Impact of coronavirus on UK housing and mortgage market

Rob Thomas, Principal Researcher,
Intermediary Mortgage Lenders Association
(IMLA)

September 2020

Executive summary

- **The fight against Coronavirus has induced the most severe shock to the economy of the post-war period.** The lockdown created an unparalleled shutdown of the economy but the full effects of this crisis are only going to be known once emergency support measures have unwound and second round effects work their way through the economy.

- **However, since the housing market was 'reopened', activity has picked up very quickly** with estate agents and housebuilders reporting strong demand, with the stamp duty holiday providing a further boost from July. The number of mortgage approvals for house purchase reached 78,000 in July, the highest monthly figure since 2017, pointing to further growth in the short term.

- **Decisive government action to counter the economic impact of Covid-19 has helped to prevent an economic collapse.** Government has rolled out an array of new schemes to counter the economic effects of the virus including the furlough scheme, the Self-Employed Income Support Scheme (SEISS), enhanced benefits and several emergency lending schemes for businesses big and small. They have also intervened in the normal working of the market by requiring lenders to offer payment deferrals or so called 'holidays' and have prevented creditors from undertaking the normal procedures to recover debts.

- **Worries about a cliff edge at the end of October when the furlough and mortgage deferral schemes terminate may be exaggerated.** The full economic impact of Covid-19 will not be felt until after key emergency measures have ended in October. However, the Bank of England expects only 1 million workers to be left on the furlough scheme by October and an IMLA survey of lenders suggests that only between c.0.5 and 5 percent of borrowers will fall into arrears after exiting a payment deferral or so called 'holiday'.

- **Risk of a chicken and egg situation in mortgage lending:** lenders' fears about the state of the economy in late 2020 and early 2021 (with the risk of much higher unemployment and falling property prices) has led to restrictions on lending, with reduced maximum LTVs. These restrictions are quite understandable but they risk exacerbating any property downturn by limiting the number of first time buyers able to enter the market.

- **If the property market remains robust through to early 2021, lenders could start to normalize lending criteria.** The return of higher LTV lending should occur once lenders have a sense of the scale of additional unemployment and house price falls following the end of the furlough and mortgage deferral schemes. But the end of the stamp duty holiday in March 2021 might delay lender decisions.

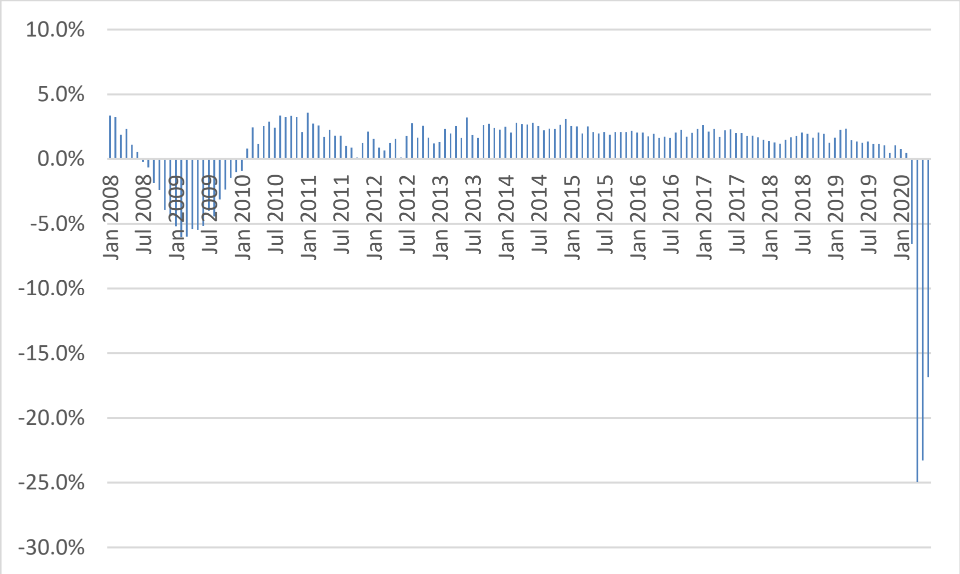
- **IMLA welcomes the stamp duty holiday and planning changes.** The government is right to see stimulation of the housing market as an effective use of taxpayer funds, as it should come with a sizeable 'multiplier effect'. A streamlined planning system can also boost economic activity and jobs. But government needs to be cognisant that the end of the stamp duty holiday in March 2021 could delay the normalization of mortgage lending, and may wish to consider extending the holiday if necessary.

1. The impact of lockdown

1.1 The macroeconomic picture

It is now roughly 6 months since much of the UK economy was brought to a standstill by the coronavirus lockdown. This period has been like no other in living memory and it has caused a range of macroeconomic indicators to show unprecedented shifts.

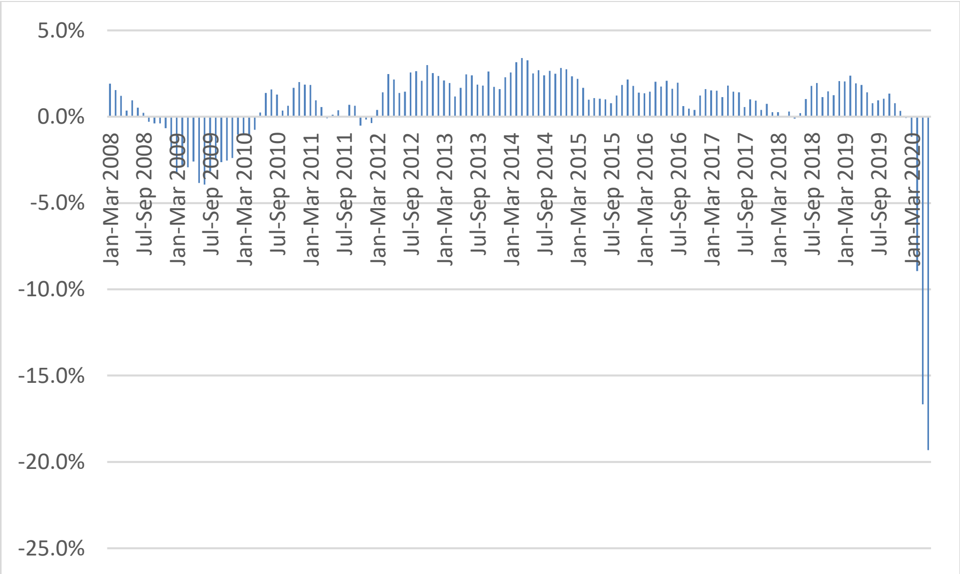
Chart 1 – UK GDP (Change on 12 months earlier)



Source: ONS

Chart 1 shows the monthly level of GDP relative to the same month a year earlier. Output started falling in March followed by a much more pronounced contraction in April, the first full month of lockdown, but in May and June GDP started to recover.

Chart 2 – Total weekly hours worked (% change on a year earlier)



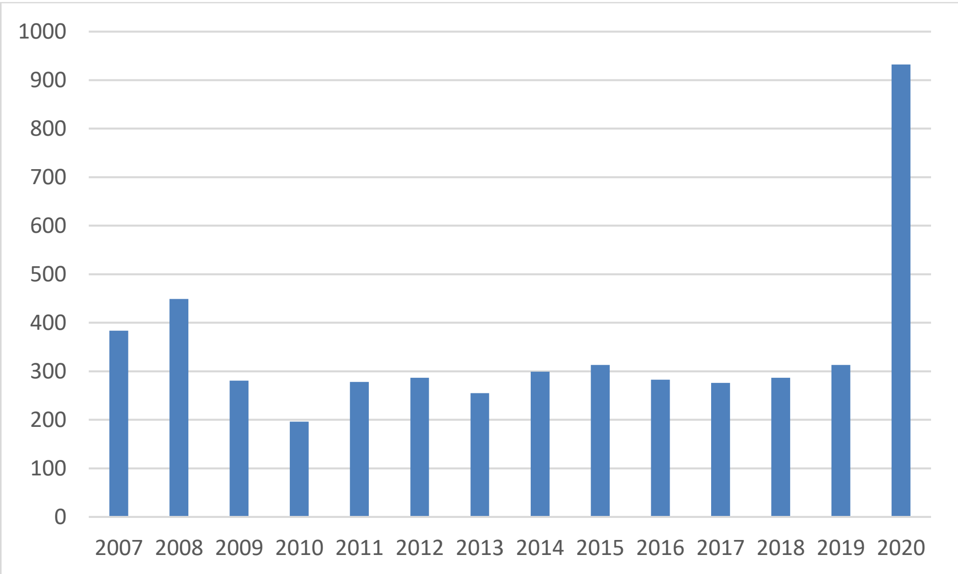
Source: ONS

Chart 2 shows total weekly hours worked in the economy. These fell by 19.3% in the three months to June 2020 compared to a year earlier, slightly less than the corresponding fall in GDP of 21.7%, suggesting that the measures introduced to combat the virus also reduced labour productivity. While hours worked data show how the lockdown impacted the amount of real work undertaken, many other labour statistics have been distorted by the government's response to Covid-19.

Most notably, total employment has held up well but has clearly been underpinned by the government's furlough scheme. On the other hand, the jobless claimant count rose by nearly 1.5 million between February and July but this largely reflects the broadening of eligibility to include the self-employed on Self-Employed Income Support Scheme (SEISS) grants. The standard measure of unemployment has remained unchanged at 3.9%, which seems to contradict the claimant count data but reflects the support provided to employment through the furlough scheme. Wage growth has been negative for the first time since the financial crisis.

Turning to the corporate sector, data from EY that tracks the number of profit warnings issued by UK quoted companies showed a dramatic rise in the first half of the year. This period saw 466 profit warnings – on an annualized basis this is more than double the figure recorded at the height of the financial crisis in 2008 (see Chart 3), indicating the scale of the impact on large corporates. 98% of firms reporting profit warnings in Q2 2020 gave coronavirus as a reason.

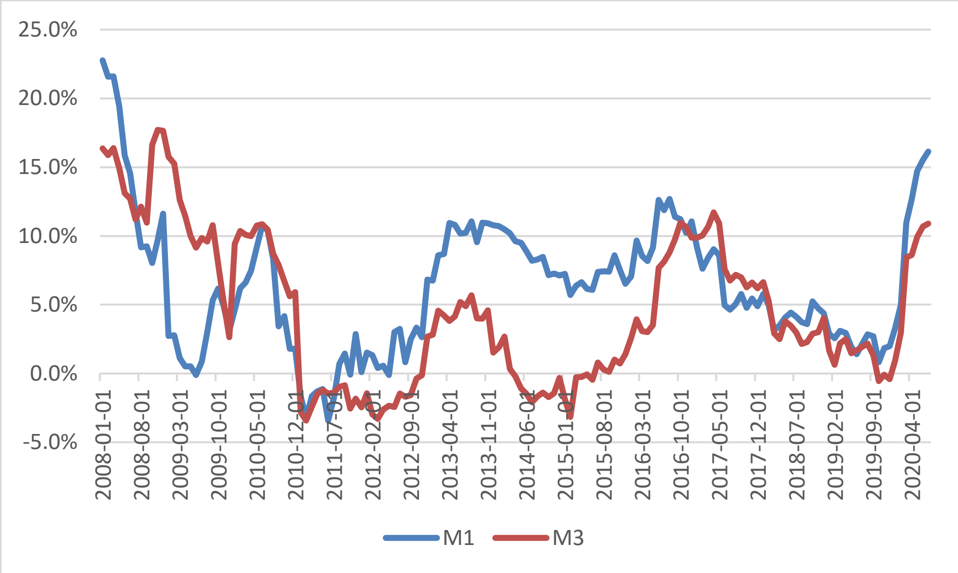
Chart 3 – Profit warnings for UK quoted companies



Source: EY. 2020 figure is annualized combined Q1 an Q2 figures

While GDP (output), hours worked and corporate profit warnings all illustrate the weakness of the economy in the face of the lockdown, one macroeconomic variable showed a shift that might more normally be associated with boom times. The money supply, whether measured narrowly by M1 (notes and coins in circulation and instant access deposits held by the non-bank private sector) or more broadly by M3 (including M1 but also deposits with a maturity of up to 2 years and debt securities with a maturity of up to 2 years held by the non-bank private sector), has increased rapidly since March as shown in Chart 4.

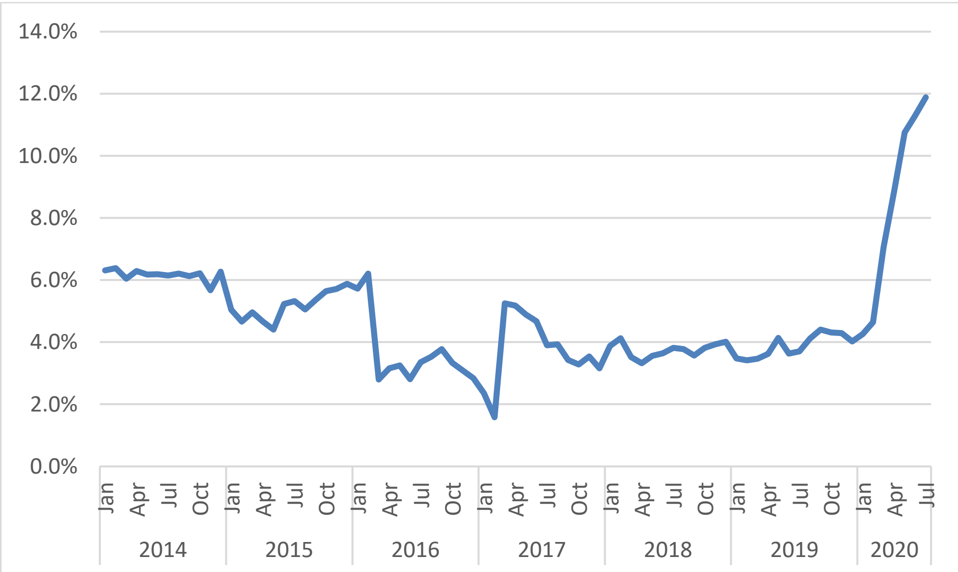
Chart 4 – UK money supply M1 and M3



Source: Bank of England

The sharp rise in the money supply can be attributed to the fiscal and monetary response to coronavirus with £300 billion of QE, emergency loan schemes to business and a much higher fiscal deficit (which increases the money supply if not 'sterilized' by a corresponding volume of longer term government bond sales). Some economists have claimed that such a steep rise in the money supply could lead to inflation in 6-18 months. This concern is addressed in Section 3 below.

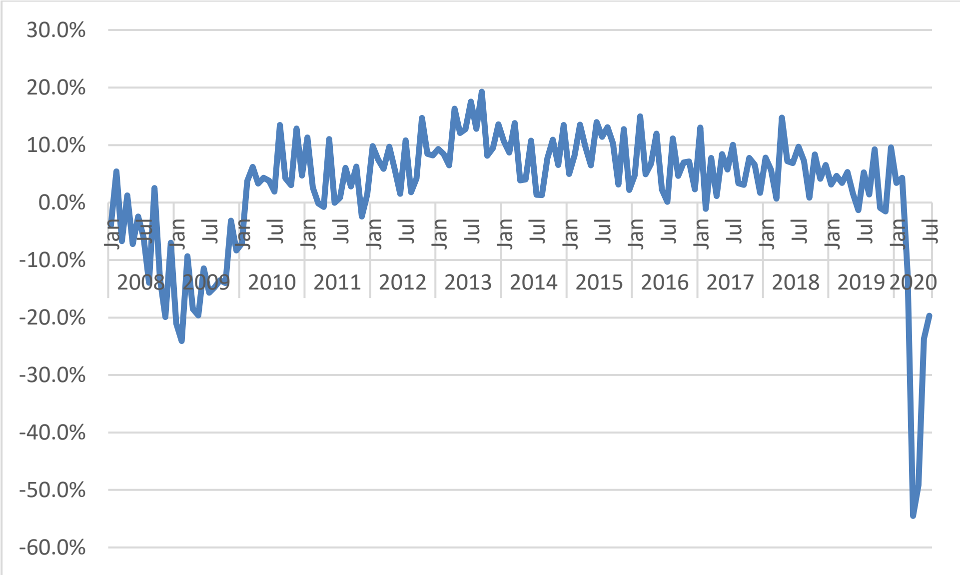
Chart 5 – UK retail deposits (% growth on a year earlier)



Source: Bank of England

The rise in the money supply held by the non-financial private sector has partly taken the form of corporates holding higher precautionary cash balances as they draw down on credit lines or access government lending schemes. But it can also be seen in the retail deposit balances held by households (see Chart 5). Between February and July households' deposit balances rose by £166 billion (10%), as the lockdown prevented spending on a range of activities (e.g. non-essential shopping, eating out) while household incomes were supported by the furlough and other government schemes. This represents 60% of the rise in M3 and bodes well for the potential recovery of spending in the coming months but to the extent that this saving reflects households' increased concerns about their future income, it may not unwind quickly.

Chart 6 - UK unsecured borrowing by personal sector (% change on a year earlier)



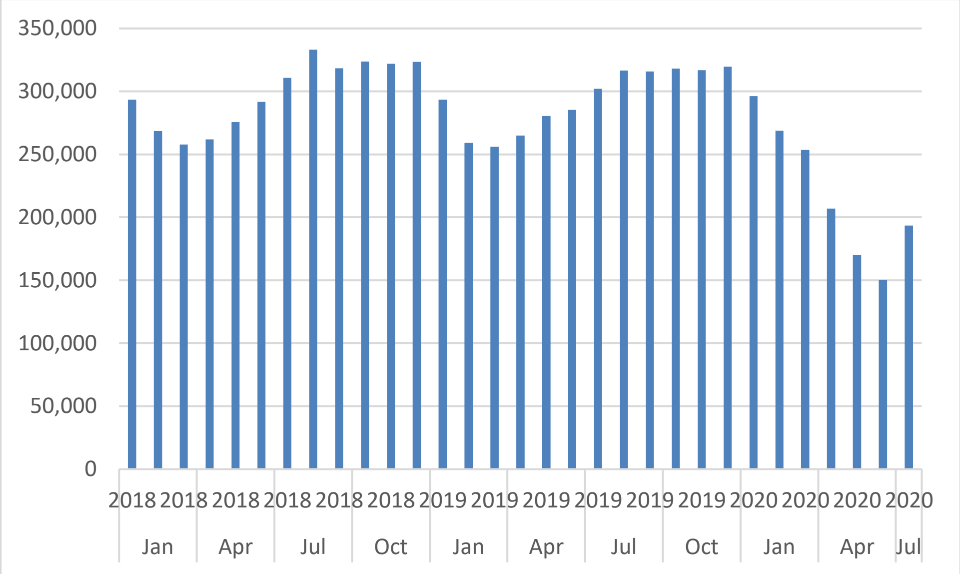
Source: Bank of England

Unsecured borrowing levels also reflected the lack of spending opportunities during lockdown (see Chart 6). While unsecured borrowing including credit cards averaged £25 billion a month in 2019, it fell to a low of £11.6 billion in April. But this series shows a strong recovery since, reaching £21.5 billion in July.

1.2 The impact on the housing market

The most profound impact of the pandemic on the property market came from the lockdown, under which the government effectively closed the sales and rental markets from late March until mid-May in England. Northern Ireland kept the market shut until mid-June, Scotland until late June and Wales until late July. This pushed UK property transactions down to a low of 37,000 in April but the market has shown quite a rapid rebound since, reaching 80,000 transactions in July. This compares to an average of 98,000 a month in 2019. Chart 7 shows the 3 month rolling average for transactions and on this measure the latest numbers (the 3 months to July) point to a robust recovery.

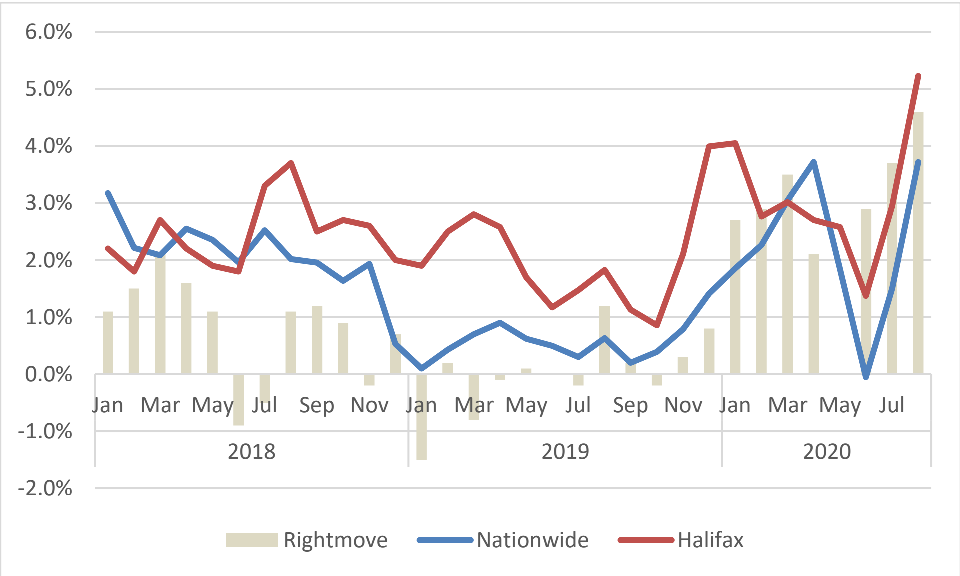
Chart 7 – UK residential property transactions (3 month rolling average)



Source: HMRC

The July RICS Residential Market Survey showed a similar rebound in activity with buyer enquiries rising significantly quicker than new vendor instructions. This points to upward pressure on property prices for the time being and the RICS survey's expectation of future price movements was positive in July on both a 3 and 12 month horizon. House builders have also reported strong post-lockdown sales. The stamp duty holiday on the first £500,000 announced on 8 July has further spurred interest in moving, but has concerned many market participants that sales will slump again after the holiday ends in March 2021.

Chart 8 – Annual house price inflation



Source: Rightmove, Nationwide, Halifax

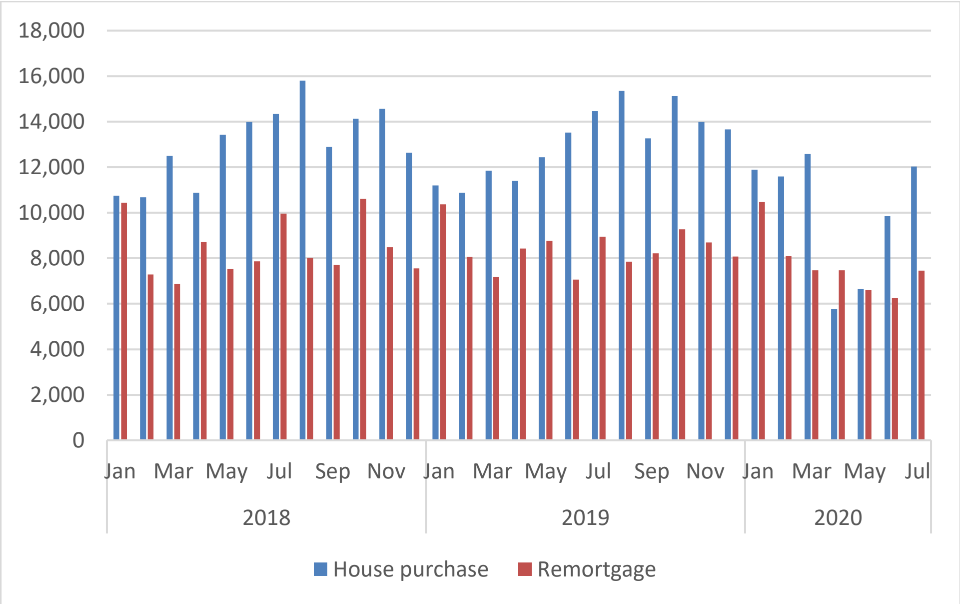
With property transactions suspended during lockdown, valuers were not permitted to enter homes to assess their value, which created some concern about the lack of timely valuation benchmarks once the market resumed. Many commentators expected prices to fall as buyers asserted their bargaining power in the knowledge that the economic outlook had been undermined by the pandemic. But as the market has returned to life, demand seems to have led supply, leaving sellers in a better position than expected.

Rightmove asking prices in August were 2.2% ahead of March's level across the UK. House price inflation measured by the Nationwide and Halifax indices, based on prices at approval stage, slowed slightly during lockdown but both series showed strong upticks in July and August, pushing up the annual rate of increase to 4-5% (see Chart 8). The chances of this buoyant trend being maintained is discussed in Section 2.

1.3 The impact on the mortgage market

The fall in mortgage lending for house purchase mirrored property transaction levels going into lockdown, with the number of mortgaged house purchases falling 56% between March and April against a 57% decline in transactions. The rebounded has been similar too with both transactions and the number of loans for house purchase rising by around 80% between April and June. On the latest monthly data (July), house purchase lending by value is running only 8% below the average for 2019. Interestingly, first time buyer numbers held up better than moving homeowners in April and May. This may reflect the added difficulty involved in trying to both buy and sell a home during a pandemic. But since May, the number of home movers has risen faster, perhaps reflecting reduced maximum LTVs in the market.

Chart 9 – UK monthly mortgage lending (£ billions)



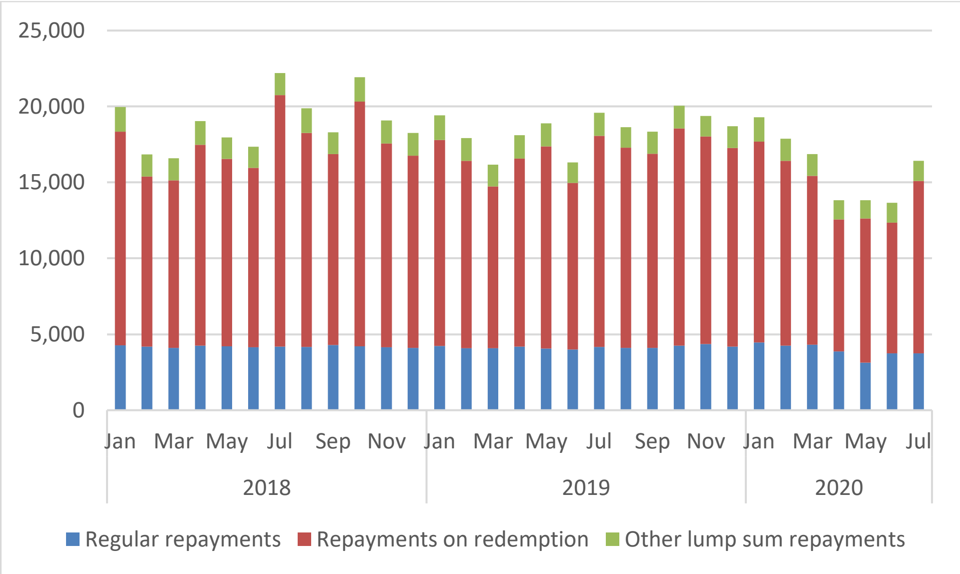
Source: Bank of England

Mortgage approvals, which are obviously more forward looking than lending data, were even stronger in July. Approvals for house purchase were £16.7 billion, 31% up on the average monthly figure for 2019. 78,000 mortgages for house purchase were approved in July, the highest monthly figure since 2017.

Unsurprisingly, remortgage activity held up much better during lockdown (see Chart 9), as the remortgage process is highly automated at many lenders so was not impacted by social distancing rules. But more recently remortgage volumes have not been as strong and by July remortgage approvals were down 15% on the 2019 monthly average, a far weaker performance than the house purchase market. There is no evidence of a material shift in the balance of loans provided through intermediaries versus direct for either house purchase or remortgage, suggesting that both lenders and brokers have been able to continue processing applications through this period despite the constraints imposed by the lockdown and social distancing measures.

The period since March has been a challenging one for lenders. They have had to adjust their processes to facilitate working from home while implementing the mortgage payment deferral or so-called 'holiday'. Around 17% of customers have taken a payment deferral (1.9 million) including buy-to-let. This placed a significant resource strain on lenders and there is concern that the speed with which lenders were required to implement the scheme has led to borrowers electing to take a payment 'holiday' without always fully understanding how it works (and the fact that it will increase the total payments they make over the full term). Lenders are also already having to plan the resource requirements needed to manage higher arrears. The moratorium on repossession action until the end of October makes it even more vital that financially challenged borrowers communicate with their lenders to help them understand their options.

Chart 10 – Monthly mortgage repayments (£ billions)



Source: Bank of England

During these past few months, lenders have pulled back from higher LTV lending. According to Moneyfacts there were 779 residential mortgage products at 90% LTV before the lockdown in March but only 72 such products by late June. 95% LTV lending has all but disappeared. This has been driven by concerns about the economic outlook, the risk of new borrowers losing their jobs and the possibility that house prices might fall. Capacity constraints have also played a role at many lenders as has reduced mortgage repayments.

As Chart 10 shows, there was a sharp fall in total mortgage repayments between April and June. All three components (regular repayments, repayments on redemption and other lump sum repayments) showed large falls between the first and second quarters, but the largest contraction was of repayments on redemption which fell 27% from £37 billion to £27 billion, reflecting lower housing transactions and remortgages. This has meant that lenders have not needed to lend as much to maintain the level of mortgage balances, giving them scope to ease off on new lending, especially the higher risk component.

One group of lenders, the 'non-bank' mortgage lenders that do not take deposits and therefore do not qualify for the Bank of England support mechanisms open to deposit takers, have faced particular challenges. Without Bank of England support and with the securitisation market closed during lockdown, many of these lenders had to cease new lending. As this group of lenders is particularly focused on non-standard borrowers, this created concerns that many of these borrowers could find it difficult to remortgage.

However, since June the securitisation market has reopened and the largest non-bank lender, Kensington Mortgages, has subsequently issued over £1 billion of bonds. Other non-bank lenders have also restarted lending, and the wholesale funding providers on which these lenders depend now seem to be confident that future conditions in the housing market and wider economy are not an impediment to continued mortgage lending.

1.4 Buy-to-let performance

Buy-to-let lending data up to June showed a larger fall in house purchase lending than the wider mortgage market, with a 31% drop compared to the average monthly figure in 2019. But buy-to-let remortgages showed a similar fall to the wider market, down 28%. Turning to the stock of debt, there was only modest growth over the first half of the year - the number of buy-to-let mortgages rose by 1% while the value of outstanding balances rose 2%.

The rental market appears to have weakened in London but is holding up better in the rest of the country. The HomeLet Rental Index for August shows rents rose by 1.5% over the year nationally, but fell by 2.1% in London, while the RICS Residential Market Survey for July reported that London was the only region where tenant demand was down over the previous 3 months. Looking ahead, a balance of agents expects an improvement in rents over the next 3 months in every region except London and East Anglia.

1.5 What the data tells us so far

In conclusion, from the data releases we have seen to date (which mostly goes up to July), there is clear evidence of an economic rebound but not yet a return to normal levels of activity. This is unsurprising given that parts of the economy remained locked down at that time. Where more up-to-date data are available, it points to a continuation of the rebound.

However, there are concerns that the economy will not be able to make a smooth transition back to normality. This partly reflects the on-going disturbance caused by continued policy measures to control the virus but perhaps more worryingly it also reflects a heightened sense of caution with workers slow to return to their offices and many consumers remaining wary of social activities such as dining out or going to the cinema. The risk of higher infection rates causing further restrictions or lockdowns only adds to the sense of uncertainty. As a result, the immediate outlook remains highly unclear and we turn to this next.

2. Factors influencing the immediate outlook

2.1 Do we face an October cliff edge?

Most sectors of the economy have now been out of lockdown for a number of weeks, which has allowed a process of normalization to start to get underway. As we discussed in Section 1, a range of data show that the economy has been recovering since its low point in April. But there is concern that we are currently in a ‘phony war’ because the Coronavirus Job Retention Scheme or furlough and the SEISS are supporting incomes and maintaining jobs until their termination date at the end of October.

This has led to talk of an approaching cliff edge at the start of November which for lenders is made more significant because the mortgage payment deferral or so-called ‘holiday’ scheme also terminates at the end of October. Concerns about this impending cliff edge have undoubtedly influenced lender decisions regarding the level of risk they are comfortable assuming on new loans, which has led to a general reduction in maximum LTVs across the industry.

Concerns have been heightened by a number of downbeat forecasts for house prices, some released since the stamp duty holiday was announced. In its Fiscal Sustainability Report published on 14 July the Office for Budget Responsibility (OBR) forecasts that house prices will fall by 5.5% year-on-year by the fourth quarter of this year before recovering 3.7% in 2021. But in recognition of heightened uncertainty, the OBR also provides a lower and higher scenario. In its lower scenario, the OBR projects a fall of 10% by Q4 this year with a further 2.5% fall next year. The Centre for Economics and Business Research predicts that house prices will fall by 5% this year despite the stamp duty holiday while Savills expects a decline of 7.5%.

On a more positive note, the Bank of England Monetary Policy Report, published on 6 August, estimated that the number of furloughed workers would average as little as 2 million in the third quarter and 1 million in October. As businesses have reopened they have needed to recall workers and from August employers are required to meet some of the cost of furloughed staff so firms that are planning to reduce staff headcount have had an incentive to start the redundancy process before August. This suggests that the cliff edge in the labour market may not be as severe as many feared. And the latest house price data (see chart 8 in Section 1) show prices moving up not down.

Lenders also report that many customers who took the mortgage payment deferral, both on residential and buy-to-let mortgages, were in a position to meet their payments and took the so-called ‘holiday’ to build up a precautionary buffer of extra cash or because they did not understand that the scheme would leave them paying more in the long run. We have conducted a survey of members which shows that lenders expect only somewhere between c.0.5 and 5 percent of borrowers coming off the payment deferral to then go into arrears on their mortgage. Up to a further c.1.5 percent are expected to be able to make only the interest payments.

In conclusion, the cliff edge in October may be substantially less severe than feared. However, due to the usual lags in the availability of data, it will be early 2021 before we have a clear picture of the direction of variables such as unemployment and house prices in the immediate post-'cliff edge' period. This could delay the point at which lenders start to relax their maximum LTVs into 2021, which in turn could hold back the recovery in mortgage lending to some extent.

2.2 Lenders adjusting to an uncertain outlook

In contrast to the global financial crisis, lenders went into the current economic slump with strong capital and liquidity. This provides a high degree of comfort that they can continue to support the economy and consumers even with the risk of further lockdowns and other measures that might need to be introduced if Covid-19 cases spike again. However, lenders need to be cautious given the high degree of uncertainty about the future course of the pandemic and its economic impact while additional uncertainty about the UK's new relationship with the EU after the transition period finishes at the end of 2020 only adds to the disquiet.

These uncertainties have led mortgage lenders to pull back from riskier lending, in particular lending above 85% LTV (as explained in Section 1.3 above). However, while it is quite understandable that lenders want to take a cautious stance, the lack of mortgage availability at 90% LTV or above risks exacerbating the downturn, making it even harder for first time buyers to enter the market.

Once we are past the 'cliff edge' of the end of the furlough, SEISS and mortgage deferral schemes from November, lenders will no doubt be watching closely to see how house prices and unemployment levels evolve. If by the first quarter of 2021 it appears that unemployment is on a downward track and the housing market is robust, lenders may start to relax their mortgage lending criteria, although nervousness about the impact of the end of the stamp duty holiday in March could push back the date of such a relaxation.

While the stamp duty holiday is a cost-effective way to stimulate private sector activity, the government must be mindful of the implications of ending it before market conditions have normalized. Moreover, ending it at the same time as the current Help to Buy scheme finishes risks creating a particular problem for the new build market. If necessary, government should consider extending the holiday.

3. Longer term implications of the pandemic

3.1 The economic legacy of coronavirus

It is clear that even when Covid-19 is no longer considered any sort of threat, perhaps because an effective vaccine has been found, its economic impact will continue to be felt because the dislocation it has brought to numerous sectors will have left a legacy of unemployed workers, shuttered businesses and altered ways of working. However, there is enormous uncertainty about the potential scale of these more persistent effects.

Starting at the macroeconomic level, there has been a lively debate amongst economists about whether coronavirus and the government response to it will prove to be inflationary (with a tendency to push up inflation and interest rates in the future) or deflationary (with further downward pressure on already low inflation and interest rates). Obviously, which of these two schools of thought proves to be correct will have an enormous impact on the housing and mortgage markets, as particularly interest rate-sensitive parts of the economy.

The evidence to date suggests that coronavirus will prove to be disinflationary: reducing inflation and interest rates despite the enormous increase in government deficits and money supply. There are few signs that inflation in general is set to rise and longer term government bond yields have fallen to new lows. In normal times the scale of increase in the money supply we have seen might be a cause to fear higher inflation but a large part of it relates to emergency loans to firms requiring cash to tide them over, which will weaken balance sheets and restrain future corporate spending.

The majority of the rise in the money supply is accounted for by households' retail deposit balances which have risen by over £160 billion as illustrated by Chart 5 in Section 1, as the furlough and SEISS have helped to maintain the flow of income into households even when spending opportunities were severely curtailed. With these schemes coming to an end and the second round effects of the virus set to work their way through the economy, increasing unemployment, uncertainty is likely to fuel households' precautionary savings. As a result, it is unlikely that households will rapidly spend the savings cushion they have built up over the past 6 months (although some reduction is likely). In consequence, demand is unlikely to reach a level that pushes inflation significantly higher.

3.2 The longer term impact on the housing market

As an interest rate sensitive sector, housing can be expected to perform comparatively well in an environment of even lower interest rates where the central bank has also increased the money supply through QE and other measures. It was this combination of lower interest rates and unconventional monetary policy that played a key role in driving the robust recovery in house prices in London (and, to a lesser extent, other regions) after the global financial crisis. Between April 2009 and April 2017, average

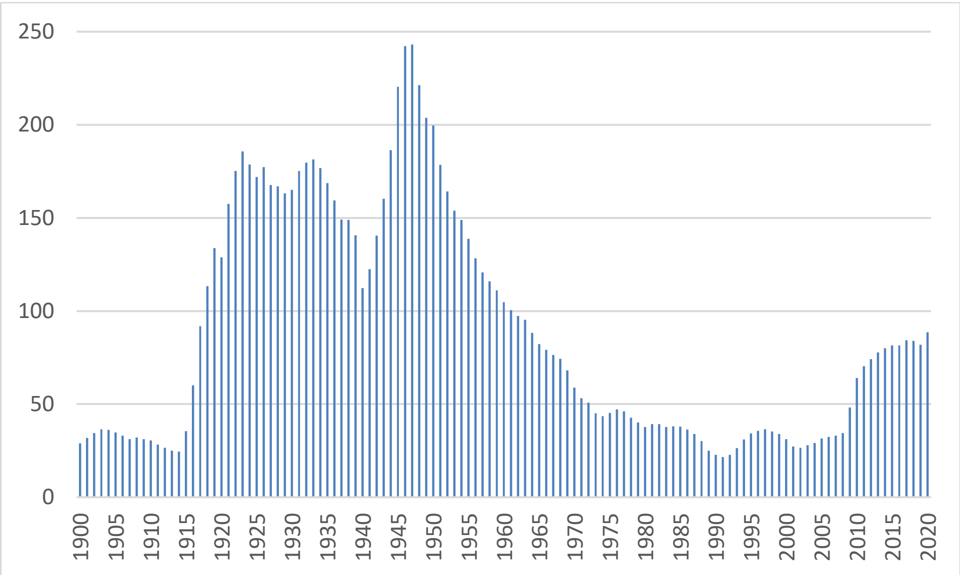
London prices rose from £245,000 to £480,000, a compound rate of 8.8% pa, despite the sluggish nature of the economic recovery.

A repeat of this scale of increase is unlikely this time as new property taxes aimed at foreign owners are now in place, buy-to-let has been subjected to new taxes and mortgage rates cannot fall as much as they did after the global financial crisis. But nonetheless, with many mortgage deals below the Bank of England's 2% inflation target, and thus potentially set to carry a negative real interest rate in the future, borrowing is historically cheap, which ought to underpin property prices, suggesting that the risk of a longer term fall in house prices is relatively low. Avoiding such a longer term fall is beneficial for the broader economy and for lenders but it would provide no relief to first time buyers.

3.3 The legacy for government finances

A combination of spending to support businesses and employees impacted by the lockdown and a collapse in tax revenues has created fiscal deficits on a scale normally only seen in times of full scale war. The OBR projects a government deficit of £322 billion in fiscal 2020-21, 16% of GDP, the highest figure since WWII. Increased borrowing has already taken the ratio of the stock of government debt to GDP to around 100%, its highest level since the early 1960s (See Chart 11). As with the general outlook for the economy, there is great uncertainty about how government finances will evolve in the months and years ahead but few commentators see the fiscal deficit returning to its previous level soon.

Chart 11 – UK government debt to GDP ratio since 1900



Source: UK Public Spending

In the past such a dramatic increase in government debt would have caused serious concerns about sustainability. However, the influence of an economic school of thinking known as Modern Monetary Theory (MMT) has shifted the intellectual climate. MMT emphasizes that a government that issues its own 'fiat' currency (unbacked by precious metals or another currency), such as the UK, and borrows in this currency, can never be forced to default as it can always repay bondholders with newly created cash. Moreover, it can choose to set interest rates anywhere along the yield curve through bond buying or selling programmes such as QE. Thus no level of government debt can be thought of as unsustainable and the only true constraint is provided by the productive capacity of the country (which if exceeded by demand would create inflation).

MMT is not supported by most mainstream economists and downplays the real risk of foreign owners of UK government bonds losing faith, selling and causing a severe currency depreciation, which could create an inflation problem. Nonetheless, both the global financial crisis and the response to the pandemic demonstrate that governments can issue vast quantities of new money and run large fiscal deficits without creating a loss of investor confidence or stoking inflation at a time when private sector demand is muted.

The current UK government's stated reluctance to return to austerity could also have been influenced by the shift in academic attitudes toward fiscal sustainability. Perhaps the Boris Johnson administration has come to accept that the post-financial crisis focus on fiscal rectitude was technically unnecessary. This suggests that both households and corporates may not need to be as concerned about future tax rises as conventional policy would imply, although HM Treasury is likely to look for some tax increases given the scale of the deficit.

3.4 The longer term impact on mortgage lenders

As Sections 1 and 2 explain, lenders are braced for a significant but manageable rise in defaults on their mortgage books after a long period of very low defaults and credit losses, as unemployment increases when the furlough scheme comes to an end and as second round effects kick in (where those losing their jobs are not directly affected by the virus but indirectly from lower general demand).

The financial sector thus faces a number of impacts from the pandemic. Firstly, even if the economy as a whole bounces back reasonably quickly some businesses will not survive and others will only be able to pull through with reduced workforces. This points to higher bad debts on loans to both corporate and household borrowers.

If lower interest rates persist this is also likely to undermine lender profitability by all but eliminating the deposit spread (the traditional spread between average deposit rates and wholesale borrowing costs). As there are significant costs associated with collecting retail deposits, with Bank Rate at 0.1% even a deposit rate of 0% is unlikely to make deposits cost competitive with wholesale funds. While it might be possible for lenders to increase asset spreads somewhat in response, in practice it has usually proven difficult to fully outset a reduced liability spread through higher asset spreads.

The willingness of corporates to borrow going forward is also likely to be curtailed as many will have taken on emergency debt this year, reducing their appetite for further borrowing. Lenders may thus find that households are the main source of growth in future lending opportunities. Under such circumstances the low mortgage margins that we have seen in recent years are likely to be maintained despite concerns about a cyclical rise in bad debts, as lenders may have comparatively more lending resources to devote to the mortgage market.

4. Conclusion

The fight against coronavirus has created one of the most severe shocks to the UK and global economies on record. The lockdown has been likened to putting the economy into an induced coma with the need for intensive government financial support to help firms and households survive. But now, with the economy reopened, life has not returned to normal. Fear of the virus and the risk of further lockdowns have prevented the economy from moving quickly back to pre-corona conditions.

Inevitably, mortgage lenders are concerned about the outlook as government support measures such as the furlough and SEISS are withdrawn, exacerbated by the risk of further coronavirus lockdowns, at least regionally, and uncertainty about the UK’s position once we leave the transitional period and have to adjust to a new relationship with the EU, the nature of which is still unclear. So it is not surprising that lenders have sought to reduce risk by capping maximum LTVs, typically at 85%.

Lenders will be watching employment and housing market data closely over the next few months to see signs of just how severe the shakeout in the labour market will be and how much the housing market will suffer as a result. So far, both employment (though not self-employment) and house prices have held up well. If the Bank of England’s August estimates (based on employer surveys) are right, there will be only 2 million people on the furlough scheme on average over the third quarter and 1 million by October. If the majority return to work, unemployment may not rise by as much as feared. The housing market might also hold up better than expected, buoyed by ultra-low interest rates and the increased amount of cash in the economy (as well as the short term boost provided by the stamp duty holiday).

By the early months of 2021, barring any major spikes in the virus, lenders should be in a much better position to quantify the impact of the crisis and hopefully they will then be in a position to consider relaxing their lending criteria, although the termination of the stamp duty holiday in March could delay such a decision. Lenders are aware of the need to support first time buyers with low deposit products and want to reinstate them as soon as it is prudent to do so.

Media contacts

For further information please contact:

- Rob Thomas, Director of Research, on 020 7427 1406
- Nick Seymour at Rostrum, on 020 7440 8670

imla@rostrum.agency

About IMLA

The Intermediary Mortgage Lenders Association (IMLA) is the trade association that represents mortgage lenders who lend to UK consumers and businesses via the broker channel. Its membership of 43 banks, building societies and specialist lenders include 18 of the 20 largest UK mortgage lenders (measured by gross lending) and account for approximately 93% of gross mortgage lending.

IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market.

Originally founded in 1988, IMLA has close working relationships with key stakeholders including the Association of Mortgage Intermediaries (AMI), UK Finance and the Financial Conduct Authority (FCA).

Visit www.imla.org.uk to view the full list of IMLA members and associate members and learn more about IMLA's work.

About the author

Rob Thomas is a Director of Research at Instinctif Partners. He previously served as an economist at the Bank of England (1989-1994), a high-profile analyst at the investment bank UBS (1994-2001) and as senior policy adviser to the Council of Mortgage Lenders (2005-12). He was also the project originator and manager at the European Mortgage Finance Agency project (2001-05) and created the blueprint for the government's NewBuy mortgage scheme.