CML news & views

the fortnightly newsletter from the Council of Mortgage Lenders

useful links

Media centre:

Recent press releases

Press office contacts

Politics

Statistics:

Key statistics

Policy:

Issues

Responses

Events:

Events programme

CML website:

www.cml.org.uk

The CML comes of age

- This year, we celebrate our 18th birthday. And 10 years ago, we emerged as a completely independent organisation from the Building Societies Association. The last decade has been the most buoyant – and fast-moving – in the history of mortgage lending. Gross lending next year is likely to be five times higher than we forecast a decade ago for 1997.
- Although our first decade of independence has seen a significant expansion of home-ownership, mortgage arrears and possession have fallen dramatically. During the last 10 years, making home-ownership sustainable has been one of our key goals. We are now looking to develop a more holistic approach to this, with greater commitment from the government to the common goal of sustainable home-ownership.
- The last 10 years has also seen a rash of regulatory and legislative initiatives. We have sought to ensure that any measures implemented deliver real benefits and are proportionate, effective and cost-effective. We will continue to pursue this objective.
- While continuing to promote sustainable home-ownership, we are keen to promote a balance of tenure. The emergence of the buy-to-let sector in the last 10 years has delivered competition and choice, and raised standards in the private rented sector. Meanwhile, consumers in niche markets, including sub-prime, equity release and Muslim finance, also have much more choice and better value than 10 years ago.
- Looking at the next decade, there will clearly be fresh opportunities – and new challenges – for lenders. Affordability for first-time buyers is already a key issue, and will continue to be so. Another challenge will be to build confidence in means of releasing equity so that more home-owners can draw on housing wealth to meet their needs at different stages of life.
- As we rise to the challenges of the future, we will uphold the values we have adopted in the past. That means that we will continue to seek to provide effective and cost-effective representation of the industry and work to deliver the best possible operating environment for lenders.

The CML comes of age

A voice for all lenders

This year, the CML celebrates its 18th birthday and this month marks our 10th anniversary as an independent organisation dedicated to the mortgage lending interests of banks, building societies and other lenders. Between 1989 and 1997, the CML lobbied on issues on behalf of lenders but was run by the staff of the Building Societies Association (BSA). In January 1997, we began to employ our own staff, a development which cemented our role and identity as the voice of the whole mortgage industry. And the first 10 years of our independent existence also happens to have been the most prosperous – and fast-changing – in the history of mortgage lending.

In some ways, however, little has changed in the last decade. Publishing our forecasts for the mortgage and housing markets over the next two years, we noted that the housing market in 2006 was stronger than we had expected, with prices driven upwards by strong demand relative to supply. That had a strong resonance with the market forecasts we published in the very first issue of this newsletter in January 1997. Ten years ago, our forecasts referred to "caution about overheating" in a housing market that was beginning to recover strongly from the recession of the late 1980s and early 1990s.

A decade ago, the Chancellor Kenneth Clarke was already becoming concerned about the buoyancy of the housing market, even though it had only become clear in the preceding 12 months or so that a recovery was firmly under way. His concern was no doubt heightened by the fact that a house price boom in the mid to late 1980s had contributed to the severity of the recession that followed. Then, as now, the buoyancy of the housing market varied in different parts of the country, with London and the south east seeing some of the strongest price rises.

The last decade

Within four months, Gordon Brown had succeeded Mr Clarke as Chancellor. Most within the lending industry will recall with gratitude that one of his very first decisions was to hand responsibility for setting interest rates to the Bank of England's monetary policy committee. That paved the way for an eventual return to an era of interest rate stability and low borrowing costs that the UK lending industry had not seen for more than four decades. And, given the benign economic backdrop during the intervening period – and a highly innovative and competitive lending market – the conditions were set to ensure that our first 10 years as an independent organisation coincided with the most rapid and consistent growth that the mortgage market has ever experienced.

To put the growth of the industry over the last decade into perspective, it is worth comparing the forecasts we made in 1997 with the size of the market today. A decade ago, we forecast – somewhat cautiously, as it turned out – that gross lending would rise from £69 billion in 1996 to £72 billion in 1997 and £74 billion in 1998. Lending went on to exceed our expectations, with amounts of £77 billion and £89 billion in 1997 and 1998 – but those totals are dwarfed by the amount of gross lending today. Lending last year totalled a record £346 billion. And this year, we are predicting £360 billion – five times the total forecast for 1997.

Other data comparisons show just how much the market has developed over the last decade. Since 1997, the average house price in England and Wales has risen almost three-fold, from £74,000 to £211,000, according to the Land Registry. Over the same period, mortgage balances outstanding have

"In the last decade, the number of mortgages in medium-term arrears has halved. Long-term arrears and the number of possessions are down by two-thirds"

risen two-and-a-half times – from £415 billion to £1,069 billion. And the number of mortgages has risen by around one million to 11.7 million, as home-ownership in Great Britain has expanded from 67% to 71% of the population.

Sustainable home-ownership

While lenders have benefited from unprecedented growth in mortgage lending – and growing numbers of consumers have been able to realise their aspirations to home-ownership – one of the key priorities in our first 10 years has been to ensure that the expansion of owner-occupation is sustainable. Working alongside the government and insurers, we launched the sustainable home-ownership initiative in 1997, our first year as an independent organisation.

Our sustainable home-ownership initiative has helped ensure that, despite the rapid expansion of mortgage borrowing over the last decade, and the growth of secured debt, there has been a significant decline in arrears and possessions. Over the last decade lenders have, of course, developed more sophisticated methods of assessing affordability – and this has also contributed to the decline in repayment problems. Innovation over the last 10 years has also created a much wider choice of products, allowing consumers more options to address affordability problems by fixing or capping their repayments, or by choosing loans that offer flexibility. And, finally, the greater interest rate stability we have seen since 1997 has helped borrowers and lenders alike avoid affordability problems.

As a result of all this, the number of loans in medium-term arrears – of between three and 12 months – has halved in the last decade, from 192,000 to 98,000. Cases of long-term arrears – that is, those of more than 12 months – have declined even further. At 14,000 in 2005 (the most recent year for which we have complete data), they are down to a third of the level they were in 1997. And the number of properties taken into possession is also down by two-thirds over a similar period, from 33,000 in 1997 to 10,300 in 1995.

But while we are pleased with the contribution the sustainable home-ownership initiative has made to lower arrears and possessions, we have continued to review our goals as market conditions have changed. As the initiative evolves now, we are seeking to develop a more holistic approach, with a greater commitment from the government towards a shared goal of sustainable home-ownership.

Self-regulation – and beyond

Over the last 10 years, there has been a rash of regulatory and legislative initiatives affecting the operating environment for lenders. We have sought to work closely both with the government and regulators in developing their proposals. Underpinning all our work in this area has been the desire to ensure that changes being made are in the best interests of the industry and its customers, and that any new measures are proportionate, effective and cost-effective.

Our first major initiative in this area was the introduction of self-regulation by the industry under the voluntary Mortgage Code, which we drafted and introduced in 1997. The Code fulfilled out remit for effective and cost-effective regulation for the next seven years. But we also recognised a growing appetite for more comprehensive, statutory regulation of mortgage lending by the Financial Services Authority (FSA). Representing the interests of lenders as plans for this developed, we helped deliver a smooth transition to statutory regulation by the FSA in 2004, while ensuring that there was continuing scrutiny of the costs and benefits of this approach. And as statutory regulation has evolved under the FSA, we have remained committed to helping deliver the best possible operating environment for lenders.

There have also been regulatory threats from Europe, and we have sought to ensure that European rules for disclosing information to mortgage customers mirror regulation already governing lenders in the UK. In the

"The voluntary Mortgage Code provided effective and cost-effective regulation for seven years. We then helped deliver a smooth transition to statutory regulation – while ensuring that there is continuing scrutiny of costs"

ongoing debate about harmonising markets in Europe, we have continued to argue for measures that will enable individual firms to operate more effectively across borders and against proposals for enhanced consumer protection that could conflict with already existing UK regulation.

The resurgence of private renting

Our work to build confidence in the UK mortgage market over the last decade has contributed to an expansion of owner-occupation. We support the government's future targets for a sustainable expansion of home-ownership, and the recent introduction of shared equity schemes as a modest step towards helping achieve those goals. But we also recognise that home-ownership can never be for everyone, and that tenants – and the wider economy – have benefited from a thriving, competitive private rental market.

The biggest factor in the growth of the rental sector over the last decade has been the development of mortgage finance for property investors. We have helped sustain confidence in the buy-to-let sector by collecting data on it, lobbying against unnecessary regulation of lending and landlords, and providing helpful guidance for would-be property investors. When we first published data on buy-to-let lending in 1998, there were just 29,000 loans, worth £2 billion. Our most recent data, for the second half of 2006, showed that the number of mortgages had grown to more than 768,000, worth £84 billion and accounting for more than 8% of total mortgage assets. And the availability of mortgage finance has enabled some landlords to build large property portfolios and sizeable business ventures.

The emergence and rapid growth of the buy-to-let sector is just one example of the dynamic way in which mortgage lending has developed over the last decade. Product innovation has been relentless, with the development of flexible and offset loans, and mortgages backed by different types of investment vehicles. Niche lenders have targeted new types of customer, with the development of sub-prime, equity release and Islamic mortgage finance. There are more players in the market, more products and more choice for consumers. And there has been growing specialisation within the industry, with firms focusing on loan origination, building and developing brands, funding or administration. This specialisation has helped to drive down costs, to the benefit of consumers.

"Buy-to-let is one example of the dynamic mortgage market over the last decade. Innovation has been relentless. There are more players in the market, more products – and more choice for consumers"

Challenges for the future

As we look forward to our second decade of independence, there are new opportunities for lenders – and fresh challenges. Strong growth in property prices during the last 10 years has made affordability more challenging for first-time buyers. Even if aspirations to owner-occupation remain unaffected by this, the development of products that can help first-time buyers and deliver a sustainable expansion of home-ownership will be a major challenge. And what are the prospects over the next decade for the development of equity release and other products that can give home-owners the confidence to draw on property wealth to finance their needs at different stages of life?

Having paused briefly to mark our 10th anniversary of independence by reflecting on some of our achievements so far, we look forward with confidence to the future. Later this month, we will be presenting to members and associates our goals for the coming year and beyond. But underpinning our view of the future will be a continuing commitment to the broad aims and objectives we have pursued over the past 10 years. That means we will continue to seek to provide effective and cost-effective representation of the industry, and to work consistently for the most favourable operating environment for lenders that we can deliver.

NEWS *in brief*

Record 2006 shows market remains buoyant

Gross lending set a new December record of £29.4 billion, our data showed. Although lending was down by 11% from the all-time record of £33.1 billion posted in November, the total was 8% higher than the £27 billion lent in December 2005.

For 2006 as a whole, lending totalled a record £346 billion, 20% higher than in 2005. Although remortgaging grew by around 6% in 2006, lending growth was driven mainly by house price inflation of around 7% and a 14% rise in the number or property transactions.

Although we now know that 2006 saw record lending, it has been obvious for months that those predicting a housing market crash last year were wrong. As we move into 2007, the market remains in good shape and expectations for the rest of the year and beyond are good.

But for first-time buyers in particular, affordability pressures are continuing to intensify. In November, the average first-time buyer borrowed a record 3.29 times income, up from 3.27 times in October and 3.08 times in November 2005.

January's rise in interest rates will stretch affordability further, and may deter some aspiring home-buyers. We therefore expect to see a slowing of market activity as the year progresses.

FSA unveils payment protection campaign

The Financial Services Authority (FSA) is to launch a fresh round of 'mystery shopping' to see if payment protection insurance (PPI) is being sold fairly. Improving PPI sales practices remain a "key priority," it says. The work, which will focus in particular on firms for whom sales of PPI are a minor activity, is due to be completed in the first half of this year.

The mystery shopping is designed to test progress on making sure that customers:

- are told that PPI is optional, where this is the case;
- receive clear information about the product and what it will cost;
- are given the help they need to understand what they are eligible for under the policy and what the exclusions are;
- are, where advice is given, recommended a policy that meets their needs; and
- are offered a "fair" refund if they cancel their policy.

The FSA also says that in February it is launching a two-month campaign targeted at consumers to try to improve the decisions they make about buying insurance, including PPI.

- The government will this year publish an action plan for improving financial capability, the Economic Secretary to the Treasury, Ed Balls, has said. It will set out how financial capability can be built into existing services, particularly for the most vulnerable.
- Conservatives are stepping up their opposition to the proposed planning gain supplement. They say that it will be a barrier to development "while doing nothing to tackle the shortage of affordable homes in the UK."
- The chief executive of the Financial Services Authority, John Tiner, has said that he will stand down in July, after spending six years with the regulator. He said he would like to do another job in the private sector before retiring.

CML 'most highly rated' trade body by MPs

MPs rank only the Bank of England more favourably than the CML among organisations in the financial services sector, an annual survey has shown. And only the Bank and the Financial Services Authority (FSA) are better known to MPs than the CML.

The poll found that more than half of MPs (54%) viewed the CML very or mainly favourably – fewer than the Bank of England, which had an 88% favourability rating, but more than the FSA (49%). In the poll, conducted by Business Planning and Research International in November, only 2% of MPs said their view of the CML was mainly unfavourable.

Among financial services trade bodies, the CML is the best known by MPs – and the one viewed most favourably by them. Asked how well they knew all organisations, MPs placed the CML third (54% knew very or fairly well), behind the Bank of England (86%) and the FSA (83%), but ahead of all other trade bodies.

Asked what concerned them most about the housing market, MPs put house prices and affordability top of their list, with 95% saying they were very or fairly concerned. That was followed by over-indebtedness (81%), inadequate housing supply (79%), the lack of first-time buyers (78%), increasing interest rates (69%) and housing disrepair and maintenance (63%).

Polled specifically about inheritance tax, 43% of MPs favoured either abolition or indexing in line with house prices. A slightly smaller proportion (38%) said discretionary changes to the tax should be left to the government. Only 5% said it should continue to be levied at its current rate – 40% once the allowance of £275,000 is exceeded.

But not surprisingly, MPs from different parties had different views on inheritance tax. More than half of Labour MPs were in favour of changes to the tax being left to the government, compared with only 6% of Conservatives. And nearly two-thirds (65%) of Conservatives favoured abolishing inheritance tax, compared with only 8% of Labour MPs.

As the housing market rises up the political agenda, visits to our micro-sites on the two main political portals in the UK have shot up. Last year, we attracted more than 1,600 visitors a month to our *epolitix* micro-site, compared to 650 in 2005. And there were more than 600 visits a month to our *Politics* micro-site last year, three times the number in 2005.

Those wanting to keep up with Parliamentary developments can sign up for an email alert to our regular *Week In Westminster* report. As well as covering all relevant Parliamentary business, the report includes a preview of what is coming up. The politics pages of our website also give details of key Parliamentary contacts.

In addition, members and associates can log on to the 'Bill tracker' page on our website for an update on legislative developments affecting mortgage and housing markets. There they will find a brief description of each of the Bills we are tracking, along with our views on the proposals and links to the Parliamentary briefs we use for lobbying. There are also links to the relevant *Hansard* pages for each Bill, together with a 'what's new' section at the top for ease of reference.

news & views contacts

News & Views is the fortnightly newsletter of the **Council of Mortgage Lenders**

Bush House
North West Wing
Aldywch
London WC2B 4PJ
Switchboard: 0845 373 6771

Editor
Bernard Clarke
Direct line: 020 7438 8923
bernard.clarke@cml.org.uk

Design & Production:
Natalie Wheeler
Direct line: 020 7438 8921
natalie.wheeler@cml.org.uk

A full list of staff and further information about the CML can be found at:

www.cml.org.uk