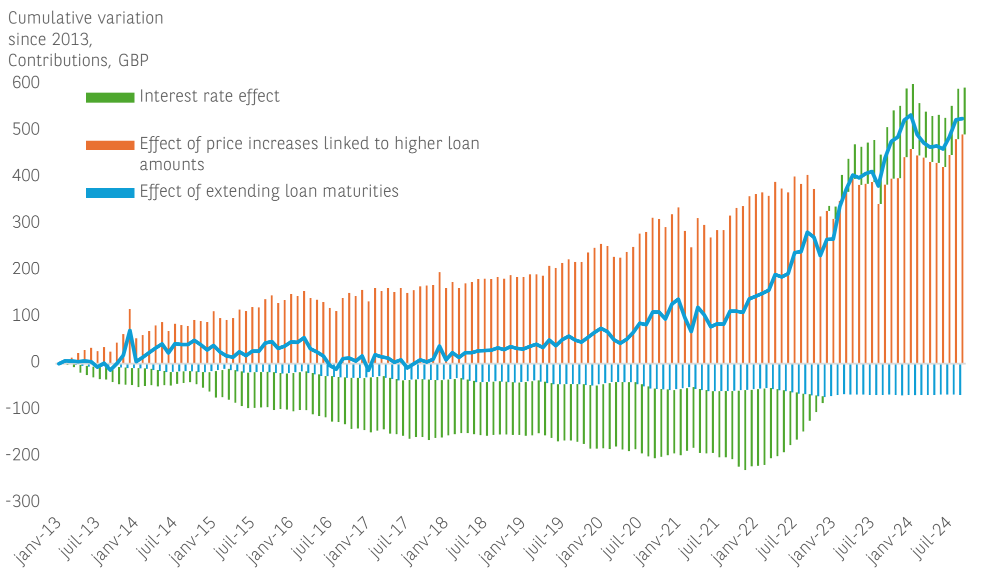
CHART OF THE WEEK

23rd December 2024

IS EXTENDING LOAN MATURITIES AN EFFECTIVE WAY TO IMPROVE ACCESS TO HOME OWNERSHIP?

Marianne Mueller

Changes in average monthly mortgage payments in the United Kingdom



Source : Bank of England, FCA PSD, ONS, BNPP Calculations

The British example tends to suggest otherwise. Its impact on monthly payments remains modest compared to that of interest rates and rising property prices, and is offset by the higher total cost of the loan. In addition, longer loan maturities are likely to fuel the rise in property values.

Over the past fifteen years, the mortgage maturities in the UK have been significantly extended. An increasing proportion of new mortgages now have terms barely imaginable in France, where mortgages are limited to 25 years, in accordance with the rules laid down by the *Haut Conseil de Stabilité Financière* [High Council for Financial Stability] (HCSF) in a decision of 2021[1]. In 2024, over 50% of new UK mortgages were taken out with terms of more than 30 years, compared to just 10% in 2005. Mortgages with a term of 40 years or more represented nearly 10% of new loans in the first quarter of 2024.

At first glance, extending maturities seems an attractive idea for facilitating access to home ownership. All things being equal, spreading instalments over a longer term reduces monthly payments, which improves households' ability to meet these payments and can thus help them access credit. According to our calculations, by keeping the interest rate and the average amount borrowed constant, extending maturities would have reduced the average monthly payments for new loans[2] by around 10% between January 2013 and September 2024. In practice, these monthly payments remained relatively stable between 2013 and 2019, as the effects of lower interest rates, longer maturities and higher amounts borrowed due to higher property prices have, on average, offset each other. At the same time, the average UK household benefited from an increase of around 23% in its gross disposable income, and its affordability rate at loan origination fell to 18% on average in 2019 (compared to 20.3% on average in 2013).

1 Mortgage maturity is one of the two criteria established in the HCSF decision of 29 September 2021 for conditions for granting mortgages which credit institutions must apply regarding mortgages. This mortgage maturity must not exceed 25 years (with a tolerance of 2 years of deferred repayment in cases where taking possession of the property is delayed in relation to the granting of the mortgage).
2 These average monthly payments are determined on the basis of the average values of the amount of mortgage loan approvals, the effective interest rate and the term of new loans granted during the reference period.

Since 2021, the effect of extended maturities on monthly payments has nevertheless proved insufficient to neutralise the effect of rising interest rates. Between December 2021 and September 2024, average monthly payments for new loans increased by 44%, from GBP 870 to GBP 1,260. Their share of an average UK household's gross disposable income also increased, reaching 23% in September 2024. Overall, as the lengthening of loan terms automatically increases the total number of instalments, the total cost of the loan has risen significantly.

Moreover, extending maturities tends to buoy demand, which, in a structurally supply-constrained market, contributes to the rise in property prices and makes its effect on households' purchasing power in terms of property illusory. As a reminder, the average house price in the UK[3] rose by 74% between January 2013 and September 2024, reaching a record high in August 2024 at around GBP 292,700 (compared to around GBP 167,500 in January 2010). The measures announced by the Labour Government in its Autumn Budget to meet its commitment to build 1.5 million homes during its term of office, could ultimately prove more effective in facilitating access to home ownership[4]. These measures should actually help alleviate supply pressures, which remain the main challenge for the UK property sector, and against which measures to support demand are usually counterproductive.

marianne.mueller@bnpparibas.com

3 Source: UK House Price Index, HM Land Registry (UK Government). This index includes housing sales for new and old properties.
4 Guillaume Derrien (2024), **The housing shortage, a major challenge for the Labour Party**, in Charts of the week.

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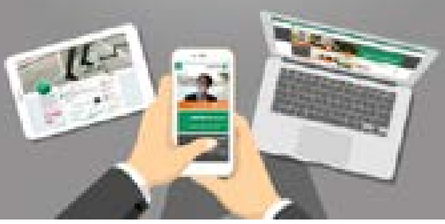

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - **www.economic-research.bnpparibas.com**
Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago