Association of Mortgage Intermediaries' response to PRA CP11/16 Underwriting standards for buy-to-let mortgage contracts

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI). AMI is the trade association representing over 80% of UK mortgage intermediaries.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product to meet the individual consumer's mortgage requirements. Our members also provide access to associated protection products. Approximately 70% of all UK mortgage transactions are advised by intermediaries.

Our members are authorised and regulated by the Financial Conduct Authority (FCA) to carry out mortgage and insurance mediation activities. Firms range from sole traders through to national firms and networks, with thousands of advisers.

Response

Although there is a large divergence in house prices between UK regions, the southern half of England (including the Midlands) has seen prices rise above their 2007 peak[1], with an increase of over 30% in London. This has been bolstered by demand exceeding supply. This demand has been partly fuelled by the number of cash transactions which over the last two years has dramatically increased to reach 3% above its 2007 peak, whereas the biggest fall in housing transactions since the peak is in buy to let which has fallen by 44%[2]. The lack of supply has been subject to a downward spiral where individuals wishing to move home are waiting to find a property that is suitable before putting their property on the market and ultimately being unsuccessful in their search, in addition to new build still being limited in volume terms.

Whilst we understand and support the PRA's aim to curtail inappropriate lending and the potential for excessive credit losses, we are concerned yet another change in buy-to-let risks severe dislocation to the housing market. We believe that together with the increased stamp duty land tax, reduction in mortgage interest relief and interventions made by the Financial Policy Committee (FPC) on buy-to-let, there will be an overall detrimental impact to all markets, not just buy-to-let, which may instead benefit from less blunt and more natural changes in the market. We are concerned that these changes might all begin to impact at the same time, as interest rate rises, and in combination these could create house price falls that the FPC are trying to avoid.

We request clarification of the proposed definition of a portfolio landlord. Although the PRA implies that its data shows an increase in observed arrears rates of landlords with buy-to-let portfolios of four or more mortgaged properties, we would welcome further information on this trend, in particular the difference in arrears rates compared to those with less than four mortgaged properties and the duration of arrears. In light of the historical pace of the changes to the buy to let market mentioned above, we would note that only data in the last five years would be relevant. This also remains a small part of the overall housing and mortgage market and is required to deal with the growing private rented sector who need a roof over their head.

[1] Nationwide House Price Index data as at Q4 2015
[2] Nationwide graph produced for Financial Services Expo September 2015