Experian Quarterly **Affordability Update**

Q1 2024

Data-based analysis of the latest consumer affordability trends

experian

The first quarter of 2024 provides welcome reassurance for lenders. The unsecured market – credit cards and Buy Now Pay Later (BNPL) – clearly show that consumer confidence has returned with a record number of new credit card openings. This is not just a signifier of consumer confidence; it also reflects a shifting purchasing behaviour in favour of credit. Perhaps not surprisingly, given the extent of the mortgage rate rises, the secured borrowing market remains slightly depressed. None the less, even here, the market has been able to respond well to the rate rises in terms of affordability. Of the remaining 2.2 million individuals who will be rolling off their historically low mortgage rates over the next 6 months, just 11,000 – or 0.5% of them – show signs of being potentially vulnerable in terms of affordability.

Key findings

Cost-of-living increases are being offset by falling household fuel prices and increasing personal incomes

Although households across the country have seen contracted payments rise by 5% throughout the year, these are offset to some extent by declining household fuel payments and an increase in income.

Households are highly resilient to current mortgage increases

Most of the mortgage market is showing enough – or more than enough – resilience to the significant increases in mortgage repayments, with only 0.5% of the total number of households at financial risk.

An increased appetite for unsecured credit reflects an evolution of buying behaviours

A significant shift is occurring in the way people use credit. The number of credit cards opened during the first quarter of 2024 is the highest on record*.

In the following sections of this update, we look these at key affordability trends in detail.

*Highest volume of credit cards opening since Experian records began, Experian started capturing market volumes in 2008.

About the Experian **Affordability Update**

This update is based on real Experian-owned data, comparing 12-month year-on-year values, rather than outputs from analytics models or predictive models. By avoiding interpretation, we can provide the most unbiased view of affordability possible at a given point in time.

As a leading UK credit reference agency, we have access to rich financial data covering individuals and households across the country, putting us in a unique position to analyse and interpret the impact of rising societal costs on consumers.

REAL DATA,
NOT PREDICTIONS
OR MODELS

Cost-of-living increases are being offset by falling household fuel prices and increasing personal incomes

Households across the country have seen contracted payments rise.

However, these increases are offset to some extent by household fuel payments which have fallen 18% compared to the same time last year. Even though a slight rise is predicted later in the year, energy payments remain less of a cause for concern than in previous updates. Meanwhile, Current Account Turnover (CATO) income has increased over the year.

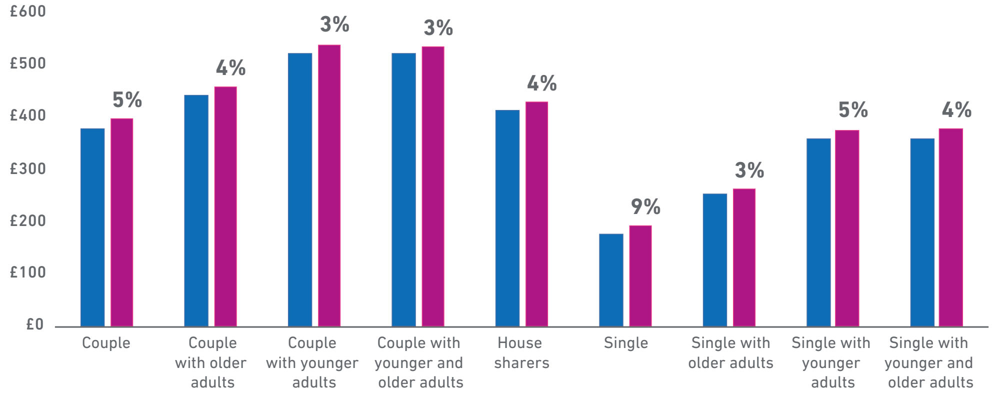
HOUSEHOLD FUEL PAYMENTS 18%

Contracted payments continue to climb

This quarter household contracted payments (loan repayments plus any minimum credit card payments) continued to rise with a 5% year-on-year increase.

All household composition types have experienced a similar increase. The most significant proportional increase over the year has been felt by single person households (9%). In purely financial terms, the same households are still paying less than other household compositions, such as 'Singles with older adults' who have experienced a 3% rise.

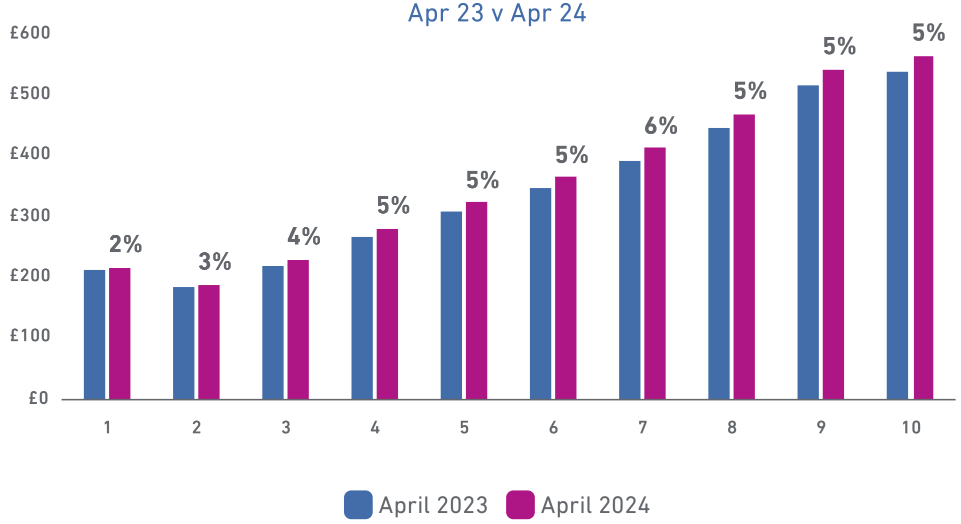
Average contracted payments by HH composition
Apr 23 v Apr 24



All household compositions have experienced an increase in average contracted payments.

When split out by income decile, all segments have seen their contracted payments increase over the year, but more proportionately in the higher deciles.

Average contracted payments by income decile
Apr 23 v Apr 24



Higher income deciles have seen more of a proportional increase in average contracted payments than the lower income deciles.

HOUSEHOLD CONTRACTED PAYMENTS

AVERAGE RISE

5%

YEAR-ON-YEAR

All segments have increased, particularly single person households.

SINGLE PERSON HOUSEHOLD

9%

YEAR-ON-YEAR

Household fuel payments continue to decline

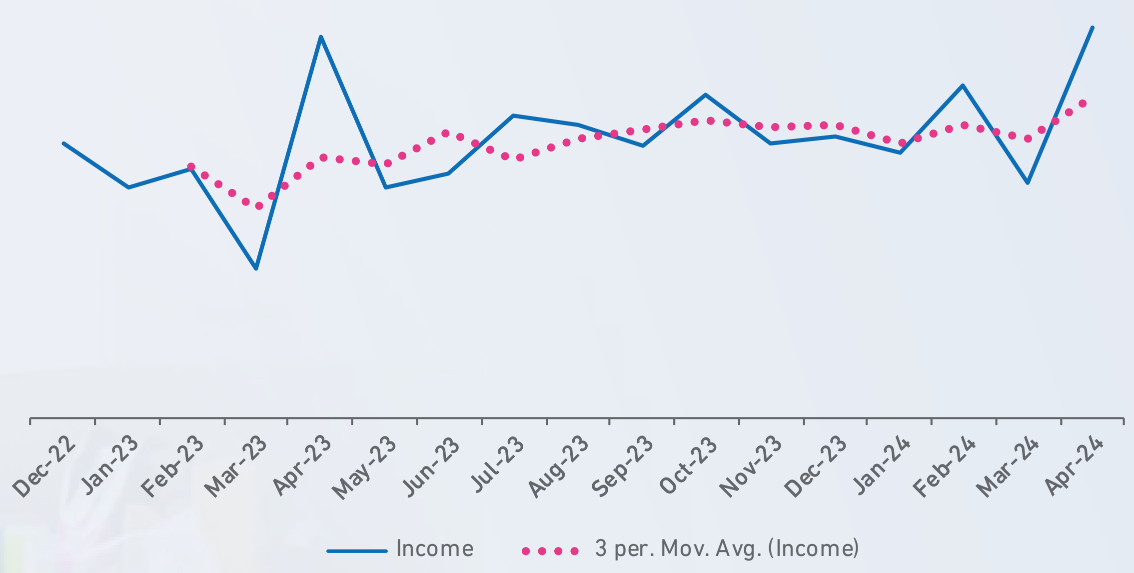
Whilst contracted payments have risen, household fuel payments have declined with fuel payments falling 18% over the year.

This expected downward trend is down to the reduction in the Energy Price Cap. For the same reason, we expect gas and electricity bills to continue to fall during 2024 – with a predicted slight rise again towards the end of the year.

Incomes continue to increase

Current Account Turnover (CATO) income has been rising steadily. Peaks in April are typical as most bonuses are paid at this time of year. At the end of the year, income was up 6.6% and the trend indicates this trajectory will continue.

Individual CATO income



Households are **highly resilient** to mortgage increases

The past year has seen a dramatic rise in mortgage rates for many households in the UK.

Most of the mortgage market is showing enough – or more than enough – resilience to these changes.

Whilst it is clearly important for lenders to continue to pay close attention to their borrowers, those vulnerable households are identifiable and remain entirely predictable from a credit risk perspective.

> The households at risk of default represent a tiny minority (0.5%) of the total mortgage holders in the country.

Mortgage payments have been **rising steadily** since the start of 2022

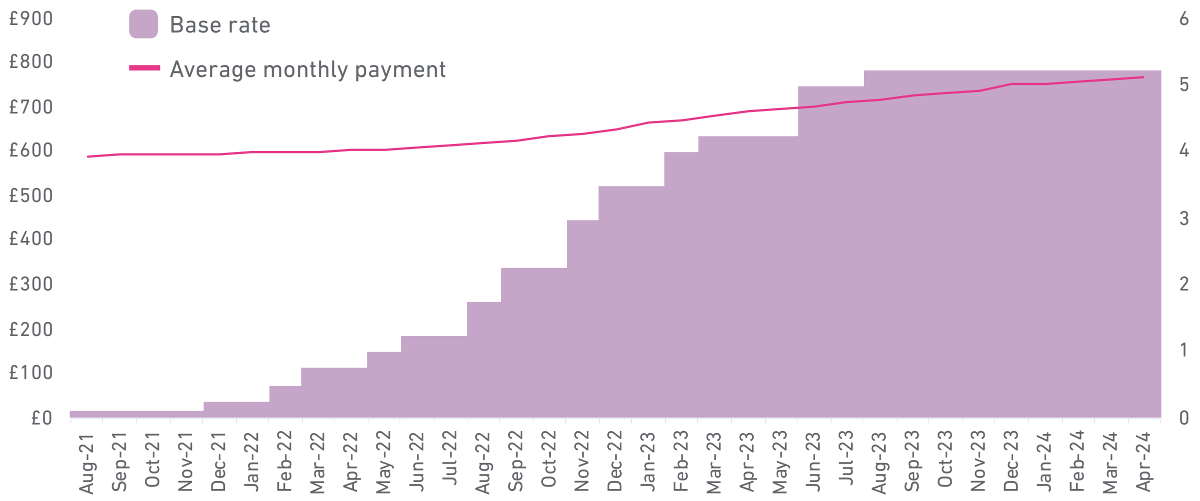
Unsurprisingly, mortgage repayments are continuing to rise as more and more roll off their lower rate fixed deals onto higher ones.

Monthly mortgage payments started to increase when the Bank of England (BoE) base rate began climbing at the end of 2021. By the start of 2023, these had risen dramatically, and mortgage repayments started to increase noticeably across the market.

During this period, fixed rate deal repayments rose as borrowers rolled off their lower mortgage rates which will continue throughout this year. Variable rate mortgages have been rising steadily aligned with the increase in BoE base rates.

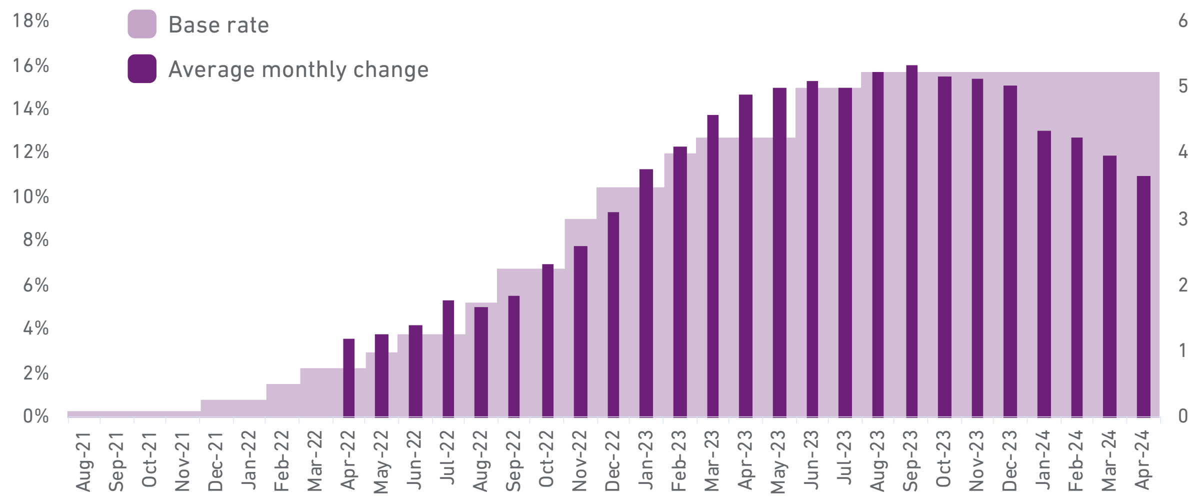
The shift in the market is seen more dramatically by looking at the year-on-year changes. Average mortgage repayments in April 2024 were 11% higher than the year before.

Average monthly mortgage payments



Average monthly payments remained steady until the start of 2023.

YoY% Change



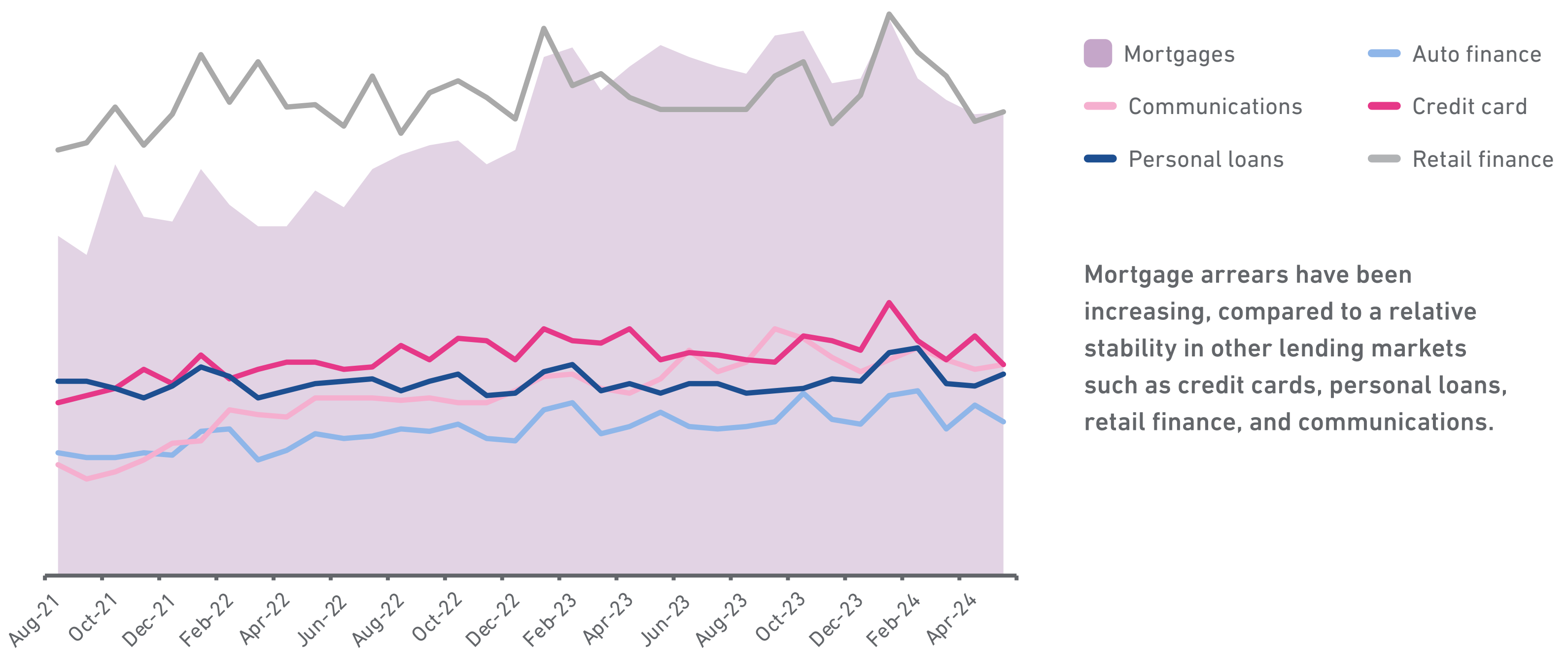
Average monthly payments climbed more sharply as the Bank of England increased the base rate more and more. This was compounded by pre-January 2022 mortgages rolling off their old, lower priced, fixed deals on to new, higher ones.

Mortgage arrears have increased

Mortgage arrears have risen very slightly over the past year. When we look at how the collections entry rate for mortgages compares by those who have had a payment increase vs those who have not, we see that the upward trend is driven by those who have seen their payments increase. When we dive further into this payment increase population, we can see that it is still those of higher credit risk that are more likely to miss their payments.

The number of mortgage accounts rolling into early-stage arrears each month rose steadily from the middle of 2021 until the start of this year, when it started to decline.

Collections entry rates – 0 to 1 roll rates (Mortgage on primary axis)



Mortgage arrears have been increasing, compared to a relative stability in other lending markets such as credit cards, personal loans, retail finance, and communications.

Mortgage repayments will continue to rise

Although most mortgage holders have now rolled-off their lower fixed deals, the market shift is not over yet. Anyone who took their deal out prior to the start of 2022 will be expecting a significant jump in their monthly payments at some point.

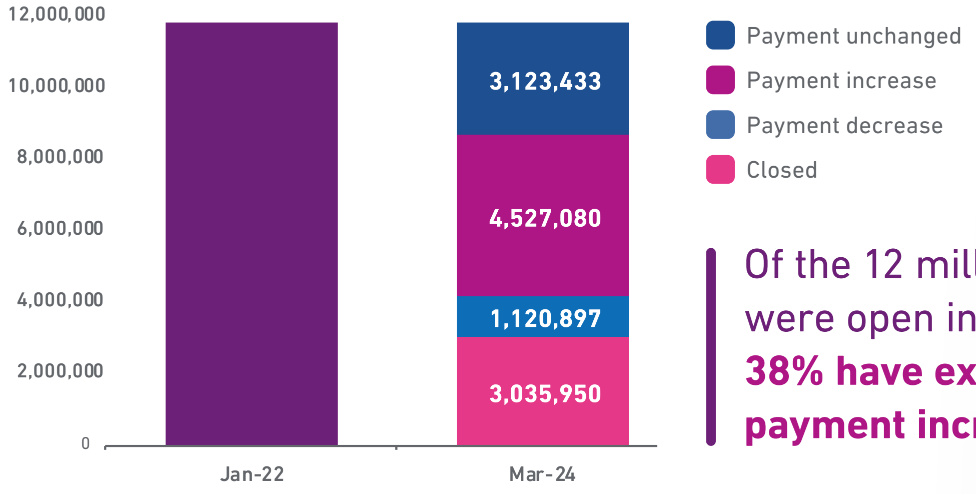
And, even as inflation has started to fall, BoE base rates have been held steady. Although it is expected that the bank will start to lower these later in the year, we anticipate that mortgage repayments will continue to increase for a while longer as further tranches of pre-2022 fixed rate mortgages roll off onto higher rate deals.

Over a third pay more now, than in January 2022

In January 2022, 12 million mortgages were open, the month of the first base rate rise.

By March 2024, 3 million (25%) of them had closed, 1.1 million (less than 10%) had seen a payment decrease, and 3 million had seen their payments unchanged (these presumably are yet to experience the roll off onto higher rates). The remaining 4.5 million – the biggest proportion at 38% – have seen their payments increase.

Mortgage Stock Changes – Jan 22 vs Mar 24



Of the 12 million mortgages that were open in January 2022, **38% have experienced a payment increase.**

Increasing repayments = increase in arrears

The increase in mortgage arrears has been **within this 38% segment**, confirming squeezed household budgets are driving the slight increase in delinquency from the areas of the market that we would expect.

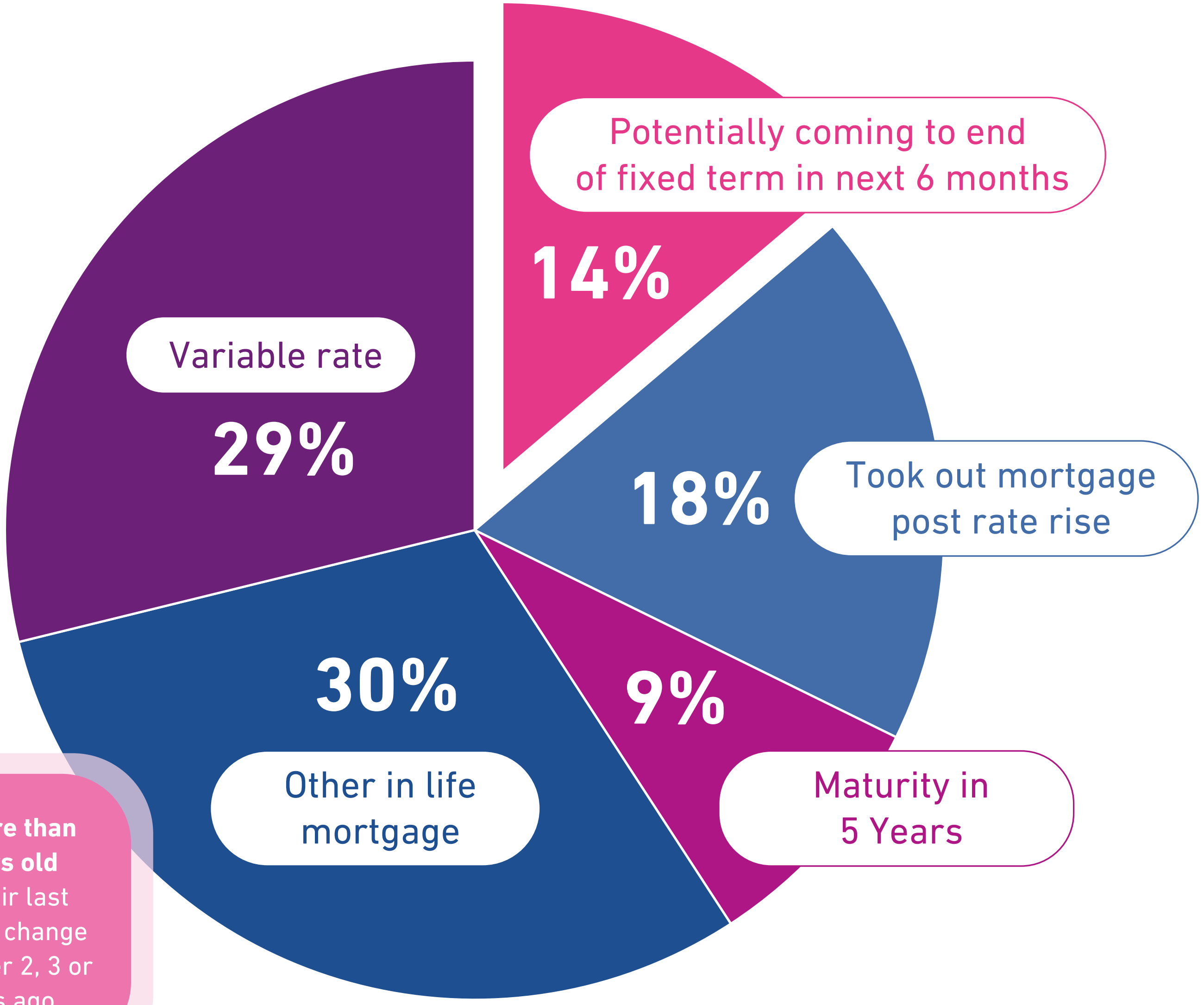
On a **positive note**

The rate of mortgage arrears has started to decline and although mortgage rates have increased, they seem to have stabilised typically to 4-5% rather than the 8–10% some had feared.

> There are 10.9 million open mortgages in the UK, approximately **1.5 million (14%)** are potentially coming to the end of their fixed term deals in the next six months.

This number includes mortgages that:

- **Opened between 2.5 and 3 years ago** that haven't had any payment changes yet
- **Opened 3.5 to 4 years ago** and had their last change 2 years ago
- **Opened 4.5 to 6 years ago** whose last payment change was 2 or 4 years ago
- **Are more than 5 years old** and their last payment change was either 2, 3 or 5 years ago.

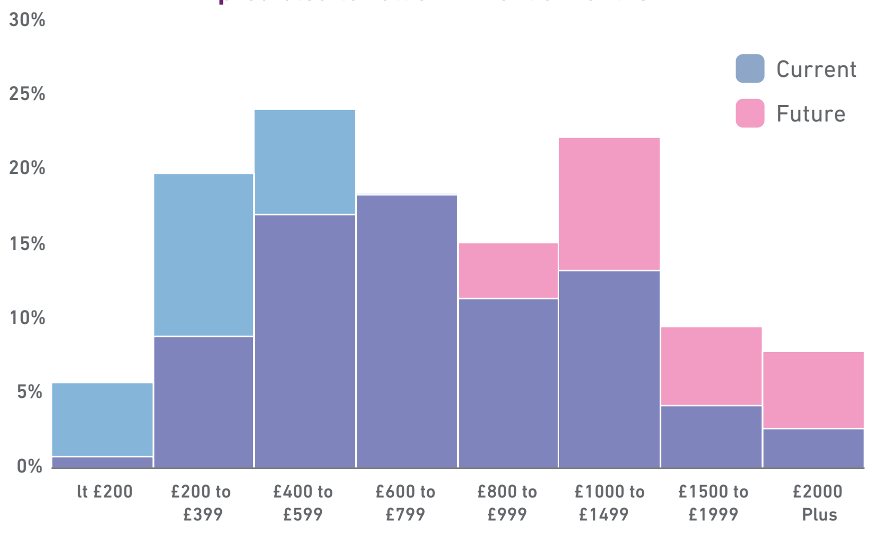


14% of mortgages could be coming to the end of their fixed deals in the next 6 months, likely onto higher rates.

How much will monthly **payments increase?**

Of the 1.5 million mortgages that are coming to an end we applied a formula to predict the impact of rate rises on this group. We have based predicted rises on a £50 increase per £100k balance per 1% rate, of which a 4% rise is used.

Shift in monthly payment distribution for accounts predicted to roll off in next 6 months



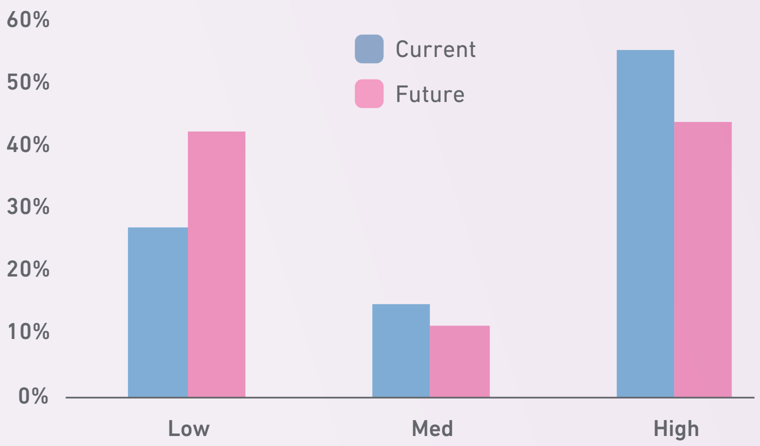
Based on the assumption of a 4% rate increase **around a quarter can expect a £301 to £500 rise in their monthly payments**.

How this affects **Estimated Disposable Income (EDI)**

We have grouped consumers into ranges, 'Low EDI', 'Medium EDI' and 'High EDI' to illustrate the likely shifts in EDI after the predicted 4% rise in mortgage rates. Clearly, those individuals who have a high EDI to begin with will be more resilient to payment increases.

Not surprisingly, the calculations show that there is a general shift to lower EDI bands as the higher mortgage payments take their toll, with around 513,000 people dropping an EDI band.

Current and predicted EDI distributions for population that holds one of the 1.5m mortgages predicted to roll off



81% of people who are currently have a medium EDI will transition into the low band.

- **81%** of people who had a medium EDI, shift down to the low band when the future payment increase.
- **6%** of people with a high EDI shift down to the low band.
- **15%** of those with a high EDI shift down to medium.

99.5% of households can manage **mortgage rises**

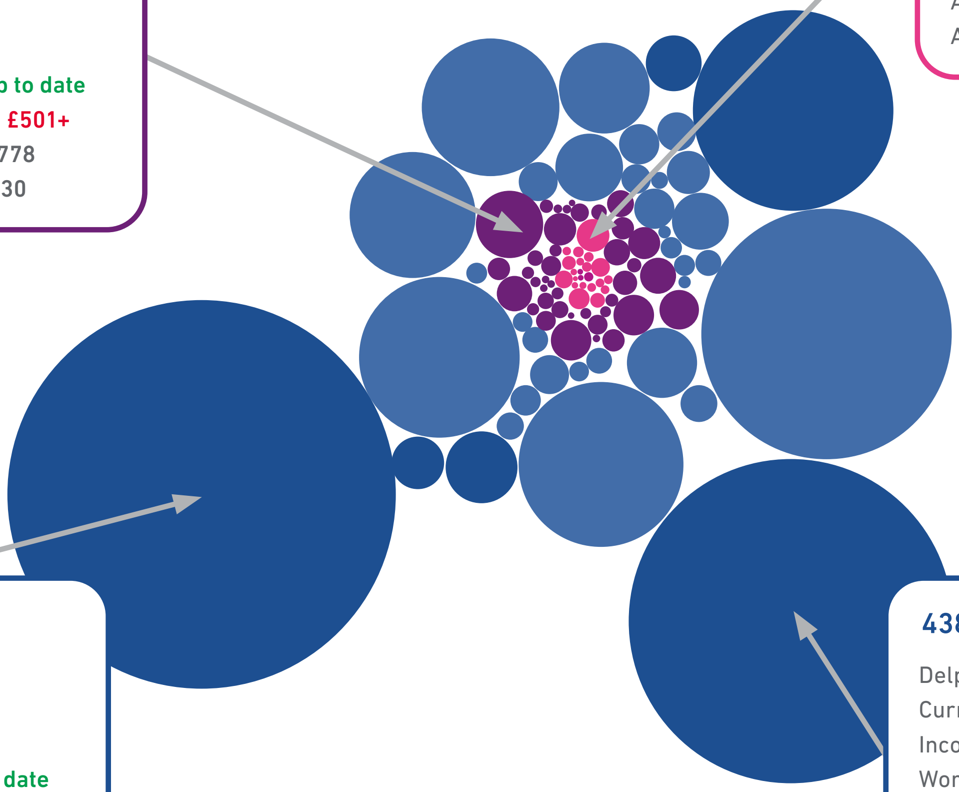
We created a vulnerability score by combining an individual's current EDI score with various other data sets including their credit score (Experian's 'delphi' score), their income, and their worst status on their account over the past 6 months.

In this chart, the size of bubble represents the number of people in it. The colour reflects the vulnerability score: green signifies that individuals are highly resilient, whereas red signifies people who have 'low resilience'.

Our vulnerability calculations are very reassuring for lenders. Out of the 2.2 million people who hold the 1.5 million mortgages, just 11,000 – or 0.5% – show signs for concern. For the vast majority payment increases will be both manageable and affordable.

> **99.5%** of the 2.2m population are not classed as **low resilience**

~1.5m mortgages predicted to roll off lower fixed rate deals



An increased appetite for **unsecured credit** reflects an evolution of buying behaviours

We have seen a change in the way consumers pay for goods on credit, becoming increasingly accustomed to making purchases using credit cards or BNPL rather than, for example, taking out a loan, even when purchasing large value items in circumstances where loans could offer a cheaper purchasing alternative.

One in every 20 adults in the UK opened a new credit card during the first three months of 2024. The largest recorded amount since we started tracking new credit card opening in 2008.

> We believe this is a behavioural shift, and not a reflection of people using credit because of affordability issues. There is no suggestion that credit is being used more by people who are financially more vulnerable than any other segment.

We believe the behavioural change is down to the ongoing move to doing more digitally and for a quicker, easier consumer journey. Credit cards and BNPL are an exceptionally convenient way of paying for things, especially digitally or on the go and unwanted items can be returned without waiting for a refund.

New record highs for **unsecured credit**

The level of new credit cards being opened during the first quarter was unprecedented. Volume of accounts opened during the period increased by 17% whilst personal loans increased by 11% compared to the same period in 2023.

BNPL transactions are up 15% on last year and the average value per transaction has increased slightly at £72.84 – a new record high for BNPL payments.

Who is using unsecured credit?

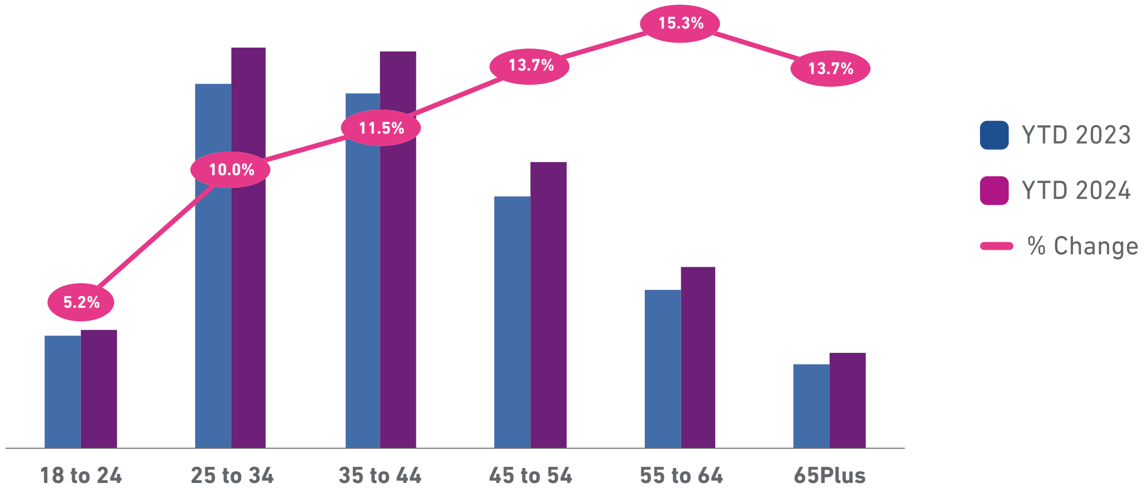
The largest proportion of new credit card openings came from 24-34 year olds, however, although the numbers are lower, in proportion terms the greatest increase in new credit card applications came from a much older, 55-64 year old demographic.

When we look at the shifting landscape for BNPL a similar pattern emerges.

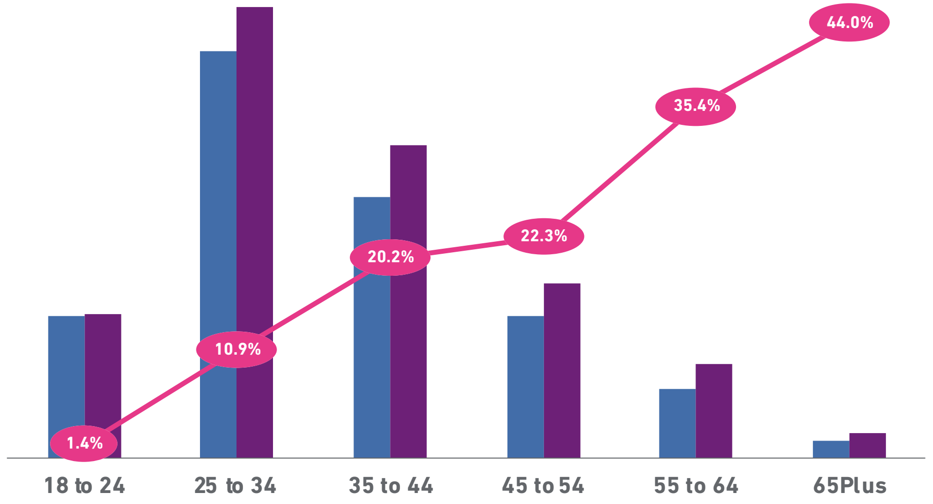
> Over half of all BNPL transactions now come from those over the age of 35.

Here, again, the bulk of transactions come from the 25-34 year old age band, (1 in 3 transactions are made by 25 to 34 year olds). But, once again, the largest proportionate increase is coming from the older borrowers – in this case people aged over 65.

Volume of credit card applications by age group



BNPL transaction volumes by age group



The last word on consumer affordability for Q2 2024

Looking back at our last affordability update, interest rates were exceptionally high, the UK was experiencing the depths of a cost-of-living crisis, homeowners were coming to terms with the prospect of dramatic jumps in their mortgage repayments. The UK economy was experiencing a technical recession.

Despite all update shows that affordability has held firm throughout this challenging time. Indeed, the squeeze that has occurred may have dampened the market for secured loans but seems to have created unprecedented demand for new unsecured loans.

There is a very real confidence amongst consumers that the worst of the financial challenges facing individuals and households are behind them. Indeed, **the BoE has said that credit borrowing in the UK rose to £1.5 billion during May*** – almost double the £800 million recorded in April.

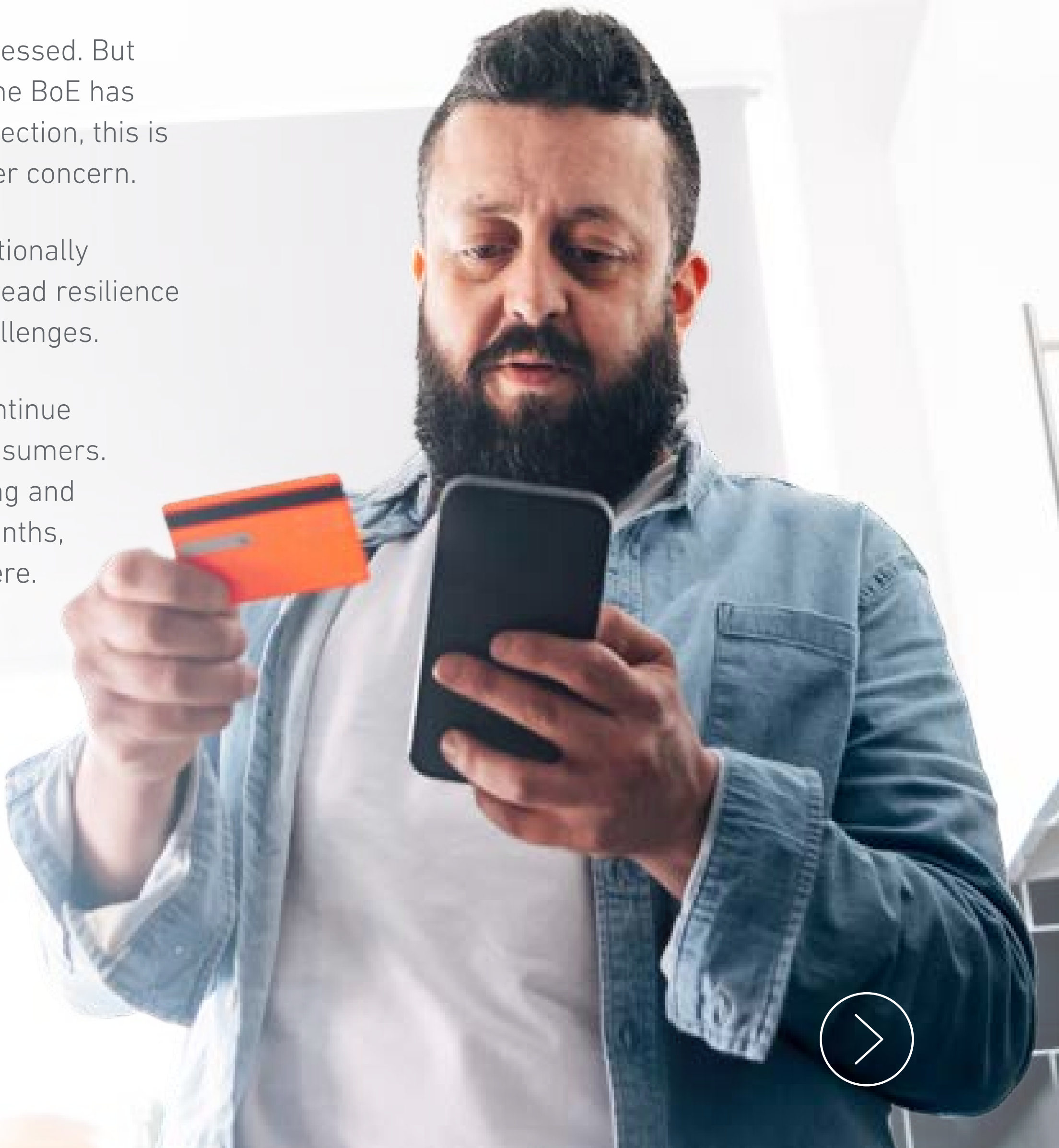
It is true that the mortgage market remains depressed. But given the context of the interest rates, and that the BoE has deliberately kept the rates static until after the election, this is neither surprising, nor should it give rise to lender concern.

With the exception of economic groups that traditionally struggle, our analysis paints a picture of widespread resilience in terms of affordability, despite the financial challenges.

Although this is an optimistic story, we would continue to urge lenders to remain vigilant, to support consumers. Income is increasing, the rate of growth is slowing and mortgage rates have come down over recent months, but they are enduringly higher than they once were.

Overall, people are continuing to spend and, with little sign of struggling, seem able to afford it whilst managing their higher mortgage repayments.

* Source: https://www.independent.co.uk/money/consumer-credit-borrowing-bounces-back-while-mortgage-lending-halves-b2571769.html



How can **Experian help?**

With our rich breadth and depth of data on consumers across the UK, Experian helps lenders to optimise new lending decisions and identify opportunities for growth with risk-right customers. What's more, we can help organisations to understand each consumer's individual financial circumstances, ensuring products and services are right for them.

This includes our latest **Affordability insights** which allows lenders to verify a consumer's income, understand their expenditure, and monitor their financial stability so that any action needed can be taken quickly. We also provide access to consumer consented sources of data such as digital payroll and Open Banking insights that can reveal more about a consumer's financial health.

We believe data has the power to change lives.

With better, more informed data we can support your business to grow and help you to drive better outcomes for your customers.

Contact us today

To find out more about how Experian can help you in this changing marketplace, mitigate credit risk, and support vulnerable customers, get in touch:

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