

CSFI

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The future of the housing market. A round-table discussion with Lesley Titcomb (FSA), John Wriglesworth (Wriglesworth Consultancy), Michael Coogan (CML) and Mick McAteer (Financial Inclusion Centre), and held on Monday, November 24, 2008, at Innholder's Hall, 30 College Street, London, EC4R 2RH, from 12:30-2:15pm.

The origins of the current financial crisis lie in the housing market and, while much of the current focus is on the banking sector, the outlook for house prices will be crucial to its resolution. For the first speaker the key issue was arrears and repossessions, which are clearly rising. Connected to that is how lenders behave when borrowers fall into arrears. History shows that it a rise in unemployment is a significant driver behind repossessions. The latest forecast is for 45,000 repossessions this year compared with a peak of 91,000 in 1991. The issue is balancing the desire to keep people in their homes with a pointless use of resources to support people who will never be able to repay.

Another vulnerable body is mortgage intermediaries, whose business has fallen off the cliff, raising the possibility of failures and a reduction in choice. One member said 90% of subprime lending was done through brokers. The downturn would expose fraudulent practices, following Warren Buffett's famous maxim that you only see who has been swimming naked when the tide goes out

The second speaker said it was important to understand the factors behind the boom and bust in prices. These included historic low interest rates; relaxation of lending criteria; a rise in loan to income ratios and the arrival of lenders to target subprime borrowers. The issue was not affordability - there is nothing intrinsically riskier about lending six times income at 5% than 3 times income at 15% as was common in the late 1980s. In other words the cause of the crash was not unaffordability but withdrawal by US investors of confidence in anything with mortgage in the title that had an indiscriminate impact on the UK.

House prices therefore need to return to levels before these special factors kicked in. There had been an opportunity for the Government to intervene directly to stabilise the market but that would have cost £500bn. That moment had passed and the real economy was now slowing and unemployment rising. But it is not so much unemployment *per se* but the fear of losing their job that will stop people buying. Similarly it is not negative equity but "insufficient equity" that will stop people moving.

The third speaker said current government initiatives were not sufficient. Almost 170,000 people are three months in arrears on their mortgage. That might compare with almost 500,000 in the 1990s but dwarfs the Government's mortgage rescue programme that aims to help up to 6,000 vulnerable households over two years. He said the "bank of mum and dad" that had supported 60% of recent transactions was pulling back with little sign of anyone to fill the gap.

The last speaker said the housing market was in a “phoney war”. Debt serving costs as a share of income are already higher than the 1990s and a million people are spending more than 35% of their gross income on mortgages. Against that background house prices could fall as much as 50% - in some micro-regions they are down 80%. The priorities for the Government are to deal with the short-term consequences such as the rise in scams aimed at struggling homeowners and in the medium term to reform the regulatory system. This needs to consider how to maintain prudential supervision, protect consumers and regulate competition.

The difficulty is in balancing the need to restore confidence, the need to restore banks’ balance sheets while keeping as many people in their homes as possible. One radical option would be to set up a national mortgage rescue scheme to take over the bad loans. Another would be to create a mortgage equivalent of National Savings and Investments, perhaps using Northern Rock as the shell, to set benchmarks for the rest of the industry. The problem is not with reputable lenders but with marginal players who have little concern for their reputation and who would rush for the exit if a harsh recession bit.

The speakers set out their forecasts and wish-lists. The fourth speaker said lenders should be forced to hold monthly meetings with the Chancellor and publish monthly arrears and repossession figures. Clear thinking was needed on how to repair balance sheets and help people stay in their homes. Lastly radical thinking was needed on how to unlock the mortgage finance market.

The third speaker called on the Government to divert substantial resources to enable borrowers to stay in their homes, adding that lenders had already “bought into the idea” of avoiding repossession where possible. The second speaker said the Government must encourage lenders to lend by introducing an insurance scheme to protect both lender and borrower against default. Finally the first speaker said all parties should avoid kneejerk reactions, singling out the European Commission as an area of particular concern.