IMLA member survey

Expectations for the mortgage market by 2016

About the Intermediary Mortgage Lenders Association

- IMLA is a mortgage lender trade association established in the 1980's to represent the interests of those lenders who originate the majority of their business from mortgage intermediaries
- IMLA has 21 members who between them conduct more than 80% of the lending in the intermediary sector
- Members include banks, building societies and specialist lenders
- Business models include retail funded, wholesale funded, private capital and those that rely on the asset backed finance model
- IMLA has a democratically elected board and chairman and all members are entitled to attend regular meetings
- All members pay the same annual subscription and all have a single vote
- IMLA maintains a close alliance with the CML and works with a wide range of other trade associations, government departments and the FSA
- The current chairman is John Heron and the executive director is Peter Williams

About the IMLA survey

- IMLA regularly consults members on mortgage market issues
- Research amongst members and intermediary partners is conducted to better inform IMLA policy positions
- This particular survey is designed to reflect member's views on the housing and mortgage market over a five year horizon with some detail on the year ahead to establish context
- No other survey of lender's addresses such a long term
- IMLA representatives are mortgage practitioners with a wealth of experience of trading day to day in the mortgage market
- The results of the survey are the aggregate IMLA view and do not necessarily reflect the views of any individual members
- This survey was conducted in December 2011

The world in 2011 and looking a year out

- IMLA members are expecting the year ahead to be a challenging one for the UK economy with this impacting on housing and mortgages
- IMLA members expect growth to continue to be sluggish with GDP at 0.91% with the range of views varying from a sharp recession with GDP at -2% to a relatively positive outlook with growth at +1.5%
- Members are expecting inflation to fall materially within a range of 2% to 4%, the average view being that inflation reduces to 2.79% by the end of 2012
- Members expect unemployment levels to remain high with some risk of further deterioration, the aggregate view being 9% and the range 8% to more than 10%
- Lenders expect gross mortgage lending to be no more than £130bn in 2012

THE MORTGAGE MARKET IN 2016

Where will base rates be in 2016?

- Member comment:

  "In an environment of multi-year fiscal austerity and where credit availability is set to remain relatively constrained for some time, trend rates of growth are likely to be lower than what we have been used to over the past decade. Unemployment is also likely to stay high for a prolonged period, which will help to dampen wage and inflation pressures. Consequently, interest rates are likely to peak at lower levels relative to previous economic cycles."

- IMLA members all see base rates moving higher over the 5 year horizon but with the generally weak economic backdrop constraining the level of increase
- The range of responses put base rates between 1% and 4% at the end of the period
- **The average of the members views are for base rates at 2.83%**

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What will the average house price be in 2016?

- Member comment:

  "Demand growth is likely to be slow, but with supply so heavily constrained in key growth markets we look for prices to grind higher on a five year horizon."

  "Average house prices may stay broadly in line with inflation but with significant geographic variation."

  "I expect some further price reduction in the next couple of years, followed by small growth - driven partly by a recovering economy, and also by the continuing lack of availability of property."

- Most members see house prices remaining stable or improving modestly over the period
- The range of responses put the price of the average UK home between £145k and £205k by 2016
- The average of the members views is for the average home to cost £178.3k by 2016

What share of the mortgage market will intermediaries have by 2016?

- Member comment:

  "As the overall market increases we will see a disproportionate increase in intermediary lending. "

  "Banks will dominate except for specialist and niche products. "

  "I think customers will move back to brokers as conditions improve and broker share will edge back to historical highs."

- Most members see the next five years as a period of consolidation for the intermediary sector with intermediaries taking advantage of any growth to increase market share
- The intermediary share of the market is seen to vary depending on the sector
- **Members expect intermediaries to hold:**
  - **59% of the FTB market**
  - **60% of the remortgage market**
  - **51% of the home mover market**
  - **82% of the BTL market**

What will the mortgage market be worth in 2016?

- Member comment:

  “We think the market will become more robust by 2014 and increase significantly in 2015.”

  “The market will continue to be flat due to continued pressure on big banks to reduce the size of their balance sheets.”

- There is a wide divergence of views on where gross mortgage volumes are going to be
- Members expect the market to remain flat over the near term with growth coming through more strongly towards the end of the period
- The range of responses put gross lending volumes in 5 years time between £120bn and £220bn
- **The average of the members views is for gross advances in 5 years time to be £173.3bn**

What will the BTL market be worth in 2016?

- Member comment:

  “Structural social change will continue as more people rent instead of buy.”

  “The combination of short term economic pressures and long term demographics will lead inevitably to higher rental demand. The improvement in yields that this leads to will further motivate landlords to expand their property holdings. Assuming there is not a negative impact as a result of EU or domestic intervention in this market, lending should increase to meet demand.”

- Members generally believe that BTL lending will continue to expand due to changes in society and the impact of the economic cycle
- Member estimates put gross BTL lending in 2016 in the range of £14bn to £32.5bn
- **The average of the members views is for gross BTL advances in 5 years time to be £19.5bn**

What will the level of mortgage arrears be in 2016?

- Member comment:

  "In a stabilised market we would expect arrears levels to have fallen."

  "An increase in interest rates, taxation, fuel costs and unemployment will inevitably lead to an increase in arrears.

- Overall members expect arrears over the period to remain flat with a strong majority thinking that arrears in 5 years time will be no better than they are today
- The range of members views place market arrears levels between 1% and 2.5%
- **On average members believe that the proportion of mortgage 3 months or more in arrears in 5 years time will be 2.12%, very little different from todays levels**

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What will the volume of housing transactions be in 2016?

- Member comment:

  "Housing transactions will remain at the same low volumes we see today due to a lack of liquidity."

  "With flatish house prices a significant proportion of mortgage lending could be expected to be remortgages."

- There was a strong consensus amongst members on the volume of housing transactions with nearly 60% agreeing that volumes would fall between 750,000 and 1m
- Responses ranged from 500,000 and 1.25m

- **The average view of the members was for transaction levels of 854,000**

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What proportion of the mortgage market will be made up of the different types of product?

- Members views were again closely aligned on the subject of market share for different classes of mortgage product

- **On average members believe that**

  - **74% of the market will be prime residential**
  - **7% of the market will be near prime residential**
  - **13% will be buy to let**
  - **3% will be self-certified**
  - **3% will be of other product types**

Summary

- Members agreed that taking a five year view in such volatile conditions was going to be difficult
- However, a strong theme emerges from the responses which suggests that the market will remain quite depressed for the next two to three years but that after this we should encounter better trading conditions that will lead to some modest growth
- Capital and liquidity constraints along with a sluggish recovery dominate the thinking of members with this contributing to low consumer confidence
- The good news though is that few lenders think that conditions will not have improved over the period and that we will be looking at improving activity levels, lending volumes and house prices at the end of the period
- Again most see BTL as a growth sector being driven by changes in society as much as economics

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