Subject: UK Mortgage Market and CML's recent proposals for intervention

Note of key matters:

Attenders:

Presenters	APPG	Others
Michael Coogan, Director General, Council of Mortgage Lenders (CML) Chris Cummings, Director General, Association of Mortgage Intermediaries Gareth Neill, Recovery & Reorganisation partner at Grant Thornton	John Greenway Quentin Davies John Butterfill	David Worsfold David Morey (PwC)

1. Consensus of views expressed

The three speakers expressed a range of concerns about the state of the current mortgage market and the need for intervention to stop a downward spiral. Key points noted were:

- The market is now worse than the CML's May '08 forecasts (house prices and transactions); the arrears and repossessions forecast is to be updated in August but is not expected to show significant change.
- The most stressed part of the market is house purchase and home movers. Remortgaging is still expected to increase this year (includes the effect of Northern Rock's stance to encourage borrowers to refinance at the end of fixed rate periods).
- Wholesale money markets which closed in August 2007 are now expected to remain difficult for another 18 to 24 months unless urgent action is taken.
- Mortgage intermediaries, currently placing some 80% of mortgages, are experiencing difficulty in placing mortgages with lenders, and are seeing hardened lending criteria (even for those with good credit histories) and increased mortgage costs.
- Consumers are experiencing significant difficulties with higher mortgage costs (rates and arrangement fees) and access to new products / alternative lenders. The ability to remortgage out of debt is much more difficult now. Some consumers are having to use credit cards to fund higher mortgage costs. There is also likely to be an increase in doorstep lending, There is an expectation of higher levels of bankruptcies. Higher mortgage costs are also inhibiting the ability of borrowers to fund IVA creditor payments.
- Consumer confidence in the housing market is being continually dented.
- There is an urgent need for funding to reopen those parts of the mortgage market which are now effectively closed. The confidence of investors of mortgage backed securities needs to be restored. The UK mortgage market is not the same as the US. Liquidity in the market needs to be facilitated.
- The CML urges the Government to act quickly to adopt a proposal (Note i) that it has submitted to the Crosby (Note ii) Review team and the Treasury to ease the funding problems in the mortgage market. The plan will restore confidence of investors of mortgage backed securities and open funding lines, thereby stopping the downward spiral.

- The CML was disappointed by speculation this week that the Crosby review of housing finance was unlikely to offer policy recommendations in its interim report. Given the state of the market, the CML is keen that the Crosby review provides policy recommendations to enable swift action to be taken.

- AMI supports the CML's proposals for the new funding scheme.

- Other policy change also needs consideration e.g. review of Stamp Duty and abolition of Home Information Packs.

Some discussion also took place regarding the potential increase in consumers looking to blame the market (e.g. 125% LTV loans, high Standard Variable Rates (SVRs) etc) and the potential for higher volumes of complaints being referred to FOS under the challenge of affordability and fairness.

2. APPG's view

The APPG is concerned about the impact of the current mortgage market on consumers and their ability to access affordable mortgages. It believes the CML's proposals should be assessed as a matter of priority.

DL Morey

17 July 2008

Notes:

(i) – Extract from CML's Press Release dated 15 July.

The Council of Mortgage Lenders has drawn up a blueprint to address the funding problems in the mortgage market. The idea, which has already been submitted to the Crosby review team and to the Treasury, is an innovative approach which helps the financial system to help itself. It could help to significantly reduce the severity of the downturn in the housing market.

But speed is of the essence……..with quick and decisive implementation of the mortgage market funding proposal, the Government could mitigate the difficulties that households and the housing market will otherwise face, as well as helping to restore greater confidence to the financial system as a whole.

The suggested action plan….is essentially a way of kick-starting the markets for UK residential mortgage-backed securities (RMBS) and covered bonds (CBs) back into life. These are parts of the market that have been dysfunctional since investor appetite disappeared in the wake of the credit crunch. Their loss has been the main cause of the contraction in the size of the mortgage market, and hence the lack of mortgage availability for many borrowers and higher mortgage costs. Mortgage lending is set to halve this year, with many borrowers who could afford new mortgages nevertheless being unable to access funds.

The plan would involve the Bank of England offering a repo facility (essentially a form of secured lending), using as collateral new UK residential mortgage backed securities (RMBS) or covered bonds (CBs). To qualify, the RMBS or CBs would first have to be sold to investors in a public issue. This is of crucial importance, as it would ensure that the market itself is essentially delivering the solution, with the repo facility simply acting as a catalyst to restore market confidence. The investors would take the credit risk in the usual way. But the repo facility would give them confidence, and so help to break the current vicious circle.

This differs significantly from the Bank of England's special liquidity scheme (SLS) and other BoE facilities in two ways. First, it is specifically targeted at new RMBS and CBs (which are excluded from the SLS if they contain mortgages originated after December 2007), and hence allows the likelihood of a greater flow of funds directly back to support new mortgage lending. Second, and more importantly, it specifically galvanises investors back into the market in a way that the SLS does not. This is important as a step back towards self-sufficiency in the mortgage securities markets.

CML Director General Michael Coogan said:

"If they act quickly, there is a window of opportunity here for the Government and the Bank of England to break the logjam in the housing and mortgage markets and underpin confidence in the financial system. The single biggest issue in the housing market that the authorities need to address is the lack of available funding to support new mortgage lending.

"This proposal has the virtue of being delivered through the market itself. Unlike a government guarantee, the investor keeps the credit risk. But it specifically incentivises investors, which the special liquidity scheme does not. And it can be implemented quickly, in an environment where speed is of the essence. A year into the credit crunch, there is no merit at all in waiting until the autumn before taking steps that will help the housing market to remain more resilient, and so help the overall health and stability of the UK economy."

(ii) – The Treasury has commissioned James Crosby to undertake a review of the mortgage market to determine “what more can be done to support the wholesale and securitisation markets and increase the amount of money available for mortgage finance". This Review is expected to report in August.