COUNCIL *of* MORTGAGE LENDERS

CML

annual **report** 2002

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introduction

Ordinarily, the introduction to this annual report is prepared by the immediate past Chairman. However, this year, I am filling this slot in place of Andrew Pople, who left his position as Managing Director, Retail, Abbey National plc and CML Chairman in December, just before the end of his year in office. May I first give my thanks to Andrew, to the Deputy Chairmen Tony Ward and Keith Greenough, and to the whole of our Executive Committee, for their help and support for me and the rest of the staff.

Our mission is to help to maintain a favourable operating environment for lenders in the mortgage and related housing markets. In 2002, we broke a number of business records, opened up new markets and progressed policy agendas. More needs to be done if we are to achieve all of our organisational goals. But I would like to take this opportunity to thank all CML staff for their individual and collective contribution to the organisation's success. It was particularly gratifying that the organisation was recognised by two awards in the inaugural Trade Association Forum (TAF) best practice awards in 2002.

We have a vision of being the retail financial services association 'of choice' in the UK. Like our members, who deliver well-regarded mortgage services to their customers, we need to 'add value, not costs' to our members and associates. In a different way, we seek to add value to the work of various stakeholders in government and among regulators, the media and other bodies interested in the mortgage and housing markets. We carry out regular surveys to test how we are seen as an organisation. We are in the vanguard of trade associations which, with partial Department of Trade and Industry (DTI) funding, want to develop a robust mechanism for measuring the value from trade association work - not an easy task!

One way in which we can demonstrate success is in helping to open up new market opportunities. This is as important for us as defending lenders' interests in existing markets. In particular, having joined-up mortgage regulation that is proportionate, effective and cost-effective remains the 'promised land' which we have not yet reached.

2003 brings new challenges. I am sure that with the support of members, both large and small, and with the focus and experience of our staff, we will continue to build on the foundations that have been put in place.

Last summer, I suggested that a modest increase in interest rates might help to avoid a sharp correction in the market. Instead, house prices have risen more quickly, new lending including mortgage equity withdrawal has continued apace, and interest rates have fallen modestly. If the fundamentals of consumer confidence and low unemployment levels remain unchanged, we are (still) on course for the expected slowdown in the market this year. For consumers, we continue to have one of the most innovative, flexible and competitive mortgage markets in the world. We should be proud of it as we face the challenges ahead.

Michael Coogan
Director General

the CML **in 2002**

"It was a great pleasure to see that Mortgage Finance Gazette *presented Michael Coogan with its prestigious 'ambassador to the mortgage industry' award. – Philip Williamson, chief executive, Nationwide Building Society*

The key feature of 2002 was the buoyancy of the mortgage market, which was driven by sharply rising house prices, the largest number of property transactions for 14 years and continuing strong growth in the popularity of remortgaging. This combination produced a record-breaking year for the industry. Gross lending totalled almost £219 billion, 36% more than in 2001 – a year which had also seen strong growth in lending. Net lending, at £79 billion, was 43% higher in 2002 than it had been in the previous 12 months. But the strongest growth of all was in remortgaging, which increased by 67% to a total of £83.6 billion in 2002, having grown by 47% in the previous year. One of our key objectives is for mortgage and housing markets that are sustainable in the long term. This is more likely to be achieved if there is a gradual slowdown in the housing market, which we expect to see during 2003 and beyond.

During 2002, we re-launched our initiative to make home-ownership more sustainable for all borrowers. Instead of focusing on a narrow target of sales of insurance covering mortgage payments, we set ourselves new objectives. Our aim now is to keep the number of homes taken into possession below 30,000 a year (the average over the last 10 years is nearly 35,000) and to ensure that it is lower than it would have been in comparable economic circumstances in the past. These new aims are ones that all parties to the sustainable home-ownership initiative – lenders, insurers and the Government – can contribute using a wide range of measures.

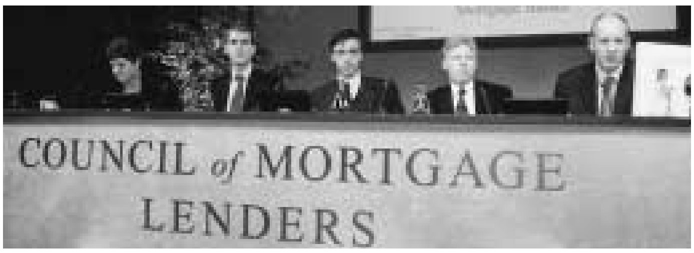
Another key goal is to help deliver a system of statutory regulation of mortgages that meets the needs of consumers without placing an unnecessary burden on the industry. The rules that will be upheld by the Financial Services Authority (FSA) should achieve this aim, now that the Treasury has agreed that they should be expanded to include mortgage advice and intermediaries. But there is a real danger that European proposals for a draft directive on consumer credit will conflict with the FSA's rules. We continue to support the aim of a single market for mortgage credit and will press for reforms that will remove the existing obstacles to cross-border trading.

We welcome legislative and regulatory proposals that will enhance the operating environment for lenders and allow the development of new business opportunities. The announcement during 2002 of the proposed introduction of compulsory home information packs has the potential to cut waste from the home-buying process by reducing the number of agreed property transactions that subsequently collapse. But we will continue to stress that lenders must be not be compelled to use the proposed home condition reports as the basis for credit decisions. Neither should the reforms that have been outlined by the Government constrain lenders from developing innovative techniques for valuing property.

Throughout the year, we sought to encourage the development of new areas of business for members. We worked with government at a national and local level on measures to fund social housing with private finance. We continued to provide helpful consumer advice for borrowers considering buy-to-let opportunities, and the figures we produced on behalf of the industry showed that there was no decline in lending quality in this sector of the market. We published a guide for older borrowers considering options for releasing equity from their homes and pressed for an even-handed approach to the regulation of equity release. And we successfully supported reforms that would remove barriers to the take-up of mortgages among the UK's population of two million Muslims. Delivering value for members continues to be a fundamental objective. During the year, we therefore began to contribute to a pilot scheme to devise a methodology for quantifying the value added by trade associations for their members. We were selected as one of six associations that will continue to work on this project with the TAF as it develops during 2003.

Our members continue to provide around 98% of the UK's total of 11.4 million mortgages, with a value in excess of £670 billion. Much of the work we do continues to be funded by the subscriptions of our 143 members and 60 associates. But we also sought to develop commercial activities, which contributed almost half of our revenue in 2002. Our third annual conference and dinner was the largest and most successful event we have ever staged, and our annual lunch broke new records for attendance. And the work we began on an electronic learning package to help lenders train staff about mortgage regulation will augment our income, while providing a useful and cost-effective service for members.

We introduced a number of improvements to the way we communicate with our members and with external audiences during the year. The re-launch of *CML News & Views* in January completed the re-design of our main range of publications. The number of registered users of our website more than doubled, with page viewings increasing year-on-year by 80%. Finally, our activities were commended by other organisations in a number of ways during the year. Michael Coogan received an award as the mortgage industry's ambassador of the year at the presentation evening staged by *Mortgage Finance Gazette*. We were given crystal marks for clarity from the Plain English Campaign for our website and our consumer booklet on equity release. We won the website of the year award in the inaugural the TAF presentations. And *CML News & Views* was highly commended in the newsletter of the year category at the same awards.



Key industry figures discussed topical issues at our annual conference

mortgage **regulation**

- ✔ Regulation of advice under the new FSA rules should be based on the Mortgage Code.
- ✔ Publication of the new rules should give the industry at least 12 months to implement the new regime.
- ✔ Effective, cost-effective and proportionate regulation of equity release mortgages by the FSA.
- ✔ The Consumer Credit Act should be updated and revised to complement the new FSA rules, and be implemented at the same time.
- ✔ Any changes proposed as a result of the DTI over-indebtedness task force should not adversely affect lenders.
- ✔ No changes to the Mortgage Code Compliance Board's (MCCB) rules or budget that would increase the regulatory costs for members under the Code

In December 2001, the Treasury announced that it wanted to extend the scope of the FSA's powers to include the regulation of mortgage advice and the authorisation of intermediaries. The announcement was a major breakthrough for the industry. It finally cleared the way for the comprehensive system of mortgage regulation for which we had been arguing for the previous two years. Within two months, the Treasury published a consultation paper including draft legislation for 'advising on' and 'arranging' regulated mortgage contracts. Its final version of this legislation was published in August.

Working towards the FSA regime

The FSA spent the first half of the year reflecting on how it would implement its new responsibilities. In August, it published consultation paper (CP) 146, which set out its approach to regulating mortgage sales. Much of this reiterated its plans from the earlier CP98 document, but it also included proposals for regulating mortgage advice and authorising intermediaries. We responded to CP146 in November, supporting many of the FSA's 'high level' proposals. But we were concerned about:

- The failure to require lenders and intermediaries to produce a 'suitability' letter explaining why a particular product had been recommended to a customer, as they must do under the Mortgage Code. We believe that this type of letter would be clearer for consumers and help avoid the risk of complaints in future.

- The failure to require intermediaries to disclose the commission they receive for selling mortgages, again as they are required to do by the Mortgage Code.

- The absence of any requirement for sales information to encourage borrowers to think about how they would cope with their mortgage if they lost their income or their circumstances changed. This would help support the industry's campaign to make home-ownership more sustainable for all borrowers.

- The complexity and cost of rules governing the sales of mortgages. While the proposals now broadly reflect the approach taken in our own Mortgage Code, we are concerned that they could discourage some lenders and intermediaries from offering advice in the future.

- The possibility that customers will confuse 'non-advised filtering questions' with 'advice.' We believe that the FSA needs to revise the rules to make it explicitly clear to consumers that they have not received advice.

"Your update on the FSA's consultation paper was very useful and very prompt" – *Gavin Hunt, compliance manager, Southern Pacific Mortgages*

We are pressing for these issues to be addressed when the FSA publishes its response to consultation and the draft rules in spring 2003. The regulator expects to publish the final rules in October 2003 and is on target to regulate mortgages from 31 October 2004, the date now confirmed by the Treasury. Originally, the Government had wanted insurance to be regulated from the same date. But, because of delays in publishing the European Union (EU) insurance mediation directive, the regulation of general insurance has now been postponed until January 2005.

Mortgage Code plays a vital role

Greater certainty about the date for the mortgage rules coming into force has proved helpful for the MCCB. It has been able to plan its programme of work and schedule for the winding-down of its activities in October 2004. In the meantime, we remain committed to working for a seamless transition from voluntary regulation by the Mortgage Code to the statutory rules overseen by the FSA. We therefore continue to support the work of the MCCB, and welcome the progress it has made on upholding standards for the industry. The MCCB remains important for lenders, and its achievement in implementing compulsory professional qualifications for 51,000 mortgage advisers by the end of the year was a notable success in 2002. Looking forward, we will be encouraging the FSA to build on these professional standards when it assumes responsibility for statutory regulation.

Since we introduced the Code in 1997, some 11 million copies of it – and 62 million consumer leaflets – have been given out to customers. More has probably been done to educate consumers through the Mortgage Code than under any other voluntary initiative in the financial services industry.

Seeking harmony with Europe

Developments in Europe loomed over preparations for the statutory regulation of mortgages in the UK. The voluntary European Code of Conduct came into force at the end of September and most members of the European Mortgage Federation (EMF) agreed to sign up to it. It is based on the UK's Mortgage Code, so lenders in this country have been complying with many of its provisions since we introduced the Code in 1997.

One of the provisions in the European code is for lenders to supply a standardised summary of the key features of a mortgage, allowing customers to compare different products. When we originally signed up to the European proposals on behalf of UK lenders, we expected the FSA's rules to come into force in August 2002 and require lenders to provide customers with a pre-application illustration (PAI) of their mortgage. At that stage, the FSA had clearly signalled that the PAI would meet the requirements of the European standardised information sheet (ESIS), so we were confident that UK lenders would be complying with the European code when it came into force in 2002.

But the delay in introducing statutory regulation in the UK means that the FSA has not yet specified what the PAI will look like. This means that UK lenders are not currently providing customers with the ESIS. We have briefed the European Commission (EC) and the EMF on this and assured them that UK lenders will be able to comply fully when the FSA's rules come into effect in 2004. The Commission plans to review the code by the summer of 2003.

The EC published a draft directive on credit for consumers. This excluded loans for home purchase from its scope, as they are included in the code. However, it includes other secured loans, including the withdrawal of equity with flexible mortgages and remortgages. So, the directive would have a significant adverse impact in the UK because it would cut across and conflict with the regime being put into place by the FSA. We are pleased, therefore, that the DTI is leading the lobbying to amend the directive. We support the DTI's goal of removing all secured lending from it.

Nevertheless, the aim of providing a single market for mortgage credit is one that we support. Early in 2003, the EC announced a new forum group on mortgage credit would be set up to review obstacles to cross-border trading and put forward recommendations for action by the Commission.

The role of the ombudsman

Complaints about mortgages form the largest part of the workload of the Financial Ombudsman Service (FOS), according to its annual review, which was published in June. That is hardly surprising, given the number of mortgages, their significance in customers' overall financial well-being, the long-term nature of the commitment and the relationship between interest-only mortgages and the sale of investments, many of which are now expected to produce a shortfall on the expected returns. There was a significant increase in the number of complaints about mortgage endowments, and loans offering 'dual' variable rates, compared to former years. The debate about mortgages backed by endowments continued into 2003. Particular attention turned to complaints about policy sales before the Financial Services Act 1986 came into effect in April 1988. More happily, most of the complaints about 'dual' mortgage rates have now been resolved.

During the year, we contributed to the debate between the FOS and the industry on whether there should be:

- an appeals process for individual FOS decisions; and
- a process for dealing with cases that have wider implications because they affect a large number of consumers in the same way.

We do not want to see consumers with a valid complaint placed at a disadvantage. But, by the same token, the FOS has to be even-handed in its treatment of both firms and customers. It should not act as a quasi-regulator.

We urged the FSA to introduce a new process to deal with cases that have wider implications for groups of customers, and were pleased when the regulator accepted our view in its document, *Treating Customers Fairly: Progress Report,* published in June. It remains primarily for the FOS and individual firms to identify complaints that have wider implications for groups of customers. But we believe that trade bodies have a crucial role to play in cases that may affect a number of firms operating in the market.

"Thank you for taking the time and trouble to visit us and provide such an interesting, informative and useful presentation. You have the happy knack of making a complicated issue very clear and practical" – *David Baker, chief operating officer, Northern Rock.*

During the year, we also urged the FOS to extend its voluntary jurisdiction to mortgage lenders and intermediaries not currently in the scheme, in advance of the statutory regime due to be implemented in 2004. The FOS consulted on this proposal and has put in place a new facility to deal with mortgage complaints. Firms are now able to anticipate the statutory arrangements and join the FOS early. We believe that consumer confidence in the mortgage market is strengthened as all borrowers have access to a free, independent redress scheme – a key benefit delivered by our Mortgage Code since 1997.

Finally, we contributed during the year to a steering group of trade bodies and practitioners in the banking sector that met the FOS quarterly to discuss topical issues and concerns. After an inaugural year under the chairmanship of the British Bankers' Association (BBA), we will chair the steering group in 2003.

Contributing to the work of the DTI

We responded to DTI consultations on proposals for revising the UK Consumer Credit Act 1974. It is expected that the current upper limit of £25,000 for credit agreements will be removed and there will be further consultation on extortionate credit, advertising regulations and annual percentage rates. The DTI intends to bring in all the proposed changes in a regulatory reform order towards the end of 2003. The goal is to implement the changes at the same time as the FSA's mortgage rules come into force in 2004.

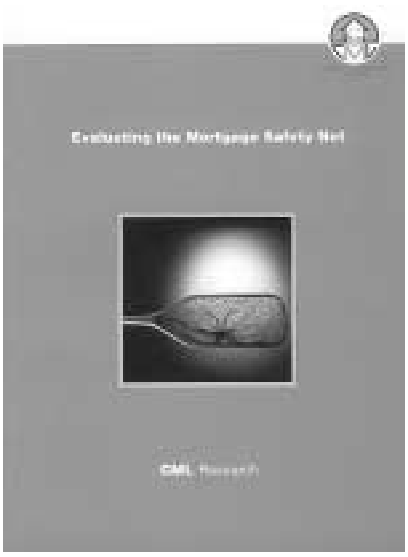
We also contributed to the DTI's task force on overindebtedness, which published its report in January 2003. Much of its concern was with the growth of unsecured debt, particularly by the use of credit cards. Among its recommendations, the task force proposed that borrowers should be more cautious if they have four or more credit commitments; spend more than a quarter of their gross income on consumer credit; spend more than half of their gross income on consumer credit and mortgages; or have six or more active credit accounts and a balance of £500 or more on each of them. A key issue for the mortgage industry is assessing the affordability of the loan in each case. This needs to extend to the borrower's overall financial position if potential problems of overindebtedness are to be avoided.

sustainable **home-ownership**

- ✔ Mortgage arrears and possessions at a 20-year-low.
- ✔ Re-launch of the sustainable home-ownership initiative based on a wide-ranging review.
- ✔ The initiative remains a priority with relevant Government departments.
- ✔ DTI's proposals on over-indebtedness take account of the interests of secured lenders and are complementary to FSA rules.

Mortgage arrears fell to a 20-year low in 2002. Out of a total of 11.4 million mortgage accounts in the UK, less than 12,000 properties – 0.11% of the total – were possessed by lenders. That compared with 18,000 in 2001 and more than 75,000 in 1991, when the number of possessions peaked. In 2002, only 51,000 mortgages – fewer than one in 200 – were more than six months in arrears. A year earlier, the total was 63,000 and a decade before that it reached a peak of 350,000. Taken as a whole, the figures on arrears and possessions for the year were the most encouraging since 1982.

Low and stable interest rates and a benign economic backdrop undoubtedly helped borrowers avoid repayment problems. Following the cuts in state support for home-owners introduced in 1995, the greatest exposure to payment problems for most borrowers comes from an unexpected loss of income through illness, injury or unemployment. During the year, we therefore continued to encourage greater take-up of mortgage payment protection insurance (MPPI).



MPPI has been the cornerstone of a joint initiative launched in 1999 with insurers and the Government to make home-ownership more sustainable. A key target of the initiative was to achieve 55% take-up of MPPI by home-owners by 2004. Since 1999, the number of policies has increased by around 700,000 and, by the end of 2002, there were more than 2.5 million policies in force, representing 22.6% of mortgages overall. Some 865,000 policies were sold or provided free during 2002, which meant that during this period 36% of mortgages advanced were protected by MPPI. The 437,000 policies taken out in

the second half of the year was a record for any six-month period. While a significant number of policies do lapse, the overall number of policies has continued to climb and there appears to be a continuing modest underlying increase in overall penetration rates.

Table one: MPPI policies as a proportion of the mortgage stock

	Mortgages outstanding at end of period	MPPI policies in force at end of period	Mortgages protected by MPPI, %
1998	10,821,000	1,714,600	15.8
1999	10,981,000	1,896,500	17.3
2000	11,168,000	2,293,600	20.5
2001	11,243,000	2,456,200	21.8
2002	11,360,000	2,570,000	22.6

Source: CML

Table two: MPPI policies as a proportion of mortgages advanced

	Mortgages advanced in period	MPPI policies sold or provided free in period	Mortgages advanced in period protected by MPPI, %
1998	1,554,000	420,900	27.1
1999	1,757,000	502,600	28.6
2000	1,679,000	573,600	34.2
2001	2,081,000	695,800	33.4
2002	2,575,000	861,400	33.5

Source: CML

Relaunching the sustainability initiative

During the year, we undertook a comprehensive review of the sustainable home-ownership initiative. The aim of this was to:

- gain a better of understanding of how developments have affected the initiative since it was first launched;
- identify any gaps in support for home-ownership that leave borrowers exposed;
- re-appraise the original targets; and
- devise an action plan for the future of the initiative.

A key fact emerging from the review was the importance of other types of insurance, apart from MPPI, in providing protection for home-owners who might experience payment difficulties. Significant numbers of borrowers have permanent health and income protection insurance, and policies specifically covering the risk of unemployment.

There are some other good reasons why focusing only on MPPI provides too narrow a perspective. Since we launched the sustainable home-ownership initiative three years ago, the strength of the housing market has allowed home-owners to accumulate more wealth in their properties than could have been anticipated. This helps offset the risk of exposure to payment problems. And unemployment has recently been lower than we expected in 1999, although it may rise modestly in the future given current economic uncertainty.

"I think the work you are doing at the CML is absolutely first rate and you deserve all the praise which I am sure regularly comes your way from members" – *Jonathan Holt, head of legal systems group, Eversheds*

The findings emerging from the review led us to adopt a new target that we believe more realistically reflects the sustainability of home-ownership than the narrow measure of take-up of MPPI. We announced that in future our new goal would be to reduce the number of possessions over the economic cycle. In practice, this means aiming to keep the average number of possessions:

- below 30,000 a year (the average over the last 10 years is nearly 35,000); and
- lower than it would have been in comparable economic circumstances in the past.

These are challenging objectives, especially given the cuts in state support for home-owners introduced in 1995. But they are goals to which all parties involved in the sustainable home-ownership initiative – lenders, insurers and the Government – can now contribute. Together, we are looking for as many ways as possible to protect borrowers from the risk of losing their home

New objectives for the future

The review produced an action plan incorporating the following objectives:

- We are pressing the FSA to ensure that the new mortgage rules encourage customers to consider how to cover themselves against the risk of not being able to make their mortgage payments. We believe that this type of warning, made outside the commercial interests of lenders and insurers, would have greater authority and have more impact with borrowers.
- We are working with the Department of Work and Pensions (DWP) to improve the way in which income support for mortgage interest (ISMI) is calculated. We think ISMI payment rates should track the Bank of England base rate. These would be easier to administer, quicker to respond to rate changes and easier for borrowers to understand. We are also urging the DWP to consider measures to improve the system by which payments are made directly to lenders.

- We began work with insurers and the Government on a new leaflet for consumers explaining the risks of home-ownership. This will be published in 2003. The aim is to urge borrowers to think about ways of reducing their risk.

- We launched a pilot study into how lenders might exercise forbearance with borrowers who are covered by insurance. This led to a commitment that lenders would not take possession of a property where borrowers are able to claim on a policy that pays the mortgage or an agreed amount towards it. Even before the pilot, many lenders already exercised forbearance where payments were not being made in full.

- We are working with the DWP to secure a higher take-up of tax credits, which would help make buying a home more sustainable for those on lower incomes. At present, only around 50% of home-owners who qualify for credits apply for them, and many simply do not realise that they are eligible. An estimated £1 billion a year of unclaimed tax credits are accounted for by home-buyers. Yet half the poor are home-owners and they should not be missing out on this important supplement to their income. We are exploring with the Inland Revenue the potential for targeting publicity material at home-owners. We are also providing lenders with guidance on tax credits. The sustainable home-ownership initiative is about maximising the full range of ways for home-owners to supplement their incomes and avoid becoming financially overstretched. Tax credits have an important contribution to make.

market information **and analysis**

- ✔ Mortgage lending at record levels.
- ✔ Progress towards a new and expanded survey of mortgage lenders (SML) based on a 100% sample.
- ✔ A research programme tailored to organisational objectives and members' needs, with research targeted at relevant audiences.
- ✔ Timely, media-friendly commentary, analysis and research in order to strengthen our role as a market commentator.
- ✔ Informing members, regulators, the Government, MPs, consumer groups and the wider public of our key messages with information targeted for specific audiences.
- ✔ Enhancing electronic communications and our website to provide efficient and timely access to information.
- ✔ Effective Parliamentary lobbying – in London and Europe.
- ✔ Record-breaking annual conference, dinner and lunch – and a wide range of other events to meet members' needs, and generate revenue.

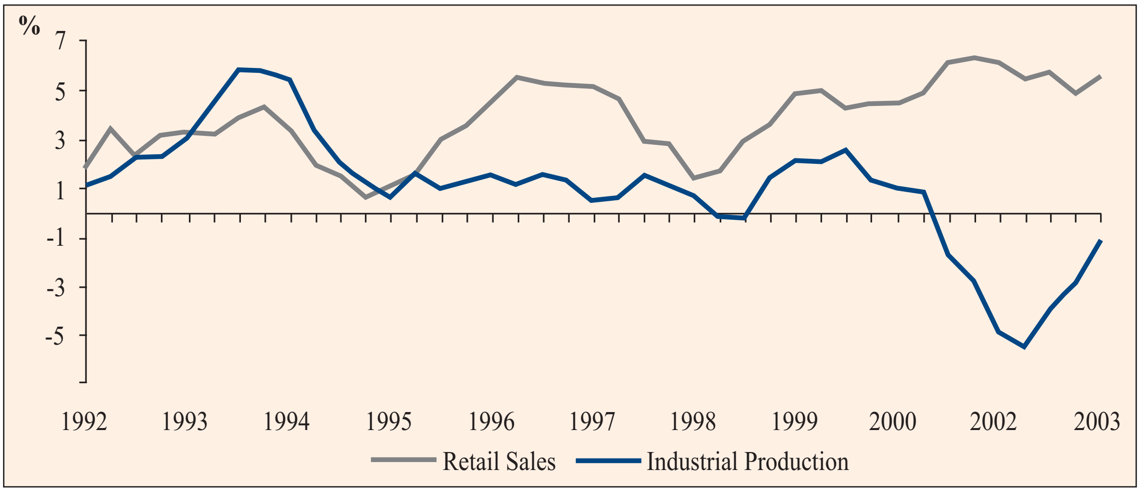
"If the bubble will not deflate slowly of its own accord, it must be pricked before it gets completely out of hand" – *the Financial Times*

For the second successive year, the economy grew more slowly than the long-term trend. In growing by only 1.8% during the year, the economy proved to be weaker than at any time since the end of the recession a decade earlier. Furthermore, there was a sharp contrast between the performance of the robust consumer sector and much weaker industrial production.

The economic backdrop

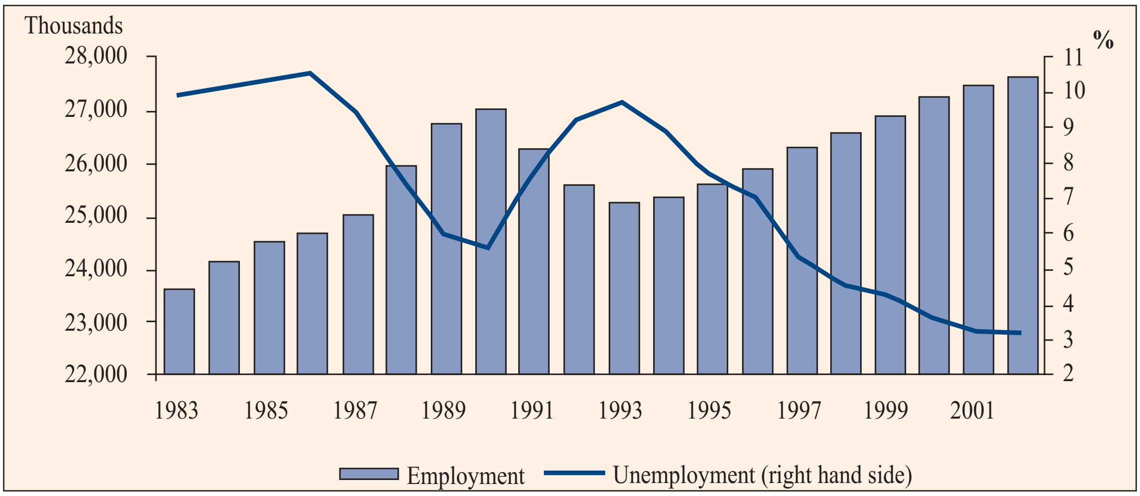
Consumer spending was buoyed by a strong labour market and high levels of borrowing, much of it secured on property. In contrast, the industrial sector, which suffered because of the global slowdown and the strength of sterling, has now been in recession for almost two years. There were, however, tentative signs of industrial recovery towards the end of the year. But the continuing economic weakness and political uncertainty at the beginning of 2003 meant that any recovery was likely to be slow and protracted. Despite the weakness of manufacturing, the labour market continued to tighten throughout 2002. At the end of the year, employment had reached a record level and unemployment was at its lowest since 1975.

Chart one: Retail sales and industrial production



Source: Office for National Statistics

Chart two: Unemployment and employment



Source: Office for National Statistics

Given the strength of the labour market, it is not surprising that consumer spending remained so buoyant. One concern is that employers are retaining staff in the belief that the economic downturn will be temporary. But the longer economic weakness continues, the greater the likelihood that employers will change tack and begin to shed labour. Any increase in redundancies on a large scale is likely to damage consumer confidence going forward.

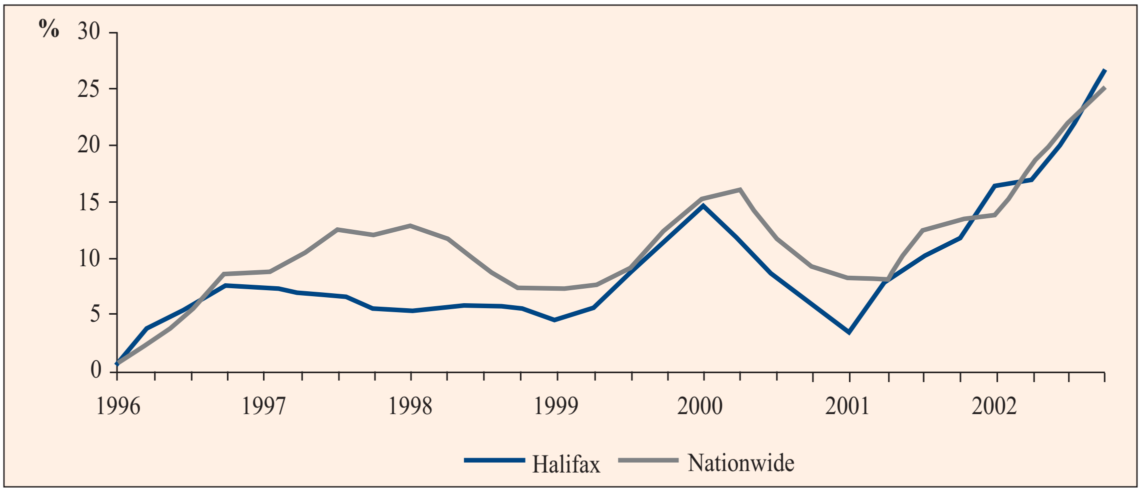
Growth in incomes was subdued, reaching a peak of 3.9% during the summer but remaining below the threshold of 4.5% regarded as inflationary by the Bank of England. Although the strength of the labour market might have been expected to spur stronger earnings growth, it may have been kept in check by the uncertain economic outlook. Certainly, with profits being squeezed, employers are only likely to be able sustain employment at current levels if income growth remains modest.

Inflation remained benign, although it increased a little towards the end of the year. The Government's target rate, the retail price index excluding mortgage payments, ended the year at 2.7%, a shade over the long-term goal of 2.5%. Given the stability of inflation, it was perhaps not surprising that interest rates remained unchanged at four per cent throughout the year. Early in 2003, the worsening economic and political outlook precipitated a cut in interest rates to 3.75%, the first in 15 months.

Mortgage lending reaches a record level

Defying all the forecasts made at the beginning of the year, the combination of low and stable inflation and interest rates and a strong labour market combined to help produce a headline-grabbing 24% increase in house prices over the year. London and East Anglia continued to show strong house price growth, particularly in the early months, but as the year progressed prices grew more rapidly in central and northern England. In the second half of the year, the east Midlands saw the highest house price growth, recording a year-on-year increase of 42% in the final quarter.

Chart three: House price growth



Source: Halifax and Nationwide

Clearly, price growth of this magnitude is unsustainable and we expect to see prices rise more slowly in 2003, particularly after the impact of tax rises begins to take effect in April. But we expect to see a gentle slowdown in the market, rather than a sharp correction. In November, we revised our forecasts for the housing and mortgage markets. We now expect price growth to moderate to around seven per cent by the end of 2003 and five per cent by the end of 2004. The number of housing transactions is expected to fall slightly over the next two years from the total of almost 1.59 million in 2002.

Table three: Mortgage and housing market forecasts

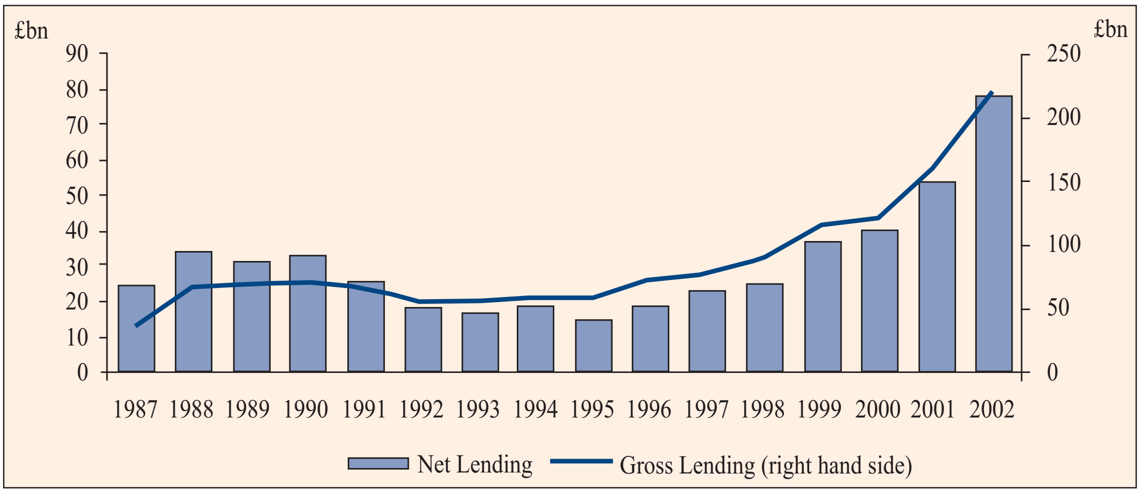
	2002, actual	2003, forecast	2004, forecast
Base rates, % annual average	4.0	4.3	4.9
House prices, % increase, fourth quarter	24	6.9	4.8
Transactions, England and Wales, 000s	1,587	1,470	1,480
Gross advances, £bn	219	225	233
Net advances, £bn	79	70	65
First-time buyers, % of house purchases	37	40	40
Remortgages, % of gross advances	38	37	35
Arrears, three to six months, 000s	66.6	75.6	75.9
Possessions, 000s	12.0	14.0	14.1

Source: CML

"As a CML member, I automatically receive emails with updates, which I have to say is a brilliant system" – Katrina Mattock, departmental manager, Homeloan Management Limited

Given the unexpected and prolonged buoyancy of the housing market, it is no surprise that both gross and net lending reached record levels in 2002. Gross lending totalled almost £219 billion during the year, 36% more than in 2001. And net lending, at £79 billion for the year, was 43% higher than in the preceding 12 months. In 2003, we expect gross lending to total £225 billion, with net lending of £70 billion – reflecting the continuing strength of remortgaging.

Chart four: Gross and net lending



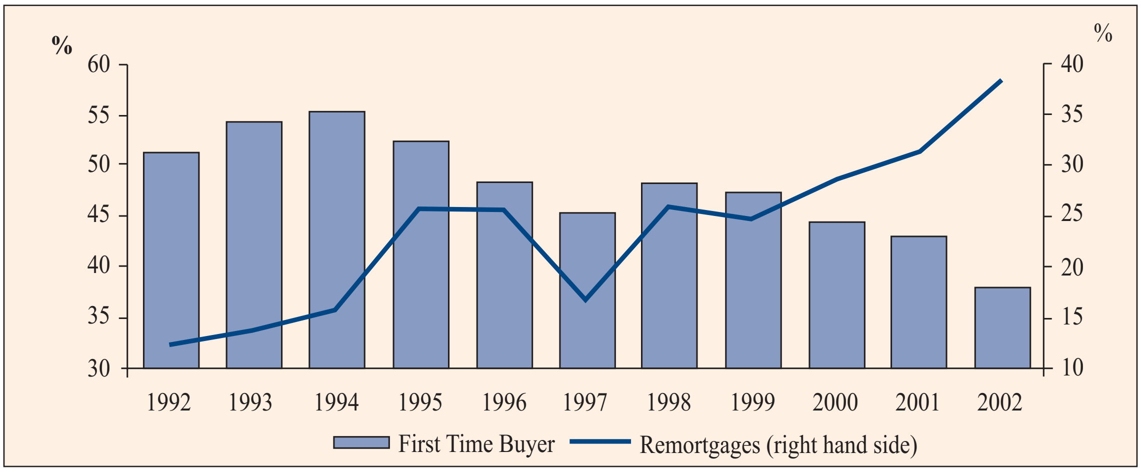
Remortgaging totalled £83.6 billion in 2002, the highest figure on record. Having grown by 47% in the previous year, the volume of remortgaging increased by a further 67% in 2002. It also represented 38% of gross lending – yet another record and a significant increase on the figure of 31% seen in 2001. We expect remortgaging to account for around 37% of gross lending in 2003 and to remain strong for the foreseeable future.

Remortgaging accounts for a higher proportion of lending partly because borrowers chose to draw on the rising value of their homes to fund spending plans. In many cases, remortgaging represents the cheapest form of borrowing for consumers. Our recent consumer survey confirmed that around half those remortgaging take the opportunity to withdraw equity from their home. The Bank of England estimated that mortgage equity withdrawal totalled £13.3 billion in the final three months of 2002, representing a 24% increase in the quarter, and a 75% rise year-on-year. This made a significant contribution to consumer spending, which remained strong in 2002.

Loans for house purchase declined as a proportion of gross lending, but still grew by 20% overall. The proportion of loans to first-time buyers fell again in 2002, to 37%, continuing the pattern of steady decline seen in recent years. This is likely to reflect the way in which strongly rising house prices have made it increasingly difficult for first-time buyers to consider buying a home.

"The longer it goes on – both in the mortgage market and the wider borrowing market – then the eventual adjustment could be quite severe" – *David Clementi, deputy governor, Bank of England*

Chart five: First-time buyer and remortgaging activity



Source: CML

Enhancing the survey of mortgage lenders

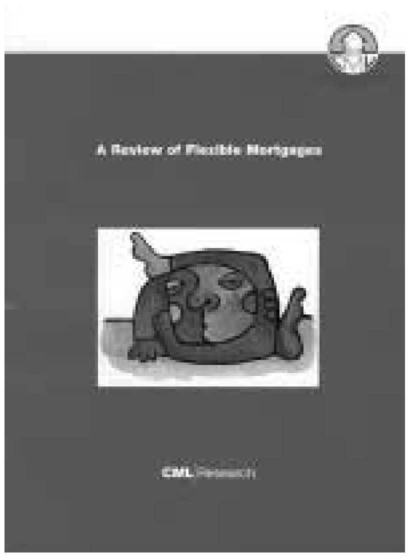
We worked throughout the year to enhance the SML, which during 2003 will provide the basis for a new national house price index to be launched by the Office of the Deputy Prime Minister (ODPM). One of the most significant improvements to the survey is that lenders contributing to it will provide data on 100% of their mortgage completions, rather than a five per cent sample.

The SML survey produces a comprehensive range of statistics on mortgage markets that we use widely in our research, publications and press briefings. During 2003, we will begin to use data from the enlarged survey in the material we publish. Increasing numbers of lenders contributing to the SML also began reporting on a new questionnaire during 2002 and we worked on processes for validating and checking the data it produces to ensure that it is robust and representative. When the whole project is completed, the SML will be a rich source of information for members, Government departments, academic institutions and a variety of other organisations.

Of the 49 lenders that currently provide data to the SML, 42 are now using the new questionnaire. And the number providing data on 100% of their mortgage completions also continued to grow in 2002; 19 lenders – accounting for between 40% and 50% of UK lending – are now contributing in this way. During the year, we launched a new area devoted to the SML on our website. This provides a range of information for those lenders that participate, including results from the survey.

A programme of topical research

Throughout the year, we commissioned a varied research programme to produce a series of informative reports on subjects of topical interest to lenders and the wider industry. In 2002, we published the following reports:



- *Evaluating the Mortgage Safety Net;*
- *The Changing Structure of the UK Mortgage Market;*
- *A Review of Flexible Mortgages;*
- *Future Developments in Home Buying and Selling;* and
- *Housing, Financial Services and the Welsh Economy.*

The reports on the changing structure of the housing market, flexible mortgages and home-buying and selling were launched at events and seminars that we organised.

We also continued to plan and commission a comprehensive programme of forthcoming research. Reports due to be published in 2003 will cover:

- the implications for lenders of the new Basel capital requirements;
- the impact of stamp duty on the housing market, and the case for reforming this tax;
- take-up of tax credits by home-owners;
- European comparisons of tenure patterns, costs and affordability;
- financial integration of mortgage markets in Europe;
- the economic impact of the proposed European consumer credit directive; and
- housing demand in Wales.

We also worked on plans for two research reports to be undertaken jointly with the ODPM which are to due to be published in 2003. These will examine low demand for housing in areas of urban decline, particularly in the new 'pathfinder' areas identified by the Government for market renewal, and the characteristics of borrowers who take out MPPI.

We undertook our annual consumer research in conjunction with MORI Financial Services. This is based on comprehensive interviews with consumers in their homes on mortgage and housing matters. We further developed the survey this year to include questions on mortgage equity withdrawal, debt, and equity release schemes for older home-owners. The results were reported in *Housing Finance* and *CML News & Views* and were also used in press releases and for briefing journalists throughout the year.

Other publications

In January, our comprehensive re-design of major publications was completed when *CML News & Views* was re-launched with a fresh appearance in our corporate colours. We continued to undertake much of the production work on our other publications in-house, using ready-made templates, which saved costs.

- Our quarterly journal *Housing Finance* continued to attract a wide readership across the industry, in Government and among policy-makers and academics. The four issues published during the year contained 19 articles on a variety of topics, written by our own staff and other mortgage and housing market specialists. Each issue also contained a topical commentary, as well as 33 tables of comprehensive data on housing and mortgage markets.

- As in other years, we published *Housing Finance National Markets Review*, which provided a useful analysis of mortgage and housing markets in England, Scotland, Wales and Northern Ireland.

- *Market Briefing* was published monthly throughout the year, providing timely analysis of market developments and a digest of essential market statistics. In 2002, we also introduced brief articles on topical subjects to inform market opinion.

- *CML News & Views* was published fortnightly throughout the year. Providing a digest of news and opinion about all aspects of mortgage and housing markets, this six-page newsletter remained the most widely read of our publications. The newsletter was highly commended in the inaugural TAF best practice awards, announced early in 2003.

- *UK Housing Review 2002/3* was published in conjunction with the Chartered Institute of Housing and with support from the Joseph Rowntree Foundation. It contained a variety of articles, as well as a commentary section and around 120 tables of data.

- We revived the *CML Yearbook*, which was published in October. Containing a directory of members and associates and supporting articles on a variety of industry topics, the *Yearbook* helped broaden our reach within the wider mortgage community.

Managing media relations

Mortgage-related topics attracted considerable media interest in 2002 and one issue, in particular, was never out of the headlines for long. Throughout the year, journalists struggled to make sense of the housing market, but rarely agreed on how long the buoyancy would continue and whether there would be a gentle landing or a sharper correction. Given the strength of media interest in the housing market, our SML figures – which at various times showed record levels of mortgage lending, remortgaging and a decline in borrowing by first-time buyers – assumed a much higher profile.

"The website fulfils all the requirements. You can access information very quickly" – *David Lunn, Kensington Mortgage Company*

At the height of summer – following three successive months of record mortgage business and a 19% rise in lending in June alone – we said that, in the absence of anything else to slow the market, a modest rise in interest rates would help deliver long-term sustainability without causing payment difficulties for the overwhelming majority of borrowers. Our views echoed similar comments made by the deputy governor of the Bank of England, David Clementi, to the Treasury Select Committee but drew a predictably diverse range of opinions from journalists. *The Financial Times*, the *Guardian* and an unusually restrained *Daily Express* acknowledged our arguments about the pace of house price growth and the need for measures that would deliver long-term sustainability to the housing market. But other commentators, particularly *The Times*, *Observer* and the *Daily Mail*, were much more critical of the role of lenders in contributing to the housing market buoyancy.

Later in the summer, both *The Times* and *The Independent* published extended interviews with Michael Coogan. These provided an opportunity to develop our arguments about the future course of mortgage and housing markets. They also reinforced key messages on behalf of the industry about lending quality, mortgage regulation, buy-to-let, reform of stamp duty, measures to help first-time buyers and problems created by the imbalance of housing supply and demand. We also pursued some of these themes in many high profile broadcast interviews, for the BBC's 10 O'clock News and *Today* programme, ITN and Channel Four News, among others.

Apart from the housing market, a number of other important issues for lenders attracted media interest. Regulation was in the news early in January, when our support for the Treasury's new proposals was widely reported, and later in the year, when there was sympathetic coverage of our concerns about the impact of the European consumer credit directive. Our initiative to make home-ownership more sustainable and our views about the issues raised by flooding were also widely covered. There was considerable media interest in our support for reforms to encourage the development of Muslim mortgages. And, following widespread media concern about buy-to-let borrowing, our figures provided re-assurance about lending quality in this section of the market.

Throughout the year, our press releases and briefings kept journalists informed about our views on a range of issues. Our research, and articles in *Housing Finance* and *CML News & Views*, provided a steady stream of news stories and features ideas for journalists. We published a series of articles on key industry topics in a variety of trade publications. And our decision to circulate to journalists our monthly commentary, published in *Market Briefing*, helped produce a clearer understanding of our views on developments during a year in which the housing market continued to dominate the headlines.

Parliamentary activity – in Westminster and Brussels

During the year, we pursued a range of Parliamentary activities, both in Westminster and Brussels. As the proposed directive on consumer credit began to take shape, we stepped up our lobbying with both the EC and Parliament to try to remove mortgages from the proposals. We also supported the DTI's campaign for reform of the proposed directive.

"The conference provided a good blend of issues and healthy debate" – *Peter Craddock, general manager, administration, Skipton Building Society*

We pursued the same theme in our regular briefings of Labour, Conservative and Liberal Democrat MPs at Westminster. The purpose of these is to keep backbench MPs informed of lenders' views on a range of topical issues. We also distributed our quarterly newsletter, *Housing Finance at a Glance*, to MPs. And following the inclusion of a Homes Bill in the Queen's Speech, we produced a special edition of the newsletter, which was also circulated to peers with an interest in housing and finance, as well as MPs.

In our briefings for MPs and discussions with Government contacts, we continued to emphasise our 'wish list' of policy initiatives that we would like to develop before the next general election. This includes:

- Reform of stamp duty. The current system distorts the market and places an excessive burden on first-time buyers. We oppose further increases in duty and would like to see the introduction of a 'graduated' structure. This would mean that only the portion of the price paid for a property above a tax threshold is liable for duty at that rate. We would also like to see stamp duty indexed in line with house price inflation. This would be consistent with the treatment of most other taxes and reduce the impact of stamp duty on first-time buyers.

- Reduced VAT on home improvements and repairs. This would help improve the quality of the housing stock and address the growing problem of disrepair in owner-occupied and privately rented dwellings.

- The introduction of a housing tax credit. We believe that a system of housing credit for owner-occupiers on low incomes is justified and would assist in the drive, supported by lenders, insurers and the Government, to make home-ownership more sustainable.

- Measures to mitigate some of the consequences for home-owners of plans to revalue property for council tax purposes.

We provided information and briefing papers to coincide with a series of Westminster debates on a variety of issues and made a number of submissions to select committee inquiries. We were encouraged that some MPs took up our concerns and raised them in Parliamentary questions and debates. Topics raised by MPs following our briefings included equity release, stamp duty reform and the use of the electoral register for essential credit-checking purposes. For each of the research reports we published during 2002, we prepared specific distribution lists to make sure they were seen by our key Westminster contacts. We also continued to maintain our micro-site within the UK's most influential political internet portal, *e-politix*.

Improving the website

We made significant progress in developing our website, which can be viewed at www.cml.org.uk. The number of registered users among members more than doubled during the year. In the 12 months to January 2003, page viewings grew by 80% from 96,000 to 173,000 a month. We were voted website of the year in the inaugural TAF best practice awards. And early in 2003, the website was awarded a crystal mark for clarity by the Plain English Campaign.

"Well done on winning the website of the year award. I find the updates of special value" – *Peter Davies, West Bromwich Mortgage Company*

To ensure that the website continues to reflect members' needs, we also conducted a website-based survey during the year, which found:

- 95% rated the site as excellent or good;
- 95% said the layout of the pages was clear;
- 87% said the layout was attractive; and
- 84% rated the site as attractive compared to others in the financial services sector.

The website plays a central role in our strategy of encouraging greater use of electronic communication. It provides information for a wide audience of journalists, academics, researchers, members of the public and those with a commercial interest in the industry. For our own members, it gives access to an even wider range of information. During the year, we made a number of technical changes, providing a seamless transition for members between the public and member-only areas of the website.

We also launched an improved search facility for both members and non-members. Other major new additions to the website during the year included:

- free electronic versions of printed publications for members;
- a microsite providing statistics drawn from the SML; and
- the launch of the electronic version of the *Lenders' Handbook* on the public section of the website, to provide comprehensive instructions for solicitors and conveyancers acting on behalf of lenders in housing transactions.

To encourage more widespread use of the website, we introduced an electronic newsletter, emailed weekly to members. As well as providing a brief note on developments within the industry, the email provides a link to a relevant page on our website for further information. This encourages members to register to use the site and, when they do so, they can specify their own areas of interest. That, in turn, allows us to tailor the emails to individual needs.

To ensure that the website remains up-to-date, we aim to post information on the same day that it becomes available in any other medium. We also set up a protocol to prompt members of our own staff to review website pages regularly to ensure that the material they contain does not become out-of-date.

A comprehensive information service

We continued to provide a free information and library service for members on a broad range of mortgage and housing-related topics. In 2002, we dealt with more than 7,000 inquiries, a significant increase in number from the 6,000 we received the year before. The most popular requests were for statistics, and information on the *Lenders' Handbook* and mortgage regulation.

"The best conference I have been too – more quality presentations, more variation and very enjoyable" – *Tim Rooney, head of strategic planning, Future Mortgages*

The number of inquiries by email grew rapidly. In addition to the 200 journals that we now subscribe to, we therefore increased our use of internet-based resources. We now use several electronic journals and online services. And, as it becomes increasingly important to provide information electronically, we plan to expand our services in this area, particularly as more publishers move to electronic-only formats. The library catalogue now holds details of more than 12,000 articles from journals, 28,000 press articles and over 3,000 reports. We also maintain a comprehensive archive of everything we have published and all the guidance we have issued. Finally, we continued to operate a recorded information line to deal with inquiries from members of the public.

Record-breaking annual conference

Our main event of the year, the annual conference and dinner, took place in December. The conference – our third – was sponsored by Marlborough Sterling and contained a lively series of debates and presentations on topical issues.

The Director General of Fair Trading John Vickers called for 'clear, workable' mortgage regulation when he spoke at our annual lunch.

The opening debate on housing policy was followed by a head-to-head exchange on UK membership of the euro. Sessions on mortgage regulation and the growing internationalism of the mortgage market were followed by presentations on buy-to-let, equity release and commercial property. Delegates were again able to vote and contribute questions and comments to debates throughout the day by using laptop computers. And during breaks, there were opportunities to attend the conference exhibition.

In the evening, around 800 guests attended the dinner, sponsored by Global Home Loans. This year, the dinner

adopted an 007 theme, with entertainment provided by actors playing characters from James Bond films. A charity casino rounded off the evening. This raised a total of £13,000 for Honeypot House, which provide holidays and continuing support for severely disadvantaged children, and the Money Advice Trust, which offers practical advice for people with debt problems.

A busy calendar of events

Our other keynote event is the annual lunch, sponsored by *Moneyfacts*, and this also set a new record for attendance in 2002, with 800 guests. In a wide-ranging speech, our chairman Andrew Pople called for reform of stamp duty and argued for mortgage regulation that was proportionate to the needs of consumers and the industry. This approach to regulation was supported by the guest speaker, the Director General of Fair Trading John Vickers, who said it should be clear, workable and not liable to distort economic decisions.

A busy programme of 20 smaller seminars, workshops and briefings continued throughout the year. The events focusing on mortgage regulation and customer retention were particularly popular and new topics we covered during the year included sub-prime lending, insurance issues and urban regeneration. Another new event, an information technology business services forum, proved popular with both members and exhibitors and is due to be repeated in 2003. We also supported Mortgage Expo, a new industry trade show at Olympia that attracted more than 4,000 visitors in two days.

In September, we attended Eurocatalyst 2002, a major event in Madrid, which brought together senior figures from the European mortgage industry. Michael Coogan's address to the conference focused on regulatory issues, including the impact of the proposed European consumer credit directive, and also emphasised the innovative and competitive nature of the UK mortgage market. In November, a team from the CML undertook a fact-finding visit to the USA, focusing chiefly on market issues, regulation and housing policy.

A new training venture

We embarked on a new joint venture with Absolutely Training Ltd to provide an online package which members will be able to use to train their staff about mortgage regulation. The aim is to provide a cost-effective means of training the large numbers of people within the industry who will need to understand the new FSA regime. Testing, tracking and monitoring features will be built in to allow managers to see how their staff are progressing. The package is due to be launched in October 2003 but members who wish to find out more and try a working example can log on to www.cmle-learning.com.

mortgage practices **and procedures**

- ✔ Pressing for the rights of lenders to commission their own property valuations, despite the introduction of home information packs.
- ✔ Speeding the home-buying process by making lenders' instructions for conveyancers available only online.
- ✔ Removing stress for buyers of new homes by ensuring that mortgage funds are only released when their property has been satisfactorily completed.
- ✔ Seeking to ensure that the new Basel requirements do not hamper the UK industry – and that members are properly prepared.

"Associate membership of the CML has proved to be very useful. Our attendance at your events and analysis of your briefings and circulars has increased our profile and our understanding of the issues" *- Iain Wilcox, sales manager, Tower Technology*

When the Government ran out of time to legislate for the introduction of sellers' information packs before the last general election, the debate about improving the ways houses are bought and sold in the UK appeared to be subsiding. But it gathered a fresh momentum in 2002. We published research into home-buying and selling in September and this was followed two months later by the announcement of a Housing Bill in the Queen's Speech. The Bill paves the way for the introduction of compulsory home information packs in 2006. Ministers continue to pledge support for the packs and the Government is convinced that providing more information before a property is marketed will lead to fewer transactions falling through.

Lenders and the home condition report

Given the seemingly inevitable introduction of packs, we focused our efforts on making sure that the proposals do not harm the operating environment for lenders. We are represented on working groups looking into plans for the home condition report, its data requirements and the need for qualifications and insurance for home inspectors. We are therefore well placed to address issues that may cause concern for members.

We continue to stress that lenders must be entitled to undertake property inspections when they need more information to make sensible lending decisions than the home condition report provides. It is also essential that if lenders wish to develop innovative techniques for valuing property, the Government's proposals should not constrain them from doing so. At the same time, it is important for lenders that the right sort of data is included in home condition reports so that it does help the underwriting process.

All those taking part in the debate about home condition reports continue to believe that significant revision is

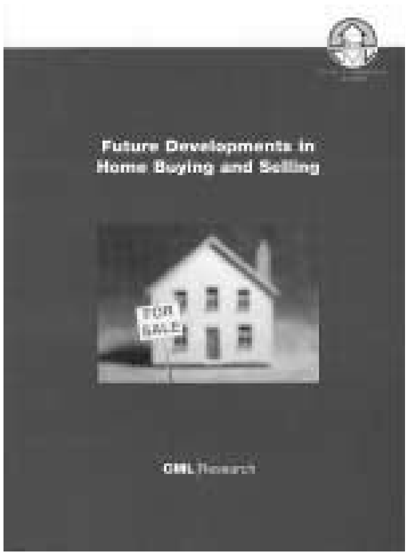
needed before the proposals meet the needs of everyone involved in the home-buying process – consumers, estate agents, conveyancers, surveyors and lenders. We continue to press for strict project deadlines as we progress towards the introduction of home information packs. If the Government is to achieve its objective of introducing the packs in 2006 without significant disruption to the industry, it is essential that lenders have a clear understanding of how they will operate by the end of 2003.

A new edition of the Lenders' Handbook

Ensuring that information about lenders' requirements is accurate – and available quickly and easily – makes an important contribution to smoothing the house-buying process. In October, therefore, we introduced a second edition of the *Lenders' Handbook for England and Wales*, containing a comprehensive set of instructions for conveyancers acting on behalf of lenders in housing transactions. Although there were a number of amendments reflecting changes both in lenders' requirements and the process of buying and selling homes, one of the most significant developments was that the second edition was only made available on our website. Having information readily available online helps to speed transactions. Lenders remain committed to the introduction of electronic conveyancing and want to conduct business online with suppliers wherever possible. A second edition of the *Lenders' Handbook for Scotland* was introduced at the beginning of 2003 and, like the version for England and Wales, could only be viewed on our website.

Smoothing the purchase of new homes

For much of the year, we worked to solve the problem of borrowers moving into new homes before they have been properly finished by builders. This can cause misery for buyers, who sometimes have to wait weeks for outstanding problems to be put right. In October, we agreed a solution with the Law Society, the House Builders Federation and the major home warranty providers. Under the former arrangements, new homes received a 'pre-handover' inspection to identify any unfinished work, but the problem was to synchronise this with the house-buying process. However, the new agreement means that from the beginning of April 2003 lenders will not release funds unless the conveyancer has been informed that a satisfactory final inspection has been completed. We are amending the *Lenders' Handbook* from 1 April 2003 to reflect the new arrangements, which will apply to all transactions involving a new home warranty scheme.



The new agreement was one of a number of ways in which lenders continued to work to remove stress and uncertainty for consumers from the home-buying process. Advances in credit assessment, for example, now allow many lenders to approve mortgage offers more quickly than in the past. And we also supported the Government's campaign for improving the home-buying process through more widespread use of technology, including electronic conveyancing.

In the first half of the year, along with the other trade associations, we successfully lobbied the Government to continue to allow lenders to have access to the electoral register for essential credit-checking purposes. Initially, the Government had wanted to prevent commercial organisations from being able to use the register.

Capital requirements for lenders

As we progress towards the implementation of the Basel Committee's second capital accord in 2006, our work on behalf of UK lenders intensified. The primary aims are to:

- ensure that there is fair treatment for all types of UK lender;
- remove as many obstacles and uncertainties as possible to allow a smooth transition to the new regime;
- address issues that prejudice the innovative and competitive strengths of the UK market; and
- ensure that UK lenders are not penalised because of the types of products they offer and their lending practices.

"As the CML points out, if the Chancellor was being equitable, he ought actually to raise the threshold at which stamp duty is paid in order to keep pace with house price inflation" *– The Independent*

To help our work, KPMG was commissioned to prepare an initial impact assessment and we launched the research based on this early in 2003. We also surveyed the major lenders taking part in the third quantitative impact study and undertook detailed discussions with the FSA and Treasury. Although we are working closely with the EMF on the issues raised by the Basel proposals, we are also planning more visits to Brussels for discussions directly with officials and politicians. Given that the UK mortgage market is the third largest in the world and the second largest in Europe, it is vital that it is not hampered by the Basel proposals and continues to build on its strength.

housing **policy**

- ✔ Contributing to Government plans for the regeneration of areas of low demand.
- ✔ Encouraging private funding for social housing.
- ✔ Campaigning for better flood protection for lenders and home-owners.
- ✔ Promoting lenders' interests with the Home Improvement Task Force in Scotland.
- ✔ Encouraging private funding for home improvements in Wales.
- ✔ Protecting lenders' interests in the Housing Bill for Northern Ireland.

"Thanks for all the work your organisation does – particularly your very capable staff" *– Mike Hyman, business development director, EDS Credit Services*

While headline writers focused on the sharply rising prices caused by an imbalance between housing supply and demand, there was much less attention paid to the problems created in large parts of the country by low demand, failing markets and long-running urban decline. Throughout the year, however, we continued to work closely with national and local government to address these issues. As a focus for policy initiatives, the Government set up nine new 'pathfinder' areas in the Midlands and northern England and allocated over £500 million over three years for market renewal. In contributing to this work, we stressed two key issues for lenders:

- their current exposure to risk as a result of lending in these areas; and
- the potential for future exposure as a result of further lending in support of the Government's programme of recovery.

Working on problems of low demand

We persuaded the Government to accept our arguments for the secondment of a lender to the housing market renewal team within the ODPM. We also helped provide a lender 'partner' for each of the pathfinder areas to provide day-to-day insights into lending issues. A key objective is to encourage central and local government to pursue solutions that will have universal application, rather than develop a plethora of individual, local initiatives with which it will be difficult for lenders to engage.

We commissioned research jointly with the ODPM to investigate financial solutions and mortgage products that might work in areas of low demand. One initiative that might be capable of development is the Homeswap proposal, which continued to operate successfully in Salford. This allows borrowers with negative equity in a property identified for clearance to move to a refurbished home in an area that is being regenerated and transfer their mortgage to a new property. We would like to encourage the use of standardised documents, which would make it easier for the Homeswap initiative to be applied to other areas.

But perhaps the most striking feature of the housing market in 2002 was that in many parts of the country demand outstripped supply, leading to sharply rising prices and difficulties for many who would like to become home-owners but could not afford to do so. The Government's starter home initiative helped address this problem for some groups of workers in some areas. But we believe that better Government support for more widely available shared equity schemes would help those who do not qualify for the starter home initiative.

Mortgages and flooding

"We benefit significantly from its association with the CML and I cannot see that there are any major areas for improvement" *– Andrew Tubbs, chairman, Shoosmiths*

The impact of flooding on home-owners was never out of the news for long during 2002, following heavy rainfall during the winter and early spring, and again in the winter of 2002/3. The resultant flood damage only served to highlight that an agreement by insurers to provide flood cover for existing policyholders would come to an end in December. Insurers wanted improvements to flood defences, better guidance for home-owners and more information about the risk posed by flooding to specific properties. We supported these goals.

In July, the Government announced a significant increase in spending on flood defences as part of its wider public expenditure plans. Current national spending on flood defences of £380 million annually will rise to £414 million in 2003-4, £469 million in 2004-5 and £564 million in 2005-6. The increased resources for flood defences are in line with what lenders and insurers have been campaigning for. So when the insurers' commitment to continue to offer flood cover ended as the year came to a close, it was replaced by a new 'statement of principles' issued by the Association of British Insurers (ABI).

The new principles mean that it will be possible to obtain flood cover for the overwhelming majority of homes. But there are no guarantees for the small number of properties with a high risk of flooding, no adequate defences and no plans for improvements. However, one important step forward is that insurers have now agreed to maintain cover for properties that are sold – unless they are in the highest risk category – as long as there is satisfactory information about the new owners and the proposed use of the premises.

We are committed to working with insurers to make sure that the new principles work in practice, particularly when people are applying for a new mortgage. We are also lobbying the Environment Agency to provide better information about flood risk and the ODPM to ensure that proposed home information packs will contain reliable information on flood risk for prospective home-buyers.

Looking after members' interests in Scotland...

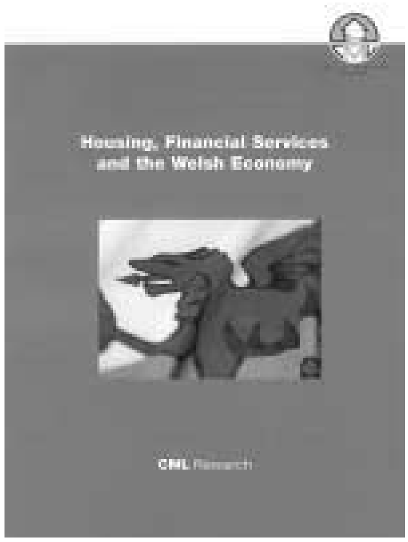
In March, the Housing Improvement Task Force set up by the Scottish Executive published its first report. It sought to reform the house-buying process and license private renting. It also raised concerns about the condition of the

private sector housing stock. CML Scotland worked with the Executive and the task force, and the reform of home-buying now looks likely to take an acceptable form, while the wholesale licensing of the privately rented sector has probably been avoided.

We were concerned that the introduction of a Mortgage-to-Rent scheme in Scotland could delay action by lenders over mortgage arrears, with the result that borrowers could find themselves more heavily in debt. But our negotiations with the Executive removed many of our fears. We also worked to ensure that the Scottish Executive remained committed to the large scale voluntary transfer of former council housing. This provides a well-tried and successful means of drawing on private finance for social housing. We also successfully supported the introduction of a Scottish equivalent of the Decent Homes Standard.

...Wales...

In Wales, we worked closely with the National Assembly on its proposals for 'community mutuals' as an alternative to the traditional housing association. We secured changes to the plans to protect the interests of lenders. Reforms also opened the way for the introduction of a mixture of grants and loans for home improvements. With local authorities being allowed a year to put the new regime into place, we are working with the Assembly on intermediary measures to make private funding available for home improvement and to provide loans for those who may not otherwise be eligible for them.



At the CML Cymru conference in October, the housing minister, Peter Black, gave the keynote address for 80 delegates. Finally, at the end of the year, we published research highlighting the important contribution made by the financial services and construction industries to the Welsh economy.

...and Northern Ireland

In Northern Ireland, our lobbying for legislation to address key housing issues was hampered by constitutional disruption. We believed that the Housing Bill introduced by the Department for Social Development was little more than a 'catching up' exercise and represented a missed opportunity for more fundamental reform. Even so, debate on these unambitious measures was cut short by the return of direct rule in October. This resulted in the Bill being introduced as an order by the Northern Ireland Office. We hope that devolved power will return to Northern Ireland is 2003, which may provide an opportunity for the more comprehensive housing policy reform that is needed.

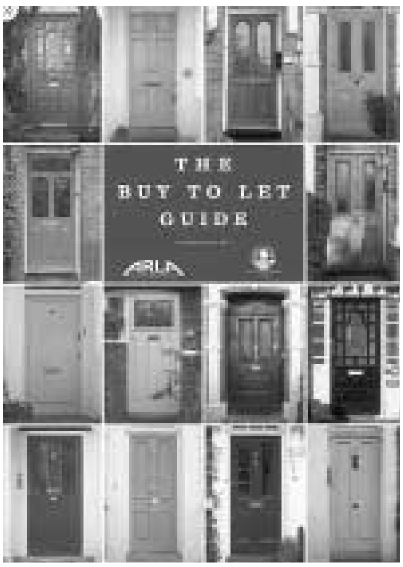
developing new markets **and delivering value**

- ✔ Buy-to-let sector growing strongly - and lending quality maintained.
- ✔ Promoting the development of a sustainable equity release market.
- ✔ Encouraging private funding for social housing and home improvements.
- ✔ Removing barriers to the spread of mortgages among the UK's Muslim population.

Throughout the year, we sought to add value, rather than costs, for members. A key part of this is to create an operating environment that will allow lenders to develop and expand new areas of business in a responsible way. While many other forms of investment performed poorly in 2002, the buy-to-let sector continued to grow strongly, and there was no discernible decline in lending quality. Equity release offers huge potential for the future. We campaigned against proposals that would have acted as a barrier to the growth of private funding for social housing, currently worth £27 billion. And we sought to remove barriers that deter the UK's population of two million Muslims from taking out mortgages.

Buy-to-let lending growing strongly

The buoyant housing market, coupled with yet another year of declining stock market performance, ensured that



buy-to-let lending continued to grow strongly. In 2002, it totalled £12.2 billion, almost twice the value of the £6.6 billion worth of loans approved in the preceding 12 months. By the end of 2002, there were an estimated 275,000 buy-to-let mortgages, worth £24.2 billion and accounting for some 3.5% of all residential lending. But despite the continuing strong growth of the buy-to-let sector, there has been no tangible decline in lending quality. Average maximum loan-to-value ratios have remained unchanged for two years, at 80%. And average minimum rental cover has remained at 130% since we began collecting buy-to-let data in 1998. Encouragingly for lenders and borrowers, mortgage arrears in this sector of the market fell during the year. Only 0.42% of buy-to-let loans were three months or more in arrears at the end of 2002, less than half the equivalent for the mortgage market as a whole.

Table four: Buy-to-let mortgages

	Number of mortgages outstanding at end period	Value of mortgages outstanding at end period, £m
1998	28,700	2,000
1999	73,200	5,400
2000	120,300	9,100
2001	185,000	14,700
2002	275,500	24,200

Source: CML

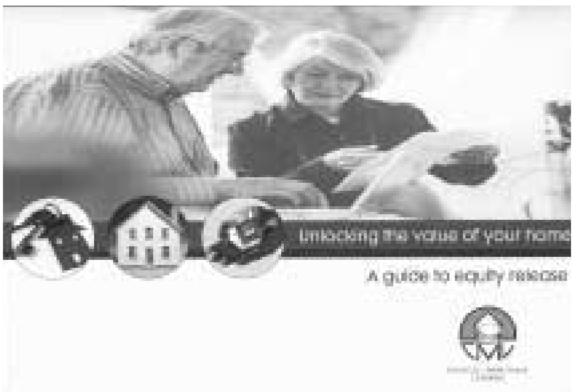
To inform, educate and encourage buy-to-let investors, we published – in conjunction with the Association of Residential Letting Agents (ARLA) – the first edition of a 220-page *Buy to Let Guide* for consumers. Containing articles on a wide range of topics, the *Guide's* aim was to be useful and stimulating, both for the seasoned buy-to-let investor and those considering investing in residential property for the first time. We also continued to distribute copies of our own *Buying to Let* leaflet and a checklist for would-be investors, in conjunction with ARLA and other organisations representing property professionals. During the year, 196,000 copies of the *Buying to Let* leaflet and 134,000 copies of the checklist were distributed.

"The CML advises investors to see buy-to-let as a long-term investment, rather than an opportunity to make a quick buck" – *The Independent*

Encouraging the development of equity release

The market for equity release continued to grow steadily. Research we published earlier had suggested the potential for this market to grow strongly in the future, driven by a combination of the growing wealth held in property by an ageing population and inadequate pension provision. Growth has so far been modest but it is likely to take off as consumer confidence in equity release grows and more lenders enter the market. Regulation by the FSA will help to underpin confidence further. But we believe that the decision to exclude home reversion plans from the FSA regime could create confusion among consumers and undermine this market. We are therefore continuing to lobby the Government for the proper regulation of home reversion plans.

Our goal continues to be to encourage the development of equity release as a business opportunity for members in a way that delivers value for consumers and enhances the reputation of the industry. At the end of the year, we published a consumer booklet, *Unlocking the value of your home: A guide to equity release*, which received a crystal mark from the Plain English Campaign. The booklet explained the range of products available and the types of questions and issues that consumers ought to consider before taking out an equity release loan. And during the year we started to collect lenders' data, so that we can monitor the development of the equity release market.



Private funding for social housing and home improvements

We mounted a vigorous campaign, supported by members, to exempt housing associations from the insolvency provisions of the Enterprise Bill. Our main concern was a proposal to remove the right of a secured creditor to appoint a receiver to a company or to an industrial and provident society. Lending by our members to housing associations is currently worth around £27 billion. The original proposals would have seriously affected some associations' ability to borrow, raised borrowing rates and pushed some associations towards technical insolvency. Following our campaign, the Bill was amended to exempt housing associations from the insolvency provisions.

We also sought to impress upon policy-makers that any reform of the home improvement regime should be undertaken in a way that encourages lenders to contribute. Funding is a key issue and we stressed the importance of addressing lenders' concerns before finalising practical arrangements for a home improvement scheme.

Encouraging the development of Muslim mortgages

"Many thanks for your hospitality recently – you did a stalwart job of dealing with our questions" *– Kevan Keegan, chief executive officer, Home Finance plc*

During the year, we supported a campaign to remove barriers restricting the widespread availability of mortgages that are suitable for the UK's population of around two million Muslims, the country's second largest religious grouping. We sought reform of:

- the way in which Islamic mortgages are liable for multiple stamp duty charges;
- the high capital weighting attached to some Islamic mortgages by the FSA;
- right-to-buy legislation to ensure that it does not discriminate against those who adhere to the principles of Islam; and
- ISMI to ensure that there is even-handed treatment of Muslims and other home-owners.

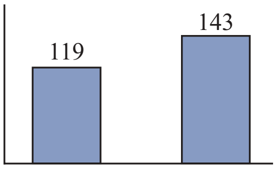
There was progress when the Chancellor announced in his 2003 Budget that there will be reform to remove the double liability of Islamic mortgages for stamp duty.

Demonstrating added value

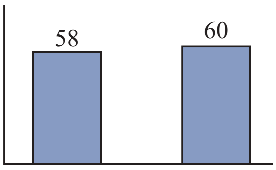
To underline our commitment to the belief that a trade association must deliver value for its members, we began work on a project to measure the value added by our services in a way that can be independently verified. We were one of six trade associations selected in 2002 to take part in a pilot study overseen by the TAF and partially funded by the DTI. The aim is to develop an objective method of measuring valued added that will become widely accepted across the trade association sector. We believe that it will provide greater transparency of the benefits of membership. Work on the project will continue in 2003.

2001 2002

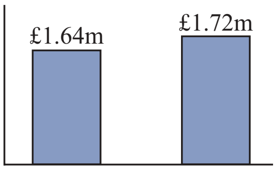
Number of CML members



Number of CML associates

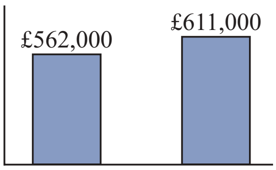


Income from members' subscriptions

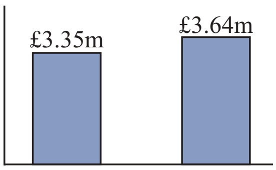


Income from associates' subscriptions

Net income from chargeable activities

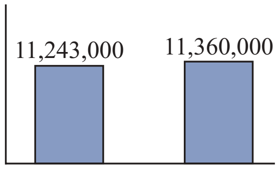


Total annual income

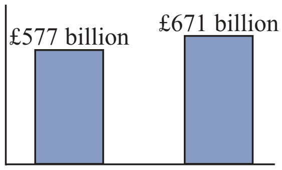


2001 2002

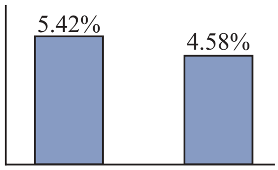
Number of mortgages



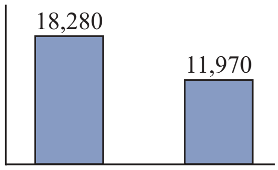
Total value of lending secured on dwellings



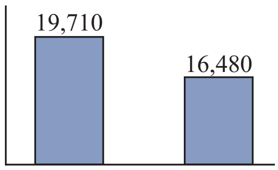
Average mortgage interest rate



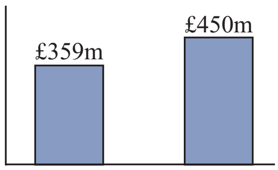
Number of possessions



Number of long-term arrears



Equity release funding (excluding reversions)



members and **associates** (as at March 2003)

Members

Abbey National plc
Ahli United Bank (UK) plc
AIB Group (UK) plc
Airdrie Savings Bank
Allchurches Mortgage Company Ltd
Alliance & Leicester plc
Alliance & Leicester Mortgage Loans Ltd
Allied Irish Bank (GB)
Amber Home Loans
Bank of Cyprus (London) Ltd
Bank of Ireland Home Mortgages Ltd
Bank of Scotland
Barclays
Barnsley Building Society
Bath Investment & Building Society
Beverley Building Society
Birmingham Midshires
Bradford & Bingley plc
Bristol & West plc
Britannia Building Society
Britannic Money plc
Buckinghamshire Building Society
Cambridge Building Society
Capital Bank Mortgages Ltd
Capital Home Loans Ltd
Catholic Building Society
Chelsea Building Society
Chelsea Mortgage Services
Cheltenham & Gloucester plc
Chesham Building Society
Cheshire Building Society
Chorley & District Building Society, The
CL Mortgages
Clay Cross Building Society
Clydesdale Bank
Co-operative Bank, The
Co-operative Insurance Society Ltd
Coutts
Coventry Building Society
Cumberland Building Society
Darlington Building Society
Darlington Mortgage Services Ltd
Derbyshire Building Society
Derbyshire Home Loans
Direct Line Financial Services Ltd
Distinct Mortgages Ltd
Dudley Building Society
Dunfermline Building Society
Eagle Star Mortgages Ltd
Earl Shilton Building Society
Ecology Building Society, The
Egg Banking plc
E-Mex Home Funding
First Direct
First National Mortgage Company
First Trust Bank
Furness Building Society
Future Mortgages Ltd
GMAC-RFC Ltd
Halifax plc
Hanley Economic Building Society
Harpenden Building Society
Hinckley & Rugby Building Society
Holmesdale Building Society
Homeloan Management Ltd
HSBC Bank plc
igroup Limited
Intelligent Finance
Ipswich Building Society
Kensington Mortgage Company
Kent Reliance Building Society
Lambeth Building Society
Leeds & Holbeck Building Society
Leek United Building Society
Lloyds TSB Mortgages Ltd
Lloyds TSB Scotland
Loughborough Building Society
Manchester Building Society
Mansfield Building Society, The
Market Harborough Building Society
Market Harborough Mortgages Ltd
Market Place Mortgages Ltd
Marsden Building Society
Melton Mowbray Building Society
Mercantile Building Society
Monmouthshire Building Society
Mortgage Business plc, The
Mortgage Express Ltd
Mortgages plc
National Counties Building Society
Nationwide Building Society
Nationwide Home Loans
NatWest Mortgage Services
Newbury Building Society
Newbury Mortgage Services Ltd
Newcastle Building Society
Newcastle Mortgage Corporation
Northern Bank Ltd
Northern Rock plc
North Yorkshire Mortgages Ltd
Norwich Union Equity Release Ltd
Norwich & Peterborough Building Society

Norwich & Peterborough (LBS) Ltd
Nottingham Building Society
Paragon Mortgages Ltd
Platform
Portman Building Society
Preferred Mortgages Ltd
Principality Building Society
Principality Mortgage Corporation Ltd
Progressive Building Society
Royal Bank of Scotland plc, The
Saffron Walden Herts & Essex Building Society
Saffron Walden Mortgage Services Ltd
Sainsbury's Bank plc
Scarborough Building Society
Scottish Building Society
Scottish Life Assurance Company, The
Scottish Widows Bank plc
Shepshed Building Society
Skipton Building Society
Southern Pacific Mortgage Ltd
Stafford Railway Building Society, The
Staffordshire Building Society
Standard Life Bank
Stroud & Swindon Building Society
Sun Bank plc
Swansea Building Society
Teachers' Building Society
The Mortgage Lender Ltd
Tipton & Coseley Building Society
UCB Home Loans Corporation Ltd
Ulster Bank
Universal Building Society
Vernon Building Society
Virgin Direct Personal Finance Ltd
Wesleyan Home Loans Ltd
West Bromwich Building Society
West Bromwich Mortgage Company
Woolwich plc
Yorkshire Bank
Yorkshire Building Society

Associates

Addleshaw Booth & Co
Allied Surveyors plc
AMP Banking
Britannic Retirement Solutions
Callcredit plc
Churchill Insurance Co
Clarke Willmott & Clarke
Countrywide Assured Group plc
Countrywide Legal Indemnities Ltd
Crown Mortgage Management
Deloitte & Touche
DLA Solicitors
EDS Ltd
Ernst & Young
Eversheds
First Title Insurance plc
GE Mortgage Insurance
GE Financial Insurance
GE Life Equity Release Ltd
Global Home Loans Ltd
Golds Solicitors
Hamlin Slowe
HammondsDirect
Home Finance plc
Intelligent Risk Ltd
Jeffrey Green Russell Solicitors
John Collins & Partners Solicitors
KPMG
Landmark Information Group Ltd
Legal & General Assurance Society
Legal Marketing Services
London Bridge Software Limited
Lovells
Lynx Financial Systems (UK) Ltd
McKeag & Co
Marlborough Stirling
Mortgage Operation, The
Move Factory Ltd, The
Morton Fraser
NLIS Searchflow
ONESearch Direct
Pinnacle Insurance plc
PMI Mortgage Insurance Co Ltd
PricewaterhouseCoopers
Safe-Move (part of Yorkshire Water Services)
Sequence (UK) Ltd
Shoosmiths Solicitors
Sitescope Ltd
Slaughter and May
Standard Life Assurance Company
Stewart Title Ltd
Swift Advances plc
The Property Search Group
Thomas Eggar
TLT (Solicitors)
Tower Technology
Trigold
Unisys Ltd
Walker Morris
Wragge & Co

secretariat

(as at April 2003)

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COUNCIL *of* MORTGAGE LENDERS
3 SAVILE ROW, LONDON W1S 3PB

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