

Mortgages Inquiry

Introduction

Responding to concerns from Challenger Institutions, the Challenger Bank and Building Societies APPG (CBBS APPG) decided to take a look at the mortgage market by convening a round table to discuss the current issues.

This report is based on the exchange of views and evidence raised at that round table. As a result the APPG is able to present a series of key findings and conclusions about the present state of the UK mortgage market.

Key findings and Recommendations

- Homeowners who can afford a mortgage should be able to get one as they can in other countries such as Denmark or the United States;
- Mortgage lending and regulation should be based on affordability not on arbitrary caps;
- Mortgage market regulation should be more coherent and sensitive to issues across the market. It should be streamlined and placed with a single regulator, preferably the FCA;
- The mortgage market needs greater competition and regulators and the Treasury need to talk to the whole market of lenders and not just to the larger players;
- Solvency II reform needed acceleration to bring fresh capital into the UK mortgage market;
- Radical solutions are needed for later-life lending as borrowers are placed in a situation of extreme disadvantage compared to borrowers in other major economies; and,
- Supply side reforms were necessary to increase the availability of homes.

Overview

The UK mortgage market has been buffeted by global events during 2023. Lenders and borrowers alike have experienced a cost-of-living squeeze. The CBBS APPG sought to take the views of a broad range of lenders to see whether there were any measures the UK government could take to ameliorate the situation – if indeed the tightening of the market and the fall in house prices in some areas was a problem.

The APPG sought to understand:

- What were the main structural problems facing the UK mortgage market today?
- What were the main issues for borrowers?
- What were the main issues for lenders?
- Were there any of the current mortgage issues regional or were they apply nationwide?
- Were there any regulatory changes that could be made to address the identified issues?
- Were there any alternative mortgage models that the UK could adopt to address some of the identified issues?
- Were there any lessons for the UK mortgage market from overseas models / experiences?
- Did the existing major mortgage lenders in the UK mortgage market exercise a dominant position and if so why?
- Does the operation of the current mortgage market unduly restrict mortgage customers and impact economic activity?
- What role could Challenger Banks play in reforming the mortgage market to make it work better for borrowers and lenders?

- What role could Building Societies play in reforming the mortgage market to make it work better for borrowers and lenders?
- What role could Fintechs play in reforming the mortgage market to make it work better for borrowers and lenders?
- Was there a clear roadmap for reform that can improve access to mortgages, help more people get on the housing ladder, and help with the insecurities inherent in the current mortgage market model?

What we found

The issues raised by witness will be no surprise to those who have been following developments in the UK and other mortgage markets over the last decade.

Affordability

The APPG is of the view that affordability of mortgages is key for consumers and stability in the market. Prima facie, a homebuyer who can afford a mortgage should be able to find one in a competitive functioning market.

However, this is not always the case. There were categorises of home buyers who, despite the array of products provided in the UK, were not able to find a suitable mortgage. This is not necessarily because they had unusual or difficult financial circumstances, but due to the operation of the UK market and the distortion created by the lack of availability of property, coupled with the MMR.

It is absurd that relatively wealthy potential homebuyers could not get onto the mortgage ladder despite being in the position to service a large London rent. Consequently, the APPG found the argument compelling that, if people could afford a mortgage, they should be able to get one. The current market does not make that possible for many first-time buyers or indeed older homeowners.

In the view of the APPG this needed to change and the UK Government and regulators should look to overseas practices to tackle the distortion in the UK market between the availability of mortgage loans and the ability to pay them.

Issues for Challengers

Underlying the issues faced by challenger banks were regulatory barriers such as MREL and Ringfencing. The CBBS APPG has written extensively about these in our past reports. Consequently, we don't need to repeat these arguments here. However, there was another factor that emerged at our round table. The issue of a lack of regulatory alignment between the PRA, FCA and HM Treasury.

Regulation comes from too many places and often gave conflicting guidance to market participants.

The APPG would like to see regulation of the mortgage market streamlined and placed with a single regulatory oversight body – preferably the FCA.

That body should be tasked with both managing risk for borrowers and lenders and creating a long-term strategy that delivers a mortgage market fit for the 21st century that allows innovation and fintech models and encourages new entrants and diversification in the market.

There was a feeling by many of our participants that the Bank of England and the PRA were overly focused on the needs and issues of the major lenders. With this mindset, there would never be

greater competition in the UK mortgage market and new lenders and new approaches would not gain popularity and scale.

Related to this was the issue that the regulators tended to speak mainly with the major lenders and ignore the interests of challenger firms and smaller lending institutions. As the APPG has previously commented, this approach embeds the status quo rather than encouraging innovation to the benefit of borrowers.

Long Term Vision for the UK Mortgage Market

One theme which emerged from the round table was the lack of an over-arching vision for the UK mortgage and housing market.

There were calls for clarity on what we want the mortgage market to look like and the need for a detailed independent review of the mortgage market to create a template for the mortgage market for the next 50 years and a roadmap of how to get there.

In the short term, there are some simple changes that can help to revolutionise the market and benefit borrowers and lenders. These steps have been implemented abroad and will go a long way to solve problems like mortgage prisoners that other countries simply do not have.

Some of our witnesses called for the LTI Cap to be scrapped entirely. Others wanted to be able to judge credit risk purely on affordability, rather than arbitrary LTI and LTV targets handed down by regulators. The APPG finds this argument very compelling. Particularly, when there are many renters paying more in rent to service someone else's mortgage who are presently denied a mortgage of their own.

Another concern was raised about the way that the UK mortgage market operated compared to its European and international peers. While continental insurance firms were keen to invest in mortgage debt derived from the UK that wasn't necessarily the case for UK pension funds. Some of our witnesses suggested that this was something which could be tackled in Solvency II Reforms as mortgage debt provided a good match for pensions.

Related to this was the issue of equity release with many of our witnesses expressing concern about how equity release operated in the UK. There were better alternatives available both in terms of mortgage products and also in terms of the allocation of housing stock.

Supply side reforms – build more houses!

Finally, one issue that many of our witnesses agreed on was that there were fundamentally too few houses in the UK to deal with the demand from an increasing population and increasing numbers of households.

While the APPG understands the issues some MPs and local areas have with housebuilding, the reality is that there is a major supply and demand issue in the sector and the UK needed to be building more houses.

The Government needs to make this far more of a priority and should look to appease objectors by mandating the construction of aesthetically-pleasing and better constructed new homes, as recommended in the Government's [Building Better, Building Beautiful Commission report](#), published in 2020.

Conclusion

The issues in the UK mortgage market are not easy to resolve. However, bold action will be necessary to try to make access to housing easier for more people. The APPG strongly believes that through the applications of models in successful operation in other similar economies valuable lessons can be learnt about the best approach to take.

We would strongly urge the Treasury and the Bank of England to reconsider the effect of the MMR and to look at how long term fixed rate mortgages could help homeowners and increase financial stability in the UK.

CBBS APPG
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