

The challenges for lenders and how to move forward?

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My presentation

- The short answer is it will take time – it will get worse before it gets better!
- How we got here
- Where we are now
- What it will look like beyond the crunch
- Conclusions

How we got here

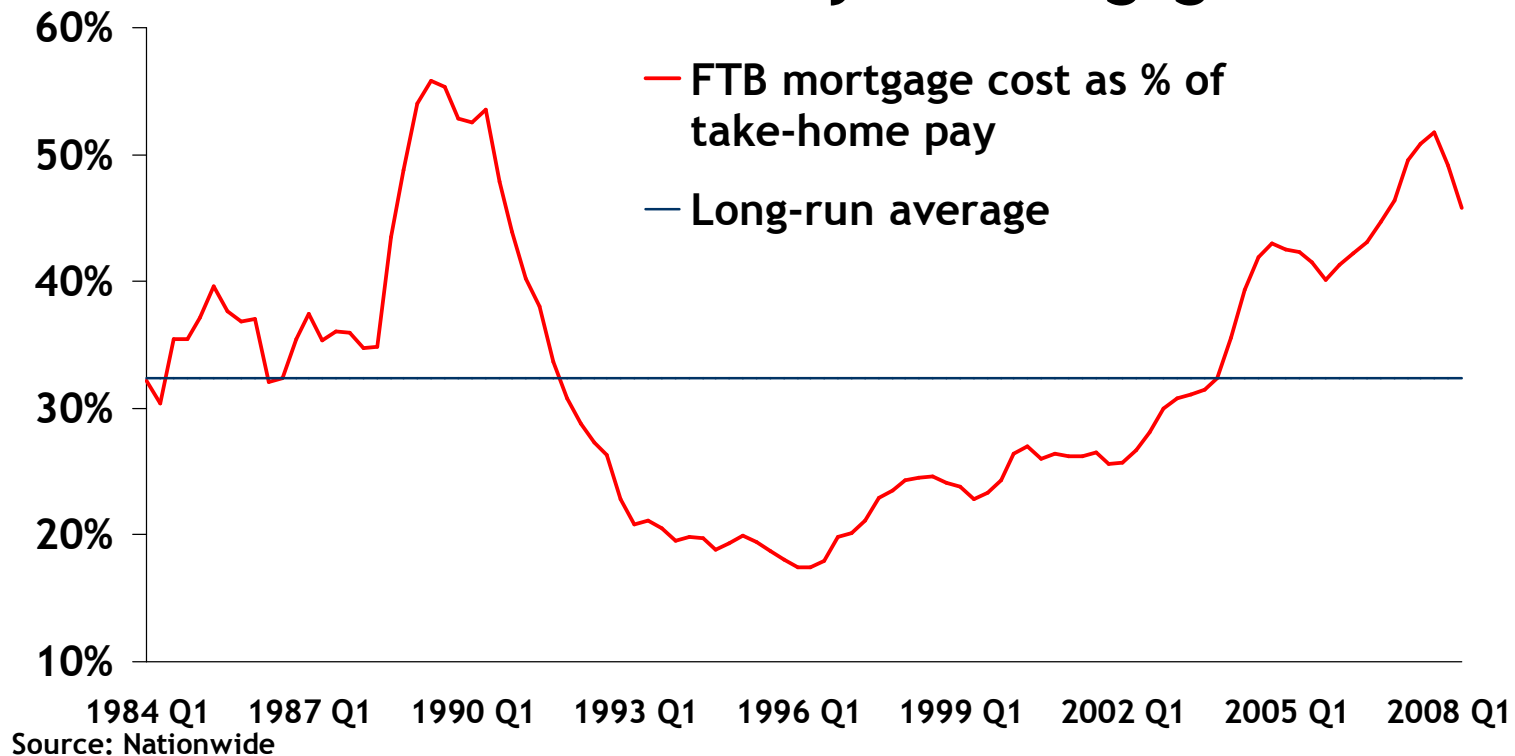
- Booming economies producing surplus funds
- Funds seeking homes (!)
- Housing bubbles in some countries
- From US Sub prime to banking crisis
- From US to global
- From banking to recession

How we got here

- We knew it had to end –question was when/how
- Hope was for a slow decline rather than a sharp fall
- Reality was the boom suited many
- Originate and distribute – dispersion worked but consequences huge

Mortgage Affordability

Initial Affordability of Mortgages

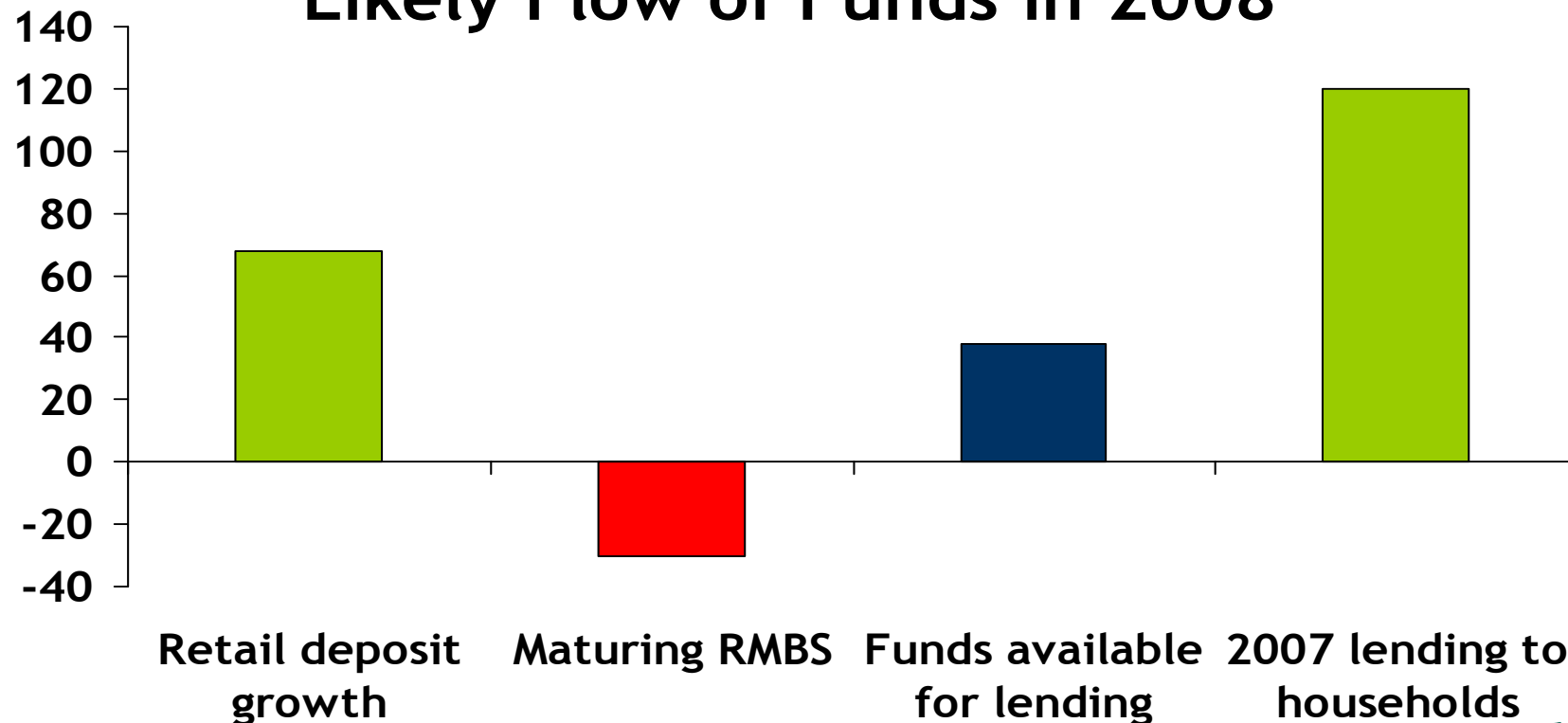


Where we are now?

- **A housing market still trending down**
- **A mortgage market which is now short of funds and where terms and costs are higher**
- **Exit by mortgage banks, contraction elsewhere – building societies and specialist lenders**
- **Borrowers finding it difficult to get a mortgage – impact on FTBs and on some non-prime borrowers**
- **Difficult transition period and it could add to market downturn**

Credit Crunch

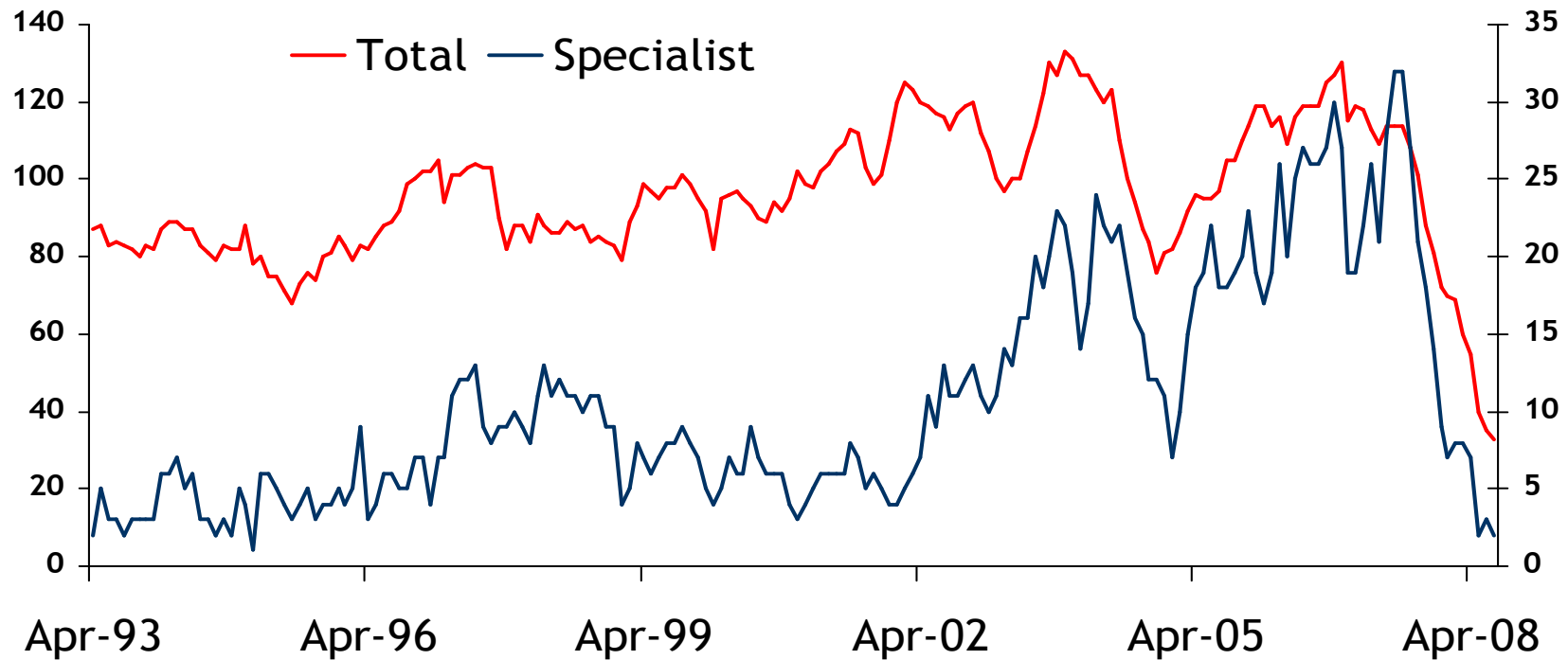
Likely Flow of Funds in 2008



Source: Nationwide calculations

Lending volumes

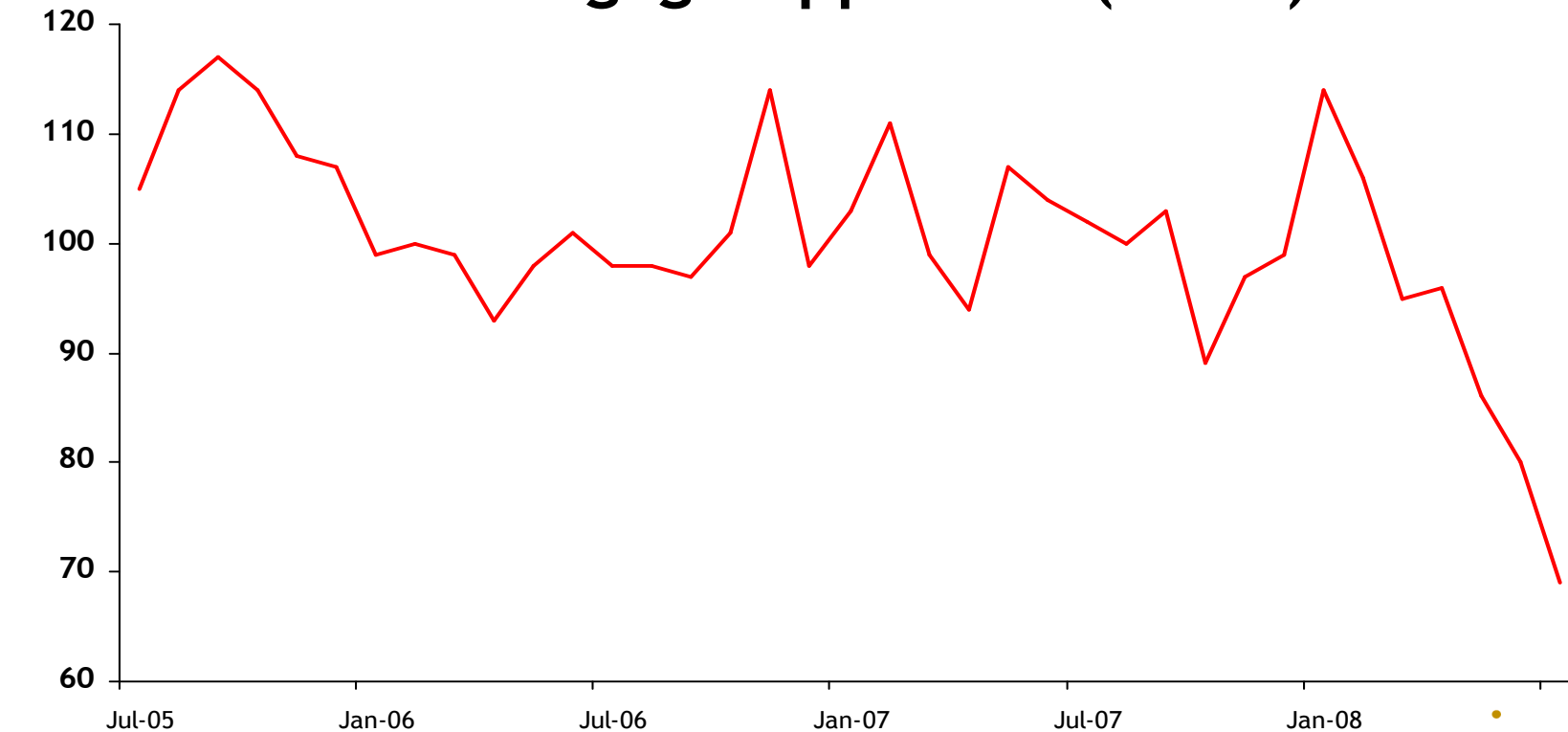
Mortgage approvals for house purchase ('000s)



Source: Bank of England

Remortgages

Remortgage Approvals ('000s)



Source: Bank of England

Where are we now?

- **Impact upon development has been considerable**
- **Less than 100,000 new homes in 2008?**
- **Drop in affordable homes built -106 impact**
- **Collapse in mortgage approvals**
- **Transactions at lowest levels recorded**
- **House prices down 6% to 15%**
- **Possessions rising -40,000 in 2008**

Where we are now?

- **Range of measures in place**
 - Rate cuts
 - Recapitalisation and guarantees
 - HCA spend brought forward
 - Builder Stock and Home Buy Direct
 - Limited mortgage rescue scheme
 - Limited ISMI upgrade
- **Government on the case but ? scale of intervention, impact and recession.**
- **Intervention has been selective/partial and has consequences**
- **Crosby Review – Contracting mortgage market**
- **Gtees but for new prime only. Needs widening.**
- **Greater transparency/standardisation**

Where are we now?

- Disrupts growth/supply programmes
- Impact on regeneration and HMR areas
- Disrupts HA business models –cross subsidy
- Likewise with LA and capital receipts
- Puts pressure on grant rates/rents
- Does not solve affordability problems – tighter credit
- Impact upon access and social mobility/equality

Beyond the crunch!

- Short and sharp or prolonged?
- Recession over 3 -7 quarters
- Peak to trough price adjustment 25%?
- Housing market declines into 2009, flattens in 2010 and slow recovery 2011/12 – back to 2003
- Smaller home ownership market, tighter access and more renting (though BTL)

Beyond the crunch!

- Much turns on regulatory responses via Govt, FSA, BoE and even HCA/TSA (and global)
- Difficult calls/balance between keeping system open and controls
- LIBOR rates move down but long term new relationship
- Lenders looking for higher and more strongly risk based returns
- Funding models - reworked

Beyond the crunch!

- **The fundamentals in terms of population/household growth remain**
- **Aspirations re space/consumption remain**
- **But fuel/food/energy squeeze long term**
- **We have to adjust to new environment re costs and capacity**
- **Fewer lenders, less choice, non prime**
- **10 years out?**

Getting through it? Moving forward

- **Being flexible/adaptable/lateral thinking**
- **Business plans need to have changed**
- **Damage limitation**
- **But opportunities re land, property, organisations in difficulty, new products**
- **Looking to drive costs down and secure greater efficiency/effectiveness**
- **New funding sources – private placements, pension funds, bonds not debt, equity, sovereigns?**

Getting through it? Moving forward

- Working with partners
- Using attributes well
- HAs have assets, grant, benefit, regulated
- Using public resources to most effect –what are the problems, what are the solutions
- HAs/LAs working closely together
- Big step up for some

Getting through it? Moving forward

- Will not go back to what it was
- Considerable recasting of markets/roles
- Risk averse for a sustained period
- Less experimentation/edge activity
- Intermediate products increased demand
- New investors reflecting potential growth
- Govt gtees underused
- Lender role re forbearance etc

Conclusions

- How bad will it get? Bad now, recession makes it worse
- Much turns on confidence and the degree to which we avoid/reduce recession
- Very different views as to scale of the adjustment re housing market and the economy
- Government is active and can do more subject to funds! HCA as investor/lender

Conclusions

- Regarding housing market my priorities would be stopping fall out from home ownership – ISMI/bigger support scheme, restarting the mortgage market (including non banks), supporting supply of new homes
- Concern re regeneration areas/HMR – promote strengths
- Fundamentals tells us there is a bottom – we need to find it sooner rather than later