

Bank lending and the housing system: Why credit allocation matters for renters

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The growth in mortgage lending in the UK has contributed to higher house prices without delivering a sustained increase in homeownership, leaving more households dependent on the private rented sector. Mortgages now make up 56% of UK bank lending, compared with under 10% for lending to productive industries, and 45% of private renters live in a home with a buy-to-let mortgage. Schemes like Help to Buy, which expand mortgage credit further, won't fix the root causes of the housing affordability crisis. Instead, this requires a joined-up approach to housing and credit policy that limits investor demand, regulates rents, and directs lending towards productive investment, including social housing.

Summary

- Mortgage lending now dominates UK bank lending, and its expansion has contributed to higher house prices. Outstanding mortgage lending reached a record £1,548 billion in August 2026, compared with £267 billion of lending to productive industries
- Mortgage credit also gives landlords more purchasing power, increasing investor demand for housing. Around 45% of private renters live in a home with a buy-to-let mortgage, illustrating how embedded mortgage finance is in the private rented sector
- More mortgage credit has not delivered more homeownership. Since homeownership peaked at 70.9% in 2003, outstanding mortgage credit has tripled while homeownership has fallen to 64.8% and the share of households renting privately has risen from 10.8% to 18.9%
- Expanding mortgage credit further will not solve the housing affordability crisis. This briefing therefore recommends four policy reforms: limiting borrowing by landlord-investors, bringing back rent controls, steering bank lending towards productive investment, and increasing finance for new social housing

Introduction

Mortgage lending accounts for more than half of outstanding UK bank lending. Where banks direct credit matters, because when banks create loans, they are creating new money.¹ Credit used to finance new investment has different economic effects from lending used to purchase existing assets, such as homes. Most mortgage lending finances the purchase of existing homes rather than the construction of new ones, meaning that first-time buyers, existing owners, and investors compete for the same limited stock of housing.² This matters because

¹ Positive Money (2013). [How banks create money](#)

² Ryan-Collins, J. (2024). [Demand for Housing as an Investment.Drivers, outcomes and policy interventions to enhance housing affordability in the UK](#). UCL IIPP Report No. 2024/13

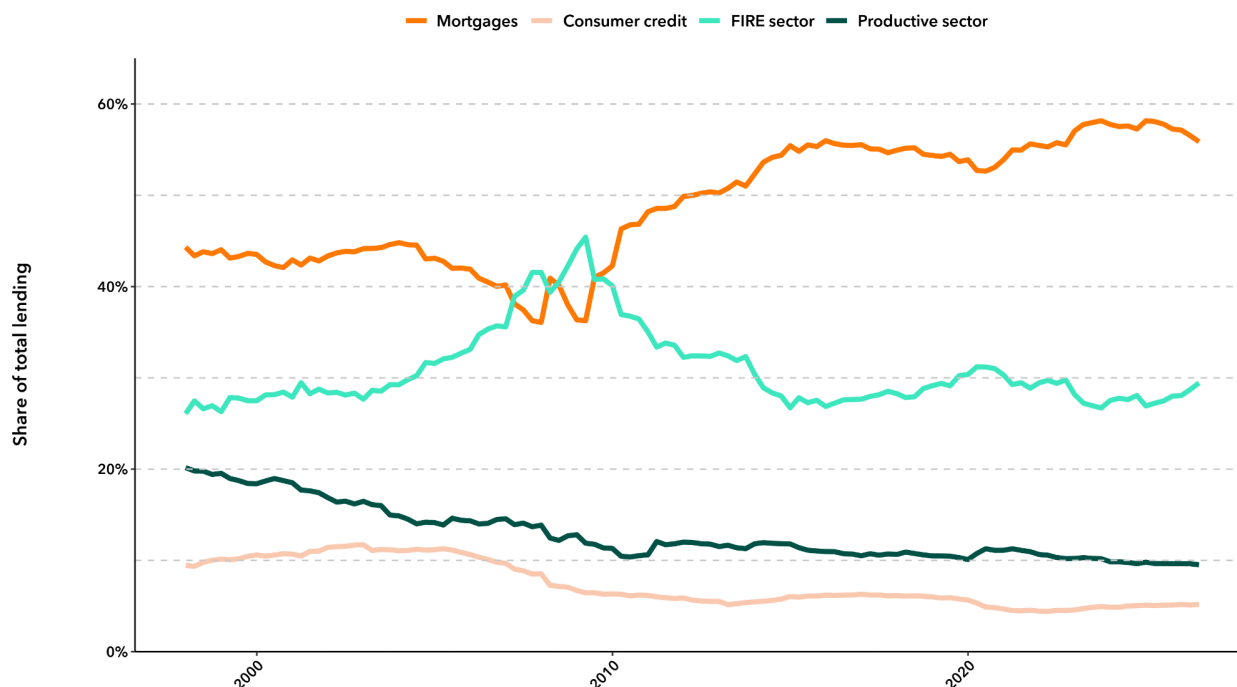
mortgage lending shapes who can buy a home and who is left renting, and how rental housing is owned and financed. This briefing provides an update of where UK banks are lending, and also sets out how that lending affects renters and house prices, drawing on existing evidence. It makes the case for joined-up housing and credit policy, and recommends policy reforms to tackle the affordability crisis.

1. Bank lending has become concentrated in property

Outstanding credit held in mortgages has increased from £1 trillion in 2010 to £1.55 trillion in August 2026 in nominal terms.³ For comparison, lending to the productive sector stood at £267 billion in August 2026.⁴ Figure 1 shows that the proportion of total lending that goes towards mortgages has increased, particularly since 2010, with mortgage lending making up 55.9% of outstanding lending in Q2 2026. In contrast, the share of lending held by the productive sector has fallen from 20% in 1997, to 9.5% by Q2 2026, which is its lowest share since the beginning of the data series.

Figure 1: Mortgage lending now makes up 56% of the total stock of bank lending

Outstanding credit held by each sector as a percentage of total bank lending, quarterly Q4 1997 to Q2 2026 (UK)



Source: Bank of England bankstats tables C 1.2.

Note: FIRE is defined as the financial, insurance and real estate sectors of the economy. Productive industries include: Electricity, gas and water, recreational and community service, agriculture, hunting and forestry, fishing, mining, manufacturers, construction, wholesale and retail, hotels and restaurants, transport, storage and communication, public administration and defence, education providers, health and social work organisations.

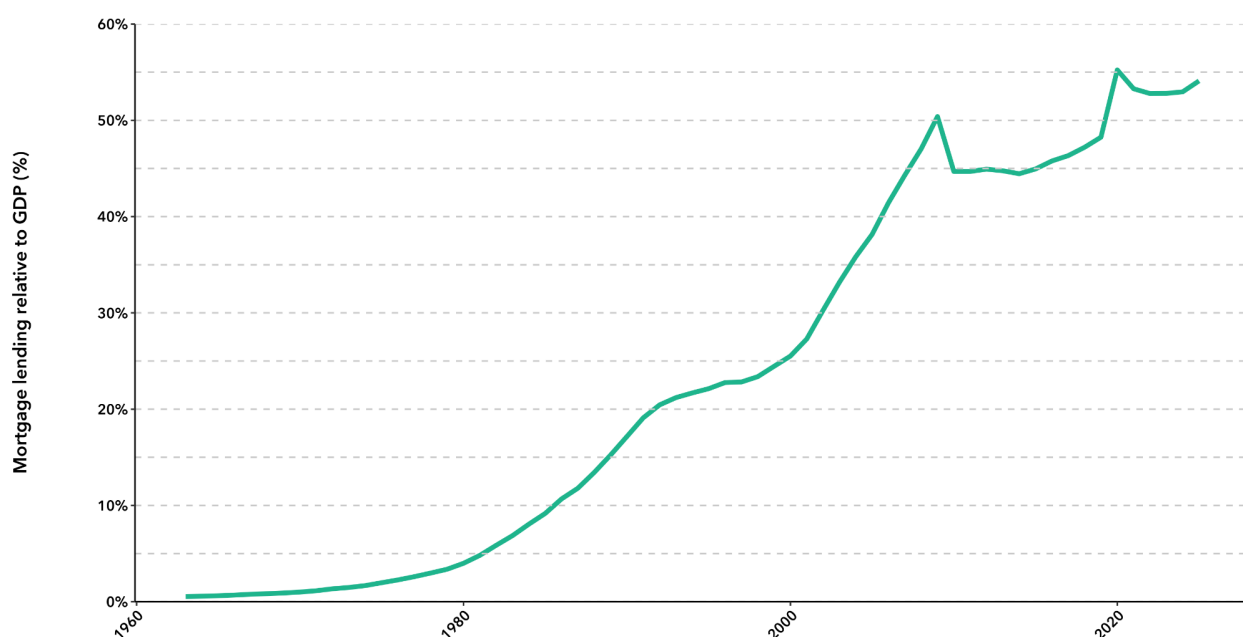
³ Bank of England Money and Credit bankstats tables C1.2

⁴ In this context the 'productive sector' refers to industries not included in the financial, insurance, or real estate sector.

The important point of these developments is not how much bank lending has grown in general, but that a significant proportion of lending is tied to property. For the large shareholder-owned banks who dominate the UK banking system, mortgage lending is attractive, low-risk, and profitable. The disproportionate role of mortgage lending is a result of several factors, including the liberalisation of the banking sector and mortgage market in the 1980s, alongside policies favouring homeownership and property investors.⁵ As Figure 2 shows, outstanding mortgage lending by UK banks has grown relative to the size of the economy since the deregulation of the mortgage market in the 1980s.⁶ It reached 50% of GDP in 2009, then briefly falling before peaking at 55% in 2020, and stood at 54% in 2025. This has reinforced the central role of property in the banking system.

Figure 2: Outstanding mortgage lending by banks has grown substantially relative to GDP

Outstanding mortgage lending by UK banks relative to GDP, 1963 to 2025



Source: Positive Money analysis of Bank of England Money and Credit C1.2 long-run data and ONS GDP figures (nominal).

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⁵ Kazi, D., and Macfarlane, L. (2022). [Banking on Property](#). Positive Money

⁶ The long-run series does not include building society lending on the same basis throughout the period. Building societies were reported separately before 2008, when their reporting was brought onto the same basis as banks. The series should therefore be interpreted as an indicator of the long-run growth of mortgage lending by banks, rather than as a complete measure of total UK mortgage lending. For evidence of the wider growth in mortgage lending, including building societies, see Jordà, Ò, Schularick, M., and Taylor, A. M. (2014). [The Great Mortgaging: Housing Finance, Crises, and Business Cycles](#). NBER Working Paper 20501.

2. How mortgage credit expansion affects renters

For renters, the allocation and expansion of mortgage lending matters because housing stock is being competed for both by households seeking to purchase a home, and by investors seeking a financial asset. An expansion of mortgage lending can raise house prices, making it harder for renters to afford to buy a home of their own. At the same time, mortgage lending to investors through buy-to-let (BTL) finance gives landlords additional borrowing powers to buy homes and expand their portfolios. Together, these mechanisms shape who owns housing, who can acquire rental properties as financial investments, and how many households remain dependent on the private rented sector (PRS).

2.1 Mortgage credit shapes who owns and who rents

More mortgage credit does not necessarily mean more homeowners. Expanding mortgage credit can help individual households who struggle to borrow enough to buy a home, but this does not mean that it will increase homeownership overall. Particularly where housing supply is slow to respond, additional purchasing power can feed into higher prices, rather than a sustained increase in homeownership rates.

Additionally, mortgage credit does not increase purchasing power equally. Homeowners and investors can draw on existing housing wealth to finance further purchases, giving them an advantage over first-time buyers. For example, research finds that a 1% increase in mortgage credit associated with a credit-supply shock results in up to 0.6% higher house prices.⁷ Importantly, the research finds no discernible increase in homeownership, and that additional lending mainly flows to existing owners. The higher prices can make it harder for some households to leave the PRS, increasing dependence on rental housing as a long-term tenure. This impact can occur even with schemes targeting first-time buyers. For example, the experience of Help to Buy illustrates the difference between helping an individual household borrow more and making the housing market more affordable: since the scheme contributed to higher house prices, particularly in already unaffordable areas, it made affordability worse for future buyers.⁸ The scheme did little to improve affordability, with benefits mainly flowing to high-income earners and developers.⁹

Because renters do not own property, the benefits of higher house prices do not flow to them, but rather to owner-occupiers and landlord-investors. More broadly, directing a large share of credit towards property can contribute to the concentration of wealth among asset owners, while crowding out credit available for productive investment.¹⁰

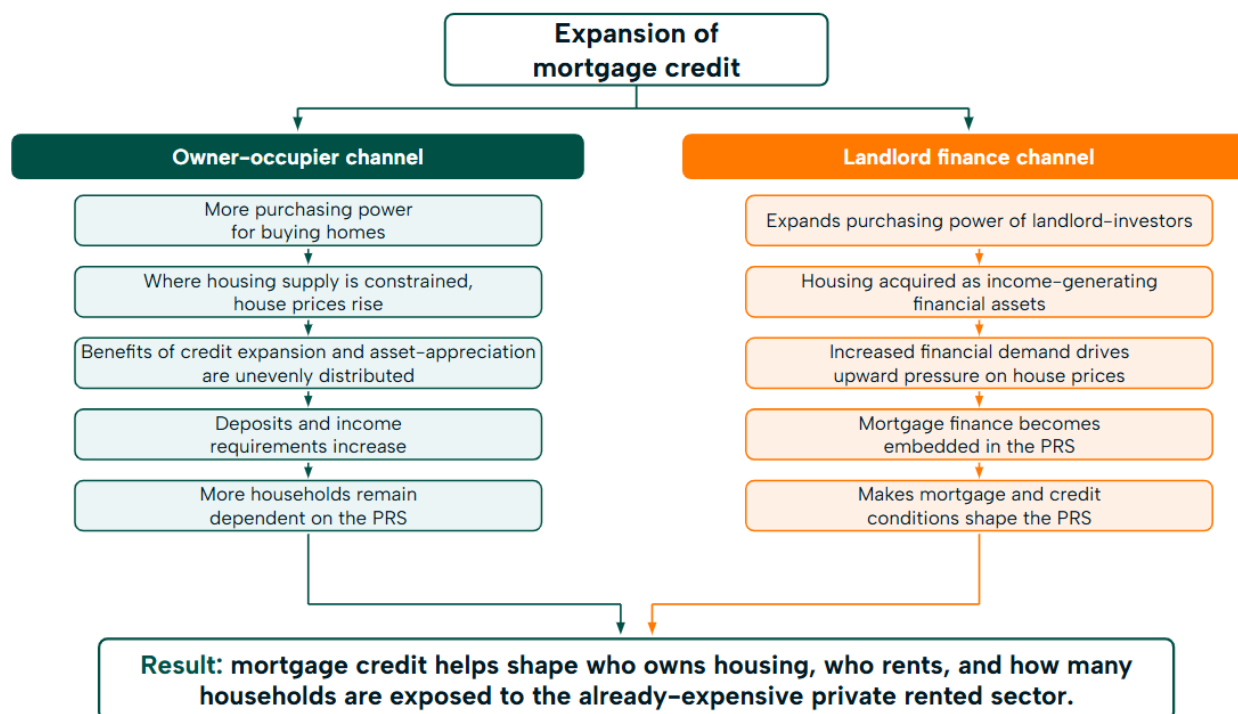
⁷ Waddell, J. and Walker, D. (2025). [More mortgage lending might push home ownership further out of reach](#). Bank Underground

⁸ See Carozzi, F., Hilber, C. A. L., and Yu, X. (2024). [On the economic impacts of mortgage credit expansion policies: Evidence from help to buy](#). *Journal of Urban Economics*. 139, and MHCLG (2026). [Evaluation of the Help to Buy scheme: evaluation findings report](#)

⁹ Boileau, B., Conwell, L., and Levell, P. (2026). [Who benefits from 'Help to Buy' schemes?](#). IFS, and Ibid

¹⁰ See, for example: Siddiki, J., and Wang, Z. (2026). [House Prices and Bank Lending to SMEs: Evidence From UK Local Authorities](#). *Journal of Regional Science*. 66(4), pp. 1210–1220., and Bezemer, D.,

Figure 3: How mortgage credit shapes the housing market and the PRS



2.2 Mortgage finance has put more homes in the hands of landlords

The introduction of BTL mortgages in 1996 increased the purchasing power of landlords and allowed them to expand their portfolios, based on expected rental income. BTL lending has become an important source of landlord finance, with more than half of landlords having some form of BTL borrowing on at least one of their properties.¹¹ BTL lending makes up a significant portion of mortgage lending, and stood at 13.8% of outstanding mortgage lending as of Q2 2026.¹²

The Bank of England estimated in 2023 that 45% of households in the PRS lived in a home with a BTL mortgage, illustrating how mortgage finance is embedded in the rental sector.¹³ In 2024–25, unincorporated landlords declared £12.8 billion in residential finance costs against £59 billion in total property rental income.¹⁴ Their mortgage costs were therefore equivalent to 21.7% of total property income. The expansion of BTL credit has therefore resulted in a

Ryan-Collins, J., van Lerven, F., and Zhang, L. (2023). [Credit policy and the 'debt shift' in advanced economies](#). *Socio-economic Review*. 21(1), pp. 437–478.

¹¹ MHCLG (2024). *English Private Landlord Survey 2024*

¹² Bank of England and Financial Conduct Authority (2026). *MLAR Statistics*. Note that this data is not directly comparable to Figures 1 and 2 due to different methodologies.

¹³ Zemaityte, G., Hughes, E., Blood, K. (2023). [The buy-to-let sector and financial stability](#). *Quarterly Bulletin 2023*. Bank of England

¹⁴ HMRC (2025). *Property rental income statistics: 2026*. Note: Unincorporated landlords are individual landlords who own rental property in their own name, rather than through a limited company or corporate structure. This is therefore only a partial figure since it does not include incorporated landlords, who play an increasingly large role.

significant proportion of rental income now being channeled through mortgaged landlords. Since changes in mortgage costs can affect landlords' finances and decisions, this also means that renters can be indirectly affected by changes in landlords' mortgage costs. Landlord borrowing is a significant source of investor demand for housing, although recent evidence suggests higher mortgage costs have reduced some BTL demand, while cash buyers and other investors have continued to support demand for property investment.¹⁵

3. More mortgage credit, fewer homeowners

The expansion of mortgage credit in the 1980s was intended to increase homeownership. But as house prices rose faster than wages, the size of income, deposit, and mortgage required to purchase a home also increased, raising the barriers facing first-time buyers.¹⁶ The homeownership rate plateaued in 2003 at 70.9%, and has since fallen to 64.8%, while outstanding mortgage credit more than tripled in the same period.¹⁷ Since social housing was simultaneously being privatised, the share of households living in the PRS increased from 10.8% in 2003, to 18.9% in 2024–25. In 1980, private rental costs were approximately 11% of household income, but this rapidly increased to 29% by 1993 after the removal of rent controls in 1988, and private renters have consistently faced substantially higher housing costs than other tenure groups.¹⁸

Alongside the privatisation of social housing and the deregulation of rents, the expansion of mortgage credit has contributed to a housing system in which more households are dependent on the PRS. It has also created a housing–finance cycle in which additional mortgage credit can push up house prices, while higher prices increase the purchasing power of existing owners and strengthen expectations of future gains, encouraging further investment in housing.¹⁹

4. Policy implications and recommendations

The previous sections outlined how mortgage lending has grown, and its impacts on the housing system. The government plans to bring back a version of Help to Buy, called Your First Home.²⁰ But the original Help to Buy scheme pushed up house prices and did little for affordability. This briefing has argued that tackling the affordability crisis requires a joined-up approach to housing and credit policy, with a combination of measures that limit investor demand, protect existing renters, and redirect finance toward productive activities, including new social housing.

¹⁵ Ryan–Collins, J. (2024). [Demand for Housing as an Investment. Drivers, outcomes and policy interventions to enhance housing affordability in the UK](#). UCL IIPP Report No. 2024/13

¹⁶ Byrne, M. (2026). *Beyond Generation Rent: Political Economy, Inequality and the Private Rental Sector*. Polity Press

¹⁷ MHCLG (2025). [English Housing Survey 2024–25: Headline report](#)

¹⁸ Worsdale, R., Elliott J., and Blower, R. (2026). [Under pressure: The affordability challenges facing private renters](#). JRF

¹⁹ Ryan–Collins, J. (2019). [Breaking the housing–finance cycle: Macroeconomic policy reforms for more affordable homes](#). *Environment and Planning A: Economy and Space*. 53(3)

²⁰ MHCLG (2026). [New first-time buyer scheme to be confirmed at Budget](#). Press release

1. Limit borrowing by landlord-investors

As Section 2 outlined, an increase in mortgage credit can put upward pressure on house prices. The Bank of England sets rules on how much banks can lend. To avoid disproportionately impacting first-time buyers, many of whom are currently renters, these rules could aim to limit borrowing by property investors. The Financial Policy Committee should review whether existing rules adequately limit borrowing by investors, including by considering tighter limits on how much investors can borrow relative to the value of a property or its rental income. This is particularly important if schemes such as Help to Buy are revived, since reduced investor lending could offset some of the upward pressure on prices created by policies that increase borrowing. However, this should be assessed carefully alongside measures to increase social housing, for example through buy-back schemes, to avoid any potential negative effects for renters caused by landlord exits.²¹

2. Protect households dependent on the PRS

The deregulation of private rents was followed by rental costs in the PRS rising to an unaffordable level. The reintroduction of rent controls between and within tenancies is therefore an important part of addressing the affordability crisis, as argued by campaigners and recent research.²² In addition to directly addressing the affordability pressures facing renters, rent controls would complement policies aimed at limiting investor demand in the housing market. Since rent controls limit the income that can be extracted from rental properties, this would reduce their attractiveness as financial assets and should therefore dampen upward pressure on house prices driven by landlord-investors, including cash buyers.

3. Steer bank lending towards productive investment

Most bank lending goes towards mortgages for existing homes, in part because the rules banks operate under make this type of lending attractive. Youel (2026) argues that the Bank of England could use the terms on which it lends to commercial banks to change this, making it cheaper and easier for banks to fund productive investment, and less attractive to lend against existing property.²³ This would also make lending for new social housing more attractive to banks.

4. Increase financing for new social housing development

More social housing is essential to provide an alternative to the PRS and homeownership, but this requires more finance for building it. However, the current banking system, dominated by

²¹ Stratford, B., and Beswick, J. (2026). [Taking back control of rents: The impact of rent regulation on affordability, public spending, and landlord profits](#). UCL IIPP

²² See for example; Bangham, G., Brown, G., Harris, M., and Sood, J. (2026). [A modern system for fair rents: How to make private renting affordable](#). NEF; Singer-Hobbs, M., Parkes, H., Walden, T. (2026). [High costs in the private rented sector: The case for action](#). IPPR; Worsdale, R., Elliott, J., Baxter, R., and Blower, R. (2026). [How tax reform would make rent controls feasible to deliver](#). JRF, O'Connor, A. (2025). [5 Reasons why the UK should implement rent controls](#). Homes for Us, and Ibid

²³ Youel, S. (2026). [Taking all the credit: Future-proofing money and credit policy for the 21st century](#). Positive Money

shareholder-owned banks, is not set up to support long-term financing for social housing development.²⁴ Creating a more diverse banking system, with a greater role for community, stakeholder, and public development banks, could help fill this financing gap.²⁵ For example, the government should set up a network of regional mutual banks which could provide financing for affordable housing projects in local communities.²⁶ Furthermore, existing public financial institutions could provide additional finance for social housing investment through providing loans to housing associations.

Conclusion

Mortgage lending dominates UK bank lending, and its expansion has contributed to higher house prices without delivering more homeownership, leaving more people renting. Instead of expanding mortgage credit further, housing and financial policy should limit borrowing by landlord-investors, reintroduce rent controls, steer bank lending towards productive investment, and direct more finance towards new social housing. Your First Home brings this issue into focus, as the experience of Help to Buy shows that expanding purchasing power for individual borrowers can contribute to higher house prices without solving the issue of affordability. Policy must therefore look beyond how much households can borrow to where bank credit is directed, while taking action to make housing more affordable for renters.

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²⁴ Kazi, D., and Macfarlane, L. (2022). [Banking on Property](#). Positive Money

²⁵ Positive Money (2024). [A National Wealth Fund for a just green transition](#).

²⁶ Youel, S. (2026). *Why set up regional mutual banks?* Unpublished. Positive Money