

**THRIVING IN A MORTGAGE DOWNTURN**  
**Seminar and panel discussion**

**5 March 2008**

The seminar, hosted by Hometrack at the London Stock Exchange, focussed on the strategic risks and opportunities facing lenders in the current mortgage downturn. The session featured keynote speaker Paul Sharma (Head of Risk Review, FSA) and a presentation given by Gary Styles (Strategy, Risk and Economics Director, Hometrack). The two speakers were joined by Phil Jenks (Chief Operating Officer, HBOS Mortgages) on a panel for further debate.

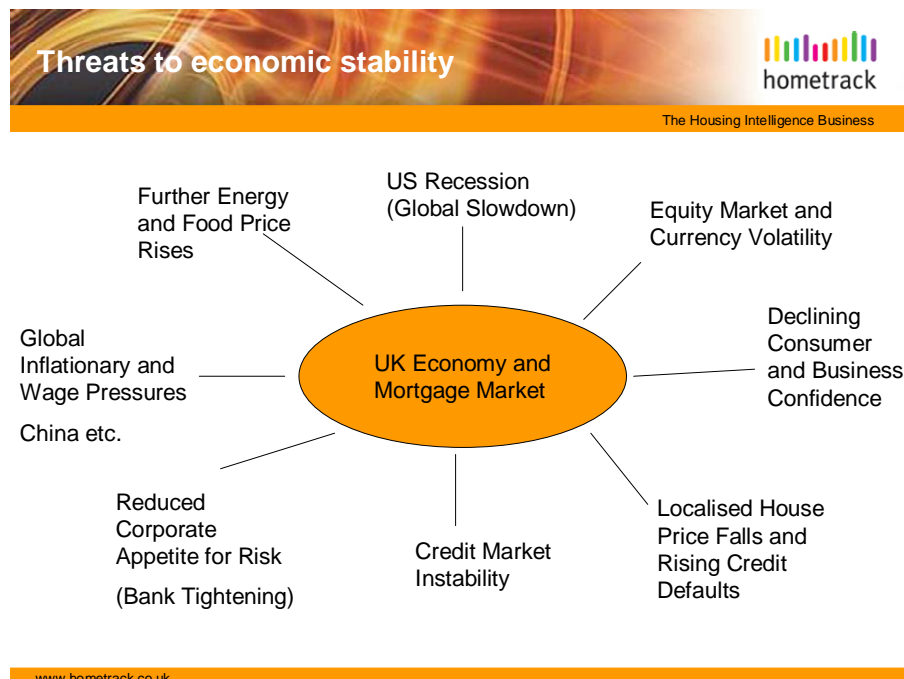
Gary's presentation highlighted the key threats to economic stability, the major issues driving the mortgage market and the successful strategies lenders could adopt. A summary of the presentation follows:

**Outlook for the Mortgage Market: Strategies for Success**

The economic and market background has completely changed in the last six months. The forces and uncertainties bearing down on the UK economy and mortgage market have grown significantly.

Global economic slowdown, gathering world inflation, market volatility and reduced appetite for risk are just a few of the major forces changing the market.

The chart below gives a summary of some of the main forces.



Consumer and business confidence has fallen sharply and expectations for house prices and volumes have shifted downwards. The spread of forecasts shows the high level of uncertainty in the market which is slowing down business and consumer decision making.

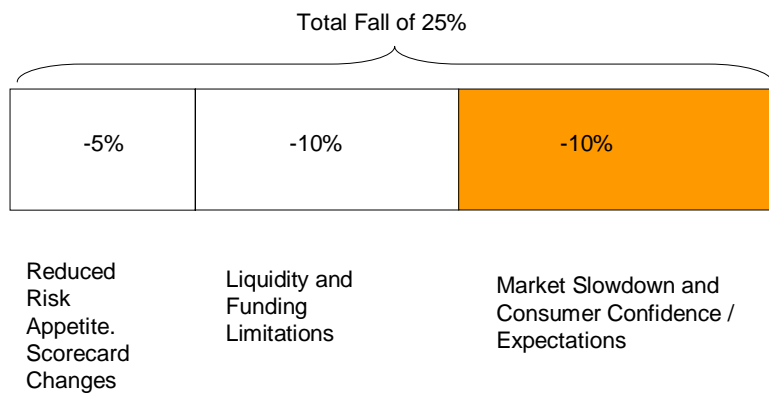
A review of the market data shows most activity measures to be falling. Lower volumes are leading to more volatility in house price measures and sharper divergences in some of the key regional measures.

The mortgage market has fallen by 25% in the last year and the chart below shows this decline by its three main components. There is uncertainty about the split in contributions but it is important that the underlying market slowdown (evident since early 2007) is isolated from the recent declines. This is due to reduced risk appetite and liquidity concerns.

**Contributions to mortgage slowdown in 2007 and 2008**



The Housing Intelligence Business



The latest forecasts are shown below and represent a soft landing for the housing and mortgage market. Net mortgage lending is forecast to fall 21% in 2008 and house prices to remain broadly flat.



**Hometrack Base Forecast**

The Housing Intelligence Business

Hometrack Base Forecast	2006	2007	2008	2009
Base Interest Rates (Q4%)	5.00	5.75	4.75	5.00
Real Household Income Growth (%)	1.3	1.5	1.9	2.1
House Prices (Q4%)	9.2	4.5	1.0	2.0
Mortgage Lending Stock Growth (Q4%)	11.4	9.6	7.2	6.6
Net Mortgage Lending (£bn)	110	108	85	84
Net Mortgage Lending Growth (%)	20.9	-1.8	-21.3	-1.2
Gross Mortgage Lending (£bn)	345	362	319	318

Source : Hometrack

[www.hometrack.co.uk](http://www.hometrack.co.uk)

The funding gap in the mortgage market represents one of the biggest issues facing the market, along with global inflationary pressures. Estimates vary greatly but the total funding gap could be over £1500bn as lenders struggle to fund existing and new lending activities. Reduced maturity periods and funding short term are only acting to build additional funding pressure in the medium term.

Lenders are faced with considerable uncertainty and mounting risk in some sectors. Successful strategies in this marketplace must be built around robust risk management and a far more complete view of risk including asset and operational risk. Arrears and asset management will need to be flexible and able to cope with a large increase in potential volumes. Tight cost control combined with investment in markets with strong growth opportunities will be a major key to success.

**For a full set of the detailed slides please contact Gary Styles, Hometrack's Strategy, Risk and Economics Director at [gstyles@hometrack.co.uk](mailto:gstyles@hometrack.co.uk)**