

Increased mortgage rates push 320,000 UK adults into poverty

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23 August 2024

Figures published by the Institute for Fiscal Studies (IFS) have shown a dramatic increase in the number of UK adults thrown into poverty due to increased mortgage costs.

The study highlighted the damage being caused by an exploding mortgage timebomb, with those renewing their home loans, or having to take out new loans in the past two years experiencing a sharp fall in their disposable income.

This has led to some households having to pay thousands of pounds more towards additional mortgage costs, driving up poverty rates amongst mortgagors by 1.4 percentage points (ppts) between December 2021 and December 2023.

Millions of homeowners have seen a dramatic increase in borrowing costs after 14 consecutive increases in the Bank of England base rate from a record low in December 2021 of 0.1 percent, to its current rate of 5.25 percent.

In calculating the headline poverty statistics, adjustments are made for household housing costs that include mortgage interest payments. Historically these statistics have been calculated on the assumption that all households have the same interest rates and does not consider the varying and growing mortgage interest rate differences between households.

In the year 2022-23, the average interest rate was 2.3 percent meaning someone would pay interest payments of £240 per month for a household with a typical outstanding mortgage. However 10 percent of households faced an average mortgage interest rate of at least 4.7 percent, equivalent to £490 a month.

Interest rate variation is a significant factor when trying to ascertain the real numbers of those in “mortgage poverty” and those defined as in “absolute poverty”.

The increase in relative poverty, defined as households with income below 60 percent of the median, is equivalent to 320,000 more adults falling below the headline.

The number of households with a mortgage are a third of households overall and the impact on the headline poverty rate is around 0.1ppts.

The increase in mortgage rates between December 2021 and December 2023 has pushed up the official figure to 1.4 ppts—representing 320,000 more people when measured accounting for variation. Yet official figures, which apply a single average interest rate to all households, only capture 1.0 ppts (230,000).

Though the overall impact on aggregate statistics is not high, mismeasurement of interest payments still means that individual mortgage interest payments are in some cases severely mismeasured and limit a better understanding of the impact of recent financial stocks which have resulted in soaring financial hardship.

It is estimated that most mortgagor households, after housing cost incomes are considered, are mismeasured by at least £500 a year—based on the assumption of a single mortgage interest rate.

Data from other sources suggests that adults who have seen a substantial rise in interest rates since the COVID pandemic were 2 ppts more likely to be behind on bills than those who had not—implying an additional increase of 370,000 adults that are behind on bills once all households have remortgaged at a higher interest rate.

Most households have a fixed rate mortgage and the question of variation in interest rates for individual households is a significant factor when trying to ascertain an accurate picture of the impact on household finances.

The IFS notes that those households impacted by

higher food and energy prices include pensioners and those on a lower income who will typically spend more of their income on fuel and food. Yet this is also not represented in official poverty statistics.

Figures showed that accounting for higher inflation for the above households in the years 2021-22 and 2022-23, the number of people in poverty had risen by 210,000 yet had not been recorded in official statistics. This represents an overall figure of 730,000 being thrust into poverty, as against official figures showing 520,000, including 80,000 pensioners.

Department for Work and Pension (DWP) figures suggest that the number of people over the age of 66 living in deprivation stands at nearly 1 million, the highest figure since comparable records began.

The measurement of deprivation was ascertained by asking those taking part whether they had access to basic goods and services, including heating and electricity, substantial meals and a home in a good state of repair.

Of the 977,386 over 66s experiencing deprivation in 2022-23, 100,000 were living in working households and data suggests that since the pandemic the number of older people living in deprivation has risen by more than a third.

These figures conflict sharply with calls within the ruling elite to axe the triple lock on state pensions on the basis that it is too expensive a cost to the public purse. Other calls are to increase the minimum age at which people should be allowed to retire.

The triple lock was introduced in 2011-12 and increases the state pension every April in line with either the previous September's level of inflation, the amount by which wages have increased or 2.5 percent, whichever is the highest. In April 2024, the state pension rose by 8.5 percent, the rate at which wages rose.

The IFS report highlights the fall in household incomes since the pandemic, accelerating the cost of living crisis. It shows that between 2021-22 and 2022-23 the median household income before housing costs had fallen by 0.5 percent, resulting in a 1.6 percent fall in median income between the years 2019-20/2022-23. This is equivalent to the rate of change seen between 2007-08 and 2011-12 following the global financial crisis.

Between 2019-20 to 2022-23) incomes in poorer

households stagnated, while middle- and higher-income households saw little change in income.

A major factor impacting living standards was the rapid rise in inflation, driving up the prices of goods and services, between 2021-22 and 2022-23. Between those years the rate of inflation stood at more than 10 percent, higher than anything seen this century.

Persistent rises in mortgage interest rates could push up both true and measured poverty rates in 2023-24 as an increasing number of households see their fixed rate mortgage period come to an end.



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