Financial Conduct Authority

Research Note

15 August 2023

Interest-only mortgages: analysis of FCA mortgage data

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1 Overview

Purpose of this analysis

This report sets out analysis of our data on the population of regulated interest-only mortgages that existed on 31 December 2022 (i.e. the end of H2 2022). It is factual analysis, based on the mortgage data that firms are required to report to us in the regulatory return Product Sales Data: Mortgage Performance Data ('PSD007').

The aim of the analysis is to help us understand the characteristics of current interest-only mortgages.

This analysis sits alongside consumer research that considers the repayment strategies of borrowers with interest-only mortgages and their ability to repay these at maturity.

Interest-only mortgages are mortgages where the borrower's monthly payments cover only the interest on the amount borrowed. The borrower then needs to have a method of repaying the capital (the amount borrowed) by the end of the mortgage term.

Key findings

There are now fewer than 1 million regulated mortgages outstanding in the UK that are wholly or partly interest-only. The number has dropped rapidly in recent years, halving since 2015 when there were more than 2 million such mortgages.

There are now 750,000 mortgages that are wholly interest-only, and 245,000 'part-and-part' mortgages (where part of the mortgage is interest-only, and part is capital and interest).

Interest-only mortgages make up 9% of the total number of regulated mortgages, and part-and-part mortgages make up 3%. The remaining 88% are capital and interest mortgages.

The peak years when the largest number of interest-only mortgages are due to mature are 2031 and 2032, with a smaller peak around 2027. 72,000 interest-only and 20,000 part-and-part mortgages are due to mature in 2031, and 77,000 interest-only and 18,000 part-and-part mortgages in 2032. The smaller peak in 2027 comprises 51,000 interest-only mortgages and 13,500 part-and-part mortgages.

Only a small proportion of interest-only and part-and-part mortgages are past their maturity date i.e. the mortgage has not been repaid at the end of the stated mortgage term. As of H2 2022 there were around 22,000 such mortgages, which is 2.2% of the total number of interest-only and part-and-part mortgages.

Most past-maturity mortgages are repaid soon after maturity. Of the 22,000 mortgages currently past maturity, just over 50% are overdue by 12 months or less. The proportion falls for each additional year past maturity. Only 9% of the past-maturity mortgages are overdue by 5 years or more. This is just over 2,000 mortgages.

When looking at the average characteristics of an interest-only mortgage, the median balance is £140,000, the median remaining term is 8 years, and the median borrower age is 56. In comparison, the average capital and interest mortgage has a median balance of £115,000, a median remaining term of 19 years, and a median borrower age of 43.

Regions in the south and east of England have a disproportionately large share of the UK's interest-only mortgage stock. London accounts for 21%, followed by the South-West with 13%, the South-East with 12%, and the Eastern region with 10%.

We estimate that the median loan-to-value (LTV) for an interest-only mortgage is currently 37%. Only a small proportion of interest-only mortgages have a high LTV. For example, only 2% have an LTV of 75% or more.

Interest-only mortgages taken out between 2005 and 2008, when lending criteria were more relaxed than now, have the highest current LTVs, compared to interest-only mortgages taken out in later years. For example, those sold in 2007 have a current median estimated LTV of 49%, compared to 26% for those sold shortly afterwards in 2012.

Older interest-only borrowers tend to have lower LTVs than younger borrowers. For example, the median LTV for borrowers in the 61-65 age band is 33%, compared with 46% in the age band 31-35.

The current median estimated LTV of interest-only mortgages varies significantly by region. Northern Ireland has the highest median LTV at 63%, and the Eastern and South-East regions the lowest at 33%.

Many interest-only borrowers have a substantial amount of equity in their homes. We estimate that 65% have £200,000 or more equity, and 49% have £300,000 or more. However, some borrowers have significantly less equity. For example, 3% have less than £50,000, and a further 10% have £50,000 to £100,000.

55% of the interest-only mortgages that exist today were taken out before 2009, compared to just 12% of capital and interest mortgages. 88% of interest-only mortgages are in active books, and 12% in closed books.

We undertook analysis of closed book mortgages that had remortgaged to another lender in H2 2022. We identified 1,100 interest-only mortgages that had done so, with 82% of these moving to a capital and interest mortgage.

Notes

References in the narrative to interest-only mortgages relate to mortgages that are entirely interest-only, rather than those that are a mix of capital and interest and interest-only (which are referred to as 'part-and-part' mortgages in the narrative), unless specifically stated otherwise. However, figures for part-and-part mortgages are included in the charts.

Numbers quoted in the narrative are rounded.

Further information on our data and methodology is set out in Annex 1

2 Outstanding stock of interest-only mortgages

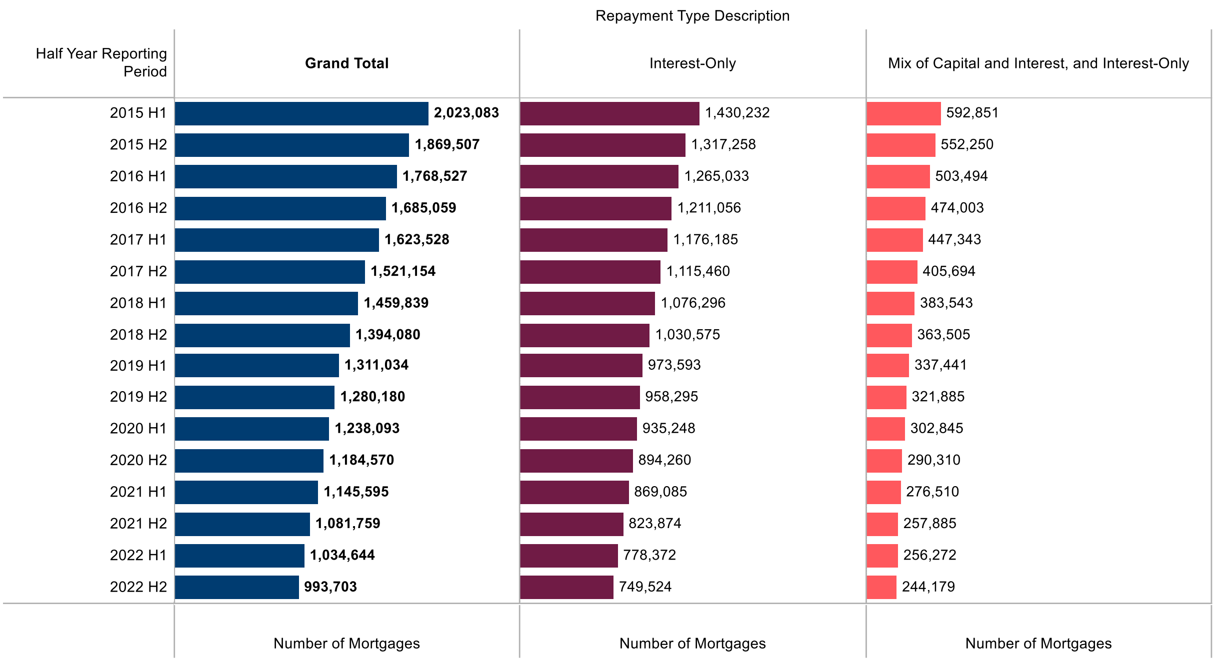
There are now fewer than 1 million outstanding regulated mortgages that are either interest-only or part-and-part mortgages. This is down over 88,000 in the last 12 months since H2 2021, and down more than 1 million since H2 2015. See figure 1.

This total is made up of 750,000 interest-only mortgages, and 245,000 part-and-part mortgages.

This is down from just over 2 million interest-only and part-and-part mortgages in H1 2015. So the number has halved during that 7 year period.

We started collecting this data in 2015, so we do not have comparable figures for how many interest-only mortgages there were before this. UK Finance data indicates that there were 3.2 million in 2012 (2,494,000 interest-only mortgages and 705,000 part-and-part mortgages).

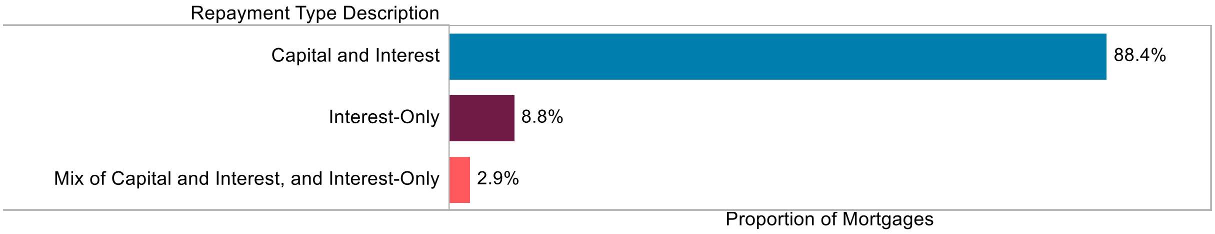
Figure 1: Trend in outstanding stock of regulated interest-only mortgages, by number of mortgages



Source: FCA Product Sales Data (PSD)

To put this in context, as of H2 2022, interest-only mortgages made up 9% of the total number of regulated mortgages, and part-and-part 3%. The remaining 88% were capital and interest mortgages. See figure 2.

Figure 2: Repayment type, by proportion, H2 2022



Source: FCA Product Sales Data (PSD)

3 Maturity horizon

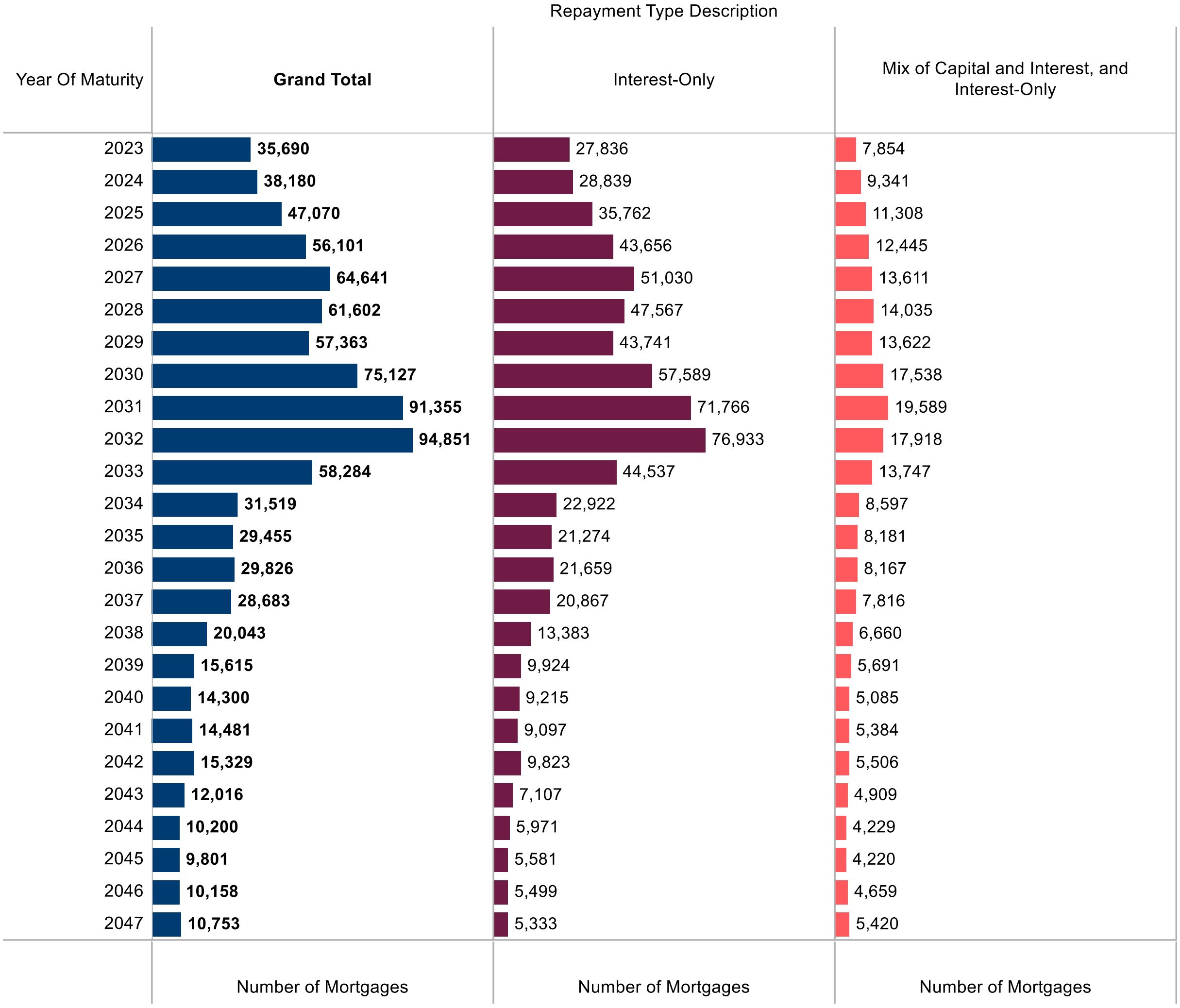
The number of interest-only and part-and-part mortgages that are due to mature (i.e. reach the end of the stated mortgage term) increases over the next 10 years, reaching a peak in 2031 and 2032. In 2031, 72,000 interest-only and 20,000 part-and-part mortgages are due to mature, and in 2032 77,000 interest-only and 18,000 part-and-part mortgages are due to mature. See figure 3.

This peak is around 25 years after the period (up to 2008) when lending criteria were more relaxed than now, and consumers could take out interest-only mortgages without providing details of how they would repay capital at the end of the term. See section 6 below for more information on this.

There is a smaller, earlier peak around 2027 (51,000 interest-only mortgages and 13,500 part-and-part mortgages).

The size of these peaks has reduced somewhat compared to the analysis we published in 2013. This is because some borrowers have repaid their interest-only mortgages or made other changes to them. This could mean converting them into capital and interest mortgages, or changing them into another type of mortgage, such as a retirement interest-only mortgage (RIO) or a lifetime mortgage.

Figure 3: Maturity horizon 2023-2047, by number of mortgages



Source: FCA Product Sales Data (PSD)

4 Interest-only mortgages that are past maturity

Only a small proportion of interest-only and part-and-part mortgages are reported as being past their maturity date, i.e. the mortgage has not been repaid at the end of the stated mortgage term. As of H2 2022 these accounted for around 22,000 mortgages, which is 2.2% of the total number of outstanding interest-only and part-and-part mortgages. See figure 4.

A smaller proportion (1.3%) of part-and-part mortgages are past maturity than interest-only mortgages (2.5%).

The number of past-maturity mortgages will not include mortgages where the term has been formally extended, or where the mortgage has been converted into a capital and interest mortgage. It will also exclude mortgages that have been changed into another type of mortgage, such as a RIO or a lifetime mortgage.

Figure 4: Interest-only mortgages past maturity, by number of mortgages and proportion

Repayment Type Description	Maturity status					
	Past maturity		Not matured		Grand Total	
	Number of Mortgages	Proportion of Mortgages	Number of Mortgages	Proportion of Mortgages	Number of Mortgages	Proportion of Mortgages
Interest-Only	18,815	2.5%	730,709	97.5%	749,524	100.0%
Mix of Capital and Interest, and Interest-Only	3,119	1.3%	241,060	98.7%	244,179	100.0%
Grand Total	**21,934**	**2.2%**	**971,769**	**97.8%**	**993,703**	**100.0%**

Source: FCA Product Sales Data (PSD)

Most of the past-maturity mortgages are repaid soon after maturity. Of the 22,000 interest-only and part-and-part mortgages currently past maturity, just over 50% are 1 year or less past maturity. The number tails off for each additional year past maturity. See figure 5.

Around 9% of the past-maturity mortgages are 5 years or more past maturity, which is just over 2,000 mortgages.

Figure 5: Interest-only mortgages past maturity, by period past maturity band

Repayment Type Description

Past maturity band (years)	Interest-Only		Mix of Capital and Interest, and Interest-Only		**Grand Total**	
	Number of Mortgages	Proportion of Mortgages	Number of Mortgages	Proportion of Mortgages	Number of Mortgages	Proportion of Mortgages
<=1y past maturity	9,148	48.6%	1,918	61.5%	**11,066**	**50.5%**
>1y - <=2y past maturity	3,773	20.1%	385	12.3%	**4,158**	**19.0%**
>2y - <=3y past maturity	1,976	10.5%	171	5.5%	**2,147**	**9.8%**
>3y - <=5y past maturity	2,271	12.1%	252	8.1%	**2,523**	**11.5%**
>5y past maturity	1,647	8.8%	393	12.6%	**2,040**	**9.3%**
Grand Total	**18,815**	**100.0%**	**3,119**	**100.0%**	**21,934**	**100.0%**

Source: FCA Product Sales Data (PSD)

5 Characteristics of interest-only mortgages

Outstanding balance

The median balance of an interest-only mortgage is £140,000. See figure 6. Part-and-part mortgages have a median balance of £148,000. This compares with £115,000 for a capital and interest mortgage.

Figure 6: Outstanding balance, median value, £

Repayment Type Description	Median Balance, £
Interest-Only	139,501
Mix of Capital and Interest, and Interest-Only	148,201
Capital and Interest	115,094
Grand Total	**117,987**

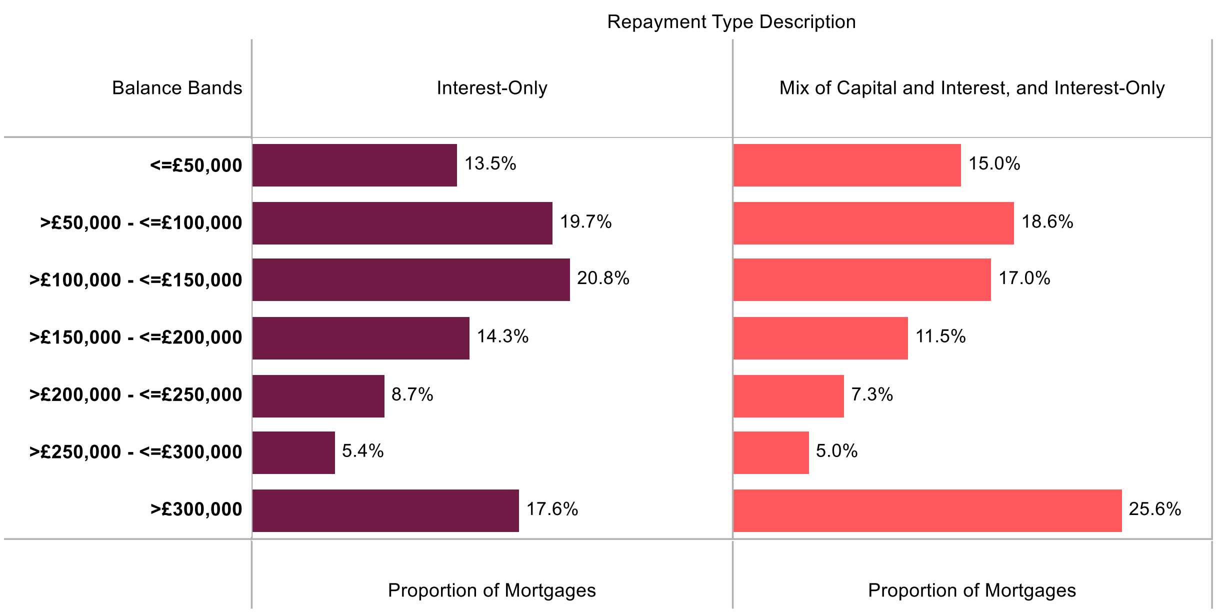
Source: FCA Product Sales Data (PSD)

13% of interest-only mortgages have a balance of £50,000 or less, 20% have a balance in the band from £50,000 to £100,000, and 21% have a balance from £100,000 to £150,000.

But there are also some much larger interest-only mortgages. 46% have a balance over £150,000. This includes 14% with a balance in the £150,000 to £200,000 band, 14% in the band from £200,000 to £300,000, and 18% over £300,000. See figure 7.

The number of mortgages in each band are shown in figure 8.

Figure 7: Outstanding balance, proportion by band



Source: FCA Product Sales Data (PSD)

Figure 8: Outstanding balance, number by band

	Repayment Type Description		
Balance Bands	**Interest-Only**	**Mix of Capital and Interest, and Interest-Only**	**Grand Total**
<=£50,000	100,894	36,553	137,447
>£50,000 - <=£100,000	147,730	45,310	193,040
>£100,000 - <=£150,000	156,144	41,518	197,662
>£150,000 - <=£200,000	107,042	28,033	135,075
>£200,000 - <=£250,000	65,420	17,943	83,363
>£250,000 - <=£300,000	40,704	12,287	52,991
>£300,000	131,590	62,535	194,125
Grand Total	**749,524**	**244,179**	**993,703**

Source: FCA Product Sales Data (PSD)

Remaining term

The median remaining term on an interest-only mortgage is 8 years, and 9 years for a part-and-part mortgage. This compares with 19 years for a capital and interest mortgage. See figure 9. The median remaining term for interest-only mortgages reflects the maturity profile, given the peak of mortgages due to mature in 2031 and 2032, as shown in figure 3 above.

Figure 9: Remaining term, median value

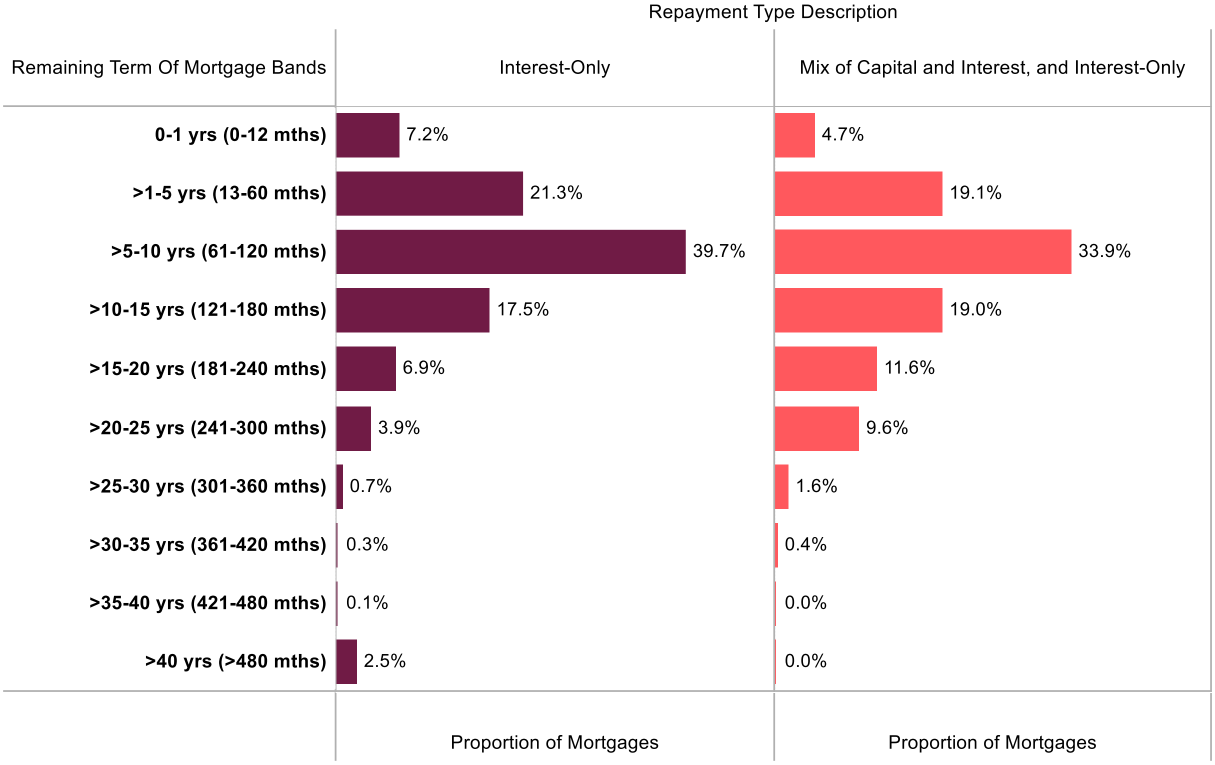
Repayment Type Description	Median remaining term, years
Interest-Only	8
Mix of Capital and Interest, and Interest-Only	9
Capital and Interest	19
Grand Total	**18**

Source: FCA Product Sales Data (PSD)

Looking at remaining terms by band, 28% of interest-only mortgages have terms of 5 years or less. 40% have a term more than 5 years up to 10 years, and 17% have a term more than 10 years up to 15 years. 14% have a remaining term over 15 years, see figure 10. Part-and-part mortgages have a similar distribution but are skewed towards slightly longer terms.

The number of mortgages in each band are shown in figure 11.

Figure 10: Remaining term, proportion by band



Source: FCA Product Sales Data (PSD)

Figure 11: Remaining term, number by band

	Repayment Type Description		
Remaining Term of Mortgage Bands	**Interest-Only**	**Mix of Capital and Interest, and Interest-Only**	**Grand Total**
0-1 yrs (0-12 mths)	53,990	11,476	65,466
>1-5 yrs (13-60 mths)	159,287	46,719	206,006
>5-10 yrs (61-120 mths)	297,587	82,705	380,292
>10-15 yrs (121-180 mths)	131,263	46,507	177,770
>15-20 yrs (181-240 mths)	51,436	28,325	79,761
>20-25 yrs (241-300 mths)	29,491	23,437	52,928
>25-30 yrs (301-360 mths)	5,418	3,817	9,235
>30-35 yrs (361-420 mths)	2,207	1,044	3,251
>35-40 yrs (421-480 mths)	416	108	524
>40 yrs (>480 mths)	18,429	41	18,470
Grand Total	**749,524**	**244,179**	**993,703**

Source: FCA Product Sales Data (PSD)

Current age of main borrower

For interest-only mortgages, the median age of the main borrower (i.e. first named borrower on the mortgage) is 56. For part-and-part mortgages, the median age is 54. This compares with 43 for a capital and interest mortgage. See figure 12.

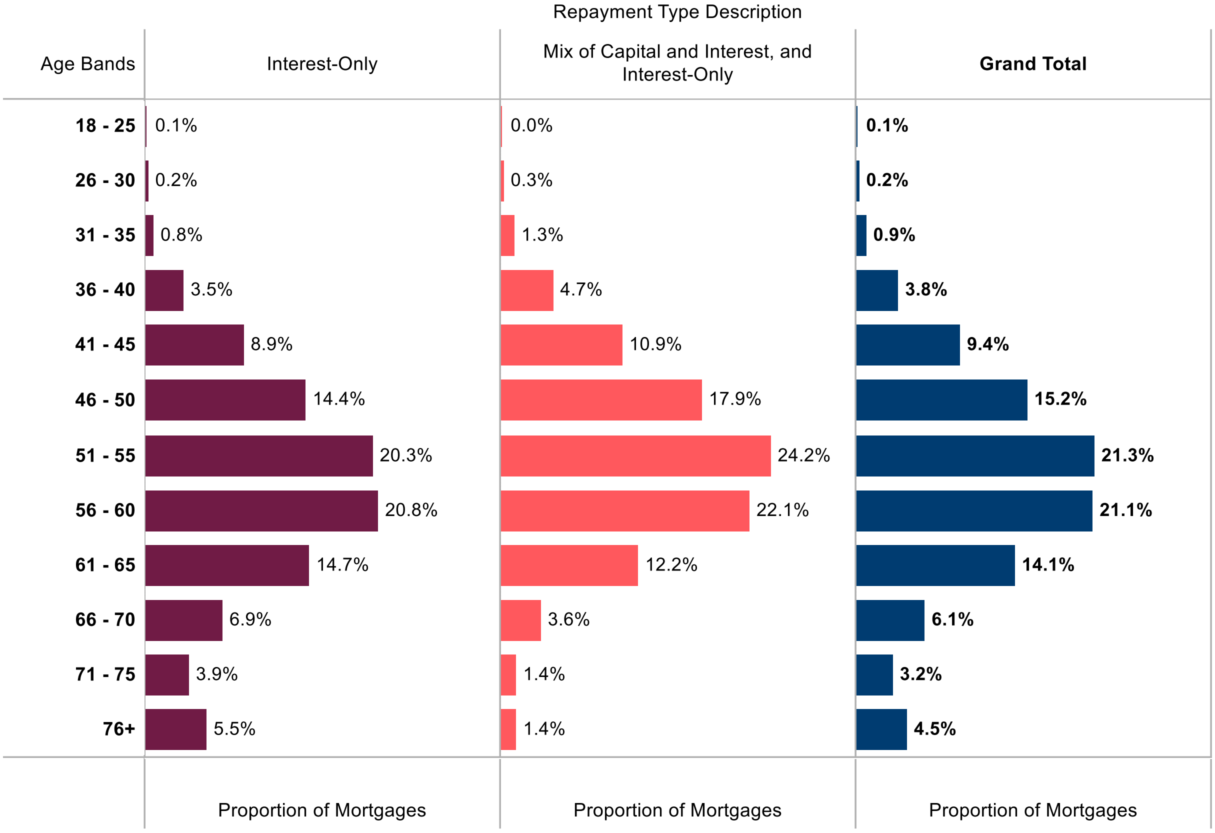
Figure 12. Borrower current age, median value

Repayment Type Description	Median Age, years
Interest-Only	56
Mix of Capital and Interest, and Interest-Only	54
Capital and Interest	43
Grand Total	**45**

Source: FCA Product Sales Data (PSD)

When looking at the age distribution of interest-only borrowers, most are in older age groups, with 72% aged 51 or over, see figure 13. 65% of part-and-part borrowers are aged 51 and over. The number of mortgages in each band are shown in figure 14.

Figure 13. Borrower current age, proportion by band



Source: FCA Product Sales Data (PSD)

Figure 14. Borrower current age, number by band

	Repayment Type Description		
Age Bands	**Interest-Only**	**Mix of Capital and Interest, and Interest-Only**	**Grand Total**
18 - 25	617	112	729
26 - 30	1,806	644	2,450
31 - 35	6,055	3,203	9,258
36 - 40	26,184	11,435	37,619
41 - 45	66,561	26,569	93,130
46 - 50	107,564	43,772	151,336
51 - 55	152,354	59,008	211,362
56 - 60	155,946	54,074	210,020
61 - 65	110,328	29,880	140,208
66 - 70	51,564	8,807	60,371
71 - 75	28,977	3,312	32,289
76+	41,532	3,363	44,895
Not Known	36		36
Grand Total	**749,524**	**244,179**	**993,703**

Source: FCA Product Sales Data (PSD)

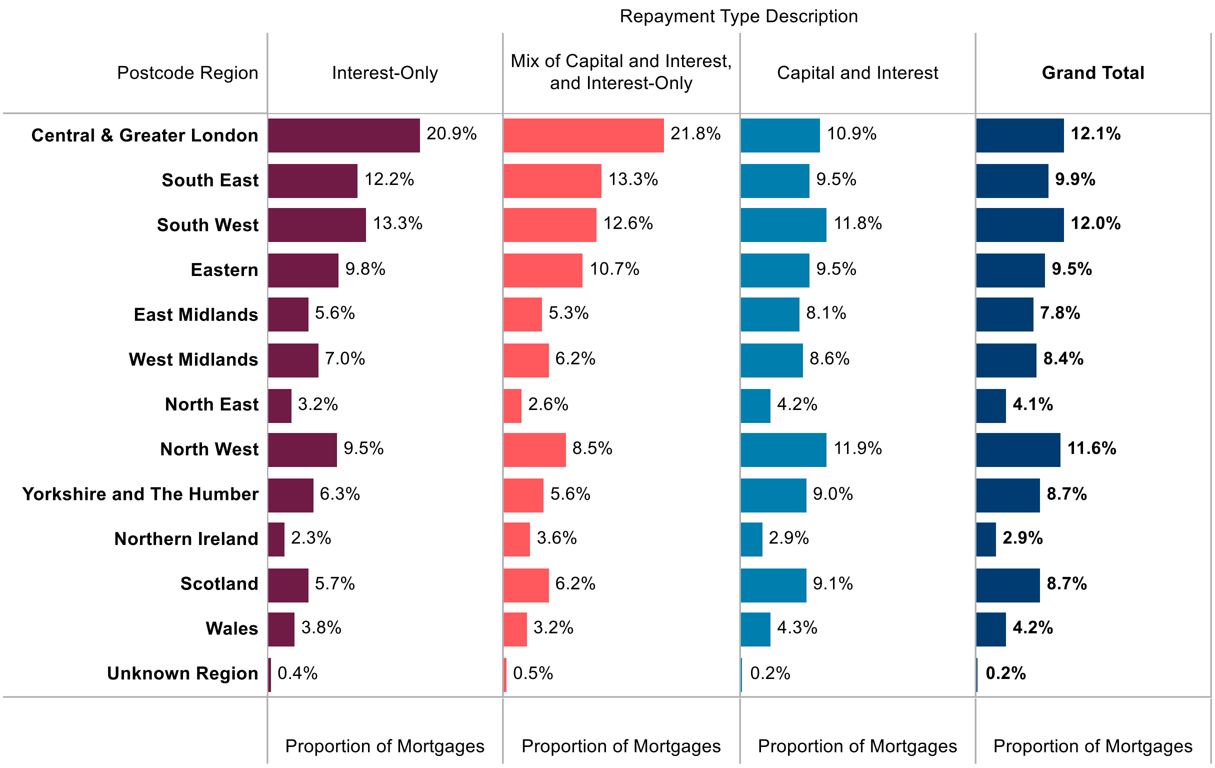
Region

The regions with the biggest share of the UK's population of interest-only mortgages are mostly in the south and east of England: London accounts for 21% of the UK's interest-only mortgage stock, followed by the South-West (13%), the South-East (12%) and the Eastern region (10%). See figure 15 for the proportion of mortgages in each region, and figure 16 for the number of mortgages in each region.

These regions have a disproportionately large share of interest-only mortgages compared to their overall share of mortgages. For example, London has 12% of the UK's mortgages, but 21% of the interest-only mortgages. Scotland, on the other hand, has 8.7% of all mortgages, but only 5.7% of interest-only mortgages.

The North-West also contributes a significant proportion of the UK's interest-only mortgages, at 9.5%, but this is less than its overall share of mortgages, which is 12%.

Figure 15. Regulated mortgages by repayment type, contribution of each region to the UK total



Source: FCA Product Sales Data (PSD)

Figure 16. Regional distribution of interest-only mortgages, by number

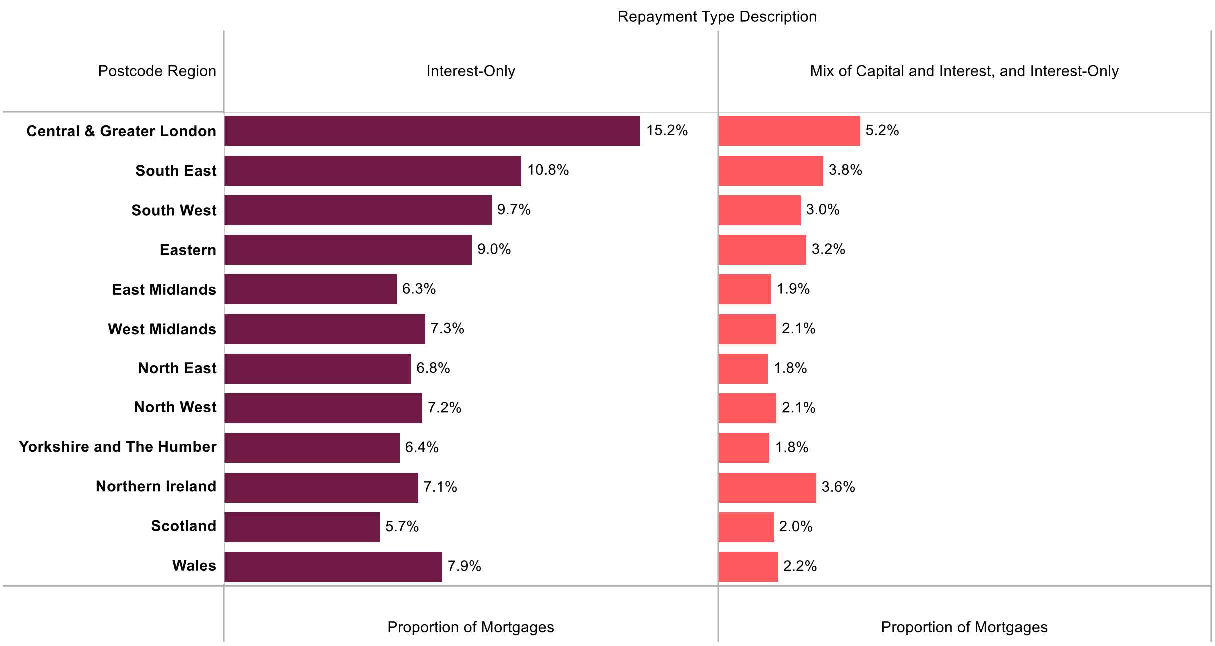
	Repayment Type Description		
Postcode Region	**Interest-Only**	**Mix of Capital and Interest, and Interest-Only**	**Grand Total**
Central & Greater London	156,570	53,248	209,818
South East	91,288	32,373	123,661
South West	100,019	30,824	130,843
Eastern	73,209	26,094	99,303
East Midlands	41,981	12,897	54,878
West Midlands	52,633	15,184	67,817
North East	23,803	6,331	30,134
North West	71,353	20,732	92,085
Yorkshire and The Humber	47,577	13,696	61,273
Northern Ireland	17,438	8,766	26,204
Wales	28,458	7,773	36,231
Scotland	42,377	15,067	57,444
Unknown Region	2,818	1,194	4,012
Grand Total	**749,524**	**244,179**	**993,703**

Source: FCA Product Sales Data (PSD)

Figure 17 shows a different measure, which is the share of interest-only mortgages within the total mortgage population of each region.

The regions with the highest proportion of interest-only mortgages are London (15%), the South-East (11%) and the South-West (10%). Scotland has the lowest proportion (6%). The overall proportion of interest-only mortgages is 9% (as shown in figure 2).

Figure 17. Regional exposure to interest-only mortgages, proportion



Source: FCA Product Sales Data (PSD)

Current loan-to-values (LTV)

Note on LTVs: The current LTV figures published here are estimates. This is for two reasons. Firstly, current property values are not reported to us. So to estimate current LTVs we need to estimate how the value of the property has changed since the mortgage was taken out, when the original value was reported to us in the sale record in PSD001. Secondly, we cannot match all current mortgage records in PSD007 with their sale record in PSD001. We can only match 74% of interest-only mortgages and 77% of part-and-part mortgages with their sale record. We explain this in more detail in Annex 1.

Median LTV

We estimate that the current median LTV for an interest-only mortgage is 37%, and 41% for a part-and-part mortgage. See figure 18.

Figure 18. LTV, median value, percent

Repayment Type Description	Median LTV, percent
Interest-Only	37.4
Mix of Capital and Interest, and Interest-Only	40.9
Grand Total	**38.1**

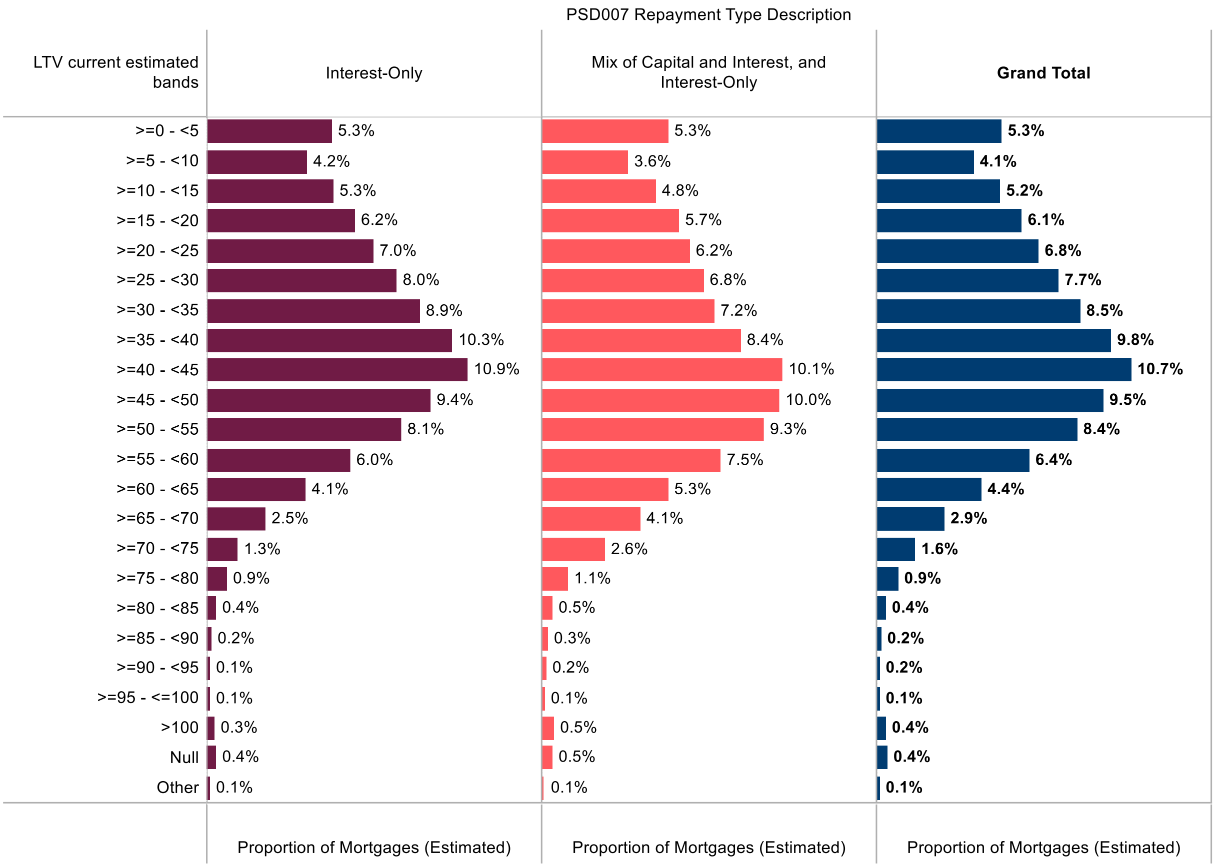
Source: FCA Product Sales Data (PSD), FCA estimates

LTV by band

Most interest-only mortgages have a relatively low current LTV. For example, we estimate that 75% of interest-only mortgages have an LTV below 50%, and 22% have an LTV in the band from 50% but less than 75% LTV. See figure 19.

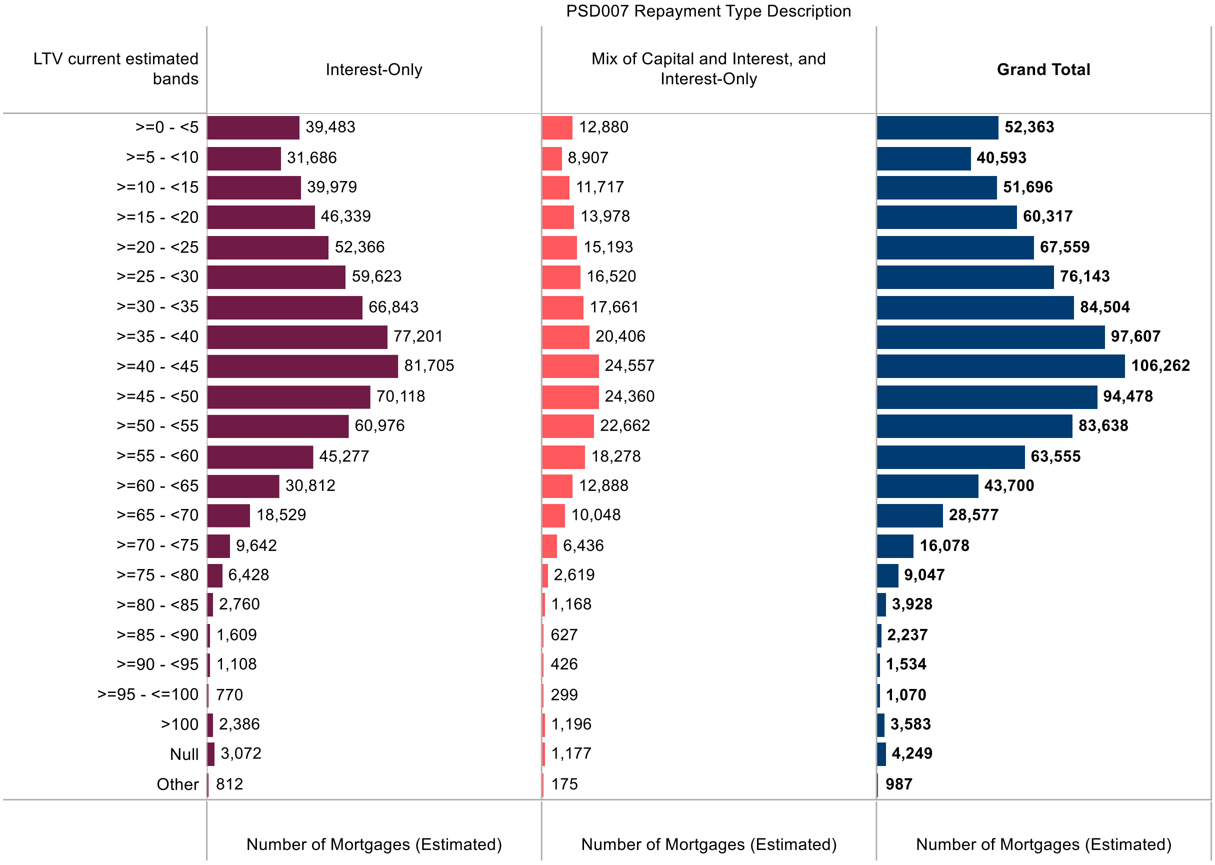
Only a small proportion of interest-only mortgages have higher LTVs. We estimate that only 2% of interest-only mortgages have an LTV of 75% or higher. This is around 15,000 mortgages, see figure 20.

Figure 19. LTV distribution, proportion by band



Source: FCA Product Sales Data (PSD), FCA estimates

Figure 20. LTV distribution, number by band



Source: FCA Product Sales Data (PSD), FCA estimates

LTV by remaining mortgage term

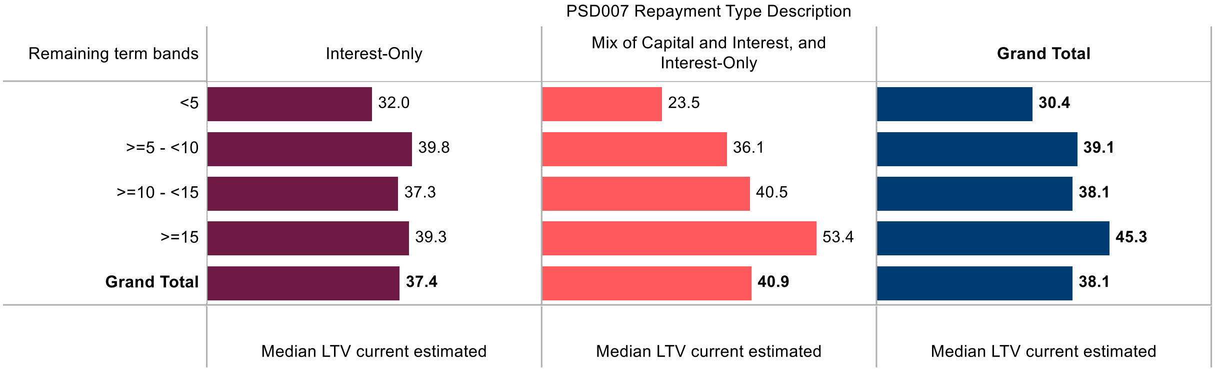
Interest-only mortgages with the shortest remaining terms have lower current LTVs than those mortgages with longer remaining terms. The median LTV for an interest-only mortgage with a remaining term of less than 5 years is 32%. See figure 21.

The median LTVs of interest-only mortgages with longer remaining terms range between 37% and 39%, with no clear correlation with the length of term remaining.

Part-and-part mortgages with remaining terms of less than 10 years have lower median LTVs than comparable interest-only mortgages, at 24% for part-and-part mortgages with a remaining term of less than 5 years, and 36% for those with terms of 5 years up to 10 years.

However, part-and-part mortgages with longer terms have higher LTVs than comparable interest-only mortgages. For example, part-and-part mortgages with a remaining term of 10 to less than 15 years have a median LTV of 40%, compared with 37% for interest-only mortgages.

Figure 21. Median LTV, by remaining term, percent



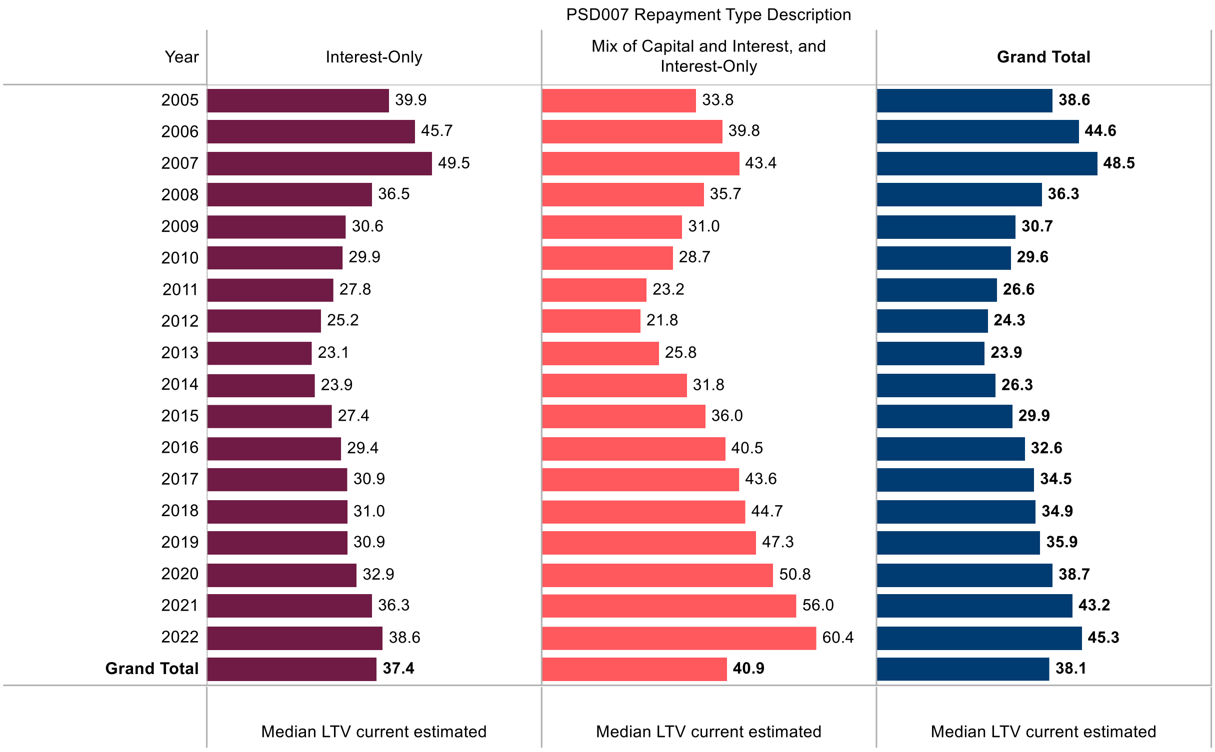
Source: FCA Product Sales Data (PSD), FCA estimates

LTV by year the mortgage was taken out

We might expect interest-only mortgages taken out a long time ago to have lower current LTVs than those taken out more recently, because there has been more time for property prices to increase. However, interest-only mortgages sold in the years up to 2008 have noticeably higher current estimated median LTVs than those sold afterwards. For example, those sold in 2007 currently have an estimated median LTV of 49%, compared with 25% for those sold shortly afterwards in 2012. See figure 22. This may reflect the more relaxed lending criteria for interest-only mortgages that existed in the years immediately before the financial crisis, compared with tightened criteria in years afterwards.

However, we can see a clear correlation between current LTV and year of sale for interest-only mortgages sold from 2013. Estimated current median LTVs increase from 23% for mortgages sold in 2013, to 39% for those sold in 2022.

Figure 22. Median LTV, by year of the original mortgage sale, percent



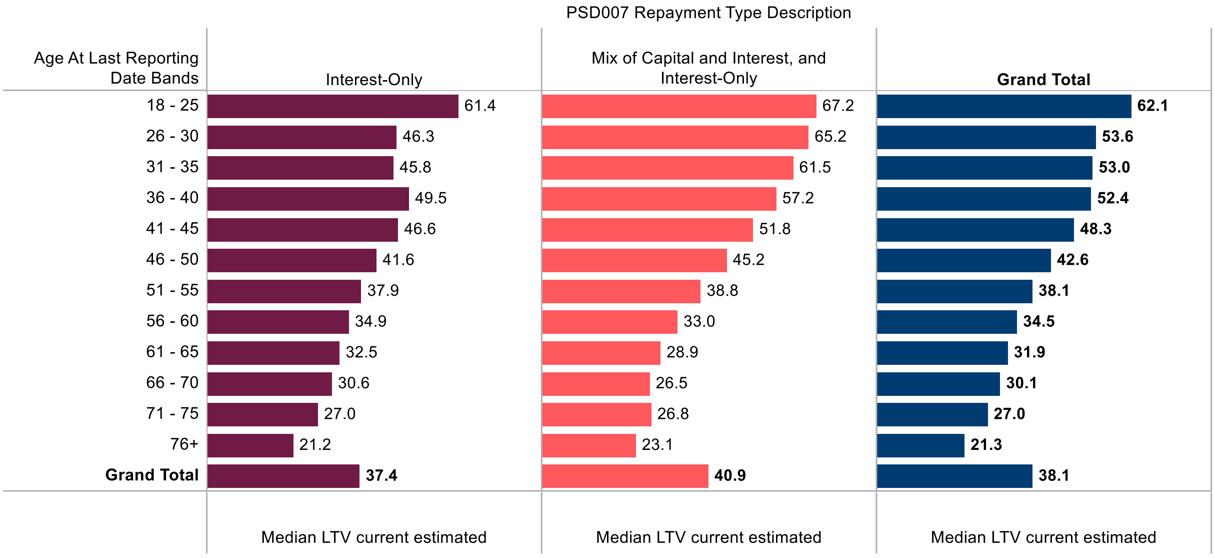
Source: FCA Product Sales Data (PSD), FCA estimates

LTV by borrower age

Older borrowers with interest-only mortgages tend to have lower current LTVs than younger borrowers. For example, the median LTV for interest-only borrowers in the 61-65 age band is 33%, compared with 46% in the 31-35 age band. See figure 23. This is unsurprising as older borrowers are likely to have had their mortgages for a longer time, and therefore more likely to have experienced an increase in the value of their homes, even if their mortgage balance has not reduced. However, these figures reflect the median situation. There will be some older interest-only borrowers with higher LTVs. For example, some borrowers who took their mortgages in the years up to 2008, as discussed above.

There is a relatively small number of younger borrowers with interest-only mortgages. As shown in figure 12, the median age of an interest-only borrower is 56. Figure 14 shows the number of mortgages in each age band.

Figure 23. Median LTV, by age of first borrower, percent

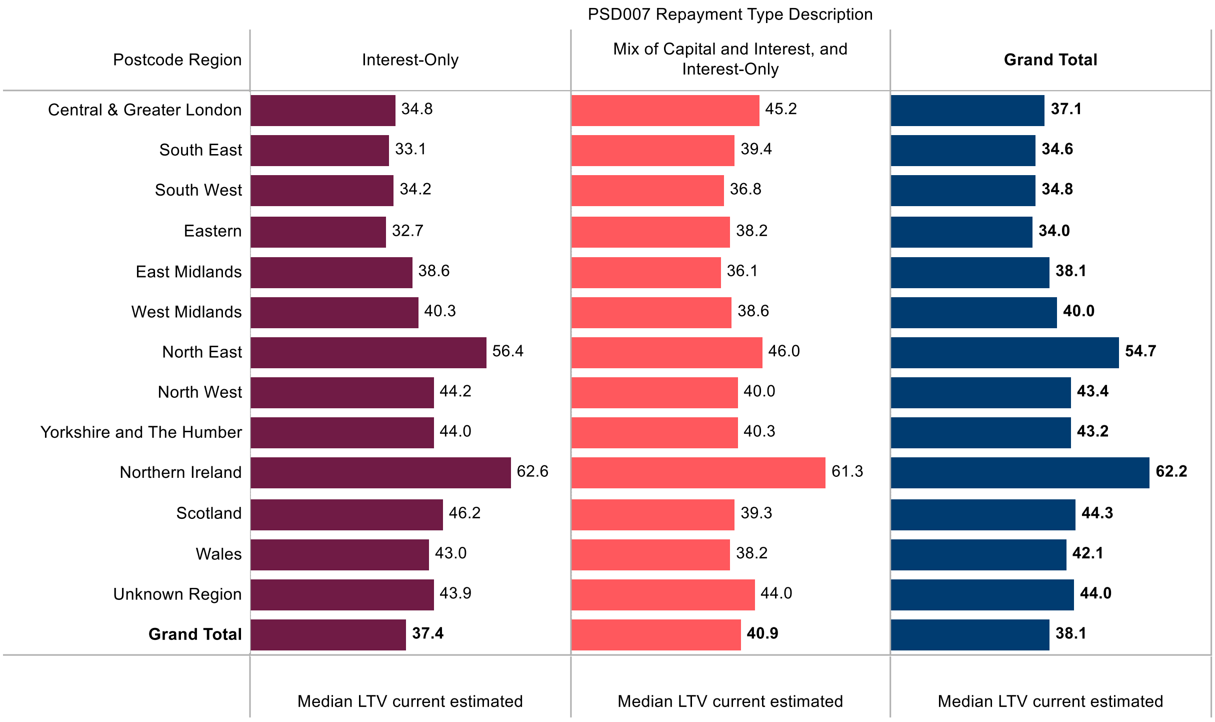


Source: FCA Product Sales Data (PSD), FCA estimates

LTV by region

The estimated current median LTVs of interest-only mortgages vary across the regions of the UK. The region with the highest median LTV is Northern Ireland, at 63%, followed by the North-East at 56%, and then Scotland at 46% and the North-West at 44%. The Eastern and South-East regions have the lowest median LTV at 33% each, followed by the South-West at 34%, and London at 35%. See figure 24. This is likely to be driven by the degree of changes in property prices in those regions since the interest-only mortgages were taken out. Regions that have experienced higher rates of property price growth will result in lower average current LTVs.

Figure 24. Median LTV, by regions, percent



Source: FCA Product Sales Data (PSD), FCA estimates

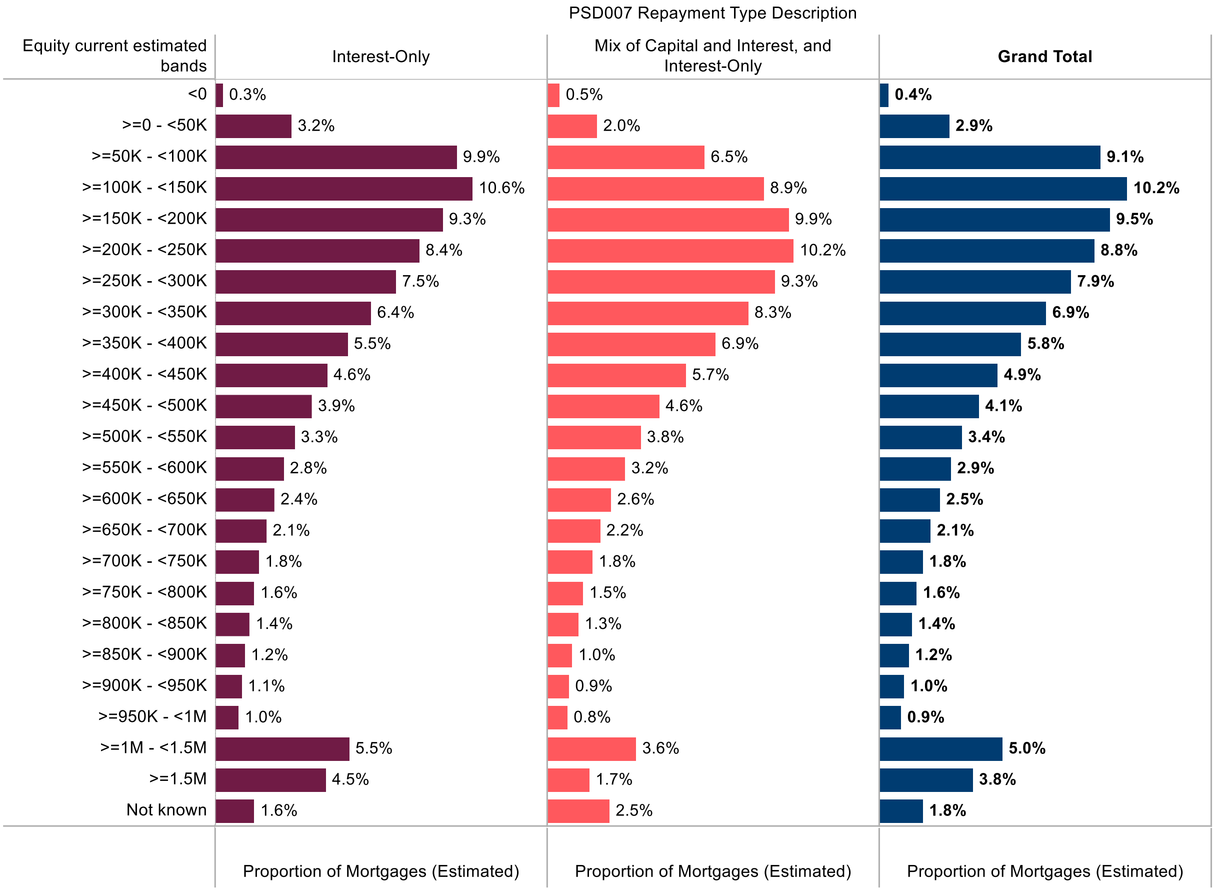
Equity position

We estimated the value of the equity that borrowers with interest-only mortgages may currently have in their homes, by taking the estimated current value of their home and subtracting the current value of their outstanding mortgage. See figure 25.

This suggests that many interest-only borrowers have a substantial amount of equity in their homes, with 65% having £200,000 or more equity, and 49% having £300,000 or more.

However, some interest-only mortgage borrowers may have significantly less equity. For example, we estimate 3% have less than £50,000 equity, and a further 10% are estimated to have between £50,000 and £100,000 equity.

Figure 25. Estimated equity position, by band



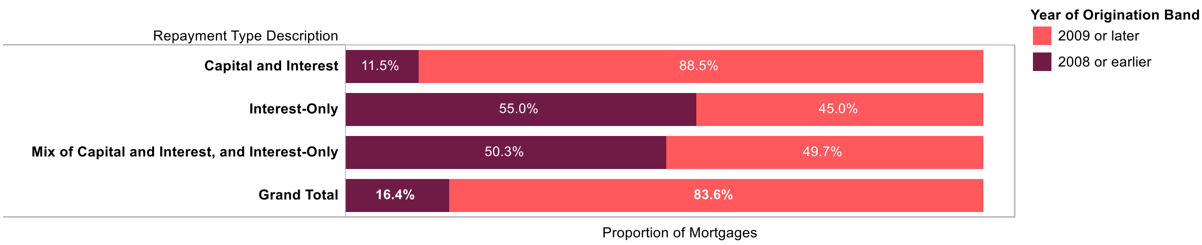
Source: FCA Product Sales Data (PSD), FCA estimates

6 Origination profile of interest-only mortgages

Year of origination

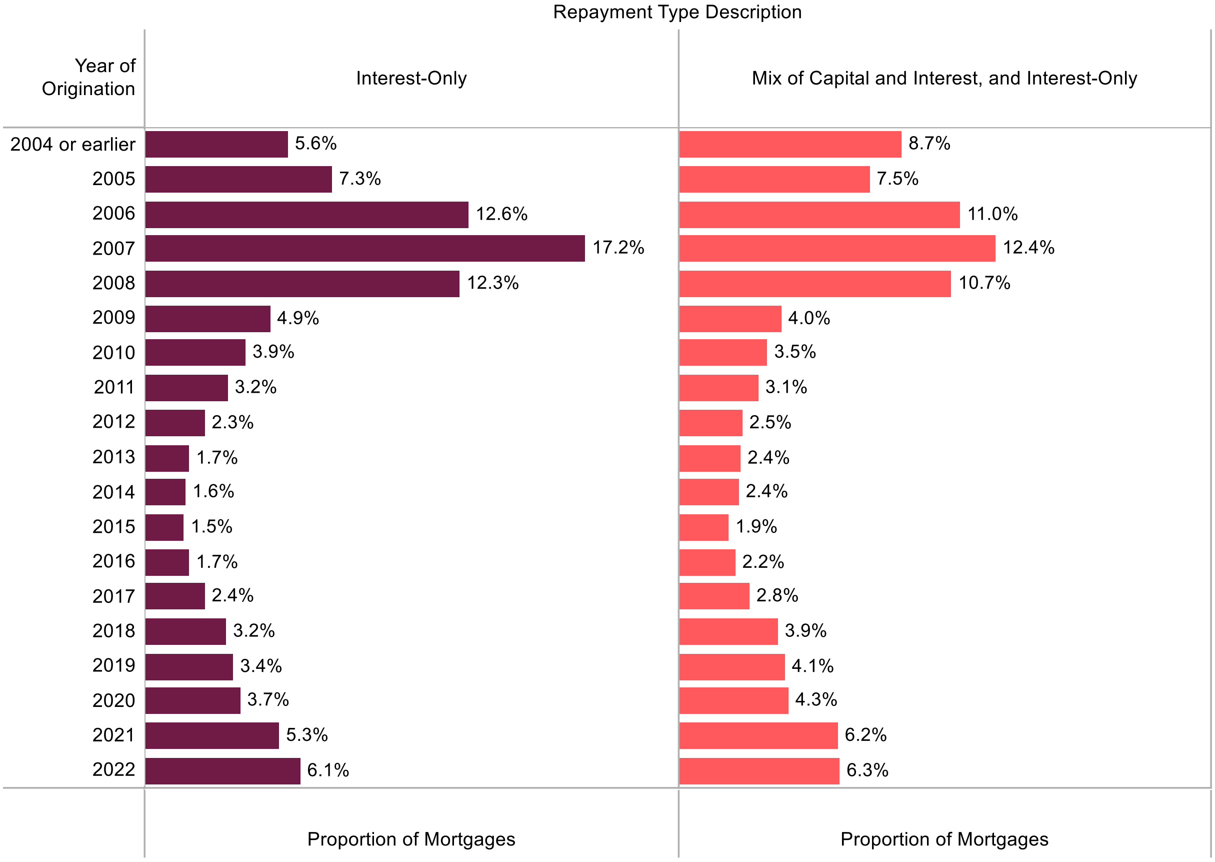
55% of existing interest-only mortgages were taken out in the period before the financial crisis, in the years up to and including 2008. This compares with 50% of part-and-part mortgages, and just 12% of capital and interest mortgages. See figure 26. Figures 27 and 28 show a more detailed breakdown.

Figure 26. Year of origination (2008 and earlier, and 2009 and later), proportion of mortgages by repayment type



Source: FCA Product Sales Data (PSD)

Figure 27. Year of origination, proportion of mortgages by repayment type



Source: FCA Product Sales Data (PSD)

Figure 28. Year of origination, number of mortgages by repayment type

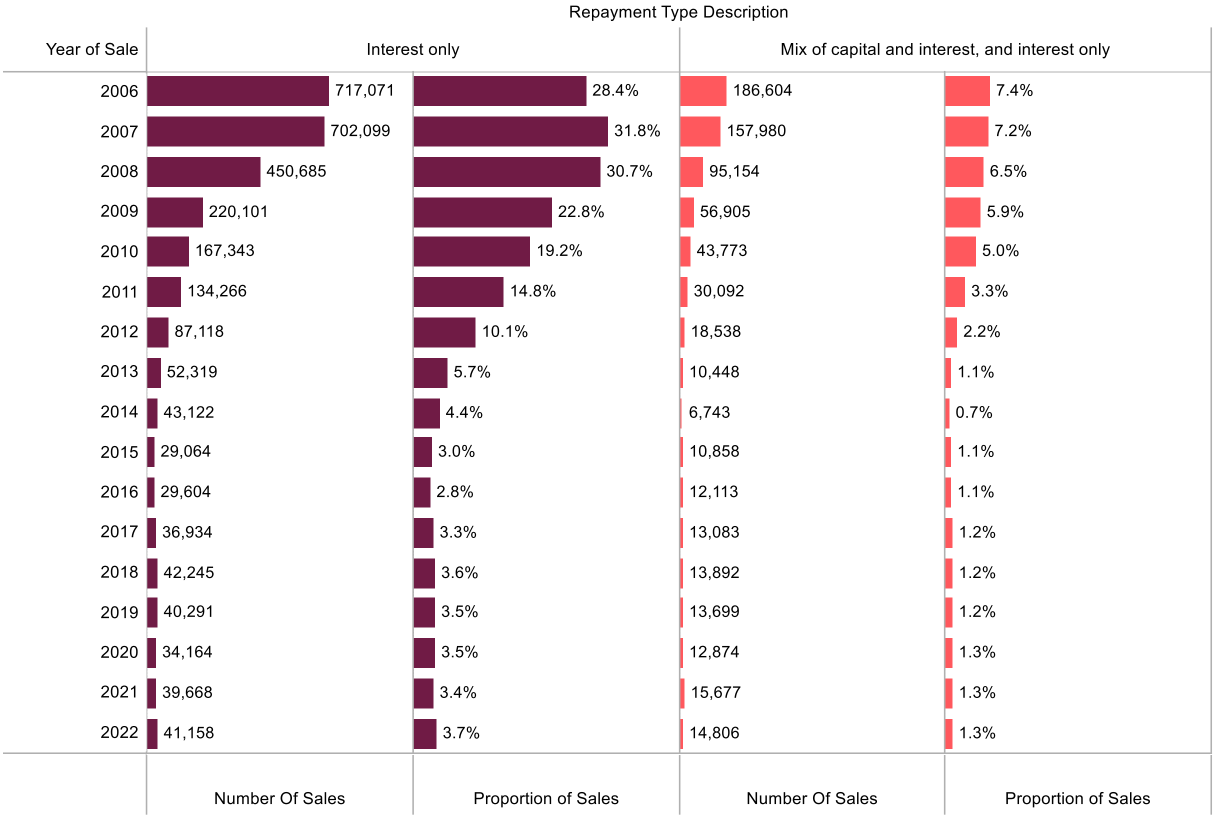
Year of Origination	Repayment Type Description		
	Interest-Only	Mix of Capital and Interest, and Interest-Only	Grand Total
2004 or earlier	41,947	21,322	63,269
2005	54,588	18,306	72,894
2006	94,473	26,876	121,349
2007	128,895	30,304	159,199
2008	91,824	26,069	117,893
2009	36,660	9,779	46,439
2010	29,533	8,465	37,998
2011	24,199	7,637	31,836
2012	17,453	6,111	23,564
2013	12,987	5,965	18,952
2014	11,738	5,764	17,502
2015	11,241	4,733	15,974
2016	12,796	5,445	18,241
2017	17,710	6,835	24,545
2018	23,819	9,495	33,314
2019	25,594	10,073	35,667
2020	27,911	10,398	38,309
2021	39,362	15,155	54,517
2022	45,590	15,423	61,013
Not Known	1,204	24	1,228
Grand Total	**749,524**	**244,179**	**993,703**

Source: FCA Product Sales Data (PSD)

From 2009, consumers were much less likely to take out interest-only mortgages, as illustrated in figure 29. The main reason for this was the tightening of lending criteria that took place following the financial crisis. In the period immediately before the financial crisis, consumers could take interest-only mortgages without providing details of how they would repay the capital at the end of the term. Consequently, they may not have had a credible repayment plan. Many consumers took interest-only mortgages to keep their monthly mortgage payments down, which enabled them to take a larger mortgage than they would have been able to afford on a capital and interest basis. Many such consumers may have intended to formulate a repayment plan in the future or move to a capital and interest mortgage. The extent to which they have done so is not clear from our mortgage data. The consumer research published alongside this report considers the current situation of interest-only borrowers' repayment plans.

From 2009, lenders' risk appetites tightened in response to the financial crisis. This was followed by a tightening of regulatory expectations. From 2014 lenders were required to check if consumers had a credible repayment plan before granting them an interest-only mortgage. The volume of new interest-only mortgages sold reduced significantly from 2009, and remains low today.

Figure 29. Interest-only sales by year



Source: FCA Product Sales Data (PSD)

Closed book mortgages

Closed book mortgages are mortgages held in a mortgage book that is closed to new customers. It is usually held by an inactive firm, and the customer is unable to switch to a new mortgage product with that entity. An inactive firm is either a lender that no longer lends to new customers (an inactive lender) or an entity that is not a lender and may not be regulated by the FCA.

There are currently just over 174,000 mortgages in closed books, which is just over 2% of all mortgages. This has fallen from 195,000 (as of H1 2021) as reported in the Mortgage Prisoner Review.

95% of current closed book mortgages were originated before 2009. They are much more likely to be interest-only mortgages than active book mortgages (which are mortgages that are not in closed books). 53% of closed book mortgages are interest-only, compared with 8% of active book mortgages. See figure 30.

To put this in context, there are currently just over 8,500,000 regulated mortgage contracts. 92,000 of these are closed book interest-only mortgages, which is just over 1% of the total number of regulated mortgages. This compares with 658,000 active book interest-only mortgages, which is 8% of the total number of regulated mortgages.

12% of the total population of regulated interest-only mortgages are closed book mortgages, and 88% are active book mortgages.

For more information on closed book mortgages see Annex 1 of the Mortgage Prisoner Review.

Figure 30. Repayment type by number, active books compared with closed books

		Book Type					
		Active books		Closed books		Grand Total	
Repayment Type	**Repayment Type Description**	**Number of Mortgages**	**Proportion of Mortgages**	**Number of Mortgages**	**Proportion of Mortgages**	**Number of Mortgages**	**Proportion of Mortgages**
Capital and Interest	Capital and Interest	7,478,730	89.3%	79,953	45.9%	7,558,683	88.4%
	Total	**7,478,730**	**89.3%**	**79,953**	**45.9%**	**7,558,683**	**88.4%**
Interest-Only	Interest-Only	657,549	7.8%	91,975	52.8%	749,524	8.8%
	Mix of Capital and Interest, and Interest-Only	241,971	2.9%	2,208	1.3%	244,179	2.9%
	Total	**899,520**	**10.7%**	**94,183**	**54.1%**	**993,703**	**11.6%**
Grand Total		**8,378,250**	**100.0%**	**174,136**	**100.0%**	**8,552,386**	**100.0%**

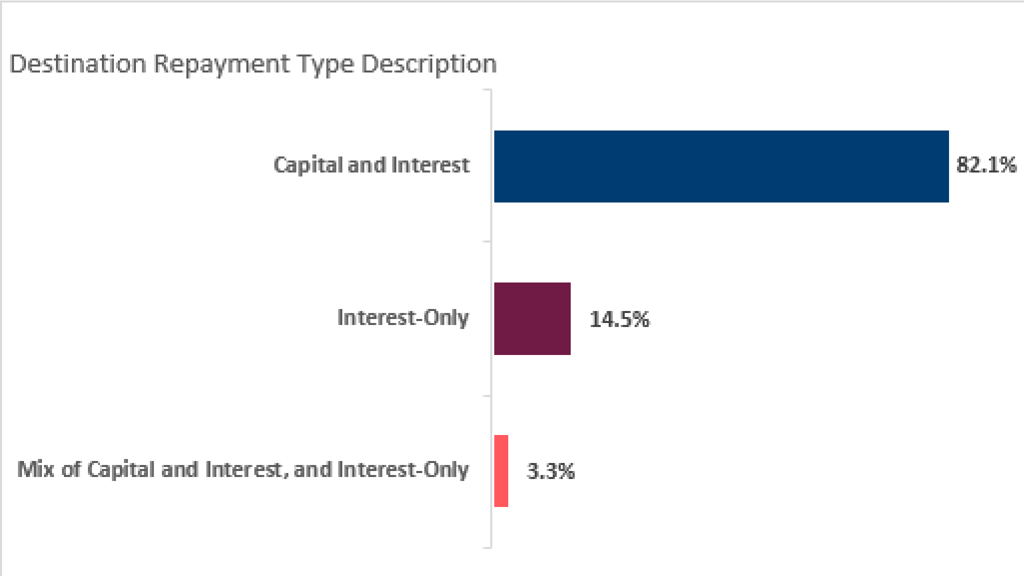
Source: FCA Product Sales Data (PSD)

Ability of interest-only borrowers with closed book mortgages to change their mortgages to capital and interest

We have undertaken analysis of closed book mortgages that remortgaged to other lenders during the six-month period H2 2022 (i.e. July to December 2022). We found that during this period, 14,500 closed book mortgages were repaid. Of these, we could identify 2,400 that had remortgaged to another lender.

1,100 (46%) of this 2,400 were originally interest-only mortgages. Of these 1,100 interest-only mortgages, 900 (i.e. 82%) had been replaced with a capital and interest mortgage. See figure 31.

Figure 31. Closed book interest-only mortgages that remortgaged in H2 2022 – destination repayment type



Source: FCA Product Sales Data (PSD), FCA estimates

Annex 1: Technical note on data and methodology

In this report we set out analysis of data on interest-only mortgages that is reported to us by firms in the regulatory return 'Product Sales Data: Mortgage Performance Data' (PSD007).

The analysis is based on data covering the half year period H2 2022 (i.e. 1 July 2022 to 31 December 2022) and reflects the position of the mortgages at the end of that period i.e. 31 December 2022.

We excluded from our analysis second charge mortgages, and mortgages held by lifetime mortgage providers, because of the different way these products operate. We also removed mortgages which were redeemed during the reporting period (H2 2022).

For some analysis, where we need to refer to the characteristics of the mortgage at the point of sale, such as consideration of current LTVs, we also use data from 'Product Sales Data: Mortgage Sales Data' (PSD001). This contains data on regulated mortgages at the point of sale. In such cases, we match mortgages contained in PSD007 with mortgages contained in PSD001.

Matching current mortgage records in PSD007 with the original record of sale in PSD001

We matched open mortgages in PSD007 in 2022 H2 to those mortgages in mortgage sales data, PSD001. PSD001 has information about the mortgage at the point of origination, which is necessary for us to be able to estimate a loan to value and certain characteristics of borrower at origination.

We are not, however, able to match all the mortgages. There are two reasons for this:

PSD001 was first collected in Q2 2005. 51,553 interest-only and 24,811 part-and-part mortgages were opened before this and therefore we do not have the origination data for these mortgages.

There is not a unique identifier for each mortgage across both datasets, so we match mortgages on data that should not change between origination and reporting in the last reporting period of PSD007. But if there are issues in the reporting of this data, for example, an incorrect or missing postcode or date of birth, then we cannot match the mortgage. We estimate that 142,383 interest-only mortgages and 31,002 part-and-part mortgages are impacted by this.

PSD007 and PSD001 are linked based on a unique key, which is created by concatenating full postcode, date of birth of the main borrower (i.e. first borrower) and origination date in both datasets. Each set is deduplicated before the match.

Where we use matched data, we then scale our matched sample to the remaining interest-only mortgages (unless stated otherwise) using the relevant match rates detailed above, which are 74.1% for interest only mortgages and 77.1% for part-and-part mortgages, i.e. 74.9% overall.

As some mortgages cannot be matched, this means that the numbers and proportions we report for some of the mortgage characteristics are estimates.

Calculating current LTVs

To estimate loan to value (LTV) for each mortgage, we need the current lending balance and the current property value.

We take the current lending balance as of H2 2022 from PSD007.

We estimate the current property value by inflating the property value at the point of origination, which we take from PSD001. We use the HM Land Registry regional house prices to work out indices of house price change since the mortgage was sold, which we then use to inflate the property value at origination to the current property value.

We then estimate current LTV by calculating the current balance as of December 2022 as a percentage of the estimated current property value.

As explained above, because we need to match the current record from PSD007 with the original sale record reported in PSD001, we cannot match all accounts, which means that the numbers and proportions we report for LTVs are estimates.

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