Mortgages - UK - April 2011

Report Price: £1500 / $2310 / €1793

What is this report about?

The mortgage market has been heavily affected by the credit crunch, with liquidity being severely reduced, and lending being restricted as a result. Banks have tightened their lending criteria considerably over the last few years, due to a lower risk tolerance, as well as tighter mortgage capital requirements. The good news is that the market stabilised in 2010, as lenders adjusted to the post-credit crunch environment. The bad news is that lending remains heavily subdued, while the downside risk of rising unemployment and a weak housing market prevails.

What have we found out?

- Remortgages are likely to be a significant growth area for lenders this year, as speculation mounts over a rise in interest rates. Indeed, Barclays and Nationwide have already launched Switch & Fix propositions to capitalise on consumer anxiety here.
- From conversations with lenders, most are taking some respite from the fact that the market stabilised last year (gross advances fell by just 6%), which is believed to be down to lenders adjusting their business models to the post-credit crunch environment.
- Lenders can at least take some encouragement from the fact while lending volumes may be low at present, profitability has increased. At the same time, overall risk profiles on new lending have fallen, suggesting a strong mortgage book in years to come.
- Indeed, there has been some very positive innovation in the FTB sector of late, mostly involving shared-ownership schemes and tie-ups with developers. To this end, Lloyds TSB recently launched a revamped version of its Lend a Hand scheme involving five local authorities, while Barclays launched the Perfect 10 mortgage in conjunction with Bovis.
- Older people appear to be the best target at present. Not only are they likely to have more equity in their homes (ie lower risk), they are more confident about property generally and are less likely to think they'd struggle to get a new mortgage in the current climate.
- There may be some pent up demand from frustrated FTBs, as our consumer research shows that confidence in property remains high and that the proportion of people either saving up for or intending to buy their first home has increased during the last 12 months.