Autumn 2014

Intermediary Mortgage Industry Bulletin

Question time

IMLA's annual Great Mortgage Debate uncovered a mix of optimism and concern

I had the pleasure of sitting on the panel at the recent IMLA Great Mortgage Debate, which provided an engaging and topical debate on issues facing the mortgage market as well as its future outlook. My fellow panellists were passionate and often outspoken, and I would like to extend my thanks for their input. It was both highly informative and entertaining to hear the views of industry figureheads, regulators and consumer champions on topics ranging from the size and shape of a healthy mortgage market to issues of product availability and broker fees.

In our Spring bulletin I highlighted the resurgence of the broker as a mortgage market institution, and it was evident that the audience for our debate agreed with IMLA's view that the proportion of lending channelled through intermediaries will continue to grow. An overwhelming majority – 97% – felt that lending via brokers will rise over the next year, with more than half believing that intermediaries will eventually be responsible for over three quarters of mortgage activity.

Opinions were divided over whether the current market is more sustainable in the wake of the Mortgage Market Review (MMR) and interventions by the Bank of England's Financial Policy Committee. Actions to date have been reasonable and justifiable; but looking ahead there is the potential for greater tensions to emerge. There is undoubtedly a need to protect the market and consumers from excessive borrowing and lending, but there are also significant shortcomings in policies that restrain mortgage access in order to compensate for inadequate housing supply.

These issues are explored in more detail within these pages, and IMLA will continue to use its influence to campaign on behalf of industry for sensible and sustainable policies to support the continuing recovery of mortgage activity in both owner-occupier and buy-to-let arenas. Both are vital components of a healthy market, and as lenders we must continue to champion new solutions to meet the evolving needs of UK consumers.

IMLA exists for the benefit of our members, associates and industry partners and we are always open to new ideas and views. Please visit our website to learn more about our work and do not hesitate to get in touch if you are interested in playing a role in future.

Charles Haresnape, IMLA Chairman

Inside these pages...

Mortgage market outlook – the latest IMLA research findings

Peter Williams, Executive Director, on balancing growth and stability

Mortgage market outlook

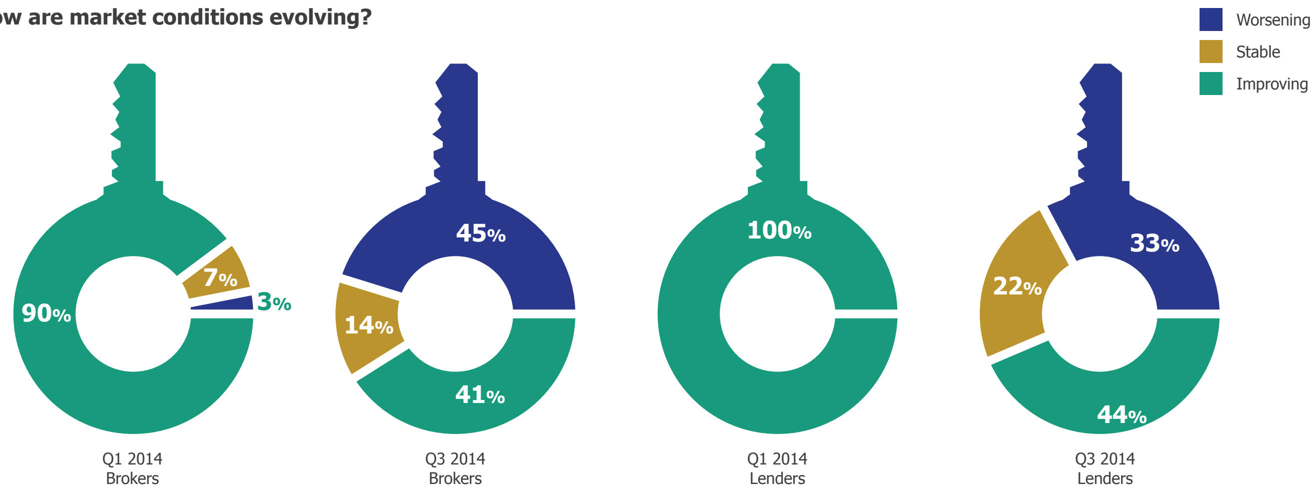
The latest findings from IMLA's ongoing research among intermediary lenders and brokers reveals the impact of recent changes in the mortgage market and expectations for the second half of 2014.

Market conditions

Both lenders and brokers are feeling less confident about improvements in the market than at the start of the year. While Q1 2014 brought almost unanimous agreement that conditions were improving, this has since given way to a greater sense of uncertainty in the wake of MMR.

The Q3 findings show over half of lenders (56%) believe conditions are stable or worsening, along with 59% of brokers. The greatest doubt is among the broker community, with 45% of the total reporting worsening conditions compared with 33% of lenders.

How are market conditions evolving?

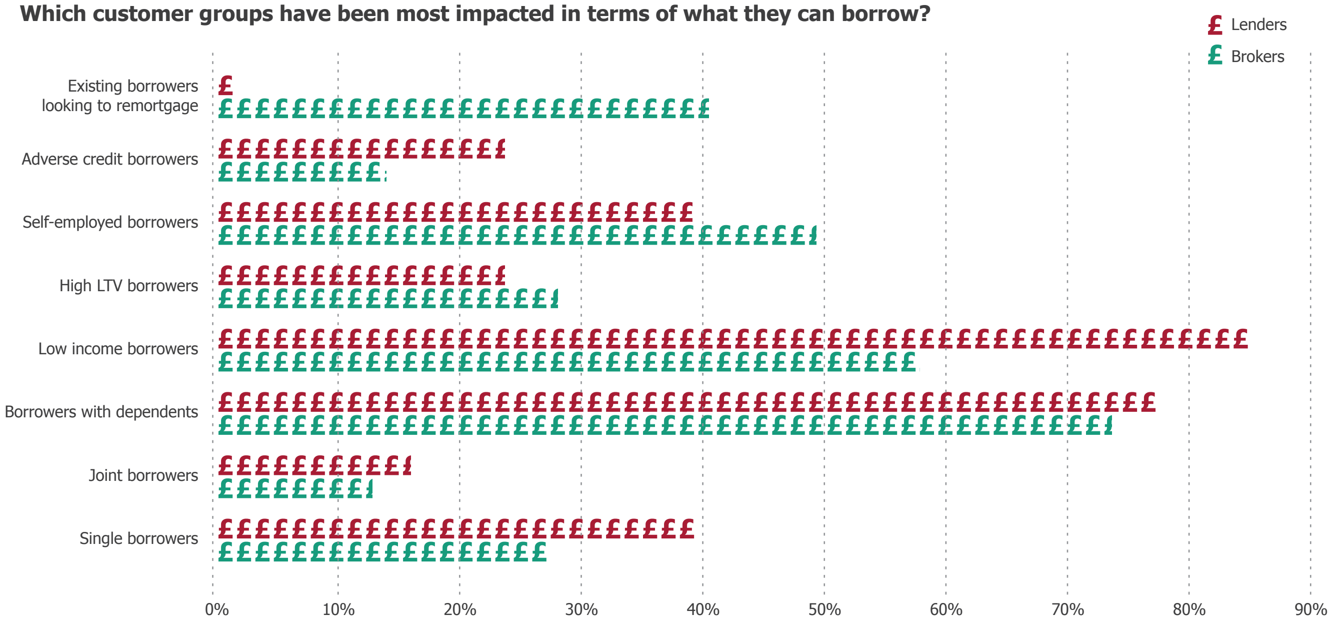


MMR impact

IMLA's research shows industry divided over the impact of MMR on consumers' access to mortgages. While 63% of brokers feel significantly more people are being turned down because of affordability checks against higher interest rates, just 15% of lenders agree. This differential reflects the experience of brokers in undertaking assessments before they submit applications to lenders.

Nonetheless both groups share the view that interest rate stress tests are having a greater impact than income/expenditure assessments and evidencing requirements. There is also agreement that borrowers with dependents and low income borrowers are the two groups most affected by MMR in terms of what they can borrow.

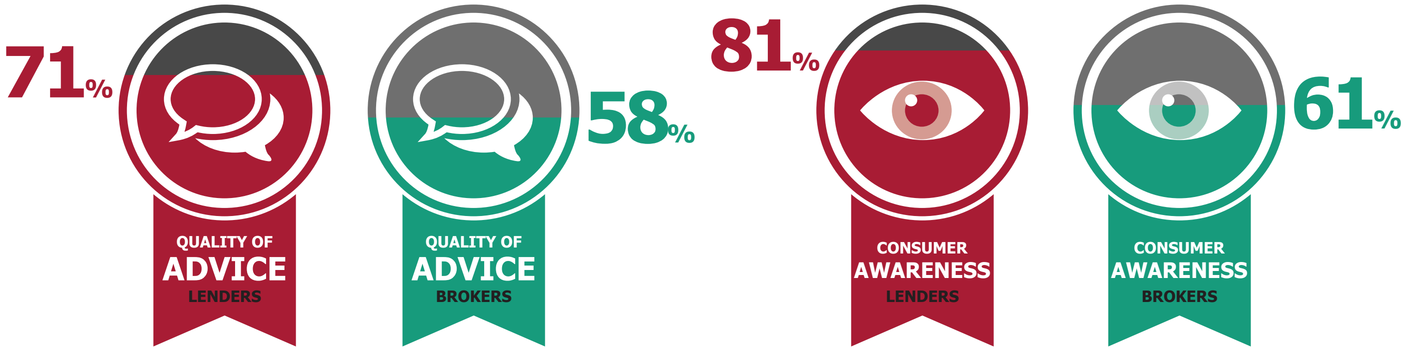
Which customer groups have been most impacted in terms of what they can borrow?



Lenders are more optimistic than brokers about the beneficial long term impact of MMR on advice although the majority view among both is upbeat: 71% of lenders and 58% of brokers believe MMR will ultimately improve the quality of mortgage advice consumers receive.

However, there are concerns over products: 54% of lenders feel MMR will negatively impact innovation while 71% of brokers believe it will do the same for sourcing mortgages.

Brokers and lenders who believe MMR will have a positive impact on the quality of advice and consumer awareness of affordability



Macroprudential controls

Following new measures from the Bank of England's Financial Policy Committee to curb risky lending, 55% of lenders expect further action to control the mortgage market, with 27% unsure. Expectations of further action are shared by 40% of brokers, while a further 39% are uncertain.

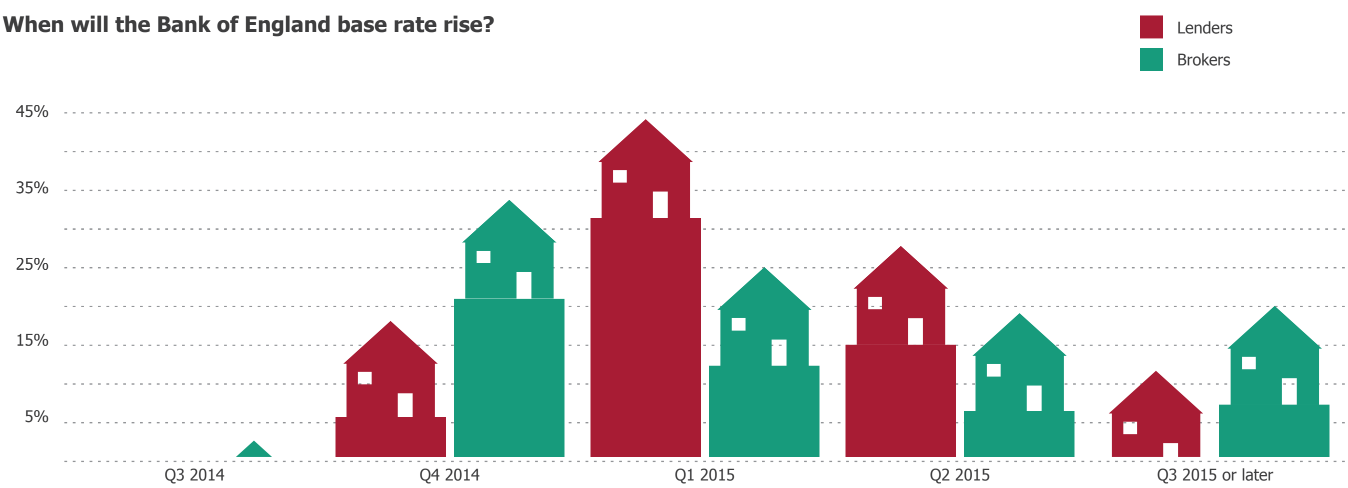
Of the measures announced so far, both lenders and brokers agree the 3% income stress test will have a greater impact on the market than the 15% cap on high loan to income (LTI) mortgages.

Interest rate rises

When questioned in Q3, lenders and brokers were divided in their views on when the Bank of England will raise the base rate from 0.5%. Just 17% of lenders anticipate a hike in 2014, with 72% forseeing a rise in the first half of 2015. Almost half of lenders (44%) expect the rise to come in Q1 of next year.

Brokers were more divided with 36% forecasting a rise this year. A further 44% expect change in the first half of 2015, while 20% predict the 0.5% base rate will survive until the second half of next year.

When will the Bank of England base rate rise?



Balancing growth and stability

Housing recovery has raised new questions about the acceptable boundaries for mortgage lending, according to Peter Williams, IMLA Executive Director.

"A landmark year for the mortgage market brought a surge of optimism and growth in the early months – albeit from a low base – followed by a cooling period as the Mortgage Market Review (MMR) went fully live on 26 April. The first use of macro-prudential controls by the Bank of England's Financial Policy Committee (FPC) will be remembered as another historic milestone. A challenging path now lies ahead to support the market's recovery while guarding against excess growth in household debt.

The FPC will have a tough but necessary role going forward, and is certainly right to oversee what remains a volatile market albeit the focus on controlling lending alone is not helpful. IMLA's research among the intermediary market shows that many participants expect to see further action in future: over half of lenders feel this way along with a sizable minority of brokers. Few deny this remains a possibility.

IMLA has been keen to stress the modest momentum in mortgage lending this year compared with historic norms. Over the six year period 2008-13, there was a dramatically large shortfall of buyer purchases of over 1 million. Transaction volumes will naturally pick up in the next few years, but quarterly rates are still falling short of long-term averages and it will take a considerable time to fully bounce back from the trough.

While annual growth figures have hinted at a robust recovery, comparing mortgage activity in the first half of 2014 to the pre-recession period suggested the rate of monthly gross lending was broadly equal to that of early 2002, while the rate of net lending was comparable to 1996. If you consider that past lending totals would be far higher in today's terms given price inflation, we are still a long way from the market's previous state of health.

With house-buying activity increasingly being influenced by cash, it may be perplexing why there is such a broad discussion about the need for intervention in the lending market – particularly in the wake of MMR. Clearly there is a benefit in reminding lenders of the consequences of higher risk lending and the new FPC limits are there to keep minds focused on the long term impacts and associated risks. But lending is only one part of the equation and it leaves the industry between the rock of regulatory controls and the hard place of not meeting market demands.

IMLA has argued that the triple-lock of regulation – MMR, macro-prudential controls and higher capital requirements for lenders – risks creating a more subdued market and limiting lenders from supporting the full range of creditworthy borrowers. Customer needs are continually changing and it is vital that the quest for financial stability still leaves room for sustainable and innovative solutions to support them.

*IMLA's report, 'The new macro-prudential regime: when and how will the Bank of England intervene?' authored by Peter Williams and Rob Thomas, is available at **www.imla.org.uk** or from **imla@wriglesworth.com***"

INTERMEDIARY MORTGAGE LENDERS ASSOCIATION

About IMLA

IMLA aims to promote and develop the UK intermediary market by:

- working to ensure growth, innovation and choice for the consumer through active market and policy engagement
- providing an inclusive forum for intermediary mortgage lenders to pool their views, experiences and expertise
- developing strong and effective relationships with brokers, lenders and related trade bodies as well as the wider regulatory and policy community.

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