Points to bear in mind when interpreting the data
The Scottish Government does not have access to underlying individual mortgage data; therefore, estimates have had to be made using various published data sources.
Since not all the relevant data is available for Scotland, in some cases data for the UK is used as a proxy for Scotland (e.g. it is assumed that average mortgage rates across the UK will be a reasonable approximation to average interest rates in Scotland).
Data for 2021 is used as the baseline, as the Bank of England started increasing interest rates from 16 December 2021 onwards.
The one exception is average existing mortgage debt. This has been estimated using total mortgage debt in Scotland from UK Finance postcode lending statistics, combined with Scottish Household Survey (SHS) estimates of the number of households in Scotland with a mortgage. Due to the impact of Covid-19 on the SHS, figures from pre-Covid period (2019) are used in this calculation. However, since average outstanding debt consists of a stock of mortgages with an initial life of 20+ years, it can be expected to move only gradually over time.
The impact of the increase in interest rates is calculated assuming a repayment mortgage, since the vast majority of mortgages for home purchase are repayment rather than interest-only mortgages. An annuity calculation (using the Payment function in Excel) is used to calculate what the monthly mortgage payment (including both principal and interest components) will be if the mortgage is to be fully repaid over its remaining lifetime. In practice, however, some households who remortgage may choose to extend the period of the mortgage in order to reduce monthly payments.
It should also be noted that the impact of the Bank of England interest rate increases will depend on how much mortgage rates rise in response to the Bank Rate. It is possible that the rise in mortgage rates may differ from the rise in Bank Rate, e.g. if the spread of mortgage rates over Bank rate falls below previous levels. However, data on average mortgage interest rates is only available with a lag. Therefore, to give an indication of the possible total impact of increases in Bank Rate at the time that the Scottish Housing Market Review was published, the cumulative change in Bank Rate was used in the calculation.
Due to the factors set out above, the calculated impacts should be regarded as indicative, and were described as estimates, rather than actuals, in the Scottish Housing Market Review, and were rounded to the nearest £10 so as not to give a misleading impression of precision.