

12 October 2022

Mortgage rates of 6.43% today are equivalent to a rate of 25.7% in 1980 - housing is now at its least affordable since records began.

As details emerged yesterday that the average 2-year fixed rate mortgage is now 6.43%, Leeds Building Society has looked at historical data to calculate the equivalent mortgage rates.

Interest rates of 6.43% may seem lower than the mortgage rates of 15% which borrowers were paying in 1980 for example, but there is a critical difference: surging house prices, driven by a lack of supply and historically low interest rates since the financial crisis of 2008, and the commensurate increase in household indebtedness, mean that the 6.43% mortgage rates of today are equivalent to a rate of 25.7% in 1980 (see Editors' notes for calculation).

In 1980, the average UK house price was around £21,000 and mortgage costs accounted for 11.3% of disposable income (see Editors' notes). Today, with the average 2 year fixed rate mortgage on offer to new customers currently standing at 6.43%, those figures are around £292,000 and 45.1% respectively.

Housing is now at its least affordable point since records began. The average home currently costs 9.1 times the average local wage compared to 3.5 in 1997 (Source ONS). This particularly impacts young people. Rates of home ownership amongst 25-34 year olds have collapsed over the last 30 years. In 1996, home ownership levels for this age bracket were 65%. By 2016, the level for this age group had fallen to 27% - giving them the label of 'generation rent'.

Leeds Building Society has confirmed the ways it will help aspiring and existing homeowners during the current period of market uncertainty but underlined the need for Government to act as well.

The Society has confirmed it will:

- Honour any mortgage offers (including the offered rate) to new customers for six months from the date of issue* (See editors' notes).
- Give all existing customers who are up to date with their mortgage repayments and who are within three months of the end of their fixed rate deal a choice of other mortgages that they can transfer to.
- Not charge any arrears fees if borrowers fall behind on their mortgage repayments until at least 1 April 2023 - extending its suspension of these fees from since the start of the COVID-19 pandemic.
- Give tailored support to all members who are struggling, or may struggle, with repayments or are in arrears. Members should contact us as soon as possible so we can offer them the individual help and support they need.

More....

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Richard Fearon, Chief Executive, Leeds Building Society, said:

“We stand firmly on the side of homeowners and first-time buyers and will do everything we can as a lender to help them. The recent, rapid interest rate rises following the mini-budget have been a hammer blow to borrowers and will continue to cause distress for them over the coming months.

“There is an urgent short-term need to restore market confidence and it is welcome news that the Chancellor has brought forwards his fiscal update to before the next MPC meeting. A credible balanced economic plan which has been subject to OBR scrutiny would reassure the markets, a lack of credibility could though trigger further uncertainty.

“But the longer-term aim of this Government should be to address the drastic shortage in housing. Borrowers now face the toxic combination of higher interest rates and a lack of suitable and affordable homes. With enough political will a decades-old problem can be overcome, which would start to deliver on the homeownership aspirations of millions of people.”

Ends.

Editors' notes:

For information on how Leeds BS can help customers who are worried about their finances, see: <https://www.leedsbuildingsociety.co.uk/mortgages/worried-about-your-finances/>

* We may withdraw an offer in limited circumstances, which include fraud, misrepresentation, or non-disclosure of material information. Full terms and conditions are outlined in the mortgage offer.

Calculation:

Leeds BS analysis applies a multiplier to the current average 2-year fixed rate mortgage of 6.43% by comparing what the typical mortgage costs are as a percentage of household disposable income. This equates to the average household income today (45.1%) relative to what the same costs were in 1980 (11.3%).

The calculation is therefore $6.43\% \times \text{the multiplier of } 3.99 (45.1\% / 11.3\%) = 25.7\%$.

Year	Interest rate (1)	Av House Price (2)	Av household disposable income (3)	Annual mortgage payment (4)	Mortgage pmt as % of household disposable income (5)
1980	15%	£21,000	£18,049	£2,037	11.3%
2022	6.43%	£292,000	£37,622	£16,979	45.1%

Sources:

1. **Quoted mortgage Rate:** BSA average rate mortgage data used for 1980. 2022 rate based on current average 2 year fixed rate mortgage - Moneyfacts.
2. **House prices:** Office for National Statistics (ONS), average UK house price data for December of 1980 and for latest available data in 2022 (July).

3. **Average household disposable incomes:** Office for National Statistics, mean household disposable income of individuals, United Kingdom.
4. **Annual / monthly mortgage payment:** calculation based on mortgage rate, loan amount, and mortgage term.
5. **Mortgage costs as % of household disposable income:** calculation based on annual mortgage payment and average household disposable incomes.

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