Unique Features of Residential Mortgage Markets Compendium

Fitch Ratings has published reports summarising the unique features for 14 residential mortgage markets where Fitch rates covered bonds. Here are the main findings on a comparative basis, as well as a compendium of the country reports.

Fewer High-Risk Mortgages than in the Financial Crisis Despite Pandemic

Home prices reached new peaks in 2019 in most countries and household debt remains high at more than 80% of GDP for eight of the 14 countries featured in this report. However, the lower interest rates and higher wages since 2008 have made property financing more affordable. Regulation of mortgage markets has also improved, borrowers are subject to stricter affordability testing and loans with riskier attributes (high loan-to-values (LTVs), interest-only (IO), long maturities) are less prevalent. Nevertheless, the full impact of the pandemic is still to be seen, as the unemployment shocks across most countries have yet to materialise.

Lower Rates, More Fixed-Rate Loans and Longer Fixing Periods

The sustained decline in mortgage rates and rise in fixed-rate loan origination are important factors in supporting borrower affordability during the coronavirus pandemic. Mortgage interest rate types vary from mostly floating rate (Norway, southern Europe) to mostly fixed rates for life (France), with most other countries having interest rate fixing periods of two to 10 years.

Italy, Portugal and Spain are seeing an increase in fixed-rate loan origination, while borrowers in Denmark, the Netherlands and the UK fix their rates for longer, reducing the risk of payment shock. Lower interest rates have been passed on quickly and borrowers on fixed-for-life mortgages in France and Denmark can switch to lower rates with low to no prepayment penalties. However, weaker borrowers in the UK who were not able to remortgage pay uncompetitive variable rates ('mortgage prisoners').

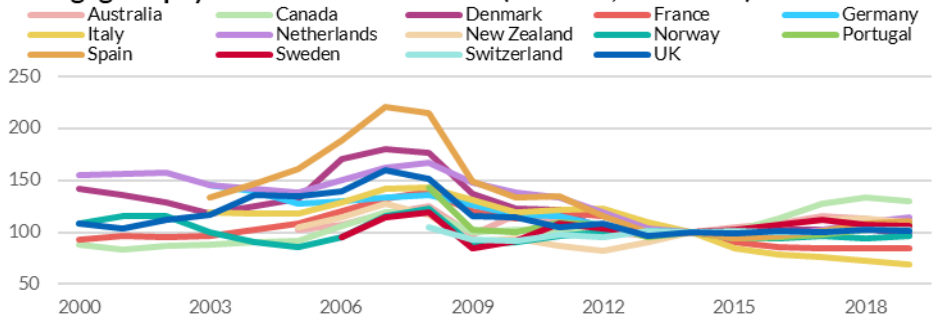
Mixed Household Debt and Home Prices Dynamics

Households are highly indebted in countries where mortgage financing is prevalent and debt can help reduce tax expenses or can be used as leverage on pension assets, such as in the Netherlands, Scandinavia and Switzerland. Low rates have contributed to a rise in home prices and borrower indebtedness in these countries, except for the Netherlands and Denmark, where regulatory measures were introduced to limit debt growth after these countries experienced a property bubble.

In southern Europe, households are traditionally less indebted. For example, outright home ownership with no outstanding residential debt is high in Italy (59.4%). These countries were most affected by the global financial crisis and lower interest rates have not led to a rise in household debt as mortgage demand remained subdued due to lower wage growth. House prices only increased in Portugal, mostly due to foreign demand.

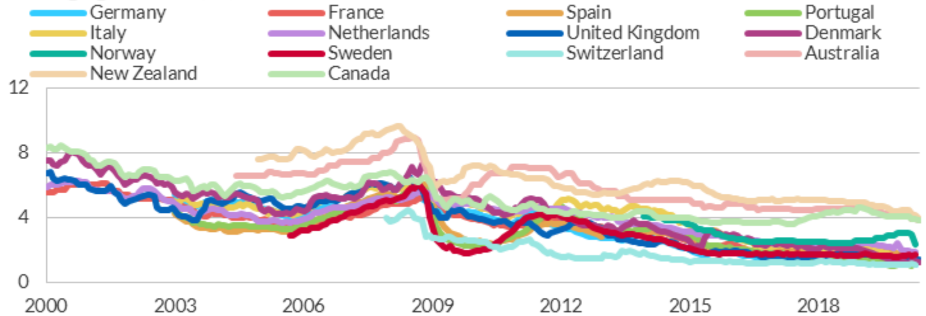
Germany and France are experiencing household debt increases from low levels, spurred by low interest rates and the rise in house prices in the large cities. Tighter lending standards in Australia, Canada and New Zealand have helped limit house price growth after a sustained period of easy access to credit led to high debt levels.

Mortgage Repayment Relative to Income (Rebased, 2014=100)



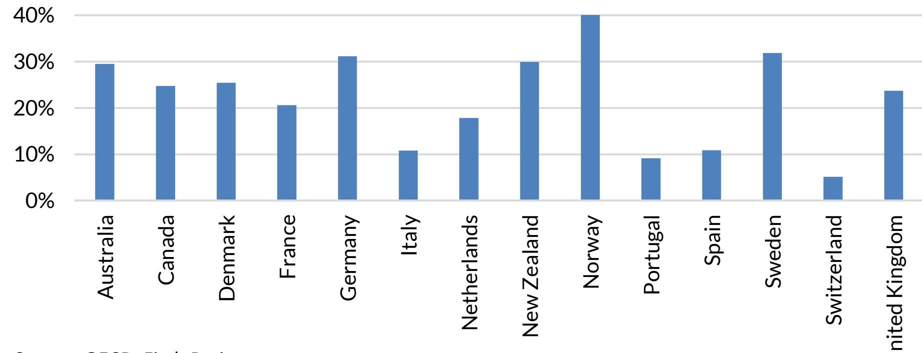
Note: For a 25-year repayment loan, taking into account wage, house price and interest rate evolution
Source: Fitch Ratings, OECD, Haver Analytics

Mortgage Rates (%)



Source: Fitch Ratings, Haver Analytics

Wage Increase 2008-2019 (%)



Source: OECD, Fitch Ratings

Cultural Aspects Drive Home Ownership Ratio

Mortgage markets are shaped by cultural characteristics. In Norway, home ownership is considered the norm, leading to one of the highest home-ownership ratios in Europe (83% at end-2018, EU average 70%). By contrast, renting is common in Germany (48%), encouraged by historically strong protection for tenants and recent legislative limits on rent increases, while transaction taxes and fees for buying properties are high. Switzerland also has a large rental sector and is one of few countries to tax imputed rent on owners (a tax abolished in Norway in 2005).

Interest-Only Loans Used to Optimise Taxes

Tax optimisation has stimulated the use of IO mortgages in countries where interest costs are tax-deductible and where borrowers can accumulate funds in investment vehicles or pensions instead of repaying their mortgage. This was standard in the Netherlands until 2013, when regulations were introduced that favoured amortising loans. In Switzerland pension assets can be pledged to the mortgage lender to lower LTVs and borrowers only amortise down to an LTV of 67%.

Borrowers in Sweden often have one IO loan part, coupled with very long maturities (50 years), and deferred amortisation features are common in Denmark. Regulators in both countries have introduced amortisation requirements above certain LTV ratios to limit the use of IO loans.

Regulation Addresses Higher-Risk Mortgages and High Leverage

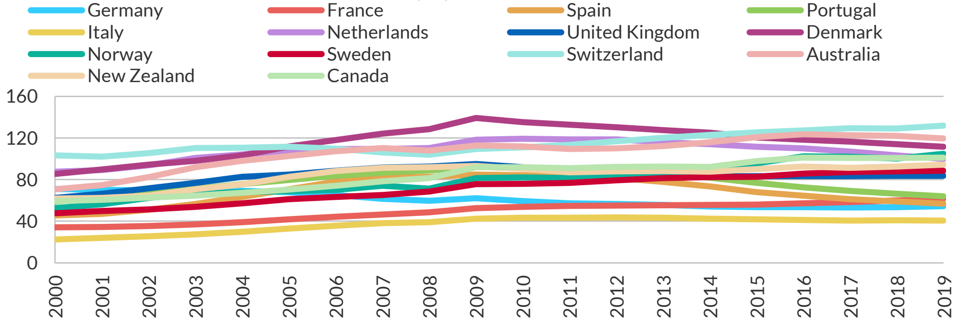
The financial crisis and the low interest rate environment have brought about changes in mortgage regulation. The former led to limits for riskier loan types that were prevalent pre-crisis (high LTVs, IO or long maturities, introducing proof of income requirement). The latter led to rules that limit high borrower indebtedness, such as loan-to-income limits and interest rate stresses at origination. This has been particularly relevant in countries where the mortgage market is critical to financial stability, such as in Scandinavia. In addition, some countries have sought to reduce property investment by foreign buyers (ban in New Zealand, limited to new-build in Australia, restrictions for some Canadian cities).

In southern Europe, macroprudential measures have been implemented recently but mortgage regulation has had less of an impact as there was limited demand for new mortgages after the financial crisis due to low wage growth (especially in Portugal and Spain). Total mortgage outstanding is barely increasing in Italy and is below its peak in Portugal and Spain. These countries are characterised by low borrower indebtedness and high outright home ownership.

Some Features Provide Borrowers with Flexibility

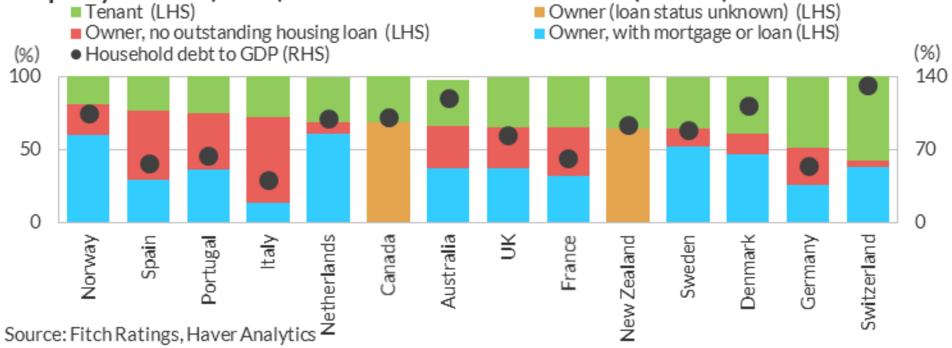
In Australia, the option to access deposited funds via a loan offset account or redraw earlier prepayments through redraw facilities gives borrowers payment flexibility in times of stress, accounting for 16.5% of housing loans. In Denmark, the unique balance principle allows borrowers to prepay their loans at market value, while the callable feature of fixed-rate mortgage loans allows borrowers to prepay loans below par in a rising interest rate environment, or at par when interest rates fall.

Historical Household Debt to GDP (%)



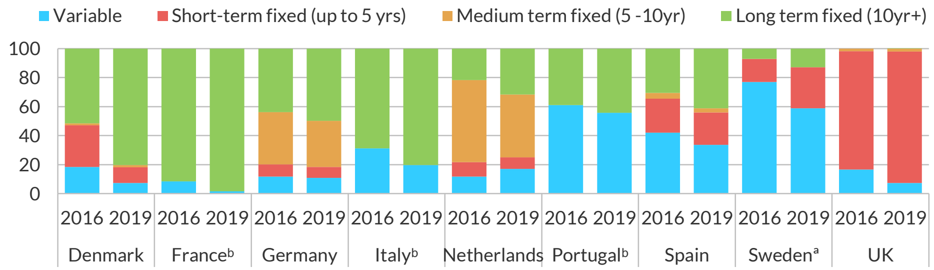
Source: Fitch Ratings

Property Tenure (2018) and Household Debt to GDP (Dec 19)



Source: Fitch Ratings, Haver Analytics

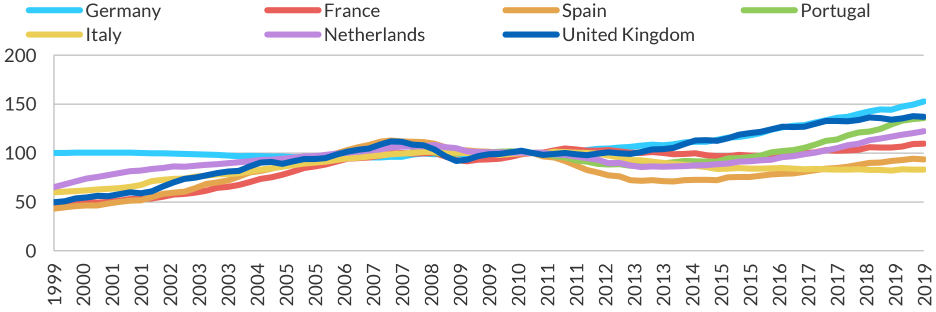
Interest Rate Type as a % of New Origination



[a] Sweden: No breakdown between medium and long term fixed
[b] France, Italy and Portugal: no breakdown between short, medium and long-term fixed
Source: Fitch Ratings, EMF & AMF. Data as of 4Q16 and 4Q19 (for UK as of 3Q19, France as o 4Q18)

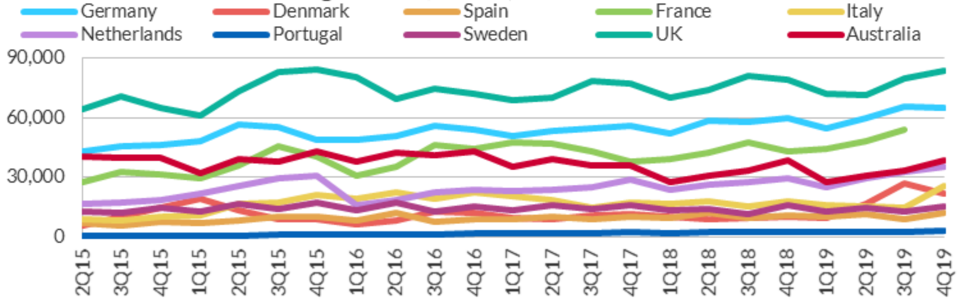
Comparison of Mortgage Market Features

House Price Index (Rebased to 31 December 2010)



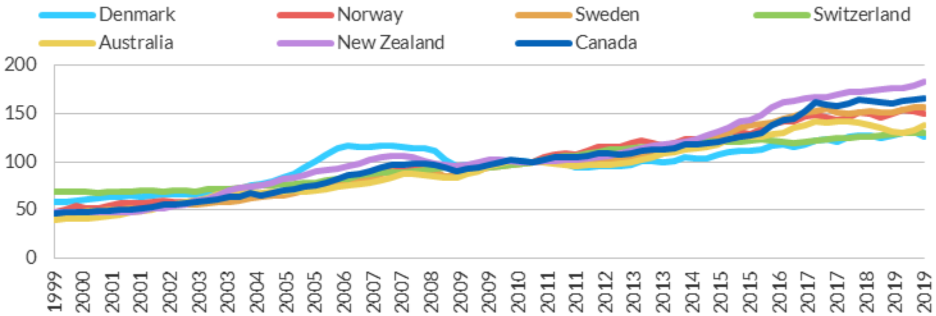
Source: Fitch Ratings, BIS, Haver Analytics

Gross Residential Loan Origination (EURm)



Source: Fitch Ratings, EMF, Australian Bureau of Statistics (data converted into Euro)

House Price Index (Rebased to 31 December 2010)



Source: Fitch Ratings, BIS, Haver Analytics

Interest-Only Exposure (% of Outstanding Loans)

	0%-25%	25%-50%	50%-75%	75%-100%
Australia	✓			
Canada[a]	✓			
Denmark		✓		
France[a]	✓			
Germany[a]	✓			
Italy[a]	✓			
Netherlands			✓	
New Zealand	✓			
Norway	✓			
Portugal[a]	✓			
Spain[a]	✓			
Sweden			✓	
Switzerland				✓
United Kingdom		✓		

[a] Interest-only residential loans are negligible or a niche product in these countries.
Source: Fitch Ratings

Macro-Prudential Measures – Mortgage Market

	LTV cap (%)	Debt-to-income (DTI) limits	Stressed affordability (interest rate stress)	Other measures
Australia	n.a.	n.a.	Interest rate buffer of 2.5% over loan rate.	Guidance under APG223 (residential mortgage lending) applies.
Canada	80. More than 80% mortgage insurance is required.	45% for insured loans, no total-debt-to-service ratio limit for uninsured loans.	At a minimum, the qualifying rate for all uninsured mortgages should be the greater of the contractual mortgage rate plus 2pp or the five-year benchmark rate published by the Bank of Canada. For insured mortgages, as of April 2020 it is the greater of the contract rate and the weekly median five-year fixed insured mortgage rate as calculated by the Bank of Canada from federally backed mortgage insurance applications adjudicated by mortgage insurers plus a 2% buffer.	B-20 underwriting guidelines/practices must be followed for banks (non-banks do not have to follow B-20 underwriting guidelines, but it is best practice).
Denmark	95	DTI > 4: Restrictions on amortisation and interest rate type.	In high growth area, market rate + 1pp (minimum 4%), assuming amortising mortgage.	Guidance on mortgaging of homes in growth areas.
France	n.a.	Recommended maximum DTI at 33%	n.a.	Maximum loan maturity at 25 years. Up to 15% of the total mortgage loan production could be exempted from the limits under certain conditions.
Germany	n.a.	n.a.	n.a.	EU Mortgage Directive applies.
Italy	n.a.	n.a.	n.a.	No limits from the regulator but mainly from market standards.
Netherlands	100	DTI set according to gross income and mortgage interest rates.	Stress rate of 5% (only applied to loans carrying a fixed rate for less than 10 years).	n.a.
New Zealand	LTV restrictions have been removed in response to the coronavirus. To be reviewed in May 2021. Previously: investor loans =70% LTV if higher then no more of 5% of new lending. Owner occupied 80%, if higher then no more of 20% of new lending.	n.a.	n.a.	n.a.
Norway	85 for amortising loans 60 for non-amortising loans.	Hard cap of 5x.	Offer rate + 5pp.	Max LTV on IO is 60%. Specific regulation on secondary homes for Capital region.

Macro-Prudential Measures – Mortgage Market (Cont.)

	LTV cap (%)	DTI limits	Stressed affordability (interest rate stress)	Other measures
Portugal	90 for owner-occupied 80 for other purposes.	50% based on debt service-to-income (DSTI) ratio; i.e. the ratio between monthly instalments of total credit agreements and the borrower's income, net of taxes and contributions to social security.	DSTI ratios are also stressed assuming an increase of interest rates: +3pp for variable rate loans with maturity of more than 10 years.	These are not hard limits, they are recommendations but any deviation has to be explained to the Bank of Portugal. Up to 15% of new origination can waive the DSTI limit. Limits are placed also to maturity: <= 40 years and average maturity of new origination to converge to 30 years by end-2022.
Spain	80	n.a.	n.a.	The 80% is not a hard limit but a recommendation from the Bank of Spain. For the DTI, the IMF suggests a ratio of 30%, which is aligned with the observed Spanish long-term average. No specific hard limits due to fairly safe market standards (mostly branch-originated, standard fully amortising floating-rate loans).
Sweden	85	DTI > 4.5: Increased amortisation requirement.	Stress rate at the discretion of lenders (typically 6%-7%).	Annual amortisation requirement based on LTV. Maximum LTV on IO is 50%.
Switzerland	90 for owner-occupied 75 for investment properties.	Stressed monthly mortgage/household income < 33% (institution specific; the regulation mentions that lending institutions must have a policy on DTI).	Stress rate set at the discretion of the lender (typically 5%).	Linear amortisation to 66% LTV within 15 years required (10 for buy-to-let).
United Kingdom		Regulation restricting the origination of mortgage loans at loan-to-income ratios above 4.5x (to 15% of new lending).	Lenders must test borrowers' affordability at a stressed rate (typically standard variable rate (SVR) + 3pp, effectively limiting a borrower's maximum loan size, alongside the loan/value. The SVR stress is not compulsory when rates are fixed for five years or more. For buy-to-let (BTL) borrowers, firms should also incorporate likely future interest rate increases over a minimum period of five years from the expected start of the term of the BTL mortgage contract, including a minimum increase of 2pp in BTL mortgage interest rates, with a minimum borrower interest rate of 5.5% assumed regardless of the former.	

Source: Fitch Ratings

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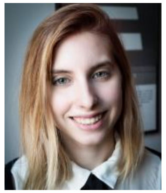

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Unique Features of Mortgage Markets: Australia (September 2019)

Repayment Buffers, Reduced High-Risk Lending Offsets Elevated Household-Debt Risk

Offset Accounts and Redraw Facilities Provide Flexibility

Most variable-rate home loans in Australia allow borrowers to prepay their mortgage without additional cost and retrieve this prepayment whenever they wish. This is achieved by paying money into an interest offset account or paying the mortgage down by more than the scheduled repayment; both mechanisms reduce the interest paid, while retaining borrower flexibility. An offset account is a separate deposit account linked to a mortgage. The balance of the offset account is netted ('offset') against the borrower's outstanding mortgage balance for interest payment purposes. Interest is paid only on the net mortgage amount. In contrast, a redraw facility is a feature attached to a loan that allows a borrower to draw back their additional payments (the amount above the scheduled payment). This is allowed at the lender's discretion.

The increase in offset account balances at Australia's major banks has been greater than mortgage lending (see top chart on the right). Prepayment amounts – sum of balances in offset accounts and redrawable prepayments – account for 16.5% of gross housing credit stock, or an average of 30 months of repayments, according to the Reserve Bank of Australia. Mortgage prepayments on loans with redraw facilities and deposits into offset accounts have similar economic effects; that is, cutting net household housing debt and interest payable, while building a payment buffer.

High Household Debt from Rising House Prices, Low Interest Rates and Slow Wage Growth

Rising house prices over the previous decade, combined with easy access to credit, has seen household debt, expressed as household debt-to-annualised disposable income, reach a new high of about 190%, with housing debt as the main contributor (see the middle chart on the right).

Lending standards have tightened since 2015, leading to moderating house prices and housing credit growth since mid-2017. The cumulative effect of various macro-prudential measures over the past few years has seen a fall in higher-risk lending, including high (more than 80%) LTV ratio, investment and IO lending; see the bottom chart. This has increased resilience in the housing market and mitigated some risk that weaker housing-market conditions may otherwise pose to households.

The Australian Prudential Regulation Authority expects banks to maintain prudent internal risk limits, despite the removal of interest-only and investment benchmarks in 2018. However, Fitch Ratings believes household debt remains a key risk for the domestic housing market, as continued low wage growth may limit borrowers' ability to repay debt. Highly indebted households are more likely to fall behind on repayments in the event of adverse shocks, i.e. higher unemployment or rising interest rates.

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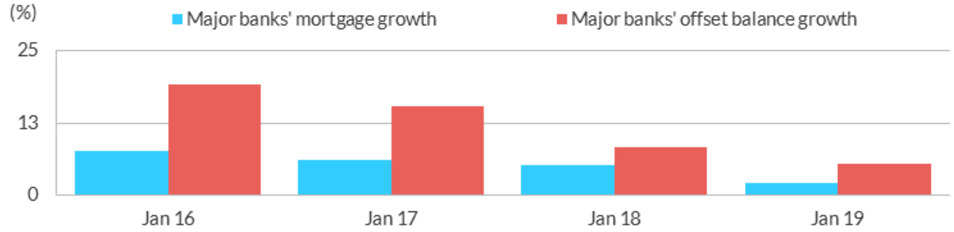
Offset Balance Growth Higher Relative to Lending

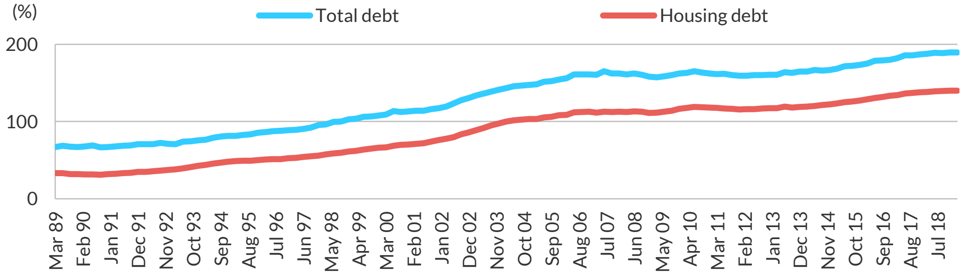
Offset account balance growth higher than mortgage lending for Australia's four major banks



Source: Fitch Ratings, Fitch Solutions, Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited, Westpac Banking Corporation

Debt/Annualised Disposable Income

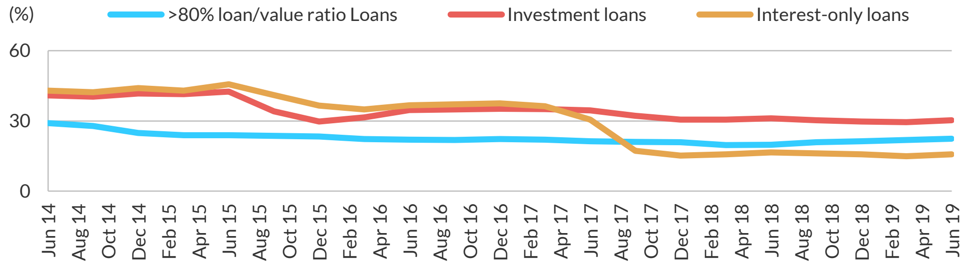
Household debt is at an all-time high, making households more vulnerable to adverse shocks



Source: Fitch Ratings, Australian Bureau of Statistics

Falling Approvals for High Loan/Value Ratio, Investment and Interest-Only Loans

Housing policy measures over the previous few years have led to lower high-risk lending



Source: Fitch Ratings, Australian Prudential Regulation Authority

Unique Features of Mortgage Markets: Canada (July 2020)

Sound Market Fuelled by Responsible Lending and Borrowing

Short-Term Mortgages Create Skin in the Game

Canadian residential mortgages have very short maturities of one to five years, which contrasts with the 30-year mortgage norm in the US. Monthly payments are manageable as they are calculated on a 25- to 30-year amortisation schedule, but borrowers may face payment shock at maturity when re-financing/renewing their loans if mortgage rates rise sharply. Canadian banks fund uninsured mortgages mainly through deposits (about 90%) and covered bonds (about 10%), rather than securitisation. As mortgages remain on bank balance sheets, they bear the credit risks associated with the loans, which led to more conservative lending standards than in the US in the run-up to the 2008 financial crisis.

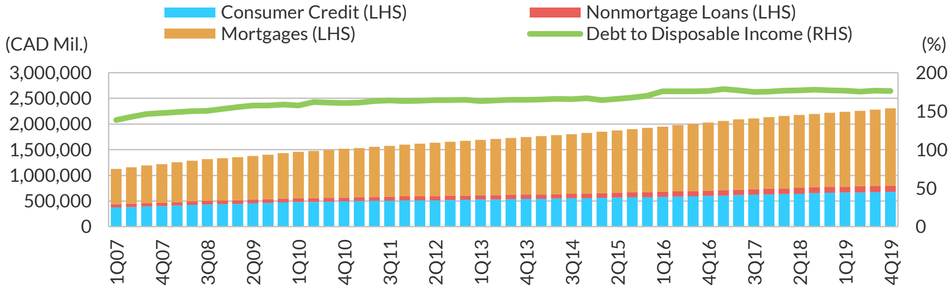
Multicomponent Mortgages Riskier than Conventional Ones

Mortgages in Canada are attached to the borrower rather than the property and can be ported when moving to a new home. This allows borrowers to avoid high prepayment penalties. The practice of porting has led to the rise of multicomponent mortgage products whereby the amount is split among several loans with different features (i.e. Home Equity Line of Credit [HELOC]) and can be taken out at different times. This also allows borrowers to consolidate multiple debts (mortgage, auto loan, consumer loan) at a lower rate. Five out of the seven covered bond programmes rated by Fitch include multicomponent mortgages in their cover pools. These tend to be made to higher quality borrowers with lower LTV ratios than traditional mortgage loans. Fitch increases the probability of default for HELOC/step loans to account for the potentially lower equity arising from future draws on the line of credit.

Low Delinquencies Despite Heavy Debt Burden, Overinflated Housing Market

Canada has a low percentage of mortgage delinquencies (less than 0.5%) despite having one of the highest household DTI ratios among G8 countries (176% as of 4Q19) and experiencing an overinflated housing market (50% growth since 2015). Fitch believes that because mortgages contain no tax incentives and Canadians view their home as a funding source for retirement, borrowers have acted responsibly. Conservative underwriting to B-20 guidelines has also insured the ability of borrowers to repay loans and not overextend themselves. Strong bank/borrower relationships contribute to transparency on borrowers' financial condition, allowing for early intervention in the event of financial distress. This contrasts with the US, where borrowers have products with multiple institutions. Due to recourse in most provinces and cultural norms, strategic defaults are uncommon.

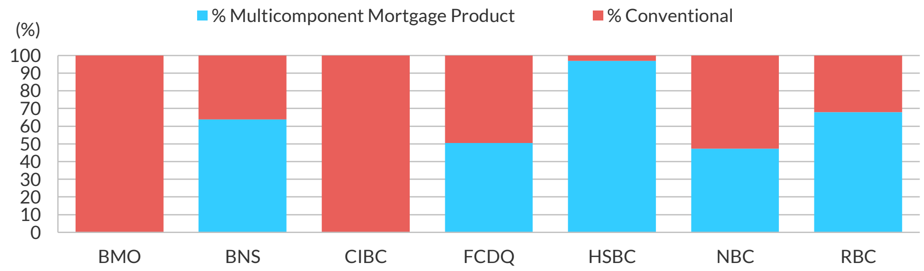
Debt to Disposable Income — Canada



Note: Consumer Credit includes student loans, auto loans and credit cards.
Source: Bloomberg and Statistics Canada.

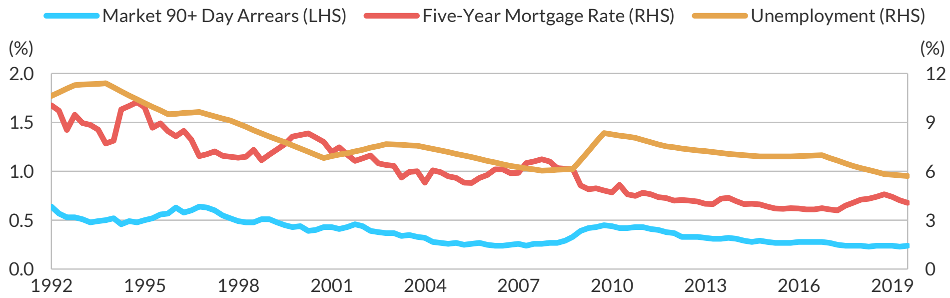
Asset Type Breakdown

(As of May 31, 2020)

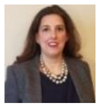


Source: Fitch Ratings. Monthly Investor Remittance Reports.

Mortgage Rates and Arrears



Source: Fitch Ratings, Statistics Canada, CBA (Canadian Bankers Association).



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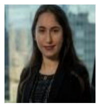

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Unique Features of Mortgage Markets: Denmark (July 2019)

Matching Principle Ensures Resilience to Downturns

Unique Mortgage Funding System Results in Low Credit Losses and ALM Mismatches

The Danish mortgage funding system allows borrowers to optimise the cost of their mortgage, reducing their credit risk. There is a direct match between a mortgage loan and the bond issued by a mortgage bank to fund it. Borrowers are charged the rate of the bonds plus an administration margin, which can be reset. The traditional fixed-rate callable bonds have the same maturity as the loan, which borrowers can prepay by buying back the bond at market price, capped at par value.

The rise of mortgage loans with floating or resettable rates funded by bonds with shorter maturities since 2000 has increased borrowers' exposure to market rates, and issuers' exposure to credit and refinancing risks. This has been mitigated by legislation from 2014 (bond maturity extension at a capped rate under a breach of triggers) and stronger market practice of issuing longer-dated bonds. Bonds issued since then are effectively conditional pass-through, limiting the ALM losses of Fitch-rated covered bond programmes issued by mortgage institutions.

This funding approach limits mortgage banks' risk appetite as it does not allow price discrimination based on borrowers' credit profile. This, together with strong social security safety nets, has helped support the good performance of Danish mortgage loans, even in periods of economic distress.

Mortgages Funded Mainly Through Covered Bonds

Danish covered bonds are well established, with a history of more than 200 years. The Danish mortgage institutions, now the major mortgage lenders, have historically acted as intermediaries between borrowers and covered bond investors. The competitive mortgage lending market has led to persistent demand for residential and commercial borrowing and consequently greater covered bond issuance, making the Danish covered bond market the largest in the world relative to GDP.

Attractive Pricing Counterbalances High Indebtedness and Long Maturities

The competitive funding cost of mortgages, incentives to borrow and save into pensions (interest charges are tax deductible) and the introduction of deferred amortisation features have pushed household debt to record highs. When home prices corrected in 2008 after excessive construction and rapid growth in mortgage debt, lower market rates were quickly passed to borrowers, notably thanks to the callable feature of fixed-rate bonds, helping cushion the effects from the crisis.

Debt growth has been limited since then, thanks to more prudent lending standards (cap on DTI for loans with frequent interest resets and high LTVs) and macro-prudential regulation (supervisory diamond for mortgage banks), with banks incentivising borrowers away from IO loans with frequent refinancing. Mortgage rates are at historical lows so borrowers save on interest payments, using available income for loan redemption. This reduces LTV ratios, making borrowers more resilient.

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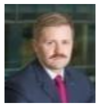

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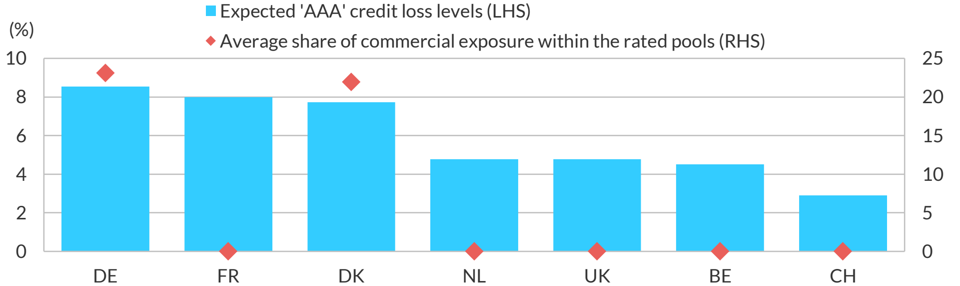
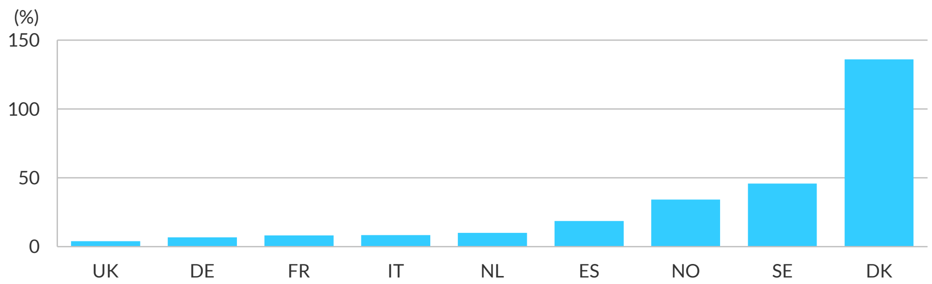
1. Low 'AAA' Expected Losses Despite the Presence of Commercial Exposures



Note: Statistics refer only to 'AAA' rated covered bond programmes
Source: FittchRatings

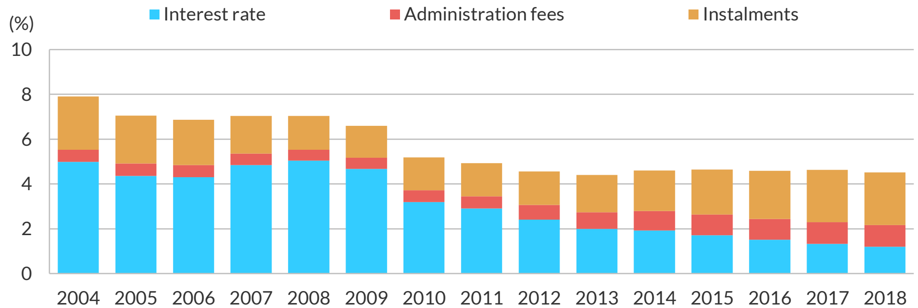
2. Volumes of Danish Mortgage Covered Bonds Exceed the Economy's Size

Covered bonds outstanding as % of GDP



Source: Fitch Ratings, EMF Hypostat 2018

3. Lower Interest on Mortgage Loans Offset by Larger Instalments



Source: Fitch Ratings, Danmarks NationalBank

Unique Features of Mortgage Markets: France (December 2019)

Guarantees and Fixed Rates Limit Risks

Positive Impact of Guarantees Despite Lack of Mortgage at Loans Inception

French home loans are usually secured either by a mortgage or by a guarantee granted by specialised institutions. The latter is more popular (62% of the stock at end-2018) as it shields lenders from losses and the upfront guarantee fee is cheaper for borrowers than the cost of registering a mortgage. Upon default, the guarantor pays to the originating bank any defaulted amount and, in most cases, takes over the recovery process, which may include a judicial mortgage registration.

Fitch positively adjusts the default probability of these loans to account for their better performance than mortgage loans, explained by their double underwriting. Guaranteed loans satisfy the underwriting criteria of both the bank and the guarantor, which are usually more restrictive. When the guarantor is Crédit Logement (the market leader), Fitch gives some credit to payments received under the guarantee, leading to higher modelled recoveries.

Loans Bearing Fixed Rates for Life Dominate

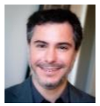
The French market is dominated by simple and standardised products, characterised by fixed-rate-for-life loans (94.6% of the home loans stock as of end-2018) amortising in constant instalments. Banks competition focus on lending rates due to the low degree of product diversification, which results in French home loans having among the lowest interest rates in the EU (1.24% a year on average for new loans in October 2019).

Fixed rate for life loans protect borrowers against any interest rate movement, while constant instalments facilitate the assessment of borrower DTI, which has been stable over the past decade at about 30%. These characteristics contribute to the sound performance of French residential loans portfolios (doubtful home loans accounted for 1.3% of the stock at end-2018).

Strong Competition Leads to Refinancing Waves

Home loans being the main source of client acquisition, there is a strong competition among banks in this market. This leads to prepayment spikes when interest rates decrease, as banks offer to repurchase loans at a lower lending rate. At their peak in 2017, renegotiations and repurchases accounted for 61% of origination. Refinancing activity has a negative credit impact as it reduces portfolio yields. Fitch's analysis captures such risks by modelling high prepayments scenarios, with a 20% annual rate tested at 'AAA'.

In a low-interest-rate environment with little room for further decline, competition among banks translates into easing certain underwriting criteria, such as offering longer loan maturities (averaging 20 years in 2018 compared with 18 in 2015) or higher original LTV ratios (87% in 2018 compared with 80% in 2012).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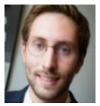
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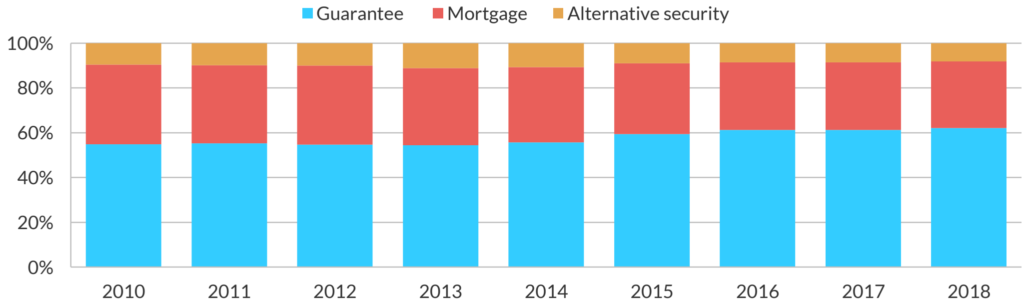
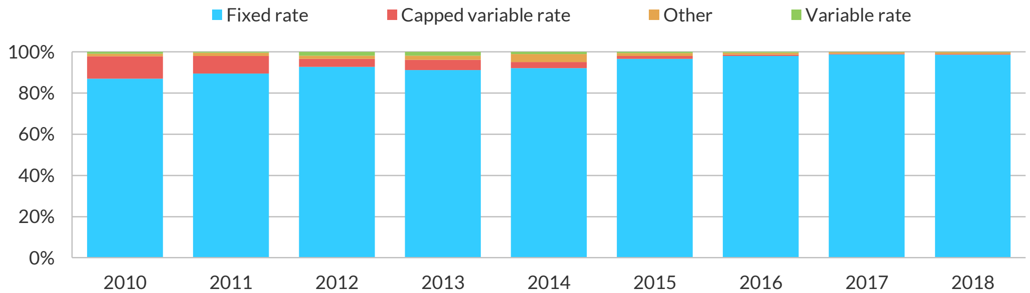
Home Loans Mainly Secured by a Guarantee



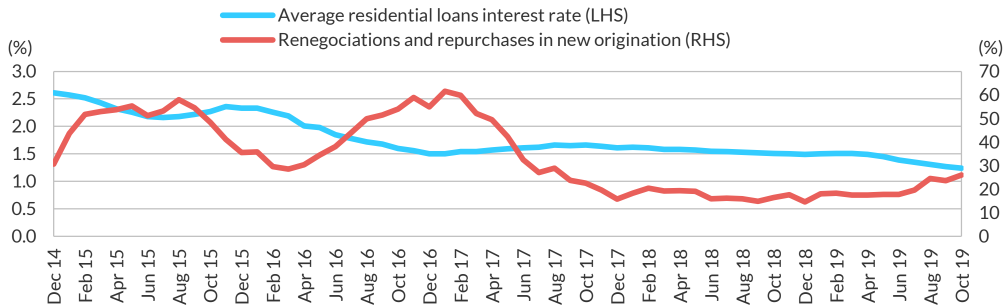
Source: Fitch Ratings, ACPR

Banks Competing in a Fixed-Rate Market



Source: Fitch Ratings, ACPR

Loan Portfolios Subject to Refinancing Waves



Source: Fitch Ratings, ACPR, Banque de France

Unique Features of Mortgage Markets: Germany (June 2020)

Highly Standardised Lending with Limited Market Dynamics

Low Property Ownership Rate with Moderate Reliance on Debt Financing

The German residential real estate market is characterised by a low property ownership rate (52% at end-2018 compared with a 70% EU average) with many people opting to rent. Of those owning a property, only about half owe mortgage debt. The household debt-to-GDP ratio is moderate (55% at 2019 compared with 58% for the euro area). Renting is encouraged by historically strong protection for tenants and recent legislative limits on rent increases.

Individual ownership is concentrated in single family houses, with flats often rented. Transaction taxes and fees can exceed 10% of the purchase price, dampening market turnover and leading to extended holding periods.

Low Mortgage Rates and Rising Household Income Underpin Price Increases

House prices have steadily increased, with Fitch's country index showing 80% growth between 2010 and 2019. Large cities experienced steeper increases, as supply is limited by strict building regulations and zoning restrictions. Overall, house prices have been driven by rising household income through higher labour participation and lower unemployment, as well as by historically low interest rates with a lack of investment alternatives.

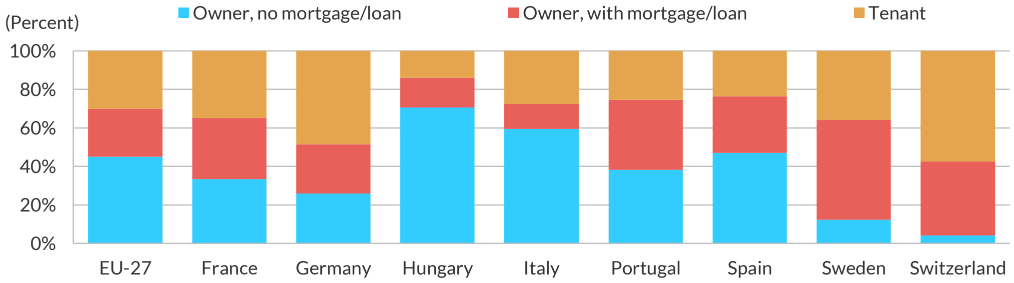
The typical 10-year fixed mortgage rate has decreased from above 4% a year to 1.3% in the past 10 years. However, savings from lower interest rates tend to go towards higher amortisation rates. The average LTV ratio for new lending has increased from 80% to about 85% since 2017.

Long Fixed-Rate Periods with Limited Prepayment Options

Residential real estate loans are mostly fixed rate (90%). About 50% of new borrowers have a fixed rate for over 10 years (30% in 2010) and another 30% for five to 10 years (40% in 2010).

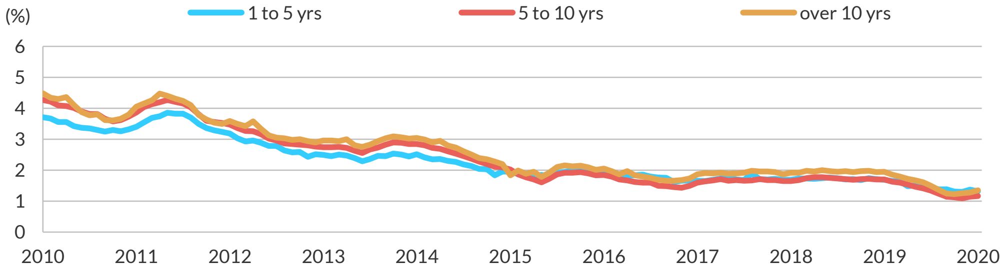
Borrowers have legal termination options after 10 years, up to which point prepayment penalties apply. Voluntary repayment rates are low in the first 10 years and not directly related to changes in market rates. After 10 years, banks would normally offer borrowers to re-fix rates at market levels or borrowers could switch lenders. We model this feature by considering contractual maturities beyond 10 years, but by exposing loans to our interest rate stress scenarios once their fixed periods expire.

Distribution of Population by Tenure Status



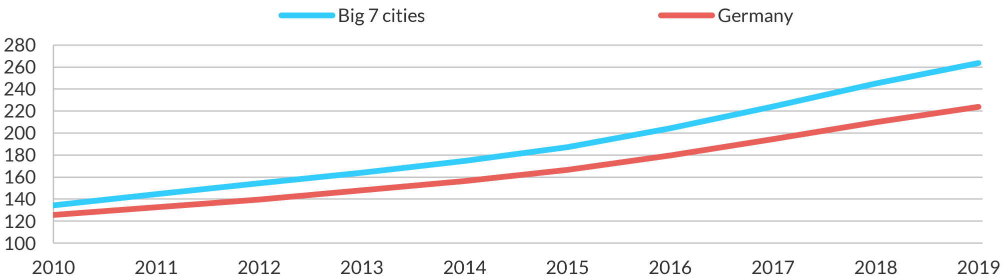
Source: Fitch Ratings, Eurostat, 2018

Indicative Rate for New Residential Mortgage Lending in Germany



Source: Fitch Ratings, Bundesbank

Residential Real Estate Price Index Germany



Source: Fitch Ratings, bulwiengesa

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Unique Features of Mortgage Markets: Italy (April 2020)

Fixed-Rate Refinancing in a Low-Interest-Rate Environment

Growing Fixed-Rate Mortgage Origination

Fixed-rate loans have been growing in Italy. About 70% of newly originated mortgages were fixed rate at end-3Q19, compared to 26% at end-4Q14, and the stock had increased to 45% of total advances (27% in 2014). Locking in a very low fixed rate for long periods protects borrowers against interest rate shocks: this is reflected in our analysis as we positively adjust the default probability of fixed rate loans compared to floating rate mortgages.

Low interest rates, offered by lenders to attract new customers, as well as the absence of prepayment fees, have encouraged borrowers to refinance existing loans to reduce their interest burden. CRIF (an Italian credit bureau) reports that about 90% of new loans applications were for fixed-rate mortgages in 4Q19 compared to 70% in 4Q18.

"No Fees" Fuelled Refinancing Demand

The absence of prepayment fees and related costs has resulted in increased refinancing by borrowers. Subrogations have sustained the Italian mortgage market in the recent past, although there had been a 31% decrease year-on-year at 3Q19, according to the Bank of Italy. At the same time, CRIF also reports that over 60% of loan online applications were for refinancing.

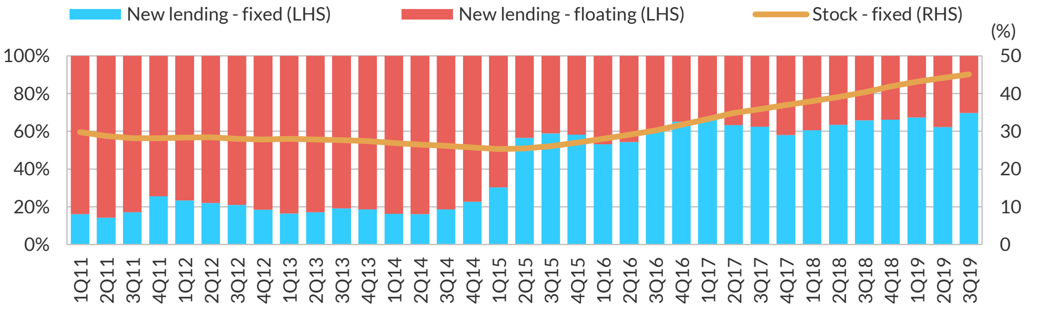
Favourable refinancing conditions for borrowers were introduced over a decade ago with law 40/2007 (the Bersani Law). This shortened the subrogation process and imposed all the related costs, including valuation, mortgage deed, notary fees and prepayment fees, on the banks refinancing the loans instead of each single borrower.

Low Mortgage Indebtedness

Residential mortgage indebtedness in Italy is among the lowest internationally, at around 32% of disposable income at end-2018. This compares with an EU28 average of 77%. Italian borrowers purchase residences largely with their own funds. Home ownership is high at 70% and only a small percentage of owners (13%) had taken out a mortgage loan at end-2018.

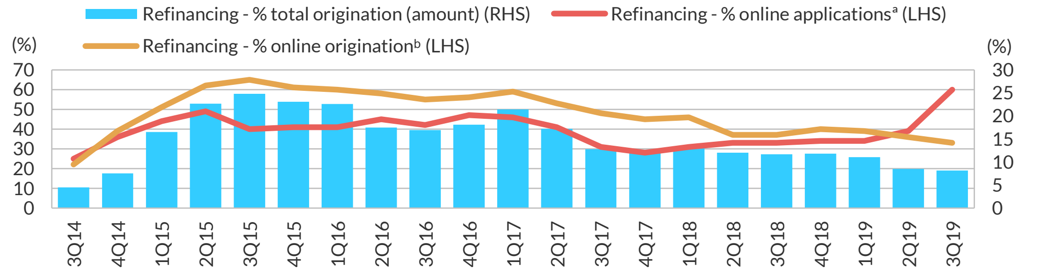
Tax incentives are more limited in Italy than elsewhere in Europe. The key measure is a 19% tax-deductibility of interest expenditures on first home mortgages with a cap at EUR4,000. Tax incentives consisting of 50% refurbishment expenses deductibility, capped at EUR96,000 and over a 10-year period, are also available to borrowers.

Growing Fixed Rate Mortgage Origination



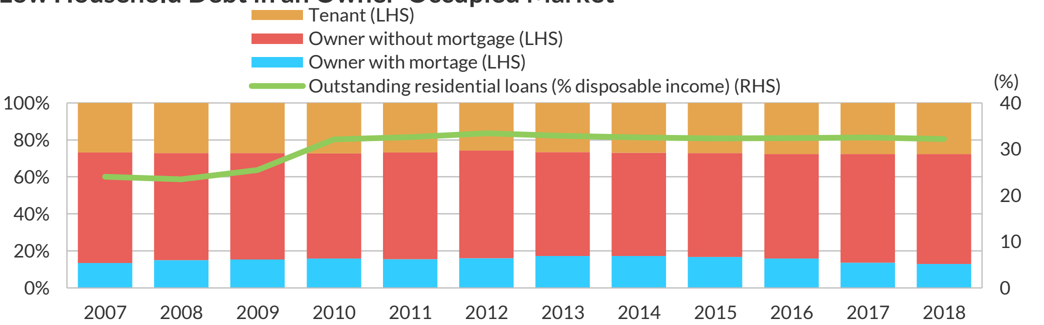
Source: Fitch Ratings, Bank of Italy

Increasing Demand for Refinancing



[a] Online application: Initial online enquiry
[b] Online origination: Branch-originated following an online enquiry
Source: Fitch Ratings, CRIF, Bank of Italy

Low Household Debt in an Owner-Occupied Market



Source: Fitch Ratings, Hypostat 2019, Eurostat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Unique Features of Mortgage Markets: Netherlands (August 2019)

Regulation Mitigates Risks from High LTV Mortgages

High LTV Ratio Is Not the Main Indicator of Default Risk

The prevalence of mortgage loans granted with high LTV ratios in the Netherlands reflects tax optimisation from borrowers (e.g. through the use of savings or investment vehicles). As a result, the LTV ratio is not as good an indicator of default risk as it is in other European countries. Generous tax rules have led to overleveraging of households and the widespread use of IO features or mortgage products with deferred principal repayment vehicles where borrowers accumulate capital in a tax-efficient manner, with a view to repay the mortgage at maturity. This created risks from bullet repayment at maturity or from set-off in case of default of the repayment vehicle provider. Such features are addressed in our asset and cash flow analysis.

The Dutch authorities have changed tax incentives and underwriting standards, notably since 2013, making the mortgage market more resilient. This has significantly changed the risk profile of new mortgages, while rules for older mortgages have been grandfathered. The vast majority of new mortgages amortise on an annuity basis and are originated with lower LTVs and DTIs.

Gradual Tightening of Underwriting Standards Support Loans Performance

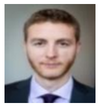
The special underwriting legislation of 2013 helped reduce debt service levels for new borrowers by introducing specific LTV and DTI limits. The maximum LTV ratio has gradually been lowered down to 100% in 2018. The legislation also provided specific DTI limits. These prescribe the maximum proportion of a borrower's gross income that can be attributed to servicing a mortgage loan, based on the loan interest rate, the tax deductibility of interest and the age of the borrower.

Additional measures, such as a 5% interest affordability stress for new loans with a rate fixed for less than 10 years, limit the downside risk of asset performance. Dutch borrowers have increasingly taken long fixed periods for their mortgage rates, typically between five and 10 years.

Taxation Incentivised Interest-Only Loans with High LTVs

IO loans have traditionally represented a high share of new mortgage loan originations due to the tax deductibility of interest payments, over a maximum 30-year period, for loans financing a primary residence. Repayment of principal amounts was disincentivised under the tax system, as any accumulation of capital amounts under specific savings or insurance products remained untaxed, as long as such amounts were used to repay the loan at its maturity.

A revision to the Code of Conduct for Mortgage Lending in 2011 limited the IO component of mortgage loans to half the property value at origination. Tax benefits are also being reduced. The maximum tax relief is decreasing gradually (to 37% in 2023 from 52% in 2013) and the 2013 underwriting legislation limits the tax benefit to new mortgage loans that amortise. Loans originated earlier still benefit from the applicable fiscal treatment at the time they were granted.



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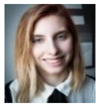

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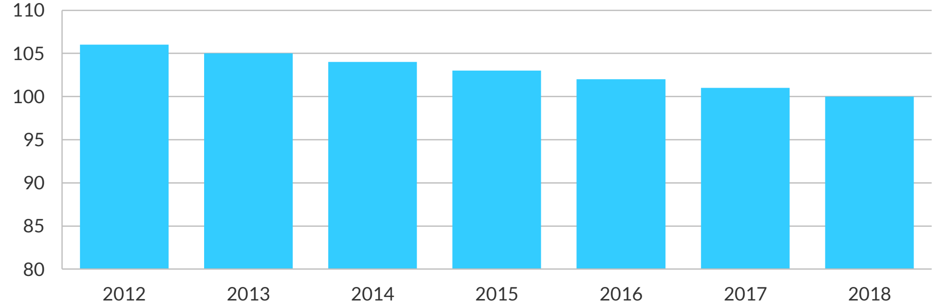
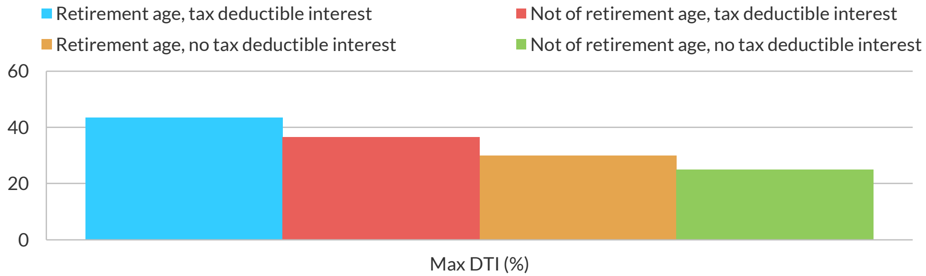
LTV Limits for Dutch Mortgage Loans (%)



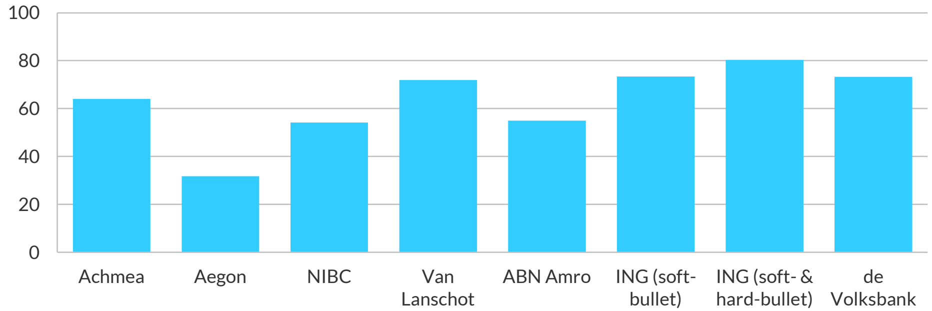
Source: Fitch Ratings, Dutch Code of Conduct for Mortgage Loans

Example of Maximum DTI Limits For Highest Income and Interest Rate Bands (2018, % of Gross Income)



Source: Fitch Ratings, Dutch Code of Conduct for Mortgage Loans

Interest-Only Loan Exposures in Cover Pools (March 2019, %)



Source: Fitch Ratings, Dutch covered bonds issuers

Unique Features of Mortgage Markets: New Zealand (March 2020)

High Household Debt Contained by Macro-Prudential Measures

Short-Term Fixed Rates Dominate the Market

A prevalent feature of New Zealand's NZD271 billion residential mortgage market is the use of short-term fixed-interest-rate periods. Over 80% of banks' residential mortgage portfolios consist of loans which typically offer a fixed interest period for a minimum of six months and a maximum of five years, reverting to variable rate when the term expires. Securitised assets and cover pools consist mostly of loans fixed for two years. Both fixed and variable rates are set at the lender's discretion but generally follow movements in New Zealand's official cash rate.

Lenders compete on interest rates and this is evident in the relatively high rate of refinancing (averaging about 15% a year). Borrowers who elect to refinance with another lender typically do so when the fixed-rate period expires, as early prepayment causes an early prepayment charge (break fee).

Lending Risk Attributes and Mitigation

The Reserve Bank of New Zealand has imposed strict limits on high LTV lending since 2013 to address household vulnerability to economic shock. This, together with stressed serviceability calculations, has added to the sound performance of New Zealand prime mortgages and growth in non-bank lending, in Fitch's view. High LTV lending is defined as more than 80% for owner-occupied and more than 70% for investors. House prices remain high relative to incomes and rents, however, household credit growth has returned to more sustainable levels.

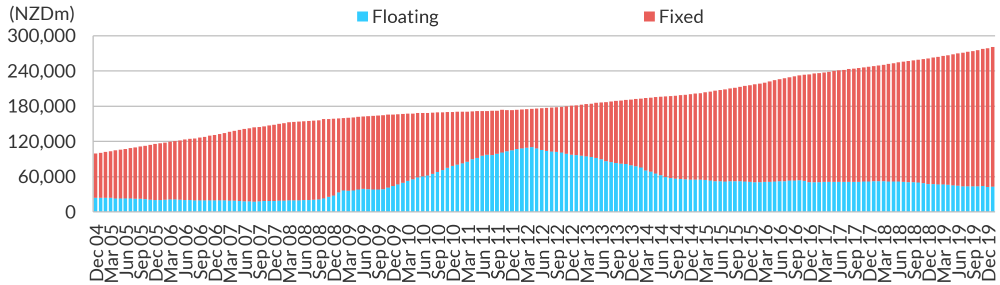
Mortgage serviceability tests at loan origination use a stressed interest rate that is above the current variable rate. The potential payment shock for borrowers reverting to variable rate payments, even in a moderately increasing interest rate environment, is mitigated by the stressed serviceability review. Household debt remains high at 164%, but has stabilised in recent years.

Risk from Earthquakes Covered

About 98% of residential mortgages in New Zealand have earthquake insurance. The Earthquake Commission is a government body that provides cover for damage to property after an earthquake or other natural disasters. Borrowers automatically receive the cover when they hold a current insurance policy. The cover is limited to NZD150,000 for residential properties. In its asset modelling, Fitch applies an additional 10% adjustment to the market value decline assumption for higher-value properties that lie within earthquake zones, to take into account the additional risk.

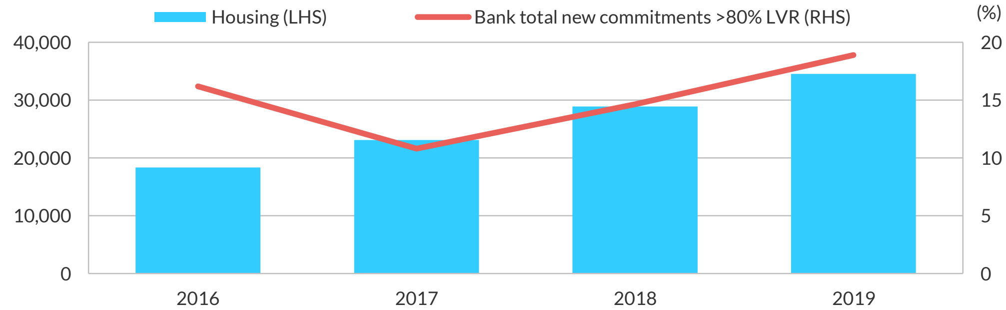
Lending Volume (NZDm)

Fixed vs. floating rate



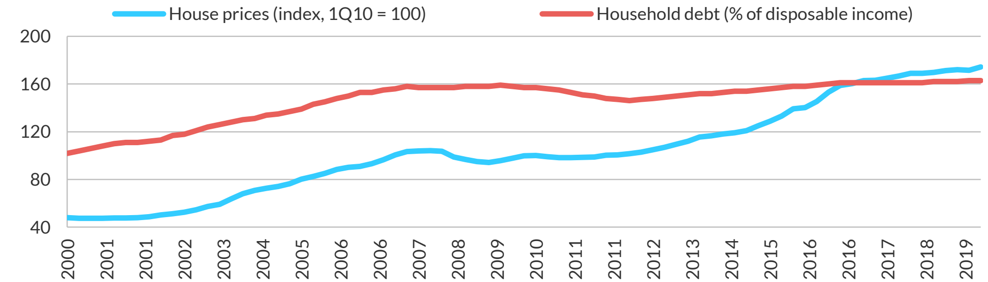
Source: Fitch Ratings

New Lending - NZ Non-Bank Lending Institutions



Source: Fitch Ratings

Household Debt



Source: Fitch Ratings, RBNZ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Unique Features of Mortgage Markets: Norway (June 2019)

Floating Rates Dominate the Norwegian Mortgage Market

Various Mitigants Against Risks from Floating-Rate Mortgage Loans

Despite the risks from a majority floating-rate mortgage market, Norwegian borrowers benefit from high competition among lenders and ease of refinancing, stressed affordability rules and generous social safety nets. Limited prepayment penalties induce strong competition among lenders, and borrowers may refinance their floating-rate loan at the lowest available rate with low costs. This drives the high prepayment rate, which has been 20%-30% a year in the past decade. Another mitigant to the high level of floating-rate mortgages is the affordability stress conducted by lenders at origination. Since 2011, lenders have been required to stress the offered mortgage rate with an add-on of 5pp. This comes in addition to maximum LTV and DTI caps. The latter has become the main limiting factor for borrowers, and resulted in the correction of the house prices observed in 2017. The tax deductibility of mortgage interest also protects borrowers against a sudden increase in rates.

Longstanding Predominance of Floating-Rate Mortgages

The 100+ Norwegian mortgage lenders compete on price, with limited product differentiation. The floating rate is set at the originator's discretion, with no direct reference to any observable market rate, and can be changed after six weeks' notice. There is no legal cap (no usury rate). In practice, lenders typically give borrowers eight to 10 weeks' notice. They must have a valid reason for the rate change. Reasons have included increasing capital requirements (2013), competition among lenders (2014-2015) and changes in market or policy rates (2015-2019). The low-rate environment has pushed household debt to record levels. Norwegian household debt per capita is among the highest in Europe, and household debt has increased by an average of 8% annually since 2004. This has prompted regulators to put in place affordability measures that are independent from the level of interest rates (see *LTI Rules and Rates to Drive Scandinavian House Prices*).

Cultural Preference for Home Ownership and Secured Debt

The composition of household debt is unique as around 97% is secured by properties, of which more than 90% pays a floating rate. Home ownership funded by mortgages is among the highest in Europe, and more than 60% of owner occupiers have an outstanding mortgage loan. The reasons for this are twofold: loans secured by multiple properties and preference for secured debt. Young adults usually leave home before the age of 20 and buy their first property before they turn 30. Due to the low costs associated with pledging properties (NOK200-NOK525), young borrowers often buy their first property with the help of a family member by securing their loan against both their and the family member's properties. In addition, borrowers have the possibility of remortgaging through a standing credit facility that allows them to withdraw an amount up to 60% of the property value.

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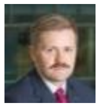

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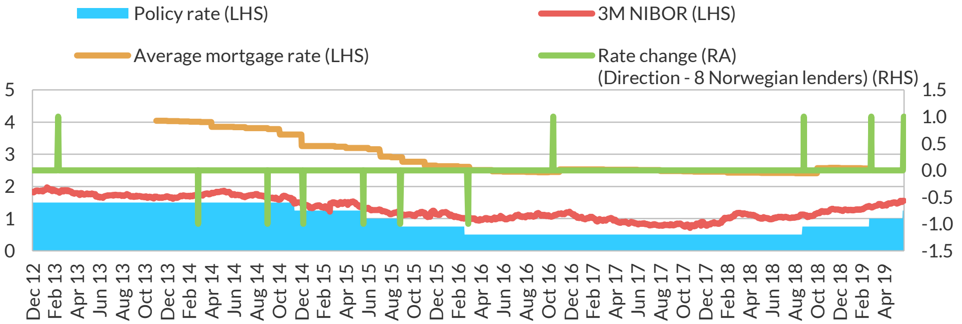
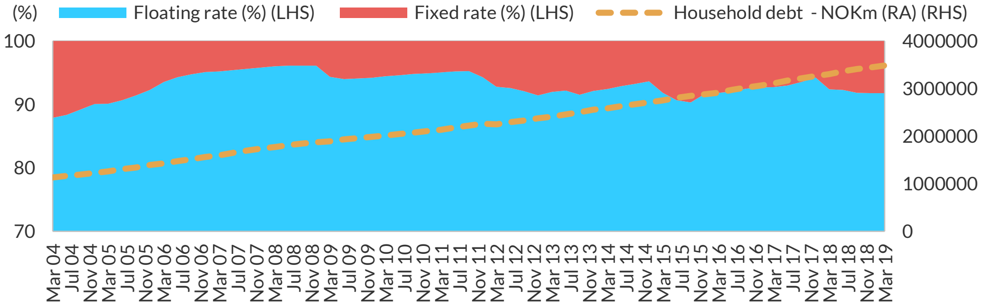
Policy Rate, NIBOR and Direction of Publicly Stated Mortgage Rate Changes



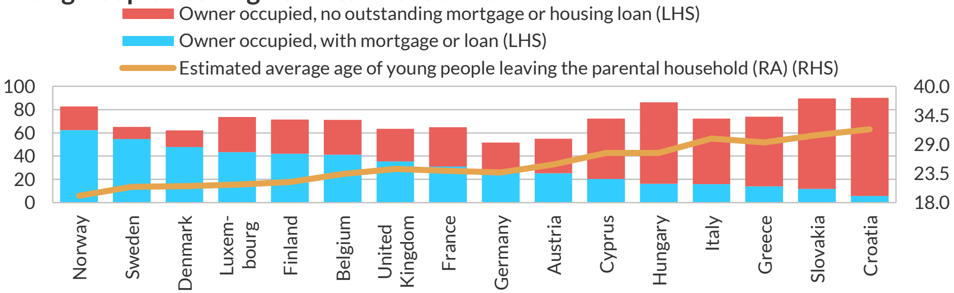
Source: Fitch Ratings, Norwegian Central Bank, Oslo Stock Exchange, Statistics Norway

Household Debt by Amount (RA) and Rate Type (LA)



Source: Fitch Ratings, Norwegian FSA, Statistics Norway

Distribution of Population by Tenure Status and Estimated Average Age of Young People Leaving Parental Household



Source: Fitch Ratings, Eurostat, Statistics Norway

Unique Features of Mortgage Markets: Portugal (February 2020)

Macro-Prudential Recommendations to Increase Mortgage Loan Resilience

Increase in Fixed-Rate Loans Safeguards Performance

Fixed-rate mortgage origination continues to increase in Portugal, a historically floating-rate-only market (95% of outstanding loans at end-2018): fixed-for-life mortgages or loans with an initial fixed-rate mainly between one and 10 years accounted for 44% of 4Q19 origination. Fitch expects recently originated loans to be more resilient to interest rate rises, continuing to support mortgage performance. The Bank of Portugal (BoP) has encouraged banks to test instalment sustainability, including an abrupt shift in interest rates (up to 3pp) for floating and fixed-to-floating loans.

This measure, together with the recommendation to limit LTVs to 90% at origination and to reduce mortgage tenures, is part of a macro-prudential recommendation introduced in July 2018. The BoP's aim is to prevent the loosening of credit standards at a time of low interest rates and increased housing demand. House prices increased by 27% on average over the five years to September 2019, with the highest increases in Lisbon, Porto and Algarve (35%). Fitch expects nominal house price growth of 6.5% in 2020.

Lower LTVs Support Willingness to Pay

Loans with LTVs above 90% accounted for less than 5% of new origination in March 2019, compared to more than 20% eight months before. At the same time, as shown in the chart, the share of newly originated loans with LTV between 80% and 90% increased.

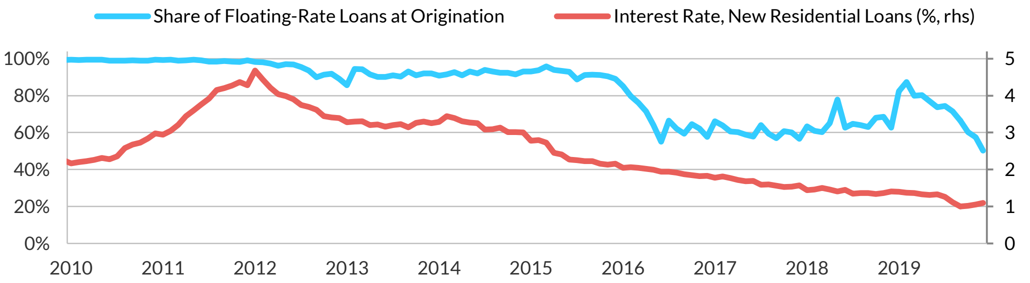
The BoP's recommendation on LTV limits includes requirements for banks to report and justify any exceptions. We expect greater resilience in mortgage performance in case of a decline in house prices as borrowers' equity increases.

Mortgage Terms Start to Shorten

The BoP recommends a maximum of 40-year maturity for new mortgage lending and a gradual shortening to a 30-year average tenure at origination by end-2022. The overall effect is still limited, with a 2018 average mortgage maturity of 33.4 years, in line with the 2017 figure; however, there was a qoq 0.5-year decrease in 4Q18 and a further decline to 32.7 years in 1Q19.

Mortgage terms for newly originated loans are still long-dated and are among the highest in the EU. Shorter-term loans limit borrowers' leverage, further supporting mortgage performances.

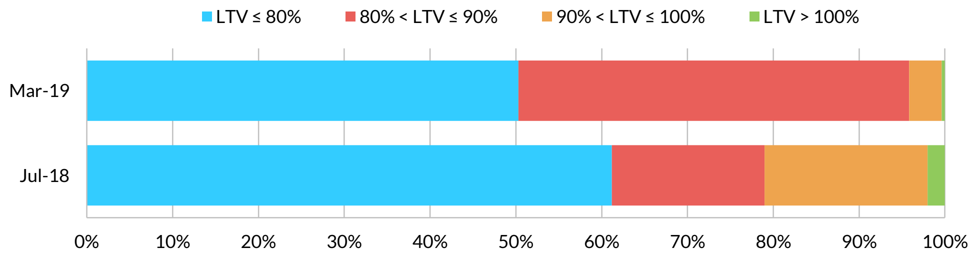
Declining Share of Floating-Rate Loans for Life



Source: European Central Bank, Bank of Portugal

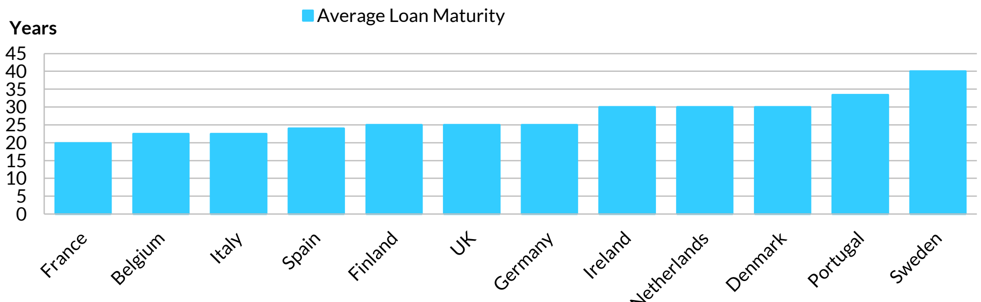
LTVs Shifting towards Bank of Portugal Recommended Levels

Share of New Mortgage Loan Origination per LTV Bucket



Source: Bank of Portugal

High Average Loan Maturity in Portugal



Source: Bank of Portugal, European Mortgage Federation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Unique Features of Mortgage Markets: Spain (May 2020)

Affordability Constraints Despite Low Rates

Weak Housing Affordability Means Low Origination Volumes

The house price-to-gross-household income ratio of 7.3x at September 2019 was higher than the long-term average of 5.8x. Fitch expects house prices in Spain to decrease and the above-mentioned ratio to move towards the long-term average, mainly because of weak housing demand.

New residential mortgage credit has plummeted since 2006 despite low lending rates amid low savings capacity and limited housing affordability. The mortgage market is influenced by weak labour market fundamentals with almost 40% of the active population in temporary job or self-employed, and an unemployment rate projected to increase to 19.2% by end-2020 under our macro-economic forecast.

Branch-Originated Prudent Lending

Spanish residential mortgages are mostly branch-originated, floating-rate loans and are fully amortising from the outset with typical tenors of 25 years. In-house origination and stricter underwriting after the real estate crisis (in the earlier part of the last decade) are additional safeguards in what Fitch views as a standard low-risk market, with controlled mortgage supply.

The non-performing loan (NPL) ratio on residential mortgages (arrears over 90 days) of the banking system peaked at 6% during the 2008-2009 crisis, but is now near the long-term average of 2.6%. Fitch expects arrears to rise because of the coronavirus and the related containment measures, which will produce an economic recession and increased unemployment. However, the NPL ratio should not go back to the prior peak as risks are mitigated through robust origination standards and long seasoning of existing mortgages.

Banks in Spain are maintaining or even tightening underwriting standards following the mortgage law of 2019, which increased the time lenders have to wait before commencing a foreclosure process on defaults to 12 months (from three before).

Transitioning Towards Fixed-Rate Origination

The market is migrating towards fixed-rate loan origination, driven by lenders aiming to increase profitability and borrowers keen on payment stability. We expect the proportion of fixed-rate loans to rise over 50% of new credit granted each year although, in terms of stock outstanding, the proportion was only 16% at December 2019 due to the long history of floating-rate origination.


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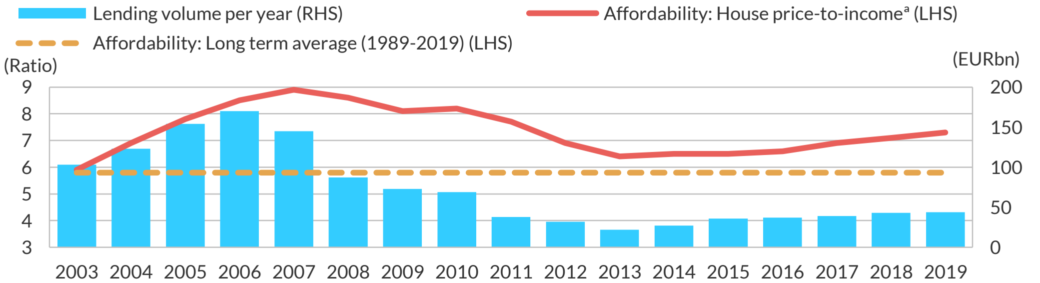
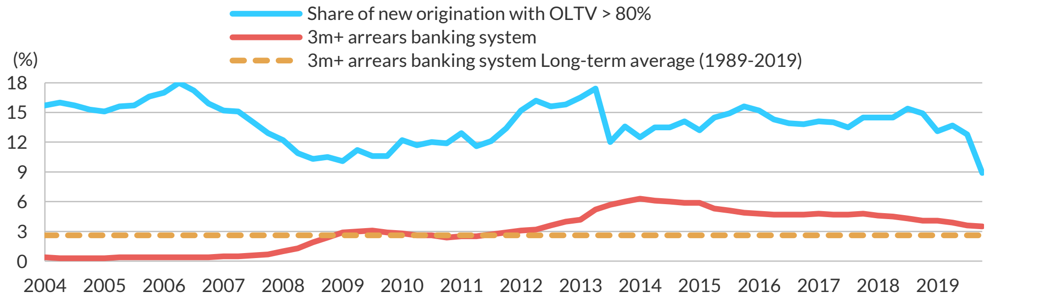
Residential Mortgages: Housing Affordability and New Origination Volumes



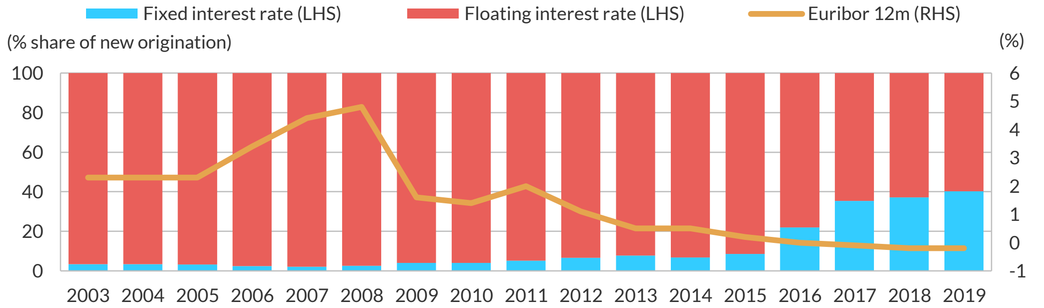
[a] Household Gross Income
Source: Fitch Ratings, ECB, Bank of Spain

Residential Mortgages: Arrears and Original-Loan-to-Value (LTV)



Source: Fitch Ratings, Bank of Spain

Residential Mortgages: Origination by Interest Rate Type



Source: Fitch Ratings, ECB, Instituto Nacional de Estadística (INE)

Unique Features of Mortgage Markets: Sweden (April 2019)

Long Maturities Counterbalanced by High Affordability

High Savings and Affordability Mitigate Risks from Long Maturities on Mortgages

Sweden's generous social security benefits, high household savings rate and strict personal bankruptcy laws are, in Fitch's view, effective mitigants to the credit risk posed by the long tenors (30 to 50 years) of IO residential mortgages in Sweden. In addition, Sweden's robust mortgage serviceability assessments, including stressed interest rates (typically 7%), and the transparency provided by the country's credit information agency are very strong incentives to repay debt. We also believe that the prevalence of low amortisation is mainly a result of tax incentives with 30% of the mortgage interest being tax-deductible.

Borrowers have become more vulnerable to an interest-rate rise with the increased popularity of variable-rate mortgages. However, more borrowers amortise on their loans after the amortisation requirement was introduced for LTVs above 50%. Affordability levels remain strong given the low interest-rate environment and high income levels in Sweden.

Long Tenor IO Loans Mainstream

The average mortgage tenor for mortgages in Sweden is 41 years, as opposed to 25 years in the EU. IO loans are common, with borrowers typically taking two loans to finance a property, one of them IO. The low rate of amortisation and decreasing level of interest rates have allowed households to afford large debt in relation to their income, especially as more borrowers have switched to low variable rates. In 2018, 68% of mortgages were on a variable rate, compared with 41% in 2008 (and 14% in 1998). Swedish regulators consider the growing household debt as a risk to financial stability Since 2014 , the Swedish FSA has introduced amortisation requirements for new loans with LTV ratios above 50%, which has increased amortisation levels (see *Fitch: LTI Rules and Rates to Drive Scandinavian House Prices*).

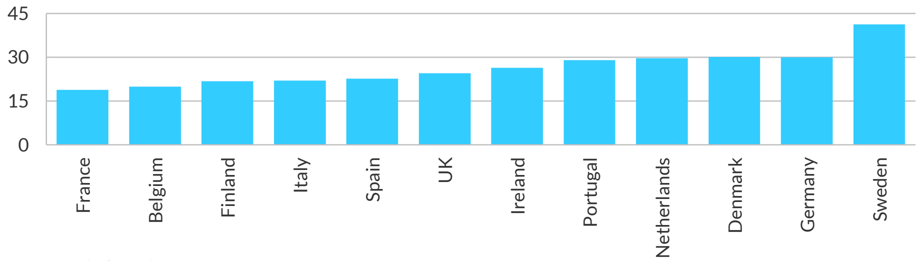
Favourable Taxation, Competition and Low Interest Rates Key

Banks now put a greater focus on affordability rather than willingness to pay in their mortgage lending criteria after the deregulation of the Swedish credit markets in the mid-1980s and excessive lending that led to a severe banking crisis in the early 1990s. The low-interest-rate environment since early 2000 and increased competition led banks to offer more generous mortgage terms. Taxation policies also incentivise households to maximise their property debt and channel their savings into financial instruments and retirement investment vehicles, achieving financial optimisation. With the rise in new lending at a variable rate, real mortgage rates have become very low (1.49% for new loan in December 2018).

1. Sweden has the longest average mortgage maturity in Europe

Mortgages in Sweden are on average 41 years compared to 24 years in the rest of Europe

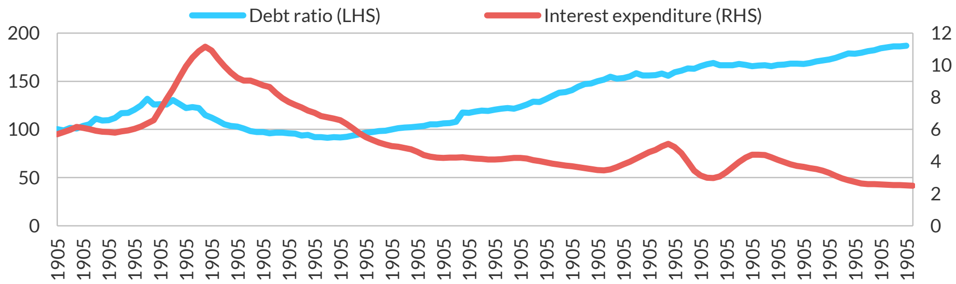
(Typical mortgage maturity) (years)



Source: Fitch Ratings, ESRB

2. Higher Debt but Lower Interest Expenditure

Debt and interest expenditure as a percent of households gross disposable income

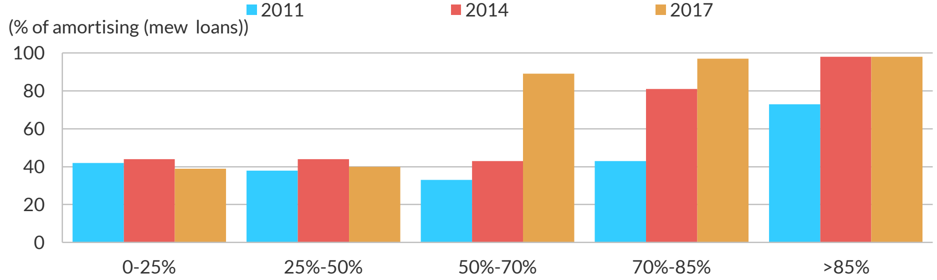


Source: Fitch Ratings, Statistics Sweden, Riksbank

3. High LTV Borrowers Amortise More Since 2014

Policy measures taken by Swedish FSA has resulted in greater amortisation

(% of amortising (mew loans))



Source: Fitch Ratings, Finansinspektionen (Swedish FSA)

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Unique Features of Mortgage Markets: Switzerland (May 2019)

High Household Debt, Slow Mortgage Amortisation

Owner-Occupied Lending Best Protected Against Risks from Slow Amortisation

Despite slow mortgage amortisation, we view current LTV ratios of Swiss mortgage loans as sustainable, with strong recovery rates calculated under our stressed market value decline assumptions. Borrowers typically repay their loan down to 66% LTV, with little or no amortisation on the remainder. While mortgage loans have short legal maturities (typically five to 10 years), the loan part below 66% LTV is often renewed perpetually, motivated by financial and tax optimisation. Our frequency of foreclosure stresses incorporate the risk linked to bullet contractual repayment at maturity.

The performance of owner-occupied loans has been supported by more conservative lending practices since 2012. By contrast, loans financing investment properties (40% of new lending in 2017) have become a cause of concern due to a larger proportion of high LTV loans, as well as shorter interest rate reset periods. However, their performance is still supported by sound market fundamentals.

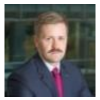
Cantonal, Raiffeisen Banks Increasingly Exposed amid Tightened Regulation

Swiss regulators have tightened capital requirements for banks and promoted self-regulation, which established minimum amortisation for mortgage loans above 66% LTV. This is in part due to concerns over high household indebtedness (182% of gross income in 2016). A further tightening for investment properties is now under discussion. The share of new mortgages with LTV above 80% has decreased by about 5pp since 2012. However, in 2017, 40% of new lending for owner-occupied properties was above 75% LTV (this was 30% for investment property loans).

Mortgage lending has grown substantially (35% in 2009-2017) and now constitutes over half of Swiss banks domestic assets. Kantonal and Raiffeisen banks have been particularly active, increasing their market share at the expense of UBS and Credit Suisse (-5pp in 2009-2017).

Taxation and Low Interest Rates Lead to High Mortgage Debt

The Swiss tax system assumes a taxable imputed income on owner-occupied properties, which can be offset against interest expenditures. This has reinforced households to seek minimum amortisation on their mortgage debt. The system is currently being reformed, subject to significant policy uncertainty. The low-interest-rate environment has increased the appeal of investment properties, with now half of Swiss rental flats owned by individuals. While prices of single-family homes have stabilised, lower immigration has led to rising vacancies (1.6% as of December 2018) and lower prices for rented apartments (-1.5% yoy as of March 2019). The market is supported by the limited overall supply and favourable macroeconomic conditions.



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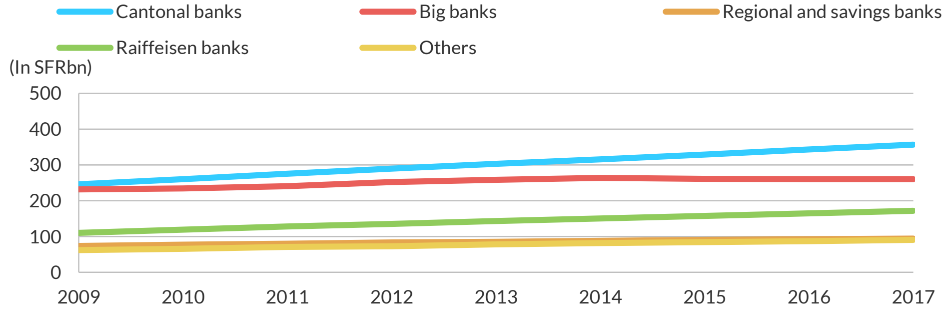
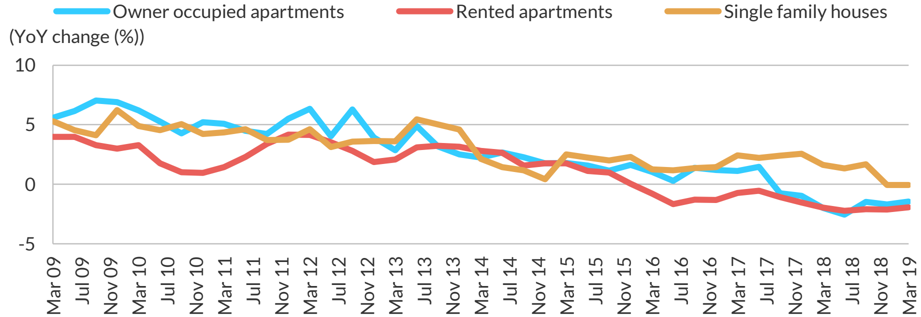
1. Mortgage Lending is Growing with Changing Market Share



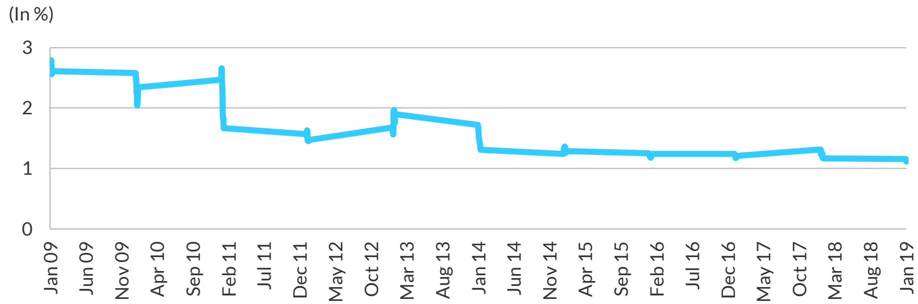
Source: Fitch Ratings, Swiss National Bank (SNB)

2. Slowing House Price Growth



Source: Fitch Ratings, Wüst & Partner, offer prices

3. Persistently Low Mortgage Rates (5yr Fixed)



Source: Fitch Ratings, Swiss National Bank

Unique Features of Mortgage Markets: United Kingdom (October 2019)

Risks from High Reversion Rate Largely Mitigated

The Vast Majority of Borrowers Avoid Payment Shock from Rate Reversion

More stringent affordability testing since 2014 reduces the potential for mortgage borrower payment shock upon reversion to higher SVRs, alongside robust income verification, credit score checks and ease of refinancing. Most borrowers do not pay SVR and 77% instead switch to a new product within six months of moving onto a reversion rate (2018 FCA market study) explaining high UK CPRs (around 15%). Borrowers subject to more rigorous affordability testing have become more resilient, also benefitting from access to low fixed rates.

Attractive Teaser Rates Drive UK Mortgage Market Dynamics

The UK residential market is dominated by fixed-rate loans that revert to a variable rate (usually SVR) after two or five years. The rate is set at the lender's discretion. Fixed rates have decreased markedly since 2008, while the average SVR has remained high, increasing the potential payment shock upon reversion and the incentive to remortgage. In practice, some borrowers on SVR are either unwilling or unable to refinance their loans due to upfront costs or underwriting constraints.

Lenders compete on initial fixed rates set by loan/value bucket with no room for negotiation. Due to the multiplicity of products on offer, most borrowers rely on brokers, who often work with preferred lenders, prioritising acceptance rate and reduced time to offer over price. However, heightened competition has compressed margins, and a few non-bank lenders exited the market in 2019. Lenders increasingly focus on their retention strategy for borrowers approaching reversion.

Fitch models a stressed SVR margin in its cash flow analysis ranging from 2% to 3% in an increasing rate scenario. In the stable and decreasing rate scenarios, we model the actual margin minus 50bp.

Stricter Regulation Credit-Positive, Further Changes to Ease Refinancing from SVR

In 2014, the UK regulation restricted the origination of mortgage loans at loan-to-income ratios above 4.5x (to 15% of new lending). In addition, since 2017 lenders must test borrower's affordability at a stressed rate (typically SVR + 3%), effectively limiting a borrower's maximum loan size, alongside the LTV. The SVR stress is not compulsory when rates are fixed for five years or more, which could explain why these now represent more than half of new origination.

The stricter underwriting rules have prevented some borrowers on SVR from refinancing to a lower rate. In practice, the high SVRs act as a negative selector of the less financially engaged and the potentially riskier borrowers. The FCA estimates that 800,000 borrowers (7%) would benefit from a switch from SVR. Changes proposed by the FCA may allow borrowers to switch to a lower rate if they are current on their mortgage payment but don't fully meet affordability requirements.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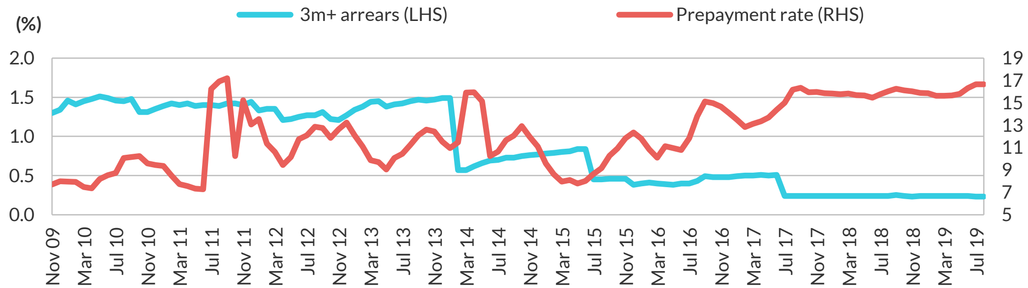
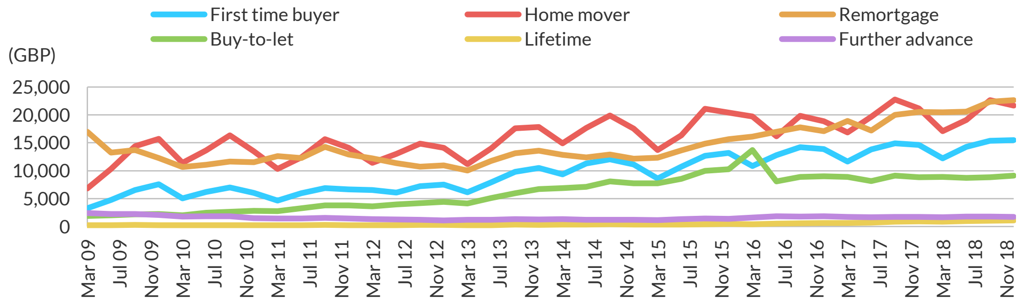
Prepayment and 3m+Arrears (Prime)



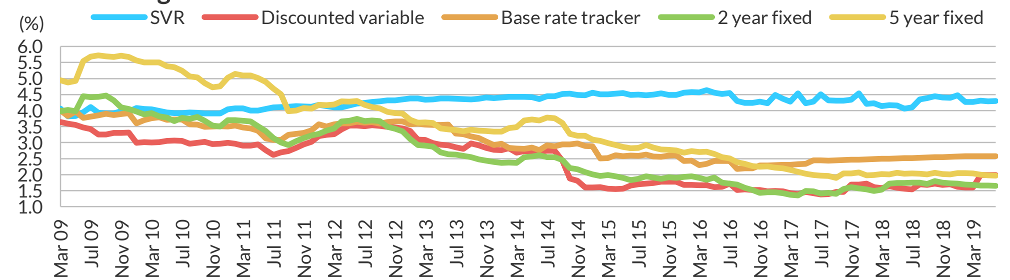
Source: Fitch Ratings, RMBS issuers

Quarterly New Mortgage Lending By Loan Purpose



Source: Fitch Ratings, PRA/FCA

New Lending Interest Rates



Source: Fitch Ratings, BoE