

## CONFIDENCE STILL STRONG IN THE HOUSING MARKET AND AFFORDABILITY IS AT ITS STRONGEST FOR TWO YEARS

Alliance & Leicester's Borrowing Monitor shows people are increasingly confident to take on mortgage borrowing, particularly to move home. At the beginning of this year 7% of households said they were thinking of moving, buying a property for the first time or remortgaging by mid-summer. When questioned recently, 15% of households – more than double the January level – said they planned to do so before next winter. Although not everyone acts upon these plans, the change in intentions underscores this year's much higher activity levels in the housing market.

The first four months of the year saw a significant increase in new mortgage lending – 28.4% up on the same period last year, although April saw a slight cooling of this trend. By contrast, the number of people remortgaging rose a mere 3%.

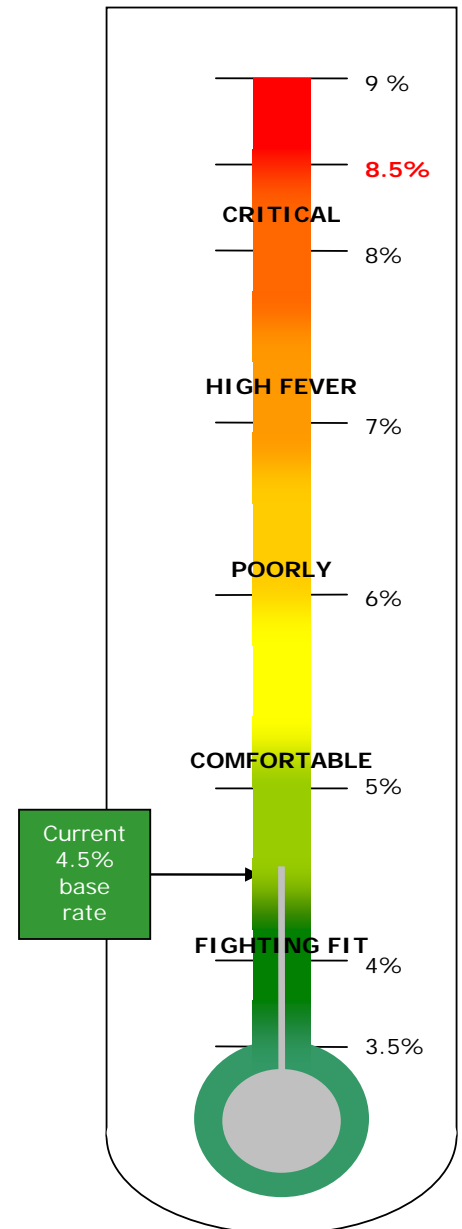
### The return of the first time buyer

First time buyers accounted for over a third (38%) of new mortgages between January and March according to the CML and the appetite among first time buyers is growing. Alliance & Leicester's latest figures show that the proportion of under 30s planning to get on the housing ladder has increased by a third since January – up from 12% to 16%.

#### Key findings

- **Mortgage growth is not at the expense of household budgets – affordability is the best it's been since the second quarter of 2004**
- **First time buyers are making a come-back – one in six (16%) of the under 30s plan to get on the housing ladder this year**
- **Consumers reduce credit card and other borrowing – personal loan balances fall for the first time in seven years**

**Alliance & Leicester  
Borrowing Thermometer**



The thermometer shows the total burden of consumer debts against the level of base rates for households with a mortgage. The base rate would need to rise to 8.5% for the cost of debt servicing as a proportion of household income to reach the 1990 level.

See Methodology in Notes to Editors.

## **Affordability remains good**

The latest figures show that by the end of April the total value of mortgage debt in the UK was £999.2 billion and rising at £9 billion a month, meaning that it almost certainly now exceeds the £1 trillion mark for the first time.

However, despite record mortgage borrowing, affordability for those taking out new mortgages remains at similar levels to a year ago – and far better than it was in 1990, the year of Britain's debt crisis. In the first quarter of 2006, for those taking out a new mortgage, interest payments took up 14% of household income – the lowest it's been since the second quarter of 2004. In 1990 mortgage interest took up nearly double this level – 27%.

Overall, the average outstanding mortgage in the UK rose 9.6% to £85,992 in the first four months of 2006 compared to the same period in 2005. Affordability, however, remains unchanged, due to lower interest rates and higher incomes. 10% of income was spent on mortgage interest costs, the same as in the first four months of 2005 and far less than the 24% in 1990. In 1990 total mortgage payments including capital took around a third of household income, (33% for new mortgages) whereas today this is around a fifth (20.5%). Today pressure on household budgets is coming far more from council tax increases and higher utility bills rather than from mortgages.

This suggests that there has been a return to the old fashioned virtue of 'waiting until you can afford it', before people take those all important steps up the housing ladder. It also suggests that the predictions made by some commentators that the industry's move from lending based on income multiples to an approach based on individual affordability would lead to a greater debt burden have not been fulfilled.

**Chris Rhodes, Managing Director of Alliance & Leicester Retail Banking said:**  
*"We are seeing greater confidence in the mortgage market from consumers. It's particularly pleasing to see the increased confidence amongst the under 30s. Increased first time buyer activity enables others to move up the ladder. Affordability remains good, which means that despite renewed mortgage borrowing, consumers are taking a responsible attitude. April's slightly cooler market should also give some reassurance that the market is not returning to an unsustainable boom."*

*"While household incomes have grown modestly, interest rates are lower than a year ago. Overall the cost of servicing a mortgage has therefore fallen slightly, despite gently rising house prices."*

## **Consumers act to repay credit card and other unsecured borrowing**

Alliance & Leicester's figures show that people worry more about their credit card and other borrowing than they do about their mortgages. In January the majority said they planned to reduce their credit card balances and other borrowing. At that time 42% of households had a credit card balance, with the average standing at £4,720. Credit card borrowing fell £900 million in the four months of the year. Just over a quarter of households (29%) have a personal loan, with the average balance standing at £8,368. Total personal loans stood at £135.90 billion at the end of 2005, by the end of the April this figure had fallen by £360 million, the first time this balance has fallen in seven years.

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**Notes to Editors:**

The Alliance & Leicester Borrowing Thermometer measures the level of interest rates required today for the proportion of household income of the average household with a mortgage consumed by interest payments to be the same as in 1990, when the UK suffered a serious debt crisis.

The data for these calculations (debt levels, incomes and interest rates) is sourced from the Bank of England, the ODPM, the CML and Alliance & Leicester survey data.

In each period, using the Bank of England data, the average mortgage, personal and credit card debt per household with a mortgage is calculated and the prevailing interest rates (sourced from Bank of England and CML) applied to each portion. This interest expense is compared to household income supplied by the ODPM. The Alliance & Leicester survey supplies data on how unsecured borrowing and credit card balances are split between different categories of household and different regions. For the Alliance & Leicester survey data, YouGov questioned 2,558 people in January 2006 and 2,000 in May 2006.