The mortgage market, the banks and the ongoing implications for new home sales

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The Council of Mortgage Lenders (CML)

- The CML is the representative trade body for the residential mortgage lending industry
- Its members hold over 98% of the assets of the UK mortgage market
- CML members have also committed almost £50 billion to housing associations for new-build, repair and improvement.
• Credit crunch
• Economy
• Size of the market
• Products
• Segments
• Intermediaries
• Outlook for new home sales
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Pre-credit crunch

- Readily available funding
  - Wholesale money
  - Securitisation (financial innovation)
- Emphasis on customer acquisition
  - Pressure on new business lending margins
  - New segments
  - Product innovation
- Importance of intermediaries
Credit crunch

Big picture
- US housing market crash
- RMBS markets closed
- Fall in wholesale funding
- Rise in funding costs
- BoE special liquidity scheme

UK mortgage market
- Reduced lending capacity (S<D)
- Widening lending margins
- Tighter lending criteria
- Northern Rock workout
- Business positioning
- Recent developments
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Real GDP growth

Source: National Statistics

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Unemployment rate – ILO measure (%)
• Credit crunch
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## May 2008 forecast summary

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>May Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>House price growth, Q4, year on year % change</strong></td>
<td>15</td>
<td>5</td>
<td>10</td>
<td>5.4</td>
<td>-7</td>
<td></td>
</tr>
<tr>
<td><strong>Property sales, England and Wales (Land Registry), millions</strong></td>
<td>1.20</td>
<td>1.03</td>
<td>1.28</td>
<td>1.22</td>
<td>0.77</td>
<td></td>
</tr>
<tr>
<td><strong>Gross advances, £bn</strong></td>
<td>291</td>
<td>288</td>
<td>346</td>
<td>363</td>
<td>285</td>
<td></td>
</tr>
<tr>
<td><strong>Net lending, £bn</strong></td>
<td>101</td>
<td>91</td>
<td>110</td>
<td>108</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td><strong>Arrears, over 3 months, number at end period</strong></td>
<td>104,400</td>
<td>122,900</td>
<td>119,500</td>
<td>129,800</td>
<td>170,000</td>
<td></td>
</tr>
<tr>
<td><strong>Arrears, over 3 months, % of all mortgages at end period</strong></td>
<td>0.88</td>
<td>1.06</td>
<td>1.02</td>
<td>1.10</td>
<td>1.45</td>
<td></td>
</tr>
<tr>
<td><strong>Possessions, number in period</strong></td>
<td>8,200</td>
<td>14,600</td>
<td>22,400</td>
<td>27,100</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td><strong>Bank rate, end year, %</strong></td>
<td>4.75</td>
<td>4.5</td>
<td>5.0</td>
<td>5.5</td>
<td>4.75</td>
<td></td>
</tr>
</tbody>
</table>

Mortgage approvals for house purchase

Source: Bank of England, CML
First-time buyer mortgage completions

Source: CML/BankSearch Regulated Mortgage Survey, CML
Home mover mortgage completions

Source: CML/BankSearch Regulated Mortgage Survey, CML
House price growth

Source: HBOS, CML
Fixed-rate mortgages maturing

Source: CML/BankSearch Regulated Mortgage Survey, CML estimates
Remortgaging approvals

Source: Bank of England, CML
Remortgaging completions

Source: CML/BankSearch Regulated Mortgage Survey, CML
Buy-to-let purchase and remortgage loans

Source: CML
• Credit crunch
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“Over the last month alone we have seen the number of mortgage products available .... plunge from 7,726 to 5,700 .... In one day we heard from 19 lenders that have made the decision to withdraw products or restrict criteria.”

Moneyfacts 26 March 2008
Number of mortgage products offered

Source: Moneyfacts
Margins over Bank rate for SVR and new base rate tracker (maximum 75% LTV) mortgages

Source: Bank of England
Rates on new two-year fixed-rate mortgages

Source: Bank of England
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• Mainstream
• Self certification
• Buy-to-let
• Adverse credit
Breakdown of mortgage approvals by type of lender

Source: Bank of England
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Intermediary share of new regulated mortgage business

Share by number, %

First time buyers
Movers
Home owner remortgage

Source: CML/BankSearch Regulated Mortgage Survey

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Recent developments: USA

- Investment Bank wipe-out inc. collapse of Lehman Brothers.
- AIG bailed out.
- Washington Mutual and Wachovia taken over.
- $700 billion “Paulson plan”
- C. 5 million Americans with serious mortgage default problems.
Recent developments: Europe

- Banks hit liquidity problems including Fortis, Dexia and HRS
- Ireland moves to guarantee deposits and savings, others follow including Greece, Germany and Austria.
- Iceland nationalises two banks, bails out a third.
- Russia moves to support its banks.
Recent developments: UK

• Bradford and Bingley nationalised
• HBOS taken over
• Government offers housing market package (September)
• Government offers increased liquidity support tied to commitments by banks to help business and the mortgage market. Bank of England cuts interest rate by 0.5% (October 8)
Recent developments: UK

House price predictions now more pessimistic:

- HBOS; up to 20% fall over 2008 and 2009
- Nationwide and Robert Peston (BBC); up to 25% fall to 2010.
Recent developments: UK

• Too early to judge the effects of the recent UK Government intervention or those of the USA and elsewhere.

• Housing market downturns can be protracted, e.g. 1989-1996 in terms of depression in prices in some regions.
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Outlook for new home sales

The issue has three key determinants:

• The banking/liquidity crisis
• The broader economy
• Consumer confidence
Outlook for new home sales

The banking crisis:

- Will resolve over time but not instantly.
- Will leave a more conservative mortgage market in terms of income multiples, loan to value, and personal credit histories.
- New-build, flats and MMC may have specific issues.
- The broader economy will affect lender appetite.
Outlook for new home sales

The broader economy:
• Recession a probability?
• Employment a key factor
• Duration of downturn uncertain
Outlook for new home sales

Consumer confidence:

• Recent signs of consumer demand for home tailing off.
• Perceptions of house price trajectory a key factor
• Links back to broader economy.
Overall assessment:

• Don’t expect major improvement in the short term, though longer-term demographics remain positive
Thank you

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