



This may be a cruel bear market rally

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Professor David Miles marked his arrival on the Monetary Policy Committee earlier this month with a bold declaration that the worst of the housing market slump is behind us.

Whether or not this is true, the problem of the country's ballooning fiscal deficit has not gone away – far from it.

The public finances are in such a state that whichever party wins the next general election it is going to have to take some pretty unpleasant political decisions.

Deep government spending cuts are inevitable and that means the loss of thousands of public sector jobs next year – at a time when unemployment is already likely to be rising strongly.

Meanwhile, those with jobs will

face higher taxes and lower net incomes.

None of the above sounds like a convincing recipe for a recovery in the housing market and yet it's clear that in most areas of the country there is plenty of demand among potential home buyers, and that has been the case for several months.

So thanks to low interest rates, have property prices now fallen far enough? Or are we experiencing the cruellest trick of all, a bear market rally.

The facts suggest the latter but who am I to question the mighty Professor Miles.

Although come to think of it, wasn't he the chap who told us in 2004 that what the market needed was loads of 25-year fixed rate mortgages?



Prudent high LTV deals are needed

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Adrian Coles, the director-general of the Building Societies Association, is concerned that stress testing by credit ratings agencies and the Financial Services Authority is discouraging lenders from offering high LTV loans.

Restoring higher LTVs is a key ingredient for the recovery of the mortgage market.

Although the element of lender risk is potentially greater where there is less borrower equity, the reality is that until recently this risk has always been satisfactorily managed, typically by a blend of credit scoring and common sense.

Unfortunately, we now find ourselves in a position where the most crucial element, common sense, is being overridden by

demands of regulation. I fear we are focussing on the minutiae of product innovation and not the strategies that underpin this.

Governments, regulators, lenders and ratings agencies need to work together more imaginatively to create a regime that can better identify corporate irresponsibility without restricting the innovation the market needs.

Higher LTVs are needed to help first-time buyers and when linked to sensible applicant screening and accurate affordability calculations, they provide good business.

We need the FSA to take a lead in encouraging sensible risk to prime applicants. Although time will bring the confidence to allow LTVs to creep up again, sensible regulation could give this a boost so it happens more quickly.



Rising demand for remortgage advice

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A lot has been written recently about the number of purchases exceeding remortgages.

But missing from these stories is the fact that the number of consumers looking for remortgage advice is soaring.

Numbers of borrowers coming through Leadbay looking for remortgage advice rose by 23% between June 2008 and this June.

One interesting shift is in the LTVs these consumers are seeking. The average LTV has increased to 62% LTV from 56% LTV last year.

Another hidden group is those looking for advice on self-cert remortgages. This has grown by more than 50% and now makes up almost 14% of the total seeking remortgage advice.

And borrowers with adverse credit haven't disappeared either.

They make up 8.7% of all those looking for remortgages and their numbers have increased by 20%.

The average age of those looking to remortgage has risen to 41, but there is a notable difference between prime clients and those seeking self-cert deals.

The latter tend to be a few years older, the average being 43 and a half, consistent with the higher average age of the self-employed.

The only fall we've seen in the past year is in lead prices. This has been depressed by the high number of borrowers seeking advice and the increased difficulty in placing mortgages.

The fact that consumers want to engage with advisers is great news as they will undoubtedly have other needs that can be satisfied while waiting for the right remortgage deal.



Home reversions take centre stage

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In the mid-1960s when the first equity release schemes were designed, they were created to provide home owners with a mechanism to generate income.

It was all about making ends meet and being able to pay the monthly bills.

But as the years passed demand shifted to lump sum products as home owners increasingly wanted to release money for lifestyle items such as holidays and home improvements.

This demand was satisfied by mortgage-style products and with a strong housing market clients were willing to allow

interest to accrue alongside their debts.

But the slowdown in the property market has made some clients reassess their decision as there is uncertainty about whether house prices will go up or down.

This has seen a rise in popularity of the oldest type of plan – the home reversion scheme.

We have seen demand for this product increase by 76% in the past six months compared with the previous six-month period.

The benefit of knowing how much of a property has been given up appeals to clients, along with the ability to obtain further advances that offers the flexibility they need.

