



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

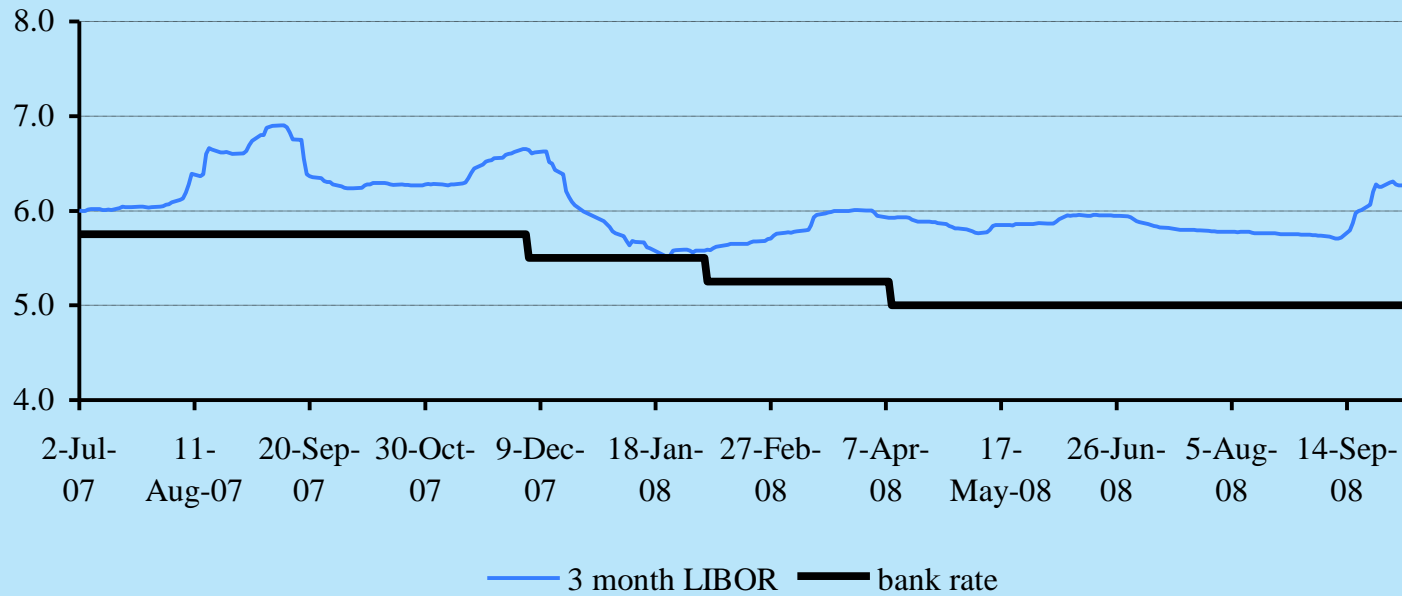
- US housing market crash
- RMBS markets closed
- Fall in wholesale funding
- Rise in funding costs
- BoE special liquidity scheme

UK mortgage market

- Reduced lending capacity ($S < D$)
- Widening lending margins
- Tighter lending criteria
- Northern Rock workout
- Business positioning
- Recent developments



Interbank lending rates

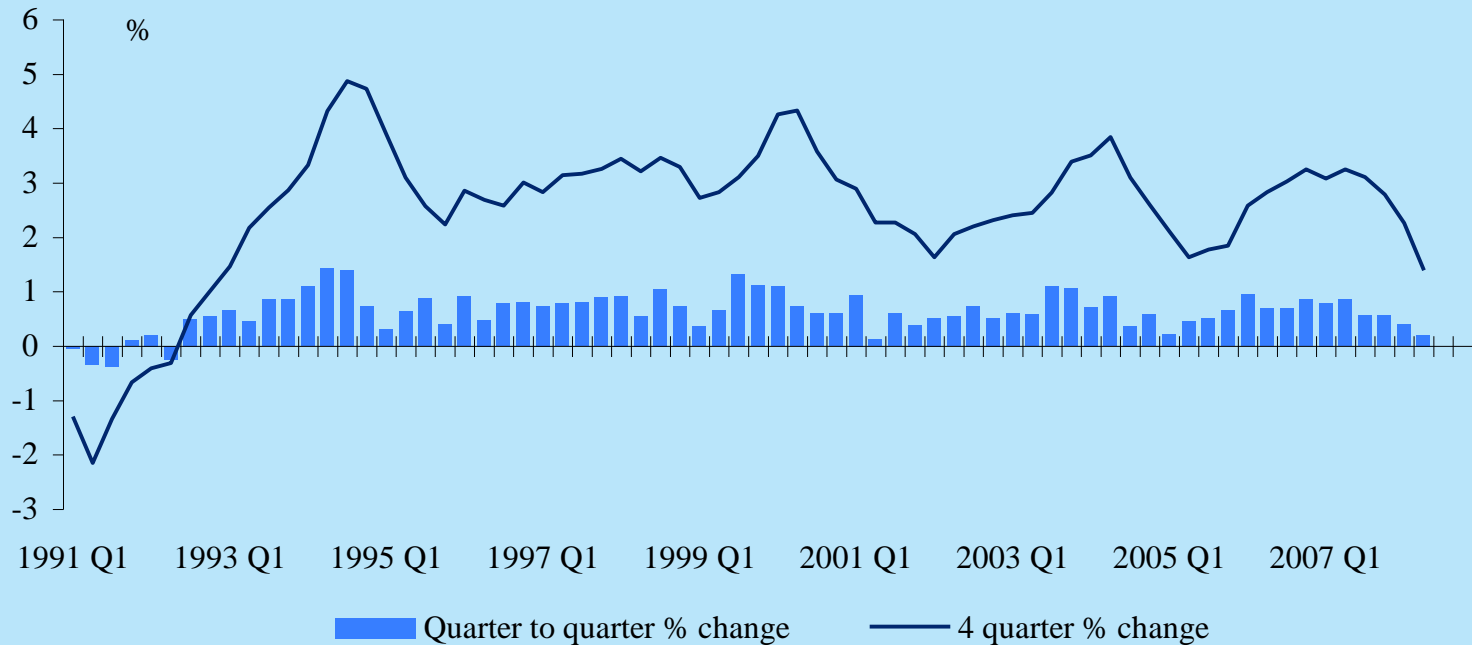




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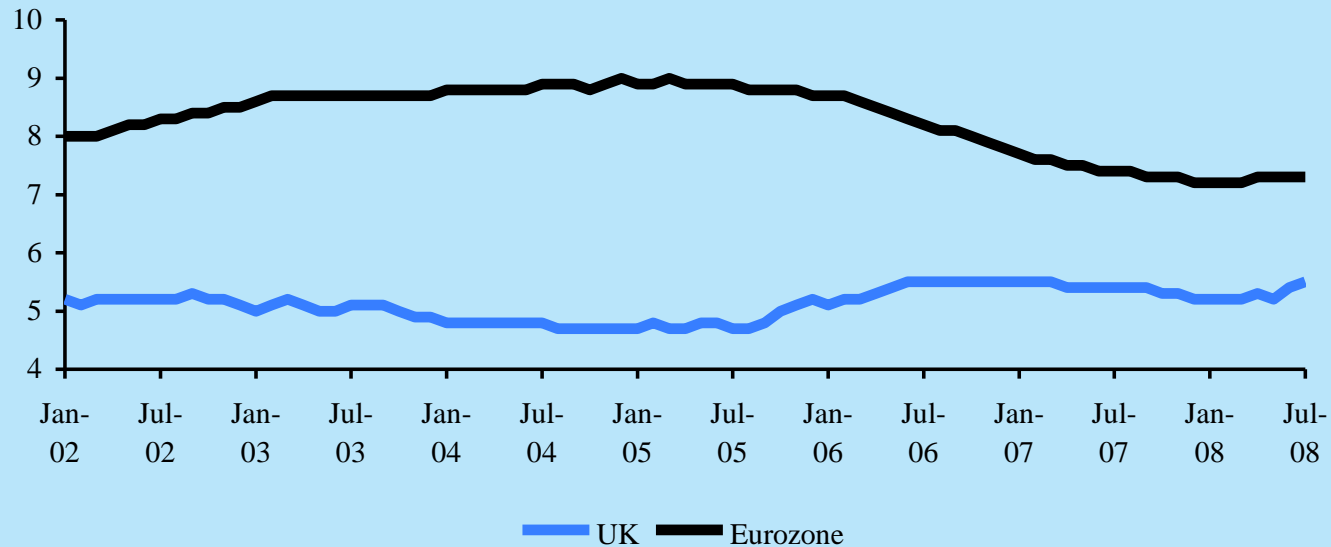
Real GDP growth



Source: National Statistics



Unemployment rate – ILO measure (%)





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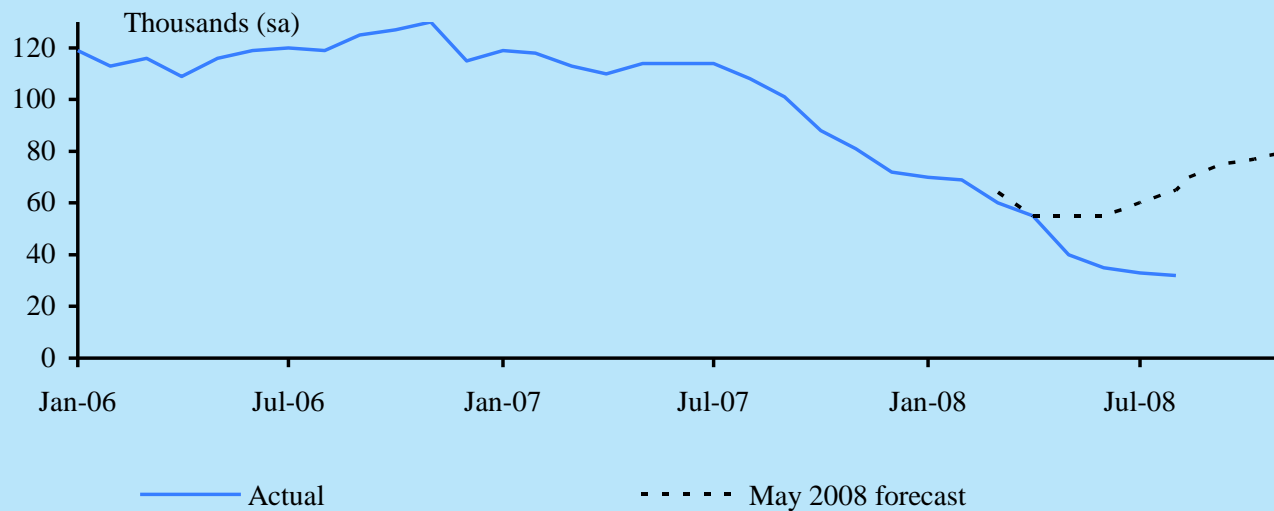


May 2008 forecast summary	May Forecast				
	2004	2005	2006	2007	2008
House price growth, Q4, year on year % change	15	5	10	5.4	-7
Property sales, England and Wales (Land Registry), millions	1.20	1.03	1.28	1.22	0.77
Gross advances, £bn	291	288	346	363	285
Net lending, £bn	101	91	110	108	55
Arrears, over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

Source: Bank of England, National Statistics, HM Land Registry, HBOS, CML



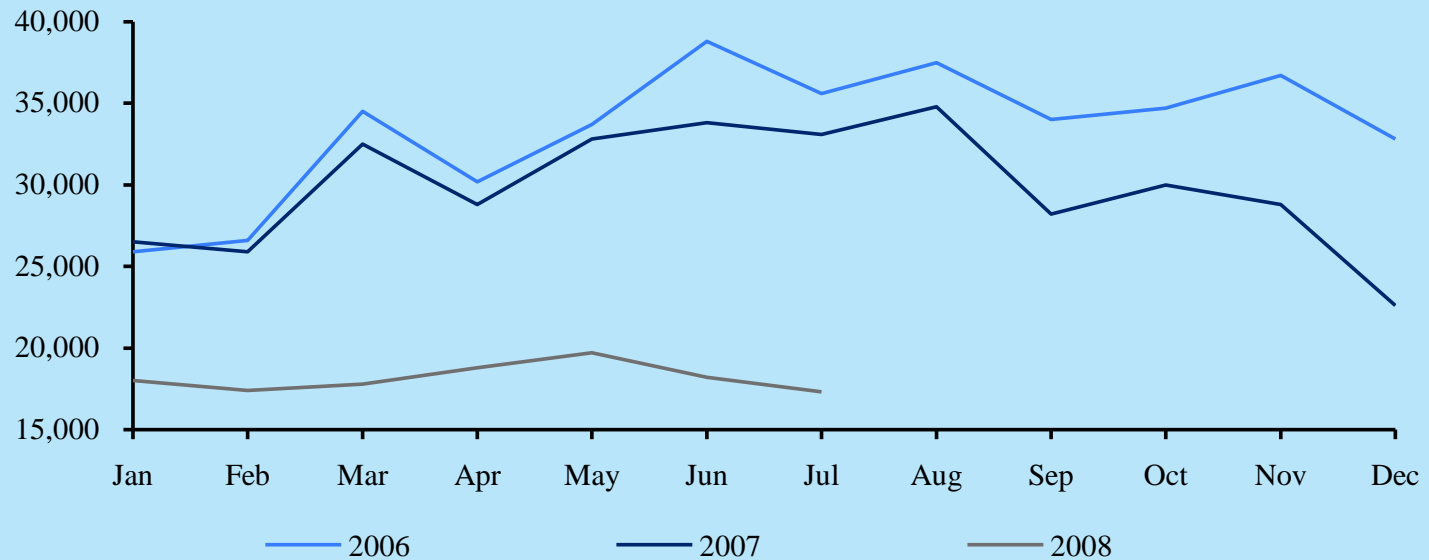
Mortgage approvals for house purchase



Source: Bank of England,
CML



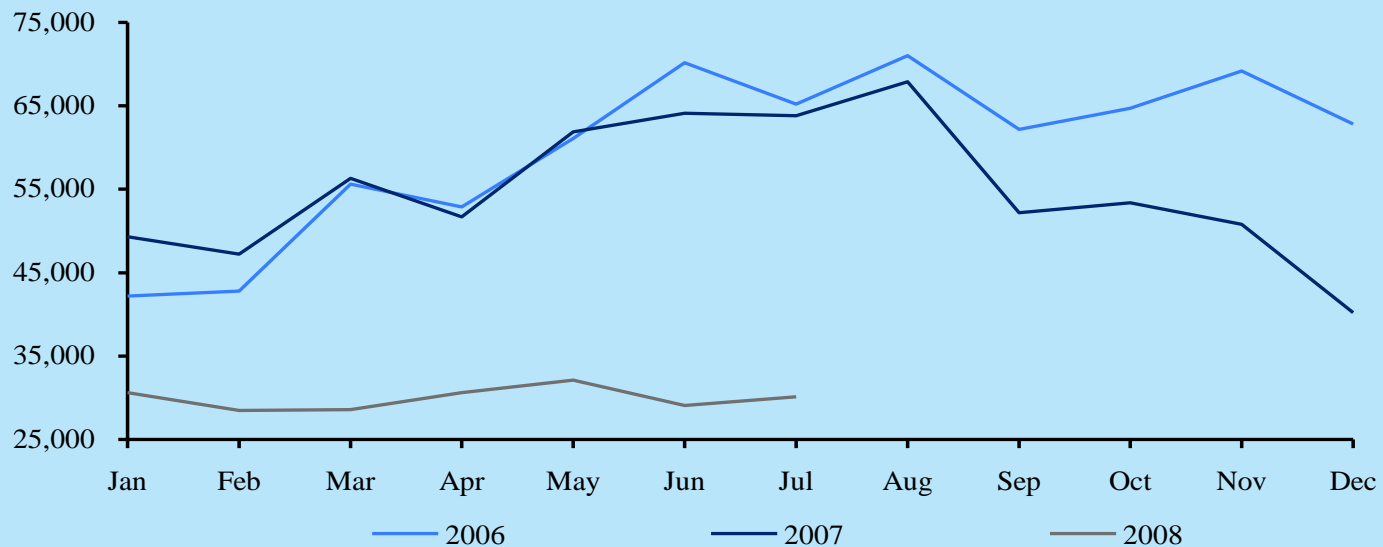
First-time buyer mortgage completions



Source: CML/BankSearch Regulated Mortgage Survey,
CML



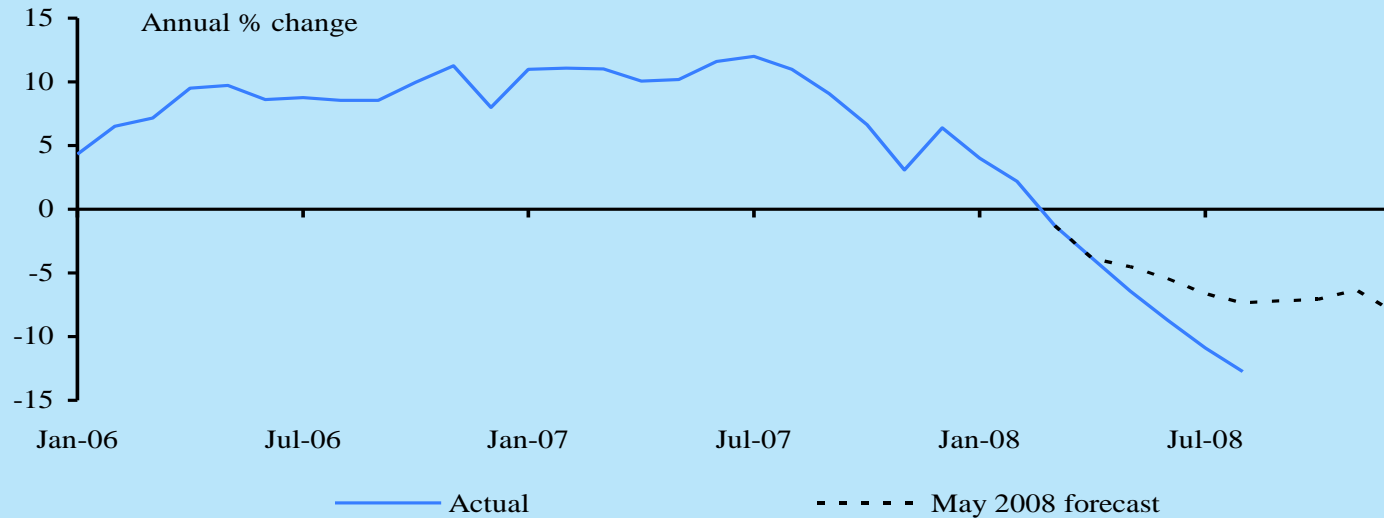
Home mover mortgage completions



Source: CML/BankSearch Regulated Mortgage Survey,
CML



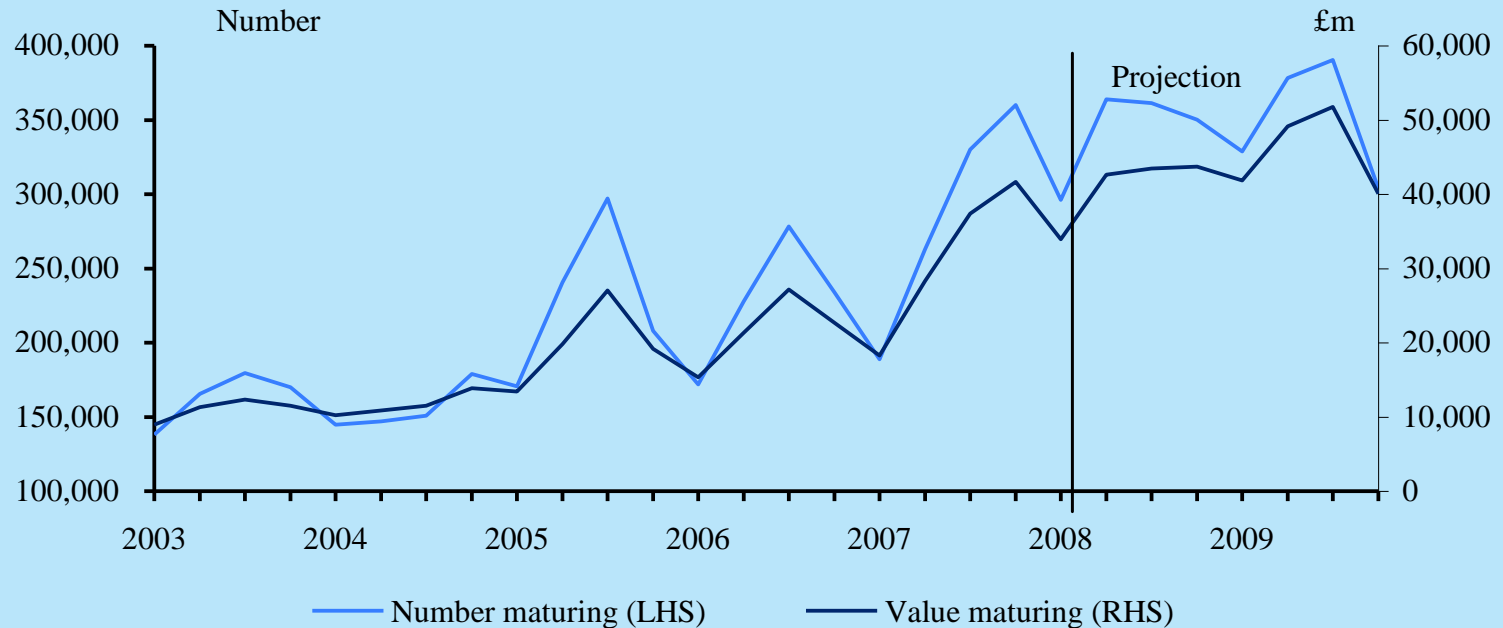
House price growth



Source: HBOS,
CML



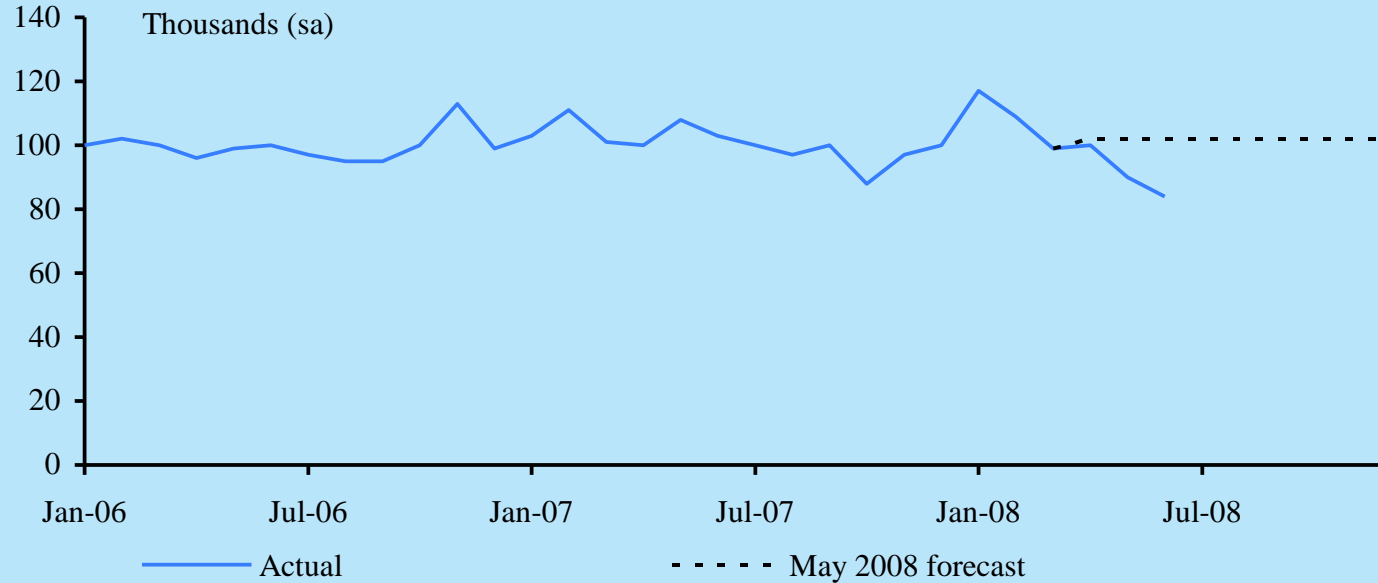
Fixed-rate mortgages maturing



Source: CML/BankSearch Regulated Mortgage Survey, CML estimates



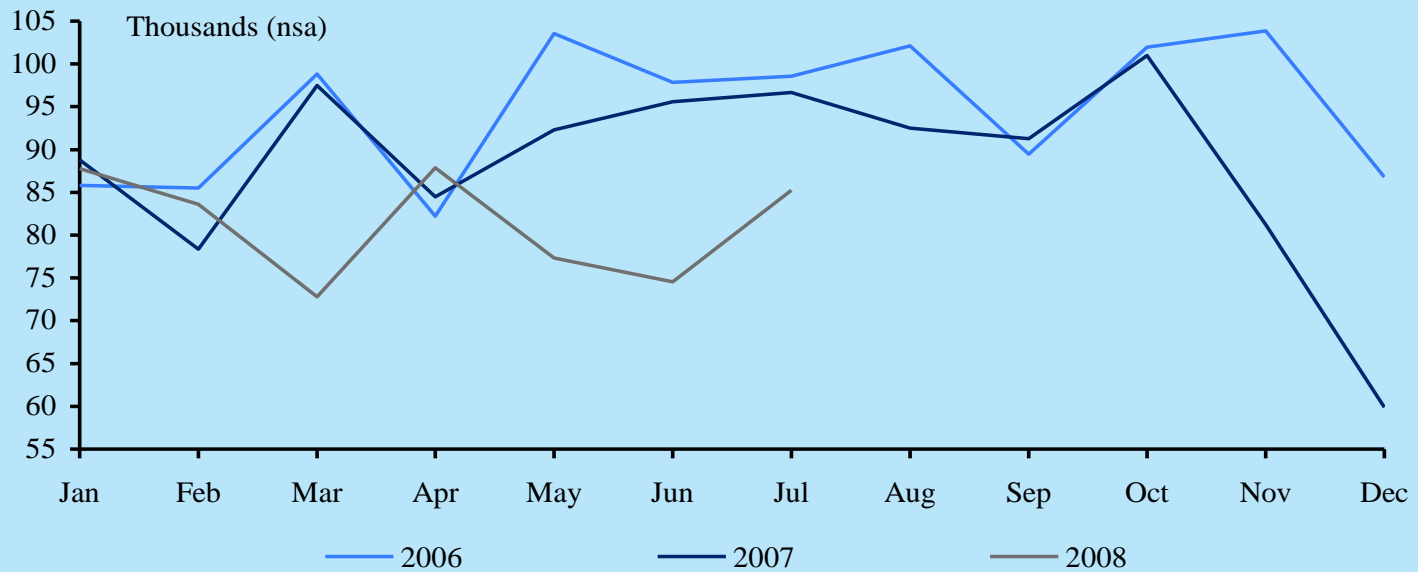
Remortgaging approvals



Source: Bank of England,
CML



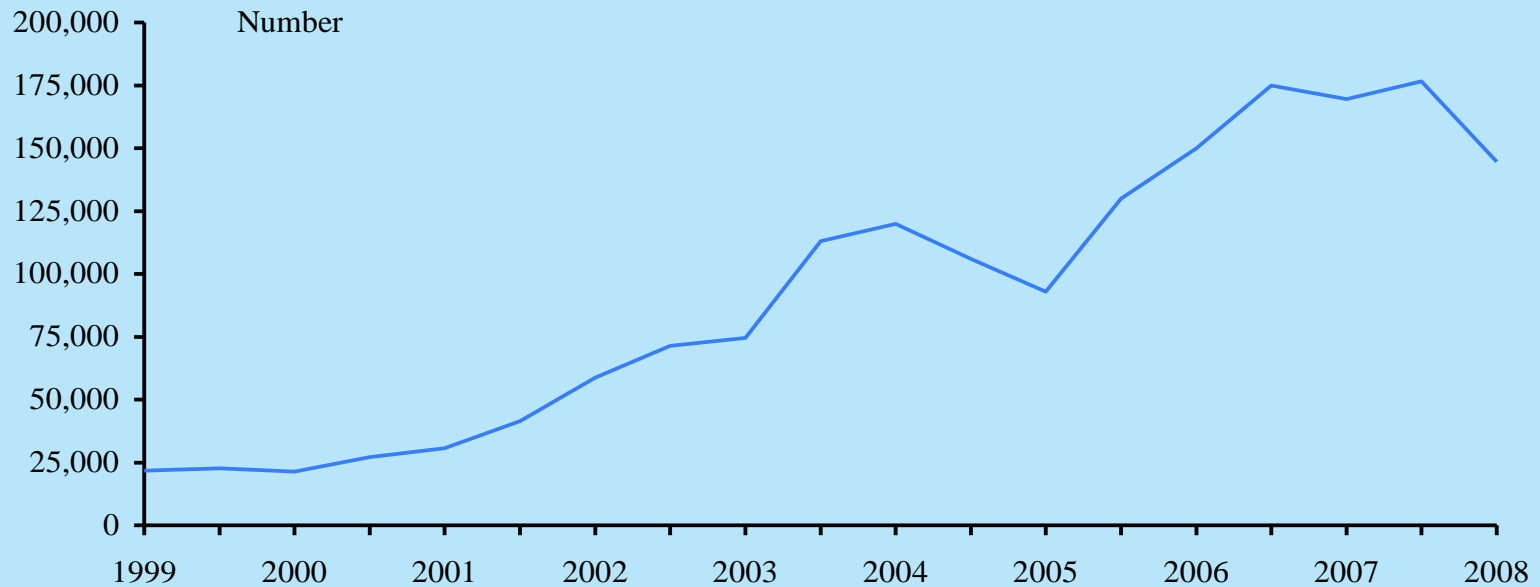
Remortgaging completions



Source: CML/BankSearch Regulated Mortgage Survey,
CML



Buy-to-let purchase and remortgage loans



Source: CML



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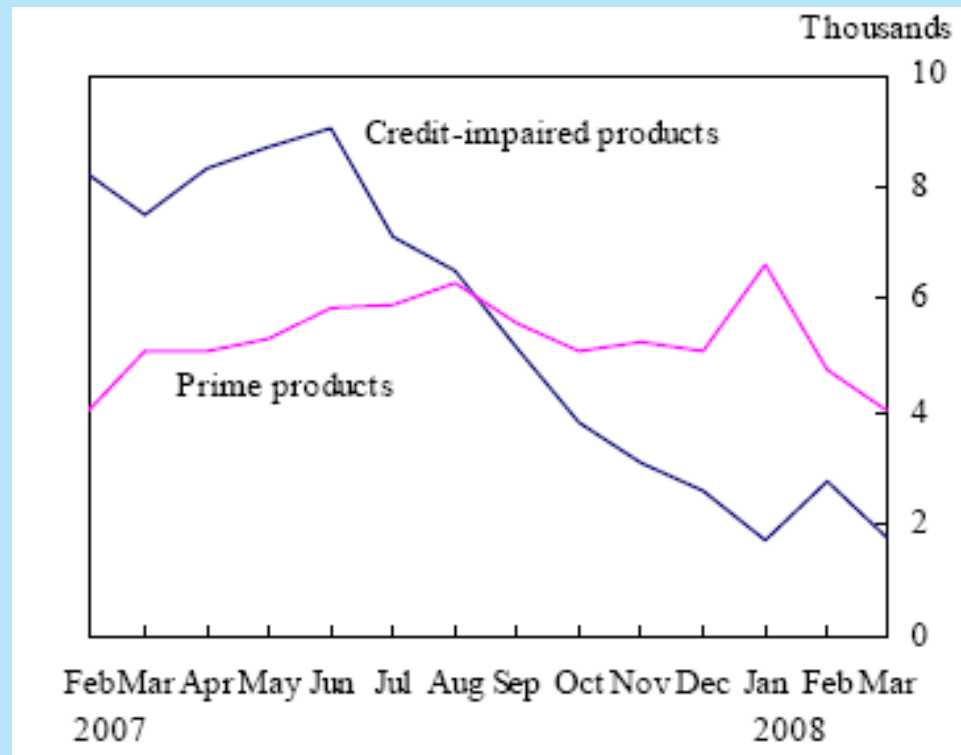


“Over the last month alone we have seen the number of mortgage products available plunge from 7,726 to 5,700 In one day we heard from 19 lenders that have made the decision to withdraw products or restrict criteria.”

Moneyfacts 26 March 2008



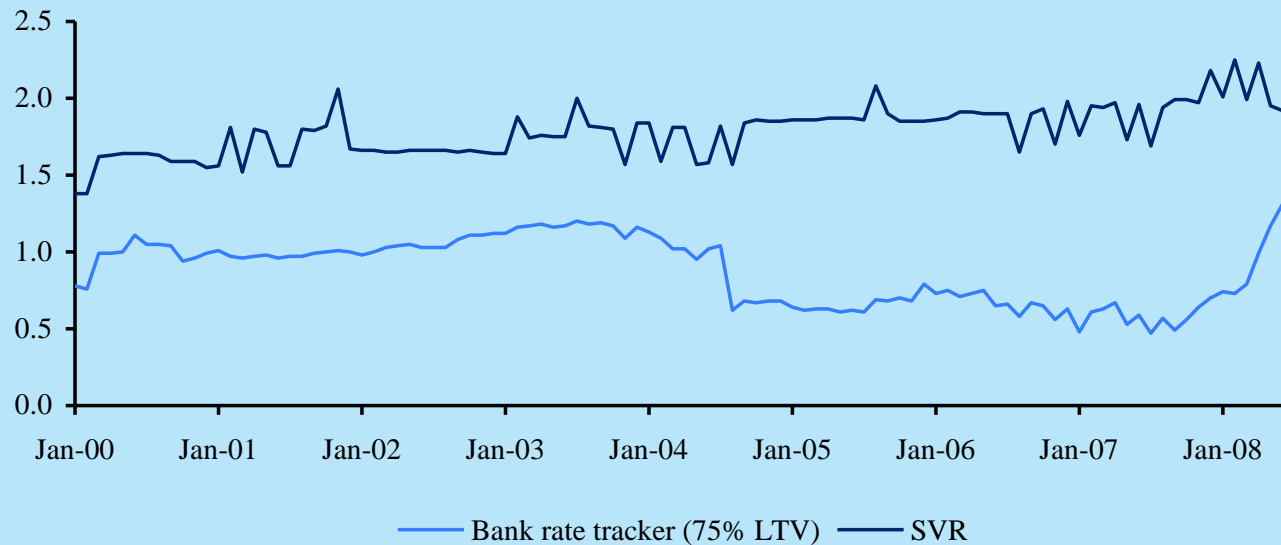
Number of mortgage products offered



Source:
Moneyfacts



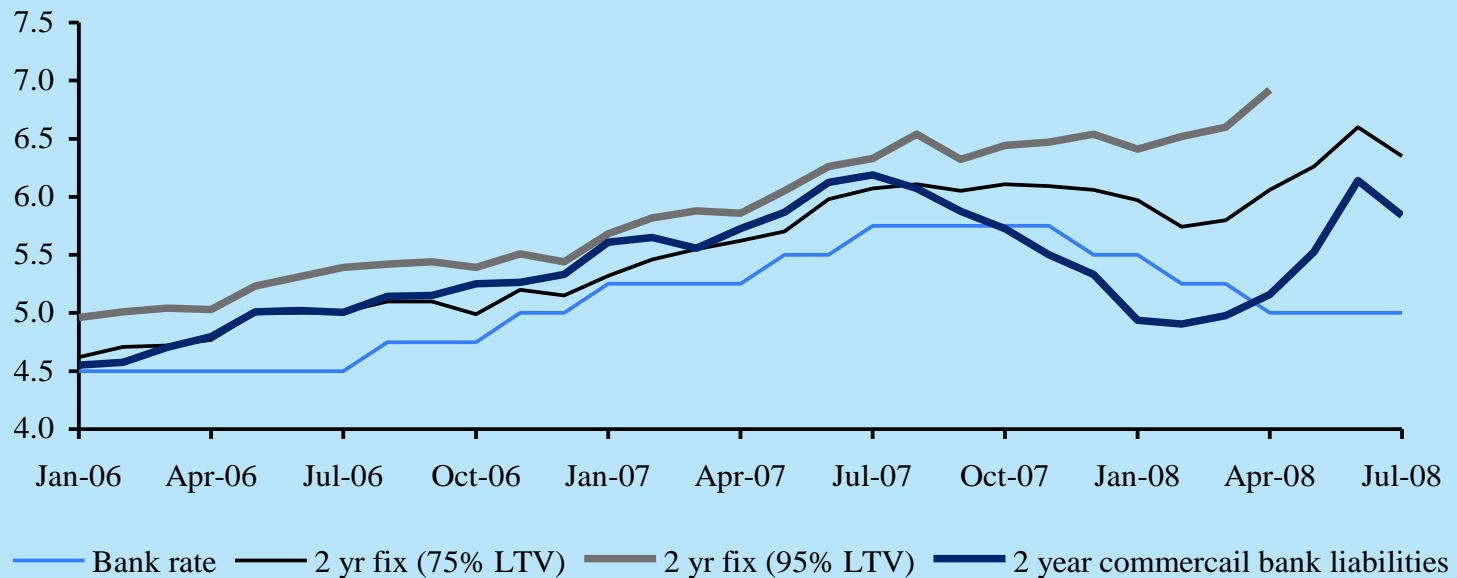
Margins over Bank rate for SVR and new base rate tracker (maximum 75% LTV) mortgages



Source: Bank of England



Rates on new two-year fixed-rate mortgages



Source: Bank of England



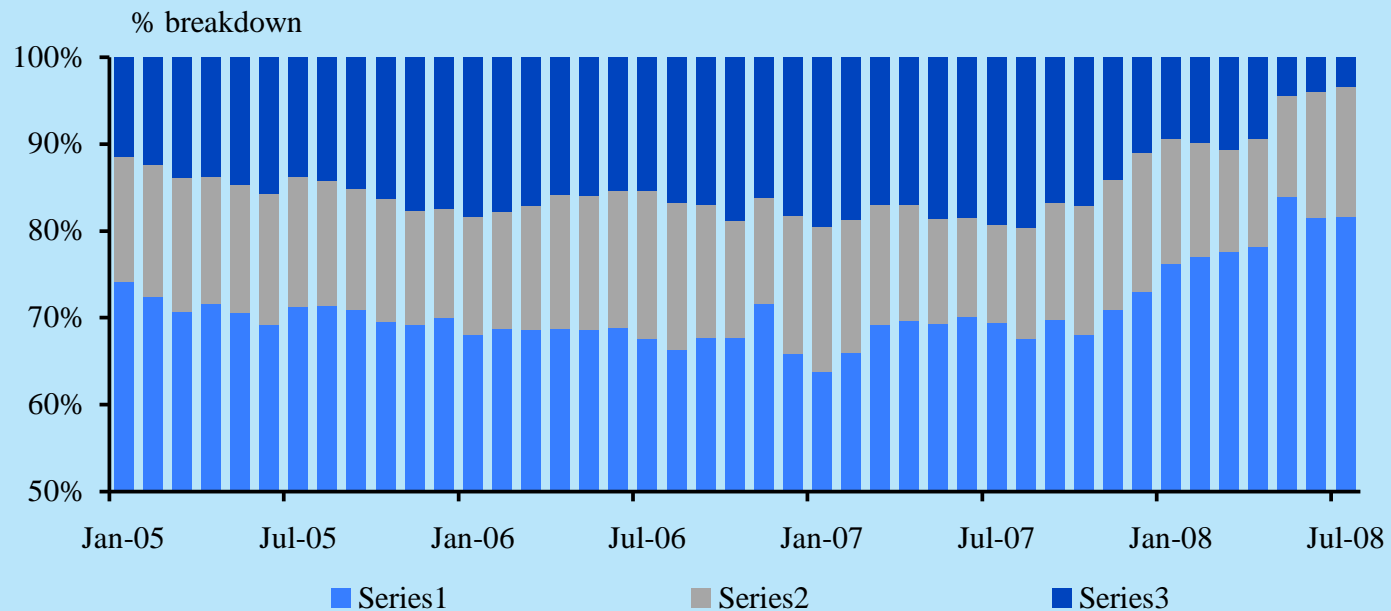
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- Mainstream
- Self certification
- Buy-to-let
- Adverse credit



Breakdown of mortgage approvals by type of lender



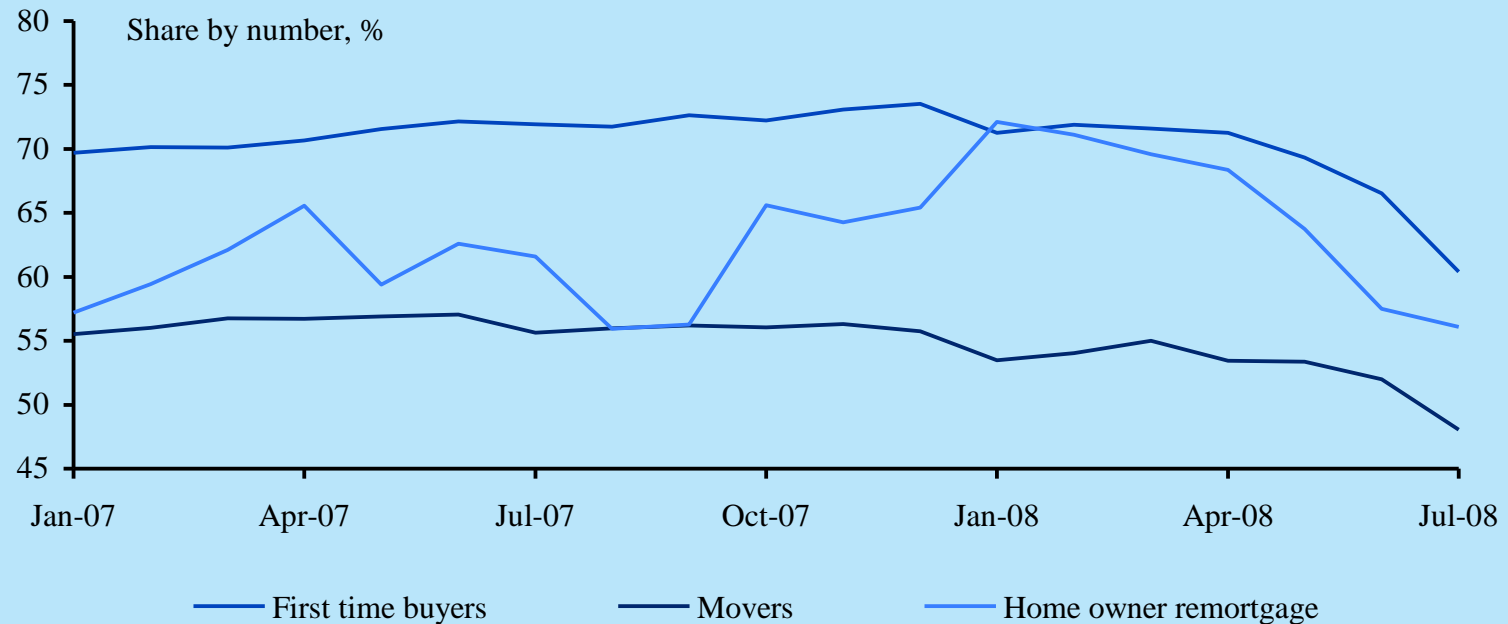
Source: Bank of
England



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Intermediary share of new regulated mortgage business



Source: CML/BankSearch Regulated Mortgage Survey



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.



Outlook for new home sales

Overall assessment:

- Don't expect major improvement in the short term, though longer-term demographics remain positive



Thank you

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