

Data Bulletin

December 2017

In focus:

- Trends in regulated mortgage lending



**Jo Hill**

Director of Market Intelligence,
Data and Analysis

Introduction from the editor

Welcome to the latest edition of the FCA Data Bulletin.

In this issue we are focusing on trends in regulated mortgage lending over the last ten years. This is a particularly interesting period to look at because it encompasses the financial crisis and its aftermath.

This bulletin looks at how mortgage activity reduced in the wake of the crisis and the extent to which it has changed since. We highlight some notable trends in lending characteristics shown by the data over the period. We also provide a focus on lending to home purchasers and in particular first time buyers, as well as selected analysis of data by UK region which we hope is of interest.

We have been collecting data from mortgage lenders about their activities for over a decade now and have built up a substantial body of trend data. The focus of this bulletin is on high level trends in regulated mortgage lending drawn from the regular data that we collect and publish via our two main mortgage datasets: **Product Sales Data (PSD) and the Mortgage Lenders and Administrators Return (MLAR).**

While we regularly publish much of the data, this bulletin includes additional detailed data, as well as providing analysis of the long term trends. The focus is on the PSD001 (new regulated mortgage contracts) and MLAR data, as explained on page four.

These data report new mortgage contracts including remortgages between suppliers (lenders). The data do not include information on internal mortgage product switches, where these are variations of existing contracts, and so the commentary does not include this market when reflecting volumes and values of mortgage sales.

I do hope you find this information useful. If you have any feedback or suggestions about future data you are interested in, please let us know at fcadataandanalysis@fca.org.uk

Jo Hill
Director of Market Intelligence, Data and Analysis

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In December 2016, the FCA launched a market study into the mortgage sector. The market study interim report, setting out our analysis and preliminary conclusions, will be published in Spring 2018. The Mortgage Market Study has collected more data and qualitative information on how the market works (including on internal product switches). **This data bulletin is not part of the market study and focuses on the historic data we collect, rather than an in-depth review of the current mortgage market.**

Mortgage lending 2007-2016: trend highlights

Mortgages loan activity has reduced

Number of new regulated loans
(excluding internal product switching)

2016

1,088,700

2007

2,130,200

Fixed rate loans have increased in popularity

89%

in 2016,

compared to

73%

in 2007

The number of first time buyers in 2016 was

▼ 7%

lower than 2007

▲ 69%

higher than 2008

Mortgage terms are getting longer

39%

of new loans in 2016 had a term longer than 25 years, up from

17%

in 2007



The age of first time buyers is increasing

22%

of all first time buyers in 2016 were aged 18-25, down from

30%

in 2007

10%

of first time buyers in London in 2016 were aged 18-25, down from

17%

in 2007

Interest-only lending has reduced significantly

4%

of new loans in 2016 were interest-only, down from

32%

in 2007

Trends in mortgage lending

2007-2016

Introduction

FCA data sources used in this bulletin

We collect regular data from lender firms on their mortgage business via two main returns:

1. Product Sales Data (PSD) – these are transaction-level data, collected quarterly since April 2005. Details of completed loans for house purchases and remortgages are collected in mortgage PSD, but data relating to further advances or product transfers with the same lender are not. Therefore, when we refer to remortgages we mean those where the borrower changes lender and not internal product switches. Mortgage PSD only covers regulated mortgage contracts and therefore generally excludes products such as commercial and buy-to-let mortgages. Second-charge mortgage data only started being reported this year, a year after second charge mortgages started being regulated under our mortgage rules following implementation of the Mortgage Credit Directive. We also started collecting information on the performance of outstanding mortgage accounts in 2015, but this data bulletin focuses on new sales only. We publish PSD data tables on an annual basis.

2. Mortgage Lenders and Administrators Return (MLAR) – these are firm-level data which we collect quarterly and have published since Q1 2007. MLAR data may not be directly comparable to mortgage PSD due to differences in coverage and timing. We publish MLAR data jointly with the Bank of England on a quarterly basis.

The source of the data in this Bulletin, unless stated otherwise, is PSD for the period 2007 to 2016 inclusive. Data reflect new regulated mortgage loans completed in the period but not outstanding mortgage balances. Also included are selected data drawn from the MLAR. Underlying data tables are available on our website, some of which provide data in more detail than are shown in our commentary and in the charts.

Where we include financial values and changes in financial values these are absolute figures and have not been adjusted for changes in price indices of any type.

Overview: trends in mortgage lending 2007-2016

This section outlines key trends shown by our data over the period including the volume and value of regulated loans by borrower type and selected attributes of regulated lending.

New loan activity - loan volumes have reduced significantly

Following a decade of growth in residential mortgage lending, the aftermath of the 2007 financial crisis saw a sharp contraction in mortgage sales. Regulated mortgage activity peaked in 2006 with 2.3 million new loans worth £292 billion. The market then saw a dramatic fall in lending volumes between 2007 and 2010-2011. Total transactions fell by 59% from 2.1 million in 2007 to just 865,000 in 2010.

There have been varying degrees of growth since then. It is notable that first time buyer transactions grew strongly after 2011 and in 2016 total volumes (312,500) were not far off 2007 levels (336,000). Other borrower types have picked up more slowly for example, home mover volumes in 2016 (348,000) are still 46% less than 2007.

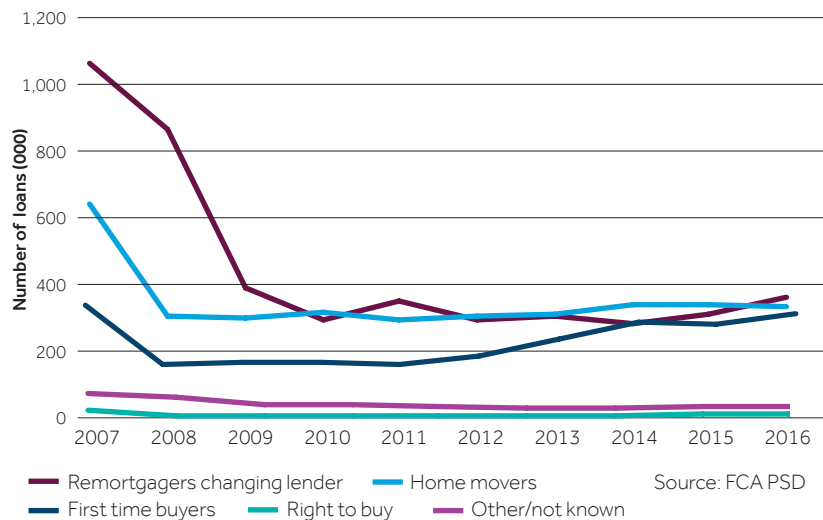
During the period there have been various government initiatives designed to stimulate mortgage and other lending, such as Funding for Lending (July 2012) and schemes aimed at first time buyers (FTBs) such as the Help to Buy scheme (April 2013).

Table 1-Regulated mortgage sales in 2016 compared to 2007:

Borrower type	2007 volume	2016 volume
Remortgager changing lender	1,054,500	374,100
Home mover	646,400	348,300
First time buyer	335,800	312,500
Other	93,500	53,800
Total	2,130,200	1,088,700

Source: FCA PSD

Figure 1: Number of regulated mortgage sales 2007-2016 by borrower type



Decline in annual transaction volumes for each of the main mortgage borrower types from 2007 to their respective low points within the period:

71% fall in remortgagers changing lenders from 2007 to 2010

53% fall in home mover loans from 2007 to 2011

45% fall in first time buyer loans from 2007 to 2008

Value of new mortgage lending

Annual values of new mortgage lending showed a similar trend to volumes at the start of the period, with values falling from £292 billion in 2007 to £121 billion in 2010 (a 59% reduction). The value of lending started to increase from 2012 onwards as a result of both increasing transaction volumes and rising loan values, reaching £196 billion in 2016. The average loan value fell to its lowest for the period in 2009 at £131,000, down from £137,000 in 2007. By 2016 the average loan had risen to £180,000.

Note: data do not include transactions where the borrower switches product with the same lender.

Mortgage terms are getting longer

There has been a significant lengthening in the average loan term of new mortgages over the past decade. The most common mortgage term has traditionally been 25 years. Mortgages with a term longer than 25 years accounted for 17% of all loans in 2007, but by 2016 this had increased to 39%, of which around half were over 30 years in length.

This trend has been seen for all types of borrowers but in particular for first time buyers who have the longest average mortgage terms. In 2016, 62% of first time buyer loans had a term longer than 25 years and 34% longer than 30 years. The most common mortgage term for first time buyers is now 35 years.

Figure 2: Value of regulated mortgage sales 2007-2016 by borrower type

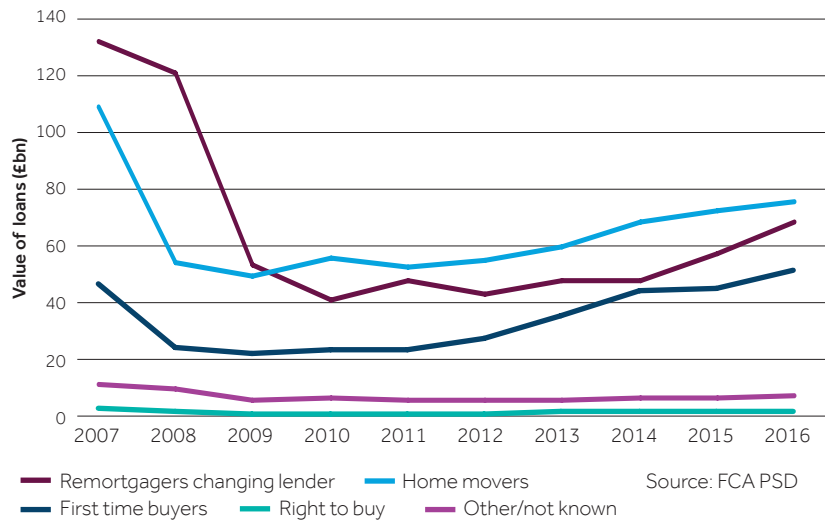
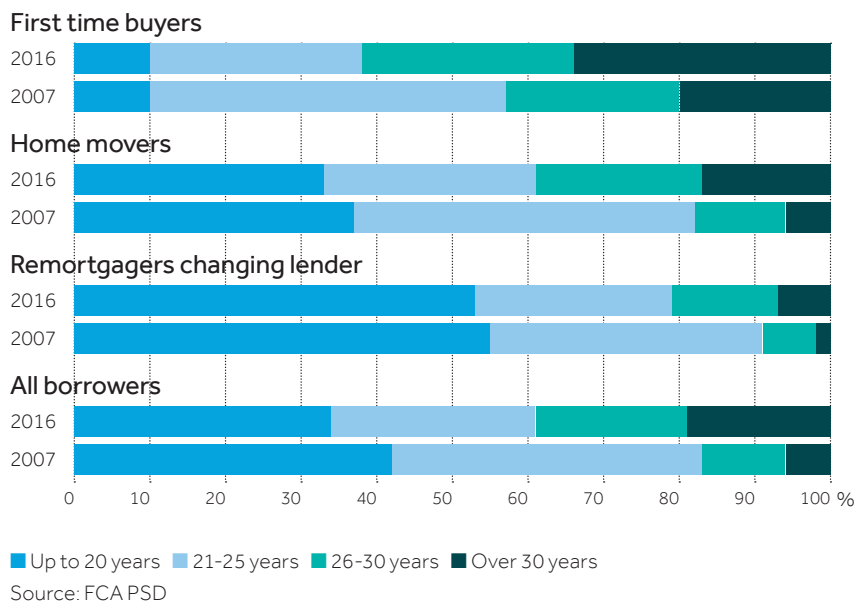


Figure 3: Mortgage term bands by borrower type 2007 vs 2016 (%)



While increasing the mortgage term can make monthly repayments more affordable, ultimately the borrower is likely to repay a greater amount of cumulative interest over the life of the mortgage. The simplified example opposite, which is for illustrative purposes only, demonstrates this.

Lengthening the mortgage term also means that the borrower will be older by the time the loan matures. For loans made in 2016, 44% of borrowers moving home and 22% of first time buyers will be aged over 65 when the mortgage matures. The most common age on maturity for loans made in 2016 is 66.

Fixed rate mortgages have increased in popularity

Fixed rate mortgages have increased in popularity over the period and in 2016 accounted for 89% of new loans compared to 73% in 2007. This trend has continued into the first half of 2017 with 92% of mortgages being fixed rate.

The period has seen the virtual end to the initial sale of standard variable rate (SVR) and discounted variable rate mortgages, and the proportion of tracker rates sold has also reduced. However, there is a much higher proportion of existing mortgage balances on variable rates. As at the end of 2016, 42% of outstanding balances (by value) were on variable rates, although the trend is downward. (Source: MLAR data).

Typical fixed rates tend to be of fairly short duration in the UK. The most popular length is two years although 5 and 10 year terms are increasing in popularity. In some other countries longer fixes are more common – for example, in the USA the most common fixed rate mortgage term is 30 years.*

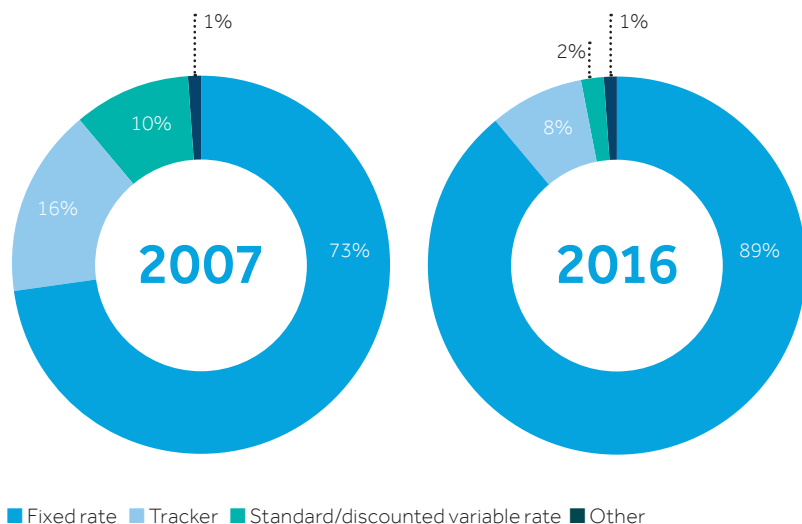
The most common mortgage term for first time buyers is now 35 years

Illustration of 25 year and 35 year mortgage terms

£200,000 repayment mortgage,
3% interest rate, assuming no changes
and mortgage runs for the full term

	25 year term:	35 year term:
Monthly payment	£948	£770
Total interest paid	£84,478	£123,201
Extra interest paid by the borrower		£38,723 (46% more)

Figure 4: Mortgage sales by interest rate type 2007 vs 2016 (%)



Source: FCA PSD

*Sources: UK Moneyfacts; US Bureau of Labor Statistics 2004-14 Consumer Expenditure Survey

The period has seen a reduction in very high loan to value lending

One of the most notable changes over the period was the significant decline in very high loan to value (LTV) mortgage advances following the financial crisis. In 2007 there were 290,000 new mortgages with an LTV of over 90% (14% of the total), of which around a third had an LTV over 95%. From 2008 lenders began to reduce offering high LTV loans and by 2011 there were fewer than 12,000 new loans with an LTV over 90% (1% of the total). Since then there has been a gradual increase in loans with an LTV over 90% – particularly from 2014 onwards. The government Help to Buy initiative is likely to have been a stimulating factor behind this. In 2016 there were 101,000 loans with an LTV over 90% (9% of the total). Only a very small proportion (0.4%) were loans with an LTV greater than 95%.

Otherwise, there has not been a dramatic shift in the average LTV of new mortgage loans when comparing 2016 to 2007. The majority of loans have an LTV of 75% or less – accounting for just under 60% in 2016, a similar picture to 2007 after a spike in 2009 when they accounted for 72%.

Trend in advances, repayments and balances

Annual repayments of mortgage capital dipped post-crisis but not to the same degree as new advances. Since 2012 both advances and capital repayments have been on an upward trend but the gap (net lending) has narrowed compared to the past so that the total value of mortgage balances is increasing at a slower rate.

The increase in the value of outstanding balances is being driven by long term rising housing prices and hides the fact that the number

Figure 5: High LTV lending 2007-2016 proportion of new loans (%)

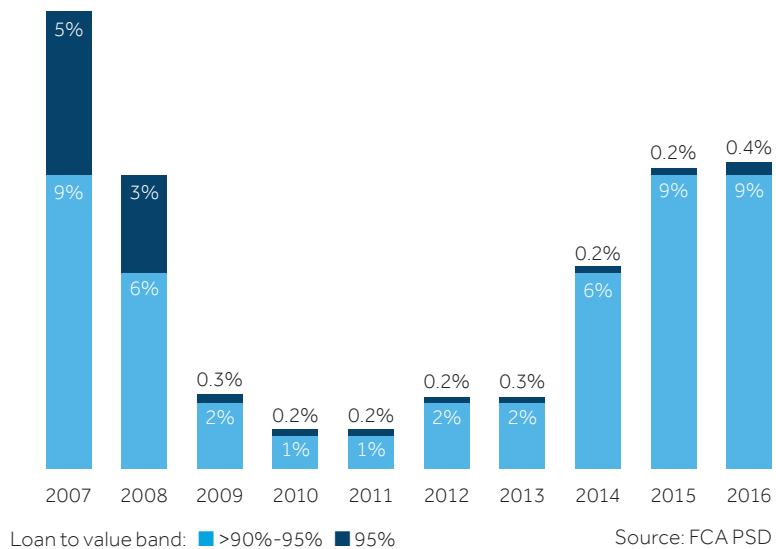


Figure 6: Mortgage advances, repayments and balances 2007-2016 (£ billion)



of outstanding mortgages is now declining. According to government figures, the percentage of owner-occupied properties in the UK with a mortgage has decreased from 56% at the end of in 2006 to 46% in 2015/2016. (Source: Department for Communities and Local Government (DCLG)).

Trends in mortgage lending 2007-2016: regulatory environment

As well as the impact of the economic downturn, the period saw some significant regulatory changes. In this section we feature trends in a number of lending characteristics relevant to those changes.

The FCA strengthened its responsible lending rules in April 2014, as part of the Mortgage Market Review (MMR). These implemented a number of measures to prevent the recurrence of poor lending practices seen in the run up to the financial crisis, such as making lenders fully responsible for assessing whether the borrower can afford the loan, verifying the borrower's income, and assessing whether the borrower has a credible repayment strategy for interest-only loans.

In October 2014, the Financial Policy Committee (FPC), in support of its financial stability objectives, recommended that the FCA and the PRA impose a loan-to-income (LTI) limit on mortgage lenders. It asked the regulators to ensure that mortgage lenders limit the number of mortgage loans made at or greater than 4.5 times LTI to no more than 15% of their total number of new mortgage loans.

Under the Mortgage Credit Directive (MCD) second charge mortgages also became regulated under our mortgage rules from March 2016.

In May 2016, we published the findings of our thematic review into how firms are applying the responsible lending rules. We concluded that the new rules did not appear to have had a material negative impact on the mortgage market. However, we recognised that the rules may have a greater impact as interest rates rise and affordability is stretched. In December 2016 we launched a market study on competition in the mortgage sector. The market study will explore whether the available tools (including advice) help mortgage consumers make effective decisions, and whether commercial arrangements lead to conflicts of interest or misaligned incentives to the

detriment of consumers. The interim report, setting out our preliminary analysis and conclusions, will be published in Spring 2018.

Interest-only lending has declined significantly

Sales of interest-only loans have decreased significantly over the decade. Under the responsible lending rules lenders are allowed to make interest-only loans, but only where there is a credible strategy for repaying the capital. In 2007, 32% of new loans were interest-only. This has seen a steady decline to just 4% in 2016.

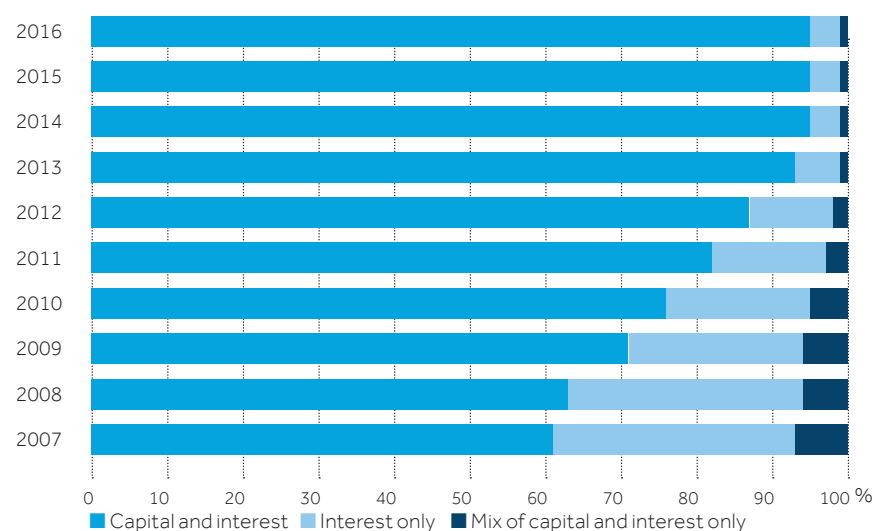
There is still a relatively large stock of interest-only mortgages, many of which were originally taken out pre-crisis. Interest-only mortgages accounted for 21% of mortgage balances (by value) at the end of 2016, having fallen from 37% at the end of 2007 (source MLAR data). We undertook a review of interest-only mortgages in 2013 and we subsequently published guidance

setting out how we expect lenders to treat existing interest-only mortgage holders. This year we are undertaking a further thematic review into how firms treat borrowers whose interest-only mortgages are approaching maturity and their ability to ensure these customers are treated fairly.¹ We have also consulted on changes aimed at facilitating access for older borrowers to interest-only mortgages repayable from the sale of the mortgaged property after the borrower has died or moved into residential care.²

Lending without borrower income verification has declined

In 2007, 49% of mortgage advances (by volume) were reported on the basis that borrower income had not been evidenced, but by 2016 this had fallen to just 2%. (Source FCA PSD).

Figure 7: New lending by capital repayment type 2007-2016 (%)



1. FCA Business Plan 2017/18.
2. CP 17/32 Quarterly Consultation Paper 18.

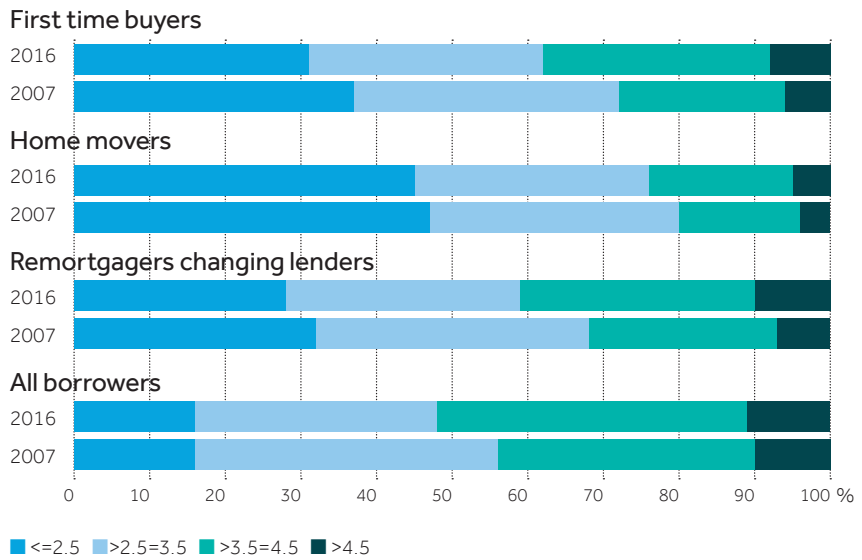
Source: FCA PSD

Loan to income ratios have seen moderate increases

The period has seen a gradual upward trend in loan to income (LTI) ratios. In 2007, 28% of loans had an LTI multiple of greater than 3.5 (within which 6% were greater than 4.5). In 2016 this had increased to 37% (8% greater than 4.5). This reflects the impact of rising house prices since 2012 together with low income growth over the period. The decrease in interest rates over the period to record lows has helped the affordability of mortgage repayments significantly, but risks leaving borrowers exposed when they rise again. For new lending made since 2014 this is mitigated by the requirement to check a borrower’s ability to afford mortgage payments in the event of an increase in interest rates.

There are significant differences between borrower types with first time buyers typically borrowing at higher multiples than other borrowers. In 2016, 52% of first time buyer loans had an LTI multiple greater than 3.5 compared to 42% of home mover loans and 24% of remortgages changing lenders.

Figure 8: LTI multiple bands by borrower type 2007 vs 2016 (%)



Source: FCA PSD

Trends in mortgage lending 2007-2016:

Trends in lending for home purchases

This section provides further analysis of lending trends for the two main types of borrower making a home purchase (first time buyers and home movers), with a particular focus on first time buyers. Detailed data, including regional analysis, are included in the underlying data tables.

First time buyer lending trends

First time buyers have been the strongest part of the market

After a sharp fall in 2008, first time buyer lending grew again over the period, particularly from 2011 onwards. In 2016 the number of new loans (312,500) was 69% up from 2008 (184,500) and just 7% below the level seen in 2007 (335,800).

The total value of first time buyer lending also increased notably from 2011 onwards and in 2016 (£50.5 billion) was over 10% higher than in 2007 (£45.3 billion). Within the overall trend there are variations by UK region.

Trends in first time buyer activity have varied by region

All UK regions saw growth in transactions volumes from 2012 through 2014. Greater London, following strong recovery up until 2014, has since seen declining volumes of mortgage transactions. Apart for the South East, which is showing signs of plateauing, the other parts of UK have continued the upward trend in 2016 following a slight dip in 2015. Northern Ireland has seen the largest percentage increase in volumes over the period, with 2016 up 43% on 2007. South West and East Midlands also show higher loan levels in 2016 compared to 2007 (see underlying data tables for the trends for each region).

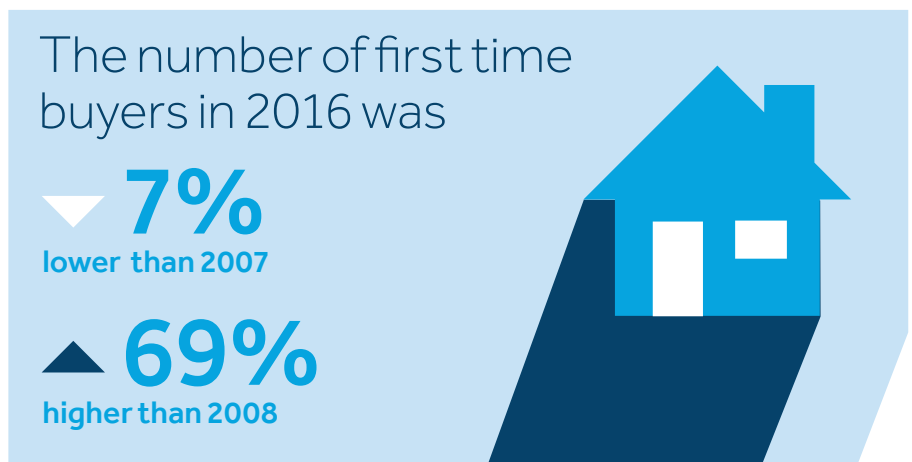
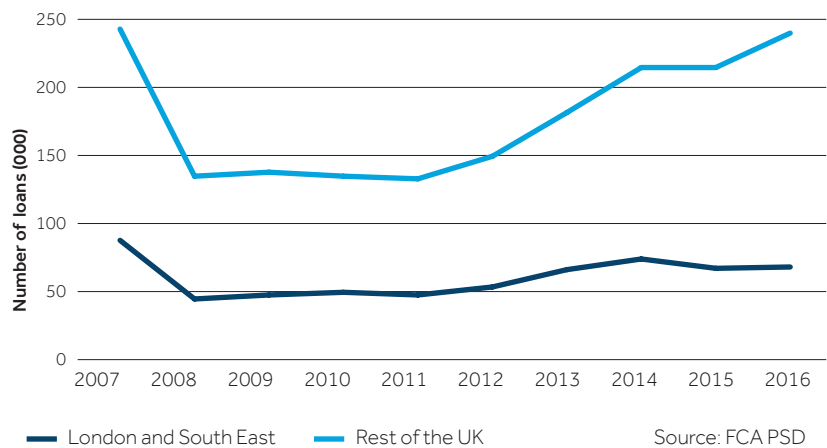


Figure 9: First time buyer lending volumes 2007-2016, London and the South East compared to the rest of the UK

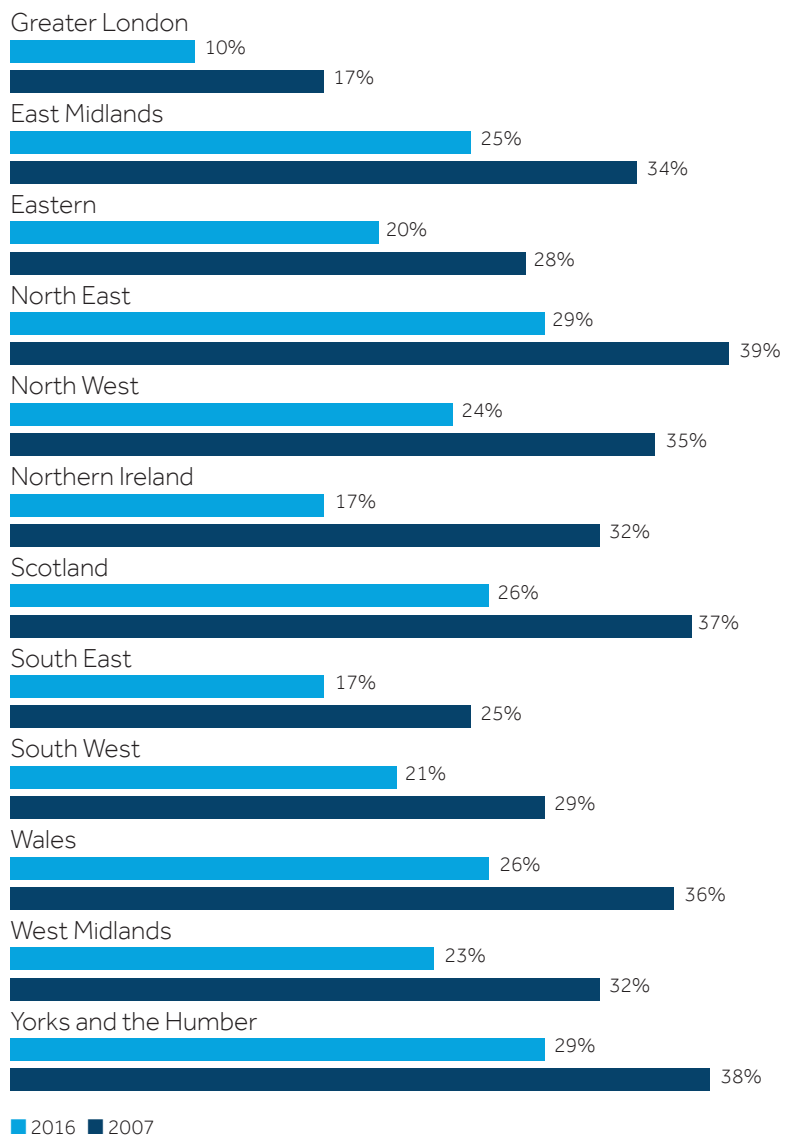


There has been a decrease in first time buyers aged 25 and under

The average (mean value) age of first time buyers has increased slightly, rising from 30 to 31 between 2007 and 2016. What is more striking is the reduction in the number of buyers aged 25 and under. In 2007 this age group accounted for 30% of first time buyers but by 2016 this had reduced to 22%. However, this varies widely by region. In Greater London just 10% of first time buyers are aged 25 and under, while the North East and Yorkshire and Humber have the highest proportion with 29%. All regions have seen a fall in the proportion of first time buyers in the youngest age group since 2007.

There has been a shift in first time buyers to higher age groups, particularly the 31-35 age group which accounted for 22% of first time buyers in 2016 compared to 17% in 2007. This trend reflects a number of factors which have affected affordability and led to first time buyers generally having to wait longer to get on the housing ladder, including rising house prices and low income growth. The 26-30 age group accounts for the most first time buyers (34%) and the most common first time buyer age remains 26, which has not changed over the period (see underlying data tables for detailed data for all age groups).

Figure 10: Proportion of first time buyers aged 18-25 by region 2007 vs 2016 (%)

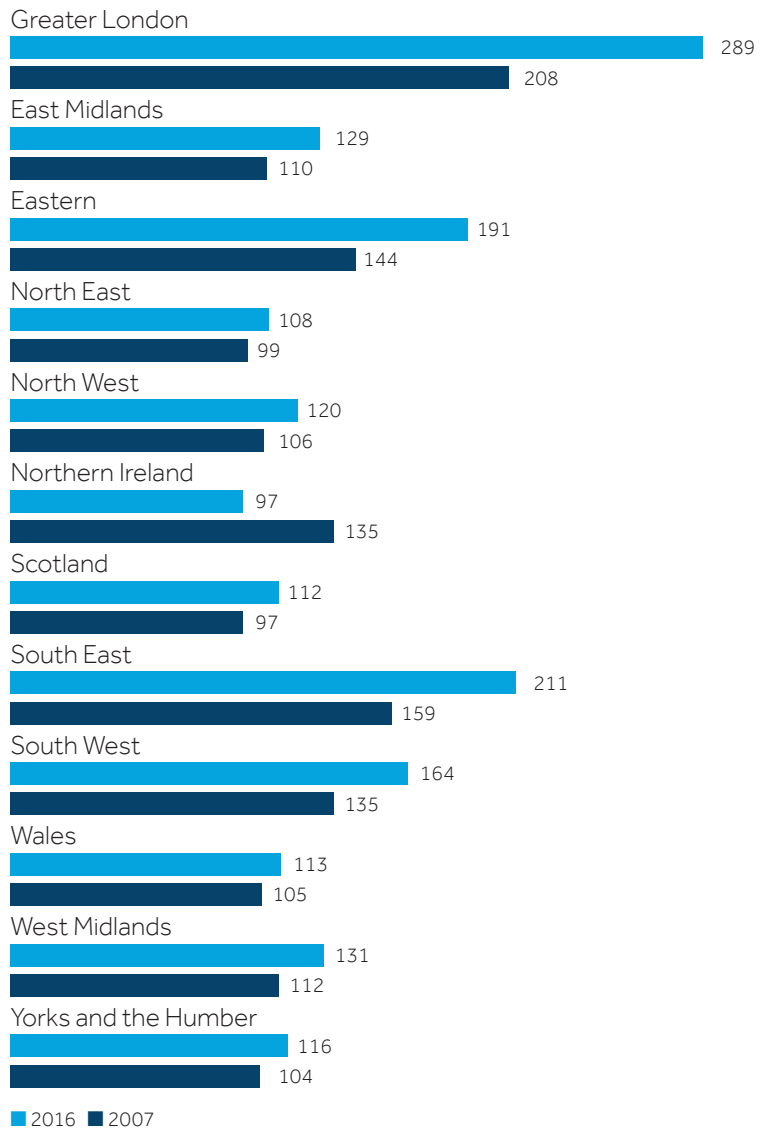


Source: FCA PSD

Average loan values have increased

First time buyers are both borrowing more and putting down larger deposits to get on the housing ladder. The average first time buyer loan (mean value) has increased in value by 20% from £135,000 in 2007 to £161,600 in 2016. Greater London has seen the largest increase in loan value over the ten year period, increasing by 39% from £208,300 to £289,000. By contrast the average loan value in Northern Ireland was 28% lower in 2016 (£97,400) compared to 2007 (£135,800) reflecting a large decline in property values post 2007.

Figure 11: Average first time buyer loan value 2007 vs 2016 (£000)



Source: FCA PSD

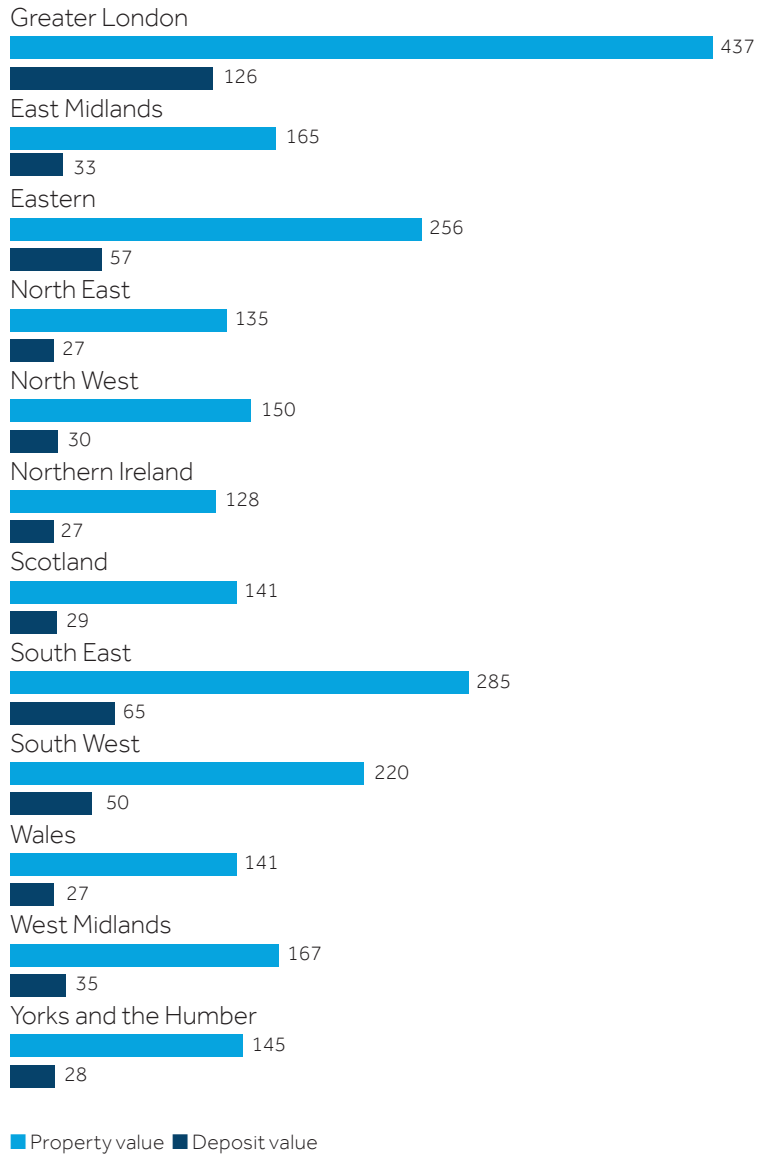
Average deposit and property values

The average (mean value) first time buyer deposit across the UK was £50,000 in 2016 compared to £36,000 in 2007. This represented 23% of the average property value of £215,000. In Greater London the average deposit was £126,000 and the average property value was £437,000. The lowest average deposits were in Wales, North East and Northern Ireland (£27,000).

We note that the mean deposit values may be skewed by some particularly large value transactions and the median values are lower. For example the median value deposit nationally in 2016 was £28,000, and £80,000 in Greater London.

Note: the data in Figure 14 exclude transactions involving shared ownership mortgages as they distort the deposit calculations.

Figure 12: Average first time buyer deposit and property value in 2016 (£000)



Source: FCA PSD

Help for first time buyers

Various initiatives have been introduced by the government over the years to help home buyers. These include Help to Buy, first introduced in April 2013, which has featured an equity loan scheme, as well as other elements such as the Help to Buy ISA.

According to government figures, 22,900 UK first time buyers used the mortgage guarantee scheme in 2016 (around 7% of the total).³ Under the scheme (which ended in December 2016), borrowers were able to get a mortgage with a 5% deposit and the government took on some of the risk of default. The areas with the highest take up in 2016 were Scotland and the North West. In 2016, 30,600 first time buyers in England took advantage of the Help to Buy Equity Loan scheme,⁴ under which the government lends up to 20% of the property's value (or 40% in London) in addition to the borrower's 5% deposit.

Shared ownership mortgages

Under shared ownership schemes the borrower initially purchases only a part share of the property and rents the remainder. We have collected details of shared ownership mortgages in PSD since 2015. In 2016 there were around 14,500 shared ownership first time buyer loans (5% of the total). The average loan value was £92,500. Nearly three quarters of these were for properties in the south of England - Greater London (32%), South West (16%), South East, and East (13% each).

Home mover loan trends

Volumes of mortgage loans to home movers have remained subdued after falling to lows in 2011. In 2007 there were nearly two home movers for every first time buyer, but by 2016 the ratio had reduced to just over one. There are some regional variations with Northern Ireland and the North West showing the strongest percentage growth in transaction volumes since 2011. Greater London transaction volumes continued to decline, falling in 2016 to their lowest point over the period.

In June 2017 the Council of Mortgage Lenders (now part of UK Finance) published a research report it had commissioned into the shrinking home mover market.⁵ This concluded that this was down to four reasons:

- falling numbers of mortgaged home owners
- older home owners not moving as frequently as before
- an increasing number of downsizing older movers who are able to buy a new property for cash, having built up large equity value in their existing homes
- reduction in the propensity of mortgaged home owners to move up the ladder due to affordability constraints

See underlying data tables for detailed data.

3. DCLG

4. DCLG

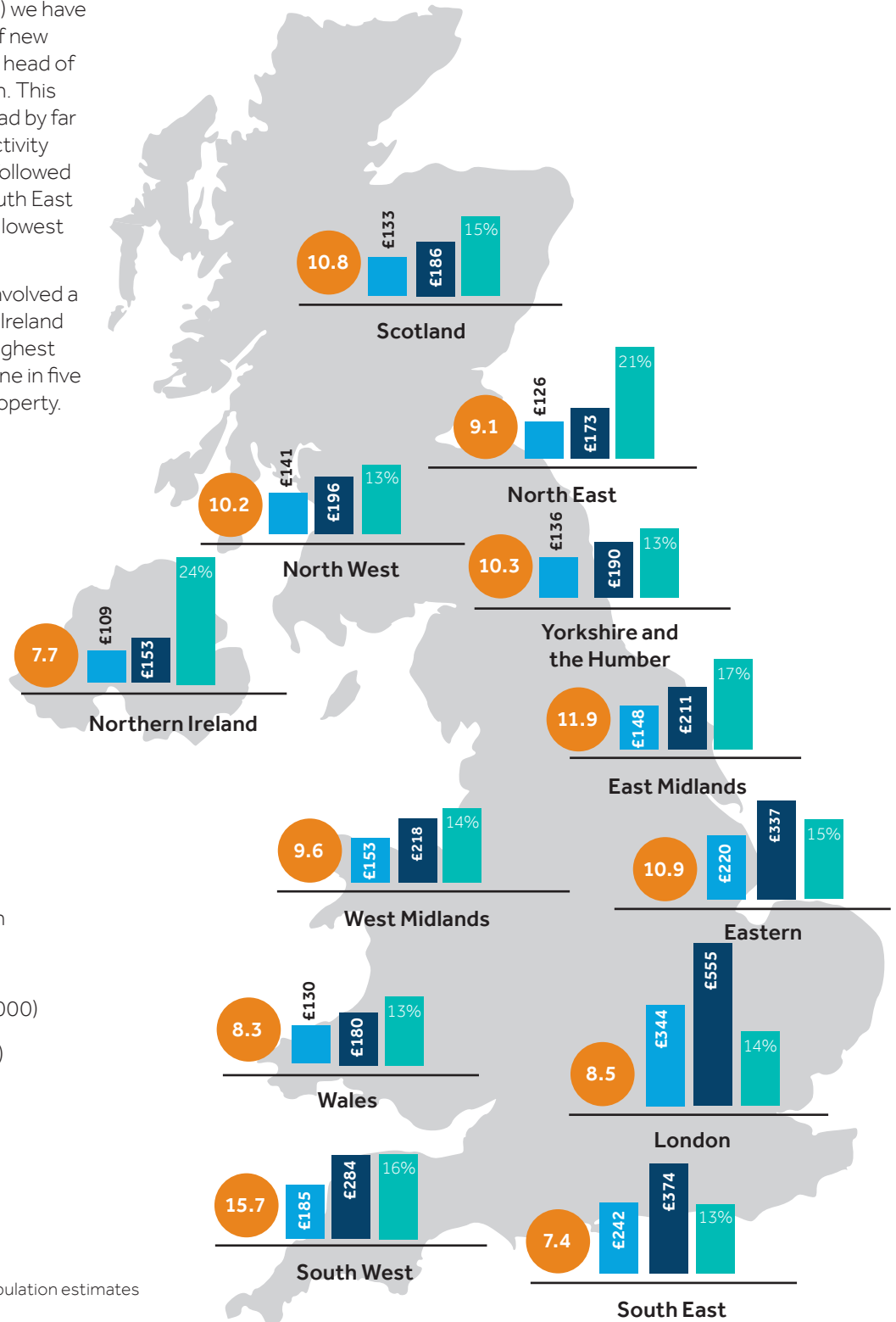
5. Missing Movers: a report for the Council of Mortgage Lenders by Neal Hudson and Brian Green, June 2017.

Regional comparisons - home purchase loans in 2016

For the main loan types involving a new property purchase (first time buyer and home mover loans) we have contextualised the number of new loans made in 2016 per 1000 head of population for each UK region. This shows that the South West had by far the highest relative level of activity (for both types of borrower) followed by the East Midlands. The South East and Northern Ireland had the lowest relative activity.

Around 15% of these loans involved a new build property. Northern Ireland and the North East had the highest percentage with more than one in five loans being for a new build property.

Figure 13: regional comparison of home purchase loans (first time buyer and home mover loans combined) in 2016



- Loans per 1000 population
- Average loan value (£000)
- Average property value (£000)
- New build loans (% of total)

Source: FCA PSD, ONS regional population estimates

Next steps

In future issues we want to make sure we give you the information that you would find most useful, so if you have any comments or suggestions for future content please contact us at: fcadataandanalysis@fca.org.uk

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Data Bulletin

Underlying data used in this bulletin.
www.fca.org.uk/publications/data/data-bulletin-issue-11

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In case you missed them

Here are some other mortgage related publications of ours that you may find interesting:

Latest MLAR statistics publication

The latest MLAR statistics, which feature data up to the end of Q2 2017, are available here: www.fca.org.uk/firms/mortgage-lending-statistics

The next edition (Q3 2017) is due to be published on 12 December.

Latest PSD publication

The latest PSD data tables (Q2 2017), which feature regulated mortgage contracts as well as retail investment products and certain pure protection products, are published here: www.fca.org.uk/firms/product-sales-data

Mortgage market study

The terms of reference of our mortgages market study, which focuses on consumers' ability to make effective choices in the first charge residential mortgage market, is available here: www.fca.org.uk/publications/market-studies/mortgages-market-study

An interim report is due to be published in Spring 2018.

Sector View

We divide the financial system into a number of sectors and monitor them continuously using a wide range of data and intelligence. Our Sector Views bring our collective intelligence together to provide an overall FCA view of how each sector is performing. Mortgage lending is included within the retail lending sector. The latest Sector Views are published here: www.fca.org.uk/publications/corporate-documents/sector-views