By continuing to use this site you consent to the use of cookies on your device as described in our **cookie policy** unless you have disabled them. You can change your **cookie settings** at any time but parts of our site will not function correctly without them.

June 26, 2014 5:03 pm

Mortgage lenders relieved after limited FPC intervention

By James Pickford Author alerts


©Reuters

Mortgage brokers downplayed the impact of moves by the Bank of England to limit lending on Thursday, saying it was not the "flick of the switch" that some had feared might send the UK the housing market into a tailspin.

The Bank's Financial Policy Committee recommended two new measures to curb the housing market. First, mortgage lenders will assess whether borrowers could afford to repay their mortgage if interest rates were three percentage points higher than they were at the time of the loan. Second, no more than 15 per cent of a provider's total number of mortgages should be lent at more than 4.5 times the borrowers' income.

The Bank said the moves were designed to bear down on the risks of excessive household debt, which could worsen instability after an economic shock.

Brokers and lenders echoed the view of Mark Carney, bank governor, that the effect would be marginal in the short term. "If yesterday you went into a bank or building society and were approved for a mortgage, you will still be approved for that mortgage today," Mr Carney said following publication of the FPC's recommendation.

David Hollingworth of broker London & Country Mortgages said it was a proportionate measure that left lenders with the decision on whom to lend to. "This is something that will start to apply the brakes if lenders do start to allow loan-to-income ratios to rise as a proportion of their business. It's a firebreak that prevents that from running out of control."

Others, however, questioned the effectiveness of the moves, arguing that the risks of affordability were already being dealt with by the mortgage market review. This set of measures, which took effect in April after several years in the making, ensures providers can only lend where borrowers have the means to repay loans, even under higher future interest rates.

Andrew Montlake, director at mortgage broker Coreco, said: "The irony is the whole MMR was brought in to move away from income multiples and now – before it's had a chance to work – they've said we're going to impose them anyway."

Audio

Controlling house prices, minimising tax and star fund managers

In this week's show, Jonathan Eley and guests discuss the Bank of England's measures to cool the UK's housing boom, a range of tax-efficient investments and the risks attached, and the latest fund news from Neil Woodfood and Terry Smith

Launch in Pop-up

0:00

More

Ray Boulger, senior technical director at mortgage broker John Charcol, said there was "illogicality" in moves that returned to the "blunt instrument" of market-wide loan-to-income ratios. "It does seem to be a backward step."

A stress test using a 3 per cent interest rate margin might also cause problems for lenders because of the wide differences prevailing in standard variable rates (SVRs), Mr Boulger warned. If the base rate rose, those with higher SVRs are likely to raise them more slowly than those with lower rates. It did not make sense, therefore, for lenders with high SVRs to apply the same 3 per cent margin.

"If they're forced to do that, some lenders will have to stress test at 9 per cent and that clearly would have an impact on their maximum loans," he said, adding that further clarity on the measure was required.

The 15 per cent limit on income multiples is likely to have the greatest effect in London, where prices soared by 18.7 per cent in the year to April. The Council of Mortgage Lenders said the percentage of mortgages greater than 4.5 times income was 9 per cent across the country, but 19 per cent in the capital.

Paul Smee, director-general of the CML, said: "If we read between the lines, the Bank is hinting it will be keeping a beady eye on the

London market, and on the lending occurring within it."

But fears that the London market would grind to a halt were wide of the mark, brokers said. Nigel Bedford, senior partner at Largemortgageloans.com, said: "Clients have been phoning us up panicking that everything was going to change on Thursday. But it really isn't anything like as bad."

At the upper end of the London market, homes are often bought by cash purchasers or those whose mortgages are arranged through private banks. Such institutions are already risk-averse in terms of income multiples, but unlike high-street banks are often willing to consider income from trusts and overseas investments as part of a person's overall income, Mr Bedford said.

Brokers said the threat of a London bubble had already been lifting before Thursday's announcement. Gross mortgage lending was flat in May, after rises in March and April, according to CML data. Estate agents said buyers were no longer prepared to pay over the odds for properties and MMR had begun to have an effect on risky borrowing.

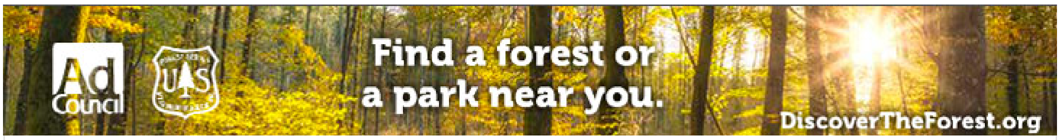
Mr Montlake of Coreco said: "Carney gets that, and that's probably why there weren't more draconian measures."

RELATED TOPICS United Kingdom, Central Banks, London, Bank of England

Printed from: http://www.ft.com/cms/s/0/11500a6a-fd42-11e3-bc93-00144feab7de.html

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2014 FT and 'Financial Times' are trademarks of The Financial Times Ltd.



This ad is supporting your extension *ruul (screen ruler)*: More info | Privacy Policy | Hide on this page