

FSA STATISTICS ON MORTGAGE LENDING

June 2011 Edition

An Introduction and a Commentary on the Statistics

Introduction

1. 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 required to submit an MLAR and are therefore not included in the figures below.
 - 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.

2. **Key statistics for Q1 2011** are as follows (see later paragraphs for fuller detail):¹
 - The total value of outstanding loans reduced slightly from last quarter to £1,212bn in Q1 (paras 3-4).
 - New advances in the quarter totalled £33bn, 10% lower than in Q4 but 3% up on the amount advanced in Q1 2010 (para 8).
 - New commitments totalled £35bn, 1% up on last quarter and 3% up on Q1 last year (para 8).
 - Lending for house purchase represented a reduced share of new lending this quarter, accounting for some 54% of new advances and 52% of new commitments (para 10).
 - The proportion of new lending done at an LTV of more than 90% fell below 2% for the first time since Q1 last year (para 11).
 - New lending with a combination of high LTV and high income multiple also fell, to just below 1% of new lending (para 12).
 - The proportion of loans to borrowers with an impaired credit history remained at 0.3%; it has been at this level since Q3 2009 (para 13).
 - The number of new arrears cases in Q1 was 35,600, 8% lower than last quarter (paras 14-15).
 - The total number of accounts in arrears at the end of the quarter was 337,000, 2% down on last quarter and 7% down on Q1 2010. (para 16).

¹ All references to 'Q1' relate to 2011 Q1 unless otherwise specified.

- Consequently, the proportion of the residential loan book that is in arrears, and hence not fully performing, also fell, to 2.88% (para 17).
- The number of new possessions in the quarter rose for the first time in a year, up 17% to 9,613 (para 21).
- Arrears totalling £34m on 12,916 accounts were capitalised in Q1 (para 20).

Commentary on the Statistics

The Residential Loan book: an Overview (Table 1.11)

3. Residential loans to individuals totalled £1,212bn at the end of Q1, a reduction of less than 1% on last quarter (-£0.6bn). Small falls were also seen in the first quarters of 2010 and 2009.
4. Regulated loans continue to account for an increasing proportion of overall loans and by the end of Q1:
 - Regulated balances had risen to £920bn, accounting for 76% of the total book.
 - Non-regulated balances had decreased by a further 1% to £293bn.
5. The split of the overall residential loan book between securitised and unsecuritised loans is also analysed. The value of Securitised balances fell by 2% in Q1, and have been on a downward trend since the end of 2008. Unsecuritised balances were little changed (+0.2%). Consequently, the proportion of the overall loan book that Securitised balances account for continued to decrease, and at 10% is the lowest proportion since the start of the series.

New Business Volumes (Table 1.21)

6. We report on three prime measures for the unsecuritised 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.
7. For each of these measures the latest statistics show that the lending market remained subdued in Q1:
 - **Gross advances** of £33.0bn were made in Q1, a decrease of 10% on the £36.8bn advanced in Q4, but some 3% higher than in Q1 last year when gross advances were £32.1bn.

- **Net advances** in the quarter were again low in terms of the historic series, at £1.7bn. This was an increase of 39% on Q4 and though it was 55% lower than Q1 of last year when £3.7bn was advanced.
- **New commitments** to the value of £34.9bn were made in Q1, much the same as last quarter (£34.6bn) and 3% higher than in Q1 last year (£33.8bn). This level is around a third of the value of commitments being made at the start of the series four years earlier.

Lending characteristics of new gross advances

8. In terms of **interest rate trends** on residential lending (Table 1.22):

- The proportion of new lending at **fixed rates** continued to increase in Q1, as it did throughout 2010, from the lowest point of 37% in Q1 2010 to over 51% this time.
- However, at the total loan book level, **fixed rate** loans continue to account for a decreasing percentage of outstanding balances, down to 31% in Q1 compared to 36% a year earlier.
- The overall **average rate on new advances** remained unchanged this quarter at 3.65% down from 3.84% a year ago. Within this, there was a reduction in the average rate for new fixed rate lending in the quarter from 4.38% to 4.23%. This is down from 4.90% in Q1 2010. The average rate on new variable rate loans was unchanged this quarter at 3.03%, compared with 3.21% a year earlier.
- The **average interest rate on total balances outstanding** fell slightly, from 3.58% last quarter to 3.56% in Q1. Within this, the average for fixed rate balances continued to fall, for the ninth successive quarter to 5.12%, whilst the average variable rate has continued to increase, to 2.87%.

9. The breakdown of the **purpose of new lending** as shown on Table 1.33, show the decline in lending for **house purchase** (including buy to let) as re-mortgage business picked up:

- The proportion of lending for **house purchase** fell in Q1 to 54%, from 61% last quarter and from 58% in Q1 last year. Within this, the proportion of lending to first time buyers decreased from 16% last quarter to 14% this time.
- The value of gross advances for **house purchase** was fell for the second successive quarter, and at £17.7bn was 20% lower than the £22.3bn advanced last quarter, but only 4% lower than in Q1 2010 when £18.5bn was advanced. Within this, loans to first time buyers were the lowest since Q2 2009, with the £4.7bn advanced in Q1 down on Q4 and the comparable quarter of last year by 23% and 7% respectively.
- **Re-mortgage** business accounted for an increased proportion of new lending again this quarter, up from 29% in Q3 last year to 38% in this latest quarter, the highest proportion since Q2 2009 (39%). There was also an increase in value terms from £11.6bn last quarter to £12.7bn in Q1; the value in Q2 2009 was £13.3bn.
- New commitments for **house purchase** to the value of £18.0bn were made in Q1, 6% down on last quarter and 9% below Q1 last year. New commitments for **remortgaging** increased as they have in each quarter of the past year to £14.2bn in Q1. They also increased as a proportion of all commitments and are over 40% for the first time in two years.

10. The proportion of new lending for **buy to let (BTL)**² has continued to increase in recent periods and accounted for 8.3% of overall residential lending this quarter. However, it has remained constant in terms of the value of new lending over the last 3 quarters, at around £2.7bn.
 - In overall loan book terms, the proportion of BTL loan balances has been little changed over the last year and at 11.83% in Q1 is much the same as Q1 last year when it was 11.81%.
11. Looking at **lending criteria** (Table 1.31), the 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 that is at a high LTV (i.e. over 90%), which has averaged around 2% over the past year, fell back in this latest quarter to 1.7% from 2.2% in Q4. At the start of the series in 2007 it was over 14%.
 - 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), has reduced in the last two quarters and is now back to below 1%, as it was at the start of last year.
12. Another 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; county court judgement (CCJ) over £500 in last 3 years; or being subject to a bankruptcy order or IVA at any time in the last 3 years.
 - The proportion of loans to borrowers with an impaired credit history has remained constant at around 0.3% since mid-2009. Prior to that it had been on a downward trend from 3.6% of gross advances at the start of the series in 2007 (Table 1.32).

Arrears and Possessions (Table 1.7)

13. 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". See Notes for full definition.
14. After the unusual increase in the number of **new arrears cases** last quarter, there was a resumption of the downward trend in Q1, with a fall of 8% in the quarter to 35,600. This was 12% lower than in Q1 2010 when there were 40,500 cases.
15. The overall **number of loan accounts with reportable arrears**, also continued to fall, as it has each quarter since Q2 2009, and was down a further 2% to 337,000 accounts in Q1. This is some 7% below Q1 2010 when there were a total of 361,800 cases in arrears. Looking at the amount by which an account is in arrears, the proportion that are 10% or more in arrears has increased from 0.33% in Q1 last year to 0.38% in Q1 2011.

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.

16. For accounts in arrears we also collect information on the number of those where the borrower has a **temporary concession**, i.e. an agreement with the borrower whereby the monthly payments are either suspended or less than they would be on a fully commercial basis. At the end of Q1 6.13% accounts had a temporary concession, compared with 5.72% at the end of last quarter and 6.29% a year ago.
17. Alternatively a borrower may have a **formal arrangement**, i.e. where either an agreement to capitalise arrears has been made, or an agreement to make increased monthly payments to reduce some or all of their existing arrears. At the end of Q1 28.4% of accounts had a formal arrangement in place, compared to 26.6% last quarter and 30.4% a year ago.
18. Expressing the loan balances on cases in arrears as a percentage of the overall residential loan book produces the **proportion of the book that is not fully performing**. At the end of Q1 loans in arrears accounted for 2.88% of the value of the loan book. This percentage has been steadily reducing over the last two years since Q1 2009 when it was 3.64%. The arrears data are split between the securitised and unsecuritised loan books (in Table 1.6 and Table 1.4 respectively). These show that the percentage in arrears has been continuing to reduce on the unsecuritised portfolio. Following an increase in the securitised portfolio arrears last quarter, there was also a reduction in that loan book in Q1. Comparisons with earlier time periods on both of these tables are affected by reclassifications that have occurred between the securitised and unsecuritised loan books.
19. We also collect data on **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 percentage has improved each quarter over the last two years, from a low of 40.6% at the end of 2008, to 56.0% in the latest quarter.
20. For accounts in arrears, we also collect and publish data on **capitalisations**. By capitalisation we mean a formal arrangement to add all, or part of, a borrower's arrears to the amount of outstanding principal.
21. Arrears totalling £34mn on 12,916 accounts were capitalised in Q1. This was 8% less than the £37mn capitalised last quarter and is the lowest quarterly amount since Q2 2009 when £27mn on 14,992 accounts was capitalised.

Possessions (see Notes for full definitions)

22. A '**possession**' here refers primarily 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 (which also include voluntary possessions and cases where Receivers of Rent have been appointed) relate to **individual loan accounts in possession**:
 - After decreasing in each quarter of 2010, the number of **New cases taken into possession** increased by 17% in Q1 of this year to 9,613. an increase was also seen in the first quarters of 2008 and 2009.
 - **Sales of possession cases** were the lowest level since Q3 2008 at 9,058, well below the number of new cases taken into possession in the quarter.

- The **stock of possession cases** remaining unsold therefore rose, for the first time in two years, to 16,025 cases at the end of Q1.

Future editions

23. 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. Additional guidance has given on the classification of securitised loans where that security has been subsequently been used as collateral for the Bank of England special liquidity facility. In such circumstances the risks attaching to the performance of the underlying pool of loans remains with the lender and no risk transfer has taken place to the Bank of England; these loans should therefore be reported on the MLAR as unsecuritised loans. Due to this there has been some reclassification between the securitised and unsecuritised portfolios. This affects the series in tables 1.4 and 1.6 in particular.

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. More detail is available in the Frequently Asked Questions(FAQs) relating to the MLAR on the FSA website.

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. Our possession figures also include cases where a Receiver of Rent has been appointed.