their own property had fallen and were acutely aware of nearby neighbourhoods where house prices had risen rapidly during the boom and fallen drastically since the credit crisis. Some also highlighted areas of new-build housing that was standing empty due to the collapse in the housing and mortgage markets.

Concerns about personal financial circumstances, confidence in the housing market and fears about mortgage availability impact differently across Britain

Those who thought they were less likely to buy property since the credit crisis were put off by a range of factors. Consumers in Wales were most likely to say they now lack confidence in their personal finances – more than half (55%) felt this way, compared with 44% on average. A lack of confidence in the housing market was more of a deterrent for those living in London and the East of England, 54% of people in each area gave this as their reason for being less likely to buy property. Consumers in London were also more concerned about potential difficulties in securing mortgage finance, with almost half (48%) citing this reason, against a national average among mortgagors of 35%. This is likely to reflect higher house prices in the capital necessitating larger deposits and higher loan-to-value ratios.

Lack of confidence in both personal finances and the housing market a factor in reluctance to buy but lack of mortgage finance the big factor in London

Chart 38: Reasons for being less likely to buy property by region



Base: 442 North. 269 Midlands. 526 South. 155 East. 213 London. 94 Wales. 149 Scotland.

Consumers in London appear more vulnerable to employment-related income shocks than those living in other areas

Homeowners in London were more likely than mortgagors, on average, to have experienced – at some point in their lives - a reduction in income due to unemployment or redundancy, business failure and extended periods of time without income from self-employment. Almost four in ten (39%) had had a period of unemployment or been made redundant, compared with a national average of one in three (33%). One in twenty (5%) Londoners had lost income due to business due to business failure, compared with one in twenty five mortgagors (4%), overall. Likewise, 8% of London homeowners said their income had been compromised due to an extended period of reduced self-employed earnings, compared with 6% overall.

Nevertheless, Londoners appear to have been cushioned from the worst financial impacts of recession, which have fallen elsewhere.

Far fewer London homeowners reported feeling that their financial circumstances had declined in the last two years. Fewer than three in ten (28%) felt they were worse off now than they were two years ago, compared with two in five homeowners in the North of England (40%) and the Midlands (42%).

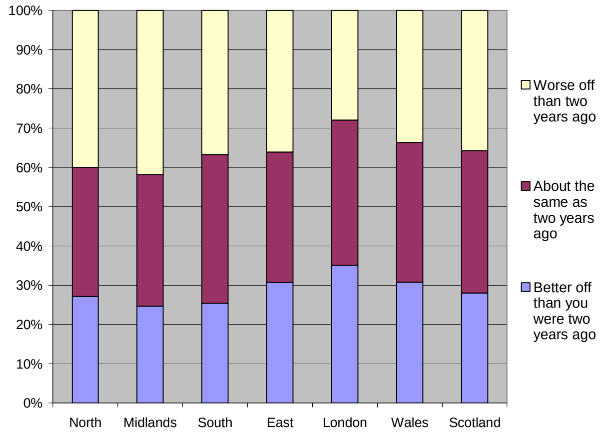
In fact, one in three (35%) homeowners in London feel that their financial circumstances have improved since the onset of the recession, two years ago, compared with just one in four (25%) of those in the Midlands and South of England and a national average among mortgagors of 25%. Further, a much higher proportion of London homeowners anticipate an improvement in the circumstances within the next two years than is the case in other regions. Almost two in five (38%) London homeowners think they will be better off in two years time than they are currently, compared with just one in four (25%) of their counterparts in the East of England and fewer than three in ten homeowners in the South of England (27%), North of England (28%) and the Midlands (29%).

Homeowners in Scotland, Wales and the Midlands are least optimistic about an improvement in their financial situation.

While fewer than one in five (18%) homeowners in London anticipated being worse off in two years than they are currently, this proportion is nearer to three in ten homeowners in Wales (27%), Scotland (28% and the Midlands (28%).

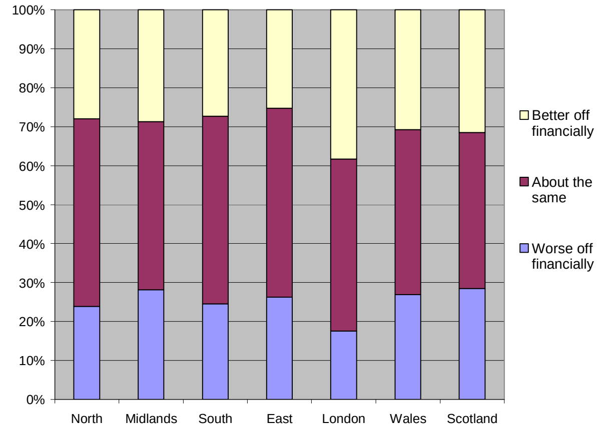
Those in the North and Midlands are most likely to feel less well off than two years ago and to be less optimistic for the future

Chart 39: Feelings about changes in household finances in last two years by region



Base: 442 North. 269 Midlands. 526 South. 155 East. 213 London. 94 Wales. 149 Scotland.

Chart 40: Expectations on finances over next two years by region



Base: 590 North. 373 Midlands. 692 South. 202 East. 308 London. 104 Wales. 232 Scotland.

Similar regional patterns are apparent in homeowners' money management and ability to make ends meet

Londoners were markedly more likely to say they were able to manage well, with four in ten (39%) able to make ends meet without difficulty and one in five (21%) able to cover all their outgoings from their income and put money into savings.

By contrast, those living in Wales were more likely to say they were coping but struggling (21%) and falling behind to the extent they were not sure they could catch up (3%). Almost half (49%) of homeowners in Wales said that when they receive their income they have to prioritise to ensure essential bills are covered and make sacrifices, where necessary, to make ends meet.

In Scotland, a relatively high proportion of homeowners (38%) said their income was sufficient for them to be able to spend money without thinking about it too much. They were also, however, more likely than people living elsewhere to say that they never had enough money to go round, however carefully they budgeted. Just under one in ten (8%) homeowners in Scotland said they were unable to make ends meet compared with 6% of mortgagors, on average, and just 4% of homeowners in London.

Affordability problems are most prevalent in Wales and least apparent in London

Homeowners living in Wales reported the most practical difficulties in making their income cover outgoings. More than one in ten said that they struggled to pay for fuel (13%) and food (12%); one in five struggled to afford shoes and clothing (21%), and petrol or transport costs (21%); one in three had difficulty replacing or repairing household equipment (33%) and making major essential purchases (32%); and three in ten (29%) found it hard to find the money to pay for Christmas and birthday presents. Almost one in five (18%) homeowners in Wales said they found it a struggle to make repayments on their credit commitments.

Homeowners in Wales and the East of England were markedly more likely than those in other regions to say that any savings they have made due to recent reductions in the mortgage interest rate have been eaten up by the increased cost of essential items. Around one in five homeowners (22% in Wales and 20%in the East of England) said this, compared with just 7% in London.

London homeowners are least likely to report affordability problems across a whole range of measures.

Homeowners in Wales are most likely to have experienced affordability problems in the past due to income shocks, life events and interest rate increases

People in Wales were more likely than those living in other regions to report experiencing a range of factors that present a risk to financial stability, such as income shocks; life events, such as relationship breakdown; and serious accidents or ill-health. In total, 73% of homeowners in Wales report experiencing at least one of these risk factors, compared with 56% in Scotland, and 61% of homeowners in London and the Midlands. Just under one in five (17%) of homeowners in Wales who experienced these risk factors subsequently fell behind with their mortgage payments, compared with just 8%of those in similar circumstances living in the North of England or Scotland.

Despite these regional differences, missed mortgage payments are relatively rare and default rates are fairly consistent across the regions

The proportion of homeowners who have ever missed a mortgage payment or made a late payment is around one in ten across each of the regions. Rates of mortgage default are marginally lower in the South of England and Wales, where 8% of homeowners have missed or made a late payment.

Mortgage borrowers in London and the East of England are most likely to report having negotiated a lower repayment level with their lender in the last two years, with those in the East of England significantly more likely than those in other regions to have been paying a reduced repayment for two years or more.