

Kate Barker  
Barker Review of Housing Supply  
1 Horse Guards Road  
London  
SW1A 2HQ

1<sup>st</sup> August 2003

Dear Ms Barker  
**Your Review**

I am writing in response to your request for submissions on Housing Supply. This response is from the Association of Mortgage Intermediaries (AMI).

AMI is the sole trade association for professional mortgage intermediaries (there are currently 13,500 professional intermediary firms in the UK). AMI was launched in April 2003, to bring an effective, credible, lobbying voice to the industry. In that time we have recruited an active membership rapidly approaching 2,000. It is our intent to speak for the majority of the market.

Mortgage intermediaries play an essential role in the housing market. We promote liquidity in the market by bringing together buyers, sellers and those with finance (usually lenders). We are able, through professional, client specific advice, to arrive at a financial arrangement that enables those who want to buy property to meet their aims, and also those who wish to re-structure their financial affairs to also meet their objectives.

Through our advice, first time buyers take the first step on the housing ladder, subsequent movers trade up (or down) to meet their personal objectives, and buy-to-let landlords meet the demand for rented accommodation. Our members also offer advice for those who wish to buy their local authority homes. We provide advice for those who wish to use their home as part of their pension provision (through home reversion schemes and equity release). As a final part in the chain, our members help clients pay-off their mortgages – so allowing capital to be freed up for new lending.

Professional mortgage advice not only keeps the flow of capital moving but also stimulates new lending – so encouraging mobility.

Our objective in contributing to our review is simple: we ask that you bear in mind the role of the intermediary in your findings. The housing market is built on the foundations of:

- Planning
- Building
- Finance

- Market demand

The interplay between these is essential to the smooth working of the market. Our members have endeavoured to innovatively find solutions between these market forces and anything that will endanger the dynamism of the market will be to the detriment of the client.

The 31<sup>st</sup> October 2004, sees the introduction of FSA regulation into the mortgage market (with general insurance following in January). The buy to let sector will remain outside the scope of regulation. We believe regulation leads to increased professionalism and thus growing consumer confidence. These benefits will only be realised if regulation is introduced in a proportionate and cost effective way.

Our response focuses on the final issue you raise: Issue 4.

However, before we address this issue, we would like to make the following observations which we believe will be of assistance to you in your work:

#### **1. Sustainable Home Ownership**

There has been much discussion between the mortgage market, Financial Services Authority and the Government about Sustainable Home Ownership. It is one of the biggest challenges in the housing market today as borrowers are being encouraged to re-mortgage to access the equity in their homes, or extend their mortgages to “trade up”. This is all well and good in times of positive economic outlook – but could be dangerous when the economic cycle shifts.

It is AMI’s view that borrowers should be encouraged to make provision for just these times. However, too much focus has been placed on Mortgage Protection Insurance (also called Accident, Sickness, Unemployment Insurance: ASU Cover). Borrowers need to consider the range of options they can call on. These include: their own savings, an employer’s income protection (or critical illness) scheme – and not just ASU. Indeed, many flexible and offset mortgages allow for periods on non-payment and this may be the long term answer to this question.

The role of the professional mortgage intermediary is essential in this client consideration. Many borrowers will reject an ASU policy when buying a house as an unnecessary extra expense. The intermediary’s role is, in part, education and, in part, finance re-structuring: to explain why it is important to have provision and to arrange it through the best combination of their personal finances.

Without the active participation of mortgage intermediaries, home buyers can be let with an unprotected mortgage.

Additionally, it is our view that that insurance based schemes should be extended to include tenants in rented accommodation (whether privately owned or not). This would provide more re-assurance for private landlords to

enter the market – so encouraging new landlords and helping existing ones to plan for better debt serviceability.

## **2. Re-mortgage market**

Figures from the CML (AMI does not yet produce its own statistical findings), show the significant growth in the re-mortgage market over the last 5 years. This has reached the point that now this part of the market is actually worth more (in lending terms) than house moves.

Our view of the factors affecting this include:

- Falling interest rates – it has become economically beneficial to move mortgage without moving home
- Lenders promoting rapid remortgage deals
- Job insecurity – a reluctance to move home (so potentially taking on a higher debt level)
- Job transience – the workforce may move to find work, but there is evidence that the “family home” stays put. This is because of worries about the tenure of the role, or the fact that an increasing number of people are contract working (so would not relocate). The working person looks for a flat or other rented accommodation to serve their needs during the working week. This puts more pressure on the rented sector.

The intermediary has an essential role here in assisting those who wish to remortgage – so bringing fresh financing into the market and enabling consumers to meet their personal objectives. There is no evidence that the vigour of the remortgage market is affecting the supply of finance to the primary market. Indeed, the robustness of both sides of the market supports each other – and there is no shortage of funds for either.

Additionally, the intermediary helps new, and established, landlords find sources of funding for buy-to-let premises. This builds the rented accommodation base necessary to keep the labour force mobile.

## **3. Sub-prime mortgage market**

The professional mortgage intermediary plays a pivotal role in the sub-prime mortgage market (the market that has arisen to assist those who have had credit issues in the past). The intermediary can match the borrower with a lender offering special products designed for their needs.

The intermediary will also help those clients who have demonstrated a good payment history out of the sub-prime market and back into the mainstream. This benefits the client (as rates and fees are usually lower), stimulates the market (as this is fresh borrowing from a new source), and frees up capital from sub-prime lenders for them to offer to new borrowers.

## **4. Changing working patterns**

The UK has a flexible and mobile workforce. This has occurred partly because of the growth of London’s job market (perceived higher wages and

standards of living) and partly because of successive Governments' policy: both in terms of prompting the labour market and in regional investment.

The result of this is that:

- The average age of a first time buyer has moved from early twenties to late twenties (and has been predicted to pass into the thirties if house price inflation continues!)
- Increasing demand is put on the rented sector – as people look to rent rather than buy until they establish their careers
- Demand for rented accommodation increases when the “family home” is established – if one of the partners moves away for career reasons (see above)
- Demand for rented accommodation is centred in particular areas: southern cities, university towns etc. The major losers in this tend to be the northern ex-industrial centres.

Again, the mortgage intermediary has an essential role to play in keeping the market mobile. Through professional advice, the intermediary offers a service on where a potential landlord can invest for best return (and highest yield) and which lender to borrow from.

The intermediary can, on the other hand, help those who wish to buy a second property (closer to a new job location) raise capital from their existing house as a deposit for a new property.

## **5. First time buyer market**

The fall in the number of first time buyers is also a concern. The CML has recorded a sharp decline in the first time buyer market: despite lender initiatives and intermediary support. The first time buyer market used to account for 45% of all the market (and, more importantly, provided the impetus for the rest of the market to move), it is currently under 30%.

The reasons for this are simple:

- With historically low interest rates, house prices have seen a sustained, significant period of increase
- The perceived need to become established in a career before buying a house has increased
- Parental advice on “negative equity”
- The average age of newly weds has increased (this is not solely connected to the numbers of those simply “living together” but reflects a pattern of couples forming at older ages)

This again places pressure on the rented sector. Here, the intermediary again plays many parts:

- Assisting the landlord in through the buy to let process

- Advising parents on the best way to tap equity in their own homes to provide a deposit for the children's
- Advising those who wish to get a foot on the property ladder about the best way to do this: shared tenancy; sub-letting; low start mortgages; access to exclusive lender products etc.

#### **To address a specific issue raised in Issue 4: buy to let.**

The buy to let sector has been characterised by five issues:

- A period of prolonged growth – especially over the last five years – as private investors have come into the market. First for the significant yields available (and as part of a balanced portfolio), then to counter stock market falls, and finally as a way of pension planning
- An increasing number of mortgage lenders now will to lend to private individuals for buy to let purposes (from five to over 30)
- A reduction in yields available as more property has come into the market (normal yields were at a rate of 18% - 25% - but now have fallen to under 10% - 7.97% in April for England & Wales). There are exceptions to this: e.g. university towns are still attractive.
- Buy to let bubbles. These occur when a number of rented properties come onto the market at the same time, in the same area, so driving down the yield.

Worry has been expressed about how quickly the Buy to Let market has grown – and the inexperience of new landlords. For many, the worry is that they do not have the financial resources to withstand rental “voids” where the property is unlet – and this can cause problems for their own mortgage payments.

Interesting to note is that the average value of landlord's property has actually fallen this year (from £111,997 in January 2003 to a current £109,669) against a market that is experiencing growth over the same period of 19.4%.

A more favourable tax regime would increase the number of landlords – for example an area to be addressed would be the fact that gains have to be offset against CGT. Grants for improvements could also be better communicated and their levels re-examined.

Some landlords have responded to the current tax system by setting up limited companies – and so have only to pay corporation tax – at the lower rates. However, lenders charge higher rates on corporate buy-to-lets and as they are seen to be higher risk, fewer lenders offer suitable products.

Professional mortgage intermediaries can advice on just these issues – so helping to increase the number of landlords with property to rent.

Alternatively, intermediaries can assist those who wish to gain a foot on the housing ladder – through such schemes as shared tenancy and sub-letting. The intermediary provides the lynch pin between need and financing.

On a final note, AMI will be submitting evidence to The Treasury on the Buy to Let market. It is currently outside the scope of mortgage regulation (due to come into effect on 31<sup>st</sup> October 2004), and there is industry concern that this may mean unqualified advisers will be drawn to the sector.

AMI supports the need for a buoyant UK housing market. If there is any other information you would like about the work of AMI, or would like more information on the points raised, please do contact me.

Yours sincerely

Chris Cummings  
AMI