The future mortgage

With the latest FSA figures showing mortgage arrears up 31 per cent last year and continuing difficulty for buyers in accessing finance, it is clear that the housing market is not back to 'normal' yet, despite the Customer Commitment scheme for late payers and the money advice trust booklet from the Building Societies Association's members, and the government's Homeowner Mortgage Support Scheme. It is clear though that 'normal' may never return as the structure of the market was changing anyway even before the crunch – for instance, with older first time buyers. **Neil Johnson**, policy manager at the BSA, explains how the market might change, based upon the trade body's 2020 research project

The Building Societies Association has just published new research looking at the mortgage market in 2020, which finds that both mortgage buyers and providers will be much more reliant on technology for their mortgage decisions in the future. The *2020 Vision – Mortgage of the Future* research was commissioned by the BSA to look at how changes in the way that people live their lives, coupled with the credit crunch, will impact on the mortgage market.

The research identified a fundamental change taking place in the way that people live their lives. They used to follow a very uniform life, predicated on getting a job upon leaving school and largely staying with that job (albeit receiving several promotions) until they retire. With a steady income stream, they would buy their first home in their early twenties, and spend the next ten to fifteen years steadily moving up the housing ladder so that they had their 'family' home by their mid-thirties. The twenty-five year lifespan of a mortgage meant that it would be paid off by the time they retired and, if for whatever reason it hadn't been paid off, inflation would have eroded repayments.

But this traditional lifestyle is fast becoming a thing of the past. Increasingly, people are having several different careers, with different employers, and many return to education (or take some other kind of career break). This mirrors their personal life, with them often having several major relationships with periods living on their own in between, necessitating many house moves.

As a consequence of the large numbers of people now going into higher education (coupled with very high property prices, even despite recent falls) first time buyers are now well into their thirties, and have a financial track record that often features significant amounts of debt. Because of this late entry into the property market, buying the 'family' home is taking place even later. This means that buyers in the future are going to be paying their mortgage well into retirement and, with inflation being low and expected to remain low, they are not going to have the advantage of it being eroded by inflation either.

To respond to these changes, our BSA report says that lenders are going to have to develop products that reflect these changes in the lifestyles of their customers. Three main new product types were identified. Firstly, products that encourage people to save for a mortgage will be needed to reflect the high deposits that will continue to be required in the future. Many borrowers will also be living on their own and the mortgages will need to be sustainable on one income.

Mortgages will also need to reflect the much more regular transition between tenures that borrowers will be making in the future. Future products will need to recognise that borrowers will move frequently and also have periods where their income falls, often by a significant amount. More flexible procedures, and technology, will therefore be needed.

In addition, the report finds a need for products to be developed that allow family members who already have housing equity to have the opportunity to use that to allow other family members to buy; typically cash-poor but asset rich parents helping children. While it acknowledges that some mortgages already exist that offer this flexibility, it suggests that they will have to become far more mainstream.

The report also makes suggestions about the future distribution of mortgages. It says that with lenders increasingly keen to ensure the quality of their loan books post-crunch, borrowers with unblemished credit histories, good jobs and relatively low loan to value ratios are going to be actively coveted, which is going to pose a major technological and systems challenge for lenders.

These highly attractive 'super prime' borrowers will be increasingly computer and internet savvy. They will expect (and demand) to be able to get a very rapid decision from their chosen lender on their application. To compete lenders will need to ensure that they have systems in place that allow them to do this, which will mean that online decisioning systems will have to be much more sophisticated. The speed of decisioning will become a critical factor in attracting new borrowers. Those that can't do this will find that the super prime borrowers will pass them by, choosing instead to go to lenders that can give them the rapid decision that they expect.

The mortgage market of 2020 is going to be a very different place to what it is now or was even a few years ago. Lenders are going to have to make sure that they have the systems in place to cope with changed circumstances.