

BRIEFING



The Crosby Report – Mortgage Finance: Interim Analysis

29 July 2008

The Crosby Report Mortgage Finance: Interim Analysis.

[The Treasury today \(29 July 2008\) published Sir James Crosby's interim analysis of mortgage finance.](#) On 9th April the Chancellor asked him to “provide advice to the Government on options for improving the function of mortgage finance markets, working closely with mortgage industry experts”.

Crosby said that by 2006, the mortgage-backed securities markets funded around two thirds of net new mortgage lending. In July 2007, new mortgage issuance in these markets came to an abrupt halt and the credit markets faced a “sudden the significant re-pricing of risk”.

The conclusions of his initial analysis suggest a long period of difficulties in the mortgage and housing markets.:

“I am firmly of the opinion that in the foreseeable future, there will be very little new issuance of UK mortgage-backed securities”. He added that while banks are competing aggressively for consumer savings, “I do not believe that this will prompt a surge in aggregate savings inflows into banks”.

He concluded: “In my opinion, such a shortage of mortgage finance will persist throughout 2008, 2009 and 2010, and I suspect that current forecasts for net new mortgage lending during this period will provide optimistic, perhaps significantly so.”

Crosby has accepted that the shortage of mortgage finance is inseparable from the correction in the housing market, adding that “the persistence of current market conditions could have significant implications for the economy”. It is notable that he referred to the “unprecedented reduction in housing starts we are likely to see this year” as evidence of the economic impact of the mortgage famine.

Sir James stressed that he is looking “with some urgency” at the full range of options identified by market participants for stimulating the supply of mortgage finance”. He said this would be best achieved through the return of significant new issuance of mortgage-backed securities.

“The final phase of our work, that of evaluating the options for action and their effectiveness, will be pursued with all urgency over the summer months”.

The Treasury has not formally commented on Crosby’s interim findings. However press reports suggest the Chancellor will not announce any measures to relieve the mortgage famine until the Pre-Budget Report (PBR). This has usually been published in November or December, although last year’s PBR was released on 9th October.

HBF was a signatory, along with 11 other mortgage finance and housing organisations, to an open letter to the Treasury, published in the *Financial Times* on Saturday 26th July, calling for urgent action from the Treasury to restore wholesale funding to the mortgage market ([please click here to view](#)).

HBF’s press response to the interim Crosby Report was as follows:

Crosby Review of Mortgage Finance: HBF “disappointed”

The Home Builders Federation is disappointed that Sir James Crosby has not recommended urgent action to free up the supply of mortgage finance, despite acknowledging the significant risks current market conditions pose to the wider economy. Indeed, without action, he foresees mortgage shortages persisting into 2009 and 2010.

HBF Director of Economic Affairs, John Stewart, said:

“If the Treasury does not take up any recommendations from Crosby until the Pre-Budget Report in October or November, this will unduly prolong the frustration of those – particularly first-time buyers – who are currently having difficulty obtaining mortgages to buy their own home. The benefits of action will not be realised until Spring 2009 at the earliest - seven or eight months from now. This is too big a price to pay as in the meantime steeply falling housing transactions, weakening house prices and sharply lower house building activity risk damaging Britain’s wider economy.”

John Stewart
HBF Director of Economic Affairs