

# Credit where credit's due?

Unpacking the distributional impact of  
Britain's mortgage lending rules

Hannah Aldridge, Simon Pittaway & James Smith

March 2026



## Acknowledgements

The authors are grateful to Nationwide Building Society for funding this research. The views and recommendations in this report do not necessarily represent the views of Nationwide Building Society. The authors would also like to thank colleagues at the Bank of England, Financial Conduct Authority, HM Treasury, Lloyds Banking Group, Ministry of Housing and Local Government and ONS, as well as David Aikman, Kate Barker, Neal Hudson, James Tatch, Belinda Tracey and Garry Young for useful conversations and suggestions. We would also like to thank colleagues at the Resolution Foundation for their contributions to this paper, particularly Mike Brewer, Alex Clegg, Ruth Curtice, Lindsay Judge, Zachary Leather, Cillian Sheehan, Imogen Stone, Gregory Thwaites, Jamie Titus-Glover and Lalitha Try. Any remaining errors are the authors' own.

### ONS crown copyright

This work contains statistical data from ONS which is Crown Copyright. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

#### Download

This document is available to download as a free PDF at: [resolutionfoundation.org/publications](https://resolutionfoundation.org/publications)

#### Citation

If you are using this document in your own writing, our preferred citation is:

H. Aldridge et al. , *Credit where credit's due?: Unpacking the distributional impact of Britain's mortgage lending rules*, Resolution Foundation, March 2026 <https://doi.org/10.63492/10.63492/udgn419>

#### Permission to share

This document is published under the [Creative Commons Attribution Non Commercial No Derivatives 3.0 England and Wales Licence](https://creativecommons.org/licenses/by-nc-nd/3.0/). This allows anyone to download, reuse, reprint, distribute, and/or copy Resolution Foundation publications without written permission subject to the conditions set out in the Creative Commons Licence.

For commercial use, please contact: [info@resolutionfoundation.org](mailto:info@resolutionfoundation.org)

## Summary

Britain's system of financial regulation was tightened significantly after the late 2000s financial crisis. Restrictions came in to curb risky lending and a new layer of 'macroprudential' policy was introduced to mitigate system-wide risk, a key failure of the pre-crisis system. By design, these regulatory changes have restricted the supply of credit to the real economy, including households. Nearly two decades on, now is a good time to ask whether these rules are working as intended.

A particular concern is that these rules may unduly restrict access to homeownership, particularly for younger and lower-income families whose dreams of owning a home have already been damaged by high house prices and widening intergenerational wealth gaps. This certainly seems to be the view of the Government: in 2025, the Chancellor said that the tightening of financial regulation had "gone too far". Indeed, since the crisis, the number of mortgagors among low and middle income households has fallen by three times as much as those towards the top.

In this briefing note we assess the distributional impacts of today's regulatory system on would-be homeowners and set out how policy should respond. We show that the most significant barrier facing potential first-time buyers (FTBs) is finding the deposit. Using microdata to model the hurdles that would be buyers must clear – a 95 per cent loan to value ceiling, a 4.5 times loan to income cap (with higher limits available to higher-income borrowers), and lenders' affordability tests – we estimate that almost half of the 8.3 million potential FTBs would pass the income requirements for a mortgage on a starter home, but only 11 per cent meet the deposit requirements. Even among higher-income potential buyers, just under a quarter could put down a 5 per cent deposit from their savings.

Deposit constraints have sharpened significantly over the past 30 years as house price growth has far outstripped that in earnings. As a result, in most regions, starter home deposits have more than doubled relative to the typical salary. Although a minority of potential buyers could plausibly save enough to have a 5 per cent in short order, it is much more common for potential buyers to be on a path that would require them to save for more than a decade. This leaves many hopeful buyers reliant on the 'Bank of Mum and Dad' (BOMAD), now an established route to homeownership, with a third of recent buyers receiving help from family or friends. The problem is that access to BOMAD is a lottery that turns intergenerational inequality into intragenerational unfairness. Given the importance of homeownership for wealth accumulation and putting housing costs on a downward path over the life course, there is a strong case for policy to intervene to help those unable to overcome the deposit barrier themselves, or with familial help, to access homeownership.

In such circumstances, there are those who would advocate a wholesale loosening of financial regulation. Indeed, there has been a flavour of such an approach from successive governments. This follows Rishi Sunak handing the Financial Policy Committee a secondary objective which included “supporting first-time buyers”. And, since then, several measures have been taken to loosen the rules further.

A blanket loosening of regulation risks being counterproductive. Looking at the mortgage market in the round, borrowing limits do not appear to be excessively tight. This is in part thanks to those recent changes that have softened the post-crisis macroprudential policies. Indeed, average FTB debt-interest burdens are currently as high as they were in the early 1990s and mid-2000s. Moreover, Bank of England research shows that expanding mortgage credit in a context of highly inelastic housing supply mainly raises house prices, rather than homeownership. This was evident before the financial crisis, a period in which regulation was significantly looser than it is now but poorer families fell behind their richer counterparts in terms of accessing mortgage credit: from its peak in 2000, the number of mortgagors on low-to-middle incomes had fallen by almost 20 per cent by the financial crisis, compared to a 12 per cent fall among those towards the top of the income distribution.

Instead, with financial regulation a blunt and ineffective tool, a government-led ultra-targeted approach is needed. The group that policy makers should focus on is those who could sustain mortgage payments but cannot overcome the deposit requirement and would not have access to BOMAD. For this group, homeownership is essentially a ‘no brainer’: it reduces housing costs and builds up wealth over the life course. We propose a targeted but powerful approach to achieve this: a *Starter Deposit* equity loan scheme to provide FTBs with a loan from the government worth up to a 5 per cent deposit on a starter home, so long as a lender will give them a mortgage on the rest.

This scheme would differ from the previous *Help to Buy* equity loan schemes in three key respects. First, it would be available to FTBs who wish to buy an existing property, and not just a new build. Second, the buyer would not need to contribute their own savings to the deposit. Third, the Starter Deposit scheme would be highly targeted, with the loan size capped at 5 per cent of the lower-quartile price of a terraced home in each region and buyers only permitted to add up to £3,000 of their own funds to the deposit. For practical reasons, the policy would not actively exclude buyers with access to BOMAD, but the relatively low price ceiling for this scheme means that those with alternative access to capital have little incentive to use it.

Such an approach could be supported by other smaller changes and increased transparency. Lending rules should be adjusted to focus on net – rather than gross – incomes. Given a progressive tax system, reorientating the rules in this way would better

reflect the income households that have to spend on housing costs, and remove an inherent advantage enjoyed by richer families. Macroprudential policy makers should also place far greater emphasis on making the impact of its policies clear, including by setting out their assessment of the distributional impacts. To this end, the Bank of England should routinely provide an impact assessment for changes in its tools and policy setting, which explores how they are affecting different groups, and more data should be published to allow others to monitor the effects too.

Ultimately, the difficulties that families face getting a mortgage are the result of high house prices. Looking further ahead, the Government is uniquely placed to improve housing affordability by significantly increasing the number of properties that are built. Building more, and doing so where the need is greatest, is the best way to bring prices down relative to incomes and ultimately improve living standards. But such a policy will only yield results in the long term. For now, policy makers must provide bold but targeted help if they want to help those whose dream of owning a property is currently curtailed.

## There is concern that regulatory tightening has gone too far post-financial crisis, damaging families' homeownership prospects

The system of financial regulation was tightened significantly after the financial crisis in 2008. The crisis made the implications of a sharp turn in the financial cycle all too clear, triggering a severe recession and extreme volatility in global markets. At the heart of the crisis was a loss of confidence in banks that triggered a near collapse of the financial system. In response, regulation of the financial sector globally was fundamentally reformed. Rules for lenders were tightened significantly. But the crisis made it obvious that regulation at the level of individual firms was not enough to identify emerging system-wide risks, and so another 'macroprudential' policy layer was added. As discussed in Box 1, with this new layer came a new tranche of new decision-making bodies worldwide, with the Bank of England's Financial Policy Committee (FPC) created to oversee macroprudential policy in the UK.

### BOX 1: Key developments in UK financial regulation since the global financial crisis

The economic damage inflicted by the financial crisis prompted the biggest overhaul in UK financial regulation in a generation. There were institutional reforms, including abolishing the Financial Services Authority (FSA) and separating its powers for microprudential regulation and conduct regulation between, respectively, the newly created Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).<sup>1</sup> The FPC was also created to oversee macroprudential policy and placed – along with the PRA – at the

Bank of England in order to improve coordination with monetary policy.

When looking at changes in the rules for lenders, four key strands of Britain's post-crisis reforms stand out. Two of these focused on shielding the banks and their key functions from economic shocks:

- Banks were required to operate with more loss-absorbing capacity or 'capital'. Requirements for holding the highest-quality capital are now more than seven-times higher than before the crisis,<sup>2</sup> although the pounds-terms increase in capital

<sup>1</sup> HM Treasury, [A new approach to financial regulation: The blueprint for reform](#), June 2011.

<sup>2</sup> See the comparison of common equity Tier 1 (CET1) capital requirements in Table B.2 of Bank of England, [Financial Stability Report](#), July 2016. In practice, the pre-crisis requirements were so low that banks often held more capital voluntarily. Using a broader measure of Tier 1 capital, the actual levels of capital that UK banks held nonetheless doubled between 2006 and 2016 (from around 7 per cent of risk-weighted assets to around 14 per cent). See Chart 4 in A Haldane, [Rethinking Financial Stability](#), October 2017.

has been partially offset by a fall in average risk-weights.<sup>3</sup> On top of this, macroprudential policy raised capital buffers for systemically important banks and for the whole system in times of elevated risk.<sup>4</sup> Higher liquidity requirements were also put in place to increase lenders' capacity to cope with sudden withdrawals of funds, and not just losses on their assets.<sup>5</sup>

- Banks were forced to ring-fence their riskier activities from the lending and deposit-taking that matter most for households and businesses.<sup>6</sup> Recent research has suggested that ring-fencing reduced the costs of mortgages and increased access for credit-constrained borrowers.<sup>7</sup>

Two other strands were focused on reducing risks in the mortgage market:

- New 'mortgage conduct of business' rules from the FCA beefed up standards for affordability testing and income verification when mortgages are issued.<sup>8</sup>

- The FPC introduced new 'borrower-based' macroprudential policies that sought to limit the number of mortgagors borrowing large amounts relative to their incomes. These were an 'LTI flow limit' that restricts the share of owner-occupier mortgages that can be issued at loan-to-income multiples of 4.5 or more; and an 'affordability test recommendation' that required lenders to use an interest rate stress of at least 3 percentage points when conducting mortgage affordability tests (although this was repealed in 2022 as interest rates increased).<sup>9</sup> Underwriting standards for buy-to-let lending were also strengthened.<sup>10</sup>

The rise in UK capital and liquidity requirements mostly followed global standards set out in the Basel III framework.<sup>11</sup> The UK implementation of these standards differed from that in other jurisdictions to some degree, but other parts of Britain's post-crisis reforms were more internationally unusual. The UK's ring-fencing regime

<sup>3</sup> Banks' risk-weighted capital requirements are calculated by multiplying capital requirement ratios and total risk-weighted assets (RWAs). All else equal, lower average risk-weights reduce total RWAs. See Chart 2 in Bank of England, [CP16/22 – Implementation of the Basel 3.1 standards](#), November 2022.

<sup>4</sup> This was done via systemic buffers like the G-SIB buffer and the Systemic Risk Buffer and the counter-cyclical capital buffer.

<sup>5</sup> For a summary of the UK's prudential liquidity framework, see: Prudential Regulation Authority, [DP1/22 – The prudential liquidity framework: Supporting liquid asset usability](#), March 2022.

<sup>6</sup> This was a key recommendation of the Independent Commission on Banking; see: Independent Commission on Banking, [Final Report](#), September 2011.

<sup>7</sup> M Fatouh, A Zalewska & J Pinheiro, [Ring-fencing and heterogeneity of credit distribution](#), March 2026.

<sup>8</sup> This followed the Mortgage Market Review conducted by the Financial Services Authority (the FCA's predecessor as the UK's financial conduct regulator) between 2009 and 2012. The reforms were implemented by the FCA in 2014. For details, see: Financial Services Authority, [Mortgage Market Review: Feedback on CP11/31 and final rules](#), October 2012.

<sup>9</sup> For a summary of the FPC's policies and their interaction with the FCA's conduct rules, see: Bank of England, [Financial Stability Report](#), December 2021; Bank of England, [Technical annex: evidence on the FPC's mortgage market Recommendations](#), December 2021.

<sup>10</sup> Prudential Regulation Authority, [SS13/16 - Underwriting standards for buy-to-let mortgage contracts](#), September 2016.

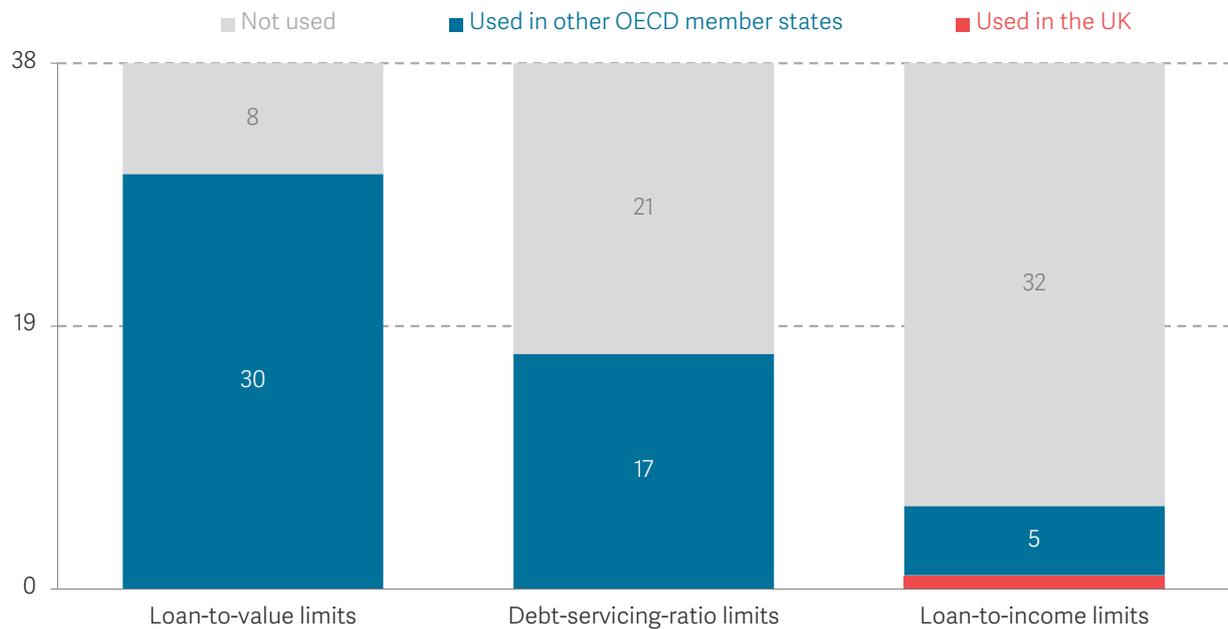
<sup>11</sup> Basel Committee on Banking Supervision, [Basel III: Finalising post-crisis reforms](#), Bank for International Settlements, December 2017.

makes us an international outlier.<sup>12</sup> And the FPC's choice of limiting loan-to-income ratios is somewhat uncommon. Until recently, only five other OECD members had direct limits on mortgage

loan-to-income limits,<sup>13</sup> with Australia becoming the sixth in recent months.<sup>14</sup> Limits on debt-servicing ratios and loan-to-value ratios are far more common (see Figure 1).

**FIGURE 1: Limiting mortgage loan-to-income ratios is an internationally unusual approach**

Use of selected borrower-based macroprudential limits on mortgage debt: OECD members, December 2024



NOTES: The most recent comprehensive data on the use of macroprudential tools covers the period up to December 2024, so the chart does not capture recent policy changes, including Australia's introduction of loan-to-income limits. Measures include hard caps as well as flow limits. Loan-to-income limits include measures that are referred to as debt-to-income limits in other jurisdictions, and which sometimes include other forms of debt in addition to mortgages.

SOURCE: RF analysis of IMF, Integrated Macroprudential Policy Database; ESRB, Overview of national macroprudential measures.

These reforms were made for good reason. Between 2007 and 2009, Britain's GDP per person fell by 6 per cent, and was still 4 per cent below its pre-crisis peak by 2012 (Figure 2). Although Britain's post-crisis recovery was dogged by further headwinds from developments in Europe and tight fiscal policy, history tells us that growth following financial crises in advanced economies is typically very weak.<sup>15</sup> After the global financial crisis, then, the benefit of reforms to reduce the likelihood of future crises were

<sup>12</sup> HM Treasury, *Independent Panel on Ring-fencing and Proprietary Trading- Final Report*, March 2022.

<sup>13</sup> Ireland, Latvia, New Zealand, Norway and Slovakia.

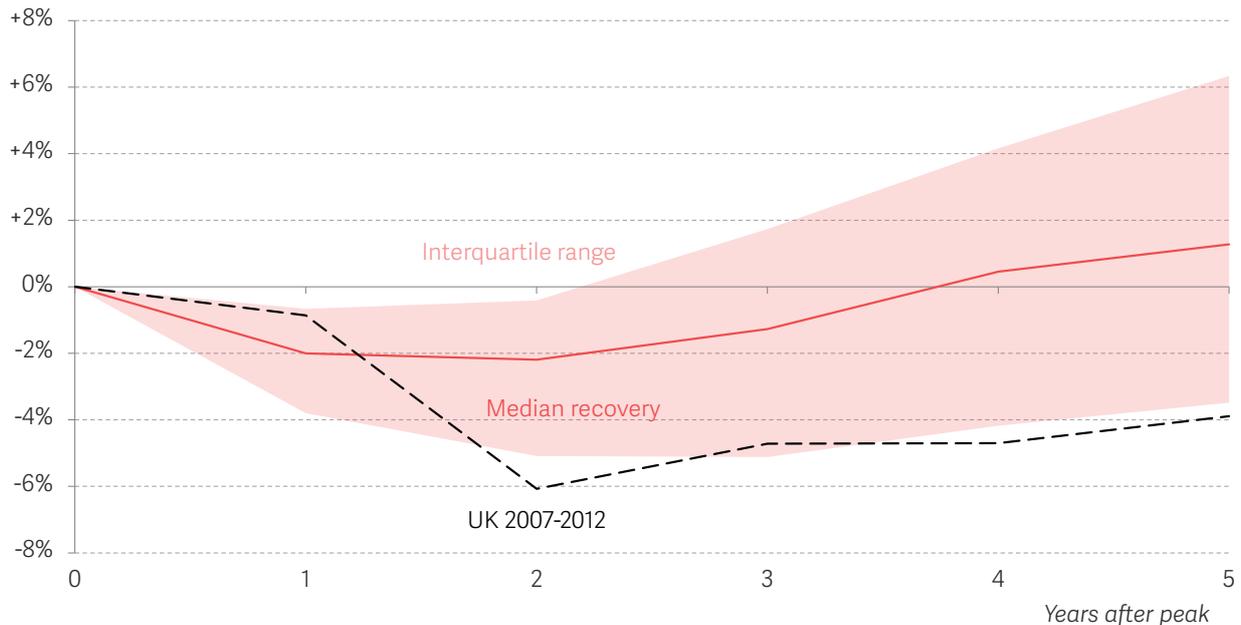
<sup>14</sup> Australian Prudential Regulation Authority, *Activating debt-to-income limits as a macroprudential policy tool*, November 2025.

<sup>15</sup> Research suggests that, by 2013, the pivot to austerity, which started in 2011, plausibly accounted for more than three-quarters of the UK's GDP shortfall relative to the OBR's June 2010 forecast. See: Ò Jordà & A Taylor, *The Time for Austerity: Estimating the Average Treatment Effect of Fiscal Policy*, NBER Working Paper 19414, September 2013, <https://doi.org/10.3386/w19414>.

necessary clear. The new macroprudential approach to policy was welcome too, given the gaps in the institution-level 'microprudential' approach that the financial crisis exposed.<sup>16</sup>

### FIGURE 2: Financial crises are typically followed by a half-decade of almost no growth

Cumulative change in GDP per capita relative to pre-financial crisis peak: advanced economies, 1870-2012



NOTES: Based on 83 financial crisis episodes in the period 1870-2012 across 17 advanced economies, namely: Australia, Belgium, Canada, Switzerland, Germany, Denmark, Spain, Finland, France, United Kingdom, Italy, Japan, Netherlands, Norway, Portugal, Sweden and United States. Information on the dating of pre-crisis peaks can be found in the sources.

SOURCE: RF analysis of Ó Jordà, M Schularick, and A Taylor, *Macrofinancial History and the New Business Cycle Facts*, NBER Macroeconomics Annual 2016; Ó Jordà, M Schularick, and A Taylor, *The Great Mortgaging: Housing Finance, Crises, and Business Cycles*, NBER Working Paper 20501, September 2014; Ó Jordà et al., *Zombies at Large? Corporate Debt Overhang and the Macroeconomy*, *The Review of Financial Studies* 35(10), October 2022; ONS, National accounts.

By design, these regulatory changes affect the supply of credit to the real economy. Indeed, the changes affect lenders' decisions about whether to grant a mortgage, the largest source of credit to British households. This is not surprising as the housing sector was a particular focus of Britain's post-crisis reforms (Box 1). As Box 2 sets out, this focus on mortgages was understandable given that such debt played a key role in amplifying the UK's financial crisis downturn, consistent with cross-country empirical evidence showing that mortgage boom-and-bust cycles have a tendency to exacerbate crises and crowd out productive investment.

<sup>16</sup> S Hanson, A Kashyap & J Stein, *A Macroprudential Approach to Financial Regulation*, *Journal of Economic Perspectives* 25 (1), Winter 2011, <https://doi.org/10.1257/jep.25.1.3>.

## BOX 2: High levels of mortgage debt tend to amplify financial crises, as was the case in the UK in the late 2000s

Research suggests that there are two main ways in which high levels of mortgage debt can amplify economic downturns. First, overly stretched borrowers may default if they experience an income or interest-rate shock. This can fuel a credit crunch, as banks tend to scale back credit provision after taking losses on their existing lending. Second, highly indebted mortgagors can cut spending particularly sharply in response to an initial economic shock, either because their finances are particularly precarious, or their existing indebtedness makes them particularly exposed to a tightening in credit.

The second channel played an important role in Britain's financial crisis experience. Most mortgagors, even those with large outstanding balances, kept making repayments. As a result, even at their peak, mortgage arrears were higher among buy-to-let investors than owner-occupiers, and low compared to the early 1990s housing

crash.<sup>17</sup> There is, however, evidence that highly indebted mortgagors did cut spending more sharply.<sup>18</sup> This amplified the initial economic shock in a way that was hard for monetary policy to counteract, with interest rates mired at the zero lower bound.<sup>19</sup>

The key role played by mortgage debt was not simply a feature of the 2008 crisis. History has shown that recessions preceded by household debt booms are particularly deep and long-lasting.<sup>20</sup> Furthermore, housing booms can also damage long-run growth prospects even before they bust, by crowding out more productive forms of investment.<sup>21</sup> This is particularly problematic in the context of the UK's inelastic housing supply, which inhibits a potentially productive link between lending and house building.<sup>22</sup> Targeting mortgage debt is therefore a relatively growth-friendly way of building financial resilience compared to broader restrictions on credit provision.

<sup>17</sup> The share of owner-occupier mortgages in arrears peaked at 2.4 per cent, compared to 4.0 per cent in the early 1990s. Buy-to-let arrears peaked at around 3 per cent, but fell away quicker than owner-occupier arrears. Bank of England, [Financial Stability Report](#), June 2024; G Zemaityte, E Hughes & K Blood, The buy-to-let sector and financial stability, [Bank of England Quarterly Bulletin](#), December 2023.

<sup>18</sup> A Faisanos & R Lydon, Do households with debt cut back their consumption more? New evidence from the United Kingdom, [Bulletin of Economic Research](#) 74(3), October 2021, <https://doi.org/10.1111/boer.12317>; P Bunn & M Rostom, [Household debt and consumption revisited](#), Bank of England, September 2021; A Kovacs, M Rostom & P Bunn, Consumption response to aggregate shocks and the role of leverage, [The Manchester School](#) 93(1), January 2025, <https://doi.org/10.1111/manc.12495>.

<sup>19</sup> The zero lower bound – that is the inability to of central banks to cut policy rates to very negative levels – is a key constraint on monetary policy. For a discussion of the risks from the lower bound, see: S Pittaway & J Smith, [Built to last: Towards a sustainable macroeconomic policy framework for the UK](#), Resolution Foundation, October 2023.

<sup>20</sup> Ó Jordà, M Schularick & A Taylor, The great mortgaging: housing finance, crises and business cycles, [Economic Policy](#) 31(85), January 2016, <https://doi.org/10.1093/epolic/eiv017>.

<sup>21</sup> I Chakraborty, I Goldstein & A MacKinlay, Housing Price Booms and Crowding-Out Effects in Bank Lending, [The Review of Financial Studies](#) 31(7), July 2018, <https://doi.org/10.1093/rfs/hhy033>.

<sup>22</sup> J Waddell & D Walker, [More mortgage lending might push home ownership further out of reach](#), Bank of England, June 2025.

All this implies that there was a strong case for tighter mortgage-market regulation in the wake of the financial crisis. But close to two decades on, the time is right to assess the impact of these changes. Specifically, there are those who would say that these changes to financial regulation during this period were too severe. This certainly seems to be the view of the Government: in 2025, the Chancellor said that she had plans to “[roll] back regulation that has gone too far in seeking to eliminate risk”.<sup>23</sup> If credit has been overly restrictive in recent years, then some families have been unnecessarily denied the ability to realise home ownership. A key question, then, is whether regulation has been too tight and, if so, which groups of households have been affected.

On the face of it, there is reason to think that lower-income families have been disproportionately affected by the tightening in regulation. As shown in Figure 3, since the financial crisis, the number of mortgagors has fallen across the income distribution. But the fall has been much more pronounced for those on low and middle incomes: between the financial crisis and 2023, the number of mortgagors in the second and third quintiles of the household income distribution (before housing costs) had fallen by 17 per cent, more than three-times the fall of those in the fourth and fifth quintiles. This is a big discrepancy even considering that we might expect lending to lower-income families to be more responsive to changes in credit conditions. And it is not a discrepancy caused by increases in income inequality; weak income growth has been shared across the distribution for most of this period.<sup>24</sup>

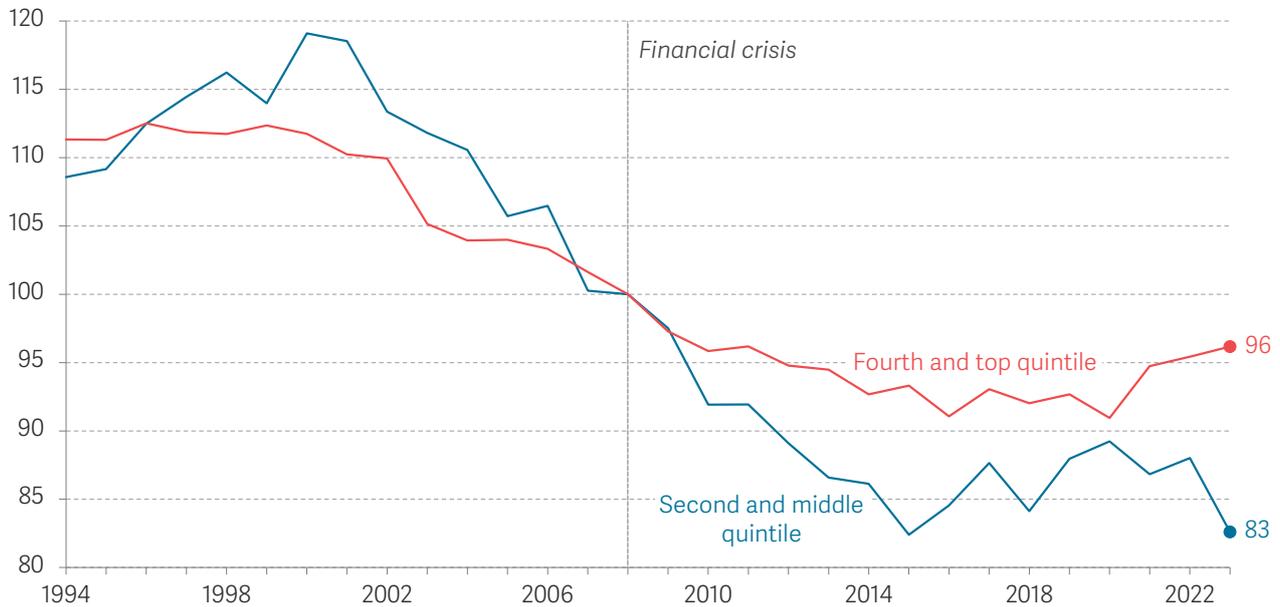
---

<sup>23</sup> R Reeves, *Mansion House 2025 speech*, 15 July 2025.

<sup>24</sup> Resolution Foundation, *Unsung Britain: A portrait of the country's poorer half*, Resolution Foundation, February 2026, <https://doi.org/10.63492/ndt1708>.

### FIGURE 3: Since the financial crisis, mortgaged homeownership has fallen more rapidly among lower and middle income families

Indices of the number of people in mortgaged families, by before-housing-costs income quintile (2000 = 100): GB



NOTES: Income quintiles are based on equivalised net household income before housing costs. Before housing costs income is used to eliminate shifts in after housing costs income quintiles due to falling interest rates.

SOURCE: RF analysis of DWP, Households Below Average Income.

In addition to providing stability and security, homeownership plays a key role in determining families' living standards and wealth. The proportion of people relying on the private rented sector has almost doubled between 1994-95 and 2023-24, rising from around 11 per cent to 18 per cent, partly driven by fewer available social rentals as well as falls in homeownership.<sup>25</sup> This matters not least because owner occupation tends to mean that the amount families pay for their housing wanes in real terms over time, a welcome relief in later life. This can be seen particularly starkly in the period after the financial crisis during which homebuyers' housing costs as a proportion of net income dropped from a high of 21 per cent in 2007-08 to 10 per cent in 2021-22, as interest rates fell sharply.<sup>26</sup> By contrast, costs for private renters have been much higher: around 35 per cent of income in 2023-24 having been above 30 per cent since the turn of the century.<sup>27</sup> Added to this, recent work illustrates the importance of homeownership in the process of accumulating wealth. Becoming a homeowner is far more common for richer families –

<sup>25</sup> RF analysis of DWP, Households Below Average Income. See RF Housing Indicators [www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability](http://www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability).

<sup>26</sup> RF analysis of DWP, Households Below Average Income. Housing costs include water rates, ground rent/service charges and structural insurance premiums. See RF Housing Indicators [www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability](http://www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability).

<sup>27</sup> RF analysis of DWP, Households Below Average Income. Housing costs include water rates, ground rent/service charges and structural insurance premiums. See RF Housing Indicators [www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability](http://www.resolutionfoundation.org/major-programme/housing-indicators/housing-affordability).

7 per cent versus 4 per cent for lower-income families between 2016-18 and 2018-20 – and is associated with a large rise up the wealth distribution.<sup>28</sup>

Homeownership is also the source of considerable inequalities between generations.<sup>29</sup> For example, it is now more common for younger adults to live with their parents, with the proportion of those under-35 doing so having risen from around one-in-four (26 per cent) at the turn of the century to nearly two-in-five (39 per cent) in 2021-22, equivalent to an extra 2 million people. It is also much rarer for younger adults to take their first step on the housing ladder, with the proportion of under 35s owning their homes halving since the mid-1990s (from 31 per cent in 1995-96 to 16 per cent in 2023-24).<sup>30</sup> This poses serious concerns further down the line if large numbers of people reach retirement with high housing costs having been unable to pay off their mortgage beforehand or even get one in the first place.

To date, there has been little research or public debate around the distributional impacts of mortgage-lending rules on homeownership outcomes of different household groups, certainly compared to the considerable studies of the broader macroeconomic effects of regulation.<sup>31</sup> So below we look at what parts of the regulatory system are holding back would-be homeowners, and how policy should respond.

## Today's first-time buyers are primarily constrained by a lack of deposit savings

To assess the extent to which financial regulation is restricting the ability of lower-income and younger families to buy a property, our approach is to identify potential FTBs and model the extent to which existing mortgage rules restrict their access to credit.

The jumping off point for this analysis is to define families that fall into the group of possible buyers. Here, we consciously take a broad definition in order to include as many families with aspirations of buying a house as possible.<sup>32</sup> For single-adult families (with or without children) we include people aged 21 to 55 who are in work (full or part time) and not already owner-occupiers. And for couples, we include those where both members are aged 21 to 55, at least one is working and neither are unemployed. Under this definition, there are 8.3 million potential FTB households in Britain – 5.5 million are

---

<sup>28</sup> M Broome & R Kanabar, Before the fall: The distribution of household wealth in Britain and the impact on families, Resolution Foundation, October 2025, <https://doi.org/10.63492/pcv793>.

<sup>29</sup> M Broome, S Hale & H Slaughter, An intergenerational audit for the UK: 2024, Resolution Foundation, November 2024, <https://doi.org/10.63492/po886z>.

<sup>30</sup> RF analysis of DWP, Households Below Average Income.

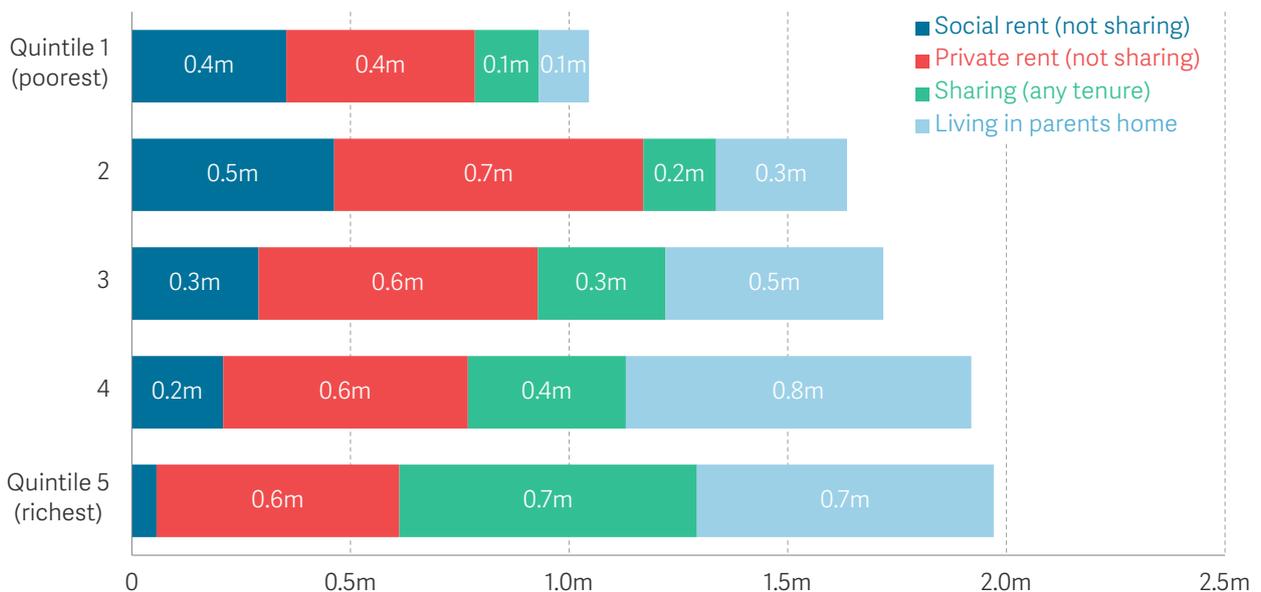
<sup>31</sup> A notable exception here is J-L Peydró et al., *Distributional consequences of borrower-based macroprudential tools*, Bank of England Working Paper 1,151, October 2025. An example of the latter is: M Brooke et al., *Measuring the macroeconomic costs and benefits of higher UK bank capital requirements*, Financial Stability Paper 35, Bank of England, 2015.

<sup>32</sup> 55 is our upper age limit as this is the point at which later life lending products start to become available.

single adults and 2.8 million are couples; 2.4 million contain children. Figure 4 shows that our group of potential FTBs skews towards the top of the income distribution, but there are large numbers of such families on lower incomes too. We can see that this group is disproportionately living in the private rented sector, but there are also households living in social rented homes (particularly those on lower incomes), while those living with their parents or other people tend to be towards the top (at least partly a result of their position in the income distribution being based on the income of all members of the household).

**FIGURE 4: There are 8.3 million potential first-time buyer households in Britain**

Number of potential first-time buyer households, by income quintile (before housing costs) and current tenure: GB, 2025-26 nowcast



NOTES: Potential first-time buyer families are those where: (i) the family is currently renting or living in someone else's owner-occupied home; (ii) all adults are aged between 21 and 55; and (iii) at least one adult is in employment, with nobody currently unemployed and seeking work. Income quintiles are based on equivalised net household income before housing costs (so the income quintile of potential FTBs currently sharing their home with other people will reflect the income of all the members of the household). Private rent and social rent categories are households containing just one family; sharing includes multi-family households of any tenure except for those living with their parents who are categorised separately. We assume that those currently in multi-family households would buy a home as single families, forming a new household, they therefore count as a potential first-time buyer 'household' in the chart.

SOURCE: RF analysis of DWP, Households Below Average Income.

Next, we need to determine the cost of a 'starter' home. For this, we take the lower-quartile price of a terraced home in the buyers' respective region. The exception here

is London where we use the median price of a flat in Outer London.<sup>33</sup> In practice, FTBs buy more expensive homes than this, but we veer towards the lower end of the market to determine the extent to which lending constraints prevent FTBs from becoming homeowners (rather than buyers' desire to occupy a higher-value homes).<sup>34</sup>

Exploiting household-level survey data from Department for Work and Pensions' (DWP's) Households Below Average Income dataset, we can identify potential FTBs and assess whether they would be able to access a mortgage for a starter home under this definition. The full set of real-world constraints that influence the commercial decisions made by banks are both complex to model and use information that we cannot observe, such as credit scores. Instead, our modelling focuses on the three important tests, which have their origins in our system of financial regulation, that lenders apply, namely:

- Loan-to-value (LTV) ratios – the proportion of the property price that the applicant needs to borrow;
- Loan-to-income (LTI) ratios – the amount an applicant can borrow as a share of their income;
- Affordability stress tests – an assessment by lenders of the repayments an applicant could afford if interest rates were higher.

These tests can be directly linked to the three regulatory layers mentioned above: the LTV restriction can be thought of as a reflection of the PRA's microprudential regulation, in which LTV ratios are the key determinant of mortgage risk weights; the LTI condition reflects lenders' implementation of the FPC's LTI flow limit; and the affordability stress tests are specified in some detail in the FCA rules.<sup>35</sup> Reflecting this, we consider the 'entry level' mortgage product that retail banks are currently offering. In particular, banks are typically offering an LTV of 95 per cent, an LTI of 4.5 times their income (or 6 times for those on higher incomes) and are typically testing affordability at stressed interest

---

<sup>33</sup> Our aim is to approximate the entry level cost of a home suitable for a small family. We use the lower quartile price of a terraced house in each region. In London we make an exception as flats make up a much higher proportion of the housing stock. But, as many flats can be one bedroom (which would almost never be the case in a terraced home), we take the median price level. We take the median price of a flat in Outer London because of the very high price of flats in Inner London. Given the transport links across the capital, potential FTBs could move from Inner to Outer London and remain within the same travel to work area. Outer London includes Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Greenwich, Harrow, Havering, Hillingdon, Hounslow, Kingston upon Thames, Merton, Redbridge, Richmond upon Thames, Sutton, and Waltham Forest.

<sup>34</sup> The cost of a 'starter home' in a region is between £50,000 and £90,000 lower than the average FTB house, except in London where it is £145,000 lower (the gap for London is larger partly because the average FTB price includes properties bought in Inner London while our starter home price is based on sales in Outer London only). See Annex 2 Table 1 for a full breakdown.

<sup>35</sup> Our modelling of these constraints is static. Tightening or loosening one of the constraints could, in principle, affect the calibration of the others – and we do not attempt to capture this dynamic effect. This effect is potentially particularly important for the LTI condition. If other constraints were relaxed so as to increase the number of FTBs who could borrow above 4.5 LTI, lenders may tighten their LTI limits so as to keep the flow of high-LTI mortgages within the FPC's 15 per cent flow limit.

rates of 6.5 to 7.5 per cent (see Annex 1 for more detail on our methodology).<sup>36</sup> In practice, access to such an 'entry level' mortgage product would be subject to other constraints, particularly additional limits on how much applicants can borrow relative to their incomes, that we are not attempting to model.<sup>37</sup> But we judge that the three constraints in our modelling are the most heavily determined by regulation itself, rather than lenders' commercial decisions.

It is important to note, however, that even these constraints are not wholly specified by regulation per se. Individual lenders implement the FPC's LTI flow limit and the FCA's affordability test rules in a variety of ways, and a 95 per cent LTV ratio is not a regulatory limit. The lack of availability at higher LTV ratios is likely to be a function of both microprudential regulation and supervision.<sup>38</sup> Before the financial crisis, when regulation was looser and supervision less intense, mortgage lending at LTV ratios above 95 per cent was far more common: 6.1 per cent of mortgages in 2007 were issued at LTV ratios above 95 per cent, compared to just 0.4 per cent in 2025.<sup>39</sup>

After applying our three tests to potential FTBs, we estimate that just 940,000 of the 8.3 million families (11 per cent) would be able to access a mortgage to buy a starter home in 2025-26. Savings are much more constraining than income with just 15 per cent of potential buyers (1.3 million) with enough saved for a 5 per cent deposit, in comparison to 47 per cent (3.9 million) who have high enough incomes to meet the LTI constraint and pass the stress test.<sup>40</sup> Even at the top of the income distribution where most potential buyers have enough income for a deposit, just 26 per cent have the savings required (Figure 5).<sup>41</sup>

---

<sup>36</sup> While some major lenders have begun to offer 98 per cent LTV mortgages for first-time buyers (for example, see: Santander UK, [Santander launches five-year, 98% LTV 'My First Mortgage' helping first-time buyers achieve homeownership dream](#), February 2026), 95 per cent remains the most widely available maximum LTV ratio. Bank of England, [Financial Stability Report](#), July 2025.

<sup>37</sup> Some examples include debt-servicing-ratio limits and intersecting LTI-LTV limits. Our headline conclusion that deposits are more constraining than incomes is unlikely to be driven by our inability to model these constraints. If we apply a hard 4.5 LTI cap to all borrowers – which is generally tighter than the actual income-based borrowing limits that FTBs face – there are still more borrowers in all income quintiles that are constrained by deposits (as shown in Figure 5 below) than by insufficient income when purchasing a starter home.

<sup>38</sup> LTV ratios are the key determinant of mortgage risk-weights, which determine the amount of capital that lenders must hold when issuing different types of mortgage. See, for example, Table 11 in Basel Committee on Banking Supervision, [Basel III: Finalising post-crisis reforms](#), Bank for International Settlements, December 2017.

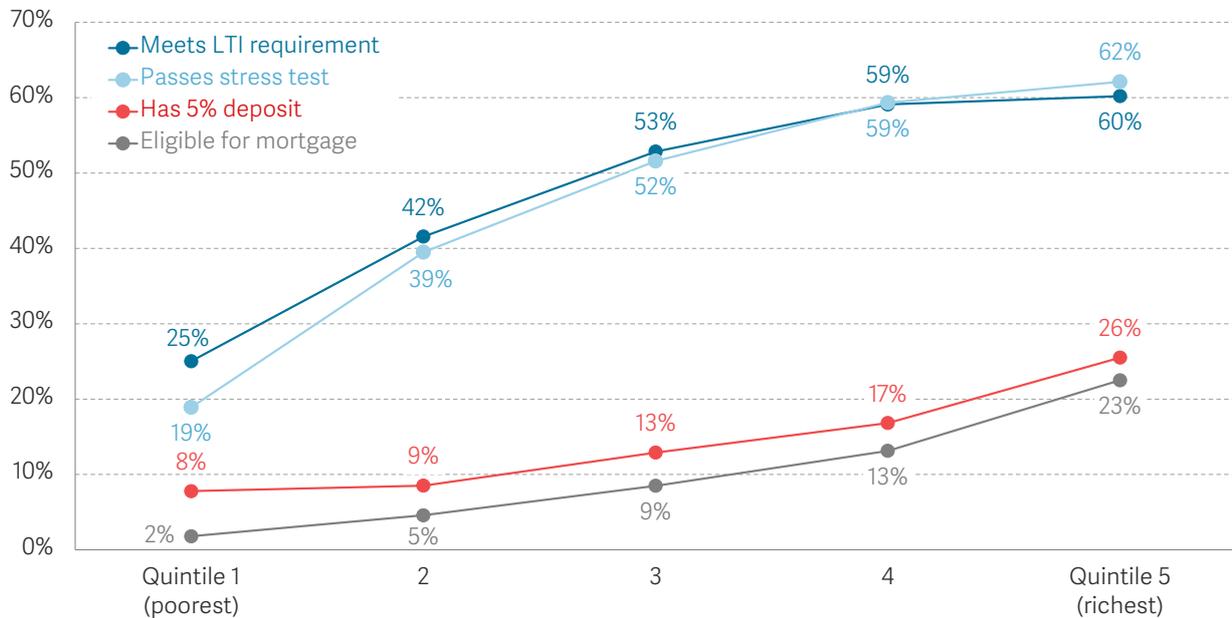
<sup>39</sup> RF analysis of [Bank of England, MLAR statistics: detailed tables](#).

<sup>40</sup> If a maximum LTI ratio of 4.5 times was applied to all potential FTBs regardless of income, the number of families meeting the LTI requirement would fall by 500,000, from 47 per cent to 44 per cent.

<sup>41</sup> The trajectory of the LTI constraint in Figure 5 is shaped by the point at which potential buyers can access an LTI above 4.5 times their income. As our model uses the 'entry level' FTB lending requirements applied among major lenders (a Nationwide product offering to lend up to six-times the income of individual FTB with income of at least £30,000 or a FTB couple with a joint income of at least £50,000), the LTI thresholds here are more generous than what most lenders were offering at the time of writing. (Other major lenders set higher income thresholds for FTBs to access LTI above 4.5 times and the maximum LTI available does not always reach 6 times). If we ran a more middle-of-the-road LTI offer through our model, the LTI test would be more constraining among the top half of the distribution creating a bigger divergence between the LTI and stress test, than displayed in Figure 5.

### FIGURE 5: Insufficient savings for a deposit is the most common constraint for potential first-time buyers across the income distribution

Proportion of potential first-time buyer households with income and/or savings to access a mortgage for a starter home in their region, by income quintile (before housing costs): GB, 2025-26 nowcast



NOTES: See Figure 4 for details on potential first-time buyer definition and how income quintiles are constructed. See Annex 1 for details of how we calculated the income and savings thresholds to access a mortgage on a starter home.

SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics.

The stress test tends to be more binding towards the bottom of the income distribution while it aligns closely with the LTI constraint higher up. The former is not surprising; the stress test assesses if people would be able to meet their essential costs and make mortgage payments if interest rates rose – when incomes are lower, a higher mortgage payment is more likely to undermine spending on essentials.

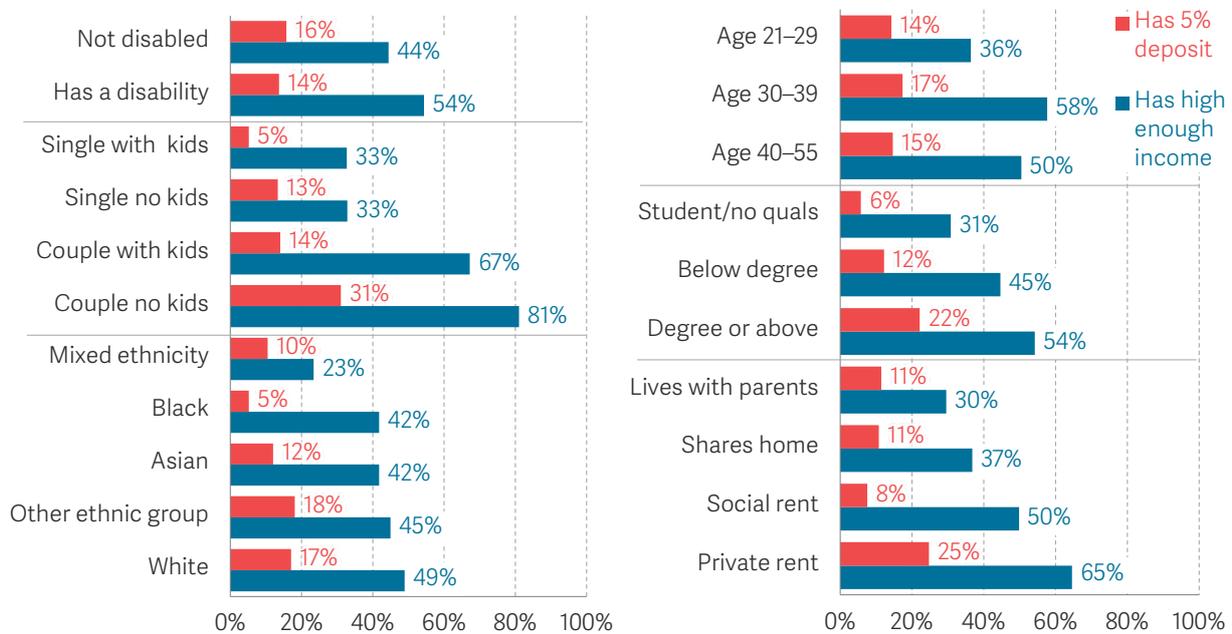
The fact that savings are the main constraint holds true across the regions even where house prices, and therefore the deposit required, are relatively low. In the North East for example, just under a quarter of potential FTBs had enough savings for a deposit but the vast majority would have enough income to get a mortgage if they did. While in the South East, where the cost of a starter home is 3.5 times as much, less than one-third of potential FTBs could get a mortgage even if they had a 5 per cent deposit (see Table 2 in Annex 2).

Again, savings were more constraining than incomes across different demographic breakdowns but the gaps between groups are substantial (see Figure 6). For example, private renting families are three times more likely to have enough saved for a starter

home deposit than social renters, and households headed by a white individual are twice as likely as one headed by someone of mixed ethnicity to pass the income requirements for a starter home mortgage. The groups least likely to have enough saved for a deposit include those with no qualifications, single parents, those of Black ethnicity and social renters, while the groups most income constrained are younger, live with their parents or of mixed ethnicity. Those most able to access a starter home mortgage tend to be highly qualified couples in their thirties living in the private rented sector.

**FIGURE 6: Couples without children are six-times more likely to have enough saved for a starter home deposit than single parent families**

Proportion of potential first-time buyer households with income and/or savings to access a mortgage for a starter home in their region, by characteristic: GB, 2025-26 nowcast



NOTES: See Figure 4 for details on potential first-time buyer definition. For couples, age is oldest member of the couple. Qualification refers to the head of the family (“no quals” is short for no qualifications). Ethnic group refers to the head of the existing household. “Has a disability” indicates an adult in the family is disabled. “Has high enough income” indicates if a family would pass the stress test and meet the LTI requirements for a starter home mortgage. See Annex 1 for details of how we calculated the income and savings thresholds to access a mortgage on a starter home.

SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics.

## Many young people are reliant on the ‘Bank of Mum and Dad’ lottery

Given the importance of a deposit for accessing a mortgage, it is worth putting the amount buyers need to save for a starter home in perspective. Back in the late 1990s, the link between earnings and house prices was reasonably uniform across Britain with the typical earner needing to save between 7 to 14 per cent of their gross income to have a deposit. At that time, someone able to save 5 per cent of their gross income each month,

would have a deposit in less than three years. But as house price growth has surpassed that of earnings over three decades, saving for a deposit has become much more onerous everywhere. Deposit demands have doubled in almost every region, and gaps between regions have opened up to a considerable degree (see Figure 7).

### FIGURE 7: In most regions, starter home deposits have more than doubled relative to the typical salary over time

Value of a five per cent deposit on a starter home as a proportion of the median gross annual earnings by region: England and Wales, 1997 and 2025



NOTES: The chart shows a 5 per cent deposit for a starter home as a proportion of median gross annual earnings in each region.

SOURCE: RF analysis of ONS House price (existing dwellings) to workplace-based earnings ratio; ONS, Annual Survey of Hours and Earnings; HM Land Registry, Price Paid data.

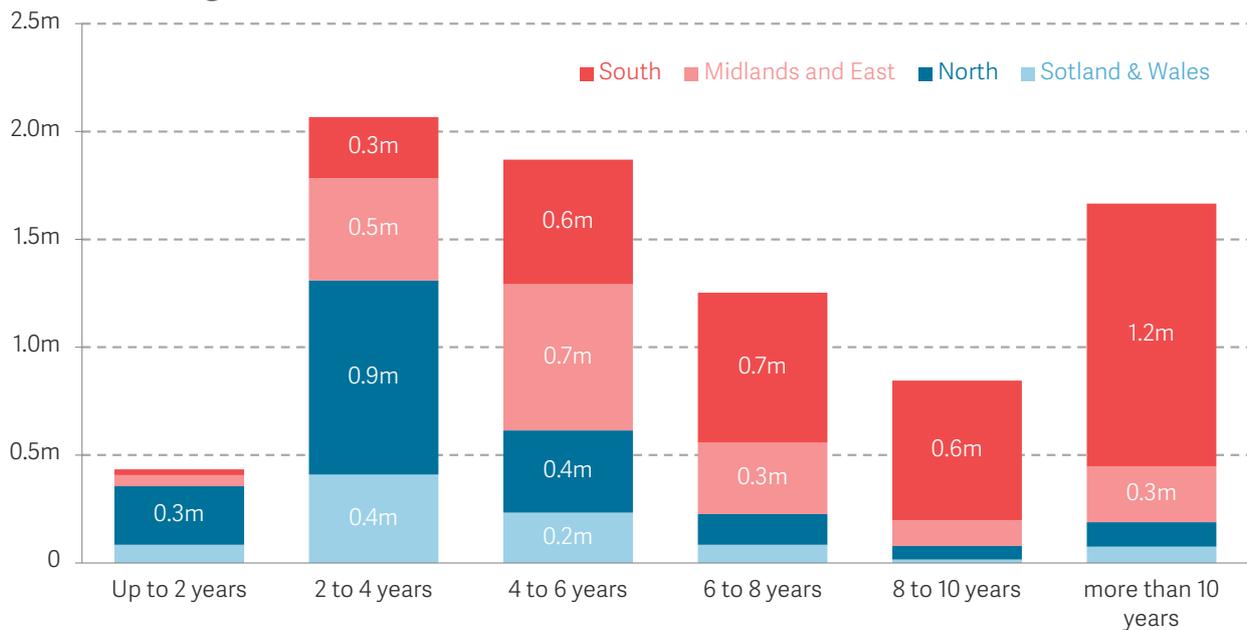
But median gross earnings are an imperfect reflection of someone's ability to save for a deposit which will vary from household to household. Rent may leave tenants with little to set aside compared to those living with their parents, and couples wanting to buy together can pool their savings. If instead we look at the income of potential buyer families after tax and housing costs, we can better understand how long it would take potential buyers to save for a deposit. Assuming families set aside 5 per cent of their disposable income and leverage Lifetime ISAs (LISAs) it would take the typical potential buyer five years to save for a deposit.<sup>42</sup> But this masks huge differences across families: at one end of the spectrum 430,000 potential buyers would be on track to save enough for a starter home deposit within two years, most of them in the North of England where house prices are lower (see Figure 8). But it is much more common for potential buyers,

<sup>42</sup> Individuals can save up to £4,000 each year in a LISA (earning tax free interest), until the age of 50. The government will add a 25 per cent bonus to the contributions made, up to a maximum of £1,000 per year. LISAs can be used by FTBs to purchase a property costing £450,000 or less.

particularly in the South of England, to be on a path that would require them to save for more than a decade (1.7 million potential buyers).

### FIGURE 8: One-fifth of potential home buyers would need to save for at least a decade to have enough for a deposit

Number of potential FTB families by how long it would take them to save for a 5 per cent deposit on a starter home if they saved 5 per cent of their current income after tax and housing costs: GB, 2025-26 nowcast



NOTES: The chart shows how much potential FTBs would have to save if they were starting from scratch and saved 5 per cent of their income after housing costs and tax, leverage their full LISA allowance and benefited from an interest rate of 3.82 per cent (the average two-year cash ISA rate offered in the 12 months ending February 2026). See Figure 4 for details on potential first-time buyer definition.

SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics; Bank of England, Bankstats.

Saving for a deposit 30 years ago was not easy, but now for many it is almost impossible and potential buyers often find themselves reliant on the 'Bank of Mum and Dad' (or BOMAD). Around one-third of recent FTBs won the BOMAD lottery and became homeowners with help (such as from inheritances, or gifts).<sup>43</sup> And this trend holds true across the income distribution: analysis of the Understanding Society dataset shows that although those higher up the income distribution are more likely to make the transition into homeownership, in each income quintile about one-third did so with help.<sup>44</sup>

The problem is that access to BOMAD is a lottery that turns intergenerational inequality into intragenerational unfairness as young people's homeownership prospects are tied

<sup>43</sup> UK Finance and the English Housing Survey data indicate that about a third of buyers have help. James Tatch, *First time buyers: Keeping it in the family*, UK Finance, May 2025; MHCLG, *English Housing Survey 2024 to 2025 Chapter 2: Housing costs and affordability*, December 2025

<sup>44</sup> RF analysis of ISER, Understanding Society.

to access to transfers of wealth from better-off family members. Given the importance of homeownership for wealth accumulation and raising living standards by putting housing costs on a downward trajectory, there is a strong case for policy to intervene to address this specific inequity when it comes to saving up a sufficient deposit.

## Loosening mortgage regulation across the board would be risky and potentially counterproductive

Historically, loosening mortgage regulations for FTBs has been a tempting way to help those currently unable to get a mortgage. Indeed, this is what has happened in recent years. In 2021, then-Chancellor Rishi Sunak clarified that the FPC's secondary objective of supporting the Government's economic policy (subject to its primary objective of financial stability) explicitly included "supporting first-time buyers".<sup>45</sup> This clause remains in the FPC's remit today.<sup>46</sup> Not coincidentally, after considerable post-crisis tightening, some key mortgage regulations have been loosened in recent years. The FPC scrapped its affordability test recommendation in 2022, then in 2025 tweaked its LTI flow limit to raise the aggregate share of high-LTI mortgages closer to its intended 15 per cent limit.<sup>47</sup> Also in 2025, the FCA issued a clarification of its conduct rules that lowered the stress rates used in lenders' mortgage affordability tests by 1.1 percentage points on average in the relevant part of the market.<sup>48</sup> Taken together, these changes have loosened regulatory limits on how much mortgagors can borrow relative to their income, with no offsetting tightening elsewhere in the system.

These changes have allowed many FTBs to borrow more: for example, they have reduced the average stress rates used in mortgage affordability tests by almost 3 percentage points.<sup>49</sup> This has largely offset the rise in market interest rates over the same period.<sup>50</sup> In Figure 9, we illustrate the impact on today's FTBs by comparing the proportion of potential buyers who we think could pass an affordability stress test on a starter home mortgage at different stress rates. Without recent policy changes, lenders would still be required to use a minimum interest rate stress of 3 percentage points, and lenders may have continued to predominantly apply this stress to their standard variable rate, rather than typically lower product rates.<sup>51</sup> Applying this more severe interest rate stress reduces our estimates for

---

<sup>45</sup> HM Treasury, [Remit and recommendations for the Financial Policy Committee: Budget 2021](#), March 2021.

<sup>46</sup> HM Treasury, [Remit and recommendations for the Financial Policy Committee: Budget 2025](#), November 2025.

<sup>47</sup> Bank of England, [Financial Policy Committee confirms withdrawal of mortgage market affordability test](#), June 2022; Bank of England, [Prudential Regulation Authority announces review of the Loan to Income \(LTI\) flow limit rule and offers interim modification by consent](#), July 2025.

<sup>48</sup> The clarification gave explicit permission for lenders to apply the interest rate stress to a mortgage's initial product rate, rather than the typically higher reversion rate, if the applicant is expected to be able to transfer to a new mortgage when their initial rate expires. According to the Bank of England, this reduced average stress rates on mortgages fixed for less than five years by 110 basis points. Bank of England, [Financial Stability Report](#), July 2025.

<sup>49</sup> Our estimate for average stress rates in December 2025 is 7 per cent. If stress rates continued to be 3 percentage points above the average standard variable rate (SVR) – as they were before the FPC withdrew its affordability recommendation in June 2022 – they would have reached 9.7 per cent (assuming that the policy change has had no impact on SVR pricing).

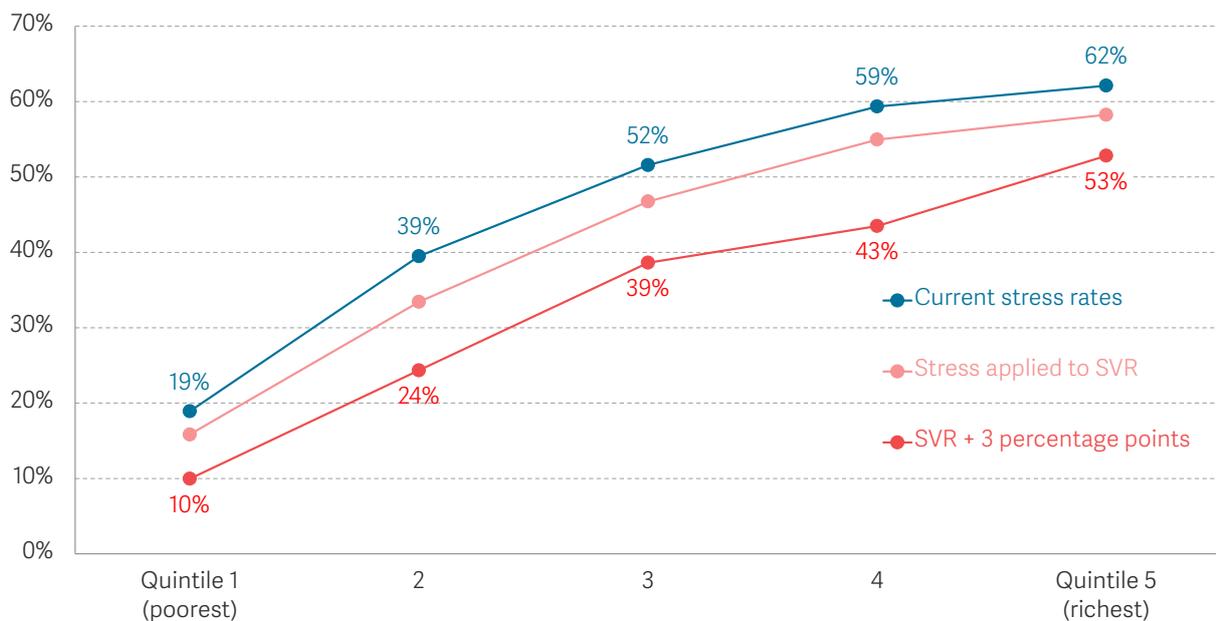
<sup>50</sup> For example, average SVRs rose from 3.86 per cent in May 2022 (the month before the FPC withdrew its affordability recommendation) to 6.74 per cent in December 2025.

<sup>51</sup> In theory, the FPC's affordability recommendation did not apply to loans that were fixed for five years or more. But in practice, many lenders used interest rate stresses of at least 3 percentage points for all mortgages, and the gap between average SVRs and median stress rates across the whole market was 3 percentage points at the point the FPC's affordability recommendation was withdrawn in June 2022. See Box C in: [Bank of England, Financial Stability Report, December 2023](#).

the number of potential FTBs who could afford a starter home mortgage across the income distribution. The largest impact falls on potential buyers in the second to fourth income quintiles, where the proportion able to afford a starter home falls substantially (by over 10 percentage points). While informative about the way in which recent regulatory changes have loosened income-based lending constraints for different groups, this static exercise omits any potential price response to these looser constraints, which is important for assessing the overall impact of recent changes on potential buyers' homeownership prospects.

**FIGURE 9: Recent policy changes on mortgage affordability testing have lessened regulatory constraints on first-time buyer borrowing**

Proportion of potential first-time buyer households that pass the affordability stress test for a starter home mortgage, by stress rate and income quintile (before housing costs): GB, 2025-26 nowcast



NOTES: See Figure 4 for details on potential first-time buyer definition. Income quintiles are based on equivalised net household income before housing costs (so the income quintile of potential first-time buyers currently sharing their home with other people will reflect the income of all the members of the household). See Annex 1 for details on our modelling of the affordability stress test. In the 'stress applied to SVR' counterfactual, the stress rate is increased by 110 basis points. The 'SVR + 3 percentage points' uses the average SVR reported by the Bank of England.

SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics; Bank of England, Bankstats.

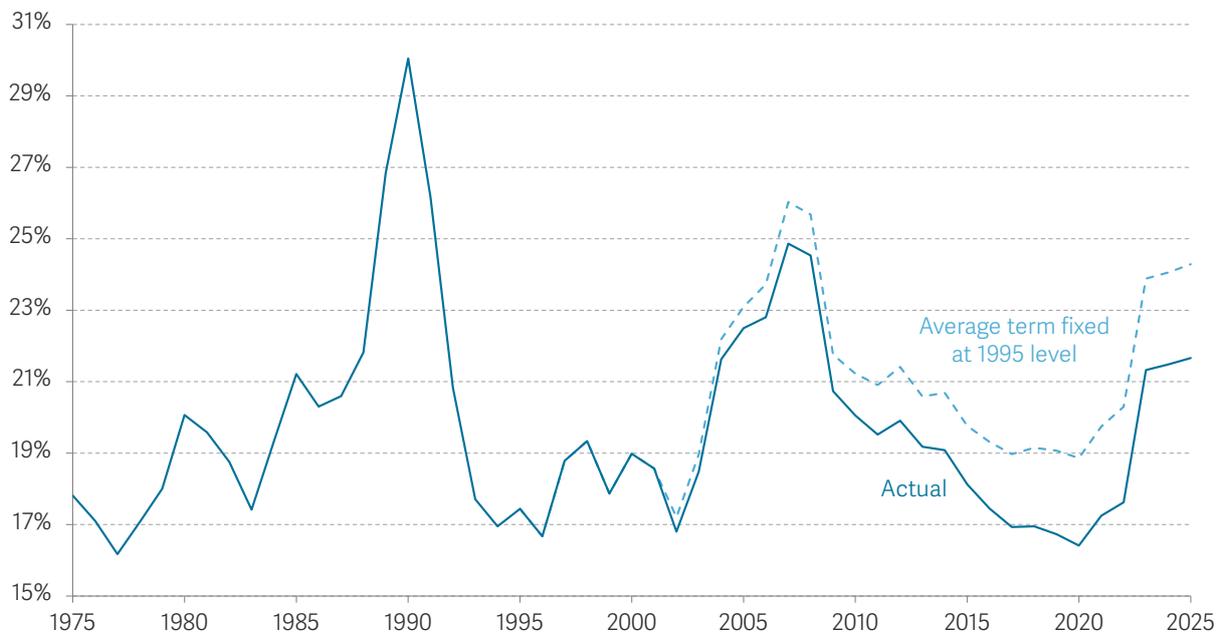
So, after a period of post-crisis tightening, followed by some more recent loosening, where does that leave the overall calibration of policy for FTBs today? A helpful starting point is to compare the mortgage burden of today's FTBs to past cohorts.

Figure 10 shows a measure of debt-servicing burdens for FTBs over time: repayments as a share of gross income at the start of an average FTB mortgage. Since 2023, FTB debt-

servicing ratios have been historically high, with average repayments reaching 22 per cent of average income in 2025.<sup>52</sup> And recent debt-servicing ratios would have been even higher had average FTB terms not lengthened, as shown by the dashed line in Figure 10. Even at today's longer average term, debt-servicing ratios are high historically: the only previous periods that exceeded the 2025 mark were 1988-1991 and 2005-2008, also the only two periods in the past 50 years during which FTB average debt-servicing burdens were as high as they are today, and both were quickly followed by housing crashes. The recent data provides no evidence that, across the board, too-tight regulation is restricting FTBs to overly conservative debt-servicing ratios when taking out a mortgage.

### FIGURE 10: In recent years, average first-time buyer repayment burdens have been historically high

Mortgage repayments as a proportion of gross income for an average first-time buyer capital-repayment mortgage: UK



NOTES: Repayments are calculated for a capital-repayment mortgage with the average interest rate, loan-to-income ratio and mortgage term for first-time buyers in each year. The average term is based on UK Finance Industry Tables from 2005-2025, ONS data from 1990-2004, and FRS data from 1985-1989. The three series have been spliced together to account for structural differences in levels. We assume the 1985 value (26 years) also applies for the years 1974-1984. This calculation does not account for interest-only loans, and so may overstate average repayment burdens in the pre-crisis period.

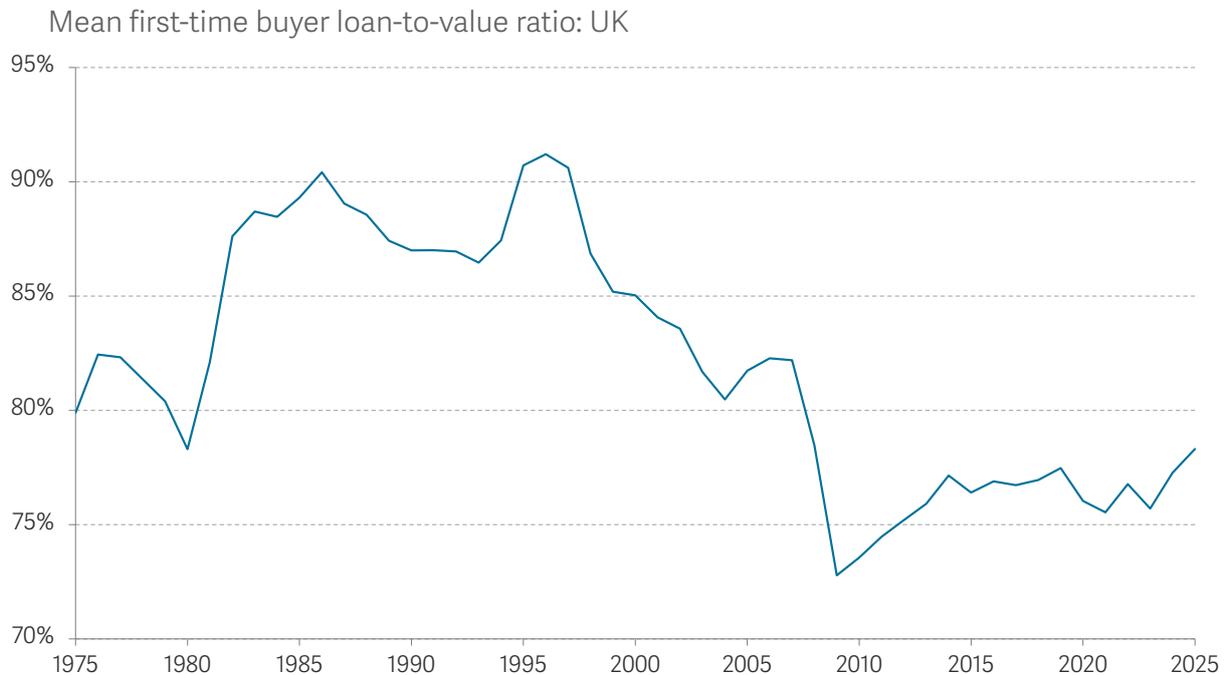
SOURCE: RF analysis of UK Finance Industry Tables; ONS, House Price Index; DWP, Family Resources Survey.

Figure 11 shows a different dimension of FTB indebtedness: their average loan-to-value (LTV) ratio, which measures how much FTBs are borrowing relative to their deposit. Here, unlike with the debt-servicing data shown in Figure 10, today's FTBs are on average less-highly leveraged than in the past. In 2025, the average FTB had a 78 per cent LTV ratio,

<sup>52</sup> According to data from Nationwide, average first-time buyer repayments as a share of net income have also been historically high in recent years. See: <https://www.nationwide.co.uk/media/hpi/charts/> [accessed 19 March 2026].

down from around 90 per cent in the mid-1990s. This means average deposits have roughly doubled relative to property prices, from 10 per cent to 22 per cent.

**FIGURE 11: Average first-time buyer loan-to-value ratios have been falling since the mid-1990s**



SOURCE: UK Finance Industry Tables.

While some have blamed tighter regulation for this trend, rising house prices are a more likely explanation.<sup>53</sup> When homes are expensive, potential buyers are forced to save up larger deposits to bring down their total loan size to affordable levels. In 2025, a potential buyer who had saved enough for a 5 per cent deposit on the average first-time buyer home in London would still need a loan of around £475,000 to make the purchase – a balance that many young families would be unable to afford.<sup>54</sup> But in cheaper parts of the UK, a 5 per cent deposit is more likely to be enough to bring the remaining loan balance down to an affordable level. In the North East, for example, a 5 per cent deposit on the average first-timer buyer home leaves a loan balance of £160,000.

The timing of the fall in Figure 11 also hints at the importance of house prices in explaining the trend of falling first-time buyer LTV ratios in Britain. The line starts dropping in the mid-1990s, the point at which UK house price growth accelerated. It can also be seen in regional data today, by comparing parts of the country with different levels of housing affordability. For example, in 2025, the average LTV ratio for FTBs in London was 10 percentage points lower than in Wales (72 per cent versus 82 per cent) despite

<sup>53</sup> For an argument based on the impact of capital requirements raising the spread between high and low loan-to-value products, see: I Mulheirn, J Browne & C Tsoukalis, *Bringing It Home: Raising Home Ownership by Reforming Mortgage Finance*, Tony Blair Institute for Global Change, May 2022.

<sup>54</sup> RF analysis of UK Finance Industry Tables.

lenders in both regions being subject to the same regulatory regime. Figure 12 shows this inverse relationship between first-time buyer affordability and average LTV ratios over a longer time period. Estimating this relationship separately for the periods 1995-2004 and 2015-2023 – that is, before and after the post-financial crisis reforms took effect – shows that, for a given level of housing affordability, average FTB LTV ratios are only about 1.5 percentage points lower today than before the crisis.<sup>55</sup> This only accounts for just over one-tenth (12 per cent) of the fall in average first-time buyer LTV ratios between the mid-1990s and 2025. Furthermore, some of this gap could be explained by other factors that pull down on average LTV ratios, such as the Help to Buy equity loan scheme that operated from 2013 to 2023.<sup>56</sup> Tighter regulation, therefore, has some role in explaining the trend towards lower average LTV ratios for FTBs over the past 30 years, but we should be careful not to overstate.

### FIGURE 12: First-time buyer loan-to-value ratios tend to be lower when homes are more expensive

Mean first-time buyer loan-to-value ratio and ratio of median house price to median family income for 25-34-year-olds, by region or nation and year: England and Wales, 1995-2023



NOTES: Average LTV ratios are for calendar years, whereas house-price-to-income ratios are for the corresponding financial year.

SOURCE: RF analysis of DWP, Households below average income; HM Land Registry, Price paid data; UK Finance Industry Tables.

<sup>55</sup> Estimated by regressing the mean first-time buyer LTV ratio on the log of the ratio of median house price to median family income for 25-34-year-olds for region-year pairs in each period. 1.5 percentage points is the difference between the predicted mean first-time buyer LTV ratio at a price-to-income ratio of 7.7, which matches the aggregate price-to-income ratio for England and Wales in 2023. The gap varies slightly at different price-to-income levels, reflecting the fact that our regressions use the log of the price-to-income ratio. For example, it is 1.7 percentage points at a price-to-income ratio of 6 and 1.3 percentage points at a price-to-income ratio of 10.

<sup>56</sup> The Government's equity loan contribution reduced the LTV ratio of scheme loans to 75 per cent.

There is no doubt that the constraints facing today's potential FTBs make purchasing a home difficult. But careful analysis shows that, for the most part, these constraints are not due to overly cautious regulation: on average, FTBs today are not materially less leveraged as they have been in the past. Rather, the harsh reality is that, in a world of high house prices, a given amount of borrowing relative to one's income or deposit does not go as far as it used to.

Nonetheless, it may still be tempting for policy makers to reach for looser regulation as a way of helping out those who would like to get on the property ladder, effectively trading off more risk in the financial system for greater access to mortgages. This might be motivated by the currently low level of mortgage arrears. The share of mortgage borrowers with missed payments worth at least 1.5 per cent of their outstanding balance reached a peak of 1.4 per cent in wake of the cost of living crisis (Q2 2024).<sup>57</sup> This was up slightly from pre-pandemic levels (1.2 per cent) but still well below the 2.4 per cent and 4.0 per cent peaks of the late 2000s and early 1990s.<sup>58</sup>

But a wholesale loosening would be a mistake given evidence that such an approach would push up prices. In this context, researchers at the Bank of England, using granular administrative mortgage data to identify genuine shocks to mortgage credit at the regional level, have found that increases in overall mortgage lending push up house prices with no detectable impact on the level of homeownership (see Figure 13).<sup>59</sup> The obvious culprit here is the UK's inelastic supply of housing.<sup>60</sup> In a world of inelastic supply, the initial price boost that follows a credit expansion does not translate into the building of new homes for new owners to occupy. Instead, a broadly unchanged stock of housing remains in a similar pattern of ownership at a higher price level. At the very least, ambitious planning reform is needed to make UK housebuilding more responsive to price signals in the long run.<sup>61</sup> But until that point is reached, policy towards the mortgage market must acknowledge our current reality.

---

<sup>57</sup> Bank of England, [MLAR statistics: detailed tables](#).

<sup>58</sup> Bank of England, [Financial Stability Report](#), June 2024

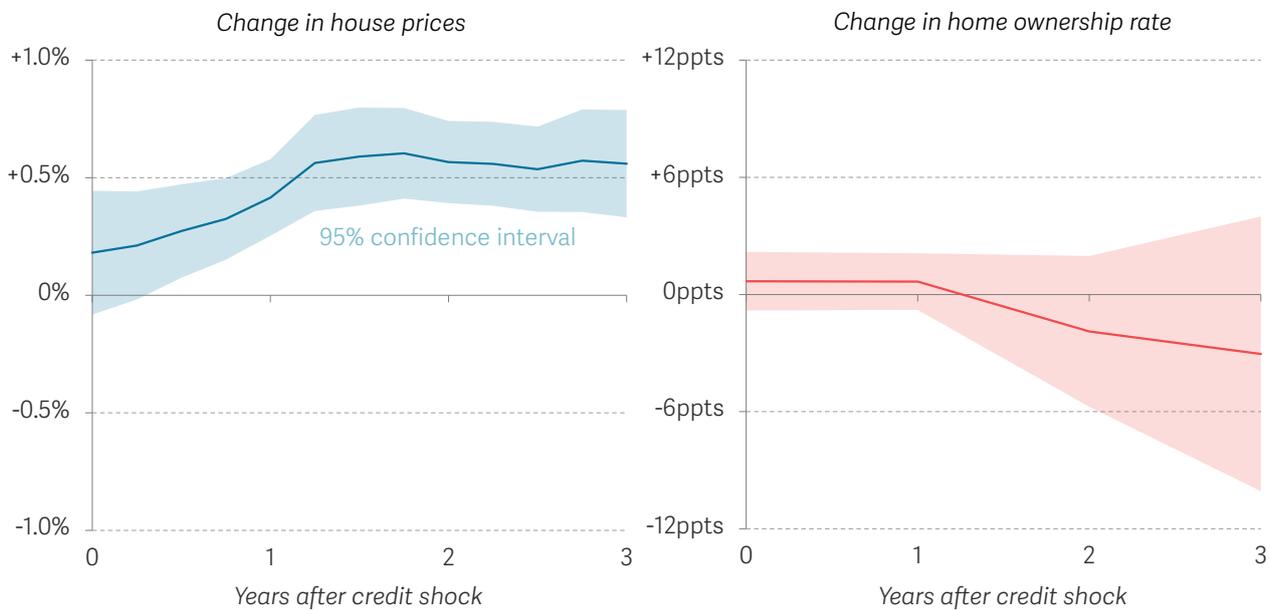
<sup>59</sup> J Waddell & D Walker, [More mortgage lending might push home ownership further out of reach](#), Bank of England, June 2025.

<sup>60</sup> E Drayton, P Levell & D Sturrock, [The determinants of local housing supply in England](#), Institute for Fiscal Studies Working paper 24./35, August 2024, <https://doi.org/10.1920/wp.ifs.2024.3524>.

<sup>61</sup> E Christensen et al., [Mountain climbing: Making progress on the UK's growth policy challenge](#), Resolution Foundation, January 2026, <https://doi.org/10.63492/ntdl6708>.

### FIGURE 13: Inelastic housing supply in Britain means that expanding mortgage credit will likely raise house prices and not homeownership rates

Estimated impact of a 1 per cent positive shock to the flow of mortgage lending on house prices in the UK (left panel), and the homeownership rate (right panel): England, 2005-2020



NOTES: Based on a local projection regression of the log of house prices (left panel) and on the level of the share of households that are homeowners (right panel), with instruments to identify credit supply shocks as described in the source. Controls include time and region fixed effects.

SOURCE: J Waddell & D Walker, More mortgage lending might push homeownership further out of reach, Bank of England, June 2025.

## As financial regulation is too blunt a tool, government needs to step in

Given that loosening access to credit across the board is likely to be counterproductive, eroding the gains of potential FTBs through house-price inflation, the key is to target support at those who need it most. One approach to loosening regulation in a targeted way would be to reweight access to mortgage credit towards potential FTBs, by dealing them a comparatively better hand in a market of inelastic supply. When a starter home comes onto the market, in most instances it will either be bought by a FTB, or a landlord.<sup>62</sup> It is therefore possible to boost the relative fortunes of FTBs by tilting the scales in a way that disadvantages their main competitors for starter homes, such as by tightening rules for buy-to-let lending. In this context, it is odd that the lending rules for FTBs and buy-to-let landlords are seemingly made separately without explicit consideration of how one impacts the other.

<sup>62</sup> The buyer could also be a home mover, but in doing so they vacate another home and start a moving chain that must end in a non-mover. There are other potential buyers that aren't home movers – such as those purchasing a second home or corporations who may want to turn the property into a non-residential use – but these other groups are relatively small.

That said, it is true that the buy-to-let market makes up a relatively small share of mortgage lending in the most recent data: the number of homes bought with buy-to-let loans has shrunk by two-thirds since its pre-financial crisis peak, and in 2024 there were more than five-times as many homes bought by FTBs than were bought with buy-to-let loans (including landlord-to-landlord transactions).<sup>63</sup> This is perhaps not surprising given that, over the past decade, multiple policy changes have already tilted the balance of power in favour of FTBs. Changes to the tax treatment of rental income have reduced buy-to-let demand since 2016, and landlords today are adjusting to new obligations from the Renters Rights Act and strengthening of Minimum Energy Efficiency Standards. Meanwhile, as discussed above, mortgage rules have loosened for FTBs. So, despite the temptation for policy makers to clamp down further on buy-to-let lending, there is not much road to make impactful changes here.

But if tweaking the macroprudential system is too blunt a tool to be 'game changing' for the 7.4 million potential FTBs unable to get a mortgage today, there is a strong case for a targeted intervention delivered through government policy. The priority group for policy makers to target is those who could afford mortgage payments and have lower housing costs as an owner occupier than as a renter, but cannot access credit, and do not have access to deposit help from family. We approximate those who could 'afford a mortgage' as those who would spend less than 38 per cent of their net income on mortgage payments.<sup>64</sup> This is an important condition for those a homeownership policy should target – some people unable to access credit could have lower housing costs if they were paying a mortgage, but if that lower mortgage would eat up a disproportionate amount of their income they would be better suited to an affordable housing option (such as social rent) rather than taking on a burdensome debt and a lengthy mortgage term with all the risk that entails.

For those in our target group buying is essentially a 'no brainer', increasing living standards (through lower housing costs) and allowing them to build up wealth over time. Around 1.1 million families fall into this target group (though some of these people will have access to help through BOMAD and it is not possible to identify them using the available data). As Figure 14 shows, almost three-quarters of this group hold less than £1,500 in savings, and 84 per cent have less than £3,000. Given that these priority FTBs currently have high enough housing costs that a 95 per cent LTV mortgage would be cheaper, it is unlikely that they could build up much in savings without help, especially in a short time frame. This makes deposit support vital for this group to access

---

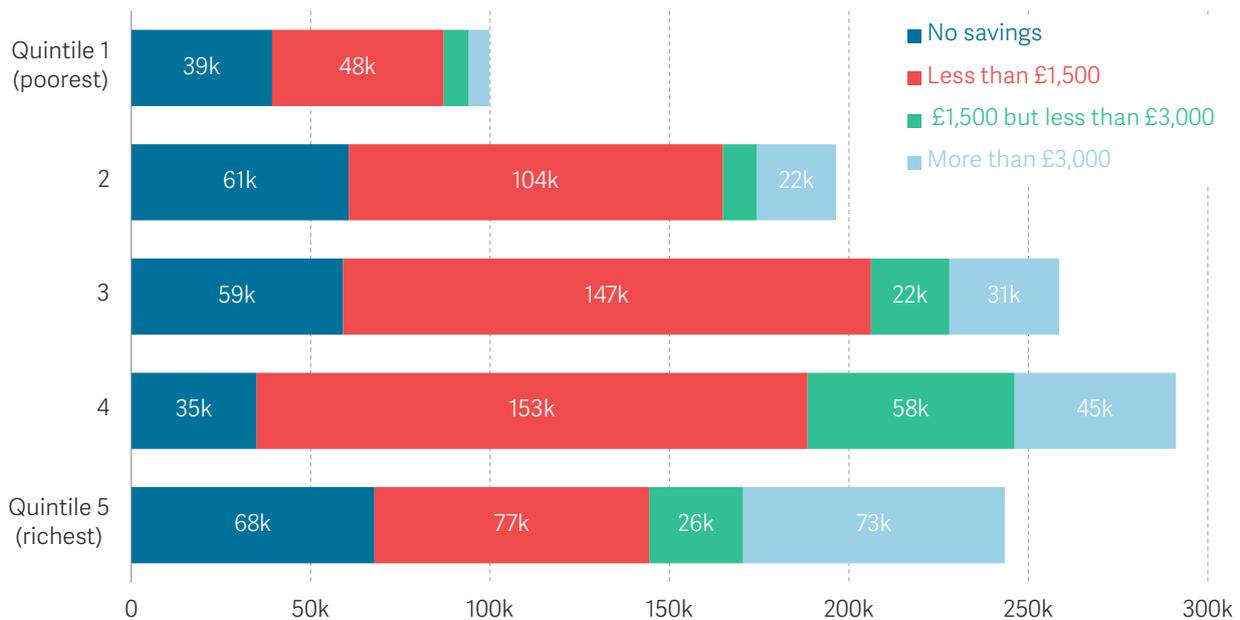
<sup>63</sup> RF analysis of UK Finance Industry Tables.

<sup>64</sup> There is not set definition of housing affordability, but a commonly used threshold is that housing costs are affordable if they are less than 30 per cent of gross income. Here we use a threshold of 38 per cent of net income (equivalent to 30 per cent of gross income at the median) to better reflect a family's ability to pay their housing costs. (The median households spend on average 18 per cent of their gross income on tax. See Figure 10 of: L Try, Money Money, Money: The shifting mix of income sources for poorer households over the last 30 years, Resolution Foundation, February 2025, <https://doi.org/10.63492/p3505p>.)

homeownership. We estimate that if families in this group could access an equity loan equivalent to a 5 per cent deposit on a starter home, 91 per cent (1 million families) would pass lenders' requirements to get a mortgage on the rest.

**FIGURE 14: There are 1.1 million families who could reduce their housing costs if granted a starter home mortgage, but most have little saved**

Number of priority first-time buyer families by income quintile (before housing costs) and savings: GB 2025-26 nowcast



NOTES: Income quintiles are based on equivalised net income before housing costs. Priority first-time buyer families are those who (i) would not be able to get a mortgage from a high street lender, (ii) would spend less than 38 per cent of their net income on mortgage payments on a starter home (iii) currently spend more in rent than they would on those mortgage payments. SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics.

## A more targeted approach to previous government schemes is needed to avoid pushing up prices

There have been a plethora of government schemes aiming to boost homeownership in recent years (see Box 3), which have often been subject to two criticisms. First, they have had significant deadweight, using public money to help those who would have become homeowners in any case to get on the ladder and often buy bigger or better located homes than they would otherwise have bought.<sup>65</sup> Second, they have been shown to stoke demand in some local housing markets, pushing up prices as a result.<sup>66</sup> Avoiding both these pitfalls is key for any future scheme.

<sup>65</sup> See: Department for Communities and Local Government, *Evaluation of the Help to Buy Equity Loan Scheme*, February 2016; and National Audit Office, *A Help to Buy: Equity Loan scheme – progress review*, June 2019.

<sup>66</sup> C Hilber, *Help to Buy will likely have the effect of pushing up house prices further, making housing become less – not more – affordable for young would-be-owners*, June 2013.

Since the financial crisis successive governments have put in place a range of policies to support FTBs. The first

such efforts can be traced back to the aftermath of the financial crisis when the Labour Government launched HomeBuy Direct as part of the response to the financial crisis in 2009. This was essentially a shared equity loan scheme under which FTBs could buy a new-build property with a 5 per cent deposit and housebuilders and the Government combined to deliver an equity loan of up to 30 per cent. Availability was limited to those with household income below £60,000 with the loan repayable at the point of sale, remortgaging or at the end of the mortgage term. The government and developer shared any losses.

This scheme can be thought of as the forerunner to the Help to Buy: Equity Loan scheme which ran in a variety of forms from 2013 to 2023. In its final incarnation, this scheme provided an equity loan of up to 20 per cent of the purchase price (40 per cent in London), meaning buyers only needed a 5 per cent deposit and a 75 per cent mortgage. The loan was interest-free for the first five years, with fees payable from the sixth year. Again, access was restricted to new-build homes, and a revised version launched in 2021 restricted to FTBs only.

At the same time as the Help to Buy: Equity Loan scheme, the Government also launched the Help to Buy:

Mortgage Guarantee scheme. This scheme encouraged lenders to offer 95 per cent mortgages through government-guarantee for a portion of the loan. Unlike the Equity Loan, it was open to all buyers and could be used on existing properties with a maximum sale price of £600,000. Here the government stood to take the first loss. This scheme was closed at the end of 2016, but was revived in April 2021 and is still running.

From 2015, efforts were aimed at increasing FTB savings. The Help to Buy ISA allowed qualifying savers to accumulate up to £200 per month, adding a £1,200 boost first month, with the government adding a quarter to those savings (up to a maximum bonus of £3,000). The scheme had to be used to buy properties below £250,000 (£450,000 in London). The scheme closed to new applicants in November 2019. Lifetime ISAs, introduced in 2016, were available for anyone aged 18-39 and can be used for either a first home purchase or retirement savings. Savers can put in up to £4,000 per year and receive a 25 per cent bonus, up to £1,000 a year. Deposits had to be used on a property costing no more than £450,000.

Finally, the First Homes scheme, put in place in 2021, offers new-build homes to eligible buyers at a minimum discount of 30 per cent below market value. Priority is given to FTBs and,

importantly, the discount is permanent — when the property is sold, it must be passed on at the same percentage below market value, keeping it affordable for future buyers.

So what would a well-designed intervention look like? We propose that the Government introduce a Starter Deposit equity loan scheme aimed at those unable to overcome the deposit barrier. It would provide FTBs with an equity loan of up to a 5 per cent of the price of a starter home, so long as a lender will give them a mortgage on the rest. The buyer would not need to contribute their own savings to the deposit or buy a new build property (which tend to be sold at a premium) avoiding the dead weight costs of Help to Buy equity loans.

The value of the loan would be capped at 5 per cent of the lower-quartile price of a terraced home in each region<sup>67</sup> and buyers would only be allowed (but not required) to add up to £3,000 of their own funds to the deposit which they could use to lower their LTV ratio or buy a slightly more expensive property.<sup>68</sup> While the policy does not actively exclude buyers with access to BOMAD, the scheme has an indicative price cap on the value of a property (via the cap on the loan value and the savers own contribution) which leaves those with alternative access to capital with little incentive to access a Starter Deposit as it would mean taking on unnecessary debt to buy a home they could otherwise afford.

The cost to government of such a scheme would depend on demand. We estimate that the annual value of loans administered would range from £250 million in a low demand scenario (28,000 buyers) to £750 million in a high demand scenario (with 83,000 FTBs accessing the scheme in England).<sup>69</sup> Structured as an interest free equity loan for 5 years, the nominal value of the loan will accrue interest thereafter and the outstanding share of the loan would be repaid at the point of resale if not before.<sup>70</sup> Without a requirement that users of the scheme contribute their own savings, the risk to government investment is higher than for equity loans provided through Help to Buy, but the stakes are much lower (the average Help to Buy equity loan was over £60,000 compared to £9,000 under

<sup>67</sup> London takes the same value as the South East to reflect the option of buying a terraced home somewhere within commuting distance from London.

<sup>68</sup> In effect this increases the maximum value of a property that could be bought using a Starter Deposit by £60,000 above the Starter Home price listed in Annex 1.

<sup>69</sup> We estimate the average deposit loan based on the weighted sample of properties sold in 2025 below the indicative price caps. We considered a range of data points to estimate demand including the supply of properties within the indicative caps, the average FTB house price, data from the English Housing Survey on renters short-term buying expectations and uptake of Help to Buy equity loan which was taken up by 81,000 families in the first three years. The total cost of the policy is the demand multiplied by the average deposit loan. Sources: HM Land Registry, Price Paid data, National Audit Office, [A Help to Buy: Equity Loan scheme – progress review](#), June 2019; MHCLG, 2022-23 English Housing Survey: future homeowners factsheet, Annex Tables.

<sup>70</sup> Accruing interest at a rate of 1.75% in year six and an increasing by 1 per cent above CPI in subsequent years, the same structure as Help to Buy except that used RPI instead of CPI.

the Starter Deposit scheme).<sup>71</sup> We estimate that the Starter Deposit scheme would cost the government up to £190 million annually in extra borrowing (based on gilt rates of 4.5 per cent and in the pessimistic scenario that 10 per cent of users default at some point during their mortgage term with none of the loan recovered).<sup>72</sup>

For families with little saved who are eager to buy a starter home the appeal of the scheme is clear. The typical priority FTB family accessing this scheme would spend £2,600 less a year on mortgage payments than they currently spend on rent while also accumulating £1,700 in property wealth in the first year. The downside is that after five years they would face the additional cost of paying the interest on the equity loan, but initially costing an average of £160 a year, this is far less than they would likely see in rent inflation as a private tenant.<sup>73</sup>

We should be clear that even well-targeted help will have some impact on prices, particularly at the lower end of the housing market. As we have seen in Figure 13, increasing mortgage lending across the board tends to push up house prices and, as a result, has no discernible effect on homeownership. But Starter Deposits would have a minimal impact on overall credit flows: even a high-demand scenario of £750 million in additional lending would be worth less than half a per cent of total lending for UK home purchases in 2025.<sup>74</sup> Instead, its primary aim is to shift the balance of credit in favour of FTBs who don't have help from BOMAD. If starter home prices do rise, that would only be because the purchasing power of our target group has increased. Because the purchasing power of other potential starter home buyers is unaffected, it is likely that any market-wide price increase would be smaller than the increase in purchasing power for our target group. Not only will this help to level the playing field between this group and their contemporaries who do have help via BOMAD, it will increase their average purchasing power of FTBs as a whole relative to landlords, their main competition in the starter homes market. By altering the balance of mortgage credit in this way, rather than expanding credit for everyone, Starter Deposit loans would likely increase homeownership rates.

The design of Starter Deposits also mitigates against the risk of prices 'bunching' at certain levels to be within scope of the scheme. While the deposit level is capped at a specific amount, the option for the buyer to add up to £3,000 of their own savings makes the maximum price of properties bought through the scheme vary based on each family's capacity to contribute their own savings.

---

<sup>71</sup> MHCLG, Help to Buy (equity loan scheme): data to 31 May 2023, February 2024

<sup>72</sup> With the small public sector net borrowing hit accumulating to public sector net financial liabilities (PSNFL) which will fall at a slower rate.

<sup>73</sup> The average equity loan of £9,000 would accrue interest of £160 in the sixth year. The average rent on a two-bedroom property in England in January 2026 was £1,300 a month, 2 per cent inflation on the average rent amounts to £300 a year. Source: ONS, Price Index of Private Rents (PIPR).

<sup>74</sup> RF analysis of [Bank of England, Bankstats](#).

We recommend that Starter Deposit equity loans be initially available for five years with a review of the scheme's impact on buyers and the wider market after three years. But, as this policy aims to redress the imbalance created by high house prices and intergenerational inequality that leaves young people's homeownership prospects subject to the BOMAD lottery, the need for such an intervention will persist for a generation.

## Such an approach can be supported by other smaller changes and increased transparency

Overall, then, our view is that the constraints facing today's prospective FTBs are ultimately a function of high house prices. Rising prices have fundamentally made owning a property less affordable. And that, coupled with higher interest rates, have left many would-be buyers struggling to raise the required deposit. Particularly in the context of stretched public finances, it is tempting for policy makers to address this by trying to drive a broad loosening in regulatory standards, for example by finding ways to expand the supply of 100 per cent LTV mortgages. As our analysis shows, not only would such a broad loosening of policy be unwarranted in that it would likely drive measures of mortgage-market risk to levels that in the past have seen around previous damaging housing market slowdowns, but it would likely be self-defeating in that it would raise prices and so exacerbate the challenges facing FTBs. Put simply, the regulatory system is holding FTBs back, but that is what the system is designed to do.

Instead, the objective of policy makers should be to remove inequalities within generations. These are caused by some FTBs being able to access home buying through support from wealthy relatives. The response to this should not be wholesale regulatory loosening, but very targeted support to help low-wealth families who have the income to reduce their housing costs significantly – and so raise their living standards – would be a cost-effective intervention.

Such an approach can be supported by other smaller changes to the system. Lending rules could also be adjusted to better reflect incomes at the bottom of the distribution. In an enduring system of progressive taxation, basing LTI limits on gross income disproportionately favours richer individuals. Setting LTI limits on net income is a superior approach as it better reflects people's disposable income (which lenders recognise and use in their stress tests), and it would work in favour of those most credit constrained, removing an inherent advantage enjoyed by richer families.

Macroprudential policy makers should also place far greater emphasis on transparency and distributional impacts. At the very least, regulators should monitor these risks and make it easier for others to do so too. The Bank of England should routinely provide

Impact Assessments for how its tools affect different groups and more data should be published to allow others to monitor the effects too. More transparency on these impacts is long overdue.

Looking further ahead, government is uniquely placed to address the fundamental imbalances in the housing market. Building more, doing so where the need is greatest, and focusing on social housing, is the best way to bring prices down and ultimately improve living standards.<sup>75</sup> But such a policy will only yield results in the long term. For now, policy makers must provide bold but targeted support if it wants to help those whose dream of owning a property is indefinitely on hold.

---

<sup>75</sup> E Christensen et al., Mountain climbing: Making progress on the UK's growth policy challenge, Resolution Foundation, January 2026, <https://doi.org/10.63492/ntdl6708>.

## Annex 1: Methodology and assumptions

Here we summarise our key methodological considerations and decisions.

### Estimating a starter home price

The data we used to calculate the cost of a starter home is from HM Land Registry, Price Paid data and Registers of Scotland, House price statistics. We use the complete data for the calendar year 2025.

Our aim is to approximate the entry level of a home suitable for a small family. Outside of London, we use the lower quartile price of a terraced house in each region. In London, flats make up a much higher proportion of the housing stock, but many flats are one bedroom (which would almost never be the case in a terraced home) and so we take the median price of a flat in Outer London (because of the very high price of flats in Inner London) as our proxy for an entry level home for a small family.<sup>76</sup>

The lower quartile terraced house price in Scotland was not available in the published data tables. We estimated the lower quartile terraced house price using the median terraced house price and applying the typical proportional difference between these two values in English regions and Wales (77 per cent).

### Modelling lenders' income tests

The LTI threshold applied in our model is based on Nationwide's Helping Hand product. It allows FTBs with a 5 per cent deposit to borrow up to six-times their gross income (subject to other lending limits) if they have an income of at least £30,000 as a single buyer or a joint income of at least £50,000 as a couple. Below those thresholds, FTBs are limited to 4.5 times their gross income.

In addition, we model an affordability stress test. The affordability stress test can be conceptualised as defining the maximum loan size such that stressed mortgage repayments are less than or equal to net income minus an essential spending buffer. To calculate stressed mortgage repayments, we must make assumptions on both the stress rate and mortgage term. In our model, we use a stress rate of 7 per cent. We think this is broadly representative of prevailing stress rates for two reasons. First, it is the mid-point of the range of stress rates reported by the Bank of England after the FCA's clarification

---

<sup>76</sup> Outer London includes Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Greenwich, Harrow, Havering, Hillingdon, Hounslow, Kingston upon Thames, Merton, Redbridge, Richmond upon Thames, Sutton, and Waltham Forest.

of its stress testing rules in early 2025.<sup>77</sup> Second, it is close to the implied median stress rate for owner-occupier mortgages based on a projection that takes the value reported by the Bank of England in September 2023 and adjusts for subsequent changes in market interest rates and the FCA's stress-testing clarification.<sup>78</sup> We assume that a borrower's term can be extended to 35 years or until the oldest applicant turns 70, whichever comes first.

The final element of our affordability stress test is the essential spending buffer, which we need to model for different applicants. To do this, we use the results of major lenders' online mortgage calculators. These calculators provide a maximum loan amount that depends on a range of borrower characteristics, notably income and family composition. At short mortgage terms, we judge that in most instances the maximum loan size is constrained by the affordability stress test, which allows us to back out an implied spending buffer for different income levels and family types. We then average these spending buffers across the three major lenders where we are most confident that the mortgage calculator results are constrained by the affordability stress test, rather than other lending limits, and estimate the relationship between net income and the average implied essential spending buffer for different family types.<sup>79</sup> Figures 15 and 16 show how our modelled essential spending buffers (the blue lines) compare to the implied essential spending buffers from five of the 'Big 6' UK mortgage lenders (the grey dots).

---

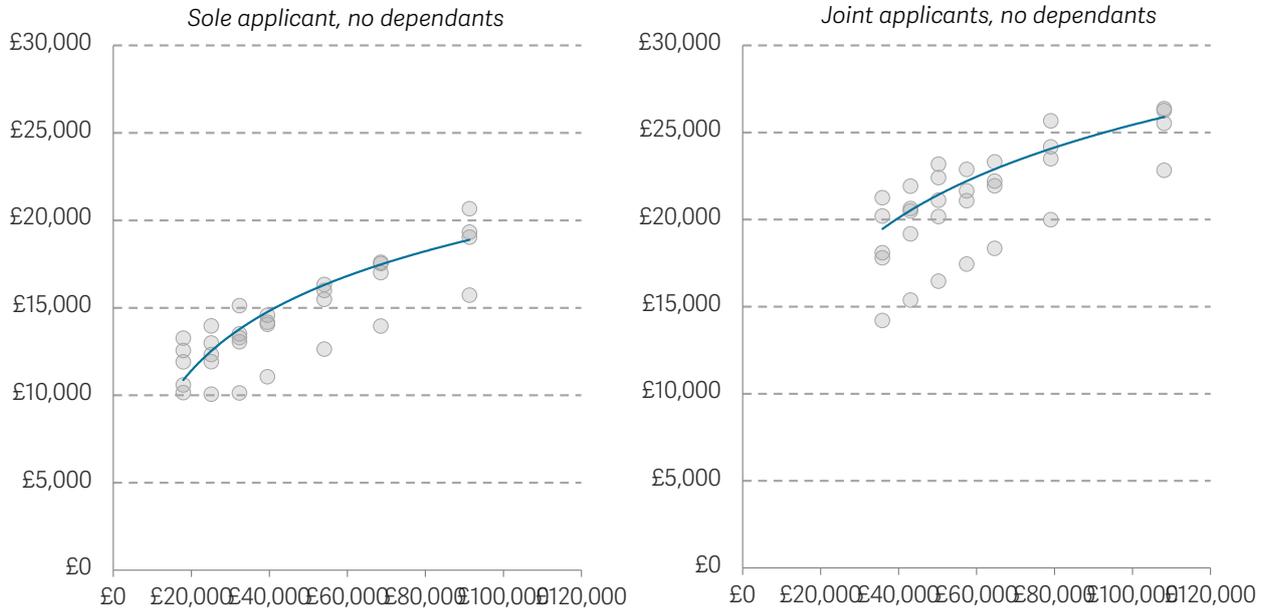
<sup>77</sup> Bank of England, [Financial Stability Report](#), July 2025.

<sup>78</sup> In September 2023, the median stress rate was 8.75 per cent. Between September 2023 and December 2025, the average SVR fell by 1.04 percentage points. The Bank of England reported that stress rates on mortgages fixed for less than five years fell by 1.10 percentage points on average, with such mortgages accounting for 67 per cent of new lending to individuals in Q4 2025. Combining the change in SVRs and the weighted impact of the FCA's clarification suggests a fall of 1.78 percentage points from September 2023, or to around 7 per cent. For sources, see: Bank of England, [Financial Stability Report](#), December 2023; Bank of England, [Financial Stability Report](#), July 2025; Bank of England, [Bankstats](#).

<sup>79</sup> These regressions use the logarithm of net income, as this improves model fit. We run separate regressions to estimate baseline spending buffers for sole and joint applicants. We then model the marginal impact of the first dependant – and, separately, second and subsequent dependants – at different income levels. These marginal impacts on a family's total essential spending buffer are assumed to be the same for sole and joint applicants, which is a simplifying approach that appears to have been taken by some major lenders.

**FIGURE 15: Comparison of essential spending buffers for potential buyers with no children**

Modelled and implied essential spending buffers for sole applicants (left panel) and joint applicants (right panel) at different net income levels



NOTES: Grey dots are the implied essential spending buffers from the online mortgage calculators of five of the 'Big 6' UK mortgage lenders. Blue lines are the modelled essential spending buffers used in our affordability stress test model, based on the three lenders where we are most confident that the mortgage calculator results are constrained by the affordability stress test. Net income is after tax and other deductions.

SOURCE: RF analysis.

**FIGURE 16: Comparison of essential spending buffers for single-adult potential buyers with children or other dependants**

Modelled and implied essential spending buffers for sole applicants with one dependant (left panel) and two dependants (right panel) at different net income levels



NOTES: Grey dots are the implied essential spending buffers from the online mortgage calculators of five of the 'Big 6' UK mortgage lenders. Blue lines are the modelled essential spending buffers used in our affordability stress test model, based on the three lenders where we are most confident that the mortgage calculator results are constrained by the affordability stress test. Net income is after tax and other deductions.

SOURCE: RF analysis.

### Modelling household income and savings data

Our model uses the Households Below Average Income dataset because of the quality of the data on household incomes (see Annex 3 for details). The latest version of this dataset goes up to 2023-24, and we create a nowcast of household incomes in 2025-26 using our living standards outlook projection.<sup>80</sup>

We have estimated how much families receive from the housing element of Universal Credit (because this income would not be available to renters if they bought a home and would likely be discounted by banks' income assessments). Where renting families were in receipt of Universal Credit, we assumed that they received a housing element equivalent to their rent. This approach will overestimate the amount of housing support families receive (as some will have rents higher than the amount that they can receive in support) but we took this approach to avoid overstating how much income renting families would have to spend on their housing costs if they became homeowners.

To determine if a family would spend more in rent than they would on mortgage

<sup>80</sup> This projection has also been used in H Aldridge et al., Understatement of the year, Resolution Foundation, March 2026, <https://doi.org/10.63492/ofq8241>.

payments on a starter home, we have to model the mortgage payments they would have to make. We calculate the payment on a mortgage term 35 years (or the number of years until the oldest adult in the family turns 70 if that is lower), an LTV of 95 per cent and a interest rate of 4.9 per cent (the average interest rate offered on a 5 year fixed 95 per cent LTV mortgage in the 12 months to the end of February 2026).<sup>81</sup>

A drawback of Households Below Average Income is the quality of data on savings, which is not considered to be as reliable as other micro datasets, and is also reported in bands. We then therefore imputed a savings variable by randomly assigning specific savings amounts to households based on their categorical saving band. We ran this simulation multiple times and found that the random allocation within these bounds did not impact our results. We also compared savings data in recent waves of HBAI to that in Understanding Society and the Wealth and Assets Survey (WAS). These other surveys suggest that slightly more potential FTBs would have enough savings for a deposit on a starter home. For example, in 2021-22, around 20 per cent of families in HBAI had more than £8,000 in savings, compared to 26 per cent in the 2021-2022 wave of Understanding Society and 27 per cent in the 2020-22 wave of the WAS.<sup>82</sup> However, this gap in reported savings between different surveys is much smaller than the gap in the proportion of potential buyers constrained by deposits versus incomes, so we consider that using a different survey for the analysis (which would have its own drawbacks relative to HBAI) would not change our conclusion that deposits are the main constraint.

---

<sup>81</sup> Bank of England, [Bankstats](#).

<sup>82</sup> £8,000 is enough for a 5 per cent deposit on a home worth £160,000.

## Annex 2: Additional tables

TABLE 1: Starter home price and average FTB price by region: GB, 2025

Region/country	FTB average price in 2025	Starter home price 2025
North East	£163,320	£75,000
North West	£206,742	£115,000
Yorkshire and the Humber	£191,990	£112,000
East Midlands	£219,428	£143,000
West Midlands	£230,534	£157,000
East of England	£302,129	£225,000
London	£485,768	£340,000
South East	£322,608	£265,000
South West	£263,863	£215,000
Wales	£197,185	£120,000
Scotland	£185,261	£123,538

NOTES: A starter home price is the lower quartile price of a terraced home in each region except in London where it is the median price of a flat in Outer London. Value of a starter home in Scotland is an RF estimate. SOURCE: RF analysis of HM Land Registry, Price Paid data; Registers of Scotland, House price statistics; ONS, House price data: quarterly tables.

TABLE 2: Demographic breakdown of potential FTBs and their mortgage constraints: GB, 2025

		Potential FTB households	Has 5% deposit	Passes LTI test	Passes stress test	Eligible for mortgage
<b>All potential FTBs</b>		8.3m	15%	50%	50%	11%
Region	North East	0.3m	23%	94%	86%	23%
	North West	0.9m	15%	69%	70%	13%
	Yorkshire and Humberside	0.7m	11%	73%	71%	9%
	East Midlands	0.5m	15%	60%	64%	12%
	West Midlands	0.7m	10%	51%	49%	8%
	Eastern	0.7m	17%	46%	42%	9%
	London	1.9m	15%	30%	30%	10%
	South East	1.1m	12%	34%	31%	8%
	South West	0.6m	18%	37%	33%	12%
	Wales	0.4m	15%	62%	64%	13%
	Scotland	0.6m	26%	68%	75%	21%
Age	21–29	3.6m	14%	38%	42%	9%
	30–39	2.4m	17%	62%	59%	15%
	40–55	2.3m	15%	58%	52%	11%
Tenure	Social renters alone	1.4m	8%	56%	52%	5%
	Private renters alone	2.9m	25%	69%	66%	21%
	Sharing any tenure	1.6m	11%	40%	40%	7%
	In parents' home	2.4m	11%	31%	35%	6%
Disability	Not disabled	6.5m	16%	48%	47%	11%
	Has a disability	1.8m	14%	58%	57%	11%
Qualification	Degree or above	3.3m	22%	58%	57%	18%
	Below degree	3.9m	12%	48%	48%	9%
	Student or no qualifications	1.1m	6%	36%	34%	2%
Ethnicity*	White	5.9m	17%	52%	52%	12%
	Mixed	0.2m	10%	25%	26%	9%

	Asian	1.2m	12%	47%	45%	8%
	Black	0.6m	5%	46%	43%	4%
	Other	0.3m	18%	52%	46%	16%
Family type	Couple with children	1.6m	14%	75%	68%	12%
	Single with children	0.8m	5%	36%	34%	3%
	Couple without children	1.2m	31%	86%	81%	28%
	Single without children	4.7m	13%	35%	37%	8%

NOTES: For couples, age is oldest member of the couple. Ethnicity refers to the broad ethnic group of the head of the household. Qualification refers to the head of the family. "Has a disability" indicates an adult in the family is disabled.

SOURCE: RF analysis of DWP, Households Below Average Income; HM Land Registry, Price Paid data; Registers of Scotland, House price statistics.

## Annex 3: Data citations

- Family Resources Survey (series page here):
  - Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: <http://doi.org/10.5255/UKDA-Series-200017>
- Households Below Average Income (series page here):
  - Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: <http://doi.org/10.5255/UKDA-Series-2000022>
- Understanding Society (series page here):
  - University of Essex, Institute for Social and Economic Research. (2023). Understanding Society. [data series]. 9th Release. UK Data Service. SN: 2000053, DOI: <http://doi.org/10.5255/UKDA-Series-2000053>

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

For more information on this report, contact:

**Hannah Aldridge**

Senior Research and Policy Analyst

[info@resolutionfoundation.org](mailto:info@resolutionfoundation.org)

Resolution Foundation

2 Queen Anne's Gate

London SW1H 9AA

Charity Number: 1114839

[@resfoundation](https://www.resolutionfoundation.org)  
[@resolutionfoundation.org](https://www.resolutionfoundation.org)  
[resolutionfoundation.org/publications](https://www.resolutionfoundation.org/publications)

