In association with:

Kindly hosted by:

London Mortgages Forum

05 March 2019

#FSFMortgages

@TheFSForum - @business - @tony_j_ward

The Financial Services Forum

CORPORATE PARTNERS:

In association with:

Kindly hosted by:

Jonathan Tyce

Bloomberg

#FSFMortgages

@TheFSForum - @business

The Financial Services Forum

CORPORATE PARTNERS:

What Next for U.K. Mortgages?

March 5th, 2018

The Financial Services Forum

Jonathan Tyce
Senior Bank Analyst,
Bloomberg Intelligence

THE STATE OF PLAY IS CLEAR

HSBC – "Over the last few years, as you all know, we were not a significant player a few years back in the broker mortgage channel, which is about two-thirds of all mortgage origination. We've rebuilt access to the brokers last year. We grew mortgages in the UK by about 10%. We shifted stock share from 6.1% up to 6.6%. We've got a low-double-digit share of current accounts. We can continue to take decent share in mortgages if we choose to take it"

RBS – "the pricing is relatively stable compared to the fourth quarter. And we're not really seeing much change as Ross pointed out, we have seen one or two small competitors actually stop lending, we take that quite positively"

Lloyds – "So, even taking into account FLS repayments, et cetera, my expectation is that in the same way that you have this heightened competition on the asset side, you have less competition on the deposit side for basically the same reason. So, there is no demand for those deposits"

Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

NOT A GROWTH MARKET

Source: Bank of England, Bloomberg Intelligence

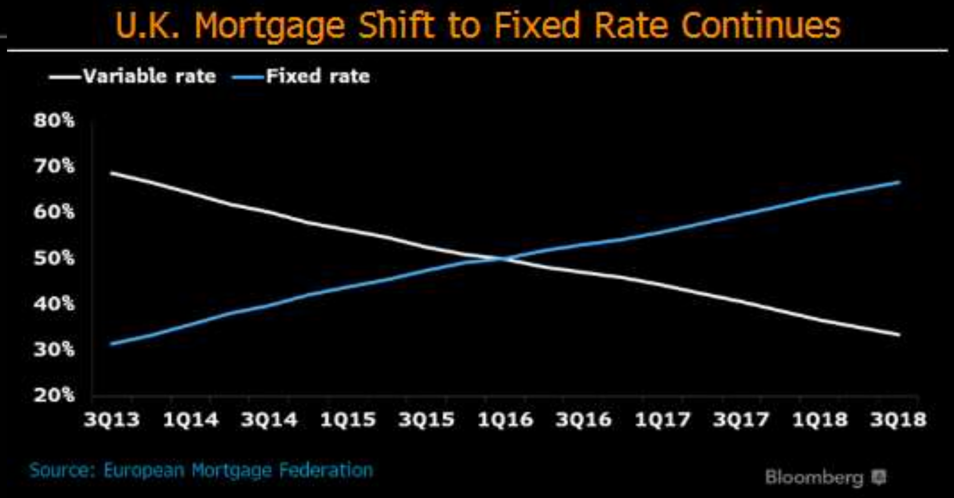
Bloomberg

Source: Bank of England, Bloomberg Intelligence

Bloomberg

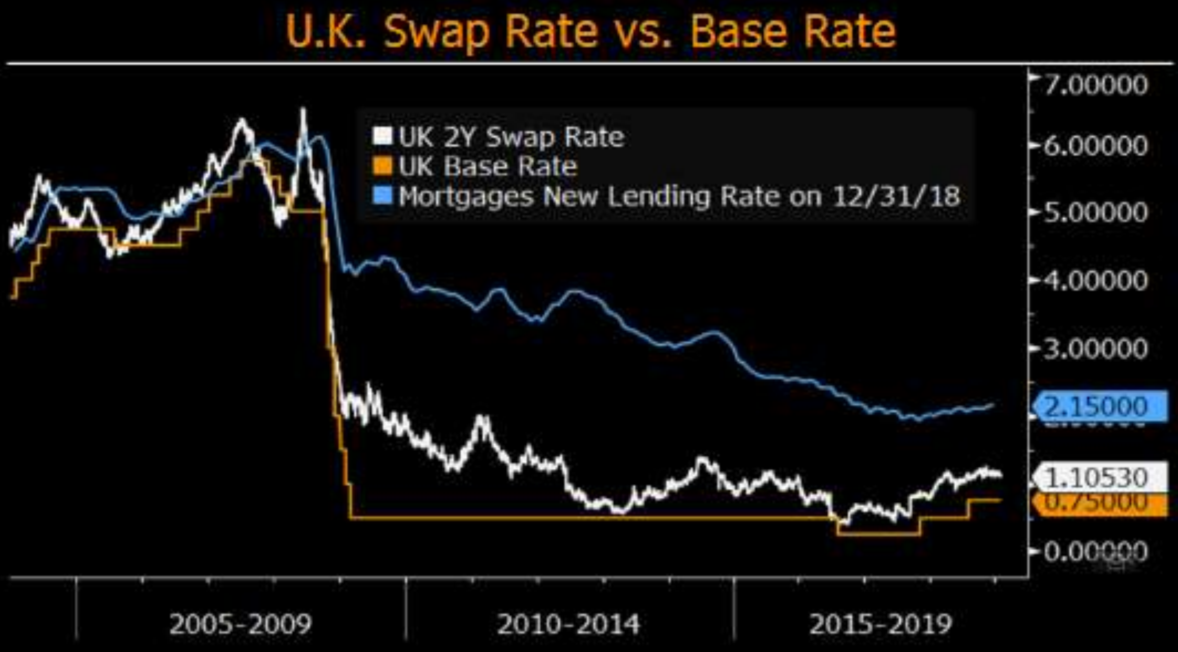
Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

STRUCTURAL PRODUCT SHIFT TO CONTINUE



Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

COMPETITION IS HERE TO STAY



United Kingdom | Browse | Private | Official

Actual / Forecasts | Probability of Recession

Indicator	2012	2013	2014	2015	2016	2017	2018	2019	2020
Curr. Acct. (% of GDP)	-3.8	-5.2	-4.9	-4.9	-5.2	-3.3	-3.5	-3.5	-3.3
Fiscal Balance									
Budget (FY, % of GDP)	-7.5	-5.6	-5.2	-4.1	-2.8	-1.9	-1.4	-1.5	-1.5
Interest Rates									
Central Bank Rate (%)	0.50	0.50	0.50	0.50	0.25	0.50	0.75	1.00	1.35
3-Month Rate (%)	0.52	0.53	0.56	0.59	0.37	0.52	0.91	1.15	1.46
2-Year Note (%)	0.32	0.56	0.44	0.65	0.04	0.43	0.74	1.15	1.53

Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

PRICING PRESSURE VS. CREDIT RISK

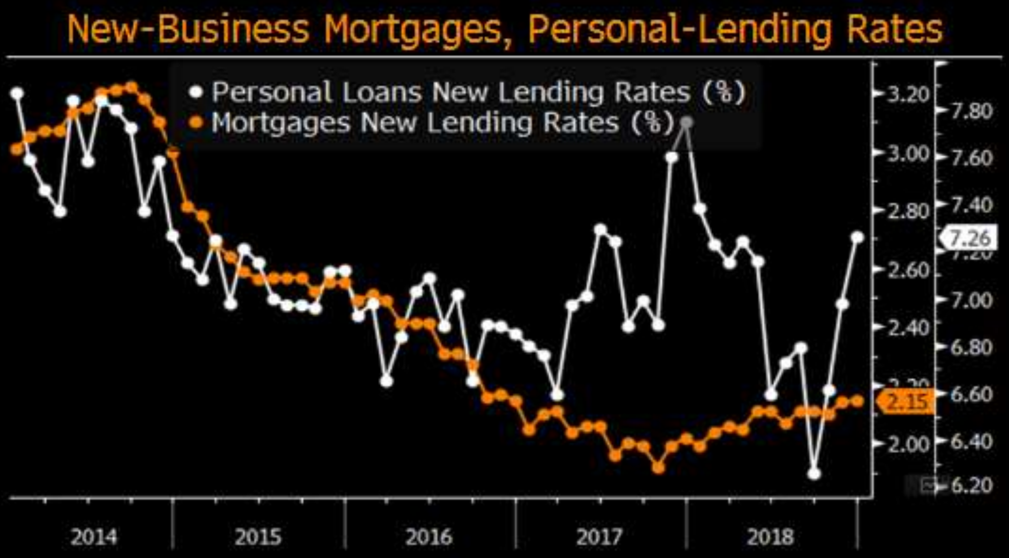
U.K. Mortgage Rates by Bank

Bank (20 August 18)	Current Variable Rate	2yr Tracker Initial Rate	2yr Fixed Initial Rate	2yr Fixed APRC*
Santander UK	4.00%	1.84%	1.54%-1.64%	3.6-3.7%
HSBC	3.94%	1.54%	1.54%-1.94%	3.6-3.7%
First Direct	3.94%		1.84%-2.09%	3.6%
Lloyds	4.24%		2.21%-3.08%	4.1%
Nationwide	4.24%	1.59%-1.99%	1.59%-1.99%	3.9%-4.0%
Barclays	4.24%	1.75%-2.1%	1.60%-1.96%	3.9%
Halifax	4.24%		1.49%-2.42%	4.0%-4.1%
TSB	4.24%		1.64%-2.04%	3.9%
RBS	4.24%	2.32%-2.98%	1.83%	4.0%
Metro Bank	4.00%	2.09%	1.99'	
Coventry BS	4.99% (3yr) then 4.74%		1.75%-2	
Virgin Money	4.79%	1.77%	1.73%-2	

Source: Company Websites, Bloomberg Intelligence

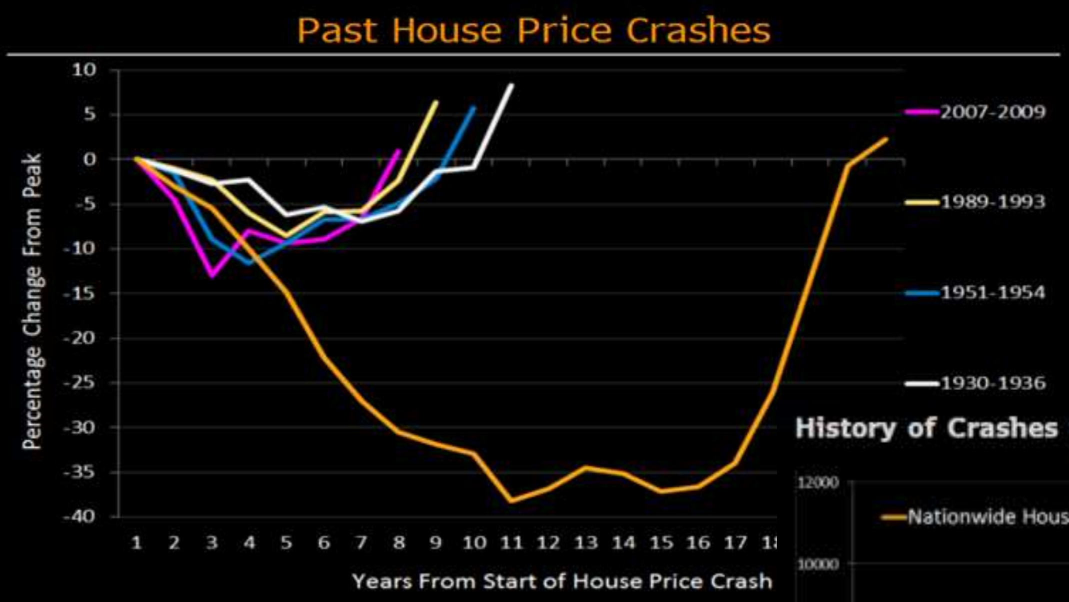
Note: Rates are based on first time buyers and a 75% LTV 25 year mortgage

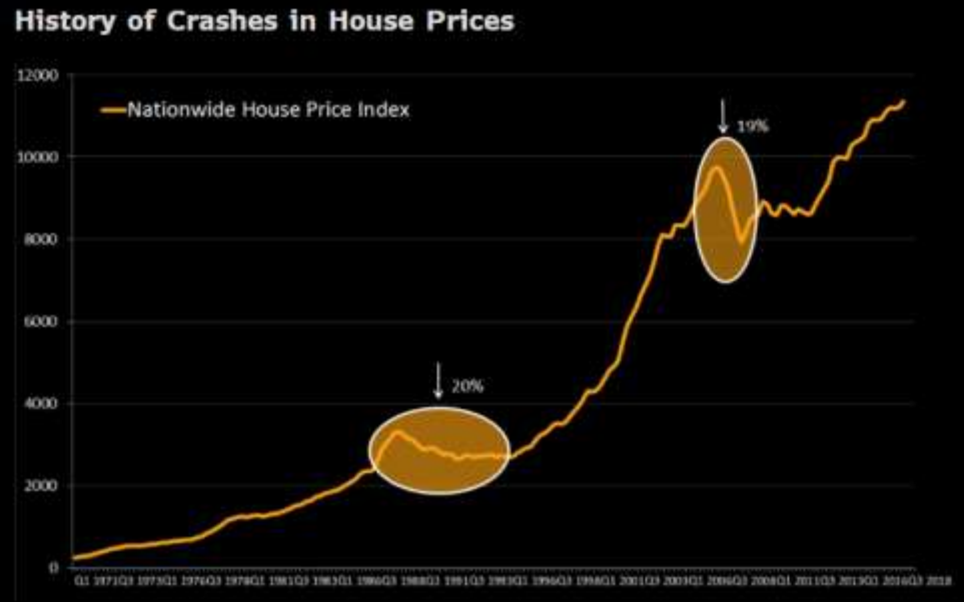
*APRC is the rate taking into account all additional fees and assuming the mo



Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

HOUSING CRASH RISKS LIKELY OVER-STATED





Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

LTV CUSHIONS ARE SOLID

	LTV Stock				LTV New Lending	
	2010	2014	2017	2018	2017	2018
Lloyds	56%	49%	44%	44%	63%	63%
Nationwide	49%	51%	55%	56%	71%	71%
Santander UK	51%	47%	42%	42%	62%	63%
RBS*	58%	57%	56%	56%	70%	69%
Barclays	43%	52%	48%	49%	64%	65%
HSBC**	n/a	44%	40%	49%	59%	65%

Source: Company Websites, Bloomberg Intelligence

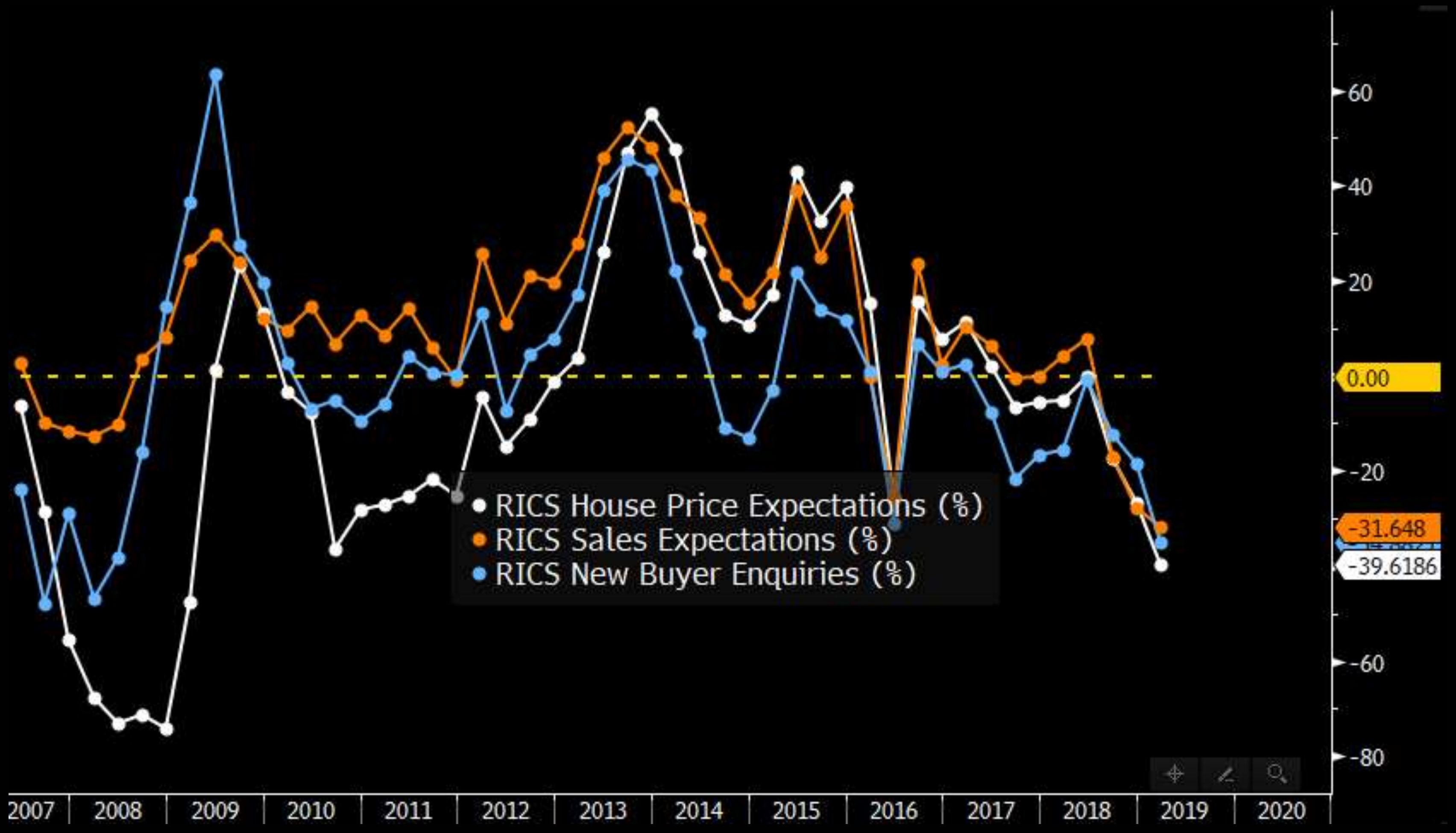
Bloomberg

Note: * UK PBB (2014, 2017, 2018) UK Retail (2010) New lending data only for owner occupied
** 2018 not comparable to prior periods due to switch from simple average LTV to balance weighted

LTV weighting methadology not comparable between banks -- Nationwide, RBS, Barlcays and HSBC balance weighted LTVs, Santander simple average and Lloyds valuation weighted

Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

STAGNATION, NOT ARMAGEDDON



Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

GLACIAL SHIFT IN MARKET SHARES

Top 10 (Outstanding Balances)	Balances (GBP billion)	Market Share	Top 10 (Gross Lending)	Lending (GBP billion)	Market Share
Lloyds	290.3	21.2%	Lloyds	41.0	16.0%
Nationwide	176.0	12.9%	Nationwide	31.7	12.3%
Santander	154.3	11.3%	RBS	30.9	12.0%
RBS	136.3	10.0%	Santander	25.2	9.8%
Barclays	131.3	9.6%	Barclays	23.2	9.0%
HSBC	82.2	6.0%	HSBC	18.2	7.1%
Coventry	35.8	2.6%	Coventry	8.6	3.3%
Yorkshire	34.0	2.5%	Virgin Money	8.4	3.3%
Virgin Money	33.5	2.5%	Yorkshire	7.8	3.0%
TSB	28.1	2.1%	TSB	7.0	2.7%

Source: UKFinance

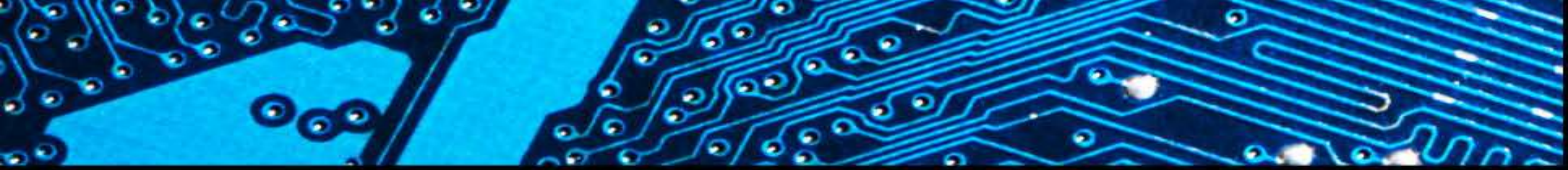
U.K. Banks' SVR Mortgage Books

Loan Data as of FY18	UK mortgage book (GBP bn)	% of book that is SVR	Standard Variable Rates (as of 1 March 2019)
Lloyds	288	36%	4.24%
Santander UK	158	12%	4.00%
RBS	138	c.10% (natural level)	4.24%
Barclays	137	negligible	4.24%

Source: Company Disclosure, Bloomberg Intelligence

Bloomberg

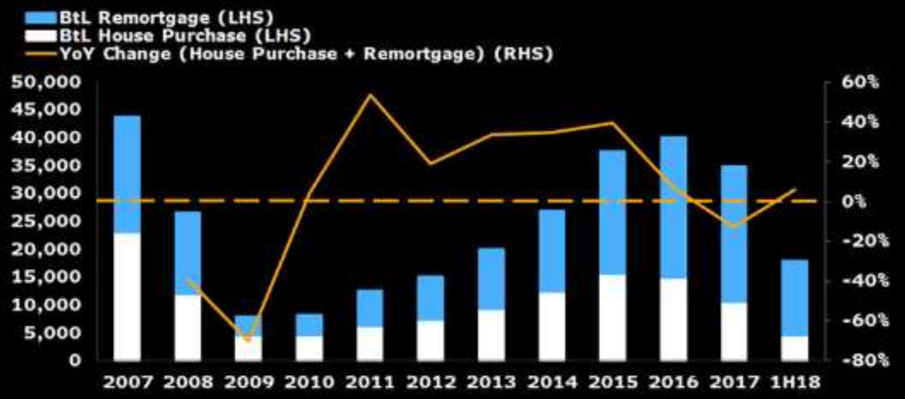
Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>



BLOOMBERG INTELLIGENCE

BUY-TO-LET, BUILD-TO-RENT

U.K. BtL Gross Mortgage Lending (Million Pounds)



Source: UKFinance/CML

1. London Becomes a Build-to-Rent Hotspot as Ownership a Stretch

Return to Top

BTR Pipeline in London vs. U.K. Regions

	Complete	Under Construction	Planning	Total
London	13,448	18,397	35,272	67,117
Regions	12,217	23,473	29,048	64,738
Total	25,665	41,870	64,320	131,855

Source: British Property Federation

Data Exhibit

Renting will become even more prevalent in London where about 30% of its citizens already live in privately rented homes, offering ample growth opportunity for professional, private-rental operators. Based on the British Property Federation data, London accounts for more than 50% of all build-to-rent (BTR) pipeline. As of 3Q18 there were 13,500 purpose-built rental properties in London, with 53,500 more homes in the pipeline. Grainger, as well as the real estate arms of Legal & General and M&G, owned by Prudential, are some of the largest players in the U.K. BTR space.

Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

OTHER DRIVERS TO CONSIDER

- Alternative Providers – Insurers Better Match Duration, MEW
- Bank of Mum and Dad
- Offset Account, Flexibility Greatly Enhanced By Digital Innovation
- End of TFS, Liquidity Constraints Will Shift Competitive Dynamics – The Big Win Through
- Compete on Fees?
- Mortgage Floors, PRA

Jonathan Tyce jtyce6@bloomberg.net BI BANKE<GO>

DISCLAIMER

- The BLOOMBERG PROFESSIONAL® service and BLOOMBERG Data (the “Services”) are owned and distributed by Bloomberg Finance L.P. (“BFLP”) in all jurisdictions other than Argentina, Bermuda, China, India, Japan, and Korea (the “BLP Countries”). BFLP is a wholly owned subsidiary of Bloomberg L.P. (“BLP”). BLP provides BFLP with global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. Certain functionalities distributed via the Services are available only to sophisticated institutional investors and only where the necessary legal clearance has been obtained. BFLP, BLP and their affiliates do not guarantee the accuracy of prices or information in the Services. Nothing in the Services shall constitute or be construed as an offering of financial instruments by BFLP, BLP or their affiliates, or as investment advice or recommendations by BFLP, BLP or their affiliates of an investment strategy or whether or not to “buy”, “sell” or “hold” an investment. Information available via the Services should not be considered as information sufficient upon which to base an investment decision. BLOOMBERG, BLOOMBERG PROFESSIONAL, BLOOMBERG MARKETS, BLOOMBERG NEWS, BLOOMBERG ANYWHERE, BLOOMBERG TRADEBOOK, BLOOMBERG TELEVISION, BLOOMBERG RADIO, BLOOMBERG PRESS and BLOOMBERG.COM are trademarks and service marks of BFLP, a Delaware limited partnership, or its subsidiaries.
- Bloomberg Intelligence is a service provided by Bloomberg Finance L.P. and its affiliates. Bloomberg Intelligence shall not constitute, nor be construed as, investment advice or investment recommendations (i.e., recommendations as to whether or not to “buy”, “sell”, “hold”, or to enter or not to enter into any other transaction involving any specific interest) or a recommendation as to an investment or other strategy. No aspect of the Bloomberg Intelligence function is based on the consideration of a customer's individual circumstances. Bloomberg Intelligence should not be considered as information sufficient upon which to base an investment decision. You should determine on your own whether you agree with Bloomberg Intelligence.
- Bloomberg Intelligence is offered where the necessary legal clearances have been obtained. Bloomberg Intelligence should not be construed as tax or accounting advice or as a service designed to facilitate any Bloomberg Intelligence subscriber's compliance with its tax, accounting, or other legal obligations. Employees involved in Bloomberg Intelligence may hold positions in the securities analyzed or discussed on Bloomberg Intelligence.

In association with:

Kindly hosted by:

Tony Ward

Fortrum

#FSFMortgages

@TheFSForum - @tony_j_ward

The Financial Services Forum

Corporate Partners:

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

The Financial Services Forum

London Mortgages Forum

How robust is UK mortgage lending?

5th March 2019

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Setting the scene

- Introduction – Landscape of the mortgage and lending market
- Funding post credit crisis – what does it look like now?
- Competitive Landscape – the market today
- What it all means

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Credit crisis and the UK

- August 2007 – Euro Bond Market closed to new RMBS and Covered bond deals
- We shrank from well over 100 lenders to 6!
- Over 30,000 mortgage brokers – today half that
- Gross mortgage lending shrank from £356bn in 2007 to around £134bn in 2010
- Focus on survival

Funding - post Credit crisis – all sorted?

- FLS outstanding today = £16bn
- TFS currently £121.4bn but running off
- QE currently £435bn
- Corporate Bond Purchases £9.5bn
- ECB QE - €2.5tn and now it has come to an end
- Retail funding dominant, but… not necessarily the best
- Securitisation is back – but a few hiccups along the way

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Competitive landscape

- Major lenders have streamlined products and processes
- Ongoing march towards industrialised processes – reduce costs and conduct risk
- More underserved and emerging new niche markets
- Lack of innovation
- Re-emergence of non-bank lenders
- Bridging → non-bank lenders → challenger banks
- Market Place and P2P
- Margin compression and credit creep?

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Lenders today

- Around 145 lenders today
- Top 6 lenders command > 70% of UK lending
- Top 15 account for around 90%
- Top 15 lenders focus their distribution on affluent, high income customers
- Based on market share, 90% of the market is directed towards a single high value, low risk segment
- Although the number of residential mortgages has fallen since GFC, the number of lenders has increased
- So... 130 lenders compete for 10% of the market!

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Mortgage Lending today

- Ageing population
- Use of cost of funds to compete aggressively
- Interest rates variable or fixed but usually not beyond 5 years
- Margin compression and criteria creep but regulation will stop extremes

Effects of oversupply and tighter regulation

- Number of prime customers is in decline
- Sectors of the market are underserved
- Greater outright ownership of housing and LT decline in FTB
- Tighter regulation has made it more difficult for lower income groups to get a mortgage
- Customer products and pricing commoditised and processes industrialised
- Specialist lenders have re-emerged focussed on higher risk borrowers

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

The mortgage landscape

New lending	Pre-crisis	2018	vs 2015
Income multiples >4xSingle/3xJoint	**37.98%** (Q208)	**50.62%***	
LTV >90%	**16.28%** (Q207)	**4.43%**	
LTV>90% **+ Income multiples**> 3.5/2.75x	**10.71%** (Q207)	**3.28%**	
House price/earnings	**5.83%** (Q207)	**5.51%****	
Arrears	**2.98%** (Q209)	**0.93%**	

*39% = Joint/11.6% single **Long term avge 4.24%

FORTRUM

CONSULTANCY, RISK & DUE DILIGENCE

Buy to Let

- Outstanding BTL Mortgages in the UK are circa £241bn
- Approximately £28bn of that is "specialist"- less than 12%
- In the three years mid 2015-mid 2018 the "big three" High St Bank BTL Mortgage Lenders (Lloyds, Nationwide & NatWest) market-share outstanding stock of BTL Mortgages dropped from 46.3% to 41.7%
- In the last year while Market growth was only just under £6bn (2.4%), the same big 3 lender's loan book shrunk by 2.5% (£2.5bn)
- This only the beginning - BTL is increasingly becoming a specialist area of lending. Over the next 5 years the overall BTL market may only grow at c.3% per annum (and below that 2019-2020), but the specialist segment will almost triple from the current £28bn outstanding to c.£76bn – an average annual growth rate of 21%
- A big opportunity!

FORTRUM
CONSULTANCY, RISK & DUE DILIGENCE

Market dynamics changing

- The market, whilst the largest in Europe is challenging and in long-term decline
- First time buyer activity is falling away driven by house price escalation and tighter regulatory rules around affordability
- The UK has an ageing population: 2016 – 65yrs+ were 18% of the population – by 2036 expected to be 24%
- Housing wealth vested in over 55yr old’s - £1.8tn
- Focus on Retirement Interest Only Loans and Equity Release and…
- … Specialist Buy to Let
- Subsidised BofE funding schemes falling away – margin impact
- Securitisation making a comeback but funding through whole loan mechanisms directly with investors is looking to grow
- To sum up - too many lenders and tighter regulation, and a few risks to deal with…
- **Brexit!**

FORTRUM

CONSULTANCY, RISK & DUE DILIGENCE

In Conclusion

- Although the UK mortgage market has plateaued in many ways it is still large and house ownership is embedded in our culture
- Major headwinds in the UK with Brexit – international investment might be elsewhere for now
- Lending into retirement and equity release loans as pension substitute – hot topic across Europe
- Specialist Buy to Let will be a growing and important sector
- Expect lending to get tougher – some lenders won't make it as they realise that margins are unsustainable!
- Securitisation is here to stay – a robust funding model!

In association with:

Kindly hosted by:

Panel Discussion and Q&A

05 March 2019

#FSFMortgages

@TheFSForum - @business - @tony_j_ward

The Financial Services Forum

CORPORATE PARTNERS:

Forthcoming *The Financial Services Forum* Events

- Does Your Brand have a Purpose? – 12 March 2019
- Navigating the hype of Artificial Intelligence and Machine Learning – 14 March 2019
- Spring Members' Conference – 27 March 2019

For more 2018 events go to: www.thefsforum.co.uk/events/

Corporate Partners: