Housing finance at a glance
February 2010

Council of Mortgage Lenders

Mortgage market activity in 2009

We remain in a period of uncertainty for the housing market and the wider economy. The housing and mortgage markets improved over the second half of 2009 and ended the year in a much better state than they began. While property transactions and lending volumes were extremely low on an historic comparison, the latter part of the year was better than many had anticipated.

- Total lending was £143.6 billion, down 43% from £254.1 billion in 2008 and down 60% from the highest number on record of £362.6 billion in 2007.
- The number of house purchase loans was 517,000, fractionally up from 516,200 in 2008 but just over half of the pre-credit crunch level of 1,015,100.
- First-time buyer loans accounted for 198,200 of these, up slightly from 193,700 in 2008 but down 44% from 357,100 in 2007.
- There were 318,700 home mover loans, down slightly from 322,500 in 2008 but down 52% from 657,800 in 2007.

The end of the stamp duty holiday for properties worth between £125,000 and £175,000 at the end of 2009 has distorted the profile of activity. Our data showed a 56% jump in the number of mortgages advanced on properties in this price bracket in December, compared with an 11% increase in transactions across the rest of the market.

As a result, the early part of 2010 will see a fall in activity with some business which might usually have taken place at this time, having been rushed through to beat the end of the exemption. In addition, the general election will create uncertainty and slow activity over the spring, So, it will be difficult to gauge the true state of the market for some time.

The buy-to-let market continued to improve, albeit slowly, throughout 2009. But new business remains well below previous levels (£8.5 billion down from £27.2 billion in 2008), and below the level of activity which is needed to enhance a vibrant private rental sector in the UK.

The Treasury is currently considering extending FSA powers to cover buy-to-let. However, we do not believe this would result in increased consumer protection, and fails to address the issue of advice on whether to invest in property at all, which is much more likely to be the cause of consumer detriment than the mortgage itself.

Our response to this consultation highlights our concern that future, wrongly directed, regulation may prevent buy-to-let playing its vital role in providing good quality homes and wider housing choices for people who cannot afford home-ownership or do not qualify for social housing.

Arrears and possessions in 2009

Last year there were 46,000 properties taken into possession (by first charge lenders on both home-ownership and buy-to-let mortgages). This was lower than our most recent forecast of 48,000, and significantly less than the 75,000 forecast at the start of the year, but still 15% higher than the 40,000 in 2008.

188,300 loans ended the year in arrears equivalent to 2.5% or more of the outstanding mortgage balance. We had anticipated 195,000, but it is still 3% higher than at the end of 2008.

Looking ahead, our current 2010 forecast of 205,000 arrears cases and 53,000 properties taken into possession may be a little pessimistic, given that unemployment if faring better than expected so far, and that low interest rates, lenders' arrears policies and government assistance schemes are working well to support many borrowers through temporary difficulties.

However, a further wave of job losses or the fiscal position forcing interest rates higher present significant risks and it would be premature to assume that the housing market recovery will necessarily follow a smooth course.

A private members' bill to introduce new legal protection for unauthorised tenants should their property be repossessed, is making its way through Parliament.

We are largely supportive of the *Mortgage Possession (Protection of Tenants) Bill,* and agree that in a limited number of cases unauthorised tenants do need more protection within the possession process.

However, we believe that two amendments suggested in our briefing are required to ensure fairness to lenders and borrowers alike. We do not think either amendment would in any way prejudice the position of a genuine unauthorised tenant, but will help limit possible abuse by less scrupulous borrowers/tenants.

FSA mortgage market review

We welcome the FSA's reform agenda to enhance supervision of the mortgage market. In our detailed response, while we agree in principle with a number of the FSA's proposals, we question whether further mortgage conduct of business rules are actually needed.

The FSA has justified intervention with reference to the "major economic distress" experienced by some borrowers, while recognising the market has worked well for the vast majority. But we believe the reforms proposed would not deal with the major causes of distress—particularly the use of multiple credit (not just mortgages), ill-timed property purchases, or changes in financial and personal circumstances.

Mortgage market briefing: essential issues for government….

Mortgages have been a political hot topic, and will almost certainly feature among the subjects that will concern PPCs and their constituents in the run up to the General Election. We have prepared a brief summary designed to give some key facts, figures and perspectives on the UK mortgage market and the role of government in relation to it.

In some areas, we believe the FSA is over-reacting to recent events without a clear evidence base. The proposal to require income verification and prevent fast-track processing, is an example of this. The FSA should moderate its approach to ensure that regulation does not layer in worthless additional cost, or have the undesirable side-effect of creating financial exclusion among swathes of borrowers who may be perfectly able to sustain a mortgage commitment.

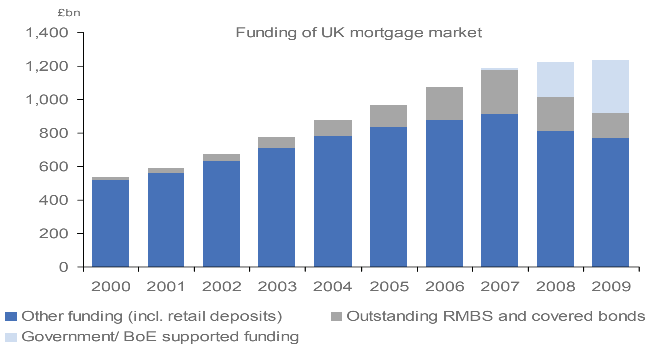
The cumulative effect of the prudential reforms already underway may have a significant impact on the lending market, but this has not been analysed or quantified and we believe this is a necessary step before deciding what conduct of business reform should occur.

The FSA's planned reforms are well-intentioned, even if their implementation is a source of concern. But there is a real risk that they may be at best irrelevant, or at worst may damage a fragile market at the wrong time, unless they are accompanied by a strategic plan to achieve and sustain stable mortgage funding markets for the future. We have called on the Treasury to make this a high priority.

Outlook for the mortgage funding markets

The collapse of the wholesale funding markets has left a £300 billion gap in mortgage funding. The gap has been filled temporarily by government funds through the special liquidity scheme (SLS) and the credit guarantee scheme (CGS). However, these schemes will expire between 2011 and 2014, leaving uncertainty about how far, and through what sources, lenders will be able to refinance this funding.

Retail deposits will not be large enough to fill the gap. So an important priority after the general election will be for the government to pursue a clear strategy for putting UK mortgage funding markets back on a sustainable footing.



The government should seek to ensure that the support it offers, and the regulatory system it oversees, are much more balanced in their impact on retail deposits, senior unsecured bonds, residential mortgage-backed securities (RMBS) and covered bonds and more even-handed in supporting different types of financial institution—whether they are banks, building societies and non-deposit taking lenders.

Without policy support, it may be difficult to re-establish a sustainable, long-term RMBS and covered bond market in the UK on the scale needed to plug the financial gap. That would leave firms continuing to reply on government funding, and the UK at risk of a chronic under-supply of credit—and the rationing of mortgages for customers—for many years to come.

Our policy document, *The outlook for mortgage funding markets in the UK in 2010-2015*, gives more information.

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