House of Commons

Treasury Committee

Oral evidence: The mortgage market, HC 846

Wednesday 2 November 2022

Ordered by the House of Commons to be published on 2 November 2022.

Watch the meeting

Members present: Dame Angela Eagle (Chair); Rushanara Ali; Harriett Baldwin; Gareth Davies; Emma Hardy; Siobhain McDonagh; Alison Thewliss.

Questions 1 - 108

Witnesses

I: Charles Roe, Director of Mortgages, UK Finance; Joanna Elson CBE, Chief Executive, Money Advice Trust; Ray Boulger, Senior Mortgage Technical Manager, John Charcol; Chris Rhodes, Chief Finance Officer, Nationwide Building Society.

Examination of witnesses

Witnesses: Charles Roe, Joanna Elson CBE, Ray Boulger and Chris Rhodes.

Q1 **Chair:** Welcome to this one-off hearing on the mortgage market. I would like to thank our experts and witnesses for coming in to give us some insight into what is going on. Please introduce yourselves to the Committee.

Charles Roe: I am Charles Roe, director of mortgages at UK Finance.

Joanna Elson: I am Joanna Elson, chief executive of the Money Advice Trust.

Ray Boulger: I am Ray Boulger, senior mortgage technical manager at John Charcol.

Chris Rhodes: I am Chris Rhodes, chief financial officer at the Nationwide Building Society.

Q2 **Chair:** Thank you very much all of you for coming in. We have had some turbulence in the mortgage market of late following the mini-Budget. I just wonder if we could take a little bit of time for you all to just reflect on how that turbulence has affected you. We saw the disruptions in the gilts market after the mini-Budget, which had pretty important implications for the interest rate. If you could very briefly take us through, from your own perspectives, how that turbulence affected you, that would be a good place to start.

Charles Roe: Thank you very much for inviting me this afternoon. As I say, I am Charles Roe, director of mortgages at UK Finance. We represent 150 mortgage lenders in the UK. That is from the largest banks—the high street names you will be familiar with—through to the building societies and some of the specialist lenders, as well as the buy-to-let lenders as well. It is the whole range of mortgage providers.

One of the things we would like to draw out that was different this time from what we saw in the global financial crisis, when products were withdrawn, is that this was not a liquidity issue; it was not a capital issue. Banks had plenty of capital. They had plenty of liquidity. As you mentioned, it was to do with the pricing of the mortgage fixed-rate products, which was caused by the turbulence in the market. Our members wanted to lend. They were unable to price those fixed-rate products during that turbulence in the market, so they withdrew a number of products from sale to ensure that the products that they were selling represented a fair value to those mortgage customers who were looking to fix their mortgage rates.

Q3 **Chair:** This was a majority of the products that had been on sale prior to the mini-Budget.

Charles Roe: A number were taken off. At every loan-to-value point and for every type of borrow there were products available in the market. It was not a wholesale withdrawal.

Q4 **Chair:** I have a 60% withdrawal for 95% value, 5% deposit; 50% decline for 10% deposit mortgages; and a 40% decline for 15%. Is that accurate?

Charles Roe: Those are the figures that have been reported in the press, which I think have come from Moneyfacts. That is correct, but that was done because it was very difficult to price those products over the course of that three-week turbulence in the market. Products were available, but lenders were also dealing with a large number of phone calls and requests that came in from borrowers who were concerned about their finances and whether they would be able to re-mortgage.

Throughout that period, lenders were offering follow-on products to those borrowers who came to the end of a fixed-rate product. It was not as if those products were not there. We are seeing the markets return to much more stability over the course of the last two to three weeks. As a result of that, swap rates have come down, and in turn lenders are reducing their mortgage rates. I am sure one of my fellow expert witnesses will talk about the cuts that they have put through on their products only this week. We are seeing a return coming to the market on those products.

Q5 **Chair:** Joanna, what are your observations? You are coming from a very different perspective.

Joanna Elson: My organisation, the Money Advice Trust, runs National Debtline and Business Debtline. They are two helplines for people, small businesses and self-employed people in financial difficulty. The key thing that we have experienced in listening to those people on the phone lines, via web chat and online, is not that there has been a big increase in arrears—obviously it is early, and that change has only just happened—but that people are very worried.

There is a perfect storm. We have energy rates at twice what they were last year, even once you take the Government's welcome price cap guarantee into account. Food inflation is up again today at 11%. You will have seen that there was a march at the weekend about the cost of childcare. Then you add into this, whether you are a renter or a mortgage holder, these worries about how you are going to fund your home. Of course, people worry most about their home, and that is the last thing that they tend to give up. They prioritise that. They will scrimp and save. They will cut back on their energy, food and other things because they want to keep that roof over their heads.

It is that worry that is the primary thing. If we look at the numbers, there are about 2 million people on standard variable rates who are already experiencing the increase. Slightly less than that, according to UK

Finance figures, are people who will, by the end of next year, have a new fixed rate, or their fixed rate will be coming to an end. That is 4 million people who are going to have very significant increases.

Finally, I was at something yesterday with someone from the ONS. They were saying that if you look at the difference between a 2% and a 6% rate, for the average person or household that is an extra £250 a month. That is a lot of money to find when you are struggling with lots of other things too.

Ray Boulger: Just to clarify one thing Joanna said, the 2 million people she referred to are all on variable rates, but a lot of those will be on tracker rates or discount SVRs, so a lot of them will not actually be paying the SVR. The biggest problem for brokers, without a doubt, was the rapid change. From a broker perspective, once we have seen the client, done the fact find, got the soft facts and identified the suitable mortgage product, we may or may not have all the paperwork. We will then submit the application online, and where you have lots of rates being pulled and you know the next movement is going to be upwards, there is obviously a lot of pressure to get the application in, and that clearly relies partly on the client supplying the broker with the information we need.

One of the more exceptional situations, as an example, is that, generally speaking, lenders will advise us of rate changes Monday to Friday. NatWest actually advised brokers on a Sunday of rates being pulled. Of course, a lot of brokers work over the weekend, but if you were not working over the weekend, you did not have an opportunity to secure that rate. That just gives you an example of the scale of things.

Q6 **Chair:** It went to a seven-day week of things being pulled or withdrawn, so you would have to go on to the next one, which would be at a higher rate and more expensive.

Ray Boulger: Yes, exactly. If you had selected NatWest because that was the best deal, by definition if you miss out on that then the next deal is going to be worse at this point in time. In the early days, it was all about rates going up and trying to secure the rate before you lost it. What we are seeing now is criteria changes. We are finding situations where clients are not able to proceed with the amount they recently planned to borrow because of criteria changes. I can go into that a bit later if you want me to. It is not all about rates. It is rate and criteria, particularly stress test rates. They have been changed as a result of rates going up.

Q7 **Chair:** What does that mean? Is that how you test whether a particular individual who is planning on taking out a mortgage would be able to cope with the costs? Is that what the stress test is?

Ray Boulger: Yes, correct. If we are talking about residential as opposed to buy-to-let rates, the minimum requirement from the Financial Conduct

Authority is that lenders stress test for at least 1% above their current standard variable rate. Until July, there was a requirement from the Bank of England, from the PRA, that the stress test had to be done at 3% above. That does not apply if the initial rate is fixed for five years or more. It applies to all variable rates and shorter-term fixed rates. Lenders now have flexibility as to what to do on that and, generally speaking, we are seeing stress tests that were being used at about 6.75% to 7% now going up to 8%. When you factor in the impact of energy price increases and cost-of-living increases, that can have a significant impact on what people can borrow.

I had a case from one consultant this morning. A client had got a mortgage offer four or five months ago at just over 2% on a five-year fix. They had lost their original property, found a new property and gone back to the lender, who will still offer that rate, but they are now applying a new stress test, as a result of which the maximum loan is 14% less. That is the sort of issue we are seeing now.

Chris Rhodes: I can give a little bit of context about Nationwide, because all my comments will be in that context. Clearly, we are a mutual. We have 16 million members in the UK. We are the second-largest mortgage lender in both prime residential purchase and buy-to-let.

If we look at the last 12 months, it has been quite an interesting journey. In the housing market, both house prices and the number of transactions, you would argue, have been more robust than we would perhaps have expected. The low point in interest rates was September last year. We have had rising rates for a period of time, together with energy challenges and general inflation. We would have been surprised at the strength of the market up until the point of the mini-Budget. In terms of the turbulence created in the financial markets that caused the pricing in mortgages, we have now clearly seen volumes change quite significantly, and our latest house price report showed a small decrease in house prices in the latest data.

Buy-to-let has been hit the hardest. That is partly, as Ray has explained, due to stress rates. Also, the interest rates on buy-to-let now mean that it is marginally profitable, if not loss-making, for new buy-to-let investors to take on board a new property. There are potentially implications there in the medium term for the sustainability of the buy-to-let market. There is less of an impact on prime mortgages but, again, volumes have fallen.

We might want to delve into this in a bit more detail later, but I can comment now on exactly what happened to interest rates during the run-up to and post the mini-Budget. Broadly, 80% of mortgages up until the mini-Budget were fixed rate, and we price those off what we call the swap curve. Effectively, the swap curve is driven by what happens to gilt pricing, and there was significant volatility. From a Nationwide point of view, we managed to keep our product set out there. We were without buy-to-let mortgages from Wednesday lunchtime to Thursday lunchtime. but prime mortgages were out there all the time. Again, to Ray's point, we repriced on the Monday, went live on the Wednesday and had to reprice again on the Friday to keep pace with the changing interest rates.

Q8 **Chair:** Were those prices going up?

Chris Rhodes: Those prices were all going up significantly.

Q9 **Chair:** How much might a typical house-buyer now face in terms of increased mortgage payments?

Ray Boulger: It depends.

Q10 **Chair:** I know it is a generalisation, but could you give us a range? Looking at it casually, I get the impression that it is 2% or 3% higher.

Chris Rhodes: I will give you a Nationwide perspective. We have repriced all our products for existing Nationwide members: two, three, five and 10-year fixed. They are all now just below 5%. We have to be careful on averages, but if you take an average, they are broadly 2%, and will go to 5% if they are to fix again at the moment. For an average borrower with a mortgage of just over £140,000, that is £220 a month on a 20-year mortgage. If it is interest only, it is clearly more because of the way the profile and the amortisation works, but for a standard repayment mortgage, over 20 years, it is just over £200.

Q11 **Chair:** Is it similar for you, Charles?

Charles Roe: Yes, those are the figures that we would recognise there in terms of that average, definitely.

Q12 **Chair:** It is pretty much across the board as far as your members are concerned. You are brokering all this stuff.

Ray Boulger: There is an element of luck here, because locking into a five-year fixed rate has consistently been the right choice for the last few years. If you did not need short-term flexibility, five-year fixed rates have not been much dearer than two-year fixed rates, so a lot of people were going for five-year fixed rates. There is an element of luck in terms of whether your deal last came up for renewal four years ago or a year ago, but certainly if you fixed a year ago, you could have got a five-year fixed at around 1%, and now rates are coming down. I suspect we will see sub-5% rates quite soon, but you are clearly going to be paying a lot more. A lot depends on when you last fixed.

The point about buy-to-let is worth making in terms of interest only. As Chris said, interest-only mortgages obviously see a much bigger impact. Because pretty well all the buy-to-let mortgages are on interest only, if you see an interest rate increase from 2% to 6%, which is quite feasible for somebody who had a fixed rate that is coming up for maturity now, your monthly payments are going to increase by 200%, whereas with the same sort of increase on a repayment mortgage, which most people have with their residential mortgage, the increase is a little over 50% depending on the term. The buy-to-let market is where we are likely to see a lot more stress than in the residential market.

Chair: That is interesting.

Joanna Elson: Of course the impact of that is on renters.

Q13 **Chair:** You mean because those costs are likely to be passed on to people who are renting.

Joanna Elson: Yes.

Q14 **Chair:** What about a typical first-time buyer? I know "typical" is quite hard to establish, but how much might the increase for a typical first-time buyer be?

Ray Boulger: One of the things that is really interesting over the last year is to compare the spread of rates for low and high LTVs. Last summer, if you wanted a 95% LTV mortgage, you would have had to pay around 4% on a fixed rate, whereas if you had a 60% LTV, you could have got 1%. Now the spreads are only about 50 or 60 basis points, so there is a much smaller spread. Although everybody is paying more, you could argue that first-time buyers—because obviously it is mainly those who need 95%—have not been hit quite as badly. Indeed, with the likely fall in property prices we are going to see, they will see some benefit in that, so it is quite interesting to look at that.

As Chris said, looking at the product transfer rates or retention rates, Nationwide's retention rates are now half a point cheaper than the new business rates. There are a few lenders like Nationwide that have actually reduced their product transfer rates for existing customers. That is a really interesting comparison with 20 years ago. At that stage, when you came to the end of your initial mortgage deal, if you wanted another decent rate, you almost certainly had to re-mortgage, because it was very unlikely your lender would have offered you anything decent. Now we have gone full circle and we are finding lenders are actually focusing on their existing customers and offering existing customers better deals. Chris can add to this, but I will tell you a couple of things I suspect are part of the reason.

First of all, from a processing point of view, processing a product transfer is relatively straightforward. That means you are not borrowing any more money. There is no affordability test, so there is much less admin. The lender obviously knows that customer, and as long as they have been paying regularly, they know they are a good customer. Secondly, we have new consumer duty rules coming in next July from the FCA, which require lenders to take a much longer view and to look at the whole product term for clients, so I suspect that will influence lenders' thinking as well.

Chris Rhodes: Certainly, from a Nationwide perspective, we have always had cheaper deals for existing members. It is part of the mutual model. It is part of what we do. I recognise what Ray says in terms of some of the advantages to retaining existing members, but it is part of our DNA as well.

Q15 **Chair:** Finally, Ray, on the criteria changes you were talking about, do you want to run us quickly through what they are likely to be? Obviously, price is a barrier if it is going up, but if criteria changes are there, that might also be a barrier.

Ray Boulger: Yes, the main criteria change is the stress rate, so that is particularly a problem on buy-to-let. If you are looking to buy a new property in London and the south-east, where yields are very low, you are not going to be able to borrow more than 50% LTV at the moment. Even in other parts of the country where rents are higher, you are still going to struggle if you need a high LTV.

We do not see landlords who do not need a mortgage, so there will be some of those who will still be able to go ahead, but if you need a mortgage and you need LTV anything above 50% or 60%, with the current stress rate it is going to be very difficult. The knock-on effect of that, combined with some existing landlords selling because of the more onerous tax regime, other regulatory requirements and higher mortgage rates, is going to have quite a serious impact on the availability of rental property over the course of the next year or two.

Q16 **Siobhain McDonagh:** My first question touches on some of the comments you made, Ray, about first-time buyers. I would just like to tell you about one of my constituents. A young woman had hopes of buying her first home through shared ownership. She was offered a mortgage of 4.28% by Halifax. A day after the statement, that offer was withdrawn and it went up to a two-year fixed rate deal of 6.9%. That is a £150 monthly increase overnight because of the Government's unfunded giveaways to people on over £150,000 a year. How damaging was the mini-Budget to first-time buyers in both the short and medium term?

Ray Boulger: First of all, I question whether that offer could have been withdrawn. If it was a firm mortgage offer, then Halifax could not have withdrawn it, so I suspect it was at the stage where the rate had not been agreed. Under FCA rules, they cannot withdraw an offer unless there is something major occurring, such as fraud. I doubt it was actually offered.

Q17 **Siobhain McDonagh:** In my later question, there have been reports in the newspapers of people who are not necessarily first-time buyers who believed that they had mortgage offers, went ahead and had got as far as paying for surveyors and incurring legal costs, only to have their mortgage offer withdrawn and become liable for those costs.

Charles Roe: I am aware of instances where homeowners or purchasers believe that to be the case but, as Ray has said, there is a difference.

Q18 **Siobhain McDonagh:** It is a difference in the small print.

Charles Roe: No, it is not in the small print but in the mortgage process. When you apply for a mortgage and you go to a mortgage broker and they source the mortgage for you from all the deals that are available in the market, as Ray was saying earlier, you will get a decision in principle meaning that yes, a lender—Halifax in this instance—may lend to you in principle, providing you can provide some additional information that they may need, whether that is in terms of your income, expenditure or the source of your deposit. Although you are getting that decision in principle, you have not actually made a full, formal commitment to apply to that mortgage. It is only when you get the application submitted that the lender will then give you a formal offer in return.

Q19 **Siobhain McDonagh:** My constituent had an in-principle offer. The in-principle offer was withdrawn the day after the mini-Budget, and the second in-principle offer was just over 2.5% higher.

Ray Boulger: I suspect what you call the in-principle offer was the decision in principle, as Charles has just outlined, and the broker, or Halifax, if she was dealing directly with Halifax, did not get to the stage of pressing the button to say, "I want to make this a full application". I would suspect that is what has happened. It is in the terminology that a lot of the confusion arises.

Q20 **Siobhain McDonagh:** That happened to quite a lot of people.

Ray Boulger: Yes, and that was one of the key challenges brokers had. We would have applications on our desk where we were at the stage of having got a decision in principle. We may have been waiting for one bit of information from the client to finalise that, but one then had to get that decision in principle confirmed as a mortgage application. That is relatively straightforward once you have all the information, but if you are awaiting a bit of information, it is a problem.

Q21 **Siobhain McDonagh:** My argument is still that they had an in-principle offer one day, only for the Budget to happen, the in-principle offer to be withdrawn, and the subsequent offer to be over 2.5% higher, which meant that she felt unable to go ahead. At our Committee, I asked a panel of economists from the Resolution Foundation and the IFS, as well as a number of other well-known economists what she should do and whether she should go ahead at the new offer. All of them said, "No, she should not go ahead. Property prices will fall. It is not in her interest to go ahead". What would you have said?

Ray Boulger: This is a difficult one, because it is very much a personal decision. If you are making the decision purely on property prices, I would agree with you. Chris mentioned the Nationwide index, and I tend to rely on that because, of all the robust indices, it is the first one to come out. The ONS is the gold standard, but it is about two months behind. If you look at the actual real house price index, as opposed to the seasonally adjusted one that Nationwide focus on, it actually fell 1.5%

last month. I think that trend is going to continue, but of course personal circumstances may mean that any particular borrower actually has a good reason to buy now, despite the fact that prices may fall, so it is difficult to answer that question without knowing all the facts.

Q22 **Siobhain McDonagh:** She is a young first-time buyer. Money is short. It is always a bit of a stretch to buy your first home. We all know that, but do you think this stretch was just a bit too far, given where we are?

Charles Roe: I could not comment on that individual borrower's circumstances. I do not know her income or expenditure, so it would be very difficult to comment on that. However, if you would like to send me the details, we will look into that for you with Halifax.

Chris Rhodes: We have to recognise that we face a very uncertain outlook, and the path of the economy could go in a number of different directions. Therefore, you have to look at the individual circumstances of the borrower. Are they a renter? What would the outgoings be if they bought? Should they fix? Should they not fix? It is down to the very detailed circumstances.

Q23 **Siobhain McDonagh:** What would you tell your son or daughter at the moment?

Charles Roe: I can give you an example. My son is a first-time buyer. He fixed his mortgage rate, and at the end of his fixed-rate period it came to maturity in the middle of the market turmoil, so he was facing a significant increase in his property in terms of the cost of his mortgage. He said, "Dad, what should I do?" I said, "The first thing you should do is go and speak to your lender". He said, "Why is that? My broker has told me they are going to give me a very high rate". I said, "If you speak to your lender, your lender will understand your payment history. They understand your circumstances".

As Ray and Chris were saying, I also said to my son, "They will want to keep your business, so go and talk to your lender". He phoned up his lender, and the rate that he was quoted from his broker was over 5%. His lender, because of his particular circumstances, secured a mortgage for him that was available widely for just over 4%, so he was delighted. The message is that our lenders are there to support borrowers. It is not in the interests of any lender to lend to someone on a mortgage that they cannot afford. They want to make sure that borrowers have the opportunity of securing a follow-on product with them to ensure that they can maintain that roof over their heads.

Q24 **Siobhain McDonagh:** Do you see the next six months to a year as a good time for first-time buyers or not?

Ray Boulger: I think 2023 will be a good time. It is difficult to say at what stage. I suspect mid-year onwards. I expect house prices to fall, peak to trough, between 10% and 15%, but it is never easy to pick the bottom of the market, of course. If you are a buyer, the ideal situation is to be looking to buy before the market has bottomed out, because then, once the indices pick up the fact that the market is increasing, there will be a lot more buyers around.

Do not try to beat the market too much. Keep a good eye on the market so that you understand what a good buy is when you see it, and do not be afraid of perhaps paying 5% over the odds. The important thing is to get the property that really suits you and is going to be right for you for however long you plan to live there. I think some time next year will probably be a good time to buy.

Chris Rhodes: I have a slightly different perspective, which is that you should never try to beat the market because you will be wrong. What you should be looking to do if you want a home is to assess whether you can afford everything that attaches to that home and compare it with the option of renting or living with parents or whatever it is, and decide whether now is the right time for you.

The most important thing you can do is ensure that you can afford that mortgage. Whether you go fixed or variable, do not try to guess the market because you will be wrong on both sides. Can you take the benefit of a variable rate now but be able to afford the increase if rates were to go up, or do you want absolute stability in your repayments? How long do you want stability? Then opt for a fixed rate.

The whole process of buying a home is three to six months. Specifically to your question, I would advise people to book the product, make sure they can afford it and then see where they are in three or four months' time, because if rates have fallen they will be able to rebook the product at a different rate. This is not, "How do I make money?" This is, "Can I afford the home that I want to live in?"

That is very much our philosophy in terms of how we approach the market, which is why it becomes so down to the individual circumstances of the borrower. If they are paying a high rent and their mortgage instalment is going to be less, and they plan on staying in that home for a long time, then maybe now is the right time to move. The volatility has created higher mortgage rates for a relatively short period of time. They are starting to come down again. They may go up again. It depends on the long-term outlook for the UK economy and ultimately the shape of interest rates that the market thinks it needs to apply. That is how we price those fixed-term mortgages.

Joanna Elson: Can I just add one thing? You gave us a really brilliant example, Siobhain, of the asymmetry of power between lenders and borrowers. That is not at all a criticism. It is a fact of life that most of us probably acknowledge. In your example, your constituent thought in all good faith that she had been made an offer. The people in the know knew that she had not. It is nobody's fault. That is just the way it is.

There is something about how we ensure that customers are better informed, so that they know and understand what their rights are. It becomes critical at a time like this, but it is equally applicable when something goes wrong or they have lost their job or whatever it is. They need to understand what the situation is. I know lenders work hard at this, but it is important that they speak in normal language or in plain English and make it crystal clear. We train banks and others, particularly around vulnerable customers and how to have those conversations so that there is an equality in the conversation. There is more to do there.

Q25 **Siobhain McDonagh:** The purpose of my question was not really to have a dance on the pinhead about whether or not it was a formal offer. It was that her aspiration was almost there, and it was taken from her by a Budget that had tax cuts that were simply not funded.

Assuming that we enter a period of market calm relative to the month following 23 September and the mini-Budget, would you expect lenders to continue to increase the number of products available, or do you think availability will remain lower than before 23 September?

Charles Roe: We are already seeing an increase in the number of products coming back on to the market. More products are coming on a daily basis, and lenders will look to price products to reflect the cost of the funds in the market that they are paying at the time. One thing that we recognise is that, in terms of the higher loan to value of 90% to 95% or more, the market there has reduced in terms of the number of loans available.

We saw something similar happen at the early stages of the pandemic in 2020 when there was uncertainty in terms of what was going to happen in the housing market. At that stage, the Government stepped in and offered its mortgage guarantee scheme. That was welcomed by the sector. It is something that is coming to its end at the end of this year, but it would be one of the things that would help provide stability in the market if the Government were to extend that. That provides certainty for first-time buyers in terms of being able to get into the housing market at those higher loan-to-value mortgages that they desperately need to enable them to buy the property that they want.

Chris Rhodes: Again, from a Nationwide perspective, we have exactly the same products out there that we had before the mini-Budget.

Q26 **Siobhain McDonagh:** Is that generally the case in the market, Ray?

Ray Boulger: We are still not back to where we were. We need to be quite careful when we are looking at data such as how many 60% LTV mortgages there are, because some lenders, for example, reduce their product range by having a smaller selection of different LTVs. One lender, for example, took out of the market all of their 60% LTV products, but they had products available to 75%. If you wanted 60%, clearly you could go for those, so it is not actually true to say that there were less

60% products available, at least not to that extent, because any product that had a LTV of more than 60% clearly could be used for 60% as well.

That is just an example of how you need to be careful in how you interpret some of this data, but yes, I would agree. We are steadily seeing more lenders coming back into the market at the high LTVs. As has been said before, there was always a reasonable choice at 95%, but that choice is increasing now.

Q27 **Siobhain McDonagh:** Is it increasing relative to 23 September or before 23 September?

Charles Roe: I have some figures here that would help. On 16 September, there were 1,634 five-year fixed-rate mortgages on the market. As of last Friday, there are 1,334. The low point went down to 864, so we have already seen an increase from 864 at the end of the September to 1,334, so a 500 increase. On that higher loan-to-value figure you were talking about, it was 115 mortgages at the time. That has now gone back to 80 mortgages.

Q28 **Siobhain McDonagh:** It is still quite a significant number short.

Charles Roe: It is less than it was, but there is still a choice available. That is the important thing to remember. There is a choice available for borrowers looking to borrow at above 90% loan to value.

Q29 **Siobhain McDonagh:** But it is still a significant number fewer than before 23 September.

Charles Roe: A total number of 35 lower but, as I say, there are still a number that are there. There are still 80 available in the market.

Q30 **Emma Hardy:** Just to clarify, are you now saying that it is going to be harder for some people to get mortgages than it was prior to 23 September? You talked about the criteria and needing to look carefully at the lenders before making a decision. Is that code for saying that it is going to be a bit more difficult?

Chris Rhodes: Mortgage rates are higher. To Ray's point, in terms of the rate that we are stressing them to, taking account of the potential for there to be future rate rises, we then work out whether you can afford the repayments, so not just the product you take but what the rate could be in the future. Those rates are higher than they were before 23 September. Therefore, at the margin some people will not be able to afford the same mortgage that they could afford before, because rates are higher.

Q31 **Emma Hardy:** There are going to be fewer people able to get mortgages now.

Chris Rhodes: There will be fewer people, yes, or fewer people will get mortgages of the same size, so they will have to borrow less.

Emma Hardy: They will have a smaller mortgage or—

Chris Rhodes: They will have a bigger deposit or a smaller mortgage.

Q32 **Emma Hardy:** Thinking about Siobhain's first-time buyer and those who may be at 95%, are you expecting to see fewer of those people actually getting mortgages?

Chris Rhodes: Technically, I cannot answer that, but across the board, if you apply a higher affordability test because of where interest rates are, there will be people who could have afforded before who cannot afford today.

Q33 **Rushanara Ali:** I have some questions about mortgage pricing policy and then potential Government intervention. Charles, you mentioned this number, before 23 September, of 1,634 products, which went down dramatically, to 864. Do you have any figures on how many people were affected during that period, like your son, for instance? Certainly, I am aware of a number of my constituents and friends who were caught up just in that time. It was very unfortunate that we had a Prime Minister at that time who made the set of decisions that then meant their bad luck was intertwined with that period and those decisions at that time.

Would your organisation be able to do some analysis to tell us how many people were affected? Up and down the country, we have been getting input from our constituents in distress, particularly during that period, and it would be really helpful to understand what that cost impact was for them. We hear about overall numbers. Some people have quoted 1,200 as the Truss premium, according to one source. Is that something you can do or are able to hazard a guess on?

Charles Roe: At the moment, we only have the information on mortgages that have been approved and actually drawn down. We do not have information, as we talked about earlier, in terms of those decisions in principle, but whether Chris would have any of that information, I am not sure.

Chris Rhodes: All I can observe is that new business volumes or application volumes are lower now than they were before, which we would attribute to higher rates and higher stress rates and general uncertainty, but it is hard to quantify the number of people affected.

Q34 **Rushanara Ali:** You have already been asked about first-time buyers and the rough estimate of 60% of mortgages for 95% loan-to-value clients who are predominantly first-time buyers. Do you have a sense of what the numbers are now? You mentioned, Chris, that the numbers were starting to go up for certain groups in terms of access to mortgages. Does anyone have a specific number to tell us precisely how many now? What percentage is it at? Somebody mentioned 75%. I just wanted to be clear.

Chris Rhodes: I can give you some precise data on volumes in 95%. I cannot give you that off the top of my head. We would normally write between 3% and 5% of our business at 95%. Exactly what it is today I could not tell you, but I am more than happy to let the Committee know.

Q35 **Rushanara Ali:** Did you observe a shift during that period?

Chris Rhodes: It was not dramatically skewed to 95% versus everything else. It was a general slowdown.

Q36 **Rushanara Ali:** Charles, do you have any specific figures on what has happened to those 95% loan-to-value customers or potential customers?

Charles Roe: Not in front of me at the moment, no. The figures that we collect from our lender firms are not up to date enough. We do not collect them that frequently to be able to provide you with information over the course of the last three weeks, I am afraid.

Q37 **Rushanara Ali:** Would you be able share something with us at some point on what has happened to first-time buyers?

Charles Roe: Over time, yes, but it would be several weeks away before we get that information collected from lenders, because they do not send their information through to us on a real-time basis. We can certainly provide that.

Q38 **Rushanara Ali:** It would still be very useful for us to understand, even if it is a few weeks down the line, just to see what the response should then be. Does anyone else want to comment on any of these points about first-time buyers?

Ray Boulger: The key thing from a broker perspective is that there is a reasonable choice. Although that choice is not as high as it was a couple of months ago, there is still a reasonable choice.

Q39 **Rushanara Ali:** What does "reasonable choice" mean? If it is a difference of 2%, is that reasonable?

Ray Boulger: As Charles mentioned, there are about 80 products on the market. Not all of those will be available to any one customer and not all will be right for any one customer, but ideally you want most of the major lenders in that market. Last year, the top six lenders did 71% of lending, so if you have all top six in the market, that straight away makes a huge difference.

With some of the smaller building societies, because their underwriting is manual, they can be really useful for first-time buyers, who very often may not have a particularly high credit score, perhaps because they have not had any credit before, but they are actually a perfectly good credit risk. From a broker perspective, one of the key things we have to identify is which type of lender is going to be most suitable for that client. Can they go to any lender, or do we need a lender that uses manual underwriting?

Q40 **Rushanara Ali:** To what extent might the credit risk component of mortgage rates need to increase to compensate for any expected increase in defaults and arrears over the coming years?

Chris Rhodes: As you go through the economic cycle, as Ray highlighted before, in recent times the differential between low loan to value and high loan to value has become much smaller as competition has stepped up and risk has become lower. As you face into the environment we are now facing into, we have not done anything yet, but you ultimately have to look at the risk-reward equation in terms of what you think might happen in the future, and that could cause those prices to go back out. That is not a forecast or a definite, but we certainly look at the overall risk profile, and therefore the pricing for each of those segments.

Q41 **Rushanara Ali:** Given that yields have fallen from their recent highs, assuming those falls in gilt yields are sustained, how quickly and by how much might mortgage rates fall back?

Chris Rhodes: As I say, we have already priced below 5% for existing members. We are reviewing what we now need to do for new-to-Nationwide business.

Q42 **Rushanara Ali:** I do not know if you are willing to comment on the market more generally. Are you seeing a similar response?

Charles Roe: If I can pick that one up, from the point of view of what we are seeing in the market, the vast majority of lenders are coming back into the market with reduced rates at the moment, to reflect the cost of the funds that they are having to price when they are doing their fixed-rate mortgages.

Q43 **Rushanara Ali:** Are there any that are not doing that?

Charles Roe: I could not tell you. We have 150 lenders. We do not monitor them all on an individual basis, but we monitor the market.

Q44 **Rushanara Ali:** We are very interested in knowing who is passing it on and who is not.

Charles Roe: When they are passing those on, it is in terms of the cost of the funds to them and how much it is charging them. It is a very competitive market in terms of the mortgage market, and lenders want to lend.

Q45 **Rushanara Ali:** I am not doubting the competitiveness and all of that, but I am conscious that the markets obviously experienced a lot of turbulence in that month. One can understand the risk aversion that lenders might face at this point as well, and whether that then means that some of them, depending on their size and internal issues, might make them more reticent than they were before. I just wondered if you have a sense of any of that coming through.

Charles Roe: Lenders will assess every application on its merits and individually. For a lender, as I said before, it is not in their interest to lend to somebody who cannot afford the mortgage. In terms of going to a mortgage broker, you are getting that choice of where the best rates are for you and your individual circumstances, and we are very supportive and encouraging of borrowers to—

Q46 **Rushanara Ali:** There were people who could afford mortgages before mortgage rates went up because of the mini-Budget fiasco.

Ray Boulger: I am disappointed at the slow speed at which rates have come down, frankly. To be fair, when rates went up, we had a few days' grace. Halifax was one of the last lenders to put its rates up. It was clear what was going to happen, and brokers had the best part of a week, I would say, with some lenders, to actually get rates in at the old rate. Now rates are falling, lots of the reductions are relatively small—20 basis points—and we are consistently seeing gilts fall, with the two-year gilt now down to about 3%. I believe there is scope for rates to fall further.

Q47 **Rushanara Ali:** Why do you think they are not being as fast at reducing them as they were at increasing them?

Ray Boulger: I will be interested in Charles' comment on this, but the impression we get is that one of the issues is that lenders do not want to cut rates too quickly because they are worried about then getting too many applications in and not being able to meet their service standards. It is always a balance between offering a rate that is competitive, but not a rate that it is so competitive that you then see your service standards fall over.

Q48 **Chair:** By the way, the Monetary Policy Committee of the Bank of England is meeting tomorrow on this, and by all accounts is almost certainly going to put rates up.

Chris Rhodes: That may or may not change the swap rate.

Charles Roe: Yes. As you say, Chris, that may or may not change in terms of lenders waiting to see where the Bank puts the base rate tomorrow.

Q49 **Rushanara Ali:** My questions are about pricing. Yes, obviously all the banks have had some line of sight over what is happening with bank rates, which have been consistently going up, but my questions were about the September period and what has been happening to rates and the cost of borrowing. Of course, within this context there are the bank rate increases and so on. Just to pursue your point about competitiveness for a lower rate, if they do not all act together, that presumably makes it more difficult and less likely for rates to go down as quickly as they went up.

Ray Boulger: Lenders cannot get together.

Q50 **Rushanara Ali:** I appreciate that. What I am saying is that if there is an individual outlier that is lower, as you were saying, then there will be too much demand for that particular rate.

Ray Boulger: Depending on what happens tomorrow and what the Bank of England says in terms of the future—that clearly could have a big impact—if gilts maintain their current level, then there is scope for the cost of fixed-rate mortgages to fall steadily. That trend will take several weeks to get to what, in my view, would be the right level.

Chris Rhodes: I agree. We are trying to manage volatility, and I do not want to get caught out by volatility that we cannot see. The two-year swap, which would determine the pricing of two-year fixed rates, was 4.34% on 20 September. It drifted up ahead of the Budget. It was 4.60% on 22 September. It peaked at 5.85% on the Tuesday, was back to 5.39% by 30 September, and the last data point I have here is 4.6% on 24 October. We have seen a huge degree of volatility that we are managing. From my point of view, I have a £285 billion balance sheet and a £180 billion mortgage portfolio that we need to manage the interest rate risk on, so we are very thoughtful about managing that volatility.

Q51 **Rushanara Ali:** Before you were managing bank rates, and then since September you have been managing a whole load of other volatility. Did you foresee that you would have to deal with a set of issues causing volatility that is linked to the mini-Budget? I know lots of people were taken by surprise, but are those sorts of changes something you factored in?

Chris Rhodes: Clearly, we would have had no idea what was in the mini-Budget or indeed what the market reaction would be, and we should not have, bearing in mind the sensitivity of those announcements.

Q52 **Rushanara Ali:** I am not saying officially, but as we were all looking at announcements or directions of travel during the summer leadership contest, did anyone have a sense that there could be volatility? You found yourself having to respond to the volatility.

Chris Rhodes: We did not know what was going to be done and therefore what the consequences would be.

Q53 **Rushanara Ali:** Joanna, did you want to speak to any experiences that you have come across in terms of what the impact has been that you have seen from your organisation? I do not know whether you have data as well.

Joanna Elson: We are a debt advice charity, so typically people take a while before they come to us. It is a brave decision when people decide to tackle their debts, but that takes them a little while, so there is always a lag. The answer is no, I do not have data I can share with you on that.

What we can say is that people are very worried. We talked about that perfect storm. When you bear in mind that the last time mortgage rates were at 6% was in 2008, there is a whole cadre of people in that 14 or 15 years who have only experienced very low interest rates and have no idea. Some of us can remember mortgage rates of 15% a very long time ago, but this new set of people just have not had that experience.

That puts an onus on all of us to explain to people and make sure that they are thinking ahead. Some of the banks are good at this—there is stuff on websites about case studies and things to watch out for and all that—but others are perhaps not so. There is a job for all of us to do in looking ahead and saying, "It is not going to be easy. We all know that. What is it we can do together to protect people, support them and ready them for those challenges?"

Q54 **Rushanara Ali:** The reality is that we have had a decade of wage freezes. The value of property, especially in London and the south-east and so on, and the size of mortgages are much higher than they were back then. Some people have said that mortgage rates were at that level before, so we can go back to that sort of level, but they are not taking into account the wider context that you talked about earlier as well in terms of the cost-of-living crisis and so on.

Joanna Elson: Yes, exactly. I suspect that when the FCA was designing the stress testing, they were not thinking that, alongside the increases we are seeing here, you would be looking at those massive energy increases and food inflation at 11% and so on. Yes, it is a perfect storm, I am afraid.

Q55 **Rushanara Ali:** Speaking of a perfect storm, that takes me neatly on to what, if anything, Government can or should or ought to do. There are various numbers that have been floated around. The Resolution Foundation estimated some time ago that the average mortgaged London household would be paying £5,500 more in annual costs by the end of 2024. A more recent article in the *Mirror* newspaper says that families face average mortgage hikes of £6,700 a year. We are talking about thousands depending on which analysis you go for, but the latest ones are in that sort of territory. Somebody mentioned £200 a month in addition.

During the pandemic, for instance, the FCA introduced a number of support measures for mortgage-holders, including encouraging lenders to offer mortgage holidays. I personally do not think that mortgage holidays are necessarily the answer, because in effect the mortgage holder is paying for Liz Truss's mistakes, frankly, in the mini-Budget, and they should not. They will have to pay interest on it.

Are there ways in which the Government should be looking at taking the edge off for a period of time, until the economy gets back into a better footing? It could be some years before that happens, so how can the Government prevent repossessions or distress in the different markets that we are talking about, such as first-time buyers, existing households and the buy-to-let sector, given the knock-on effect in terms of pressures on rental properties? What are your thoughts on some of these points? What might be good interventions that Government should and could be considering?

Charles Roe: It is heartening to hear what you are saying about there being no return to the payment deferral scheme. The circumstances in which it was introduced during the pandemic were very different than they are today.

Q56 **Rushanara Ali:** The pandemic was not anyone's fault, per se. This is very clearly the fault of a particular Government at a particular time.

Charles Roe: In terms of the tools that lenders have available at the moment, they have a range of tools that they have been using for a number of years, certainly since the pandemic. They have issues with things like financial difficulty, and then in terms of opportunities to move to a part-and-part, which is part interest only, part capital and repayment, or to move to interest only for a period, or to have an extension of the mortgage term to help with affordability.

Q57 **Rushanara Ali:** Would that still mean that the actual mortgage holder ends up paying a certain amount, or do you think the Government should guarantee that in some way?

Charles Roe: In terms of an extension term or moving to interest only, yes, the borrower would be paying a little more over the lifetime of the mortgage, but in terms of things that we would be looking to the Government for, we have already asked the Government to review the support for the mortgage interest scheme to enable homeowners who are in financial difficulty to get access to the support for that sooner than they can at the moment, and also to remove the zero earnings rule.

Also, I mentioned earlier the reintroduction of the mortgage guarantee scheme for higher loan-to-value lending, which would be very helpful. Also, perhaps linking housing allowance and housing benefit to inflation ensures that it maintains pace with inflation and reflects the cost-of-living challenges that all homeowners and tenants are facing. There are a range of issues on which we would like to see the Government work to support homeowners and tenants to afford the homes that they live in.

Joanna Elson: I agree with Charles in terms of what lenders are already offering. Most of those measures are required by the FCA. On support for mortgage interests, you might remember that this was something that used to be a grant and is now a loan. The numbers of people accessing it have fallen very dramatically. There is now something like 12,000 people a year using it, which is pretty small.

Given it is a loan, the Government could do much more. We and UK Finance and the building societies and pretty much all the charities have called for the Government to act here. There are two key areas they could act in. One is that you have to wait nine months for it. That is a very long time. You are going to have exhausted your lender's patience and probably all your own resource by then. That would be the first one.

Secondly, you cannot earn any money at all and still be able to access support for mortgage interest. When the current Prime Minister was Chancellor back in June this year, he signed off on those changes. We have not heard anything from him since. We certainly are urging him to come back to that. The need is greater, as we have all been saying, than it was back in June. It would be wonderful if the Committee were able to support that as well, but that would be our key ask of Government at this point.

Rushanara Ali: If you have anything else you can send in writing, that would be really helpful.

Joanna Elson: I am very happy to.

Q58 **Rushanara Ali:** Finally, how many people do you think are at risk of repossession? What would the market be looking for in terms of Government guarantees and support that does not punish the mortgage-holder for Prime Minister Liz Truss's mistakes, but at the same time enables the market to function effectively and people not to face repossession or distress?

Charles Roe: One of the benefits of the stress test that was referred to earlier in terms of mortgage affordability has been to ensure that homeowners, when they are buying a property with a mortgage, can afford any additional costs that may come through over the lifetime of that mortgage and beyond. We monitor and track the level of arrears coming through. We report on that quarterly. We are just about to put our latest quarterly review out into the market. The indications are that arrears are extremely low at the moment.

Q59 **Rushanara Ali:** With respect, it has not come into effect yet, because people's rates are currently fixed that are going to come up for renewal, and we can see that in the data. What I would be interested in knowing is what the sector needs going forward and what the Government can do. Right now, yes, but in two years' time that is not going to be the case. We know that from what our constituents are telling us.

Chris Rhodes: In terms of support, Joanna and Charles have covered it. It is worth remembering that the tools that have been described that will be used on forbearance, compared to the financial crisis and, for those that have been around a long time, the early 1990s, will result in a much lower level of repossessions than was the case in previous cycles. If someone is engaging and paying something, they are unlikely to get repossessed at all. It might be in their best interests to do so if they can never afford the property they have, but repossessions compared to previous cycles will end up being materially lower because of the tools that have been deployed through forbearance that have been mentioned.

Ray Boulger: As Chris says, the key thing from a borrower's perspective is that they must engage with their lender. Providing they are demonstrating that they are paying what they can afford, in many cases lenders are going to be very reluctant to go to repossession, and even if they did, the court probably would not agree to it, so the key thing is to engage.

The other important thing that is different to some of the previous downturns is that, because we have had such a big increase in house prices over the last two or three years, even if we get the 10% or 15% fall in prices that I expect, most people are still going to have equity in their property, because that will still take prices back to a level higher than at the beginning of Covid. If you can see that you are going to have a problem when you come to the end of your fixed rate and you will not be able to afford the high rate, then you actually have some time to think about it.

Rather than being repossessed if you really cannot afford, selling the property yourself means you are in control and you can maintain your credit record. If you get repossessed you will not be able to buy another property, in all probability, for three to six years. That is one of the key things. In the main, people have equity. We know there are exceptions, such as people with cladding problems, but most people should not need to be repossessed.

Joanna Elson: I agree with all of that. Repossessions are low and hopefully will stay low. At National Debtline and Business Debtline, we always urge people to talk to their lender. That is the best thing to do, but we should acknowledge that it is a scary thing to do, particularly if you think you might lose your home.

We mentioned this point before about this asymmetry of power. There is something about us working together. If some of us have long memories going back to the credit crunch, there was an information campaign that the Government ran in conjunction with lenders and charities, and the tone of it was, "Do not be scared. There are lots of people in the position you are in. This is where you can seek help".

We are going to need something like that over the next while, because otherwise people will bury their heads in the sand just because it is a very scary thing. They are juggling all these different price rises, so give them a simple message that they are not on their own: "Lots of people are experiencing this. This is where you can get help. Talk to your lender". That seems like a good message for Government.

Rushanara Ali: Let us hope the lenders listen.

Ray Boulger: That is a really key point, and a lot of borrowers may well find it much less scary to talk to their broker than the lender. The lenders will say, "Talk to us", and that is fine, but actually, if you have a problem with that, talk to your broker, because the broker may actually have some alternative solutions, with different lenders perhaps. Perhaps the message should be, "Talk to your broker or your lender", rather than just, "Talk to your lender".

Q60 **Gareth Davies:** Chris, what is going to happen to house prices over the next year?

Chris Rhodes: I wish I knew.

Q61 **Gareth Davies:** What are your forecasts?

Chris Rhodes: We do not specifically have forecasts. We have four wide-ranging economic scenarios that we stress the balance sheet to, because ultimately the range of outcomes is significant. There are clearly headwinds. We have talked about inflation. We have talked about energy costs in addition to underlying inflation and interest rates. The pressure is to the downside.

Q62 **Gareth Davies:** What is your best case and worst case?

Chris Rhodes: My best case is slowly increasing house prices and my worst case is potentially a 30% fall, but those are the two extremes that are tail probabilities. In the core, we would have a weighted average of 8% to 10%, but it is really important that everyone recognises that this is not a forecast. It is a bit of maths that takes four scenarios and asks what it looks like if you weight the average. It will be one of the broad range of outcomes.

Q63 **Gareth Davies:** It could go back to where we were last year.

Chris Rhodes: Yes. In terms of interest rates, affordability and downward pressure, we clearly have very low unemployment and, again, that is a support for the housing market in that sense.

Q64 **Gareth Davies:** Let us come on to that in a second. What do you think, Charles?

Charles Roe: We do not forecast house prices. We rely on the experts in the market in terms of where they are.

Q65 **Gareth Davies:** Ray, what sort of ballpark do you think?

Ray Boulger: I have already said that I think prices will fall by between 10% and 15%. One of the key factors is going to be that people's ability to borrow an amount of money that they could have borrowed even three months ago is clearly reduced, and one of the key drivers of house prices is what people can borrow. If the ability to borrow is reduced, that is going to have an impact on prices. This is always one of the difficult arguments in terms of Government intervention. If the Government introduces anything that actually means that more people can borrow more money, it pushes house prices up but it also helps more people to get onto the housing market, so it is a difficult conundrum.

That is one factor. As we have said before, I do not see many repossessions, but I do see a number of people choosing to sell because they have realised that they are actually going to be struggling to meet the mortgage payments. That is going to be a particular issue in the buy-to-let market.

Q66 **Gareth Davies:** I was going to ask about that, because the buy-to-let market is quite a small part of the market.

Ray Boulger: The buy-to-let market is about 15%.

Gareth Davies: Okay, so it is not a small part.

Ray Boulger: At the margin, even small changes can make a big difference. If people think prices are moving up, then you get the herd effect. It works both ways, so you only need a relatively small change in sentiment to mean that things can change. They do not change overnight, but that is a change that I do see coming through over the course of the next 12 months or so.

Q67 **Gareth Davies:** Chris, you have quite a wide range of projections, but let us just take the downside estimates at the moment. Do you think that will be across the board, or will it be highly localised to specific areas? If so, which areas will see the biggest drops and which areas will see the smallest drops?

Chris Rhodes: The affordability pressures impact everybody. They impact those on lower earnings more because it is a higher proportion of your income that is covered by energy and food. That will impact those who have had a house on lower earnings for a shorter period of time. It will spread across the UK economy, but it will impact that group more heavily. Changes in unemployment will tend to hit all sectors equally, and that is the really significant scenario we have not yet seen.

To Ray's point on buy-to-let, because of the point I mentioned right at the beginning about it now being potentially loss-making or only marginally profitable to take on board a new buy-to-let property, that will be hit slightly more. In our scenarios, we are always assuming that buy-to-let actually takes a larger impact in terms of its response to the economic cycle.

Q68 **Gareth Davies:** Would the rental yield from a buy-to-let be a driver of where house prices fall or increase? For example, the north of England has higher yields and the south-east or London has much lower yields.

Chris Rhodes: Yes, but it is slightly more complicated than that because, in the south of England, quite often the mortgage is supported by earned income as well as rent, because in higher-value properties the rental yield is lower. In the north of England or in cheaper property areas, the rental yield is higher and the rent tends to pay the mortgage, depending on the individual circumstances of those borrowers with a lower rental yield property.

Ultimately, it is now a less profitable business than it was, which will stop folks entering, but equally will cause others to leave. It is worth remembering that the total private rented sector is about 20% of UK housing, but about 60% of that is owned outright and only 40% is subject to a mortgage. It will be at the margin of those with mortgages where the challenges are hit.

Q69 **Gareth Davies:** Does anybody else have a view on the localisation of drops or increases?

Ray Boulger: Just thinking through the macro-implications of some landlords exiting the market and relatively few coming in because the economics no longer look so good, we are already seeing pressure on rents in some areas. The impact on tenants in terms of the ability to find a property and the rent they are going to have to pay is going to be something that the Government will have to think about. That is going to be a real challenge over the course of the next year or two.

Joanna Elson: At the National Debtline, 14% of our callers have mortgages; 69% are renters. We are seeing a pretty specific increase in those worried about their rent. We need the Government to bring forward that package of reforms they have talked about in terms of protection for renters, including ending no-fault evictions, because this space is just going to get very difficult.

Ray Boulger: On no-fault evictions, I can obviously see the attraction from a renter, but if you look at landlords' views, if they are not able to have a no-fault eviction, if, for example, they want to sell the property, it is going to put some landlords off buying, even those that might still be thinking about it. It is a double-edged sword. It is not an easy one.

Charles Roe: It is not, and in the rental sector there is a confluence of headwinds that the landlords are facing. Many of the headwinds and the challenges they are facing are for the right reason, in terms of improving the EPC rating of rental properties. We are still waiting for BEIS to put its final rules out on its heat and buildings strategy. It has been over a year since it said it would be doing that, but from 2025 new tenancies will be required to be EPC C or above, which is good news for tenants.

Ray Boulger: Is that right? I think that Bill has been kicked into the long grass. I do not think it is law yet.

Charles Roe: It is not law, no, but at the moment the proposal is 2025, and for existing tenancies it is 2028. We also have the decent homes standard, which again is the right thing to ensure that tenants are living in a secure home that is dry and is a place in which you would want to bring up your family. Again, all these things add additional costs to the landlord at the same time that they are facing an increase in costs in terms of their mortgage, and also uncertainty in terms of where the sector goes. There is a lot of challenge in the buy-to-let and the landlord sector at the moment.

Q70 **Gareth Davies:** Chris, you mentioned that there was upside potential. What are the key drivers of that? Could the rental market stress that we are hearing about mean there is more demand? People are paying so much in rent that, with mortgage rates coming down and projected Bank of England rates coming down over the medium term, it could actually incentivise people to buy properties rather than rent.

Chris Rhodes: I am going to repeat what our economist says; I am not an economist. It is not a zero probability that, post what we have seen in recent times, as we get into next year, interest rates fall very quickly and certain inflationary components drop out of the inflation rate; rates fall; unemployment therefore does not rise because the supply side of the economy is not being damaged; and therefore things get better. It is not a raging probability, but it is not an unrealistic outcome.

Q71 **Gareth Davies:** The last thing I want to ask about is the long-term potential changes to the mortgage market. Ray, if we look across the world, whether it is the United States or Germany, we see mortgage providers offering 30-year fixed-rate mortgages. We do not really have many mortgages above a 10-year period. Why is that?

Ray Boulger: Charles can probably answer that better than me, but I would say it is probably just down to the fact that things have always been done that way, and there has not been much of a reason to change from a lender's perspective. However, we have seen some changes. I am long enough in the tooth to remember when, at the time of the 15% mortgages, we had a 25-year fixed-rate mortgage offered by Bear Stearns, in 1989 or 1990. The interest rate on that mortgage was 11.9%, but it had no early repayment charges, and because mortgage rates at the time were 15% or 15.4%, that was a really attractive proposition despite the fact it had a 3% fee.

It is a case of what you can offer as a lender that is attractive at the time based on what you can find. At the time, that was a really good offer for borrowers. Most borrowers redeemed that mortgage within five or six years, but it actually paid for itself in the first year because, despite the 3% fee, you would save that in mortgage interest.

Where are we now? We know Perenna is planning to launch in the first half of next year. They are talking about 25 to 30-year fixed rates, and they are only going to impose early repayment charges for the first five years. That addresses one of the two key reasons why people do not buy long-term fixed rates. They are worried about being locked in. The other factor is the interest rate. A lot of people will not pay that much more than they would pay on a short-term deal, so it is a case of whether lenders can offer a long-term fixed rate that is not too far above shorter-term fixed rates—I do not think we are going to get into the inverse yield situation to allow it be to lower—and has acceptable early repayment charges.

The other interesting model is Kensington, which launched a year ago, backed with pension fund money. Although their mortgages, which go up to 40 years, have fixed rates for the whole term, their criteria say that if you redeem the mortgage because you are selling the property, then you do not pay the early repayment charge. Effectively, what they are saying is, "If you are going to redeem the mortgage because you are re-financing to get a cheaper deal, we are going to impose the charge, but if you are re-mortgaging because you have cash available from other sources, we will not". That is another interesting model.

When they first launched, if you were looking for 60% LTV or less, you could have borrowed money for 30 years at under 3%. There are people who we talked to about that product, and virtually nobody bought it at the time. I suspect many of them are now thinking, "Actually, that might have been a good idea". The key thing from a homeowner's perspective is to look at this as an insurance. You would not think of not insuring your home, but perhaps you should think about insuring your ability to pay the mortgage for longer than two years.

Charles Roe: Ray has done a very good summary there, but in terms of the psychology of going into longer-term fixed-rate mortgages for the UK borrower, since 2007 interest rates have been on a downward trajectory. The philosophy of the homeowner is, "I will fix for two years. I will fix for five years because I will be able to get a cheaper deal at the end of this or a same-rate deal", which is what we have seen. Also, there are seven and 10-year mortgages that are available on the market. In terms of the uptake on those, it is less than 2% across the whole of the mortgage market in the UK. The uptake is very low.

When you interview a couple when they are looking to take out a mortgage and you talk to them about a 10-year or longer fixed-rate mortgage, together they think that is a very good idea. When you interview them separately, they say, "No, I do not want to do that", and you say, "Why not?" They say, "I am not sure whether we will be together over the lifetime".

Chair: I do not think we should go into that.

Charles Roe: It is about the psychology of it. Jointly, they will make a decision and say, "Yes, we will borrow for longer", but individually they will say, "No, I will commit for five years because I can foresee our plans for the next five years. Longer than that I cannot".

Gareth Davies: I have never had that conversation before. Thank you for your evidence.

Chair: Gareth, none of us has.

Q72 **Emma Hardy:** Joanna, you mentioned earlier on that there was a lag in people seeking help when they are reaching out, but I just wondered whether you had seen any increase in the numbers of people reaching for help with debt and mortgage payments? If so, what kind of advice are people looking for at the moment?

Joanna Elson: Yes, we have seen a big increase because of cost-of-living pressures. We are up 37% at National Debtline on this time last year. That is pretty chunky. That is not specifically on mortgages. As I said, a small proportion of our clients are mortgage-holders, but the changes are so new that we would not see that just yet.

I mentioned the perfect storm. It may be worth picking up on something that you said, Chris, which was about those with the lowest incomes being the ones who have the least flex. That is something that we are definitely picking up. In August, we asked adults what proportion were in mortgage arrears, and that was 5%. That was up from 2% when we asked in March. When you look at different groups, that changes. For people with an ethnic minority background, that is 7% rather than 5%. For people receiving means-tested benefits, that is 10%. For young people under 34, that is 11%. That gives us some clues as to where we need to focus help. We and lots of other organisations are calling for the Government to uprate benefits in line with inflation. Those other groups need attention too.

Q73 **Emma Hardy:** Just to pick up on that, you said not as many of the clients seeking help are mortgage-holders. I can imagine lots of them are renters. Are we seeing the impact from what Chris was describing? Is the tightening of the buy-to-let market leading to increased rents? How is that impacting rent?

Joanna Elson: At the moment, we are seeing worries about that rather than massive increases of arrears. The rates we are seeing for rent arrears amongst our clients is something like 12%, so that has not changed dramatically over time, but we all know that both for mortgage-holders and renters a very difficult time is coming, and we expect to see an increase over time.

Q74 **Emma Hardy:** Chris, are you seeing more people coming to you with concerns about mortgage payments?

Chris Rhodes: No, not yet. We have set up a very specific helpline. We have trained all colleagues in the branch network to have these conversations, and we are seeing a low level of volume into that at the moment. A little bit of that is, as Joanna and Charles said, that people are nervous about asking lenders, and it is really important that they do, because we have a range of tools that can help them. Volumes at the moment are relatively low. What I worry about as we look forward is clearly the winter energy bills. They have not really landed yet, and therefore, as we look to flow into your world, Joanna, and potentially arrears, it is new year where we see people paying higher mortgage rates, energy bills and those kind of things.

Q75 **Emma Hardy:** Joanna, is your prediction that you are going to see more people seeking help in the new year?

Joanna Elson: I think so. In debt advice it is seasonal anyway, so after Christmas and when the first credit card bills of the year land in mid-January is always a very busy time. We expect that will be busier this time for the reasons that Chris and others have outlined. It is great that banks and building societies are reaching out, and the line that you talk about and the examples that people have on their websites are all great. I have a leaflet here that we did with the Building Societies Association, which takes people through what to do if they are worried about their mortgage. I would just stress that it is hard for people to reach out, so the reaching in from lenders is really important.

Charles Roe: We have been collecting data from a range of our members over the course of the last three or four months in terms of the volume of calls they are receiving from borrowers concerned about their finances. Those are going up, but what we are seeing from the feedback from our members is that borrowers are on the front foot. They are not in arrears. They are not facing financial difficulty at the moment.

They are reaching out to their lender and saying, "I think I might be facing some difficult issues ahead in terms of my mortgage payments and also my cost of living, gas and electricity. What do I do?" Lenders and their specialist teams that Chris talked about are talking the borrowers through those options, helping them through these things, and pointing them in the direction of the help that is available.

This is very different from what we have seen in the past. When I go back to what happened in 2007 and 2008, borrowers waited until they got into financial difficulty, had perhaps missed one or two mortgage payments, and their mortgage provider was actively contacting them and reaching out to them to find out what was going on. This time, those borrowers that are engaging are on the front foot. They are seeking advice. They are thinking about their own individual circumstances, but that is not everybody and we recognise that.

We recognise the figures that Joanna is talking about in terms of that increase. The lending community provides nearly £100 million towards the debt advice sector every year in terms of supporting that. We see a need to get additional funding into that sector. We are encouraging the telecoms companies and also the energy sector to start making a contribution as well, because it is not just the banks. The banks can help, but it is also the telecom and energy companies that have a part to play in helping borrowers, homeowners and tenants through this particularly difficult time.

Q76 **Emma Hardy:** I was going to go on about face-to-face debt advice, but I will save that for another session; I may have mentioned it before. Joanna, you mentioned before about the prioritising of bills. If I am right, you said that often the mortgage and the rent is one of the last ones. Could you elaborate on that point a little bit?

Joanna Elson: People are really juggling at the moment. You have a big energy bill, your food prices are going up and people have done all the trading down from Waitrose to Sainsbury's to Aldi or whatever it is in your particular world. They have done all that and they do not have very much left, but the thing they prioritise is the roof over their heads. By and large, that is what people scrimp and save to pay for.

Having said that, I did hear from a lender this week on a slightly different trend, which was an assumption that, because it would take a while for arrears processes to kick in with a mortgage, they had seen an increase in some people pausing on their mortgage in order to have some money to pay for other things. This is one of the issues. When people phone us or Citizens Advice or one of the other charities, we talk them through priority and other debts. They work out which ones they need to pay first and what the consequences are if they do not, but if people are struggling with this on their own, often they do not know what to do. Their instinct is to preserve the roof over their heads, but it does not always work out like that.

Q77 **Emma Hardy:** Is it just a matter of time before you think some households are going to pare back so much that the mortgage is going to be the next thing?

Joanna Elson: Yes, and, acknowledging what everyone said, we are urging people to talk to their lenders. In the pandemic, lenders did really step up. We need them to do that again.

Q78 **Emma Hardy:** You touched on this area in response to another question, but how far will measures such as lender-agreed payment holidays or moving to an interest-only provide some relief to households? Are we storing up problems for the future?

Joanna Elson: The FCA is right to require lenders to be considering those and to offer tailored solutions, because there is never a one-size-fits-all. People are in different situations and they need to be tackled in that way. Sometimes there is also a language problem. One of the things we saw in the pandemic was that, in terms of the idea of a payment holiday—we talked about it a bit earlier—some people thought that meant you did not ever have to repay it. Perhaps it was not explained to them.

We have to be really careful with the language. Whatever solutions are being offered, we have to explain them really carefully, so that people understand not just what the impact is now, which is what they are worried about, but, as importantly, what the impact is for the future.

Q79 **Emma Hardy:** You talked earlier on about some of the things the Government could do, including reviewing the support for the mortgage interest scheme and uprating benefits in line with inflation. Are there other things that you think the Government could do to prevent what could be an incredibly difficult time for lots of people?

Joanna Elson: Uprating benefits would be a big help, because otherwise people have one hand tied behind their back with all these rises. On support for mortgage interest, one thing I did not say that I should have done was that, because this is now a loan, the things we are all collectively for, such as not waiting nine months and being eligible if you are working, do not have a massive impact on the public purse. It is now a loan that is repaid when the property is sold, so that is worth us hanging on to. It would be important if we could collectively say to Government, "This is something that would make a real difference to people. You, Prime Minister, agreed this in June. Would you like to follow through with it?"

In terms of other things, we talked about making sure that people know where to go for help. Let us get people to phone or contact their lender, but if they are worried about that, they can also seek help from us or one of the other charities. Sometimes you are worried about picking up the phone to your lender because you are not sure what the consequences of that would be. It is probably worth speaking to one of our advisers or Citizens Advice or whoever, because we can walk through what happens next, what the timescales are, what sort of conversation your lender will have with you and what paperwork you will need. Getting that all lined up, with the Government supporting that and telling people where to go for help, would be important.

Charles Roe: We fully support the improvements to the scheme supporting mortgages. One of the other things I would say is for the Government to look at how frequently they review the reference rate that the interest is paid on, because there is a long lag behind that. It needs to reflect more accurately the interest rate that borrowers are facing today rather than historically. That is a very key thing as well.

Joanna Elson: They are only getting 2.08%. If they are paying more than that, which anyone whose rate has moved will be now, then there is a shortfall.

Q80 **Emma Hardy:** Finally, you talked earlier on about a public information campaign about where to go and get help. Is that something you have been considering if the Government do not step up and do it?

Charles Roe: Yes, very much so. We have been having discussions over the course of the last few weeks around how this would be funded, how it could be promoted and the various agencies that we would want to support it with us. Something similar to this happened at the beginning of the pandemic. The banks and lenders all came together to put out a campaign about the payment deferral scheme and how to contact your lender if you are facing financial difficulty. We would very much support going down that route again, and we are having active discussions with our lenders around that.

Q81 **Emma Hardy:** Even if the Government does not step up, as the lenders you will.

Charles Roe: From the point of view of our responsibilities to homeowners and landlords, yes, very much so.

Chris Rhodes: It is in all our interests to get that early engagement. Therefore yes, we would absolutely support an information campaign because, if you come and talk to us, we can potentially avoid you even getting into arrears. To Ray's point, for those people paying standard variable rate, the first thing to do is review your mortgage. You can get a lower interest rate.

Q82 **Emma Hardy:** Is there anything you want to add, Ray?

Ray Boulger: No, I think I have pretty well covered it. I am on the board of the Association of Mortgage Intermediaries, and we liaise very actively with UK Finance on matters like this, so I am sure AMI would be keen to be involved in any such programme.

Q83 **Alison Thewliss:** I have some questions around household repossessions, some of which have been touched on earlier in a little bit of detail, but I would like to go into a bit more detail on some of the answers that you have given.

I want to ask first of all about the differences between now and the 1990s, and other eras where there have been high interest rates. Can you explain to the Committee the differences between then and now in terms of mortgage debt as a proportion of income, what impact that is going to have now, and how much worse off household circumstances are now compared to then? Joanna, you mentioned earlier on that you remember the times of higher mortgage rates. We are not quite in the same financial situation now. Can you describe what is different now and why it is important?

Joanna Elson: It is back to that perfect storm point. Inflation is where it is, coming up to 11%. None of us could have foreseen what energy prices would look like. Everywhere a household looks, there are increases. Playing your mortgage increase into that is a very different place to where we are.

Charles Roe: If you look back to the 1990s, typically the average mortgage was three times a salary, because interest rates were much higher. Now, with interest rates being reduced over a number of years, we are seeing that, on average, you can borrow four and a half or five times in certain circumstances. Although the interest rate is not higher, the exposure in terms of the quantum that is borrowed as a proportion of salary is higher than it was in the 1990s, which is where we are seeing the concern. We are seeing market commentators talking about interest rates not being as high as they were at 15%, but the actual impact in terms of disposable take-home pay is much higher than it was then.

Q84 **Alison Thewliss:** Does that mean people are more exposed to risk?

Charles Roe: People are more exposed to risk, but at UK Finance we have done some wiggle-room analysis, which we published in terms of when people took out their mortgages and where they are now compared to then in terms of disposable income. There is some challenge for a number of borrowers in terms of where they are, but for a significant majority of borrowers, they are able to absorb those costs at this stage but, as we have said earlier, lenders are acutely aware of where this could go in the future, particularly come April, when the £400 benefit towards energy costs is removed and is more targeted.

Chris Rhodes: There are some fairly significant structural differences between the early 1990s and now. Halifax launched the first fixed rate in 1989, so pretty much everybody in 1990 was on variable rate. When rates went from 8% to 15%, the whole mortgage population was impacted. Loan to values at that point in time were significantly higher than the average loan to values today, so our book was just over 51%; we are not a million miles different from the market. Everyone was impacted by a significant increase in their repayment.

The compounding impact of 14% versus the compounding impact of 6% means your mortgage debt was growing far more quickly, and at that point mortgage lenders concluded that repossessing and selling quickly was the best answer, which created the huge number of repossessions we saw. We now have 80% on fixed rates. Yes, those rolling off fixed rates are going to potentially see a 3% uplift, but we have all the forbearance tools that we did not have available to us, and lenders have learned their lesson about not trying to fire-sale properties, because it is neither in their interest or the homeowner's interest. In lots of ways we are in a very different place, but everybody was impacted because fixed rates did not exist.

Charles Roe: Also, in terms of the repossession process, it is much more clearly documented now in terms of the steps that have to be followed, both from the regulator's perspective, which are very clearly laid out in the mortgage lending handbook, but also from the point of view of the court service as well. Throughout that whole process, repossession is only ever seen as a last resort after all other forms of support and remediation have been examined and looked at.

When you go through the courts process, there is the opportunity to have arbitration between the borrower and the lender to make sure that all opportunities are being explored. We are seeing that, in terms of the number of repossessions taking place, there is still a significant backlog from before the pandemic. Those customers that are in arrears at the moment or are facing repossession are not facing repossession as a result of the recent increases in the cost of living. These are long-term historic issues. At the moment, it takes about two years from the repossession process starting to actually concluding.

Q85 **Alison Thewliss:** You said earlier that you were not keen on a similar type of scheme to the pandemic. Could you explain that a bit more?

Charles Roe: Yes, primarily because the fundamentals in terms of how the scheme operated then are very different to the market fundamentals and issues that we are seeing now. In the pandemic, it was done as a response to the whole of the country closing down. There was the furlough scheme that came in, which helped fill some of the gaps when people were not being paid by their main employer. It was seen as a temporary issue, initially for three months. It was extended for six months, and the country got back to work as the restrictions were lifted over that time.

In terms of where we are now, interest rates are much higher. There were no questions asked last time; it was a blanket approach. This time, a bespoke approach by lenders is a much better outcome for the borrower, because the solution can be tailored for that individual borrower's needs rather than just a blanket approach. As Chris was talking about earlier, in terms of interest rates being higher now, a lot of borrowers would be facing higher costs on their mortgage payments. That compounding impact, although not as great as it was in the 1990s, will still have a significant impact on borrowers' ability to repay in the long term. Lenders have to look at the long-term impact this has on borrowers.

Q86 **Alison Thewliss:** Will different cohorts of mortgage-holders be affected differently? I am thinking perhaps of people who were lucky enough to build up savings during the pandemic. They are presumably going to be less affected. Does the buffer they have still exist?

Charles Roe: You are right. Different cohorts of mortgage borrower will be impacted differently. Those that have stretched their affordability, perhaps across higher income multiples, will be the ones that are stretched. Also, it will depend on their individual income and expenditure, in terms of if they have car purchase plans on top of their mortgage and those sorts of things that they have to make regular payments on. We are seeing that when borrowers are calling their bank, rather than asking for debt advice or debt support, they are asking for budgeting advice at the moment as well, which is, again, borrowers taking responsibility for where they can cut back and where they can make those savings, as Joanna was saying, in terms of trading down not just their shopping, but also perhaps cancelling a Spotify or Netflix subscription.

Q87 **Alison Thewliss:** You talked about the changes that will happen come April when the support for energy costs changes. If people are not eligible for that, if they are not considered vulnerable enough at that stage, will lenders have to change and evolve their policies as a result of that as people come off those fixed-rate mortgages?

Charles Roe: When looking at vulnerability and forbearance, lenders will take into account a range of options in terms of the income and expenditure that a borrower has. They will provide a tailored solution. Ultimately, yes, there will be an impact on affordability, but at this stage we do not know where that support is going to be targeted by the Government. Lenders will not be making any changes to their policy until they are clear on that.

Q88 **Chair:** On that issue, Ray, you are doing stress tests, but how can you do a stress test if you do not know what the energy support package is going to be next April?

Ray Boulger: It is the lenders who will decide that. We can go online with a multitude of lenders, do a decision in principle and see what the maximum loan is from different lenders. Of course, lots of borrowers do not want to borrow the maximum amount, but if you have a client who is looking to know what the maximum they can borrow is, then we can put the figures in and see what comes back from a variety of lenders.

One may then have a situation where you could perhaps have one lender that would offer, say, £300,000 at 5.5%. Somebody else might offer £280,000 at a slightly higher rate, and somebody else might offer more. The conversation with the client, if they are looking to know what their maximum ability to borrow is, will be giving them an idea of not only the maximum they can borrow, but the difference in cost if they actually choose to borrow a bit less.

Chair: It is quite an important thing to wonder how you analyse it.

Q89 **Alison Thewliss:** With things changing really quickly, it must be difficult to anticipate what is coming. Finally, Chris, you had said you expected repossession rates to be materially lower, and you said that most people may not need to be repossessed. You expect the rates of repossessions to go up, though, from where they are just now.

Chris Rhodes: As Charles said, it takes a long time from starting the process to get to a repossession order. It takes even longer for a customer to get to that point if they engage with their lender, and it really is a last resort, which fundamentally means that their earnings have changed forever and they are not ever available to service that mortgage on an ongoing basis. That is when a repossession will kick in. If someone can pay interest only, then they will be staying in that property forever. Ultimately, they are going to have to sell it in a different way to pay the mortgage, but they will not get repossessed.

Q90 **Alison Thewliss:** Perhaps, then, it might be a while before we actually see an increase in the rates from the situation we have just now. There will be a longer lag to this.

Chris Rhodes: I think that is right. We monitor forbearance closely, so things you do before customers get into arrears. You will see a rise in forbearance, which is the tools being deployed, and potentially then you will ultimately see a rise in arrears, and that may, in a number of years' time, feed through to repossessions. It is not and should not be a quick process.

Charles Roe: If I can give you an indication in terms of the volume of repossession cases that we are seeing, in the last quarter data of repossessions, the number of cases was less than 800, which is much lower than we have seen historically. Lenders are taking this very seriously in terms of where they are.

Q91 **Alison Thewliss:** But we could be seeing a very long tail from this particular crisis.

Charles Roe: Yes, potentially but, as Chris said, to get there it is a very long process that has to be followed and very clearly documented, both in terms of the court process and what the regulator requires lenders to demonstrate that they have discussed with those borrowers in distress.

Q92 **Harriett Baldwin:** I just wanted to mop up a few last questions on vulnerable customers. It strikes me from your evidence that every financial crisis has its own unique characteristics. This seems to be one in the mortgage market where we have had a long period of rising house prices and probably, as a result, not as many people in negative equity currently. Are you all nodding in agreement to that?

I heard the evidence that arrears are extremely low, but, on the other hand, the quantum borrowed is extremely high. I just wondered, Charles, what your members are doing in terms of provisioning at the moment for a concern about how things might develop in their mortgage book in the future, and whether you have any data on what the mortgage book is as a percentage of the housing equity of the United Kingdom.

Charles Roe: I do not have that available to hand. What I can tell you, though, is that the percentage of mortgaged properties in the UK is only 40% of the housing stock.

Q93 **Harriett Baldwin:** 40% of the housing stock is mortgaged.

Charles Roe: Yes, so 60% are not mortgaged. They are owned outright by the owners or by the landlords. In terms of negative equity that you mentioned, the total number of mortgages that are in negative equity across the whole of the UK, including Northern Ireland, is less than 0.15%. The few properties that are in negative equity tend to be in Northern Ireland and pockets in the north of England, so the north-east and some pockets in the north-west as well. We are not seeing huge amounts of negative equity. If you look back to after the 2007 crisis, there was about 1.5% of homes in negative equity then, so a significant number after that crisis.

In terms of where lenders are, they take a very sophisticated view in terms of how they provision for mortgages. They have to follow very clear accounting standards to do that. The results that have been announced by the largest banks over the course of the last week have reflected an increase in provisions that they have made on their lending book. Some of the banks have actually detailed where they are provisioning for on the mortgage book; others are just in terms of their loan book. That will be to SMEs as well as to private individuals, but Chris is probably better to talk to about the provisioning.

Q94 **Harriett Baldwin:** Yes, I would be interested to know whether Nationwide recognises that particular picture.

Chris Rhodes: I can talk very generally, but apologies to the Committee; I am in my close period so I have not reported my half-year and will not do so until 18 November. Effectively, we all create a range of economic scenarios, which I referenced before. We run those through a series of models that calculate different components of loss, such as the probability of a customer defaulting, and ultimately the probability of repossession. Then we apply a loss number to that and we run that through different economic models, in our case through four scenarios, and depending on the probability we attach to those scenarios, we weight the expected loss outcome.

At my full-year in May, we made a very specific adjustment for what we called inflation affordability. Clearly, what we are now seeing in the inflation environment we have not seen for arguably 30 years. Our models are built over a shorter period of behavioural time, so we judge that the models would not capture that inflation peak as well as they might, so we made some very specific modelling adjustments and increased our loss charge by £108 million, associated with what we call the affordability risk. We will revisit all of those as part of our half-year.

Q95 **Harriett Baldwin:** When you last published the data, what was your exposure in terms of your loan book as a percentage of equity?

Chris Rhodes: The numbers I have in my head would be what we call our provision coverage ratios. For personal unsecured credit, our provisions would be about 11% of outstanding balances; for mortgages, it would be about 13 basis points.

Harriett Baldwin: That is 0.13%.

Chris Rhodes: Yes, 0.13%. The average loan to value of the Nationwide book is 51%.

Q96 **Harriett Baldwin:** When the FCA wrote to lenders to remind them of their obligations towards vulnerable customers and borrowers in financial difficulty, Charles, are you aware if all their members changed their behaviour at that point? Have you kept track of how they are changing behaviour?

Charles Roe: It is interesting that you use the phrase about whether all our members changed their behaviour. I would say that our members take vulnerability very seriously. At UK Finance, we have a vulnerability committee, which dedicated individuals from all of our members can attend to talk about the latest issues in terms of vulnerability, making sure that those vulnerable customers are treated fairly and that they understand the issues. By the very nature of somebody contacting their bank about financial difficulty or being concerned about financial difficulty, that would indicate that they are vulnerable for that period of time, so lenders are required to take vulnerability into account.

Q97 **Harriett Baldwin:** Are you saying that the FCA letter did not prompt any change in behaviour?

Charles Roe: The letters from the FCA around customer vulnerability in terms of things like switching and mortgage SBRs are always a very welcome reminder for firms to do that, but it is not something that is only talked about when the FCA writes. Lenders, whether it is unsecured or secured, will talk about this on an ongoing basis and make sure they are picking up those vulnerable customers when they are contacting the firm, either through traditional channels in-branch or over the phone, or through digital channels as well. I do not want to look like I am passing the question on, but—

Harriett Baldwin: I was going to ask Chris the same question.

Charles Roe: Yes, Chris or Joanna, because she would deal with this on a day-to-day basis through the debt advice side of things.

Q98 **Harriett Baldwin:** I was wondering, Chris, whether you actually made any internal changes on receipt of that letter.

Chris Rhodes: No, not any internal changes. The thing we did, which was not required by the FCA letter, was the helpline and training colleagues in the branch network so we can do face-to-face conversations with our members.

Q99 **Harriett Baldwin:** Again, given the particular characteristics of this financial crisis, can you paint a picture of who is most likely to be increasing in vulnerability in the current economic climate, Charles?

Charles Roe: As I said to your colleague, Alison, I would say those individuals who have stretched their affordability.

Q100 **Harriett Baldwin:** And those who have done that recently.

Charles Roe: Yes, potentially recently, but also potentially long-term as well, but also in terms of those who are on relatively low or fixed incomes. We know that borrowers will take a mortgage and still be repaying that in their retirement. We are aware—and this is a common fact—that a number of people took early retirement following the pandemic, and some of them will still have mortgages to pay. Their income will have reduced because they will be on a fixed income, so there will be those challenges there.

Q101 **Harriett Baldwin:** You are collecting statistics on those characteristics that are out there and published in terms of the age and how different the characteristics might be.

Charles Roe: Not specifically those individuals in terms of age and protected characteristics, but what lenders are aware of is that, looking at those borrowers on fixed incomes, lending into retirement, they will know which borrowers have passed their retirement age and still have mortgages so that they can contact them as well. As I said before, their teams are trained to be able to pick up those customers who may be vulnerable when they are phoning in terms of their actual individual circumstances. It is a tailored approach that is taken now. As Joanna mentioned, the banks learned a lot from the pandemic in terms of how to deal with customers that are facing difficulty, and they want to build on that because it is a positive place to build from.

Q102 **Harriett Baldwin:** Given the current situation and the current financial backdrop, I can see why lenders are calling for an extension of the mortgage guarantee scheme, but does that make sense if you are on the side of the Treasury? Would that make sense at this particular point in time?

Charles Roe: Yes, from the point of view of providing that certainty for lenders and also homeowners.

Harriett Baldwin: It is great for lenders.

Charles Roe: It is also great for homeowners in terms of facing potential negative equity if house prices were to reduce. That scheme provides that support. Also, from the point of view of borrowers, all borrowers are stressed for affordability. As Ray said right at the beginning, they are stressed for affordability. Those criteria for affordability are very clear, and that is done so that borrowers can face financial challenges in terms of interest rates going up or the cost-of-living challenges that we are seeing, and still afford to keep a roof over their head.

Q103 **Harriett Baldwin:** Chris, I am not clear. Is Nationwide a signatory to the mortgage guarantee scheme?

Chris Rhodes: We have always stayed in 95% apart from a very short period at the beginning of the pandemic, and we do not use the mortgage guarantee scheme. We are happy to take that risk ourselves because of our lending criteria and standards. We judge that we have a better answer than buying the policy.

Q104 **Harriett Baldwin:** Can I ask if any of the rest of the panel have any final points they want to make, particularly on vulnerability?

Ray Boulger: On the mortgage guarantee scheme question, although, from a lender's perspective, the more options they have in terms of whether they choose to insure their higher LTVs and, if so, how to do it, the better, there are private sector schemes that have come into the market recently. There is one, for example, called Deposit Unlock, which is funded in part by developers. That is only available on new-build properties, and developers provide some funding for that. There are one or two other schemes.

In general, the private sector has been stepping up to the mark in terms of providing alternative options. My view is that if the Government could step out of that in due course—obviously they need to give a reasonable amount of time—because the private sector is providing alternative solutions, that would be good, because it is not something the Government should be involved in long term, only when they need to deal with a short-term problem.

Chris Rhodes: We participate in the Deposit Unlock scheme. It aligns the interests of lenders and builders because they have an interest in the value of the property they build.

Joanna Elson: I can add two things on vulnerability. We run Business Debtline as well as National Debtline, so that is a lot of self-employed people. It is worth bearing in mind that they are facing the double whammy of the same pressures that everybody else is plus business costs and the pandemic hangover and all of that. It is very difficult to get a mortgage if you are self-employed. That is one group we should be collectively focusing on.

The final thing is that you probably all know that the FCA publishes this very good data set called Financial Lives. In the last edition of that, I was really interested to see that 25% of mortgage-holders have a household income of less than £30,000. That is a chunky number, and those are the people who are going to be the most stretched, so we should just bear that in mind when some of us make sweeping statements.

Q105 **Chair:** I want to ask a bit of a technical question to finish on. Can Chris explain, for those who are watching, the connections between the gilt market and the price of gilt markets and the price of mortgages? There are some people perhaps who were high up in the Treasury who did not understand that when they were making decisions on the mini-Budget. Could you just do that? There is quite a well-known connection.

Chris Rhodes: In order to manage interest rate risk on our book, we hedge all of our fixed-rate mortgages using interest rate swaps. Two-year fixed-rate mortgages are hedged using an interest rate swap. Gilt prices determine the shape of long-term interest rates. The swap curve does not necessarily match perfectly the gilt price, because the gilt price is the risk-free price and the swap price is always slightly higher. There is a difference between the gilt price and the swap curve, but when the yield on long-term, five-year gilts goes up, the swap curve goes up, and the cost of hedging a five-year fixed-rate mortgage goes up, so those numbers I gave you earlier on were exactly what happened, on the dates I gave you, to the swaps.

Q106 **Chair:** That essentially feeds directly through into the price of the mortgages that you can offer.

Chris Rhodes: We effectively operate a hedging pipeline. We estimate the business we are going to write in the next two working weeks or 10 working days, broadly. We book those hedges into the market, so we have a financial commitment to those hedges, and that is what is used to support the mortgages. If volumes double overnight, then we might find ourselves out of hedges, which is what would drive a reprice. Equally, if the market falls materially and customers rightly decide to switch to a lower product now that a lower product is available, we bear the market risk and the break cost of disposing of those swaps, which can be significant.

That is why we do not want volatility, because it complicates that process of, "What are the volumes? How long do we run it? When do I need to reprice? Will I get a peak of volumes that actually means I am out of hedges? Therefore, I have a real market cost associated with those mortgages".

Q107 **Chair:** That is very clear, and I hope those watching understand that connection now. Finally, I have one very technical question. What implication do you think the Bank of England's decision to do quantitative tightening will have in the general area in which you all operate? Clearly, that may also have some effect on gilt prices.

Chris Rhodes: I am not going to answer this in a straightforward way. It depends on all of the other factors in terms of the balancing of budgets, tax, and what UK plc and the market's view of us looks like.

Q108 **Chair:** Are there any other comments on quantitative tightening?

Charles Roe: We have seen the importance of the Bank of England and the Treasury in Government working in harmony on their policies. The expression is, "Independent but co-ordinated is the best way forward".

Chair: I would like to thank all of our witnesses today for allowing us to delve into what is an extremely important issue for all of our constituents and the general wellbeing of our economy. I would like to thank you all very much for the evidence you have given. With that, I would like to bring this meeting of the Treasury Select Committee to a close.