

Lenders Are Stretching Further. The Cracks Have Not Yet Shown.

THIS WEEK AT A GLANCE

- Lenders are underwriting further up the risk curve than the headlines admit.
- Calm arrears data is pricing last year's cheaper debt, not this year's.
- Registration turns landlord compliance into the next test of discipline.

Growth accelerated in July while property finance quietly took on more risk beneath a calm surface. UK GDP rose 0.4% month on month, services led as usual, while the Bank of England's Agents reported further softening across residential and commercial property and private housing new work fell 4.9% month on month, the largest single drag on construction output. Growth and property health are not the same story this month, and that gap is the backdrop for everything below.

The sharper story sits inside the Bank of England and FCA's Q2 mortgage lending statistics. Lenders wrote more high loan-to-value business than at any point since 2008, and pushed loan-to-income multiples up sharply too, while arrears and possessions both fell over the same quarter. Rising leverage against falling stress is not a contradiction. It describes a lag, a book that has not yet aged into the pricing borrowers face today, not a problem that has been resolved.

Rates and lending, demand and transactions, London and this week's regulatory timetable all connect through the same question. Does a mortgage book that looks calm on arrears actually reflect safer lending, or is it simply younger than the debt that would show the strain. The evidence below points toward the second answer.

RATES AND LENDING

Financing conditions hardened again this week even as the Bank of England held its ground. Bank Rate held at 3.75% on 30 July, a 6 to 3 vote with 3 members still preferring an immediate rise, and the next decision falls on 17 September, 1 day after August's inflation print. July CPI held at 2.9% year on year, core CPI at 2.6% and services CPI at 3.4%, leaving the committee little cover to move decisively in either direction.

The wholesale market did the committee's job for it. The UK sold £4.25bn of a new 30-year gilt on 8 September at 5.8168%, the highest yield at a long-dated syndicated gilt sale since the Debt Management Office was established in 1998, and Knight Frank puts the 10-year gilt at 5.16% on 9 September, 63 basis points higher year to date. Moneyfacts recorded the average 2-year fixed mortgage rate rising 4 basis points to

5.63% on 7 September, its highest level since 10 August, with increases confirmed across HSBC, NatWest, Santander, Lloyds, Halifax and Barclays.

Underneath that pricing, the Q2 lending statistics show lenders extending further up the risk curve rather than cutting price. Gross advances rose 31.7% year on year to £77.4bn, but new commitments, the forward-looking pipeline, rose just 1.3% to £79.2bn, a gap that says the book completing now was agreed on materially easier terms than the book being agreed today. Lending above 90% loan-to-value reached 8.4% of advances, the highest share since 2008, high loan-to-income lending reached 46.0% of advances, up 4.6 percentage points on the year, while arrears fell 7.3% and possessions fell 15.6% year on year. Lenders are supporting affordability by lending further into income and deposit, not by cutting the price of debt, and a calm arrears book reflects money lent when funding was materially cheaper than it is now.

DEMAND AND TRANSACTION ACTIVITY

Buyer activity is recovering, but from a base that reveals how far it fell rather than how healthy it now is. RICS new buyer enquiries improved to minus 19 in August, the least negative reading since January, and agreed sales improved to minus 17 from an April low of minus 38, while new instructions stayed flat at 0, meaning the recovery in demand has not yet pulled meaningfully more stock into the market.

Rightmove recorded buyer demand up 5% in the first week of September against a typical seasonal uplift of 0.4%, with demand narrowing from 14% below last year at the end of August to 9% below in the first week of September. Rightmove itself cut its 2026 national asking price forecast to a range of 0% to 2%, citing affordability, mortgage pricing and the forthcoming Budget as reasons buyers remain price sensitive even as they return to the market.

That improving activity is exactly the backdrop against which lenders are writing more high loan-to-value and high loan-to-income business. Buyers are coming back into a market where the price of borrowing has moved against them since the spring, and the way many are getting deals done is by borrowing more relative to income and deposit, not by finding cheaper money. Demand recovering and leverage broadening at the same time is not evidence of a healthier market on its own. It is evidence of the same borrower stretching further to reach the same outcome.

LONDON

London's demand rebound is real and it is outrunning the rest of the country, but the city is stretching into that recovery with less price cushion behind it than anywhere else. Rightmove recorded London buyer demand up 9% in the first week of September, ahead of the 5% national figure, a search-and-enquiry signal rather than a completed sales one.

Lloyds' August regional data put Greater London prices down 1.5% year on year and the South East down 1.6%, the 2 weakest readings in the table, while the Bank of England's Agents said private housebuilding was particularly weak in London specifically. Savills puts prime central London values down 2.5% year to date and 26% below the 2014 peak, describing a genuine buyer's market where sellers are adapting

to a changed market, even as sales above £10m rose 24% year on year, evidence that liquidity at the very top can recover before pricing power does.

A London buyer chasing this rebound is borrowing into a market where prices have already fallen furthest and financing has just become more expensive, at the same time lenders nationally are underwriting more of every purchase against income and deposit than at any point in almost 2 decades. London is not immune to the leverage story building elsewhere in the data. With less price support behind it, London is the market with the least room to absorb it if this year's higher priced debt behaves differently to last year's.

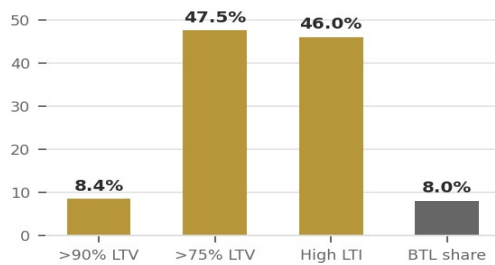
REGULATORY AND POLICY DEVELOPMENTS

The rental sector's own compliance timetable has just moved from statute to a fixed calendar, landing on landlords at the same time the lending data above shows the mortgage market taking on more risk to keep transactions moving. The national Register your rental property service launches on 15 December 2026, starting in the West Midlands and rolling out regionally over 12 months, a legal requirement with fines for non-compliance.

Once a region is called forward, landlords with occupied properties have 3 months to register, and every actively letting landlord in England must be registered by 14 November 2027, with future legislation extending the requirement to unoccupied properties before marketing once the public facing side of the service launches.

The near term issue here is operational rather than valuation led. Compliance friction and data transparency are landing on a rental market already showing constrained landlord instructions, at minus 14 in August's survey against tenant demand recovering to plus 18, and it should not be read as proven cause of rent growth on its own. Layered onto a mortgage market where buy-to-let's own share of lending already sits at its lowest since 2024, the timing adds genuine cost and administrative burden to the segment of the market with the least appetite to absorb one right now.

Q2 2026 share of mortgage lending

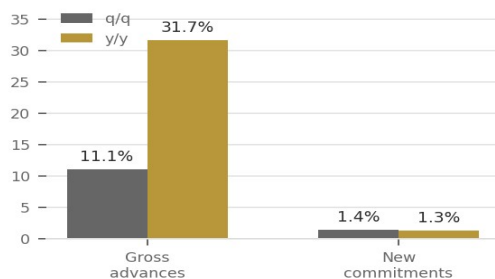


Lending Is Stretching Wider

3 separate risk measures sit at or near a post-2008 high in the same quarter, while buy-to-let's own share of lending fell to its lowest since 2024. Lenders are broadening how they reach affordability, not the price of the debt itself.

Source: Bank of England Mortgage Lenders and Administrators Statistics, Q2 2026

Growth, Q2 2026

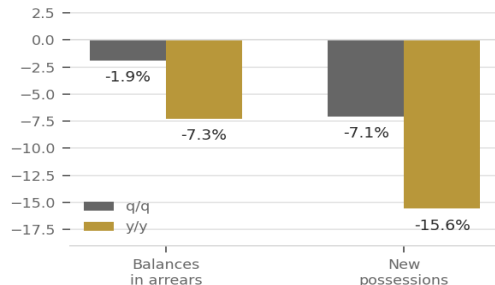


Advances Outrun The Pipeline

The loans completing this quarter were agreed on materially easier terms than the loans being agreed today. A pipeline growing barely 1% against advances up 32% is the clearest sign the easy phase of this cycle already sits behind it.

Source: Bank of England Mortgage Lenders and Administrators Statistics, Q2 2026

Change, Q2 2026



Arrears Are A Lagging Signal

Falling arrears and possessions describe debt written before this year's repricing, not the terms borrowers face now. A calm book today says nothing about a book underwritten at current pricing.

Source: Bank of England Mortgage Lenders and Administrators Statistics, Q2 2026

> 90% LTV SHARE

8.4% ▲

Highest since 2008

HIGH LTI SHARE

46.0% ▲

Up 4.6 points on the year

ARREARS BALANCES

-7.3% ▼

Year on year, a lagging signal

2-YEAR FIXED RATE

5.63% ▲

Highest since 10 August

Sources: Bank of England Mortgage Lenders and Administrators Statistics; Moneyfacts. Data as at week ending 13 September 2026.

DAVID'S VIEW

This is not a lending crisis. It is a lending market quietly deciding who carries the risk if the calm does not hold.

The same quarter that saw loan-to-value lending reach its broadest share since 2008, and loan-to-income lending climb 4.6 percentage points on the year, is the quarter in which the rental sector's own compliance calendar turned from promise into a fixed date. Landlords now face a mortgage market lending more generously on leverage even as it prices debt more expensively, a registration timetable adding cost and administrative burden from 15 December, and a buy-to-let lending share already at its smallest since 2024.

Falling arrears and possessions are being read by some as evidence the market has absorbed higher rates comfortably. That reading mistakes a lagging signal for a current one. The debt behind those numbers was underwritten before this year's repricing, when the 10-year gilt sat 63 basis points below where Knight Frank puts it today. The real test arrives as this year's higher priced lending ages into the book, not before.

This is a market that rewards documented affordability over documented intention, and the lender who priced a loan a year ago is not the lender pricing it now. At Sandhütel, every financing decision gets underwritten against where the curve sits today, not against how comfortable the arrears data has looked so far.

"Calm arrears prove when a loan was written, not that it was written safely."

THE WEEK AHEAD

Tuesday 15 September brings the ONS labour market and PAYE release, the first test of whether wage growth can keep pace with a mortgage market lending further into income multiples. Wednesday 16 September delivers August's CPI, the ONS's private rent and house price data and Barratt Redrow's FY26 results, alongside the London Real Estate Forum, all landing the day before the Bank of England's rate decision.

Thursday 17 September is the Bank of England's Monetary Policy Committee decision, arriving a day after inflation data that will shape how much room the committee believes it has. Savills' 291 lot property auction, running 15 and 16 September, rounds out a week that tests both the financing story above and the transaction pipeline behind it.



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