

A budget of little real substance for housing and mortgage markets

Alistair Darling's first budget speech ultimately delivered little of real substance for mortgage and housing markets. There were no concrete measures to address the problems facing the mortgage-backed securities (MBS) market or to achieve the government's long-held aspiration to improve take-up of long-term fixed-rate mortgages. We were also disappointed that the government did not take the opportunity to take immediate action to regulate sale-and-leaseback companies, or reform stamp duty and state support for home-owners in difficulty to reinforce confidence in the market.

- **Funding market conditions**

The problems in mortgage funding markets are well documented. MBS were originally seen as a means of spreading credit risk and gaining access to a diverse investor base. But spreading credit risk has created uncertainty about where it lies. And global investors are now rejecting markets they once embraced.

MBS are complex, and variations in their structural features have made it difficult for investors to compare one issue with another. Another concern for investors is that it is difficult to assess the quality of mortgages backing the MBS, as experience in the USA has shown.

We welcome the establishment of a new working group to help improve liquidity in the MBS market with market-led solutions, and we hope for early progress with active participation by the Bank of England. We are pleased that the chancellor did not commit to the idea of a 'gold standard' for MBS, as we were not convinced the introduction of this type of measure would have helped to restore confidence. Rather, there was a risk that this would damage the market further.

- **Long-term fixed-rate mortgages**

The chancellor remains keen on long-term fixed-rate mortgages that do not carry early repayment charges. He believes they would be particularly helpful in protecting first-time buyers and home-owners on low incomes from the potential 'shock' of having to remortgage from a short-term deal on to a loan with a higher rate.

The chancellor does, however, accept that lenders have few options other than early repayment charges for managing the risks associated with long-term loans. The Treasury will now work with lenders and other stakeholders and provide an update in the pre-budget report in the autumn.

- **Regulation of sale-and-leaseback**

The Treasury has been conducting an internal review of sale-and-leaseback, and the Office of Fair Trading will now lead a study of the market this year. This announcement means that any action this year is now unlikely. We are disappointed by that as we believe that there should be timely intervention to regulate the sector. Failure to introduce effective regulation could leave some borrowers in a vulnerable position. Home-owners in difficulty may be considering selling their property at a discounted value or without independent valuation of their home.

There are a range of other concerns about the operation of sale-and-leaseback, including the extent to which people agreeing to sell their home – having been assured that they will be able to stay on as tenants – enjoy real security of tenure.

- **Low-cost home-ownership**

While the modest announcements relating to shared equity schemes for key worker first-time buyers are potentially welcome, they are unlikely to provide any short-term relief to affordability and entry costs for the vast majority of first-time buyers, where a stamp duty reprieve would have done so.

Lenders are finding the number of complex shared equity and equity release schemes now available increasingly difficult to deal with. As their systems become more automated they are less able to incorporate

small schemes benefiting relatively small numbers of people, which in turn restrict choice for consumers and adds to the costs of such schemes.

We have been urging government to simplify the range of schemes available. On shared equity, we would like to see government's efforts go into publicly funded schemes linked to new supply, like English Partnerships' first-time buyer initiative.

- **Reform of stamp duty and income support for mortgage interest**

We are very disappointed that the chancellor did not take the budget as an opportunity to reinforce confidence in the housing market by reforming both stamp duty and state support for home-owners in difficulty.

Action on stamp duty is long overdue. Government revenue from it has increased 10-fold since 1997. And reform is necessary to address the growing conflict in government policy between encouraging the expansion of home-ownership and imposing a tax on home-buying that affects the majority of buyers.

Higher rates of stamp duty now capture an increasing number of buyers. In the last two years, the proportion of first-time buyers caught by stamp duty has risen to 61%, while the proportion of first-time buyers paying higher rates has doubled, from 5% to 10%. Among movers, the proportion has grown from a quarter to a third.

The government benefits from a healthy housing market, and lifting the starting threshold of stamp duty would have sent a clear signal that it does not want taxation to be an obstacle for first-time buyers. We estimate that this would cost no more than £1.2 billion in a full year.

We believe the government should also extend state help for home-buyers in difficulty, which is currently woefully inadequate. Even those home-owners who qualify to receive income support for mortgage interest (ISMI) are not entitled to any state help with housing costs for the first nine months of any claim. Payments are capped so that they cover interest payments on mortgage no larger than £100,000. And ISMI payments are calculated at a standard rate of interest that is less likely to reflect real mortgage costs since the impact of the credit crunch last summer.

The system of state help for households in difficulty is biased in favour of tenants and against home-owners. We believe that current market conditions reinforce the case for more generous support for home-owners with mortgage payment difficulties. We recognise that this could put a greater burden on the government's finances, and so have urged government to explore ways in which enhanced state support could be considered a second charge on the property. That would enable it to provide more generous, and better targeted, help for home-owners in difficulty by re-couping the cost at a later date.

Current state of the market

Mortgage lending has remained remarkably robust so far this year, with seasonally adjusted gross lending of £29.6 billion in January and, on our estimate, close to £29 billion in February. But net lending has started the year weaker than we were expecting. This reflects a shift in the composition of lending. Lending for house purchase has fallen and looks set to remain quiet for the foreseeable future. But remortgaging has held up, and volumes could rise further given the large number of fixed rate loans maturing over the remainder of the year.

The level of house sales has fallen in line with the quieter trend in mortgage approvals for house purchase. And the more uncertain economic environment is deterring potential buyers from entering the market. This lower level of activity is being reflected in house prices, which have fallen a little over the autumn and winter months.

2008 will be a challenging year for the mortgage market. The ongoing problems in the mortgage funding markets has led many lenders to reduce their product ranges, increase their mortgage prices and, in some cases, to reduce their lending capacity. This will have an impact on the ability of both first-time buyers to get onto the housing market, and existing borrowers to refinance.

For more information on the CML's work, please contact Michelle Vosper, public affairs manager, on 020 7438 8926 or at michelle.vosper@cml.org.uk. You may like to visit our website at www.cml.org.uk. We also host regular informal briefing sessions for MPs and Peers on current issues. If you are interested in coming to the next briefing, let us know.

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