

## **E-news Content for Oct 2007 Edition:**

Sable Property is the in-house Mortgage broking and Property Investment business for Sable Private Wealth Management. Mike Abbott gives us a quick run down on the latest developments in the UK residential property and lending markets:

### **The Mortgage Market Turmoil:**

I am sure anyone with a mortgage (or about to get one) in the UK was interested (perhaps horrified) by the Northern Rock debacle that unfolded in September. Our view on this is that the Bank of England and the FSA basically fed Northern Rock to the wolves and in the process nearly caused a systemic collapse of the banking system. The facts are:

- Northern Rock has one of the best performing loan books in the UK
- Northern Rock is an extremely profitable lender
- One of the reasons Northern Rock is profitable is that they use short term funding to fund a long term asset. This is a highly profitable but risky strategy.
- When the funding market closed down on concerns over who had what exposure to the US sub-prime market; Northern Rock couldn't find funding at the right price.
- By going to the Bank of England they got the funding they wanted far cheaper than the market was willing to offer.
- Bank of England and the FSA took way too long to get the correct story out into the press to limit the damage.

All that said the 3 month funding rates in the London market remain above where they should be and it will probably take until the end of the year for this situation to normalise. Many of the large investment banks are reporting big quarterly and half yearly losses which reflect their exposure to the high-risk/high-reward US sub-prime market. Many of the UK sub-prime lenders that use securitization as their primary funding strategy have had to close their doors and it might be a while before they are all able to get back into the market.

What does this mean for us and for our clients? At Sable Property our clients usually fall into the High-Net worth or complex prime category. Complex prime refers to mortgage lending that falls outside the usual prime market. Contractors and foreigners without Permanent Rights to Reside fall into this area. All this mortgage market turmoil is making it slightly harder to get very high loan to value ratio's for complex prime first time buyers. That said the UK lending market is starting to get used to lending to new arrivals in the migratory professional market. We are currently running pilots with a few lenders to demonstrate to them that the migratory professional first time buyer represents a good lending risk. This means that Sable Property is still your best point of call as a Foreign National looking to purchase in the UK.

### **Interest rates:**

The turmoil in the market quickly removed the threat of further rises to the Bank of England base rate. If anything we feel it's brought forward the next downward move in rates. The Yield curve is showing a definite market expectation for rates to decrease by at least 0.25% by mid 2008. At the moment fixed rates are moving down much closer to trackers as the swap market normalises faster than the 3 month Libor market. So the choice of tracker vs. fixed is something that should be considered carefully based on your own situation. That's the advice we are here to provide.

### **HIPS:**

The HIP market is now active. Surprisingly many of the HIP providers don't seem ready for this – despite the huge delays we have seen in rolling this out. All 3 bedroom or more sales are subject to HIPS now. Speak to us about a cheap and cheerful deal on your HIP if you are selling.

### **The Property Market:**

I see many clients sitting on the fence at the moment wondering what to do. There's no doubt that the market is softer than the first half of the year. Periods of uncertainty around interest rates, banks, HIP's etc will slow a market down but I see this normalizing at the start of 2008. If the Interest rates have decreased by 0.25% or more I see a long line of first time buyers queuing to get onto the ladder again. In short I would say between now and the end of the

year is a good time to negotiate hard and get your price. Probably not a good time to sell though.

If you have any mortgage enquiries please contact a member of our team at [mortgages@sablewealth.com](mailto:mortgages@sablewealth.com) or 0845 373 6865.