



Historical sources of mortgage interest rate statistics

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The Bank of England compiles and publishes mortgage interest rate statistics starting with 1995 data. But other sources of mortgage rates data, which could be used to supplement these statistics, are available from the One Bank Research data sets compiled by the Bank of England. A new tranche of data was added recently, extending the mortgage rates back to 1853. This article describes the different sources of mortgage rates in the data set and explains how mortgages were priced in the past.

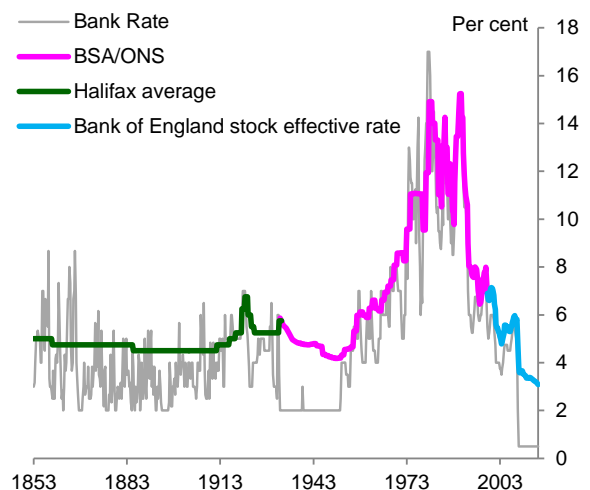
Introduction

Mortgage interest rates data are important, both from a policy and household decision-making perspective. In July 2015 the Bank of England added to the historical data on mortgage rates, providing data back to the mid-1850s.¹ This data set can be used alongside currently published mortgage interest rates statistics.²

In this article, we provide an example of how the different sources of mortgage rates data can be spliced together in a continuous series, incorporating both the sources of historical mortgage rates and currently published effective rates on the stock of fixed and variable mortgages. This combined series is shown in Chart A.

The series can be a useful tool to assess the relationship between policy rates (Bank Rate in Chart A) and mortgage rates. It can also be used in analysis of other long-run economic variables provided in the 'Three Centuries' data set.

Chart A: Spliced average/effective stock rate on mortgages, with Halifax mortgage rates



Sources: See Tables 1 and 2.

This article provides an overview of the sources behind this chart, with some information explaining how pricing in the mortgage market has changed over time.

¹ For more details see the worksheets '15. Interest rates & asset ps' and '34. Qrtly loan rates 1925+' in the spreadsheet 'Three centuries of data – version 2.2', available at www.bankofengland.co.uk/research/Pages/onebank/threecenturies.aspx.

² See, for example, Bankstats table G1.4, available at www.bankofengland.co.uk/statistics/Pages/bankstats/current/default.aspx.

The sources are listed in Table 1 and Table 2 below. The series in Chart A is composed of an average of the Halifax building society rates, the Building Societies Association (BSA) or, Office for National Statistics (ONS) building society average rate, and the Bank of England effective rate on the stock of mortgages.

Table 1: Sources of historical mortgage rates

| Source | Details | Time period |
|---|--|-------------|
| Halifax | Appendix of <i>A hundred years of the Halifax, the history of the Halifax building society 1853-1953</i> , by Oscar Hobson. The rates are presented as ranges, i.e. minima and maxima. | 1853-1952 |
| Building Societies Association (BSA) or, Office for National Statistics (ONS) building society average rate | Average rates were published on an annual basis for the period 1929-1996 in the BSA Factbook, and on a monthly basis for the period 1984-2007 by the ONS in their <i>Financial Statistics</i> publication (ONS code AJNL). Earlier annual rates were compiled from returns made to various building society regulators. From 1984, weighted average end-month rates were calculated for the 20 largest societies (at January 1984), and then weighted together based on each society's share of the residential mortgage market. The sample of societies was updated in 1996 to include around 30 of the largest building societies (Marfleet, 2002). | 1929-2007 |
| BSA recommended rate | | 1939-1983 |

Table 2: Sources of recent mortgage rates

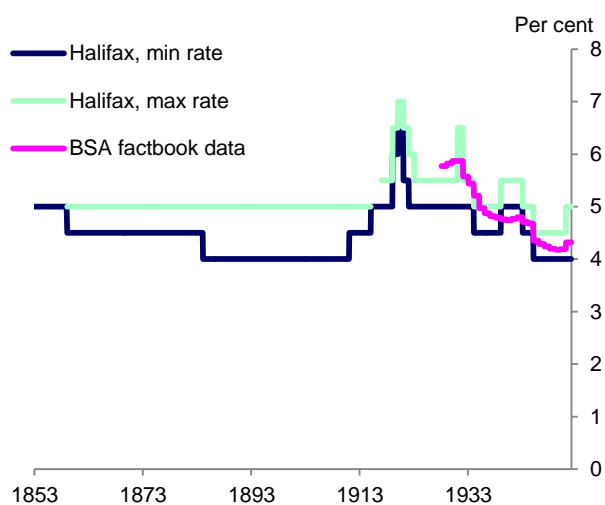
| Source | Details | Time period |
|---------------------------------|--|--------------|
| Bank of England quoted rates | Quoted rates represent average end-month mortgage rates offered by lenders and the individual rates are sourced from Moneyfacts Group. These rates were originally weighted using monthly balance sheet returns, covering about 90% of gross mortgage advances. Weights are now derived from the gross advances reported on the Bank's statistical return Form ER (Effective Rates). Average rates are compiled for different loan-to-value products, different variable rate products, and different periods of fixation for fixed-rate products. For more details see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx . | 1995-present |
| ONS basic rates | Bank of England Quoted Rates for SVRs were also published by the ONS, as 'basic rate' mortgages for banks, building societies (until 2007), and a combined banks and building society series (until 2011) (Marfleet, 2002). | 1995-2011 |
| Bank of England effective rates | Prior to the introduction of its monthly statistical return Form ER in 1998, the Bank introduced an informal quarterly survey of average interest rates in 1992. This was intended to assist the ONS in the compilation of the National Accounts, but later became increasingly important within the Bank for conducting monetary policy and monitoring financial stability. As a consequence, the survey was put onto a monthly basis from October 1998 and, from September 2000, was formalised as a statutory return under the Bank of England Act 1998. In 2004, the data range was expanded to collect gross new business, and later in 2011, further detail on specific fixation periods, and floating rate (SVR and Bank Rate Tracker) mortgage rates were added to the form. The data set includes effective stock mortgage rates, which has the longest continuous series in the effective rates data collection. For more details see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/effective_int.aspx . | 1999-present |

Building society rates: 1853-1952

Building societies originated in the mid 19th century during the industrial revolution to enable workers to pool resources, buy land and build homes. Members deposited savings in an interest-paying fund, which in turn was available for others to borrow in the form of mortgage loans, on which they were charged interest. Building societies were the primary source of mortgage lending through much of the 19th and 20th centuries (Anderson, 2004).

In the historical data set, the earliest rates have been sourced from the Halifax. Average rates are also available from the Building Societies Association (BSA) from 1929, and Chart B shows that these mostly lie within the range of the Halifax rates. The BSA, originally the Building Societies Protection Association, was formed in 1869, acting as the national body for the industry.

Chart B: Halifax and BSA mortgage rates, 1853-1952



Source: Historical database referenced in footnote 1.

Building society rates: 1929-1980s

In the 20th century, building societies accounted for the vast majority of the stock of mortgage lending and until 1980 operated an interest rate 'cartel' whereby the BSA Council recommended mortgage interest rates to be charged by its members (Anderson, 2004). Under this system mortgage rates were neither adjusted frequently, nor did they fully price in changes in market conditions (Lomax and Callen, 1990).

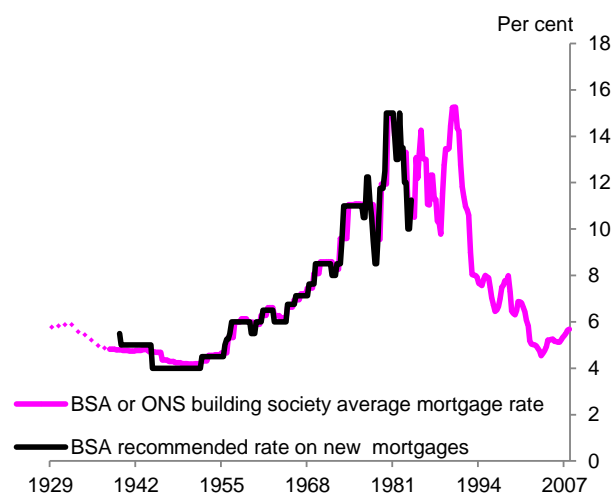
Towards the end of the 1970s competition for retail deposits increased with individual building societies

offering accounts outside the recommended rates system, and consequently a significant proportion of lending was undertaken at higher rates than recommended by the 'cartel'. In September 1981, the BSA decided it would recommend only ordinary share (a form of deposit) and base mortgage rates (or standard variable rate). Later, in October 1983, it announced that it would only advise, rather than recommend rates. From November 1984, the BSA merely co-ordinated the timing of interest rate changes and indicated their approximate magnitude. Finally, in 1986 this limited role was abandoned. Since then, the setting of mortgage rates has been decided by individual lenders. The abolition of the building societies' interest rate 'cartel' led to mortgage rates moving more in line with money-market interest rates and, in general, being above them (Bank of England, 1990).

Also in 1983, tax arrangements changed enabling interest to be paid gross, leading to improvement in building societies' access to wholesale market funding. They were able to continue funding lending when experiencing a shortfall in retail deposits by using wholesale funding instead (Bank of England, 1990).

Chart C shows both the BSA's recommended rate and the average building society mortgage rate based on annual, and later monthly, returns provided by all building societies in the UK.

Chart C: ONS/BSA mortgage rates



Source: Historical database referenced in footnote 1.

Recent data

Before the 1980s almost all mortgages were priced at each lender's standard variable rate (SVR), which varied little between lenders and hence there was

no need for the official calculation of an average rate. During the 1980s and 1990s, the market for household loans became more competitive and dynamic. The introduction of more complex mortgage products led to the Bank's growing need for more information about mortgage rates.

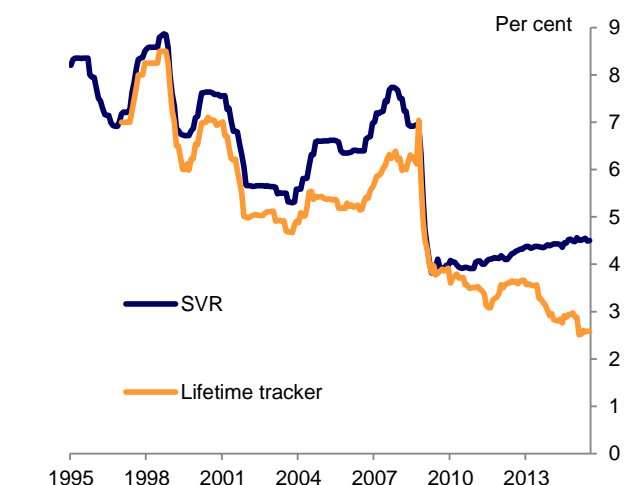
For example, fixed-rate mortgages were first offered in 1989, and were until the mid-1990s a fairly small share of new mortgage lending. The majority of mortgages were at a variable rate and so the rates charged for new mortgages would move in the same way as rates on the stock of existing mortgages.

The Bank began to compile and publish average interest rate statistics in the late 1990s: quoted interest rates data are available from 1995, and effective interest rates data from 1999.

Some examples of quoted rates are provided in Charts D and E, and effective rates series are shown in Chart F. An array of series are available through the Interactive Database.³

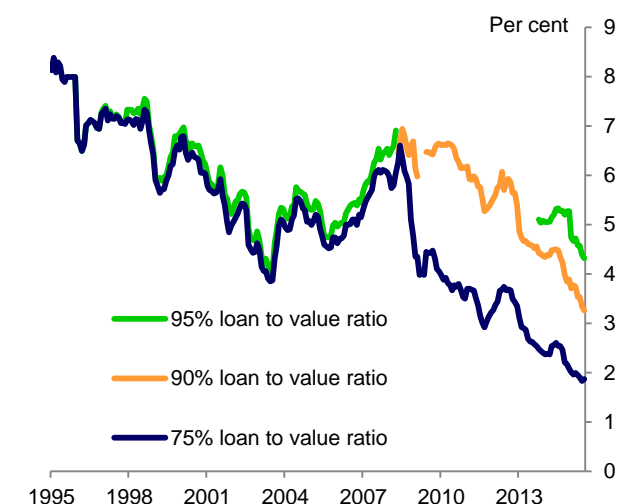
In the Interactive Database, rates data are available in the 'Interest and Exchange Rates Data' section. Users can expand the 'Effective Interest Rates' module from the list and find stock mortgage rates under 'Outstanding sterling loans by UK monetary financial institutions (excl. central bank)', 'Households', 'Secured on Dwellings'. New business rates can be found under 'New business rates for sterling lending undertaken by UK monetary financial institutions (excl. central bank) in the month', 'Households', 'Secured on Dwellings'. To access quoted rates, users can expand the 'Quoted household interest rates' module from the list and find mortgage rates under 'Secured lending (mortgage) rates'.

Chart D: Quoted Rates: SVR and tracker rates



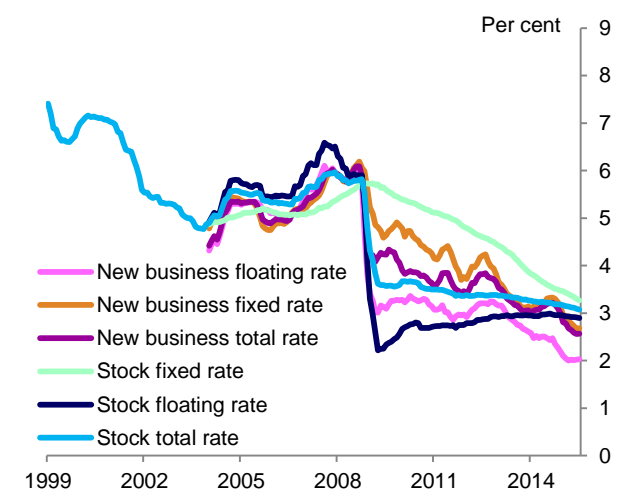
Source: Bank of England Interactive Database. Series codes: IUMTLMV and IUMB24.

Chart E: Quoted Rates: 2 year fixed rates



Source: Bank of England Interactive Database. Series codes: IUMB34, IUMB482 AND IUM2WTL.

Chart F: Effective mortgage rates



Source: Bank of England Interactive Database. Series codes: CFMBJ39, CFMBJ96, CFMBJ95, CFMBJ78, CFMBJ39 and CFMHSDE.

³ For more details, please see www.bankofengland.co.uk/boeapps/iadb/newwintermed.asp.

References:

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