Mortgage Lenders & Administrators Return

Technical notes

General

1 Around 340 regulated mortgage lenders and administrators (banks, building societies, credit unions and other specialist lenders) are required to submit a Mortgage Lenders & Administrators Return (MLAR) each quarter, providing data on their mortgage lending activities and covering both regulated and non-regulated residential lending. Following the creation of the Bank of England Prudential Regulation Authority (PRA) and of the Financial Conduct Authority (FCA) on 1 April 2013, these mortgage lending statistics are compiled and published jointly by the two regulators. Lenders with only non-regulated lending are not required to submit the MLAR. Prior to the change in regulation to include second charge lending, which came into effect on 21st March 2016, the reporting population was around 300.

2 Please note that tables in this release are summaries of more detailed data tables available at http://www.bankofengland.co.uk/statistics/Pages/default.aspx.

3 This release contains rounding effects. The figures in the detailed tables listed above are generally presented in £ millions and provide the highest level of accuracy. The figures in the tables and charts in the Statistical Release are obtained from the detailed tables, but in most cases are rounded for presentation in £ billions. Any percentage movements or changes presented in the text of the Release are also calculated using the more accurate figures, and will not therefore always appear to be consistent with the rounded figures in the tables above or below them; they are, however, consistent with the figures in the detailed tables.

Regulated and non-regulated loans

4 A regulated loan is a loan to an individual, secured by a first charge on residential property, and where the property is for the use of the borrower or a close relative. From 21st March 2016 second charge lending is included in regulated lending.

5 A non-regulated loan for MLAR purposes is all other mortgage lending to individuals that is not regulated. It includes buy-to-let lending, in some cases, further advances on loans that were originally taken out before regulation came into effect on 31 October 2004. Second charge lending is included in non-regulated lending until 20th March 2016.

6 First charge mortgage loans extended before 31 October 2004 are classified as non-regulated, unless they are legacy first charge Consumer Credit Act (CCA) mortgages. As of 21 March 2016, legacy first charge CCA mortgages can be classified as regulated and all such loans will be classified as regulated by 21 March 2017. This means that there will be a gradual shift over time in numbers and amounts outstanding from the non-regulated to regulated mortgage lending categories, as older mortgages are paid off or are subject to re-mortgaging. Flows of non-regulated mortgage lending have been modest compared with regulated mortgage lending since that date.

.

Securitisations

7 Some lenders parcel up loans into a special purpose vehicle (SPV), and create Loan Notes secured on the parcel of loans ("securitisation"). They sell the Notes to third party investors; thereby raising funding that broadly matches the loans, with the risks attached to the loans passing from the lender to the Note holders.

8 Additional guidance has been given on the classification of securitised loans where that security has subsequently been used as collateral for Bank of England liquidity schemes, such as the Special Liquidity Scheme. For more details see www.fca.org.uk/firms/systems-reporting/gabriel/help/mla. In such circumstances the risks attaching to the performance of the underlying pool of loans remains with the lender and no risk transfer has taken place to the Bank of England; these loans should therefore be reported on the MLAR as un-securitised loans. Due to this, there has been some reclassification between the securitised and un-securitised portfolios. This affects the series in tables 1.4 and 1.6 in particular.

New business volumes

9 Data are collected on three prime measures for the unsecuritised loan book:

- Gross advances: the amount of new loans to borrowers.

- Net advances: the amount of gross advances less borrower repayments (including normal periodic repayments on capital repayment loans; repayment of existing loans at time of re-mortgage or house move etc.).

- New commitments: the amount of new lending that a lender has agreed to advance in coming months to house movers, re-mortgagers, first time buyers, and those seeking a further advance.

Lending criteria

10 The two main measures within the dataset of lending criteria are loan-to-value (LTV, the loan as a percentage of the value of the property) and income multiple (the loan advance as a multiple of income, defined as the borrower's main income, pre-tax). Income multiple calculations are reported separately for single income and for joint income loan applications.

11 Another characteristic of new lending is information about whether a borrower had an impaired credit history at the time of the new loan application. The MLAR definition of an impaired credit history includes borrowers with any of the following: arrears of three months or more on a previous loan in the last two years; county court judgment (CCJ) over £500 in the last three years; or being subject to a bankruptcy order or IVA at any time in the last three years.

Interest rate analysis

12 MLAR classifies mortgage lending by fixed or variable rate basis, and collects data on average interest rate margins defined as the margin of the interest rate over the Bank of England Bank Rate (BBR). Fixed rate includes all products subject to a fixed interest rate for a stated period or subject to a cap or collar arrangement, but not variable rate products subject to annual review payment arrangements. Variable interest rates cover all other interest bases, including those at a premium or discount to an administered rate.

13 Weighted average interest rates are calculated by weighting the relevant nominal interest rates applying over the quarter by amounts outstanding at the previous reporting date, by individual products.

Arrears and possessions

14 Arrears are defined as instances when any contractual payments, of capital, interest fees or other charges, are overdue at the reporting date. Arrears reported in the MLAR data relate only to loans where the amount of actual arrears is 1.5% or more of the borrower's current loan balance. For example, if the loan balance is £100,000 arrears in respect of the loan will only be captured in MLAR once they have reached £1,500 or more.

15 For accounts in arrears, a temporary concession is defined as an agreement with the borrower whereby the monthly payments are either suspended or less than they would be on a fully commercial basis. A formal arrangement is defined as either an agreement to capitalise all or part of past arrears or an agreement to make increased monthly payments to reduce some or all of the existing arrears. Amounts in arrears subject to temporary concessions continue to be classified as arrears. Amounts in arrears subject to capitalisation arrangements are reported as arrears until the criteria for 'fully performing loans' are met, which include that the revised schedule of loan repayments has been met for at least six months.

16 Information on accounts with temporary concessions or formal arrangements relates only to those cases which have arrears over the reportable threshold. There may be other types of forbearance in place for some borrowers which are not captured in these figures as they are either not yet in arrears, or the arrears are not sufficiently large to be reportable.

17 Data are collected on the performance of loans in arrears. Performance is measured as payments received in the quarter expressed as a percentage of payments due (i.e. under normal commercial terms to fully service the mortgage debt).

18 For accounts in arrears, data on capitalisations are also collected and published. Capitalisations are defined as formal arrangements to add all, or part of, a borrower's arrears to the amount of outstanding principal.

19 A 'possession' relates to any method by which, in an arrears case, the lender takes the secured property into their possession (including by a court Possession Order, or by voluntary surrender by the borrower). This also includes cases where Receivers of Rent have been appointed. MLAR possessions data relate to individual loan accounts in possession.

Arrears as a percentage of balances approach

20 The 1.5% threshold used in the "arrears as a percentage of balances approach" was adopted to replace an earlier 2.5% threshold that had been used in analysis of building society arrears from the early 1990s.

21 For ease of comparison, sub-totals for a 2.5% threshold as well as for the 1.5% threshold are presented in the Detailed Tables on arrears. More detail is available in the Frequently Asked Questions (FAQs) relating to the MLAR on the FCA website at www.fca.org.uk/firms/systems-reporting/gabriel/help/mla.

Loan accounts in arrears

22 It should be noted that numbers of loan accounts in arrears, which is the basis on which these data are reported in the MLAR statistics, need not equate to the number of borrowers in arrears. Numbers of individual loan accounts in arrears will include arrears rising on:

- First charge loans;
- Second and subsequent charge loans (where the borrower takes an extra loan from another lender); and
- Some further advance loans (cases where the first charge lender establishes a further advance on the original mortgage as a separate loan account, but is unable to combine the two accounts for MLAR reporting purposes).

23 As a result, arrears numbers on the MLAR are reported on a different basis from, and are materially higher than, the corresponding data published by the Council for Mortgage Lenders (CML) on numbers of first charge mortgages in arrears. A second, more significant, difference between these datasets which adds to this effect is the use of a higher percentage of balances threshold for arrears, 2.5% in the case of CML data, compared with 1.5% in the case of MLAR data.

Loan accounts in possession

24 This number does not represent the number of borrowers that have been subject to possession. It represents the number of individual loan accounts in possession, and covers possessions arising on:

- First charge loans
- Second and subsequent charge loans (where the borrower takes an extra loan from another lender)

25 In practice however, where a borrower has first and second charge loans with separate lenders, it will not always be the case that both lenders report their loan accounts as a possession. MLAR possession figures also include cases where a Receiver of Rent has been appointed.