BSA response to FCA Intergenerational Differences Paper

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Introduction

The Building Societies Association (BSA) represents all 43 UK building societies, as well as 5 credit unions. Building societies have total assets of £415 billion and, together with their subsidiaries, hold residential mortgages of almost £330 billion, 23% of the total outstanding in the UK. They hold over £280 billion of retail deposits, accounting for 19% of all such deposits in the UK. Building societies account for 37% of all cash ISA balances. They employ approximately 42,500 full and part-time staff and operate through approximately 1,470 branches.

We welcome the opportunity to respond to the FCA's Intergenerational Differences paper. Our 2018 report *Building on the Bank of Mum and Dad* looked at these issues through the lens of housing and mortgage lending. While cash gifting remains the main route for older generations to help younger family members onto the housing ladder, product innovation in this market from building societies is already starting to increase the options beyond straight gifting. For example, 59% of building societies will accept a deposit from family members as security; 33% will accept a charge over the property of family members to ease affordability barriers and 10% offer family offset mortgages[1].

87% of building societies think that the role of the Bank of Mum and Dad will increase either a little or a lot over the next 5-10 years[2].

Building societies also offer a range of other options to help first-time buyers such as the Lifetime ISA, Help to Buy ISA, the Help to Buy equity loan, Right to Buy, high-LTV mortgages, and shared ownership.

Q1: Are there other factors driving changes in the consumer needs of different generations (in addition to those we have listed in Chapter 3 of this paper) that we should consider? What are these?

Government tax policy is an important driver. Changes in inheritance tax will affect people's expectations and likely also their working age consumption choices. Tax relief changes on buy-to-let investments affect the purchasing dynamics between first-time buyers and landlords and the additional stamp duty on second homes has a similar effect. The stamp duty exemptions for first-time buyers may help some younger generations to meet the upfront costs of a house purchase, though it is likely house prices will adjust to reflect the changes.

Although mentioned later in the paper, Government housing policy is also important. For example, the National Audit Office's study of Help to Buy suggests that borrowers have been helped to purchase properties that are more expensive than they otherwise would have been able to afford. This may bring forward wealth accumulation, assuming house price inflation outstrips the interest paid on the equity loan.

Q2: Are there other ways in which the factors we have identified as driving changes influence how individuals from across different age groups build up and access wealth?

The paper mentions Defined Contribution (DC) pension schemes in a number of places but does not note the net income effect of moving away from Defined Benefits (DB). Increasingly Generation X, and almost all Millennials, will have to make pension contributions out of pre-tax income to prepare for retirement. This can have an impact during their working life, for example in mortgage affordability calculations.

Pension freedoms could also have an effect on younger generations' wealth once they reach retirement as the longevity and market risk is effectively transferred onto the retiree if they opt for drawdown. This can also make

[1] Building on BOMAD, https://www.bsa.org.uk/BSA/files/da/da1a7288-7755-43db-9a5d-69687ef84416.pdf
[2] Ibid.

mortgage lending into retirement more complicated as lenders have to make a judgement as to how much income is sustainable, whereas with DB or an annuity the borrower has a safe income for life. This may also affect people's ability to access retirement interest-only mortgage products later in life due to the more stringent affordability test.

Perhaps the main driver of intergenerational inequality is the ability of different generations to accumulate housing wealth. A clear majority of the general public, on average 70% across all age groups, see getting on to the housing ladder as one of the biggest problems the UK faces, according to BSA research[3]. Research by the British Social Attitudes Survey has shown that 86% of the public would prefer to buy a home[4] than any other housing option.

Our 2017 report with the International Longevity Centre UK projected that generational inequality is likely to get worse. People over age 65 currently own around £1.5 trillion in housing wealth – accounting for 39% of self-reported housing wealth in the country. By 2030, it is projected that this will have more than doubled to £3.3 trillion – 58% of all housing wealth.

Similarly this older age group is also likely to account for a rising quantity and share of total mortgage debt. The over 65s currently hold around £20.1 billion of mortgage debt which accounts for roughly 2% of total self-reported mortgage debt. By 2030, it is projected that this will have doubled to £39.9 billion – approximately 4% of mortgage debt. For the 20-29 age group it is projected that mortgage debt could halve – likely due to the difficulties younger generations face in meeting deposit requirements[5]. This is played out in the English Housing Survey, where there have been more outright owners than households owning with a mortgage since 2013-14.

Q3: To what extent are financial services providers currently meeting the changing needs across different age groups?

The latest Legal and General survey found that the Bank of Mum and Dad (BOMAD) will help borrowers to purchase nearly £70bn worth of property this year. Given the challenges of affordability in the housing market, around a third of first-time buyers now expect a contribution to their deposit from a parent or other family member. The English Housing Survey shows that 39% of recent first-time buyers sourced some or all of the deposit for their house purchase from a gift or loan from family or friends in 2017/18[6], up from 29% in 2005/06 and 22% in 1995/96.

Building societies have introduced a range of innovative products to ease these deposit requirements, such as Family Offset, Family Assist and Joint Borrower Sole Proprietor mortgages. We find that awareness of such products – among consumers and even mortgage brokers where the products are more niche - tends to be low and we would welcome exploring ways in which we could work with the FCA to increase understanding of the range of options available, potentially through the training regime for mortgage advisers.

It is clear that while there are clearly differences between generations, we should be aware that there is also inequality within generations. The English Housing Survey found that 64% of first-time buyers in 2017/18 were in the upper two income quartiles. This is up from 56% in 2016/17, though slightly down from 65% in 2015/16.

In producing our *Building on the Bank of Mum and Dad* report, building societies were keenly aware that by facilitating wealthier parents and grandparents to help younger generations onto the housing ladder, this would likely perpetuate inequalities within generations. While there is no easy solution, our report did note that building societies are historically strong in shared ownership and Right to Buy which tend to be aimed at lower income families. More recent Government schemes such as Help to Buy have been assessed as tending to help wealthier cohorts, as touched upon earlier in this response.

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[3] Building on BOMAD

[4] http://natcen.ac.uk/our-research/research/public-attitudes-to-housing-in-england/

[5] Lengthening the ladder, https://www.bsa.org.uk/BSA/files/d5/d528dd2a-54eb-4831-aebb-e5e1dc1b7c13.pdf

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774820/2017-18_EHS_Headline_Report.pdf

While a number of building societies take part in the Help to Buy equity loan scheme, it is notable that none signed up to the guarantee scheme, as there is a history of building societies lending at high LTVs with mortgage indemnity insurance.

On the other side of the balance sheet, building societies hold approximately 3 million children's savings accounts, including being major providers of Cash Junior ISAs and Child Trust Funds. Building societies consider developing a savings habit core to their organisational purpose, and often support this with financial education provision in partnership with local schools.

Three building societies offer Cash Lifetime ISAs, and 14 offer the Help to Buy ISA. Others have offered their own products that incentivise saving towards the deposit for house purchase such as variations of First Home Saver accounts. One society is a trialling a scheme called 'Rent to Home' where first-time buyers can rent a flat from the society and if they are in a position to buy a home within 1 to 3 years the society will return 70% of the rent as a contribution to their deposit.

Q4: Are there any barriers (including FCA regulatory barriers or barriers to competition) that are adversely affecting access to, and use of, financial products that would meet new and changing consumer needs? Are these affecting particular age groups? If so, in what way? How should we address these while ensuring consumers still receive an appropriate degree of protection.

Where mortgage lending is concerned, regulation does put some barriers in the way of helping first-time buyers in ways that would appear sensible. For example, we believe guarantor mortgages should be more prevalent in the market than they currently are. Product Sales Data for building societies shows the severe lack of guarantor mortgages, with only 55 true guarantor mortgages for first-time buyers agreed over the course of 2018. This is out of over 115,000 first time-buyer mortgages in the data, though this may not count loans from some smaller building societies.

Feedback from members suggests that the requirement to conduct an affordability assessment on the guarantor for the full amount of the mortgage means that many guarantors fail the test. In reality, calling on the guarantor would almost always be a temporary measure, such as when the borrower has lost their job and needs help to pay the mortgage while finding a new one. In practice it is incredibly unlikely that a guarantor would ever be called upon to make the full mortgage repayments.

Similarly, low-start mortgages and part-interest part-repayment mortgages were more prevalent in the past as tools to help first-time buyers with expectations of future income increases, but are no longer viable products due to the requirement to only include current income in the affordability assessment.

Q6: Is there any market or firm behaviour that causes or may cause potential harm to consumers? For example, is industry failing to recognise varying needs of consumers from different age groups and as a consequence, of this:

a: offering products which may be unsuitable to certain age groups

b: excluding, discriminating against, or failing to advance equal opportunity between certain age groups for no legitimate and objectively justifiable commercial reason (or where the reason is potentially legitimate but the approach is not proportionate)

c: otherwise treating certain age groups unfairly?

Since 2015 it has been a strategic priority for the BSA to ensure that older borrowers are not locked out of the mortgage market and that they have sufficient choice for borrowing into or in retirement. The FCA will be aware that all 43 building societies reviewed age limits in their mortgage lending policies. 34 building societies will now lend into or beyond a borrower's 80s, with 16 having no age limit and focusing solely on affordability.

Since early 2018, when the FCA brought retirement interest-only (RI0) mortgages into MCOB, 17 building societies have brought RIO mortgage products to market, with others continuing to develop a proposition.

Borrowers may want to borrow into retirement for a number of reasons, whether to refinance an interest-only mortgage, fund a house-move or improvements, or access equity. One of the main drivers for accessing equity is to help younger family members onto the housing ladder.

Q7: Are there areas related to intergenerational issues which fall more appropriately to Government or another public body, but in which, in accordance with our objectives, we can play a role? If so, which ones and in what way?

Prudential regulation has an effect on the business case for offering some mortgages which might help first-time buyers onto the housing ladder with the help of family. For example, a family assist mortgage, which is 100% LTV but requires a 20% collateral charge or money to be placed in a savings account with the lender, are in effect equivalent risk to an 80% LTV mortgage. However, building societies are required to hold capital as if it were true 100% LTV lending which makes it more costly to offer these products.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £400 billion, and account for 23% of the UK mortgage market and 19% of the UK savings market.