HARPENDEN
BUILDING SOCIETY
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INDUSTRY INSIGHTS

The future of mortgage provision

What does the future of mortgage provision look like in the UK? Now that's an interesting question, given the ever-so-slightly turbulent times we are living through. All eyes are on the days leading up to the EU summit in the middle of October, and the weeks before the 31st of October. While Brexit is going to be a critical force shaping the housing and mortgage industry in the coming years, several other factors are lurking under the radar.

LATEST FIGURES

In June, in their latest lending report, the FCA and PRA[1] revealed that the value of gross mortgage advances was £63.3 billion in the first quarter of 2019, 1.4% higher than the previous year. The value of new mortgage commitments, defined as lending agreed to be advanced in the coming months, was 4.5%. On the face of it, confidence still appears high and in August the FT[2] reported that "UK high street banks in July approved the highest number of new mortgages since early 2017, and recorded a sharp increase in re-mortgaging, driven by low interest rates and a strong labour market, despite persistent uncertainty over Brexit."

Brexit is an unknown element. However, if you take it out of the equation, what other factors are shaping the industry?

June - FCA and PRA[1] revealed value of gross mortgage advances was £63.3 billion in 2019 Q1

Source:
[1]Commentary on Mortgage lending statistics - June 2019, FCA
[2]Mortgage approvals rise sharply in July – July 2019, The FT

LEGISLATION

The regulators are very clear about their objectives, and they do not want a repeat of the crisis which occurred in 2008. Much of the focus has been on affordability. A consultation paper jointly released by the PRA (Bank of England) and the FCA in July 18 (Discussion Paper 01/18) is now being followed up by further regulatory work. This is likely to raise the level of intervention which financial firms can expect. The paper aims to assess the operational resilience of every financial services firm, stating that:

"Operational disruption can impact financial stability, threaten the viability of individual firms, or cause harm to consumers and other market participants in the financial system. Firms need to consider all of these risks when assessing the appropriate levels of resilience within their respective businesses."

The objective is to explain how the operational resilience of the financial services sector could be enhanced. This is clearly the right approach as cyber risk becomes an increasing threat to the system, and you can expect to read more about this legislation in the coming months.

However, the new requirements are likely to increase costs for all financial firms as they implement robust new operational controls, and the potential impact is likely to put pressure on costs and therefore interest rates in the medium to long term.

THE SHAPE OF THE MARKET

How will all of this mould the market in the future? At Harpenden, we believe the unique conditions we are experiencing will cause further polarisation in the market. We saw the first signs of this in May when Tesco announced that it was stopping new mortgage lending and was looking for ways to sell its existing portfolio. At the time, the Tesco Bank chief Gerry Mallon said:

"In recent years, challenging market conditions have limited profitable growth opportunities."

Years ago, the supermarket banks were seen as the challengers in the market but they are increasingly looking stuck in the middle ground and they are now looking to exit. We think that new technology will drive a flight to one of two areas. There will be those who specialise in mass market provision with highly efficient processing and very tight margins. At the other end, there'll be specialists with detailed knowledge of a specific segment of the industry, and with years of experience in writing complicated business. At Harpenden Building Society, we have designed our operations and staff recruitment to ensure that we are best placed to manage the requirements of complex mortgages.

The next few months will shape the long term future of the industry. If the Brexit conundrum is solved in a manner that doesn't cause a seismic shock to the system, there are other dynamics below the surface that will become important in shaping the industry.

By Martin Langlands, Chief Risk Officer, Harpenden Building Society

We individually assess and approach applications.

We offer a manual underwriting process, no credit score involved.

A flexible view on merits of all cases - we're very accommodating.

We provide clear, fair and transparent charges for all cases.

Many types of income are considered when assessing affordability.

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