

FSA STATISTICS ON MORTGAGE LENDING

June 2009 Edition

An Introduction and a Commentary on the Statistics

Introduction

1. We published our first edition in August 2008. We have also worked closely with firms to ensure the quality of the data used in these statistics. As these new reporting and analytical processes have become more established, we are now able to publish statistics more quickly after the end of each quarter.
2. Firms report to us each quarter on their **residential mortgage lending activities** using the Mortgage Lending & Administration Return (MLAR), which is reported on a legal entity rather than on a group basis. A firm is required to submit an MLAR if it is authorised by the FSA to undertake regulated mortgage lending and/or regulated mortgage administration. They are required to report on both regulated and non-regulated residential lending to individuals. Firms who only undertake non-regulated mortgage lending are not therefore required to submit an MLAR.
 - 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.
 - A **non-regulated loan** for MLAR purposes is all other residential lending to individuals that is not regulated. It includes buy to let lending, second charge lending and, in some cases, further advances on loans that were originally taken out before regulation came into effect.
3. **Key statistics for Q1 2009** are as follows (see later paragraphs for fuller detail)¹:
 - The total value of outstanding loans is now just under £1,200bn, an increase of only 2% compared to a year earlier. But quarterly growth has stalled, with a fall of 0.2% or £2bn in Q1 resulting in almost zero growth over the last two quarters. (paras 4-5)
 - New lending peaked in Q3 2007 at £102bn before progressively declining to £33bn in Q1, leaving gross lending 27% lower in the quarter, and 56% lower than a year earlier. (para 9)
 - The value of new loans for house purchase fell by 30% in Q1 to £12bn, to show a decline of 62% on a year earlier (para 11).
 - But the downward trend in new commitments for house purchase came to a halt in Q1. New commitments rose to £12.6bn after £12bn in Q4. Even so, volumes are still 52% down on a year ago. (para 11)
 - Proportions of new lending done at an LTV of more than 90% continue to fall. From a peak of 15% of new lending in early 2007, this fell to 10% in early 2008, and to just under 4% in Q1. The use of combinations of high LTVs and high income multiples has also declined: from 9% of new lending for most of 2007, to 7% in Q2 last year, to just under 4% in Q4 and to 2% in Q1. (para 13)
 - Loans to borrowers with an impaired credit history represented just 0.7% of new lending in Q1, compared to 2.4% a year earlier. (para 14)

¹ All references to 'Q1' relate to 2009 Q1 unless otherwise specified.

- Helped by lower interest rates, numbers of new arrears cases in Q1 were 12% fewer at 60,000 after the 68,000 recorded in Q4, and are now back to volumes seen in Q3. Even so, this is still 10% more than the typical quarterly volumes of 54,000 seen in the 18 months to mid 2008. (paras 15-16).
- But with borrowers increasingly struggling to clear their arrears, the total number of loan accounts in arrears has been steadily increasing since early 2007. At the end of Q1 there were 399,000 loan accounts in arrears, giving an increase of 22,000 or 6% since Q4, and representing a rise of 33% on a year earlier. (para 17).
- The proportion of the residential loan book that is in arrears, and hence not fully performing, rose to 3.64% at end Q1, up 0.27% in the quarter and up 1.23% on a year earlier. (para 18)
- Numbers of new possessions have grown significantly since Q3 2007, but the sharply rising trend noted up to Q3 last year appears to have moderated in the last two quarters. After 13,469 cases in Q3, numbers fell to 13,115 in Q4 with a 13% rise in Q1 to 14,825 cases. New possessions in Q1 were nonetheless 62% higher than a year earlier. (further detail in para 20)

Commentary on the Statistics

The Residential Loan book: an Overview

4. While the residential loan book had continued to grow up to the end of Q4, with quarterly increases steadily reducing from 3% in Q3 2007 to just 0.3% in Q4, this was followed by a fall of 0.2% in Q1. As a result, the loan book has recorded almost zero growth over the last two quarters.
5. Residential loans to individuals amounted to £1,198bn at the end of Q1, after a reduction in the quarter of £2bn or 0.2 %. Over the 12 months to end Q1 however, there has been an increase in the loan book of £20bn, or just 2 %.
6. Overall loan book composition, in terms of the mix between regulated and non-regulated, continues to slowly change. Over the 12 months to end Q1:
 - Regulated balances rose 8% from £789bn to £853bn.
 - Non-regulated balances fell by 11%, from £388bn to £345bn.
 As a result, regulated loans now account for 71% of the overall book at end Q1, up from 67% a year earlier.
7. We can also look at the overall residential loan book in terms of securitised and non-securitised loans. Here, with the securitisations market largely dormant since late 2007 and new issues mainly linked to the Bank of England Special Liquidity Scheme, securitised balances at end Q1 of £226bn are 15% up on a year earlier. As a result, securitised loans at the end of Q1 represent 19% of the overall loan book compared with 17% a year before.

New Business Volumes

8. We report on three prime measures for the un-securitised 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. This measure is a forward-looking indicator as it signals changes in the pattern of future volumes of actual lending.
9. For each of these measures, latest statistics show that the lending market weakened further in Q1:
- **Gross advances** at £33bn were 27% lower in the quarter and some £41bn or 56% down on a year earlier.
 - **Net advances** at just under £2bn were 79% weaker in the quarter, and in contrast with a year earlier were down by 93%.
 - **New commitments** were also notably weaker, and at £29bn represented a 24% fall in the quarter and a 62% drop in volume compared with a year earlier.

Lending characteristics of new gross advances

10. In terms of **interest rate trends** on residential lending:
- **Fixed rate** loans accounted for 48% of new lending volumes in Q1, some 4% up on Q4.
 - At the overall loan book level, **fixed rate** loans now account for under half of all loan balances for a second quarter, and at 44% in Q1 (after 48% in Q4) this is 7% lower than a year earlier.
 - **Average rates on new advances** made in Q1 fell by 1.03% (as they did in Q4) to 4.05% as lenders continued to reduce rates in response to falls in Bank Base Rate. While the average rate on new fixed rate loans fell by 0.74% to 5.31%, the average rate on new variable rate loans was 1.42% lower at 2.91%.
 - **Average rates at the overall loan book level** were 0.85% lower at 4.03%. Within the overall loan book, fixed rates were just 0.01% lower at 5.70%, but variable rates fell 1.40% by the end of Q1 to 2.71%.
11. Looking at the **purpose of new lending**, latest figures underline the continuing weakness in actual lending for house purchase:
- The value of gross advances for house purchase fell by 30% in Q1 to £12bn, resulting in a decline of 62% on a year earlier.
 - Lending for **house purchase** made up 37% of all new lending in Q1 (only 1% less than Q3 and Q4), in contrast to the 54% seen as recently as end 2007.

- As a result, re-mortgage business has assumed a higher proportion of new lending in recent quarters. In Q1 it accounted for 52% of new lending (2% down on Q4) in comparison with just 39% at the end of 2007.
 - However, if we look at new commitments for house purchase, the declining trend seen since 2007 came to a halt in Q1. Volumes of new commitments for house purchase stopped falling in Q1, instead recording a rise of 0.6bn to £12.6bn. But current volumes are still some 50% down on a year ago.
12. In contrast, **lending for buy to let (BTL)**² had been more stable until recently:
- New BTL lending had accounted for a consistent 11 to 12% of overall residential lending since early 2007, although actual volumes had been declining over the period. However, that proportion fell to just under 8% in Q3 and Q4, and to just under 6% in Q1.
 - Even so, in overall loan book terms, this resulted in BTL loan balances still accounting for 10% of the residential loan book at the end of Q1 (as in recent quarters), and a rise of just ½ % on a year earlier.
13. Looking at **lending criteria**, our two main measures are **loan to value** (LTV: the loan as a percentage of the value of the property) and **income multiple** (the loan as a multiple of income):
- The proportion of new lending at **high LTV** (i.e. over 90%), having remained fairly stable during 2007 at 13 to 15%, then fell to 10% in Q2, to 6% in Q4, and to just under 4% in Q1. In part this will have been influenced by lenders seeking higher deposits for house purchase, but the lower value is likely to have been influenced by the increased amount of re-mortgage business (where LTVs are often less than for house purchase).
 - Similarly, the proportion of new lending done at a **combination of high LTV and high income multiple** (more than 3.5 x single or 2.75 x joint income), which had held at 8½ to 9% throughout 2007, fell to 7% in Q2, to just under 4% in Q4, and to 2% in Q1.
14. The other characteristic of new lending is information about whether a borrower had an **impaired credit history** at the time of the new loan application:
- Our definition of an impaired credit history includes borrowers with any of the following: arrears of 3 months or more on a previous loan in the last 2 years; CCJ's over £500 in last 3 years; or being subject to a bankruptcy order or IVA at any time in the last 3 years.
 - Our statistics show that loans to borrowers with an impaired credit history represented around 3.5% of overall new lending during the first three quarters of 2007. Since then, the proportion has steadily decreased: to 2.2% in Q2, to 0.9% in Q4, and to just 0.7% in Q1.

² As BTL lending is not a regulated activity, a firm only doing such lending (and not authorised by the FSA to undertake regulated lending) will not need to complete an MLAR, and so will not be included in our statistics.

Arrears and Possessions

15. Our **definition of a reportable arrears case** covers 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 and arrears on the loan amount to £1,500 or more, then it is a reportable arrears case for MLAR purposes. We refer to our methodology as the "arrears as a percentage of balances approach".
16. Helped by lower interest rates, numbers of **new arrears cases** in Q1 were 12% fewer at 60,000 after the 68,000 recorded in Q4, and are now back to volumes seen in Q3. Even so, this is still 10% more than the typical quarterly volumes of 54,000 seen in the 18 months to mid 2008.
17. Looking at the **overall stock of arrears cases**, the number of cases has been steadily rising since early 2007. Quarterly rises had averaged 4% until mid 2008, but after the 10% increases recorded in each of Q3 and Q4, the rise in Q1 has eased to 6%. At the end of Q1, our statistics show there were 399,000 **loan accounts in reportable arrears**, an increase of 22,000 or 6% on Q4, and a rise of 33% on a year ago.
18. If we now express the loan balances on cases in arrears as a percentage of the overall residential loan book, we can see the **proportion of the book that is not fully performing**. At the end of Q1, loans in arrears represented 3.64% of the value of the loan book, up from 3.37% in Q4 and 2.41% a year earlier. Within this overall position:
 - The percentage for the un-securitised loan book moved from 1.93% a year ago to 2.93% at the end of Q1 (after 2.72% in Q4).
 - The percentage for the securitised loan book, having been 4.84% a year ago, reached 6.68% at the end of Q1 (after 6.17% in Q4).
19. We also monitor **the performance of loans in arrears**. The measure used is payments received in the quarter as a percentage of payments due (i.e. under normal commercial terms to fully service the mortgage debt). This had been fairly stable through 2007 and the first half of 2008 at between 43 to 45%. But after falling slightly to 41% in Q4, the results for Q1 show an improvement to 44% helped by lower interest rates and the reduced repayment burden on borrowers.

Possessions

20. A '**possession**' here refers to an arrears case where the lender, having formally been granted a Possession Order by a Court, is then able to sell the underlying property (against which the loan is secured) and use the proceeds to reduce or pay-off the mortgage debt. Our figures relate to **individual loan accounts in possession**:
 - **New cases taken into possession** in Q1 at 14,825 were 13% higher than the 13,115 cases recorded for Q4, and were 62% higher than a year earlier. However, figures for Q4 and Q1 are in marked contrast to the steadily escalating figures recorded in the previous three quarters – at some 9, 11, and 13 thousand respectively. The change in momentum may be in part due to administrative changes in the Courts (the Ministry of Justice's new Pre-Action Protocol is likely to delay a case proceeding to possession) but is also likely to reflect lenders' more cautious attitudes to possession helped also now by reduced interest rates.

- In contrast, **sales of possession cases**, which had shown hardly any underlying change during 2007 and Q1 2008 at little more than 6,000 a quarter, have been increasing sharply since then. After sales of 6,987 in Q2 and 7,691 in Q3, possession sales rose by 52% in Q4 to 11,711 and by a further 12% in Q1 to reach 13,072 cases. The latest sales figure is just over twice the number of sales recorded a year ago, at 5,904 cases.
- As a result, the **stock of possession cases** remaining unsold increased by just 4% in Q1 to 29,192 cases. This represents a rise of 64% on a year earlier.

Future editions

21. Each edition is now published approximately 2½ months after the end of each quarter. Publication dates for future editions are now shown on the Mortgage Lending Statistics webpage.

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Annex: Technical Notes on selected points:

Changing mix between regulated and non-regulated

- *At the start of mortgage regulation on 31 October 2004, all existing residential loans to individuals were overnight classified as non-regulated.*
- *As those borrowers subsequently re-mortgaged, these older loans will have gradually been replaced by regulated mortgage contracts, so leading to a steady decline in the stock of loans that have been in existence since 31 October 2004*
- *Since then, new lending falling in the non-regulated category will have been relatively modest compared with the volume of mainstream residential lending migrating from non-regulated to regulated over the period. The main examples of new non-regulated lending are buy-to-let loans, second charge loans and, in some cases, further advances on loans that were originally taken out before regulation came into effect.*

Securitisations

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.

Arrears as a percentage of balances basis

The “arrears as a percentage of balances approach” has been used for many years in monitoring building society arrears. Figures are available on the [FSA website](#). However the threshold of 2.5% was set at a time in the early 1990s when rates were around 10% (to give an equivalence to 3 months), but is now too high since it really monitors cases almost 6 months in arrears. The reason for using a 1.5% threshold is that for mortgage rates of around 6% (a typical average rate when MLAR was introduced) this threshold is roughly equivalent to 3 months in arrears, which has long been accepted as a useful yardstick. However for ease of comparison, we also present a sub-total in our arrears tables for a 2.5% threshold as well as for the new 1.5% threshold.

The meaning of 'loan accounts in arrears'

This number does not represent the number of borrowers in arrears. It represents the number of individual loan accounts in arrears, and covers arrears arising 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 1st 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).*

As a result our arrears numbers are on a different basis to, and materially higher than, those published by the CML on number of 1st charge mortgages in arrears. More importantly however, our reporting threshold for arrears is "loan accounts where arrears amount to 1.5% or more of loan balances", in contrast to CML's which is 2.5%, and so our "numbers" will always be materially higher as they cover a wider spectrum.

The meaning of 'loan accounts in possession'

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

- *1st charge loans*
- *2nd and subsequent charge loans (where the borrower takes an extra loan from another lender)*

In practice however, where a borrower has 1st and 2nd charge loans with separate lenders, it will not always be the case that both lenders report their loan accounts as a possession. So our possession figures will be closer to, but necessarily still somewhat higher than, CML estimates.