EXPLAINING THE INNER WORKINGS OF THE MORTGAGE INDUSTRY

As autumn approaches, many of us are lamenting the end of a very rainy summer. But when we look to the housing market, there are reasons to be cheerful - with inflation rates forecasted to come down and activity predicted to increase towards the end of the year.

These trends formed the foundation of our discussion in our latest market-focused webinar, in which I was joined by Alex Maddox, our Capital Markets Director, Andrew Montlake, Managing Director, Coreco, Frances Cassidy our Head of Mortgage Intermediary Partnerships, and William Hobbs, Managing Director and Chief Investment Officer in Private Bank & Wealth Management at Barclays.

Market update - an economist's view

To kick things off, Will updated us on the economic trends set to shape the future direction of our world. He explained that the global economy, like the UK economy, is still shaking off the aftereffects of COVID and Russia's invasion of Ukraine. Fortunately, it does look like inflationary pressures are starting to peak - and already have in some places - and this should hopefully signal a peak in interest rates. The US economy is motoring ahead, and that's important for the global economy - the UK included - because it sets the tone for the rest of the world's capital markets.

Meanwhile, economic activity in Europe has been slowing quite sharply. And China, which has seen enormous economic growth over the past few decades, is having its own domestic problems, with the popping of its epochal property bubble. China poured more concrete into the ground during three years during the 2010s than the US managed in the entire 20th century – but now that its urbanisation is complete, it needs to find new growth engines. China's role in the global economy, including its demand for commodities, is about to change significantly, and there will be reverberations globally.

In the UK, Brexit continues to cause uncertainty, which is slowing down the economy. But our world-envied institutions - from our strong rule of law to our embedded economic structures - should mean that the UK remains attractive for investment once the dust has settled following Brexit renegotiations. Areas such as biotech and financial services will give us a strong competitive advantage – and the rise of AI represents a chance to catapult ourselves into the next era after a period of slow growth in productivity.

Will closed his discussion on a positive note by suggesting that the UK will probably avoid a recession, and by advising brokers to steer clear of doomsday scenarios and focus on the factors within their control.

What happens at the MPC?

The Bank of England's Monetary Policy Committee (MPC) has made more interest rate changes in the past six months than in the past six years. So, in our next session, Alex sat down with Frances to explain how the MPC makes decisions, and what impact it will have on the housing market over the coming months.

To do this, they use tools such as quantitative easing, which involves printing money and adding liquidity to the banking system, and quantitative tightening, which involves reducing the money supply and withdrawing liquidity from the financial system. The primary day-to-day focus, however, is on the Bank of England base rate, which is the rate at which banks and building societies can deposit their cash overnight with the central bank. Large UK banks hold substantial overnight deposits with the Bank of England, and the rates they charge investors on lending or the rates they offer investors on savings are closely linked to the central bank's rate. This can have a significant impact on both consumers and businesses by encouraging more spending or less, depending on the rate's direction.

The current environment is highly challenging for the MPC. These are uncertain times, marked by significant events such as the global financial crisis, pandemics, and geopolitical conflicts like the war in Ukraine. One critical challenge is the transmission effect — how quickly changes in the central bank's rates impact consumers and businesses. It can vary depending on factors like the types of mortgages people have, whether they're on fixed or floating rates, or if they own their homes outright. Another challenge is the risk of overshooting — raising rates too much can lead to negative consequences such as defaults on debts, impacting both consumers and businesses. Striking the right balance is crucial.

Inflation also plays an important role. Wage inflation is key, because higher wages enable consumers to afford larger mortgages. Price inflation, on the other hand, increases living expenses, negatively impacting mortgage affordability. Central bank rates and forecasts influence mortgage rates, further affecting affordability – and long-term trends show a strong correlation between house price inflation and wage inflation.

Given that capital markets are sensitive to economic data releases, impacting pricing quickly, it's important that advisors keep their customers informed. They can do this by sharing insights with their customers from the central bank's forecasts, which offer a sense of the direction of interest rates, or by monitoring swap rates, which indicate the market's expectations for average central bank rates over different timeframes.

How can the industry influence the future?

Andrew joined my colleague Adam next to discuss today's mortgage environment. Brokers have been grappling with reduced purchase activity, relying heavily on remortgages and product transfers to stay afloat. However, there is a glimmer of hope as interest rates begin to decrease, potentially leading to a busier market in the final quarter. Although recovery is inevitable, the timing remains uncertain, with expectations of a smaller mortgage market this year and the next.

Andrew shared his experience of appearing on the Martin Lewis Money Show, and stressed how important Martin's influence is on the mortgage broker community, given that he often recommends their services on prime time TV. The Labour Party also reached out to Andrew in his role at AMI, and other industry representatives to discuss the impact that the challenges of the mortgage market – particularly in terms of rate rises – are having on people. They also discussed policy ideas that might help ensure the housing market continues to improve. Andrew made the point that to have a healthy housing market, you also need a healthy buyers' market, private rental sector and social housing sector. When it comes to housing policy, everything is interlinked - so collaboration will be essential to building resilience.

The challenges that Andrew described mean it's a tough time for brokers – but they can still support their customers by staying informed and looking for specialist lenders offering a diverse set of products beyond the traditional 10, 15 or 20 year fixed rates. Andrew emphasised that those who are prepared to support their clients and be available to advise, regardless of whether it brings them business, will be best positioned to win when the market springs back.

Kensington business update

Ending the webinar on a high, Frances highlighted some of the new initiatives that we have delivered over the last couple of months:

New products:

- We launched our new Resi 12 product to support the increasing numbers of customers seeing credit blips on the credit profiles because of the cost-of-living crisis.
- We also launched our Shared Ownership remortgage product.
- Our new three year fixed rate product has been created in response to feedback from brokers and customers about the demand for something between the standard two year and five year options.

Mortgage Charter - We're pleased to report that we were the first specialist lender to sign up to the Charter. This allows us to help customers who are struggling in this difficult economic environment.

Website updates - We also launched our new intermediary website. We've updated lots of the pages to make it easier for you to navigate, including our BDM Finder. You can use it to access our service levels, product details, new product launches, webinars and blogs.

Service milestone - We're delighted to announce that we have delivered 20 months of day one underwriting, while adhering to our promise of 48 hours minimum notice on our standard product ranges.

My takeaways

This fascinating session left me feeling motivated and hopeful. My main takeaway was that, with the economic situation remaining unpredictable, the specialist customer matters more than ever – and as brokers and lenders, we need to make sure we're ready to adapt to them.

Finally, it's encouraging to hear that there are reasons for optimism following the turbulence of COVID and the cost-of-living crisis. I'm excited about the innovative new products that Kensington has created in response to our customers' needs and feel proud of our commitment to outstanding service and responsible lending.

Eloise Hall – Head of National Accounts

Eloise joined Kensington Mortgages in 2019, bringing a wealth of experience from both Leeds Building Society and Principality Building Society, she has supported, nurtured and grown many of our key account relationships across the UK. Eloise has continued to grow Kensington's brand as an innovative and forward-thinking specialist lender and has won an array of awards in her tenure at Kensington Mortgages, including Woman in Specialist Lending at Women's Recognition Awards and Head of National Accounts at both the 2022 and 2023 British Specialist Lending Awards.

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