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Do we need mortgage reform?

Latest consumer and first time buyer attitudes to mortgage lending rules

"I do feel that banks have a responsibility to make sure people can pay back loans - and that they should make detailed financial checks. I know this means we will probably never own our own home - but better that than lose a home."

51 year old private renter from Canterbury

The FSA estimate that 17,000 repossessions could have been avoided had their rules been in place from 2005-2009

Shelter research shows that 46 per cent of mortgagors find it a constant struggle or struggle from time to time to keep up with their mortgage payments

Background

Irresponsible mortgage lending can have devastating consequences. Every day Shelter advisers help families struggling to keep up with their mortgage payments. Some had little hope of ever repaying their loans in the first place and are now faced with the very real threat of homelessness. Reckless lending damages the economy too, contributing to unsustainable house price bubbles which freeze out new buyers and leave existing homeowners vulnerable to negative equity.

In the aftermath of an epic financial crisis and with billions of public money spent bailing out the banks, regulators are trying to foster a more responsible credit market. The Financial Services Authority (FSA), an independent regulator, has reviewed the mortgage market and exposed the past failures of lenders. It has proposed new regulations to try and prevent further crises. So far the regulator's proposals have provoked heated debate, and concern that the rules will lock first time buyers out of the market. But what do the general public think – and do first time buyers agree?

To answer this, Shelter has undertaken a survey of over 2,000 people[1] to find out if consumers - particularly first time buyers - support tighter regulation of mortgage lending.

Is mortgage reform needed now?

- 84 per cent of people think that banks and building societies lent irresponsibly to some people before the credit crunch
- 46 per cent of people and over a third of first time buyers don't feel that banks can be trusted to lend responsibly in the future

It is vital that the mortgage market is effectively regulated. Lending conditions are tight at the moment due to banks' tougher criteria and high deposit requirements, but with sub prime products starting to return to market and experts including the IMF expressing concern about house price volatility, we need lasting and effective regulations to ensure that lenders don't go back to their old ways.

[1] All figures, unless otherwise stated, are from YouGov Plc. Total sample size is 2118 UK adults. Fieldwork was undertaken between 21st April - 3rd May 2011. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). A first time buyer has been defined as someone who does not currently own their own home but plans to buy a home in the next 2 years.

This Campaign: briefing is one of a series published by Shelter. Campaigns: briefings dealing with other housing and homelessness issues can be downloaded from shelter.org.uk/policylibrary

Shelter

21% of self-certified mortgages are in arrears or possession (FSA)

Individuals in the UK owe more than £1.24 trillion of debt secured on homes (Bank of England)

"My friend was offered a bigger mortgage than he asked for in about 2006/7. An independent mortgage consultant 'suggested' he could say that he was self employed and he could 'massage' his figures to get a larger mortgage."

40 year old, Worcestershire

How should the market be reformed?

The overwhelming majority of people (87 per cent) agree with the general statement that lenders should only give loans to borrowers who can show they can afford it. The FSA has proposed some common-sense lending rules to try and meet this goal. These include:

- Introducing affordability tests. This means that lenders should have to look at a borrower's income and outgoing expenses and work out how much money they would have left over. Three quarters of first time buyers agree that banks or building societies should check that a borrower can afford a mortgage after their monthly outgoings have been deducted from their income.
- Verifying a borrower's income. The vast majority of people (86 per cent) in our survey agree that banks or building societies should check a borrower's income on every mortgage loan. 83 per cent of first time buyers agreed too.
- 'Stress testing' loans to see if they will be affordable if interest rates rise. 79 per cent of people agreed that banks or building societies should check if the borrower will be able to manage their mortgage payments when rates change.

These rules would make it harder for some people to obtain mortgage credit. But the majority of respondents to our survey, including three quarters of first time buyers, thought that banks should lend responsibly *even though* it would mean some people wouldn't get mortgages.

Have people been affected by irresponsible lending?

- 18 per cent of people in our survey said they had been offered a bigger mortgage than they asked for, or knew someone else that had. This rises to 28 per cent, nearly a third, among first time buyers.
- A further 18 per cent of first time buyers said that they had been lent, or knew someone that had been lent, a mortgage irresponsibly.

These findings contradict industry claims that reckless lending is a thing of the distant past, practiced by only a handful of sub prime lenders.

Should the government be doing more?

- Over three quarters of people think that politicians need to do more to prevent irresponsible lending.

The Housing Minister has been quick to criticise the FSA, claiming that "…*there is no point in closing the door after the horse has bolted."* But the public don't agree.

The government must not repeat the mistakes of the past and take a light touch approach to regulation or lenders will soon return to the reckless habits of the past. Shelter urges the government to listen to consumers, not to kowtow to the banking lobby. If the government is serious about helping first time buyers over the long term, it must support sensible regulation and address the high cost of housing. Over half of first time buyers in our survey thought that the cost of homes, not the availability of credit, was the bigger problem facing aspiring buyers.

For more information contact public_affairs@shelter.org.uk