UK FINANCE

THE CHANGING SHAPE OF THE UK MORTGAGE MARKET

Emerging themes

A joint report from UK Finance and Hometrack, part of Zoopla

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In partnership with:

hometrack

PART OF Zoopla

FOREWORD

There is no doubt that the size and shape of the mortgage market has changed considerably over the last decade since the global financial crisis. The crisis led to significant changes in conduct and prudential rules designed to protect both borrowers and firms from the risk of any future downturn or similar economic shock. At the same time, we've seen significant government intervention in the market to stimulate new home building and support first-time buyers, particularly through the Help to Buy equity loan scheme.

Mortgages and housing are intrinsically linked. This report looks to combine UK Finance mortgage data with insight and data from Hometrack and Zoopla, to set out how mortgage lending has changed and consider the regulatory and policy drivers that have influenced this.

This is the first time that mortgage and housing data has been brought together in this way. Our aim is to provide an empirical evidence base to show how interventions have impacted on the market for owned and privately rented homes. The report also reflects on the changing nature of consumers and considers in the near term whether the market that has been created is one that is appropriate for their needs.

Across all consumer markets expectations continue to rise and the challenges that we face are arguably more complex now than ever. However, this report does not explore in detail the powerful, longer-run changes, including demographic and social shifts and climate change, that will also shape the demand for homes and mortgage finance over time.

The report also deliberately stops short of making specific recommendations for particular bodies, whether that be government or regulators. Rather we hope it will act as a springboard for further discussions about the future direction of regulation and policy thinking. UK Finance and its members want to be part of that discussion and help to shape tomorrow's mortgage and housing landscape.

Our members come from banks, building societies and specialist lenders representing around 97 per cent of the active mortgage market. They are very aware of the role that they play in serving customers and supporting a sustainable housing market and are well placed to address these challenges and opportunities.

Jackie Bennett

Jackie Bennett
Director Mortgages, UK Finance

EXECUTIVE SUMMARY

- Mortgage lending supports over 70 per cent of housing transactions. Gross mortgage lending has doubled to £268 billion over the last decade, supported by rising sales and house price growth. The expansion in gross lending has been achieved with limited mortgage product innovation.
- Net lending, after repayments, has recovered strongly from post-global financial crisis lows of less than £10 billion per annum, but recent levels of £40-50 billion remain less than half pre-crisis levels.
- Housing sales have plateaued over the last three years and are starting to slowly decline. The mix of home purchasers has shifted over the last decade with first-time buyers (FTBs) the largest buyer group. Tax and regulatory changes introduced between 2014 and 2016 have impacted housing demand and sales volumes for Buy-to-let (BTL).
- Macro-prudential housing tools – both stress test requirements and loan to income caps – are starting to restrict the ability of households with small deposits to access home ownership in high-value housing markets.
- The Help to Buy equity loan scheme (HTBEL), launched in 2013 to help those with small deposits buy new homes, has become an important feature of the new homes market in England. The proposed ending of the scheme in 2023 presents a major challenge to growth in new housing delivery.
- Lenders' risk appetite for mortgages has slowly recovered. The availability, choice and pricing of mortgages for existing and new customers has increased, including more 90 per cent+ loan-to-value (LTV) deals.
- Lengthening mortgage terms have been a consistent trend for the last 15 years, allowing borrowers to stretch their incomes as affordability pressures build. 30-year plus terms are now common. The trend for longer mortgage terms potentially has further to run across all borrower types.
- Several customer groups remain less well served in today's mortgage market – those with small deposits, single person households and households with complex incomes. Older households also feature in our list of under-served sectors, despite efforts to encourage more flexible lending policies.
- The majority of new lending now is based on five-year fixes. This benefits borrowers but will impact the size of the remortgage market in the next two to three years which currently accounts for two-fifths of lending.

- Lower house price growth and static sales volumes, together with more five-year initial mortgage terms, are set to limit the potential growth in gross mortgage lending in the near term. The average household moves once every 20 years and this means competition between lenders will intensify and the perceived attractiveness of higher risk business will increase.
- Overall growth in house prices has boosted the amount of housing equity against which households can borrow. The total value of private homes less total mortgage debt now exceeds £6 trillion. Mortgage balances account for 19 per cent of the total value of private housing.
- Despite the growth in housing equity, the number of homeowners with a mortgage is 13 per cent lower than a decade ago, as older households pay off loans and first-time buyer numbers start to level off.
- This report highlights how the unfolding housing cycle, together with policy and regulatory changes, is shaping the demand for mortgage credit. While gross lending has doubled, the number of homeowners with a mortgage is falling. Lenders have the appetite and capital to support more mortgage lending, but the market opportunity is evolving between lower and higher-risk business.
- Policymakers need to be clearer on the role and impact of mortgage lending in supporting the overall size and efficiency of the UK housing market, access to home ownership and the delivery of new homes.

This report has been written as a collaborative effort between UK Finance and Hometrack. The report writing was led by Richard Donnell, Research Director at Hometrack with support from Bob Pannell, independent consultant

CONTENTS

This report is split into three sections:

1. The housing market context for mortgage lending
2. Key themes and trends in mortgage lending
3. Summary and conclusions

This report first considers the development of the housing market over the last decade, covering housing sales, policy changes, the development of house prices post the global financial crisis, housing affordability, as well as the new homes and rental markets – including the relationship between renting and buying.

The second part of the report covers emerging trends in the mortgage market including regulatory changes, the composition of gross lending, mortgage terms and pricing, the profile of loan-to-values, arrears and possessions.

The final section sets out a commentary on the key findings and conclusions addressing:

- The impacts of policy and regulatory changes on mortgage lending
- Which customers are best and least served by the mortgage market
- Options for mortgage product innovation to adapt to the market environment
- Implications for mortgage lending if current trends continue
- How regulators and policy makers might use the information in this report

DATA SOURCES

The report uses data from a wide range of sources which are primarily listed as footnotes throughout the report. We have had access to detailed tables and data extracts from UK Finance that are not generally available to non-members and this has been supplemented by a range of analysis and insight from Hometrack and Zoopla.

1. HOUSING MARKET CONTEXT FOR MORTGAGE LENDING

1.1 Housing market turnover

Housing sales have recovered from the lows of the post global financial crisis period and totalled one million[1] in 2018, in line with the average over the last five years and 12 per cent higher than the ten-year average.

Households moving once every 20 years

Taking a longer-run perspective, total residential transactions from HM Revenue and Customs (HMRC) are in line with the 60-year average. Over this time the stock of private housing has grown and the net result is that the average UK private household moves home once every 20 years[2], down from a high of every eight years in the late 1980s. We expect lower levels of housing market liquidity to remain a feature of the housing market for the foreseeable future, assuming no material change in house prices or the economic outlook.

Chart 1 - Breakdown of gross mortgage lending 1995-2018 by purpose of loan

Source: Zoopla analysis based HMRC resdiential sales data and private housing stock from MHCLG live tables

1. **Housing transaction data for 'open market sales' sourced and aggregated from HM Land Registry, Registers of Scotland and Northern Ireland Statistics and Research Agency. This delivers a slightly lower figure than data from HMRC which counts transactions that attract stamp duties which includes non-open market sales.**
2. **Hometrack calculations using private housing stock data and housing sales data for the UK**

Structural decline in housing market liquidity

The UK is in the midst of a long-run, structural change in the liquidity of UK housing. The roots of this change are founded in a mix of economics, demographics and policy changes. Most important is the shift to a low rate of inflation which means households cannot rely on inflation to reduce the value of their debt in real terms. High levels of inflation in the 1980s, together with higher growth in incomes, created the capacity for households to move more often and this supported higher levels of housing market liquidity.

Today's low-inflation environment, combined with longer mortgage terms, increased life expectancy, an ageing population and social policy focused on caring for elderly households at home means fewer moves. This latter point is compounded by the structure of housing supply with a relative undersupply of one and two-bed homes. This creates a compression in property prices between two and three-bed homes which limits the ability of households to extract sufficient levels of equity to make trading down an attractive option for those in an average-sized home.

These factors are supporting the growth in the later life lending market that comprises a mix of lending types which we discuss later in section three below.

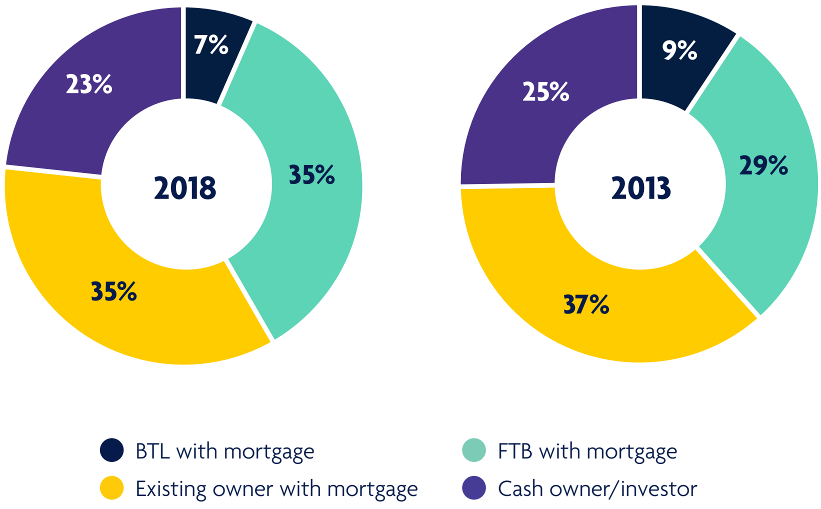
Mix of homebuyers and mortgagees has shifted

While housing transactions are in line with the five-year average, the mix of buyers has shifted in recent years as a result of demographics and policy factors[3].

- FTBs are at their highest share of housing sales since 2007, accounting for more than one in three sales (36 per cent) and 50 per cent of mortgages for home purchase. The growth in FTB numbers is being registered in regional housing markets where housing is more affordable. We estimate that Help to Buy equity loan (HTBEL) sales accounts for c.14 per cent of all FTB purchases across the UK.
- Existing homeowners are at their lowest share of housing moves for a decade. This group tends to under occupy homes which limits the drive to trade up. This group has taken advantage of lower mortgage rates, through product transfers or remortgaging, without the need to move home which avoids transaction costs.
- Mortgaged buy-to-let (BTL) borrowers account for six per cent of all housing sales. This share has declined from 11 percent in 2015, as a result of a drop in BTL for home purchase since 2016 when numerous tax changes shifted the dynamics of investing. While the number of new, mortgaged BTL purchases are 40 per cent lower than in 2015, purchase volumes have held up in housing markets with lower house prices and higher yields where the impact of tax and regulatory changes is less pronounced.
- Cash buyers account for 29 per cent of sales in Great Britain according to the ONS – the proportion of cash sales has held relatively steady for the last five years. This group is a mix of cash investors and homeowners who have no mortgage.

3. **Hometrack analysis of annual UKFinance, HM Land Registry, Registers of Scotland and DSNI data**

Chart 2 - Mix of transactions by type of buyer



Source: Zoopla Research analysis of HMLR, ROS, DSNI, UK Finance data

Looking ahead, our expectation is that we are unlikely to see a material change in the current mix of buyers with FTBs remaining the largest group, supported by underlying demographics. Existing homeowners, many of whom are under occupying their existing property, will continue to move for needs-based reasons such as employment and changes in circumstances, rather than moving and taking on greater mortgage debt for purely aspirational motives.

Higher transaction taxes

The scope of, and resulting receipts from, the taxation of housing transactions has increased rapidly over the last decade as a result of rising property prices and multiple tax changes since 2014. Tax receipts from housing transactions in the UK reached £8.8 billion in 2018/19[4]. Devolution has resulted in this area of taxation varying across the UK, with different tax rates applicable in each country[5].

The introduction of the additional dwellings rate at three per cent from 2016 across the UK has delivered a boost to tax receipts for transactions involving non-homeowner purchasers, including investors. ONS Stamp Duty Statistics for England show that the three per cent additional rate applied to 22 per cent of transactions in 2018/19.

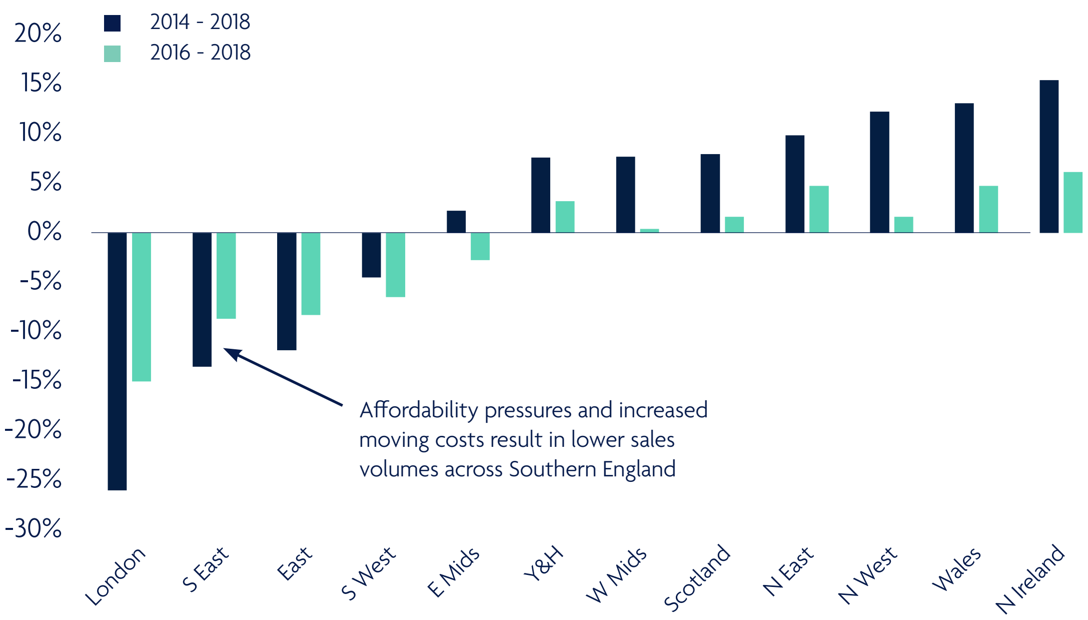
Focusing solely on residential transactions, higher prices have led to an increase in the cost of housing transactions in higher-value housing markets, with London and the South East regions accounting for 61 per cent of stamp duty receipts in England in 2018/19. In many markets across southern England the rate of stamp duty paid by purchasers, as a proportion of the price, is below the level of house price growth and a further disincentive to move home.

4. **ONS, UK Stamp Tax statistics 2018/19 and Revenue Scotland Land and Buildings Transaction Tax Statistics Sept 2019.**
5. **Transactions taxes are 1) the Land and Building Transaction Tax (LBTT) in Scotland - introduced in April 2015; 2) Land Transaction Tax in Wales - introduced in April 2018; Stamp Duty Land Tax (SDLT) applies in England and Northern Ireland.**

Regional and country level data reveal double-digit drop in sales across southern England

Growing affordability pressures, as house price growth exceeds the increase in household incomes combined with tax changes, have resulted in a four per cent decline in housing sales between 2016 and 2018, with London and regions in southern England registering a double-digit decline in sales. This fall in sales has been offset by higher sales volumes across the rest of the UK where housing is more affordable and transactions taxes are less of a barrier to home moves.

Chart 3 - change in housing sales at country/regional level 2015-2018



Source: HM Land Registry, Registers of Scotland, DFNI

While sales volumes are lower in southern England, the stock of outstanding mortgage debt has continued to grow from continued home purchases and remortgaging where additional equity is released. Equity withdrawal is concentrated in London and the South East but aggregate levels of equity withdrawal are lower than before the global financial crisis – see section 3.

Looking ahead, we expect UK housing sales volumes to remain within a range of 950,000 to 1.1 million. Sales volumes and pricing levels will continue to adjust to affordability constraints and the impact of policy changes in higher-value markets across southern England, while levels of market activity are sustained across the rest of the UK where affordability and costs are less of a barrier to moving.

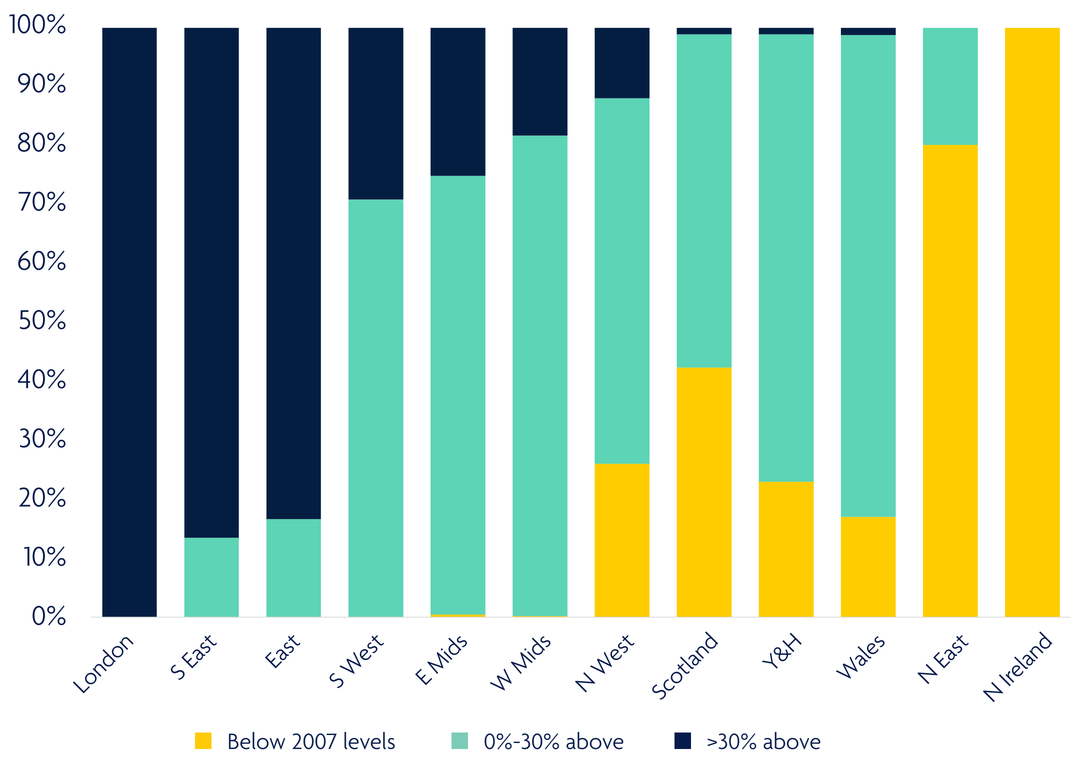
1.2 The development of house prices and impact on LTVs and affordability

The willingness and capacity of households to borrow against the value of their home is a function of housing equity and how the development of house prices has impacted the loan-to-value. The scale and profile of house price growth also impacts the affordability of housing for new home purchases where new regulations on loan to income limits and mortgage affordability stress testing have shaped the demand for mortgages in markets with high capital values.

The development of house prices, post the global financial crisis, has varied widely. At a regional level, house prices in London are 77 per cent higher than in 2009, while those in the North East are four per cent lower[6]. Tracking trends in average prices at a country or regional level provides too simplistic a view. Local housing markets are driven by their local economy and changes to the profile of employment and accessibility.

Scotland is a good example. House prices in Aberdeen have fallen 17 per cent since the oil price collapse in 2015, yet prices across Scotland and the other major cities have increased by a similar amount over the same period[7]. These localised variations in prices will have a material impact on the actual LTV for mortgaged homeowners at a local level.

Chart 4 - Proportion of outstanding mortgage debt in markets within three HPI buckets since 2007



Source: Hometrack House Price Indices, Mortgage lending by postcode, UK Finance Q1 2019

6. **Hometrack House Price Indices to September 2019**
7. **Hometrack UK Cities House Price Indices**

Looking at Great Britain as a whole, we find[8] that ten per cent of outstanding mortgage balances are in housing markets where house prices still remain below 2007 levels. In contrast, 54 per cent of mortgage balances are located in markets where prices are more than 30 per cent above 2007 levels, primarily in London and the south of England. This wide variation in performance shapes the LTV profile of existing mortgage books and the options for borrowers as they look to refinance or transfer onto new products.

The development of house prices has had a similar impact on housing affordability as measured by the ratio of house prices to household incomes (earnings). Markets that have registered house price growth of more than 30 per cent compared to 2007 have price rises in excess of the growth in incomes. It is in these markets where price to earnings (p/e) ratios are above average.

Higher price to earnings ratios impact the demand for new mortgages for home purchase, especially now mortgage rates have plateaued at historically low levels. It increases the pressure on households in the most unaffordable markets which is being compounded by mortgage regulations and stress testing. Notable developments in recent years include mortgagees on higher incomes, more dual earners than singles buying in higher-value areas, bunching at higher loan to income levels, greater reliance on the bank of mum and dad (BOMAD) and longer mortgage terms which we discuss later in this report. In addition, broad uptake of the HTBEL scheme, which is designed to support those with small deposits buy a new home.

1.3 Housing equity that supports secured lending

The number of housing sales has a direct influence on the demand for mortgages for home purchase while the level of, and growth in, house prices impacts affordability for new buyers while adding to housing equity and creating scope for equity withdrawal and product switches.

The total value of private housing stock in the UK is estimated at £7.4 trillion[9] against a total stock of mortgages of £1.442 trillion. Not all homes are mortgaged and there are currently 11 million outstanding mortgages against a total UK dwelling stock of 29 million homes.

Significant amounts of housing equity against which households can borrow creates an opportunity for lending and product innovation to meet changing consumer needs. Demographic change and an ageing population are one important area. This follows on from the expansion in the private rented sector over the last 20 years, in part supported by the availability of BTL finance from 1998 onwards.

Mortgages used for home purchases have accounted for more than half (55 per cent) of the £268 billion of gross mortgage lending over the most recent period. The remainder has comprised remortgaging. In addition to the 1.46 million loans that make up gross mortgage lending annually, there have been an additional 1.2 million mortgage product transfers where households stay with their lender but move onto a new mortgage product.

8. **Hometrack house price indices at postcode district level and UK Finance lending by postcode data as at 2019Q1**

9. **Hometrack AVM valuation estimate for all private homes at September 2019.**

1.4 New homes and Help-to-Buy Equity Loan scheme

Increasing the supply of new homes to boost availability and to keep pace with projected growth in new households has been a focal point for government policy. Over the last 25 years the stock of homes in Great Britain has grown by an annual average of 0.8 per cent per annum[10]. This represents an annual average increase of 191,000 homes a year.

The latest household projections for England, Scotland and Wales point to an additional c.177,300 households per annum. In England, the annual average growth in household numbers has been revised down by 24 per cent from the previous projections as a result of changed assumptions on births, migration and levels of cohabitation. More importantly, households headed by someone aged 65 years and over are expected to account for 88 per cent of the growth in households[11]. This highlights the strong demographic forces that are set to shape the demand for homes and mortgages in the years ahead.

Lending on new homes supports new housing delivery and is 100 per cent net new lending. The introduction of HTBEL and changes to national planning guidance in 2012 have created an environment that is supportive of new housing delivery. New homes account for 15 per cent[12] of the total value of housing sales a year, double the level in 2011.

Government support for the HTBEL scheme, introduced in 2013, has had a material impact on the supply of new homes – so much so that the National Audit Office (NAO) recently estimated in a report[13] that between 36 per cent and 48 per cent of all new home sales sold by the top five builders in England were funded with HTBEL in 2018.

With an effective LTV of 75 per cent or lower for HTBEL purchases (55 per cent in London) lenders have supported the new homes market which delivers net mortgage book growth. Lending on new homes accounted for 17 per cent of gross lending for home purchase in 2018, up from 13 per cent in 2016[14].

Different schemes apply in Scotland, Wales and England. In Scotland the scheme is more targeted with a maximum price cap of £200,000, which was reduced from £230,000 in 2017. In England, which accounts for c.85 per cent of HTBEL sales, the scheme has a national maximum price of £600,000. From 2021 the scheme in England will be limited to FTBs only and there will be new regional price caps that limit the value of homes bought under the scheme – in simple terms, this is equivalent to the value of a typical three-bed home.

These changes will impact builders in the Midlands and Northern regions of England who may need to adjust their unit mix. From 2023 the scheme in England will end, meaning all new home buyers will need to fund the full deposit and meet maximum LTV criteria for new homes which are typically lower than for resale housing. The affordability dynamics for new home buyers will change materially, especially in high-value housing markets and London in particular, with the loss of the 40 per cent equity loan.

10. **MHCLG Live Table 102.**
11. **ONS, Household projections in England: 2016-based**
12. **Data available for England and Wales only**
13. **National Audit Office, Help to Buy: Equity Loan scheme – progress review – June 2019**
14. **UK Finance gross lending figures 2018**

Builders are already buying land and planning new schemes assuming no HTBEL, but this means lower end sales values and more conservative assumptions for sales rates, reflecting the reduction in demand and buying power of new home purchasers.

1.5 The private rented sector, rental growth and the costs of renting versus buying

The private rented sector has grown to 4.5 million dwellings[15] supported by the introduction of BTL finance from 1998. Today the BTL mortgage market comprises 1.92 million outstanding loans, 61 per cent higher than a decade ago[16]. The remaining balance of homes are owned by cash buyer investors, companies and corporate investors.

Tax and policy changes reduce net new investment

The introduction of the three per cent additional stamp duty which includes investors from April 2016, together with the tapered reduction in mortgage tax relief for higher personal rate BTL landlords, has led to a decline in buy-to-let home purchases – down by an average of 40 per cent since 2015. The decline has been most pronounced in markets with high capital values and low rental yields, where the fall in owner-occupier purchases has been as high as 80 per cent. Investment has fallen at a lower rate in lower-value markets across northern England, Wales, Northern Ireland and Scotland where the equity required to buy is lower and higher LTV loans are more attainable.

Rental growth tracks earnings

Tightening rental supply, on lower levels of new investment, and continued growth in demand has resulted in rental growth accelerating over the last year. Average UK private rental values are two per cent higher than a year ago, in line with the average rate of growth over the last ten years[17]. Data from government surveys[18] shows that the proportion of income spent on rent averages between 30 per cent and 33 per cent – levels that have remained unchanged for the last decade.

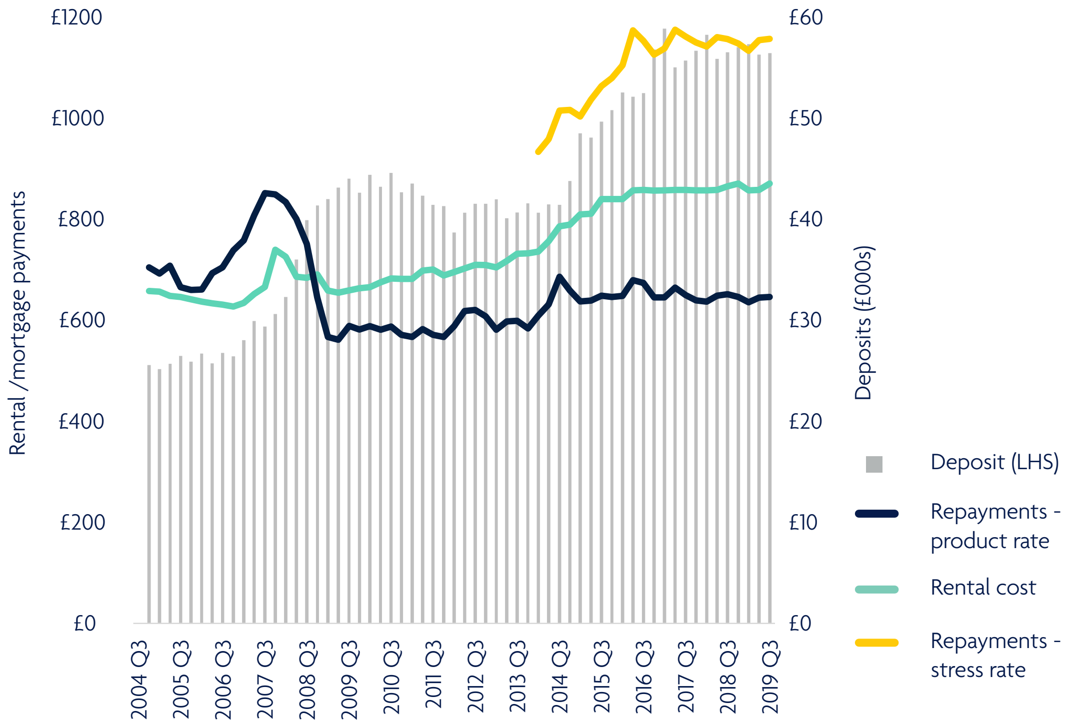
Renting more expensive than buying but stress rates create material hurdle for FTBs in markets with high capital values

The dynamics of renting and buying impact the size of the FTB market where English Housing Survey data shows that c.70 per cent of FTBs originate from the private rental market. Changes in the level of rents, relative to the level of house prices and the mortgage terms available to FTBs, impact the affordability of buying compared to renting over time. Comparing renting versus buying at the mortgage product rate versus the mortgage stress rate, introduced from 2014 onwards, highlights the impact of macro-prudential regulations on mortgage affordability.

15. **ONS, UK private rented sector: 2018**
16. **UK Finance lending data as at 2019Q2**
17. **Zoopla Rental Market Index - 2019 Q3**
18. **Family Resources Survey 2017/18 and English Housing Survey 2017/18**

The chart below shows the housing costs for a renter considering the purchase of the home they rent, focused on the South East region. It shows how rents have risen steadily over time and compares this to the monthly mortgage repayment costs to buy the property at the mortgage product rate and average LTV for a first-time buyer in the region. This shows how the cost of buying is almost 30 per cent cheaper than renting, based on the assumption that the purchaser has access to a deposit of almost £50,000.

Chart 5 - Cost of renting versus buying at product and stress rate - South East region



Source: Zoopla Research

However, in order to secure the mortgage the borrower needs to pass a stress rate which is three per cent higher than reversion rates. In this case, we have assumed the stress rate is seven per cent. The dotted line shows the mortgage costs at the stress rate are 35 per cent higher than the cost of renting. This illustrates the hurdle facing FTBs moving from private rented housing into home ownership. The affordability hurdle is greatest in southern England where capital values are highest, requiring high deposits and a high income to pass the stressed mortgage rate. In lower value, more affordable housing markets, the jump from renting to buying is much smaller and the income to pass the stress test is typically below £40,000. This explains the material increase in FTB numbers in markets outside southern England since 2015. There is some way to go in terms of house price growth for the macro-prudential housing tools to impact demand in regional housing markets.

2. DEVELOPMENT OF THE MORTGAGE MARKET AND EMERGING THEMES

The mortgage market has developed alongside the unfolding housing market cycle and the evolution of housing policy, in particular changes to transaction taxes, tax relief for mortgaged landlords and the introduction of the Help to Buy equity loan scheme in 2013. This section sets out a review of regulatory changes, the drivers of mortgage lending and the product profile of new mortgage business.

2.1 Summary of regulatory changes

Just as the policy environment for housing has developed, so too has the action of financial regulators. We have seen clear efforts to ensure the flow of cheap funding for mortgages (via the Funding for Lending and Term Funding schemes), promote competition amongst lenders (by lowering regulatory barriers to entry) and innovation (e.g. by launching a regulatory sandbox).

Alongside these measures, regulators have acted to ensure that mortgage lending continues to be prudent and sustainable. 2014 was an important year for mortgage lenders, with the Financial Conduct Authority (FCA) implementing its Mortgage Market Review (MMR) proposals and the Bank of England's Financial Policy Committee (FPC) introducing its macro-prudential housing tools.

At its heart, the MMR introduced a much more rigorous approach to income verification of borrowers and the assessment of affordability, and a presumption in favour of mortgage sales being on an advised basis. The FPC acted to strengthen the FCA's affordability assessment further, as an insurance policy to discourage the sort of significant income stretch, and growth in levels of indebtedness, which had been seen in the run up to the global financial crisis.

The FPC operates two housing levers:

1. Lenders check that borrowers would be able to meet mortgage payments if mortgage rates moved three per cent higher in the first five years (the “affordability test”)
2. A soft cap that limits high-income multiple loans (those at or above 4.5) to no more than 15 per cent of new loans (the “flow limit”).

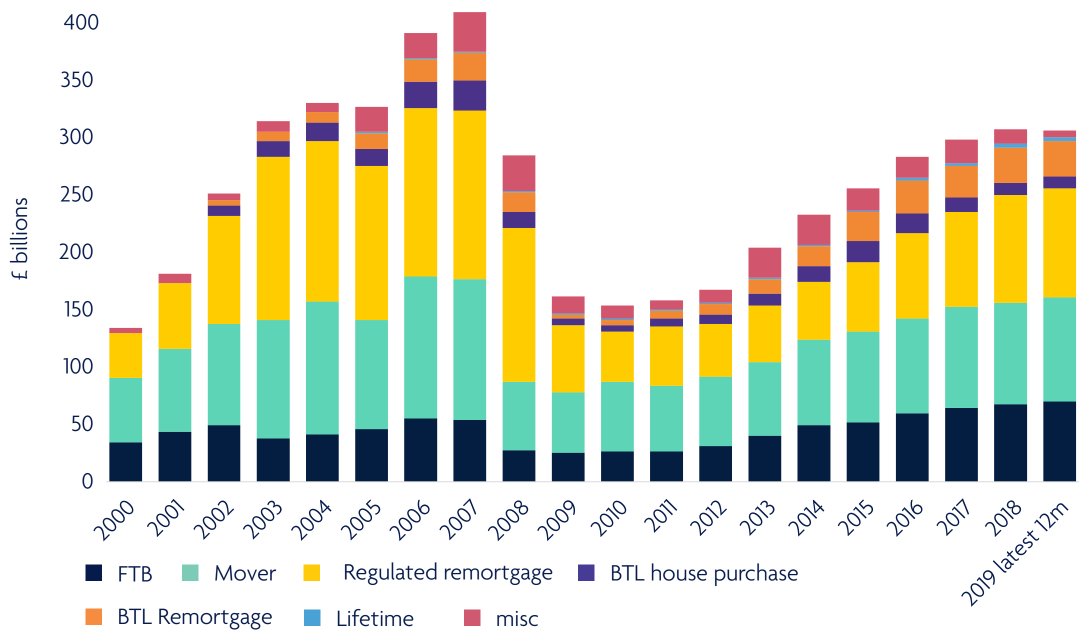
The two measures work in tandem, as the Bank of England has noted. The flow limit effectively acts to limit higher LTV lending as upward pressure on house prices pulls income multiples higher, restricting lending to those borrowers with small deposits.

In 2016, the EU Mortgage Credit Directive (MCD) was incorporated into UK legislation. The FCA implemented this in such a way that it made it harder for mortgage firms to offer remortgages to customers moving between one firm and another. This made it particularly difficult for borrowers sitting on reversion rates with inactive or non-regulated firms who were not able to demonstrate they could meet the new affordability requirements. In a recent change to the rules on responsible lending, the FCA has sought to remedy the situation by allowing more flexibility on affordability assessments for customers not looking to borrow more money. These rules only came into effect in late October 2019 so the impact is as yet uncertain, but should help some creditworthy customers to move.

More recently, the Bank of England's Prudential Regulatory Authority (PRA) has introduced affordability and other underwriting restrictions on buy-to-let lending[19] and placed extra restrictions on building societies undertaking specialist lending e.g. shared ownership and later life lending through its update of the supervisory framework for building societies[20]. We discuss the impact of these changes later in this report.

All of these actions have acted to shape the development of the mortgage market in recent years and will continue to do so in the coming years.

Chart 6 - Breakdown of gross mortgage lending 1995-2018 by purpose of loan



Source: UK Finance - restricted access data

19. Underwriting standards for buy-to-let mortgage contracts, **PRA, September 2016**
20. Supervising building societies' treasury and lending activities, **PRA, January 2017**

2.2 Key trends and themes in mortgage growth

As we have moved further away from the global financial crisis, mortgage credit risk appetite has progressively recovered and greater competition for market share, alongside low policy interest rates and cheap funding, has meant significant improvements in the choice, availability and pricing of mortgages for consumers.

Gross mortgage lending has doubled since the global financial crisis, increasing from £134 billion in 2010 to about £268 billion a year currently. This reflects both an increase in loan sizes as house prices rise and a pick-up in house purchases and remortgage transactions. Levels of net lending, after allowing for repayment of debt, have been much lower at £40-50 billion per annum.

Mortgage borrower splits for gross lending

Benign housing market conditions have benefited all borrowers, but in particular FTBs and those looking to remortgage most of all.

First-time buyers back to 2007 levels

With the exception of the very youngest adults, FTB rates have been running at their highest since the crisis. FTB numbers have returned to 2007 levels and easily exceed them in £ terms. The HTBEL scheme primarily benefits FTBs and so has provided valuable support, although even in 2018 HTBEL sales only accounted for about 14 per cent of FTBs in England.

Financial support from family and friends (including the so-called BOMAD) has played a much bigger role, and we have seen considerable innovation around this space e.g. family deposits and joint borrower sole proprietor mortgages[21]. The challenge around most schemes is that they tend to benefit better-off households.

The resurgence in FTB numbers has been reinforced by a demographic bulge in the number of young adults, with the number of 25-34 year olds – the age cohort that includes more than half of FTBs – currently peaking at nearly a million more than a decade ago and the highest number since the late 1990s. As this demographic effect moves slowly into reverse, it becomes less likely that we will see any further significant uplift to FTB numbers over the next few years.

21. **Intergenerational mortgages report: Building on the Bank of Mum and Dad, Building Societies Association, November 2018**

Homemover volumes increase modestly

For homemovers, the story is one of two halves. The number taking out a mortgage to finance a move has increased only modestly – by less than 60,000 over the past decade. Part of the reason is the lack of any official schemes or tax concessions to support market activity in this segment. Another aspect is that owner-occupiers are typically older – as a result of fewer FTBs over many years and increased longevity. One consequence of this is that we are seeing larger numbers of older homeowners moving, often without the need for mortgage finance. According to one report[22], the number of last-time buyers has doubled to 200,000 over the past decade.

Buy-to-let landlords reduce new investment

Residential landlords have experienced something of a rollercoaster ride over the past decade, following a raft of policy and regulatory interventions. Immediately after the global financial crisis there was an increase in accidental landlords who were unable to sell their home and instead looked to the rental market as a way to generate rental income to meet mortgage costs. More recently, the most important changes have been various revisions to the tax treatment of landlords, notably the phased reduction in mortgage interest tax relief from April 2017 onwards and the introduction of an extra three per cent stamp duty from April 2016. These have weakened the cashflow and profitability potential of renting. For some landlords this has also shifted the advantages to incorporate their portfolios.

Chart 7 - Total value equity withdrawn when remortgaging

Source: UK Finance - restricted access data

22. Last-time buyers, **Intermediary Mortgage Lenders Association, April 2019**

The changes have also caused investors to shift their attention from southern England to housing markets in northern England and further afield. In effect BTL lending in London and the South East has fallen from peak market shares of 35 per cent and 27 per cent respectively in 2015 to 26 per cent and 21 per cent this year[23]. Net investment by landlords has shrunk considerably over the past few years, although we have recently begun to see some early signs of a degree of stability returning to the BTL sector.

House price growth boosts remortgaging

Remortgage activity for all types of mortgages has had a very strong few years, recently touching decade-long highs. Strong growth reflects low funding costs, lenders and brokers proactively contacting borrowers coming to the end of a fixed-rate period, increased competition for business and the uplift in housing equity positions as a result of higher house prices. For landlords, there has also been the added incentive to refinance in order to offset some of the negative impacts from tax relief changes on cash flow. Large volumes of refinancing activity, together with strong consumer preference for fixed rate products, have meant that a relatively small proportion of the overall mortgage book (11 per cent of the regulated residential book by value) is now on standard variable-rate reversion products.

Equity withdrawal via remortgaging remains low by historic standards

There is little evidence that those remortgaging are taking advantage of favourable financial conditions to ramp up equity withdrawal. While half of remortgages are for mortgage amounts higher than the previous loan amount, equity withdrawn via remortgaging has increased only marginally, from £11 billion in 2015 to £12.3 billion in the latest 12 months (UK Finance Table S11).

London and the South East are the only regions where the numbers withdrawing equity in this way have fallen recently, and in London the typical amount withdrawn – much higher than elsewhere because of higher capital values – has fallen back by at least ten per cent since 2015. Stamp duty costs are highest in London and the South East of England and act as a constraint on housing moves, a trend that will have been compounded by the fact that the earlier house price recovery in these regions has now ended. It may also be tied to the fact that FPC housing measures apply to cases of remortgaging where equity is taken out. Equity withdrawal by London homeowners is typically at lower LTV levels than elsewhere.

23. **UK Finance lending data - table BTL1**

Product transfer market reaches 1.2 million a year

In addition to remortgages, where the borrower moves the mortgage from lender A to lender B, there is a large market in product transfers (PTs) – cases where the borrower switches to a new deal with the same lender without any increase in borrowing. Such business is not currently reflected in Bank of England lending figures, and UK Finance only began publishing aggregate figures (for residential mortgages) from 2018 onwards.

Last year, lenders undertook £160 billion of PT business (1.2 million loans), roughly double the value of remortgage business. Given that product transfer business is like-for-like lending, we can see that the vast majority of refinancing activity does not entail equity withdrawal. Some of the impetus for PTs reflects pressure from the FCA's mortgage market study and consumer groups to ensure that mortgage customers are offered attractive follow-on products at the end of deals.

Growth in later life lending off a low base

Another key market development relates to borrowing by older homeowners. This can now take several forms – mainstream lending, lifetime mortgages and retirement interest only (RIO) mortgages. The latter, allowed by the FCA since March 2018, have not really taken off, largely because of the affordability requirements which mean that affordability has to be based on the lower income of either surviving partner in the case of joint borrowers. Pension freedoms also make it difficult for lenders to reliably predict retirement income, whether for RIOs or mainstream mortgages.

Lifetime mortgages have grown very strongly over recent years, helped by rising numbers of older homeowners and growth in their housing equity position. But the starting point was very low, and gross advances totalled less than £4 billion in 2018, less than two per cent of total mortgage lending. Take-up of lifetime mortgages has improved among younger age groups, but those 65 or over account for the bulk (more than 80 per cent) of lifetime business. UK Finance figures suggest that mainstream lending is the more popular choice for homeowners below 70 years of age, after which lifetime lending comes into its own.

Lifetime lending is a market that has potential for material growth given the level of housing equity available to households and changing demographics for the UK population, with the majority of growth coming from single person households and those aged over 65 years of age.

Net lending

Net mortgage lending – gross advances less repayments – has recovered strongly from post-global financial crisis lows of less than £10 billion per annum, but recent levels of £40-50 billion remain less than half pre-crisis levels. It is no surprise that the growth in net lending is less than half for gross lending, given the importance of refinancing in recent years.

New lending to FTBs has comfortably exceeded net lending values each year over the past decade. When we also take into account that BTL has also contributed positively, it is clear that existing homeowners have been reducing their mortgage debt. This in turn will reflect a number of factors: a lower level of housing moves than in the past, meaning less releveraging by individuals; a switch to capital and interest mortgages; lower mortgage rates; greater redemption of mortgages associated with ageing profile of homeowners. Bank of England figures for principal repayments provide little evidence that households have been actively seeking to reduce debt levels.

2.3 Trends in mortgage product terms

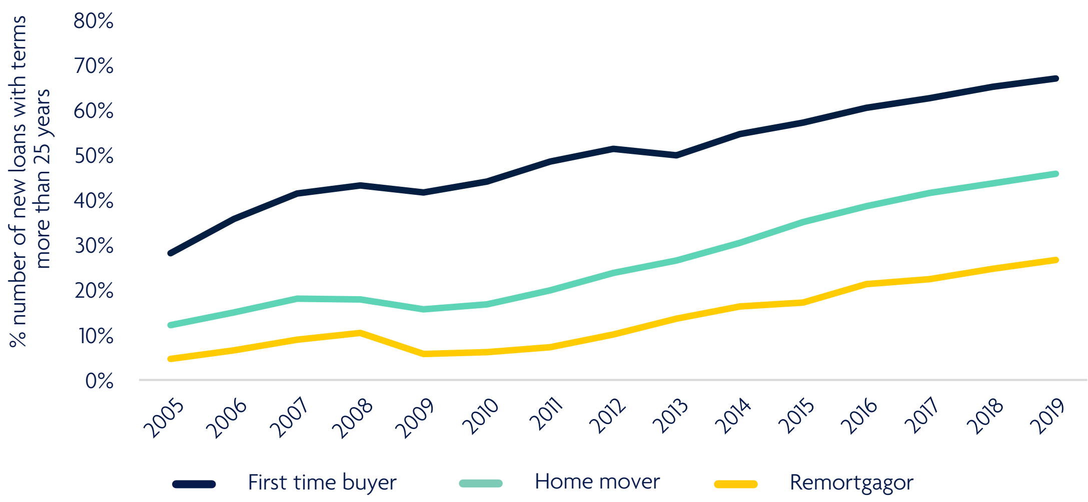
While levels of mortgage lending have grown, there have also been some important changes in the profile of mortgage business in response to market and regulatory changes and reforms.

Lengthening mortgage terms

After a respite in the years immediately after the global financial crisis housing affordability pressures have once again intensified, as the easing of monetary policy has boosted asset prices, including house prices, relative to incomes. Changes in underwriting criteria associated with new MMR and FPC rules since 2014 have narrowed the opportunity for households to stretch how much they can borrow. Lengthening mortgage terms and so shrinking debt service payments in the early years of the mortgage is the only option left for many.

Up until the mid-2000s a majority of first-time buyers still took out a mortgage with a 25-year term. The product was less popular with movers and those remortgaging, with larger proportions of these customers taking out shorter terms.

Chart 8 - Lengthening mortgage terms



Source: UK Finance - restricted access data

Since 2009 there has been a more or less continuous lengthening of mortgage terms across all borrower types. Today, more than 40 per cent of FTBs take out a mortgage with a term of 30 years or more.

At prevailing mortgage rates of three to four per cent a household could theoretically borrow about a fifth more by extending his/her mortgage term from 25 to 35 years. However, the FPC's requirement that loans that are fixed for less than five years must be stressed at rates which are three per cent above 'revert' rates has shrunk the amounts that can be borrowed considerably.

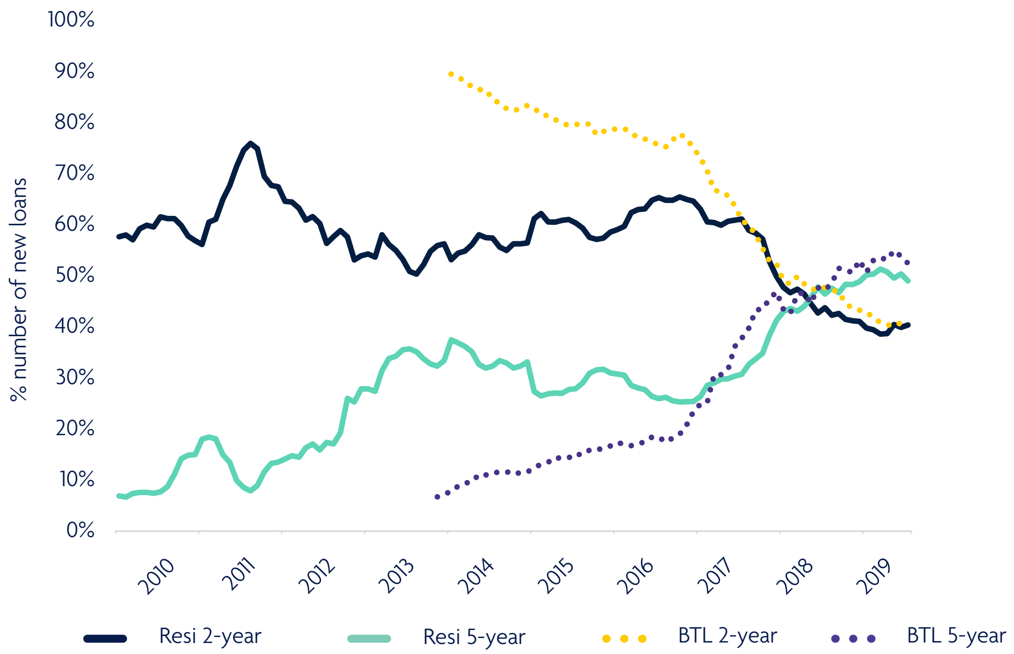
Currently, there are few signs that we are approaching a natural limit to how much further term lengthening can go. We might see movers and those remortgaging affected first, as they tend to be about ten years older on average and terms that extend the mortgage into retirement years pose additional affordability challenges. That being said, recent years have seen significant gains in the proportion of lending that extends into retirement, as mortgage lenders show more flexibility about this.

According to UK Finance metrics, more than half of the value of new mortgages are not scheduled to finally redeem until the borrower reaches 65 or later. The figures are much lower if we take 70 as our cut-off – just 10-11 per cent – but once again the trend is firmly upwards.

Growth in five-year fixed rate products

Fixed-rate products have dominated mortgage lending for many years, with more than 70 per cent of mortgage balances on a fixed rate according to the FCA. Two-year deals have been the most common period for well over a decade. However, over the past few years, the take-up of five-year products has progressively increased and they have been the most popular product for the past year or so.

Chart 9 - Popularity of 2 and 5-year fixes, residential and BTL



Source: UK Finance - restricted access data

For residential mortgages, the shift in favour of five-year products largely reflects the fact that the relative pricing of products has narrowed almost continuously since late 2014, as market expectations of interest rates staying low for longer has become more entrenched. Borrowers' appetites more recently may also have been affected by medium-term uncertainties, including Brexit.

Although the macro-prudential rules appear to favour borrowers who take out longer-term fixed rate products, loans are not bound by the FPC's affordability stress test and many lenders apply them across all loan applications as a matter of course. The FCA's conduct rules guard against firms (lenders and brokers) showing bias in favour of longer-term fixes.

We have seen a broadly similar trend for buy-to-let lending, where again a majority of loans are for five years or longer. This shift from two-year to five-year deals means a weaker backdrop for future remortgage business, aside from any ramifications that may arise from future developments around product transfers.

Trends in new lending by loan to income and loan-to-value

With the exception of Northern Ireland (which went through a major boom-bust in its housing market over 2007-2010), FTBs across all parts of the UK face higher house price to earnings ratios than a decade ago – substantially higher for much of southern England and the Midlands.

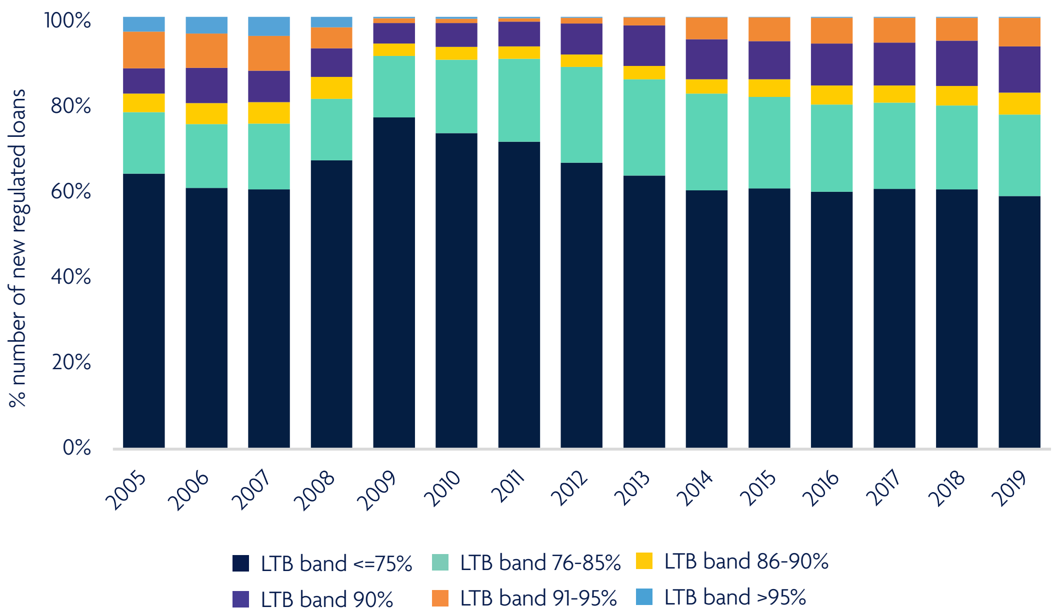
Broadly speaking, income multiples (LTIs) have echoed these affordability pressures and pushed up the proportion of higher LTI lending – those at or above 4x – to nearly 30 per cent of new lending according to the Bank of England[24]. This is materially higher than before the FPC measures came into effect.

There has been a significant bunching of transactions below 4.5x, and this accounts for nearly all of the increase in higher LTI lending. Business with LTIs of 4.5x or higher has for the most part remained below ten per cent of new loans, so well below the macro-prudential 15 per cent "LTI flow limit".

LTVs have also recovered noticeably across all regions post-global financial crisis, although there is still very limited availability of LTVs above 95 per cent (less than one per cent of house purchase lending in 2019). This reflects both the relatively high capital costs associated with such lending and some reticence to move credit appetite to 95 per cent lending.

24. **UK Finance lending data - table BTL1**

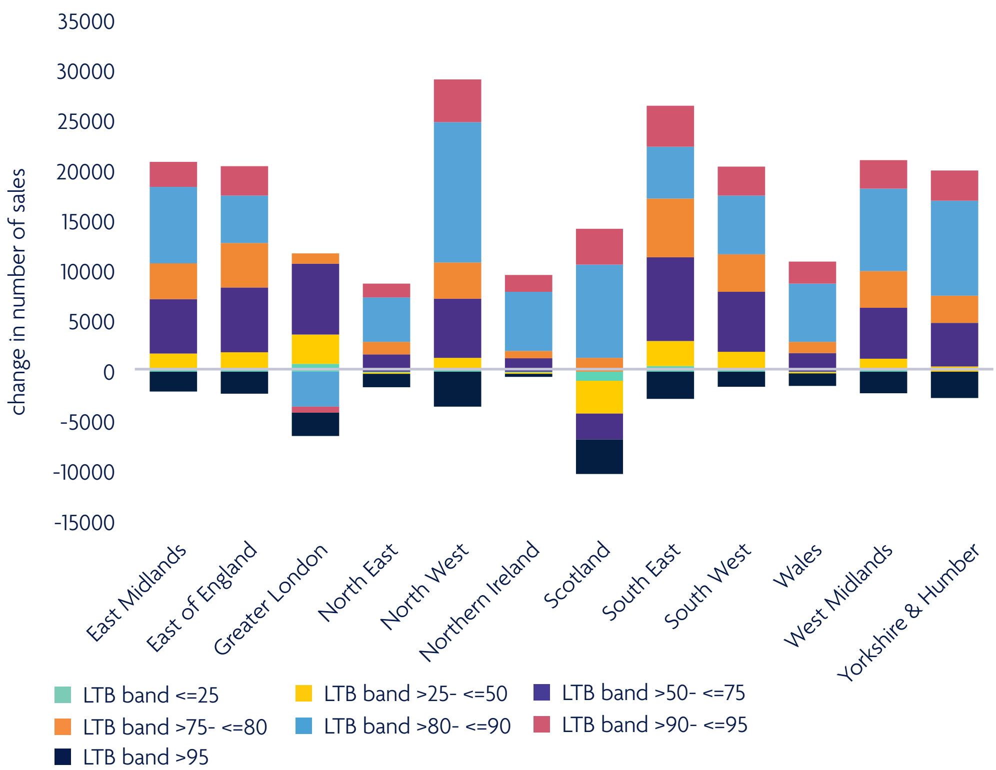
Chart 10 - LTV splits of residential mortgages



Source: UK Finance - restricted access data

Higher LTVs have in fact accounted for much of the overall growth in house purchase lending over recent years. This is linked to the strong performance of FTB mortgages. Comparing the profile of new lending in 2018 with a decade earlier, two-thirds of the overall growth in lending can be attributed to LTVs above 75 per cent, thanks to improved credit availability.

Chart 11 - LTV contributions to lending growth 2008-2018

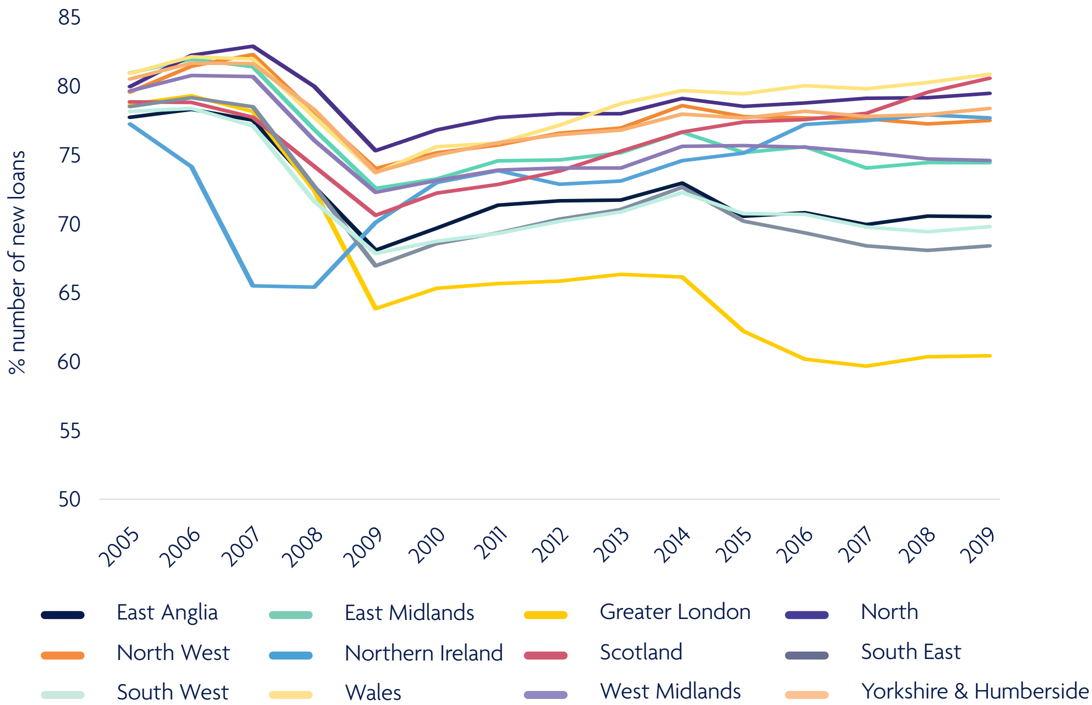


Source: UK Finance - restricted access data

The picture varies enormously by geography, however. Scotland, Wales and Northern Ireland have benefited the most from the improved availability of higher LTVs, but less so in southern England. Indeed, in London higher LTVs have shrunk overall growth because of weaker lending in all categories above 80 per cent LTV.

In England average LTVs remain below levels of a decade ago. Meanwhile average LTVs in London and the South East have fallen back further over the past five years, dramatically so in the case of London. LTVs across southern England have ebbed away for single-income borrowers and in the case of London for dual-income borrowers too. Those managing to transact in these markets have had to contribute sizeable deposits. It is perhaps of little surprise that FTB numbers in London have declined post-2014, despite stimulus measures such as London Help to Buy and stamp duty relief.

Chart 12 - Regional Loan to Value averages, first-time buyers



Source: UK Finance - restricted access data

We believe that the limited extent of loans above the FPC's "LTI flow limit" and the depressed nature of higher LTV loans in London and the South East are linked. In essence, in parts of the UK where capital values are high relative to earnings, the FPC's "affordability test" constrains the size of loan deemed to be "affordable" to a relatively modest LTV. This in turn either frustrates the transaction from taking place or relies on the ability of the borrower to provide a very high deposit.

Even so, given that house price to earnings ratios have been particularly pressing in London and the South East over recent years, these regions account for about half of all loans with an LTI at or above 4.5, roughly double their natural market share and a much higher proportion than pre-crisis. But macro-prudential rules effectively do not allow more high LTI activity to take place.

Channel splits for new lending

The role of intermediaries has grown materially in recent years, underpinned in part by perceived preference within the MMR from which borrowers receive advice. Today, nearly all residential loans – 98 per cent by value – are sold subject to advice. Broadly speaking, intermediaries originate three-quarters of residential mortgages (measured by value), up from less than half in 2009-12. FTBs rely on intermediaries to a greater extent – more than 80 per cent. Intermediaries account for a still higher proportion of buy-to-let business – close to 90 per cent.

Product transfers are the only area where intermediaries do not currently dominate distribution. The situation is changing, with more lenders willing to pay procuration fees to intermediaries and the proportion of business sold subject to advice increasing (it is currently about 60 per cent).

Mortgage pricing

Mortgage rates have been trending lower more or less continuously since the global financial crisis, with two and five-year 75 per cent LTV rates more than halving over the period. According to the FCA's Mortgage Lending Administration and Return statistics (MLAR), the weighted average rate on new mortgages has been below the weighted average for all mortgages in recent years.

According to the Bank of England's credit conditions survey, mortgage spreads – relative to Bank Rate or the appropriate swap rate – have narrowed for most of the past decade, suggesting that Net Interest Margins (NIMs) have been under pressure.

Arrears and possessions

Mortgage arrears and possessions have been at historically low levels in recent years, helped by low interest rates, rising house prices and generally benign economic conditions. BTL possession rates are materially higher and arrears rates materially lower than for residential lending, reflecting less need for forbearance.

With mortgages now subject to stringent affordability tests, and a narrower profile of households getting on the housing ladder, it is worth asking whether mortgage lenders are being forced into being overly risk averse, and if this is contributing to the low arrears and possessions picture. Bank of England figures (BankStats Table C2.1) show that mortgage write-offs have been negligible in recent years, accounting for £1.1 billion of total write-offs to individuals of £14 billion over the past five years.

Last December's NMG survey, conducted for the Bank of England[22], suggested that household finances were in relatively good shape, and that concerns about debt were strongly associated with unsecured lending rather than mortgage debt.

22. The financial position of British households: evidence from the 2018 NMG Consulting survey, **Bank of England, December 2018**

6. KEY CONCLUSIONS/ SUMMARY

This section summarises the findings of the report and draws out key conclusions in response to five areas.

1. The impacts of policy and regulatory changes on mortgage lending
2. Whether any customer groups are less well served by the mortgage market
3. Product innovation to adapt to the market environment
4. Implications for mortgage lending if current trends continue
5. How regulators and policy makers might use the information in this report

6.1 Are the recent changes in regulation/legislation linked to particular mortgage market changes?

1. In recent years, the mortgage market has been characterised by **significant levels of activity, but relatively modest overall growth**. Net lending has averaged less than two per cent p.a over the past decade, and currently stands at three per cent, slower than nominal income growth. Demographics and wider affordability issues play a part, but tax and regulatory changes have also contributed to this gentle growth trajectory.

2. Policy changes around **tax relief and stamp duty have had a negative impact on private sector landlords using BTL finance**. Much of the post-crisis pick-up in new investment has now been forfeited. New BTL purchases are focused in lower-value (higher yielding) housing markets. Affordability stress tests for BTL are partially mitigated by the current popularity of five-year fixed rate products but this creates a near-term challenge for remortgaging volumes as the length of initial product periods adapts to the new regulatory environment. The PRA requirement that portfolio landlords are subject to a comprehensive underwriting process, coming on top of potential tax considerations from incorporation, have added business complexity for lenders and brokers and given rise to a more segmented pattern of market activity.

3. Macro-prudential housing tools have **limited the ability of households with low deposits to access home ownership in higher value housing markets**. The number of FTBs purchasing with a mortgages has grown in Northern Ireland, Wales, Scotland and the Midlands and northern regions of England while they have fallen in and around London since 2015. Given limited opportunities for market growth, the Bank of England faces a growing challenge around the impact of, and a lack of flexibility, around its housing tools. Macro-prudential policies have helped to keep the housing market in check, but a key question concerns the distributional consequences this approach has had.

4. An unintended consequence arising from the ring-fencing of retail banks from the start of 2019 is that they have a much greater ability/willingness to offer mortgage loans. This has **changed the competitive dynamics of the UK mortgage market for the next few years** at least. With much of the firepower of the major retail banks likely to be targeted towards mainstream, lower-risk lending, other lenders may find themselves competing for a limited, or smaller, market and/or having to shift their risk appetite into niche segments of the market in order to achieve mortgage growth.

6.2 Which, if any, customer groups are being less well served by the mortgage market?

1. Several customer groups appear to be less well served in today's housing and mortgage markets. In many cases this is because regulatory perimeters are drawn more tightly around product types such as interest-only mortgages.

2. The FPC's housing tools mean that **households with low deposits** who are trying to buy homes in higher capital value markets, notably London and parts of the south east, are effectively excluded from accessing home ownership unless they have material financial support from their family.

3. A related, but separate point, concerns **high-quality renters** – who have a good track record with rental payments – being able to comfortably meet mortgage payments at mortgage product rates but who fall short of the stress rate affordability hurdle.

4. While there has been a **modest pick-up in the proportion of first-time buyers who are self-employed, they are less in evidence than ten years ago** despite much higher numbers of self-employed people. We have not been able to assess how other groups whose employment is more flexible are faring, but we suspect that those with so-called complex incomes are less well-served. This is also likely to be true of households with an impaired credit history.

5. **Single-person households represent a group of people who are becoming progressively disadvantaged over time**, even though in Scotland, Northern Ireland and much of northern England they still account for a majority of transactions. This trend is a long-standing one tied to the wider affordability challenge but matters more as demographic trends point to a growing number of single-person households.

6. **Older households also feature in our list of under-served households**, despite regulatory efforts to encourage more flexible lending policies and the fact that lenders have embraced the idea of "later life lending". Mainstream mortgage lending to older households (those 55 or over) is lower than a decade ago and falls away rapidly beyond the age of 60 years, despite far higher numbers of older households and larger holdings of housing equity. While large numbers of older households need finance to purchase suitable accommodation, the vast majority of moves undertaken are actually cash-based. Lender activity seems to focus on equity release activities associated with lifetime mortgages – a specialist but relatively small-scale activity that mainly serves the 70+ market.

6.3 What product innovation is happening in the market to adapt to the new lending landscape?

1. There has been a **limited amount of genuine mortgage product innovation** over recent years as lenders have been able to achieve a doubling in gross lending from within core lending segments against the backdrop of increased housing market activity. As housing sales plateau and policy and regulatory changes impact overall housing demand, we expect a greater focus on new product innovation to support mortgage growth.
2. In addition to the regulatory environment for lending, the **scale and multi-faceted nature of government intervention has increased the complexity for mortgage product innovation and underwriting** – planning reforms, different HTBEL schemes, stamp duty concessions for FTBs, additional stamp duty for non-homeowner purchasers, deposit savings schemes, tax treatment of landlords, devolution of transaction taxes, different approaches to the regulation of the private rental market etc.
3. A **change in mortgage credit risk appetite has partly mitigated the challenge facing households with small deposits,** with greater availability of >90 per cent LTV mortgage products. Lengthening of mortgage terms has been a trend that has been in place for the last 15+ years, while growing acceptance of loans that extend into retirement years has allowed some income stretch.
4. The **primary area of product innovation has been in support of FTBs** and how equity from friends and family can be used to support home purchases through innovations including family deposits, sole proprietor joint mortgages etc.
5. Later-life lending is an area where volumes have grown rapidly from a low base and one with material opportunity given the amount of equity in the housing market and changing demographics. The challenge here is **how the various products are packaged and promoted to consumers, the general understanding of how all these products may work and how they fit into a wider set of later life decisions**.
6. Open-banking, technology, data and analytics – these mean lower search costs for consumers, speedier lending decisions, better informed and curated customer journeys, enhanced underwriting and risk assessment, better deals for consumers, potential for manual underwriting – enabled by data and modelling of market segments – to support expansion into emerging or niche markets.

6.4 What implications might there be if the changes being seen continue?

1. The primary challenge is that **the base of mortgaged homeowners is 13 per cent lower than a decade ago and is still shrinking**. We have seen most of the upside effect on mortgage volumes from low-interest rates and the recovery in house prices since 2013. Short-term prospects for the wider economy look challenging, with global growth prospects fading on rising trade tensions and Brexit upheavals closer to home. If the strong increase in FTB numbers over recent years comes to an end, then the future growth of the mortgage market will largely depend upon providing

new mortgages to existing homeowners and especially later-life households. Older households have significant housing equity, so we will see further growth in equity release products.

2. In the absence of continued growth in mortgage debt, **competition between mortgage lenders will intensify and the perceived attractiveness of higher-risk and niche business areas will increase**.

3. Technology and the availability of data and information will support the ability of lenders to do more business directly with consumers which may impact/call into question the dominance of mortgage intermediaries over mortgage distribution.

4. **Housing transactions have plateaued and turnover, relative to the size of private housing stock, is close to historical lows**. This makes for a relatively illiquid and inefficient housing market, and one where it is difficult for households to find suitable properties to buy. FTBs, for example, are thinking longer term and waiting to buy larger homes than they may have done in the past. Longer mortgage terms and lower inflation mean households need to stay for longer to pay down debt to a level where they are able to trade up or move to a better area. Compressed property prices limit the ability to release equity from trading down, opening up the opportunity in the later life lending market.

5. **Housing and mortgage markets have become dependent on government interventions**. This is most obvious in the case of the HTBEL scheme, the proposed phasing out of which from 2021 onwards threatens to be disruptive unless alternative replacement solutions that can deliver a similar impact are found. London HTB fulfils a clear purpose in this context, and this suggests that its closure is likely to be problematic as the market adjusts to the ending of HTBEL in 2023.

6.5. How might regulators and policymakers use this information?

1. The housing and mortgage markets are closely inter-linked and there is a growing complexity to policy changes which **requires improved long-term coordination of housing policy and mortgage regulation at both national and devolved administration level**.

2. Government should recognise that **large-scale housing market interventions have become embedded into current market conditions** and that policy needs to evolve rather than change abruptly if it wishes to avoid market disruption. This is most obvious in the case of HTBEL, where policymakers have a role in promoting market alternatives.

3. Government interventions need to be **more aligned and considered against the wider market impacts across markets and tenures**. For example, policy changes that reduce demand from private sector landlords and result in net dis-investment from the market could reduce the availability of rental supply for those unable to buy while pushing rental values higher. In a different vein, it would be helpful if government provided a clear framework for its tax policies and the market impacts, especially with regards to transaction taxes and the impact on market liquidity.

4. All parties need to recognise the **growing polarisation of society along inter-generational lines and show appropriate degrees of flexibility and sensitivity around this**. Younger households face real dilemmas when it comes to housing choices, especially in cases when they cannot expect significant family support, and these may have repercussions for their well-being and life choices for decades to come.

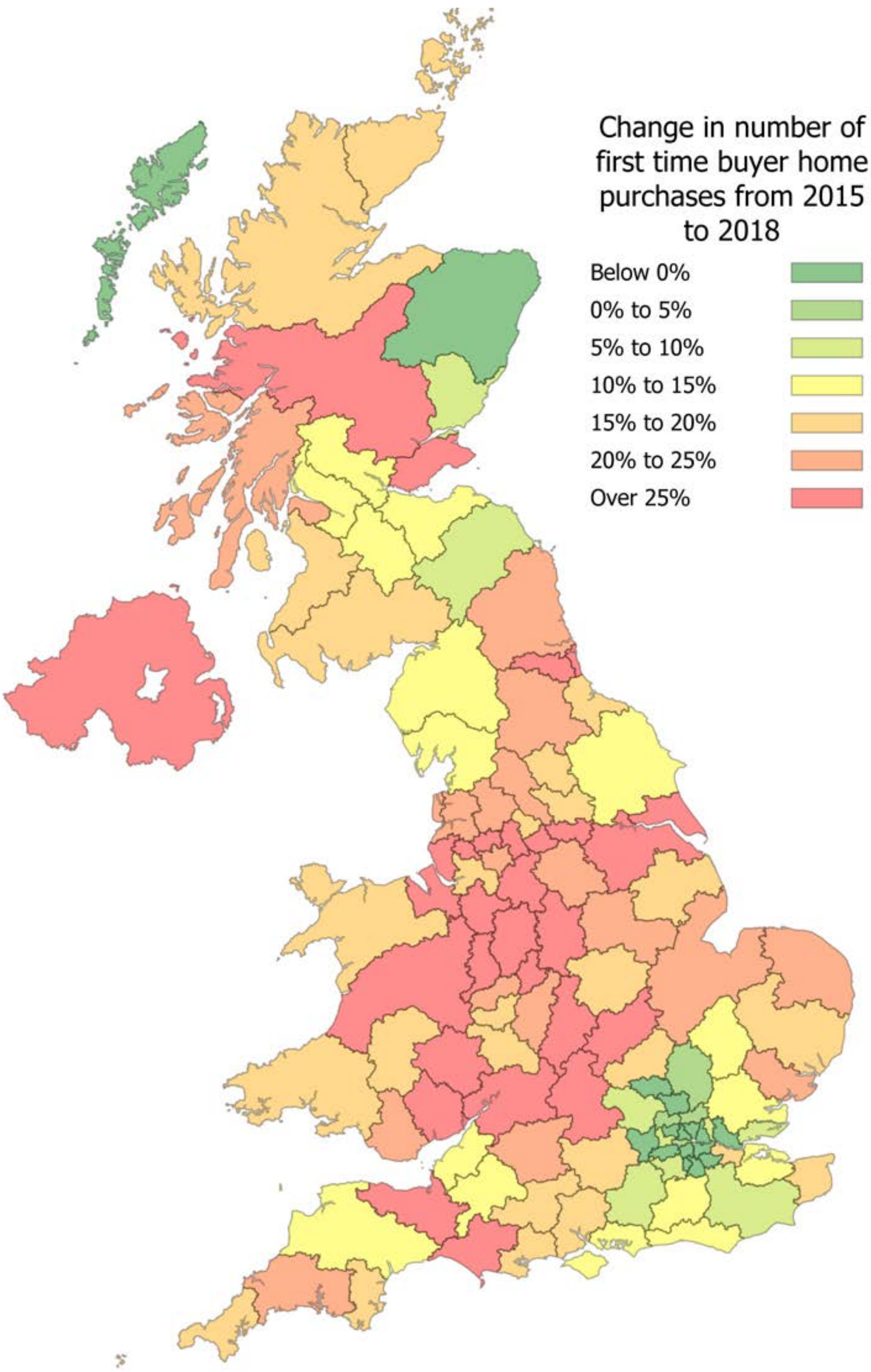
   The FPC policies give this aspect of the market no weight when setting macro-prudential policy, and, if necessary, the Committee's remit could be widened to support government policy in this area. There is a need to reach a consensus view as to what is a reasonable affordability hurdle for renters to satisfy, if we are to avoid large-scale rental prisoners. It should be possible to nuance the FPC's housing levers to take on board FTB considerations or regional divergences in a way that is still compatible with the broad thrust of its macro-prudential policy and avoiding over-indebtedness.

5. There is a need for all parties to think about **what else can be done to help later-life households draw on housing equity or other sources of finance to support their living costs in retirement**, help family members and live independently in suitable homes for as long as possible.

APPENDIX

Maps of change in lending (#loans) 2018 relative to 2015

FTB numbers flat to lower in London and more than 25 per cent higher in regional housing markets outside southern England where affordability is more attractive



BTL home purchases are down across all markets since 2015. In southern England the decline in BTL HP cases is down by more than 60 per cent as a result of tax and regulatory changes. Volumes are lower but to a lesser degree (up to 20 per cent) in lower capital value, higher yielding housing markets.