TOPIC 1

Property and mortgage markets

LEARNING OBJECTIVES

Few people are in a position to buy a house or flat from their own resources. In most cases they need to borrow a large part of the purchase price. A mortgage enables the buyer to raise the necessary funds at a relatively low interest rate, because the loan is secured on the property through a legal charge. This reduces the risk to the lender.

This qualification is concerned mostly with residential mortgages, which enable people to purchase their own home. This first topic introduces the property market and the key economic factors that affect it.

By the end of this topic, you should have an understanding of:

- how the property and mortgage markets have performed since the late 1980s;
- the interrelationship between the economy and property markets;
- key factors that affect the demand for mortgages;
- the main providers of mortgage finance.

There are material differences between Scottish and English land law, mortgage practice and terminology. We will highlight these throughout the text.

THINK . . .

Before you start work on this topic, take a moment to think about what you already know about the aspects of the property and mortgage markets we are about to explore.

For instance:

- Do you know how the housing market is performing in your local area – are prices rising, falling or static?
- Is there a good supply of housing in your area, or a shortage? How does this affect prices?

- What challenges do first-time buyers face in getting onto the property ladder?
- Which sorts of companies provide mortgage finance?

1.1 Introduction

The UK has a mature property market, with home ownership seen as both desirable and essential; in many cases, it is seen as an investment. Buying a house is seen by many in the UK as a natural step in the life cycle – like getting a job, marrying or having children.

The UK mortgage market is intensely competitive. In part, this arose from changes to regulation in the 1980s, which allowed new lenders to enter the mortgage market. It is also due to increasing demand and sophistication on the part of borrowers, who are now accustomed to shopping around for the best deal, and comparing features and price. As a result there is a wide array of products on offer from a range of financial institutions.

1.2 How did the credit crunch affect the mortgage market?

The 'credit crunch' of 2007 and the subsequent global financial crisis had a profound effect on the financial services sector. UK demand for mortgages stalled in early 2008, primarily as a result of the 'credit crunch', and remained at a relatively low level for several years. Much of the regulation that underpins the financial services sector, including mortgage lending, was introduced to remedy the problems that the crisis exposed.

The early 2000s saw a property price boom, partly fuelled by low interest rates, and many people, including some experts, thought prices could only go up in the future. A number of factors led to the credit crunch:

- Many lenders relaxed their lending criteria and encouraged people with a poor credit history to take out housing loans. These type of mortgages offered to people who would not normally be able to afford a conventional mortgage are known as 'sub-prime'.
- Lenders began to parcel up bundles of mortgages and sell them to other lenders – a process known as securitisation – to remove those loans from their balance sheets and allow them to borrow more. In return, the buyer would receive an income stream from the mortgage payments. In the USA, many 'bundles' had significant levels of loans to riskier borrowers who would not normally be able to borrow, and a number of unconventional mortgage arrangements that posed a higher risk.
- Riskier borrowers began to default on mortgages, income streams reduced and several US lenders failed.

- Banks pulled back on lending, particularly in the subprime sector, and became reluctant to lend to each other. Interbank interest rates increased and the housing market ground to a halt. This sequence of events was repeated soon after in the UK. The confidence and trust that had underpinned strong markets had disappeared.
- Share prices fell across the world as the lending crisis began to hit businesses outside the mortgage sector. Many fundamentally sound businesses suffered cash flow problems. Markets stopped working due to the lack of available credit.
- The problem of sub-prime lending was not as severe in the UK, because the UK market was subject to tighter controls. However, Northern Rock had a high proportion of risky mortgages due to its aggressive pursuit of market share and had taken advantage of securitisation.
- In September 2007, Northern Rock asked the Bank of England for emergency funds to aid cash flow because it was unable to raise sufficient funds in the capital markets to provide liquidity. Investors tried to withdraw their money from Northern Rock, despite it being in a relatively solvent position. By February 2008, despite abortive attempts to find a buyer and a number of funding guarantees, the government decided to nationalise Northern Rock and then Bradford & Bingley.
- Simultaneously, the world economy was hit by huge rises in the price of commodities, at the time when the markets were nervous.
- Several large US financial institutions failed and either collapsed or had to be bailed out, and the problem spread to financial institutions across the world. In the UK, a number of banks were bailed out by the government. Billions were pumped into the banks to increase liquidity and world interest rates were slashed to stimulate lending.

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CHECK YOUR UNDERSTANDING 1

From your studies for UK Financial Regulation, can you remember what liquidity is?

1.3 What happened to the UK mortgage market after the credit crunch?

The property market remained depressed after the credit crunch. A number of factors contributed to this:

- The UK economy went into recession during the financial crisis: confidence was low, job losses increased and many companies that did not shed staff imposed pay freezes or cut workers' hours.
- In the housing market itself, many would-be sellers decided to sit tight until things improved, and would-be buyers were reluctant to jump into the market when prices could go down further.

> **RECESSION**
>
> A significant decline in economic activity, usually defined as a decline in gross domestic product (GDP – the value of all the goods and services produced within a country) for two successive quarters, ie six months.

- Banks remained reluctant to lend to each other or to prospective homebuyers, instead concentrating on building up their reserves. In 2012, the government launched a short-term initiative where the Bank of England lent money at below-market rates to financial institutions. It enabled lenders to cut their interest rates a little and inject more capital into mortgage loans, until it was changed in 2013 to provide funding for small businesses only.
- Lenders adopted a more cautious approach, requiring much higher deposits and more scrutiny of potential borrowers' ability to repay their loans. Potential customers with small deposits, limited disposable income or poor credit histories were no longer seen as desirable. The lenders' approach was reinforced following the Mortgage Market Review, which required lenders to apply more stringent affordability criteria from April 2014.

1.4 How does the contemporary market look?

Lending gradually increased as confidence returned to markets and, from 2013, the UK housing market was recovering, although it took until the second quarter of 2014 for the average UK price to recover to the peak reached in the third quarter of 2007. Since then markets have recovered, albeit with peaks and troughs along the way, and general prices have increased significantly. However, increases did not take place evenly, with prices in London and its commuter belt in particular far outstripping those in other areas of the UK, although this trend is changing.

> **FACTFIND**
>
> Nationwide's House Price Index publishes the latest house price growth rates at:
>
> www.nationwide.co.uk/house-price-index

The accepted view is that the London market ('the London housing bubble') is subject to different forces from the rest of the UK, and should not be used to assess typical house prices.

Given the number of people who commute to the capital from further afield, prices in those commuter belts are impacted by the London effect. There are also other areas in England, such as Manchester, where house price increases tend to be significantly higher than the average.

Key factors include:

- house prices increasing well ahead of wage rises;
- limited supply driving prices up;
- a lack of affordable homes;
- potential London buyers deciding to buy in the home counties, driving prices up in those areas when the market is thriving. This trend has been further driven by the Covid-19 pandemic, where many people looked to move from city flats to affordable property with outside space.

There has been a decline in UK average house price growth in recent years, as opposed to a fall in prices. A combination of factors led to slowing house price growth and according to Nationwide (2024) average prices dropped by 1.8 per cent in 2023. Factors included:

- Between July 2020 and June 2021, a temporary increase for most buyers in the threshold for stamp duty land tax (SDLT) led to an increase in demand and a rise in prices, as buyers rushed to take advantage of the tax savings. Price increases flattened off as the threshold returned to its previous level in stages between July and September 2021.
- Worrying increases in the rate of inflation led to the Bank of England increasing the Bank interest rate in stages during 2022 and 2023, which led to significantly increased mortgage rates. Affordability became an issue for many property owners and potential buyers.
- Towards the end of 2023 interest rates seemed to have settled, with experts predicting cuts from the first part of 2024. As a result, prices began to stabilise and small increases were seen in some regions.

1.4.1 First-time buyers

A particular issue is the difficulty first-time buyers face in buying a home, resulting from a combination of more stringent checks on affordability, a requirement for larger deposits, and rising prices. The problem is especially acute in London and the south-east, because property prices in those areas are so high. The number of first-time buyers had been steadily increasing until 2022, when the numbers fell by 12 per cent nationally (6 per cent in London) (Steed, 2023). First-time buyers are vital to the overall health of the housing market because without these new entrants, homeowners further up the chain are unable to sell and trade up.

FACTFIND

You can find more data about first-time buyers at:

www.uswitch.com/mortgages/first-time-buyer-statistics/

Today's first-time buyers are older and have to find a much higher deposit than in the past.

Government efforts to support first-time buyers include measures to make buy-to-let investments less attractive (see section 1.5.5), an exemption from SDLT for first-time buyers, and planning rules requiring affordable housing to be included in new developments.

FACTFIND

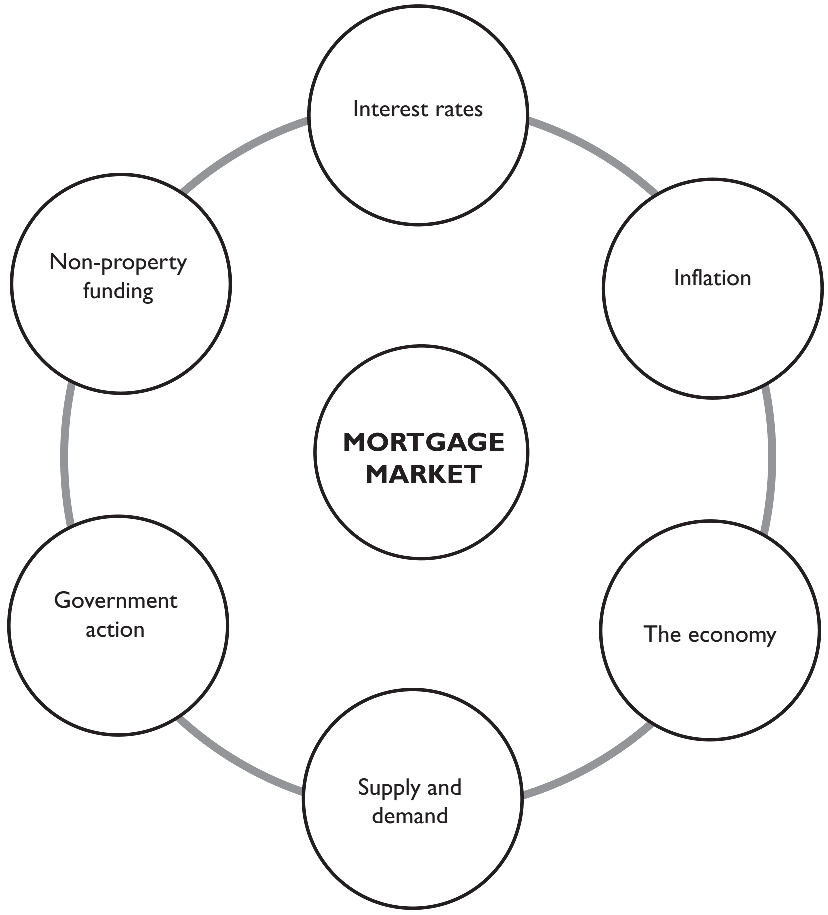
Plenty of data is available indicating market trends and the latest lending figures. For example, check the UK Finance market commentaries, available via www.ukfinance.org.uk

The Halifax House Price Index is another useful source: www.halifax.co.uk/media-centre/house-price-index.html

1.5 What issues affect the mortgage market?

Figure 1.1 summarises key factors that affect the mortgage market.

FIGURE 1.1 WHAT AFFECTS THE MORTGAGE MARKET?



1.5.1 Interest rates

Interest rates directly affect the cost of repaying a mortgage. When rates are high, as in the late 1980s, early 1990s and early 2020s, homeowners struggle to meet repayments, first-time buyers cannot afford to enter the market, and house prices are likely to fall. When interest rates are low, people find mortgage repayments affordable and will usually be prepared to commit to higher mortgages. This willingness to borrow lifts prices generally, resulting in a property boom, as in the late 1990s and early 2000s. While this relationship between interest rates and property prices is generally true, other economic factors, such as recession (or a less severe downturn), may lead to lower property prices even when interest rates are low.

BANK RATE *V* INTERBANK LENDING RATES

Although mortgage interest rates are broadly linked to Bank rate, they are more directly affected by interbank lending rates. Historically the interbank rate has been between 10 and 20 basis points above the Bank rate. For example, if the Bank rate is 2 per cent, the interbank rate is normally expected to be between 2.1 per cent and 2.2 per cent. This means that, in normal conditions, mortgage rates move broadly in line with the Bank rate. However, in difficult market conditions the differential can be wider.

KEY TERMS

INTERBANK RATE

The rate at which banks lend to each other, which is the sterling overnight index average (Sonia).

BANK RATE

The rate at which the Bank of England lends to other financial institutions. You might also see it referred to as base rate.

BASIS POINT

One-hundredth of one per cent.

Many lenders have moved away from the traditional variable-rate mortgage in favour of tracker mortgages that follow Bank rate or the interbank rate. During the boom times, it was common for trackers to be set slightly above, or even slightly below, Bank rate. Modern trackers have a much wider margin, offering rates as high as 3 per cent above Bank rate. In the past, Bank rate has been used as a crude but reasonably effective method of trying to calm or stimulate the housing market.

Sonia

Sonia has been used in markets for years, and is based on wholesale market overnight interest rates. It is seen as close to a risk-free measure of borrowing costs and is based on actual transactions, which makes it difficult to manipulate the figures.

Sonia has been the primary interest rate benchmark for sterling markets since the end of 2021.

FIGURE 1.2 WHAT AFFECTS INTEREST RATES?

Level of government borrowing

When the government needs to raise money for public spending it can raise taxes or borrow; borrowing is less likely to cause political problems. Upward pressure is placed on interest rates when the government increases borrowing significantly.

Higher levels of individual borrowing

Rates tend to move up when there is high demand for borrowing. Too much borrowing at an individual level is a worry for governments, as money floods into the economy and prices creep up. If interest rates increase dramatically, many people will be severely overstretched financially.

Monetary policy

The government uses interest rates as a way of controlling the economy, particularly inflation.

Foreign interest rates

The value of sterling against foreign currencies is affected by interest rates. When UK interest rates are higher than those abroad, the pound is popular and the exchange rate increases. This can have a negative effect on industry, because UK goods become expensive abroad and sales may be affected.

CHECK YOUR UNDERSTANDING 2

Can you recall from your studies for UK Financial Regulation which body is responsible for setting the Bank rate?

1.5.2 Inflation

There are two elements to inflation in the property market:

- **General inflation** – the decrease in the spending power of money over a period. For example, if inflation runs at 2.5 per cent over a one-year period, £100 at the start of the period will buy goods worth approximately £97.50 at the end of the period, ie in order to buy the same goods at the end of the period, the buyer will need £102.50.
- **House-price inflation** – the increases in the price of houses over a period. In general, house-price inflation runs well ahead of general inflation although, as we have seen in recent years, rapidly rising inflation can lead to increased interest rates, which in turn can lead to depressed house prices.

It is accepted that a small (2–2.5 per cent) amount of inflation is good for the economy. The government has set the Bank of England a target for inflation of

2 per cent, as measured by the Consumer Prices Index (CPI). Figures 1.3 and 1.4 outline how the Bank of England can control general inflation, to some extent, through its Monetary Policy Committee (MPC).

FIGURE 1.3 HOW CAN THE BANK OF ENGLAND REDUCE INFLATION?

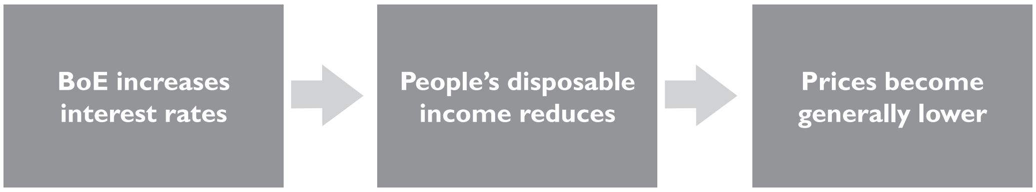
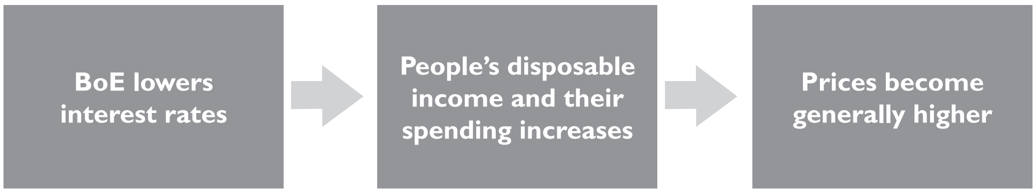


FIGURE 1.4 HOW CAN THE BANK OF ENGLAND INCREASE INFLATION?



A prolonged period of interest rate increases to control inflation will lead to stagnation, or even a reduction, in house prices because people will be reluctant to make major financial commitments. When interest rates are reduced in an attempt to promote inflation, property prices tend to rise as mortgage repayment becomes more affordable.

1.5.3 The state of the economy

When economic prospects are good, employment is high and stable, and interest rates are relatively low, more people have the confidence to enter into a substantial commitment such as a mortgage. When economic conditions are not so good, they may have to, or choose to, hold off any decisions. In periods of recession, unemployment rises and people worry about their jobs; they are certainly not looking to increase their mortgages.

Until mid-2022, interest rates and inflation had been relatively low for a number of years and mortgage rates were at historically low levels. On the face of it, this combination is good for property sales and mortgage demand. Ever since the financial crisis of 2007–09, however, worries about levels of personal debt, job insecurity, the impact of equity market turbulence on savings and pension plans and the likelihood of future interest rate increases have affected consumer confidence.

The cost-of-living crisis, starting in 2022, together with significant increases in inflation and interest rates, further damaged consumer confidence.

1.5.4 Supply and demand

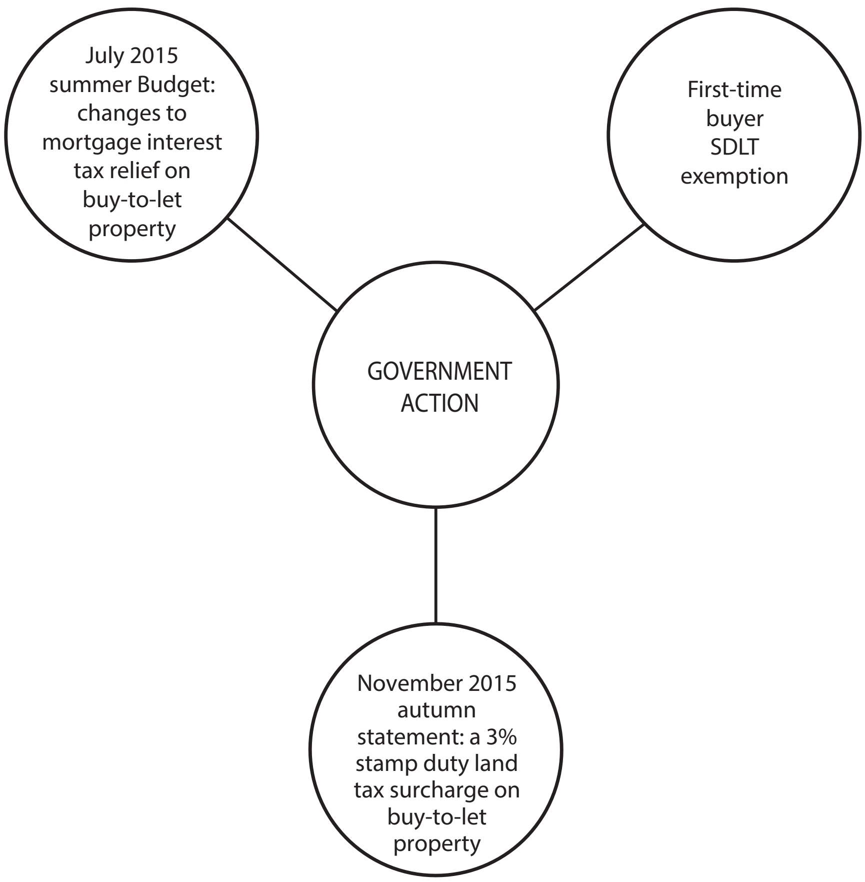
Property is no exception to the laws of supply and demand, whether categorised by geographical area or type of property. Simply, if there are more buyers looking for one-bedroom flats in an area than there are flats available, the price will be driven up. Similarly, if there are too many executive detached properties, the lack of demand will drive down prices. Property prices in London and the south have been consistently higher than the rest of the UK; much of this is due to the dense population and lack of appropriate housing.

> **NEGATIVE EQUITY**
>
> A situation in which the market value of a property falls below the outstanding amount of the mortgage loan secured on it.

1.5.5 Government action

Some good examples of how government action can affect (or potentially affect) the property market are outlined in Figure 1.5.

FIGURE 1.5 GOVERNMENT ACTION AND THE PROPERTY MARKET



As a result of the changes to taxation of buy-to-let (BTL) property, investors are likely to have to pay more tax. This reflects the government's desire to mitigate the impact of BTL investment, particularly at the lower end of the property market, since demand from BTL investors is seen to be fuelling an increase in prices and contributing to the difficulties first-time buyers face in purchasing a home. Property purchase taxes are detailed in section 15.9.

1.5.6 Borrowing for purposes other than property purchase

Another factor that influences the amount of mortgage borrowing is the increasing use of mortgage-secured borrowing for purposes other than property purchase, or even for property improvement. A mortgage can provide funding at better rates, spread over a longer term than many other forms of finance. Those consumers who are more sophisticated in the way they manage their finances appear to be seeking out the most cost-effective way to borrow, planning ahead and spreading their borrowing over time to minimise its immediate impact on their disposable income. Indeed, the early part of the calendar year is regarded as a traditional time for activity in the second-mortgage market, as families who have overstretched themselves for the seasonal festivities look to consolidate their credit card and other borrowings.

In an environment of rising house prices, consumers also use second mortgages on their existing property to release the increasing equity tied up in the value of their home – value that makes them feel richer but which, unless they borrow against it to translate it into cash, cannot be used to fund a better lifestyle.

1.6 Which types of provider offer mortgage finance?

Until 1980, the range of institutions offering mortgage finance was limited. Most banks did not offer mortgages and those that did were restricted by government policy on how much they could lend. Building societies were the main providers of mortgages but gave preference to their members because they are mutual institutions. Building societies were also subject to tight restrictions that prevented them from lending on non-residential property. As a result, the market was generally split into two – the building societies looked after the residential mortgage sector, and other institutions looked after everything else.

The mid-1980s saw a period of deregulation and increasing competition, with a blurring of the traditional divisions between the activities of different types of institutions resulting in a wider range of lenders entering the mortgage market.

1.6.1 Banks

Intense competition in the UK banking sector has led to an extension in the range of products on offer when compared with the position in the 1980s.

In particular, banks now actively seek residential and commercial mortgage business, which is seen as relatively safe and profitable. They also work hard at cross-selling, ie trying to sell other products to existing customers. As large institutions, banks also enjoy considerable economies of scale; they benefit by virtue of their size, being able to raise money more cheaply and take advantage of efficiencies created by the effective use of information technology.

1.6.2 Building societies

Until 1986, building societies were legally restricted to lending on property in the form of freehold and leasehold estate (or its equivalent) in the UK. The Building Societies Act 1986 allowed building societies to diversify into new areas, including unsecured lending and banking services.

Building societies must still devote a minimum of 75 per cent of their total lending activities to residential mortgages, although they can convert to plc status if they wish to enjoy the same freedom as banks. Several did so in the late 1980s and 1990s, among them Abbey National, Northern Rock, Halifax, Woolwich, Cheltenham & Gloucester and Alliance & Leicester.

Despite their additional powers, many building societies are content to remain as specialists in residential lending. Some have ventured into corporate lending secured on land, although many feel this sector of the market presents an unacceptable risk.

1.6.3 Insurance companies

Insurance companies can be general insurers, life assurers or composites offering both types of business. Traditionally, life companies have occupied a small corner of the mortgage market. As the competition for mortgage business has intensified, insurers have lost some ground in the provision of loans, but have undoubtedly gained by selling services alongside mortgages offered by other providers.

1.6.4 Specialised mortgage companies and challenger banks

Specialised mortgage companies developed during the growth years of the late 1970s and early 1980s. They are invariably limited companies and are either independent providers or subsidiaries of larger financial institutions.

Known as 'centralised lenders', specialised mortgage houses are funded from the wholesale market and lend on a centralised basis; they have few, if any, branches and operate primarily through intermediaries.

The rise of challenger banks (the name used to describe new entrants to the banking arena) has also changed the face of the lending market and led to increased competition. Challenger banks and specialist mortgage lenders have increased their mortgage lending at a higher rate than more traditional lenders, and some of the original challenger banks, such as TSB and Virgin Money have grown to the point where they are now seen as part of mainstream banking. Relatively newer entrants such as Aldermore, Atom Bank and Starling are building their mortgage business. The original challenger banks offer a branch network, though not as extensive as the major players, but later entrants tend to offer only online and mobile facilities.

Specialised lenders built a reputation for innovative mortgage products at attractive rates, a trend reinforced by challenger banks. However, the nature of their funding makes them more vulnerable to increased wholesale interest rates or when funding available from wholesale lending markets ‘freezes up’ due to difficult financial conditions.

It is quite common for specialist lenders to securitise their loan books. This means that they package up a number of existing mortgages and sell them to other organisations in return for a cash sum. The cash sum is typically slightly more than the actual value of the mortgages to allow for the fact that future payments will be made to the new owner.

The cash raised can then be used to improve the original lender’s balance sheet, reduce its risk profile and reduce the amount of capital it needs to meet capital adequacy requirements. The purchaser will receive all interest and capital payments from the borrowers, which will ensure a revenue stream for them over time. In most cases the original lender will agree a contract to administer the new mortgage, and so will generate regular income from that as well. From the borrower’s perspective, little changes – the terms of the mortgage cannot be changed and they may well not notice any difference.

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CHECK YOUR UNDERSTANDING 3

You covered capital adequacy requirements in your studies for UK Financial Regulation – can you recall what capital adequacy is and the key aim of capital adequacy requirements?

Mortgage packagers

Mortgage packagers are, in effect, middlemen who operate between the ultimate lender and the intermediary or customer. Their role is to undertake much of the administrative work, tailoring mortgage arrangements to specific situations. Their emergence represents an increasing move towards institutions specialising in what they do best: a particular lender may be good at managing its treasury operations and making funds available, but it may not have, nor wish to acquire, skills and capacity in distributing or processing loans. It makes sense for the lender to work with another organisation that has these skills but does not itself have the funds to lend. Typically a mortgage packager will make its money by charging between 1 and 2 per cent but it may pass some of this on as commission to the intermediaries who use its services.

Mortgage packagers generally operate in a particular area of specialisation, such as buy to let. The packager will have direct access to lenders and underwriters and will use knowledge of its particular market to present them with applications within their lending parameters.

1.6.5 Sub-prime and other specialist lenders

Certain potential borrowers have difficulty meeting the lending criteria for mainstream lenders. These include borrowers:

- with a poor credit history – for example, those with county court judgments against them or a number of previous payment defaults;
- who have difficulty proving certain elements of their income;
- who do not fit the lender's 'normal' borrower profile in terms of occupation, age, residency, type of income, etc;
- who are self-employed and either have a short track record in the business or cannot supply the required number of previous years' accounts.

Lending to such borrowers is called 'sub-prime lending'.

KEY TERMS

PRIME LENDING

Lending to borrowers who meet the lender's standard criteria and present a normal risk.

SUB-PRIME LENDING

Lending to borrowers who represent a higher risk than normal.

A potential borrower who does not meet the lender's standard criteria is not necessarily a poor business proposition – it just means that they require different and more specialised assessments. The lender may choose to charge a higher interest rate to compensate for any additional risk presented – this is often referred to as 'setting the rate for risk'.

The sub-prime problems associated with the 2007–08 credit crunch were caused by lenders, particularly in the USA, aggressively pursuing market share and failing to properly assess the risks presented. After the crisis, partly due to regulatory pressure and partly due to the cost of raising funds to lend, the sub-prime market significantly reduced.

This meant the end of a number of companies that specialised in the adverse credit market. However, a few sub-prime lenders have reappeared to mop up the demand for mortgages from applicants unable to get any form of credit in recent years. It is felt by many that a revival of this sector of the mortgage market is inevitable because, although lending conditions have changed dramatically, the concept of supply and demand will always apply. It is anticipated that some of these lenders will revisit their underwriting approaches and, together with risk-based pricing, start to capitalise on what has traditionally been one of the most profitable sectors of the mortgage market.

'Sale and rent back' arrangements involve a company buying a property from its owner, usually at below market value, and then renting it back to them. Although the former owner loses ownership, they are able to stay in their home, and must be given a fixed tenancy agreement of at least five years. These arrangements, which are regulated by the FCA, can represent a viable option for those with unmanageable mortgages. Short-term secured loans can help those wishing to repair their credit.

1.6.6 Buy-to-let

The buy-to-let market is generally regarded as a specialist market, and there are a number of lenders with particular expertise and product offerings for that market. Some of these, such as NatWest, are also substantial mainstream mortgage lenders, but many have established intermediary mortgage divisions, such as BM Solutions (Birmingham Midshires, part of HBOS) and the mortgage works (part of Nationwide), for which buy-to-let lending is a major part or the sole focus of their business. There are also brokers who focus on buy-to-let and/or commercial mortgages.

1.6.7 Other providers

Finance houses provide finance to those wishing to raise loans on the security of their property. Such loans will often be at fixed rates of interest for a limited term and may be for such things as home improvement. Some providers specialise in providing second-charge loans and others in providing bridging finance.

Second-charge loans

A second charge is a loan secured on a property but registered after a mortgage (first charge). It will rank second in line for repayment on sale or repossession. This means that it will be repaid from any money left over after the first-charge holder has been repaid. If there is insufficient money to repay the second-charge holder, the lender will lose out.

Bridging finance

Bridging finance may be required when a borrower wishes to move house but has not managed to sell their existing house, or the funds from the sale will not be available at the time completion of the new purchase is due. It is short-term lending that is repaid when the original property is sold and the owner is able to secure a mortgage on the new property.

THINK AGAIN ...

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- summarise the key factors that affect demand for mortgages?
- outline the economic factors that influence interest rates?
- explain how the government can use interest rates to try to control inflation?
- explain the effect that changes in interest rates have on the mortgage market?
- summarise the different types of mortgage provider?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

References

Nationwide (2024) *House prices fall 1.8% over the course of 2023* [online]. Available at: www.nationwidehousepriceindex.co.uk/reports/house-prices-fall-1-8-percent-over-the-course-of-2023

Steed, K. (2023) *150+ UK first-time buyer statistics 2023* [online]. Available at: www.uswitch.com/mortgages/first-time-buyer-statistics/

Test your knowledge

?

Use these questions to assess your learning for Topic 1. Review the text if necessary.

Answers can be found at the end of this book.

1) Which of the following factors hampered the recovery of the property market following the 2007–09 financial crisis? Select all that apply.

   a) Looser affordability criteria.

   b) Recession.

   c) Reluctance of sellers to put properties on the market.

   d) Tighter affordability criteria.

   e) A requirement for lower deposits.

2) Which of the following is a contributing factor to the difficulties experienced by people seeking to buy their first home?

   a) Rising property prices.

   b) Falling property prices.

   c) A growing economy.

3) When interest rates are low for a prolonged period, what is likely to happen to property prices?

   a) They are likely to stay the same.

   b) They are likely to increase.

   c) They are likely to fall.

4) How does the interbank lending rate usually compare to the Bank of England base rate?

5) The level of government borrowing has no influence on interest rates in the UK. True or false?

6) Inflation can be reduced by reducing interest rates. True or false?

7) What percentage of a building society's total lending activities must be related to residential mortgages?

   a) 25 per cent.

b) 50 per cent.

c) 75 per cent.

d) 90 per cent.

8) What is meant by 'securitised lending'?

a) Selling one mortgage loan to another business.

b) Bundling together a number of mortgage loans and selling them to another business.

c) Retaining all mortgage loans but increasing the security required from borrowers.

9) Lending to people who have county court judgments against them is referred to as 'sub-prime' lending. True or false?

10) Lending to customers classified as 'sub-prime' is always an irresponsible decision. True or false?