

Housing & the Economy: The Crisis and Beyond

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Recent Policy Innovations

- Policy Changes:
 1. Funding for Lending: Introduced August 2012; extended April 2013 to Jan 2015
 2. Help to Buy Equity Loans: Equity loan up to 20% of property value. Up to £600,000. No income cap. Not limited to First-Time Buyers.
 3. Help to Buy Mortgage Guarantee: Government guarantee to lenders who provide loans to households with deposits 5%-20%. Open to FTBs and existing owners (but not second homes). Up to £600K. Subject to stress tests.
 4. Housing Benefit reforms.

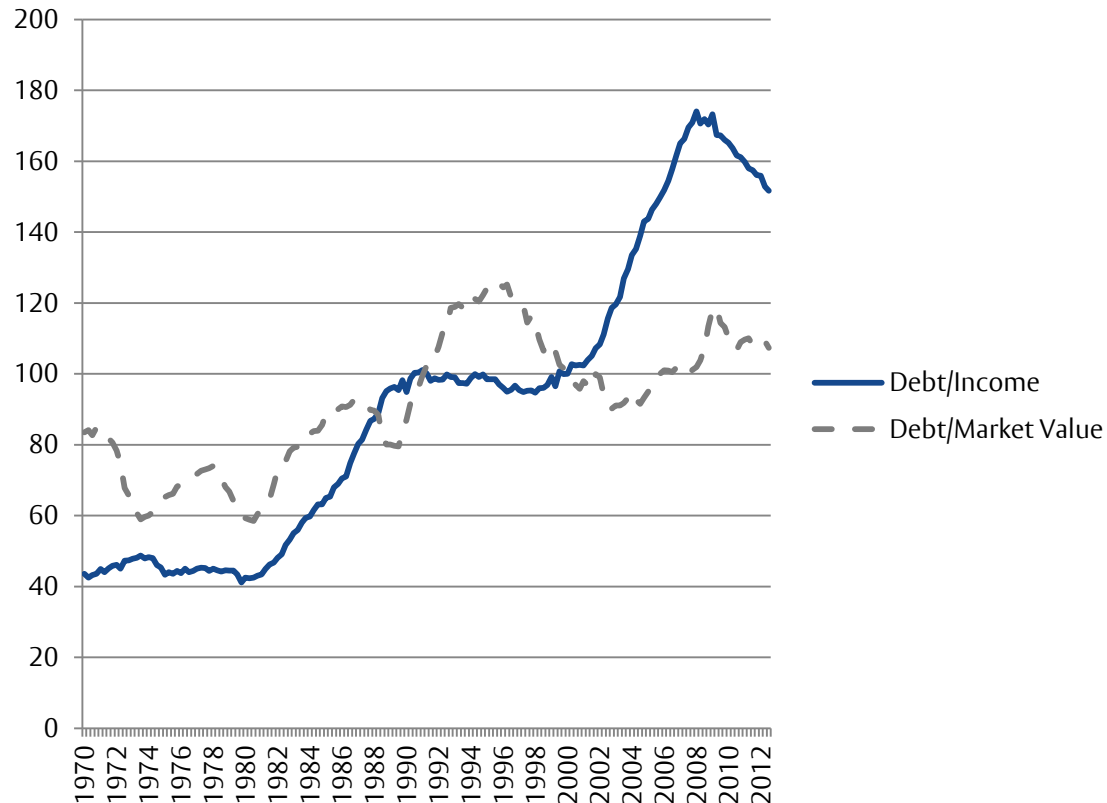
Controversies

- Concerns that mortgage subsidies will re-ignite a boom, in a market already recovering in some parts of the country.
- Mervyn King worries about such schemes.
- Mark Carney view that the Bank has sufficient controls on mortgage lending.
- RICS view that government action is necessary if prices rise faster than 5%
- Continuing issues over housing shortages
- Controversies over Housing Benefit changes

Mortgage Lending

Residential Loans to Individuals: Purpose (% shares)			
Source. Financial Conduct Authority MLAR Statistics			
September 2013 Edition			
			2013 Q2
<u>Advances</u>			(%)
House Purchase			65
	First Time Buyers		19.1
	Others		33.7
	Buy-to-Let		12.1
Further Advances			3
Remortgages			28.3
Other			3.8
Total (£ million)			41,649

Aggregate Debt to Income and Debt/Market Value



The Big Issues for the Future

- How do we reconcile need to increase mortgage credit in the short term (which is the focus of current policy), with the possible over-indebtedness of households in the long run, which exposes the economy to income and interest rate shocks?
- Does it matter that such a small proportion of the increased credit goes to first-time buyers?
- Do the benefits of Buy-to-Let expansion outweigh the costs, when the housing supply is “fixed”.
- Will controls on mortgage lending (capital controls, LVR controls) fall disproportionately on FTBs, although they are not the cause of any boom.
- Are we relying too heavily on mortgage controls?
- Has anything fundamentally changed or will we just repeat the cycle?