FCA Smaller Business Practitioner Panel

FPC Housing Consultation
Financial Stability Group
Room 1/34, HM Treasury
1 Horse Guards Road
London SW1A 2HQ

28th November 2014

Dear Sir/Madam,

CONSULTATION ON HOUSING MARKET TOOLS

The FCA Smaller Business Practitioner Panel is pleased to respond the consultation on housing market tools.

General comments

The proposals sit within a wider environment of regulatory and legislative change in the mortgage market which is still in a state of flux and which has not yet settled down in the wake of the FCA's Mortgage Market Review (MMR). In particular, many firms have only implemented the MMR affordability assessment earlier this year. We are concerned to see that further changes are being proposed before the full effects of the MMR have been understood. Additionally, we have yet to see the impact of the FPC's decision to limit high income multiple over 4.5 times to 15% of a lender's business.

We have some concerns that evidence is emerging that responsible borrowers are finding it more difficult to obtain mortgages due to concerns by lenders, including over-cautious interpretation of the affordability rules.

Adding further limits on access to mortgages would exacerbate this situation, and we remain to be convinced that adequate cost benefit analysis has been done on the proposals to ensure that there is not an excessive restriction on the supply of mortgages for those who can afford them. We are in full agreement with the Financial Services Consumer Panel on this point.

We are starting to see an impact on the mortgage market from the existing rules, such as lenders reducing rates dramatically to increase business levels. Despite rates to attract remortgage business with interest levels at the right price to make it attractive to consumers, there has been a low take up – our concern is that many borrowers do not fit the affordability criteria or fit the loan to income (LTI) cap. It is not clear that these people fall into the category of likely defaulters or those who would fall into financial difficulties should they take out a mortgage.

It is also important that the attitude of the borrower is taken into account, and a one-size-fits-all approach does not take into account some of the smaller lenders' attitude to lending. Often they apply bespoke underwriting with no credit scoring but take into account a full underwriting process accessing each risk individually.

So far this year, lenders have had to contend with the MMR, the FPC's new rules on income multiples and now further potential restrictions. We are concerned that these initiatives are not properly aligned. We believe there may be a correlation with the decline in mortgage transactions for five consecutive months and as the industry and consumers fear a market correction or slow down. First time buyers have halved as a percentage of transactions and are down to a quarter of the long term average between the 1930's and 1990's.

Answers to specific questions

Q1 Do respondents agree that the FPC should be granted a power of direction over DTI?

We are concerned that this proposal may lead to unintended consequences. Too many extra restrictions on mortgage lending will mean that consumers who can afford a mortgage will be excluded. We are already seeing this with existing borrowers who are already paying their mortgage but cannot move to a cheaper rate as they no longer meet the affordability criteria ('mortgage prisoners'). Additional examples such as DTI and LTV will make it extremely hard ever to leave a lender, or get on the property ladder. MMR was brought in to address affordability and the impact should be assessed after a longer period of time before adding any further extra measures.

Q2 Do respondents agree that the FPC should be granted a power of direction over LTV?

We are not convinced that LTV caps serve a useful purpose, as the MMR affordability criteria are designed to prevent borrowers from taking on a mortgage they cannot afford. However, we agree with the Consumer Panel that if a cap is to be imposed, it should also include the Government's Help-to-Buy mortgages, which involve a high LTV mortgage with an additional equity loan.

Q3 Do respondents agree with the proposed scope of mortgages to which the DTI and LTV limits could be applied? If not, please explain your reasoning.

There is an inconsistency with the Government's policy on Help-to-Buy on the one hand attempting to increase access to the housing market, and on the other hand restricting high LTV lending for other consumers. This needs to be addressed if the mortgage market is to function effectively.

Q5 What are respondents' views on the proposed definition of 'debt' for the purposes of the DTI tool?

We find it inconsistent that student loans are not included in the definition of debt to be included in the DTI when they are, rightly, included in the affordability assessment.

Q6 What are respondents' views on how (if at all) a borrower's assets should be taken into account in calculating that borrower's DTI ratio?

In order to provide a realistic view of a borrower's financial situation his or her income, assets and committed expenditure should be included in the DTI calculation.

Q7 Do respondents agree with the proposed definition of income for the purposes of DTI? If not, please explain your reasoning and provide an alternative definition if possible.

We believe definitions should be consistent with those already in use by lenders.

Q8 What are respondents' view on the appropriate treatment of existing buy-to-let mortgage debt, and income derived from rental yields (after costs) on buy-to-let properties?

Buy-to-let is an important sector of the market providing housing for those who cannot buy. It is countercyclical in character and has withstood a deep recession largely unscathed. We believe buy-to-let should not be included in any changes, although we would recommend consultation with organisations such as Shelter to take into consideration other housing alternatives for those who are excluded from the housing market.

Q 9 Do respondents agree that the FPC should be able to apply DTI and LTV limits to a proportion of new mortgages calculated on either a value or volumes basis? If not, please explain on which basis the tools should apply and why.

We have great reservations about the FPC testing various options in the way described. We would want to see a great deal more impact and cost benefit analysis of LTI, DTI or LTV limits before these are applied to even a small portion of the market. In any case, none of these tools can be effectively tested until an analysis of the MMR effects has been carried out.

Q11 What views do respondents have regarding the potential impact of the Government's proposals?

We have reservations about these proposals and their impact on the housing market. The South East of England has the highest property prices and the highest incomes but these proposals would affect a whole raft of consumers across the UK who simply will no longer be able to buy or move, as the affordability gap will be too huge. The consumer is the one who potentially loses on these proposals.

Q12 Do respondents agree with the Government's proposed approach in relation to procedural requirements? If not, please explain an approach that you consider would be appropriate.

We consider that the cost benefit analysis of these proposals is not nearly rigorous enough and the balance between financial stability and the impact on consumers' welfare has not been considered sufficiently carefully. There is a strong possibility that consumers who could well afford to borrow, or who should prudently move to lower cost loans, will not be able to do so.

We also recommend that any tools which the FPC is granted are specifically time limited.

Yours faithfully

Andrew Turberville Smith
Chair, FCA Smaller Business Practitioner Panel