

**INVESTIGATING THE CHANGES IN MORTGAGE LOAN IN  
THE UK RETAIL BANKING SECTOR: A REVIEW OF THE  
FINANCIAL CRISIS AND THE RESULTING IMPLICATIONS  
ON HOUSEHOLDS**

**Eunice Tamoh Anu (PhD)**

University of Wales Trinity Saint David

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Submitted to the University of Wales Trinity Saint David in partial fulfillment for the  
Degree of Doctor of Philosophy

University of Wales Trinity Saint David

2016

## DECLARATION

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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Date-----

This thesis is the result of my own investigations except where otherwise stated. Where correction services have been used, the extent and nature of the correction is clearly marked in a footnote(s). Other sources are acknowledged by footnotes giving explicit references. A bibliography is appended.

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## ABSTRACT

In every society around the world, shelter is one of the most basic needs for every human being. Unfortunately, it is not one of the free gifts of nature. This means financing for housing is unavoidable. However, majority of the individuals are unable to achieve this without financial assistance. The recent 2007 financial crisis intervened in the pattern of housing finance which brought some changes in the market for the demand and supply of mortgage loans. This study therefore aims at investigating the extent of these changes and the resulting implications. It further explores households' choice of mortgage provider and homeownership status.

Using a longitudinal study, data was collected for periods before, during and after the financial crisis, with data ranging from 2003 to 2013. Primary and secondary method of data collection was employed in achieving the aims and objectives of the study. Primary data was collected using questionnaires and interviews. The questionnaire involved 320 bank customers while the interviews was done on 43 participants. Out of these 43 participants, 31 were from the demand side of the study while 12 were mortgage advisors.

The findings revealed that the three distinct periods had significant differences in their patterns of housing finance. It was also found that households preferred their mortgages to be provided by the high street banks for security reasons with 88.2% of them satisfied with their mortgage providers. Also, initial deposit and increasing house prices were the most important impediment to obtaining a mortgage. Moreover, the claim by the households that the banks were not willing to grant mortgage loan to them was true to an extent as 54.4% of them agreed to the validity of the statement. Finally, the implications of the financial crisis on households as well as homeownership status implications on tenants were generally negative.

## **DEDICATION**

I dedicate this thesis to my treasured brother Asong John, the Maduekwe family and my adoring and caring husband Leke Anyi Agombin who has been a source of inspiration for me.

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## ABBREVIATIONS

Abbreviation	Meaning
HSB	High Street Banks
BoE	Bank of England
CDO	Collateral Debt Obligation
CML	Council of Mortgage Lenders
CORE	Continuous Recording of housing association new lettings
FCA	Financial Conduct Authority
FSA	Financial Service Authority
IMF	International Monetary Fund
IMLA	Intermediary Mortgage Lending Association
JRF	Joseph Rowntree Foundation
MBS	Mortgage Backed Security
MMR	Mortgage Market Review
MM	Musharakah Mutanaqisah
NHF	National Housing Federation
OBR	Office for Budget Responsibility
OFT	Office of Fair Trading
ONS	Office of National Statistics
PSR	Payment System Regulator
RSRs	Regulatory and Statistical Returns
RSL	Registered Social Landlord (housing association)

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## **Chapter One: Introduction**

### **1.1 Background of the Study**

Housing is an essential sector of the economy as shelter is traditionally thought of to be one of the basic needs of mankind. As an economy develops, it is expected that there will be a corresponding deepening and growth of the housing market. In many societies, a majority of households tends to hold wealth in the form of their homes rather than in financial assets which is considered an important component of investment. In view of its importance, financial institutions have provided financial sources to facilitate homeownership particularly for those who cannot buy a property outright (Min, 2014). The importance of the housing sector cannot be underestimated as it has been the source of the recent global financial crisis.

The USA was at the epicenter of the 2007/08 global financial crisis. Many other countries were exposed to the crisis, though different countries had different or slightly similar consequences (Acharya et al, 2009). The financial crisis was exacerbated by problems in the US domestic subprime mortgage markets where the cumulative loss rate of securitised subprime loan portfolios was more than 20% by the end of 2010. The housing boom in the USA which reached its peak between 2005-2006 as sub-prime mortgages and adjustable-rate mortgages increased rapidly (Willmott, 2010b; Dymski, 2002). Banks gave out loans to potential homeowners as housing prices began to rise. The decrease in interest rates and the large inflows of foreign funds made credit conditions easier and fueled the housing construction boom. Thus, types of loans like mortgages, credit cards and auto loans were made very easy to obtain as consumers assumed an unprecedented debt load.

Agreements on these loans such as mortgage-backed securities (MBS) and collateralised debt obligations (CDO) greatly increased at that time (Caplan et al., 2012). According to Ambler et al. (2009), regulations were introduced by the Carter and Clinton presidencies in the US for alleged social reasons which encouraged banks to lend more money to weak credit customers. After all, the banks were selling on the subprime loans and not holding them in their own balance sheet. Reinhart and Rogoff (2009) emphasized on the fact that in the sub-prime mortgage market, more than 1000 billion \$US was invested into it. This was made up of the least creditworthy borrowers and the poorest people in the US. They also showed that since the mid-1970s, the six major

historical episodes of banking crises in advanced economies were all associated with the rapid increases in the mortgage market. Furthermore, they documented that besides countries like the US, UK, Sweden and Ireland which has experienced this housing crisis, the pattern could also be found in an emerging market crisis like Asian financial crisis of 1997-98. In these Asian markets, the magnitude of house price decline was broadly similar to both advanced and emerging economies.

The problems were compounded when these MBS was given as sub-prime mortgages – mortgages to individuals with non-standard credit history or in low income. It reached its peak when these Mortgage Back Security (MBS) and Collateral Debt obligation (CDO) fell as securities thought of by investors as being low-risk were downgraded as assets underlying those securities suffered a great loss. The credit rating agency made matters worse by rating as safe with AAA rating for some risky securities (Prager, 2013; Rom, 2009). It did not come to the notice of many people, yet when comparisons were made in April 2007 by the BoE between the US sub-prime breakdown and the commercial property market in the UK (Scanlon et al., 2012). Most of the European countries viewed this collapse initially as a US problem and not a global problem until fifteen months later when the global implications became too apparent. With the globalisation of money and property market, financial engineering has played an important role. The growth in new financial vehicles such as asset backed securities and derivatives in recent years exploded. Through international diversification, the financial innovations helped improve on liquidity and also enable investors to spread their risks.

The origin of the crisis dates back as far as the 1970s with the deregulation of the financial market, which began in the US and the subsequent innovations in financial structures, precisely (CDOs) and (ABSs). For Wall Street firms, the CDOs and ABSs were regarded as extremely profitable. But in order for Wall Street to produce these products, they needed to have a lot of income producing loan products. The easiest and readily available source was a mortgage, with the incessant demand being the key driver in the decline in lending standards (Federal Reserve 2009). The incentives to provide these loan products coupled with the very low interest rate at the time. This made lenders to become much more thoughtful in their lending practices. This subsequently fueled the lending practices of most lenders who lent out even to borrowers with poor credit ratings. Furthermore, banks also began to explore new ways to package these loans in order that they could make more sales so as to further enhance their lending

capacity (Willmott, 2010b). Asset Backed Securities were seen as the central building block to offset the risk involved in such borrowing.

The banks together with other financial institutions pooled these Assets backed Securities into new units. They again divided them up and issued securities against them, leading to the creation of CDOs (Collateralised Debt Obligations). The idea was in line with some new combinations of other new vehicles like CDO square and CDO cube which were further being removed from the asset. The estimation made by J.P. Morgan shows that there was about US\$ 1.5 (£0.8 trillion) in global CDOs (Avery and Brevoort, 2015). Out of this amount, about £300 billion were considered structured finance CDOs, constituting of bonds, which were backed up by slightly safer mortgages, sub-prime mortgages and commercial mortgage backed securities.

The collapse of the sub-prime mortgage market affected nearly all the banks around the world either directly or indirectly, including the UK (Whitehead and Williams, 2011). This is because these banks may have been involved in the purchase of bonds or have incurred other risks related to bonds, which in most cases were all backed by these sub-prime mortgages. Thus, the collapse of the sub-prime market has revealed serious weaknesses in debt structuring. This includes dangerous amount of leverage not yet reflected in risk assessments. Prior to the collapse of the sub-prime mortgage market in the US, the Bank for International Settlements, the BoE and the IMF have expressed concerns about the fragility of many of the securitised products on offer. They all highlighted the fact that most investors did not take the downside risk of such products as a serious issue. The biggest of such risks was the steepest fall in house prices, given that securitisation was based on the assumption that any problem with defaults by borrowers would be amended by the upward rise in property markets (Buckley, 2011). By August 2007 however, it was very clear that the residential property market has fallen. As the value of property fell, default rates also increased. Therefore, asset backed securities which were tied to the residential sector became worth less than what the investors holding them had anticipated. The world's balance sheet has been affected by the collapse of the residential property market.

Banks and other lending institutions around the world incurred huge losses, though it is still not very clear which bank's balance sheet were more affected. Trust and confidence were lost among lenders. Uncertainty increased suspicion in the banking industry, which prompted most banks to stop lending to each other as they could not guarantee

each other's balance sheet quality. Thus, in an attempt to reduce risk, tightened monetary and financial condition emerged as banks reduced their willingness and ability to extend credit. In September 2008, there was a fall in liquidity in the financial market, resulting from the near collapse of insurance conglomerate AIG and the bankruptcy of Lehman Brothers (Caplan et al., 2012 and Almeida, 2009). The collapse of insurance conglomerate AIG only raises concerns regarding the scale and spread of default risk and also the credibility of financial product insurance. What sent shock waves in the global banking industry and destroyed confidence in the financial markets was the collapse of Lehman Brothers. It actually revealed the level of integration existing within the global banking system.

The response of the market to the collapse of Lehman brothers was intense, swift and broad based. In one week, prime money market funds which invest in asset backed securities and corporate debt experienced \$320 billion redemptions. This made them unable to provide \$2 trillion of credit, which they extended on daily bases. This made it very difficult for nonfinancial corporations which need refinancing and financial institutions depending on wholesale funding (IMF, 2011). With the unavailability of these traditional sources of finance, banks thought that the best way to repair their financial liquidity was to cut back on their lending activities to customers (Cho et al., 2012). Borrowing thus became more expensive and even harder to arrange.

On December 12 2007, the Federal Reserve System (Fed), the UK, Canada and Switzerland central banks and the European Central Bank (ECB) in an attempt to lower the cost of borrowing, announced an expansion of their liquidity measures. The Fed made an approval of 160 billion US dollars to cover short-term loans in six auctions through the Term Auction Facility (Buckley, 2011). This was done from mid-December 2007 and extended in early March 2008. Moreover, as early as March 7th, 2007, the Fed announced that it shall increase further the amount of its two TAF sales for that month by 20 billion US dollars each. If conditions warrant such a move, the Fed promised to boost the figures further. At the same time, the Fed announced that through weekly 28 day term repurchase agreements, it would make 100 billion US dollars available. Also in December 18th, 2007, the ECB added a recorded 500 billion US dollars into the banking system.

Long before the financial crisis, some commentators in the UK had already predicted a downward adjustment even though they did not predict such devastating consequences



(Whitehead and Williams, 2011). Goodhart (2008) made it clear that the crisis was clearly foreseen. This is because according to him, all the financial information that had been published by the IMF, banks and other international financial institutions created awareness that banks were under pricing their risks. Throughout till mid-2007, banks still did not take enough measures to prevent such risks (Wilcox, 2013). The situation was made worst by the fact that the FSA, the BoE and the Treasury arrived at an agreement to manage the financial crisis which did not turn out to be successful. The FSA failed in their responsibilities to regulate and supervise the activities of bankers and banks. In addition, the BoE failed in their operational and managerial procedure, especially as these responsibilities were not understood by themselves (Wilcox, 2013). Also, the FSA did not use their power of open market operation policy and discount rate to influence the market interest rates. On the contrary, they became more restrictive and reluctant to influence these market interest rates.

The UK stands out as being one of the countries where the financial crisis was greatly felt. They faced substantially long term effect and took a longer time to recover. As Ambler et al (2009) and Thelwell (2007) puts it, even though the origin of the downturn can be traced to the US, we could also say that the financial crisis in Britain was of its own making. British banks rate mortgages which were valued at 125% of the value of homes. Furthermore, they were issuing millions of credit cards to borrowers without checking their credit worthiness. The regulators did not react to this. Thus, despite the blame on international levels, plenty of homegrown aspects still remained which made the UK uniquely susceptible to it. In the UK, the government continuously encouraged the poor to acquire mortgaged stated homes, even when the housing market was falling. The basis for the government action was based on the claim that the poor should have the same access to debt as the affluent sectors in the society.

Many banks in the UK failed as there was a massive rush by depositors to withdraw their money from banks, leading to bank panic and recession. Northern Rock was astounded by customers queuing to withdraw their money for fear of losing it. A similar situation occurred in 2012 during the Greek crisis with customers voicing anger at banks with manifestations (Granitsas, 2012) and Spain crisis (Haugh et al., 2009). Tension was heightened when banks began to tighten their lending policies to other banks and in the international market, fired by the new crashes on other markets (Djukic and Djukic, 2009). The validity of this is confirmed by the drastic overnight increases in

interest rates among lenders. It means the central banks' key interest rates as well as the EURIBOR and LIBOR became less relevant to the decision making processes of the banks. The capital requirement from pillar 1 of the Basel Committee required banks to fulfill requirements related to capital conservation, quality and level of capital, create countercyclical buffer, fulfill capital loss absorption and pay attention to leverage ratio. Risk management was the focus of pillar 2 while market discipline focus on pillar 3 (Bank of International Settlement, 2013)

The effect of the financial crisis made it increasingly difficult for most banks to find money in both the capital and money markets. The situation is even worse for banks facing a large funding gap. In order for banks to secure sufficient funding, they offer increased rates on savings deposits. To make up for this cost on banks, they intern charge higher borrowing rates for enterprises DNBulletin (2012). Before the start of the crises, banks were able to fill their funding gap by borrowing cash from the money and capital market at low rates. Banks in this way ran the financing risk. The crises made it difficult for banks receive funding from the capital and money market. Most banks faced with a liquidity surplus prefer to shift away from the credit risk on borrowing. They prefer to hold the cash excess as a liquidity buffer. Banks therefore prefer to reduce their dependency on the money and capital market and reduce their funding gap by attracting depositors.

Homeownership in the UK has been on an increase since Thatcher introduced the right to buy policy in 1980. This led to an increase of homeownership to a peak of over 70% in 2003. Homeowner in 2009/10 is estimated to have declined to 67.4%. Heywood predicted that with the declining nature of homeownership, it is expected to fall to 60% in 2025. Figures in 1918 shows that homeownership level was as low as 23% with housing expenditures falling from 5.6% in 1980/81 to 1.3% in 1999/20. It continued and was only 2.7% in 2008/09(Heywood, 2011). Since the onset of the financial crisis, personal loans and the mortgage market has contracted substantially with the supply of mortgages fairly restricted. Some lenders withdrew from the market. With the launching of a spate of new products, the market is beginning to open up.

The leading lenders of mortgage loan area Lloyds Banking group with a share of gross advances of 24% in 2009. This was followed by Santander with a share of 18%, HSBC with 11%, Barclays with 10% and Nationwide Building Society with 8% and Royal Bank of Scotland for the last position. Its reduced competition and improved margin are

attracting new entrants (Mintel, 2010). The percentage of household mortgage dropped from a peak of 41.5% in 2001 to as low as 35% in 2009/10. In a like manner, the number of loans for house purchase declined from 1.4 million in 2006 to only 600,000 in 2010. In the second quarter of 2013 there was a decline in the number of properties taken into repossession by mortgage lenders (CML, 2013). This was nearly 4% below the 8,000 recorded in the first quarter of the year. Thus, within the first half of the year, the number of cases of repossession by mortgage lenders totaled 15,700. This is the least figure since the second half of 2007 where there were 13,100 cases. The number of mortgages in arrears also faced a decline.

This study will investigate the housing finance market in the UK for residential homeownership in order to understand the changes that have been brought about by the intervention of the financial crisis. This will be precisely for HSB. It will also explore the implications of the financial crisis as well as homeownership status on households.

## **1.2 Aims, Objectives and Research Questions.**

### **Aims**

The main aim of this research work is to investigate the changes in mortgage loan in the UK retail banking sector as a result of the financial crisis and the resulting implications on households with special reference to HSB. This will be achieved through the following objectives:

### **Objectives**

- i. To investigate the significance of the changes in household mortgage borrowing in the UK as a result of the financial crisis (periods between 2003 and 2013).
- ii. To explore the reasons why some HSB customers prefer other providers of mortgage loan than those offered by their HSB.
- iii. To assess the diverse opinion of households as to why they still prefer to rent rather than own their own houses despite the high rents charged by landlords.
- iv. To analyse whether there has been any effective demand for household mortgages by the bank customers in order to assess the validity of their claim that the banks are not willing to give out mortgages to them.
- v. To evaluate customers' opinion on the implications/impact of the financial crisis and homeownership status on customers.

To help with the investigation of the research objectives, the following research questions were specified

### **Research Questions**

- i. Have there been significant changes in the pattern of mortgage loan between 2003 and 2013 in the UK retail banking sector?
- ii. Why do some HSB' customers prefer alternative sources of housing finance rather than those offered by the HSB?
- iii. What are the criteria used by the households to make a choice of their home providers?
- iv. Despite high rental charges on rented accommodations, why do some people still prefer to rent instead of owning their own house/applying for a mortgage?
- v. Has there been any effective demand for mortgages by the HSB customers in the UK's retail banking sector?
- vi. What are the implications of the financial crisis and homeownership status on the households?

### **1.3 Rationale and Significance of the Study**

Shelter just like food is a basic necessity in life which is inevitable. In the retail banking industry, the provision of mortgage loan has been fluctuating for HSB. Before the financial crisis (2003-2007) their share of mortgage provision was small relative to their market share during the financial crisis (Williams, 2014). But during the financial crisis (2007-2009) the top providers of mortgage loan were the main HSB as smaller lender retreat from the market. After the financial crisis (2010-2013) however, there was a decline in the provision of mortgage loan by the HSB (CML, 2012) as observed in figure 2.7. The mean difference and the statistical significance levels of these constant fluctuations have not been explained by any of the recent researches.

Secondly, as a rational being and an economist, the researcher surveyed the market for homeownership status in order to make a rational choice between paying rent and mortgage repayment. It was observed that the amount of money spent monthly on rent payment is high relative to the monthly repayment by homeowners. As a result, the researcher decided to study the market so as to be able to make a rational decision on the best form of homeownership status. Furthermore, the researcher noticed that despite these high prices charged on rents, there were still a good number of people renting

instead of taking advantage of the cheap monthly repayment for mortgage owners. In attempt to understand why, the researcher noticed that the households blame the banks for not willing to provide them with a mortgage loan. Likewise, the bank thinks that the customers are not willing to obtain mortgage loans. None of the parties are willing to take the blame for this conflicting claim. This research therefore seeks to bridge this gap between theory and practice.

Thirdly, almost everyone in the UK is an account holder in one or more of the HSB. All of these HSB are mortgage provider besides their normal traditional banking operations. Despite this existing relationship with their banks, however, most of the homeowners' mortgage providers are not any of their HSB. This prods the researcher to carry out this research in order to understand the attitude of the customers.

The significance of this study is therefore to provide an empirical study on the above issues given the fact that most research in this area is dominated by business writings and only very little empirical research. Also, there are lots of discussions in the literature on descriptive write ups which failed to provide enough quantitative analysis with statistical significant levels. Furthermore, by exploring the attitude of customers towards homeownership status as well as the behaviour of the banks towards the provision of mortgage loan, this study will help to improve customers' perception and awareness and also improve the banks' strategies respectively towards mortgage loan. Moreover, this study will provide useful recommendations to banking regulators and policy makers. Lastly, this study will be a great source of reference for academicians and other researchers. These will be achieved through the following research methods.

#### **1.4 Research Methodology**

In order to answer the research questions formulated, this study made use of primary as well as secondary data. The primary data involved the use of questionnaire survey and semi-structured interview. For the questionnaire survey, random sampling technique was used to collect data from customers so as to avoid the issue of bias. The same random sampling technique was used to contact household participants for the semi-structured interview. For the HSB or housing finance providers, the approach used to collect the primary data was the snowball sampling which is a purposive sampling. Purposive sampling was selected because the researcher was interested in collecting data from particular experts which in this case was mortgage advisors of the HSB.

Given that it is not easy to contact them on a random basis due to the confidentiality of their banking information, snowball sampling emerged to be the best sampling technique which provided the desired result.

The questionnaire survey involved the use of 320 participants while the semi-structured interview was conducted on 43 participants. Out of these 43 interviewees, 31 were customers or the demand side of housing finance while 12 was from the supply side or the banks, represented by the mortgage advisors. The questionnaire was analysed using cross-tabulation, chi-square test, a measure of central tendency, factor analysis, one-way ANOVA and t-test with the use of SPSS. The interview questions were analysed using NVIVO. Secondary data was also collected from well-established institutions associated with the mortgage issues market like the CML, House of National Statistics, JRF, Financial Conduct Authority, Office of Fair Trading, BoE, Mortgage Market Review and the banks to support the findings from primary data collection. The following are the limitations that were encountered in the course of the study.

## **1.5 Definitions**

### **Financial crisis**

The financial crisis period has been defined by different researchers in different ways with fairly similar meaning. Fraser (2012) and Freeman and Sudarsanan, (2012) identified the financial crisis in the UK to run between 2007 and 2009. Fraser further divided this into two phases with the first running from 2007-2008 identified with liquidity problems, following the bail out of Northern Rock by the BoE. The second phase was from 2008-2009 with the liquidity problem becoming a more severe issue of insolvency. Mishkin (2010) described this period to be characterized by falling world commodity prices. It is associated with the time when it became apparent that the crisis was reverberating across a wide range of financial institutions and other areas (Orlowski, 2008). Another definition identified the financial crisis period to run from 2007-2009, associated with one or more of the following: large scale balance sheet problems, changes in credit volume and asset prices, large scale government support, and severe disruptions in financial intermediations and the supply of external financing to various actors in the economy (Claessens and Kose, 2013).

From the above definitions therefore, the financial crisis has clearly been identified to run between 2007 and 2009. It can be defined as a period where households are unable

to meet up with their routine financial commitments due to stringent lending from liquidity problems, other related problems and disruptions in the supply of external financing, requiring government support. This study is divided into three periods. These are periods before the financial crisis, during the financial crisis and after the financial crisis. It runs from 2003-2013. The three different phases includes 2003-2006 (before the financial crisis), 2007-2009 (during the crisis) and 2010-2013 (after the crisis). The other two phases are established by taking equal year's interval before the financial crisis and after the financial crisis so as to be able to clearly differentiate the significant changes between these periods.

### **Mortgage loan/Housing finance**

Mortgage loan as defined by the Financial Stability Board (2012) is a loan that is collateralised against a residential property and includes home equity loans, purchase, home equity lines of credit and refinancing. Freedman and Sudarsanan (2012, p.9) defined housing finance as a segmentation between consumption loans and real estate lending. From the above definitions, mortgage loan and housing finance have been identified to mean the same thing. They are therefore used in this study interchangeably to refer to any loan secured against a residential property.

### **Households/Customers**

The word households and customers have been used in this study to mean the same thing. Household/customers are respondents who are either native born or immigrant households. Thus, Borjas (2002) identified these as either native born respondent, those born outside the country, but have been naturalized or alien citizens. According to Beckett (2014) a household is defined (in line with the 2001 Census definition) as one person living alone or a group of people living at the same address with common housekeeping, that is, sharing either a living room or at least one meal a day.

### **Homeownership**

Homeownership describes a situation where the buyer has purchased a housing unit as property (Felz, 2010). This therefore means that tenants are not homeowners. They can only become homeowners after purchasing a housing unit. The homeownership status of respondents can therefore either be described as homeowners or tenants.

## **1.6 Limitations of the Study**

There is a time limit within which this thesis must be submitted. The researcher could have carried out more research on this topic, but is limited from doing so due to time constraint. Furthermore, the research is carried out in an imperfect market with information asymmetry. Having access to the right information is considered a rare privilege. The study is also limited to only housing finance as a form of household lending. It does not take into consideration other forms of household lending like personal loans, credit cards and overdrafts. In addition, the study is limited to only HSB mortgage providers in the UK. It does not consider other housing finance provider. Moreover, due to time constraint for the study, only 320 respondents participated in the study. It would have been beneficial if more respondents were able to participate in the study.

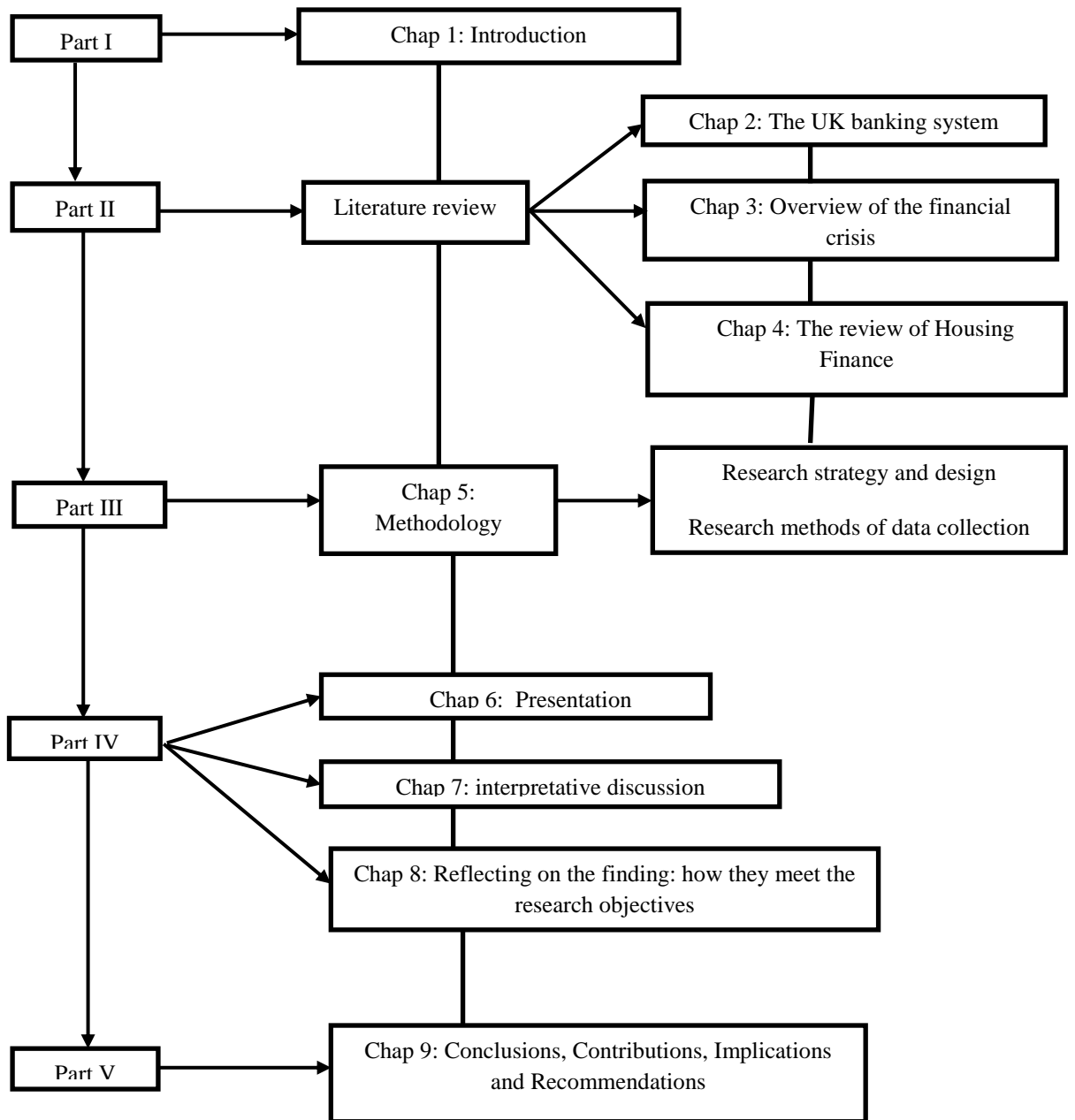
It was not possible for the researcher to use other sampling methods free from bias like random sampling for the supply side of housing finance because of the confidentiality of financial information held by banks. Snowball sampling therefore proved to be the best form of collecting the data. With the large sampling frame, the geographical scope of the study was limited. This limits the extent to which the findings can be generalised.

## **1.7 Structure of the Thesis**

The thesis comprises of five parts with nine chapters. Part one is chapter I which is the introductory chapter. Part II is a literature review which consists of chapters two, three and four covering the literature on the UK banking system, overview of the financial crisis and the review of housing finance or the residential mortgage market respectively. Part III is chapter five, research methodology which covers the research strategy, design, method of data collection, sampling techniques and analytical tools used. Part IV involves chapters six, seven and eight. This covers the presentation of the results, interpretative discussion and a reflection of the findings to assess how the results meet the research objectives. Finally, part V is chapter nine, which is the last chapter. It entails the conclusions, contributions, implications, recommendations, Limitations of the study as well as areas for further research. A brief summary of this is represented in the figure below.



**Table 1.1: Structure and Organisation of the Thesis**



Source: Author's summary, 2016

## **Chapter Two: Review of Housing Finance/Mortgage Loan**

### **2.1 Introduction**

This chapter will focus on discussing the residential mortgage market. It starts by looking at the evolution of the mortgage market in the UK and the residential property market. This is followed by the importance of housing as a basic need of life and as an essential sector for the proper functioning of every economy. It further looks at the methods of getting onto the property ladder, the future of the housing market, mortgage lending process, discrimination in the mortgage market, an empirical overview of the mortgage market and homeownership. This will be followed by the demand and supply of housing finance as well as the structure of the mortgage market for mortgage loans. Finally population growth and housing demand in the UK will also be reviewed.

### **2.2 Evolution of the Mortgage Market in the UK**

In the UK, less than 10% of the population was estimated to be owners of houses before the first world. Homeownership in the UK was still a privilege of a few. Around the 19<sup>th</sup> century, solicitors were used as mediators between rich landlords and land owners. However, council houses and homeownership rose drastically after the Second World War with 25% already as council tenants while 44% were owner occupiers. There were two major British parties with conflicting and almost competing trends and position in housing provision in Britain. These two parties have two contrary ideological views on the provision of housing. In line with the commitment towards individual property ownership, the Conservatives promoted homeownership while the Labour traditionally stood for the extension of council housing. Comparatively, council housing expanded as opposed to homeownership. During the later post war period, homeownership began to grow slowly up till the 1980s, when the rate began to multiply with the coming of Thatcher to power as the prime minister. For the very first time in history, the party agreed on a policy that was geared towards reducing council tenant in the housing market.

Within this period, building societies were the only source of mortgage lending and were strictly restricted in their activities to mortgage lending and retail saving, following the 1962 Building Societies Act. The big societies ran a cartel, exempted from investigation under the restrictive Practice Act 1968. The cartel was regarded by

the government as a means of selling her anti-inflationary fiscal policies since by that time, mortgage interest payments were contributing towards the economy's retail price index. The cartel later became an important tool of macro-economic policy in the 1979s' inflationary environment. Homeownership grew and became politically important to the government tending to benefit from low interest rates on mortgages as recommended by the cartel. These low interest rates on mortgages were seen as a powerful instrument to gain votes at election time. It was noted that the Labour and Tory party gave building society cartel a donation to make them keep the interest rate below 10%.

At that time, the favourable model of mortgage provision was the cartel. After an accelerating period of credit growth in the private sector was the Supplementary Special Deposits Scheme which was introduced in 1973. The cartel also benefited from it. The benefits included legal restrictions on the interest bearing liabilities of financial houses and banks and a sympathetic tax regime. In situations where their growth in interest bearing exceeded a certain limit, a specific deposit was to be made to the BoE by financial houses and banks (Klimechi, 2012). Insurance companies as well as local authorities were also a trustworthy source of housing finance in the UK. The amount provided by the banks was very small. The public expenditure constraint was introduced in the 1970s. It successfully brought to an end the local authority lending. In favour of other portfolio options in the market, the insurance companies gradually withdrew from the mortgage lending market. Building societies dominated the market for reasons related to macro-economic policy and their comparative characteristics of banks as potential lenders.

Tax reduction on savings accounts and corporation tax were the two other favourable tax schemes that were introduced. The former was the 1980s arrangement with the Inland Revenue date while the latter was paid by all mutual at a lower rate than the commercial organisations. The control of the government in relation to money supply was not inclusive of the deposits and shares of building societies. The mortgage lending activities of building societies were also free from credit control. Between 1973 and 1979, the annual share of mortgage lending from building societies had reached an average of 83%. By 1978, it had topped a peak of up to 96% – almost a monopoly in the market (Klimechi, 2012 p. 184).

A trade body known as the Building Society Association (BSA) was recommended for both lending of shares and deposits and interest rates for mortgage borrowings. In 1973, the hostile climate led to the formation of a Memorandum of Agreement between the government and the building societies as enforced by the Joint Advisory Committee. The government encouraged the cartel to keep mortgage rates down to its minimum – usually below the market clearing rate at which demand equates supply where the market for loans are cleared (Cheshire, et al., 2015). By the end of the 1970s, Halifax, Woolwich, Abbey National, Leeds, Permanent and Nationwide were the 5 largest societies with the building society cartel successfully operating as an oligopoly with more than 50% of the total assets being in the hands of the 5 leading societies. These societies competed with each other on branch network and advertisement but not on price.

This lack of competition among these societies and other competitors in the market made the societies to be selective in the granting of loans and fund allocation well below the market clearing rate. This kept the interest rates on mortgages as low as possible and very beneficial, particularly to the low income earning households. Savings inflows were reduced and the building societies' liquidity provisions were affected (Muellbauer, 2002). This led to mortgage rationing as customers queued for several months - condition referred to as 'mortgage feast and famine.' The cartel was a victim of its own circumstance. In the early 1980s, there were some scandals associated with it: the mutual value was described as a 'myth'; there were some discriminatory practices against the blacks, Asians and minority ethnic, women, the elderly and also certain geographical areas. Furthermore, the poor were not privilege in accessing mortgage finance following the ideology of mortgage feast and famine.

It suffered from its own dislocation, rendering it vulnerable and perfectly resonated with the neo-liberalist policy of Margaret Thatcher. Competition was restored as well as personal responsibility for rewards on efforts. Building societies were brought under control. Banks started re-emerging into the market of mortgage lending. Before now, the activities of the banks in this sector were limited because of the favourable tax status of the cartel coupled with the restrictions placed by the corset. Lloyds bank became the first British clearing bank to make moves into the mortgage market by lending over £25,000 to homeowners which outright the value for building societies(Edmonds, 2014). The banks planned using non-interest bearing accounts to fund the mortgages. At

this point in time, the demand for housing finance had become very high. More young people were pushed into homeownership by the legislation of the government combined with the soaring inflation.

In 1979 the Conservative Party led by Thatcher's government came to power. The previous government had left the housing market in a crippled state with a considerable amount of housing debt following their policy of new buildings, coupled with stagflation. Stagflation is an economic situation where there is high and increasing prices coupled with high unemployment to an unsustainable level. Thatcher advocated for a neo-liberalist policy with strong property rights and economic freedom by mobilising support within the civil society to put a strong emphasis on increasing homeownership and housing credit. The Conservative Party Manifesto promised increased homeownership as well as initiating the right-to-buy policy. The policy forced councils to sell council homes to its tenants with a significant rate of discount which in some cases was up to 50%. This increased pressure on council home tenants such that Labour was forced to abandon its traditional policy of a strong commitment to state housing (Cheshire, et al., 2015). The cartel building society was technically in operation until 1983 where it lost most of its significance through a variety of measures that were taken by the Conservative Party. It disappeared, but was only made legal in later years.

The banks which had become almost dormant in the past due to the favourable tax status of the cartel and also because of the restrictions placed on them by the corset in 1989 expanded into the mortgage market following the abandonment of the corset and the abolition of foreign exchange controls. Some banks with huge sum of available mortgage finance were willing to lend the full amount of the house price (100%). The guidelines set by the Joint Advisory Committee for mortgage lending were banned in 1984. The activities of building societies became limited only to retail funds for mortgage lending. Centralised lenders that relied solely on the capital market funding for mortgage lending also entered the mortgage market under the deregulated system. Competition intensified as the building societies diminished rapidly (Klimechi, 2012 and Muellbauer, 2002).

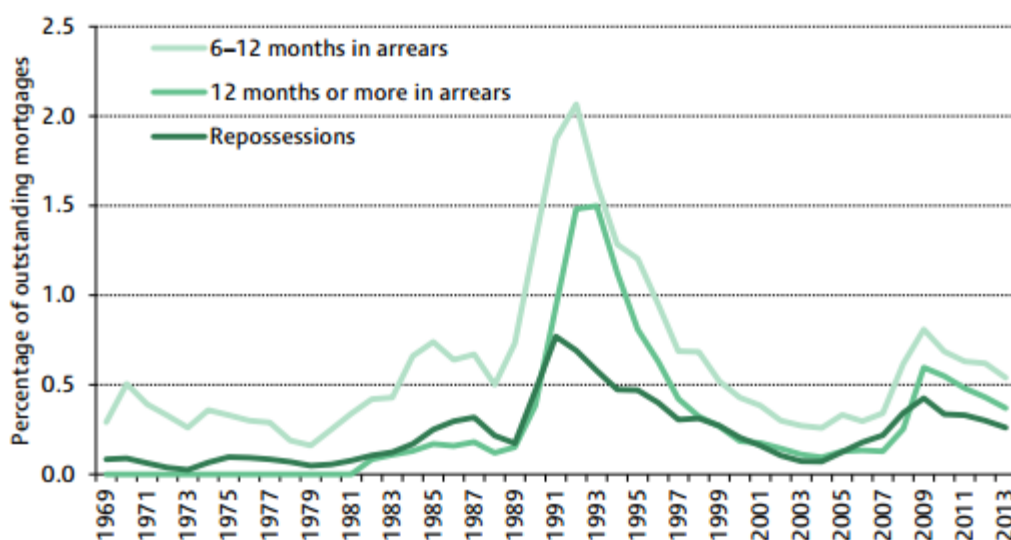
The right to buy was extended in 1984 to leasehold property by the Housing and Building Control Act, which increased the discount to 60%. In 1980, the percentage of net mortgage lending from banks was 5%. In 1982, it had reached 35%. The Housing and Planning Act (1986) discounted rate for flats to 43-70% following length of tenure.

In this same year, the original one million homes target was reached. By 1989, a total of 1.5 billion homes were sold. The early 1990s saw tough conditions like the loss of market share of centralised mortgage lenders with default rates substantially higher than those of building society. In the later part of the 1990s was another type of new entry known as internet mortgage lenders. This brought substantial innovations for new products like flexible mortgages and fixed rate mortgages over longer terms (Muellbauer, 2002). In 2013, the number of mortgages ending in repossession was lower than any other year since the crisis (Edmonds, 2014) with increasing demand over supply.

### **2.3 Residential Property Market in the UK**

The housing market in the UK covers a large part of the country's economy. It is made up of 27.8 million residential properties (Buckett, 2014). The ONS UK estimated the total value of outstanding mortgage to be £1,281 billion in 2014. According to an article by Euroweek (2013) mortgage lending in the UK is increasing at a very fast rate. This resulted from the effects of the funding for lending scheme that was recently introduced. There has been unprecedented growth in the property market in the UK with many property analysts forecasting a downturn in the housing market. These analysts think the rise in the housing market is unsustainable. Between December 1999 and December 2007, the average house price in the UK increased from £75,000 to £182,000 respectively according to the compilation made by Nationwide.

The figures from Halifax bank were even steeper within the same timeframe with an increased from £77,000 to 196,000. These figures represent national trends. Regional variations in house price growth are not accounted for in the figures. There are a number of factors that can be used to explain the tremendous growth in the level of house prices. These include high employment levels, low interest rates and the availability of credit. During the housing boom, the extensive range of mortgage products available in addition to self-certified mortgages and some other products whose loan to value rating exceeded 100% ownership was an encouragement as households were exposed to a variety of mortgage products. There was also an extension of the loan to income ratios with regards to the large volume of mortgage finance. This was mostly apparent in the period between 2005 and 2007 which coincided with the rapid level of global credit expansion (Euroweek, 2013). Repossession and arrears has been fluctuating.



*Figure 2.1: Repossessions and Arrears*

*Source: ONS tables 1300, Repossession and repossession prevention*

Repossession and arrears was at its peak in the early 1990s. It had a decline, but the figures rose again in 2009 (Belfield et al., 2015). Another sector of homeownership that has experienced a lot of expansion is the buy-to-let sector. By the end of December 2006, statistics from the CML revealed that the number of buy-to-let mortgages increased by 21% (Adair et al, 2009). The buy-to-let sector in the UK accounted for 9% of all outstanding mortgages by value at the end of 2006. In addition to the acquisition of mortgages, there was the channeling of a large volume of equity into the buy-to-let properties. This new investment collectively added more pressure on house price growth.

There is a wide gap between the demand and the supply of houses in the UK, with the misguided belief that the property prices would grow indefinitely. Property trading increased and investors no longer have concerns about trying to secure tenants for their properties. Consequently, large volumes of newly developed property – precisely apartments in the UK were purchased by investors which remained unoccupied. The recession in the property market has fully exposed the exact picture of this problem. In major cities like Manchester, Birmingham, Sheffield, Leeds and Liverpool, large volume of newly built apartments were left vacant. In the first quarter of 2007, the number of flats/apartments and maisonettes in the UK made up 44% of new homes started. It doubled the percentage seen in 2000. The suppliers in the apartment sector have been driven by the dramatic increase in the value of development land, demand for affordable housing as well as government’s housing targets. In the first quarter of 2007,

there was a dramatic increase in the number of residential units. This was in accordance with the housing target for the UK government. It doubled the percentage in 2000. During this period of high demand for property, the cost of land was very high (Adair et al, 2009). Developers had to maximise the number of units they could develop on their acquired sites. With no identifiable means of exit strategy, many of these investors have been left with properties lacking an income stream, following the downturn in the property market.

The rapid growth in the UK housing market was dampened by a series of interest rate rises that were put in place by the BoE between November 2006 and July 2007. It was necessary for the government to intervene in the interest rate rises in order to arrest consumer price index inflation, which had risen, responding to the rising global commodity prices. In November 2006, the initial rise of 0.25% had limited effect on house price growth. The next three further increases of 0.25% became more effective as house price inflation began stagnating before slightly falling in 2007 between the month of July and August. This was a seasonal fall as prices continued to rise in September and October 2007. The peak of the growth was seen in October 2007 where the average house price stood at £186,044 from Nationwide figures while figures compiled by Halifax showed a peak of £199,612. The building society association in May 2007 conducted a house price expectations survey and highlighted that if there were to be a fall in house prices in the UK, it would definitely be from a factor beyond the housing market itself.

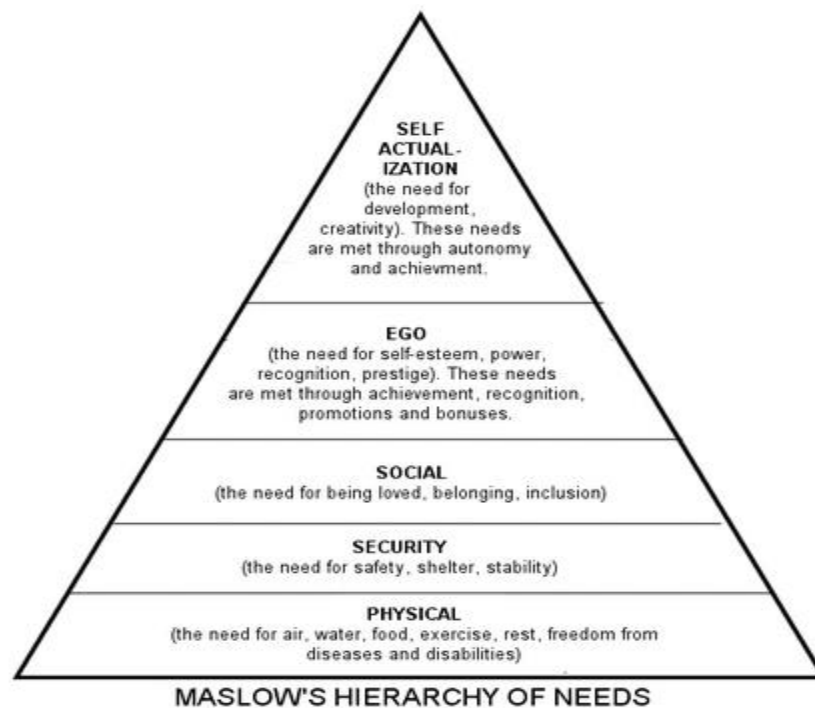
Officially, it is in the third and fourth quarters of 2008 that the UK fell into a recession following the successive falls in GDP output. The unemployment and economic downturn during this period together with tightening lending criteria undermined confidence in the UK housing market. The mortgage market in the UK is dominated by three types of lenders. These are building societies, banks and other specialist lenders. Within the residential mortgage sector, banks have been the dominant lenders, especially between 2007 and 2009. Their dominance has however diminished in recent years. 69% of the overall market shares in the residential mortgage market were held by banks in 2008. The decline in the overall market share of banks was ascribed to the dramatic growth in other specialist lenders. 12.1% of the overall market share of outstanding balances was held by other specialist lenders by the end of December 2002. The percentage increased to 34.9 of the overall market share in 2008. In England,



Scotland and Wales, the number of private tenants claiming housing benefits doubled from 817,000 in 2005/6 to 1.67 million in 3013/14 (Bentley, 2015).

## 2.4 Importance of Housing

Housing is a long term asset with an almost indefinite life span and a significant investment element. Abraham Maslow in his hierarchy of needs considered shelter to be among the physiological needs in necessary for human existence as observed in the figure below.

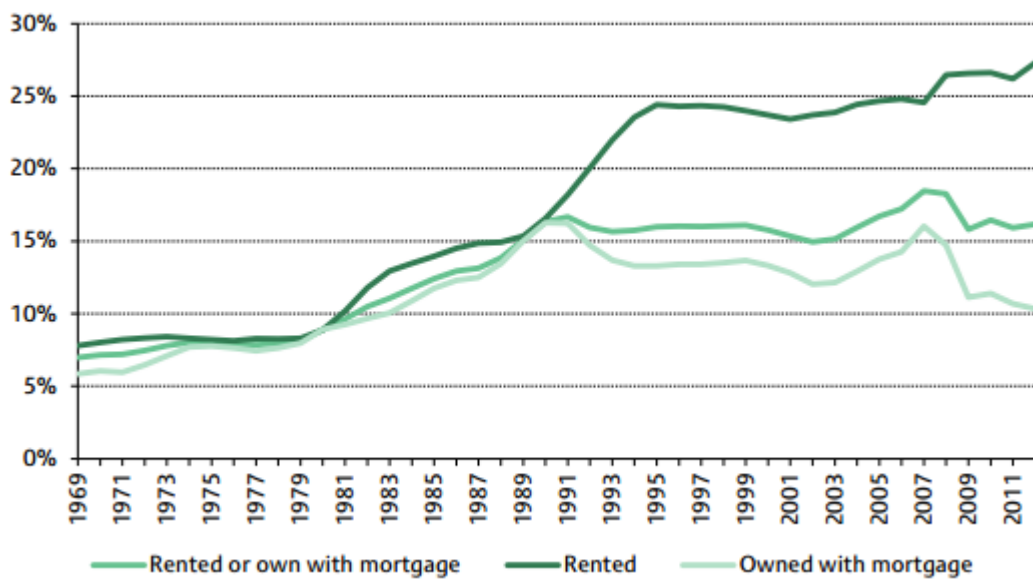


*Figure 4.2: Abraham Maslow's Hierarchy of Needs  
(Source: Google image for Maslow's hierarchy of needs)*

There are five levels of needs identified by Maslow which are arranged in ascending order such that the most basic needs are at the bottom and the prestigious ones at the top. Food, air, water as well as shelter is found among these most basic needs at the bottom of the pyramid, signifying their importance over others like safety, love, esteem and self-actualisation (Zhu, 2014). For every human being, housing is a fundamental right and basic need. The housing provides space and also shelter for members of a household to live in for security, privacy and dignity. Furthermore, housing provides a source or point of reference through which members of the household can get other utilities and services from the city fathers or administrators (Rizvi, 2012). Also, access

to housing serves as a key social determinant that ensures the well-being and social status of its members. In addition, an essential element of Millennium development goal is the provision of adequate housing for its citizens (Haurin et al., 2002). The key driving force behind a country's economy is housing. In the Asian-Pacific regions, more than 40% of the industries have direct linkage with the housing and construction sectors. In the western world for example, about 270 industries are all having a linkage to housing (Min, 2014).

Due to the inevitable importance of housing, households or individuals spend a great portion of their income on it, either as rent payment or as mortgage repayment. As an inelastic good with no close substitute, the demand for it is so high. House prices also keep skyrocketing, following the law of demand. This makes it less affordable for most households who tend to sort for external means of obtaining housing finance. As explained by Zhu (2014) and Min (2014) households spend a great portion of their salary on accommodation.



**Figure 2.3: Percentage of Income Spent on Housing by Tenure**

*Source: Chris et al., 2015*

As observed in Figure 4.3, the percentage of income spent on housing is high and increasing. Rental accommodations occupy the greatest share of income spent while ownership with mortgage has the least income relative to the others (Chris et al., 2015). This could be because most of the individuals are not able to afford for a home which makes them remain as tenants.

## **2.5 Methods of getting onto the Property Ladder**

These are the various techniques used by the participants to get onto the property ladder. The use of these techniques depends on the individual's budget constraint or on their affordability which differs from one household to another.

### ***2.5.1 Reserved Right to Buy Scheme (1980s) – for social housing tenants***

Only certain groups of individuals are eligible for this. Those eligible to purchase property through this scheme were as follows

- It was exclusively for current council tenants or social housing tenants who had once been council tenants living in their home before it was transferred to housing association landlords
- If the newly built property is the only and main home of the applicant. However, if applying to buy jointly with other tenants, only one of the applicants needs to live in the property. Therefore, the permission of the other partner who does not wish to buy must first be obtained before the applicant can claim the right to buy. They will need to sign part F to this note. Their tenancy will come to an end when the partner buys the property.
- If the applicant has been a public sector tenant. These are usually tenants of a housing association or council.
- If the applicant does not live in sheltered housing or live in other housing which are particularly suitable for disabled and elderly people.
- If the applicant's home is not due to be demolished.
- If the applicant does not have any legal problem with debt.
- If the applicant does not have any outstanding possession orders.

The applicant must answer yes to the above statements in order to be eligible. In addition, the landlord must need to confirm. In part A of the application form, the applicant was asked to provide details of their full name, the name of their landlord, the full address of the property they wish to buy. In part B, the applicants were to fill in the full details of the family member(s) to live with them in the property, their exact relationship with them and also indicate whether they have lived in the property in the last twelve months. Part C, is for the applicant to indicate if they have been a public sector tenant for at least five years. This is to enable the applicant to be able to buy the property at a discount.

The discount increased with the duration of time the applicant has spent as a tenant. Nevertheless, maximum discount levels also apply. However, one does not need to be a current tenant or current landlord for the whole five years to be qualified. In some cases, the time which some other person like a civil partner, wife or husband have spent as a public sector tenant or armed forces occupier also count towards the qualification period. Thus, the requirements here are current tenancy, previous tenancies, and previous tenancies of your spouse or civil partner, previous tenancies of ex-partner or spouse if you were living together before their separation. Tenancy claims which are not in the applicant's name should clearly explain the nature of the relationship with the applicant. The applicant needs to sign the authority form to disclose if the claim to previous tenancy is with a different landlord so as to confirm the details.

Part D is titled previous discount. If the applicant wishes to purchase another home or a different government scheme through the right to buy scheme, they may get a lower discount. This is because the previous discount will be taken into consideration in determining the current discount. Part E is tenants' improvements. This enables the applicant to explain if they have made any improvement on the property so that it would not be included in the valuation of the property, such improvements could be in terms of double glazing, central heating, a new bathroom suite or a fitted kitchen. Where the improvements were done by the applicant's predecessor or a family member, the value will also be ignored. Part F is titled signatures. The applicant(s) must sign to confirm that all the information they have provided are nothing but the truth. Meaning that anything contrary to the information they have provided will be considered as a criminal offense. With the right to buy scheme, successful applicants are allowed to share with up to three family members who are over the age of 18. These family members must either be a civil partner, a spouse or a wider family member who must have lived in that property for the last twelve months. Tenants are not allowed to share.

### **2.5.2 Buy to Let**

In the UK housing policy, the importance of private rented sector has not been so high. A number of factors such as the persistent affordability problem of homeownership in many locations, the limitations on first time buyers obtaining mortgages and the access constraints placed on social housing increased demand in the private sector. Over the last two decades, there has been a significant restructuring in the UK housing tenure. The period 2003-2008 is generally referred to as the 'buy-to-let boom.' Between 2001

and 2011, private renting more than doubled in size, growing to 4.7 million dwellings from just over 2 million dwellings. That is 17% of the UK stock from just 9% of the stock. Around the same period, social rented housing had dropped to 18% of the UK stock from 25%. During this same period, the owner occupied stock dropped slightly to 65% of UK stock from 67%.

Buy to let was introduced in 1998. It reflected the poor external housing market conditions of the 1990s downturn coupled with the under- performance of alternative asset classes. The scheme granted landlords ready access to mortgage finance, thereby underpinning the expansion of private renting. Landlord investors had a competitive advantage with the buy to let scheme as it met and contributed to the increasing rental demand with affordability pressures preventing some first time buyers' access to homeownership and regulatory imbalances. Nowadays, buy to let has experienced growth in the private renting sector of the mortgage market. In 1999, buy to let loans outstanding increased from 73,000 to 1.5 million by 2013 with a market share increase from 0.7% to 13% respectively.

The rise in this sector has increased the confidence of most landlords who see many aspects of the sector improving, though not at a uniform speed. Advocates of stable renting are seeking some changes to security of tenure by promoting longer tenancies and some level landlord licensing or registration. Together with industry representatives and other stakeholders, the Department of Communities And Local Government has worked to produce a model with longer terms of tenancy. This is to provide tenants with the right to request for longer tenancy from their landlords. They further proposed that letting agents should belong to a redress scheme. There has also been pressure on lenders to revise the clauses that often limit the length of tenancy that landlords can offer tenants to 12 months in the buy-to-let mortgage term. This also includes revisiting the categories of tenants to which the landlords cannot let properties. Previous policies of prohibiting landlords from letting to tenants on short tenancies and tenants on housing benefit were recently reversed by two large lenders. However, these risks are poorly understood in term of lending.

### ***2.5.3 Help to Buy***

It's an extension of the program called First Buy. The four types of Help to Buy scheme are:

- **Equity Loans:** Buyers contribute a 5% deposit, the government provides an equity loan for up to 20% of the property value, and buyers must provide the remaining funds themselves, typically for a mortgage. Available only for new-building under a certain amount (e.g. Less than £600,000 in England, £300,000 in Wales); the loan is interest-free for the first five years. This is the most high-profile of the schemes, and is often referred to simply as "Help to Buy". Also known as "phase one" of Help to Buy.
- **Mortgage Guarantees:** 5% deposit mortgages are available from ten different providers (up from five at the time of its launch), with the government (i.e. taxpayers) acting as a guarantor for the mortgage. Unlike equity loans, this plank of the program is not restricted to those buying a new-build; subject to restrictions, anyone wanting to buy any home in the UK worth less than £600,000 is eligible for the scheme. It is often referred to as "phase two" of Help to Buy.

In the first 6 months of the scheme, only 31 homes were bought in the £500,001 - £600,000 band. Less than a quarter of the Help to Buy 2 borrowers are found in the income range of £30,001 and £40,000. The national average house price of a home is £252,000 while purchasing a home through the scheme is less with an average price of £151,597. The help to buy mortgage guarantee scheme backed a total of 7,313 mortgages in May 2014. The number of homeowners that used the help to buy scheme reached 5,843, making a percentage of 80 for all transactions. 45% of the properties are valued at £125,000, making up 3,320 homes. The two most vibrant regions using this scheme are the North West with 1,011 and the South West with 1,027 numbers of completions across the UK. London records the lowest number of completions, representing only 5% of all purchases. In April 2013, the help to buy 1 equity loan scheme was introduced. By the 30<sup>th</sup> of April the number of completions using the equity loan was 20,548. 89% of the total take up which represents 17,913 of this number were first-time buyers.

#### ***2.5.4 Shared ownership***

Shared ownership housing is a form of house ownership whereby those who cannot afford a property outright can buy part of their home while renting part of it. It is a great step forward onto the property ladder. The intended homeowner is allowed to either buy 25%, 50% or 75% of the home depending on his or her financial capability. The

remaining share is owned by the housing association. A small amount is then paid in the proportion that is rented. The amount of rent to pay depends on the proportion owned. That is the greater the share of purchase, the lesser the rent to be paid. It is usually done through a bank or building society, funded through a mortgage. Housing Association retains the freehold of the remaining property until the property is purchased outright. The share bought by the customer is on a leasehold basis.

### ***2.5.5 Social housing***

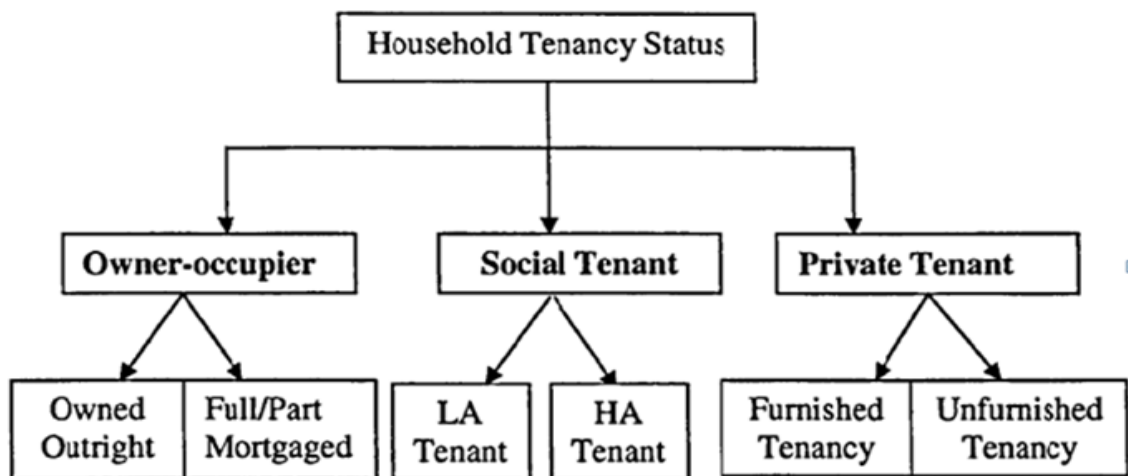
Several legislations have been put in place with regard to housing. Social housing consists of both council housing and housing association. At the end of the Second World War, a campaign was launched for homes suitable for heroes. This led to the Housing Act in 1919, requiring housing provision by the councils. The council has continued since then to build more homes than the private sector between the 1940s and the 1950s. During the world war two, thousands of houses were destroyed. This led to a major boon in the construction of housing fueled by the New Town Act and the Town and Country Planning Act of 1936 and 1947 respectively. With the coming of Margaret Thatcher to power in 1979 as the prime minister leading the Conservative government, the Housing Act was introduced in 1980. This led to the right to buy scheme which encouraged council tenants to own their homes (De Castella, 2015).

In 1964, a new Labour administration came to power and introduced a number of legislative measures. The market values of investment property were raised. It offered protection for owners of commercial real estate. The new legislations included the following: tax on company's profit known as corporate tax was introduced in 1965. The insurance companies and the pension funds which were the main investors had a favourable tax status where if they held property directly as an investment instead of indirectly through property company shares, they could reduce the incidence of this tax. Secondly, around London, there was an almost complete ban on office development which was later extended to all of South East and East and West Midland regions. Thirdly, there was the taxation of the property development gains through the land Commission Act of 1967. The volume of property development was reduced as the after tax rate of return was reduced. The consequence was the reduction in the supply of new developments and an increase in the demand for existing buildings which were not subject to this tax (Scott, 1996)

### 2.5.6 Private Tenants

Following liberalization in the late 1980s, the private rented sector ended its long secular decline. Up to mid-1990s, tenancy grew by around a fifth while national house prices were declining. With the expansion of the buy-to-let, the growth in the private rented sector has been supply driven. The number of tenancies and levels of rent is a function of the interaction of demand and supply. Supply rarely races ahead of demand as the vacancy is costly to landlords. Thus a fall in demand leads to a lag behind in supply as it takes time to sell properties off. The size of the private rented sector depends on what is happening to other tenure, it is also demand driven (Ball, 2010). The introduction of buy-to-let in 1989 did not increase private tenancy until 1996. Private tenants in Germany are more satisfied with their tenancy status than tenants in the UK. This is because the situations in the two countries are different. House prices in Germany have not been on an increase and there have not been any case of housing supply shortage as the situation in the UK. House prices have on the contrary been decreasing in Germany for the past two decades

Due to insufficient land in the UK for housing, overall supply shortage cannot be resolved by shifting what is available between the tenures. The majority of residential investment is owned by private individuals. One-third is of couples and private individuals, 10 percent are property companies while the rest is a mix of other organisations. Owner-occupation drastically increased in the 1980s, slowed down in the 1990s and then exploded in the early 2000s (Appleyard and Rowlingson, 2010). It stagnated in 2004. House price followed a similar pattern up to early 2000.



*Figure 2.4: Household Tenancy Status*

*Source: Compiles from Literature Review*



Figure 4.4 above demonstrates household tenancy status in the UK consisting of owner-occupier, social tenants and private tenants. The owner- occupier is made up of owned outright and part or full mortgage owner. Social tenants include housing association tenants and council tenants while private tenants include furnished and unfurnished tenancy. Since the early 1980s, there has been an upward curve on homeownership, with the introduction of the right to buy policy by Thatcher for council tenants. This was coupled with the liberation of the financial sector with increased in the availability of mortgages (Osborne, 2015). 2003 witnessed the peak in homeownership levels where it reached 71% in England for owned outright or with a mortgage.

### ***2.5.7 Parents Helping their Children to Get Homes***

It is very difficult for the younger age group to be able to raise the initial deposit required for a mortgage due to the increasing nature of house prices. As a result, parents usually help their children get on the property ladder (Helderman and Mulder, 2007). These young adults are the most likely to be considering buying their first home. The ratio of average house prices to the average earnings of 25-34 year-olds, peaked at 7.7 in 2007–08 and was 7.2 in 2013. From the empirical research of Humphrey and Scott (2013), three in 10 were found to receive financial assistance in different forms like loans or gifts either from their parents or from friends and family. In 2009-2013, first time home purchasers with assistance from friends or family were 38%, which is 12 points higher than the situation in 2005-2008. Parents help their children by using their: income (28%), savings (57%), retirement savings (22%) and cutting back on spending (25%). From 2005-2013, the gross amount of support increased from £10.1-16.6 billion. Studies by Bernardi and Poggio (2004); Guiso and Jappelli (1999) viewed the impact of parental assistance toward the homeownership of their children. This assistance was offered the younger age groups who are still struggling and have not been able to raise enough money for a deposit. In most cases, it appears to be their first time homes. In his study of the French population, spilerman and Wolff (2012) explained that this support of parents on their children is also dependent on factors like parents' wealth/income, savings, occupation and family size. Karagiannaki (2012) found a significant positive association between parents' wealth and homeownership status, which he considered to operate through its effect on children's income and education.

## **2.6 Empirical Review of Mortgage Lending**

This section is a review of empirical studies on the financial crisis, housing finance and homeownership from different perspectives by different researchers.

A study was conducted in two Arabian Gulf countries: Bahrain and Qatar by Freeman and Sudarsanan (2012) on the impact of the financial crisis on their housing finance system. The main intention of the study was to examine the effect of the financial crisis on these two countries, given that as Gulf States, they are deemed to have some distinguishing characteristics from the rest of the world. Their unit of analysis was the retail banking sector. These countries performed very well during the 2004 to 2008 boom period. The findings revealed that during the crises, the banks in both countries that originate housing loans to households had an abrupt slowdown in their amount of lending. Nothaft (2010); Center for Responsible Lending Issue Brief (2010). Jones and Richardson (2014); Neale (2009) argued that the financial crisis cause a decline in mortgage loan rate. This means that the financial crisis can be looked at as an intervening variable in the demand for housing finance.

In their article, Funk and Forrest (2011) analysed the housing impact in the light of the global financial crisis in the context of East Asia, specifically Hong Kong. Their discussion was more on the basis of understanding that the limited development of mortgage securitisation in Hong Kong lies in the embedded actions of institutional agents which shapes the housing finance system. To them, the attraction of mortgage securitisation as an object of study has possibly led to a neglecting of the detailed analysis of the embedded action of key agents in specific contexts as well as the conflicting interests within the financial sector itself. In comparing the UK and the USA, Jones and Richardson (2014) discovered a common legacy in terms of the repossessions/foreclosures, collapse in home building and a fall in homeownership rates. Funk and Forrest (2011) stressed on the falling importance of the use of an agent in acquiring a mortgage Jones and Richardson limited their study to the fall in homeownership rate.

A study done by Aalbers (2008) highlighted the impact of mortgage securitisation in the finance sector for households with poor credit histories and with limited and/or no documentation to prove their credit worthiness. They interrogated them based on the sub-prime crisis directly. These households were mostly low income and/or racial

minorities living in areas with high concentration of the disadvantaged groups in the society. Unsurprisingly, the continual expansion of this form of lending was a key factor occasioning the crisis when house property values began to fall (Emmons and Noeth, 2013). Aalbers (2008) found that financial institutions exploited homeownership for their own interests through mortgage securitisation with greater capital mobility facilitating the development of the quaternary circuit of capital. The focus of these studies is limited to the causes of the financial crisis.

Bentzien et al. (2012); McCord et al. (2011); Mints (2009) argued that the impact of the financial crisis made housing less affordable for low income households. It is disputed to constitute a burden if more than 30% of household income is spent on mortgage repayment (Nubi, 2008). Karley (2008) defined housing affordability as households' ability to meet monthly mortgage repayment or rent payment. Other studies on the housing market and the financial crisis focused on financialisation (Aalbers, 2008, 2009a; Schwartz and Seabrooke, 2008, 2009; Schwartz 2008, 2009; Froud and Johal, 2008 and Demir, 2007) with emphasis on financial technological development. Other studies by Duffy, (2010); Hellebrandt and Kwar (2009) Green and Wachter (2008) found the financial crisis to increase debt levels for households. These studies are important as they cover the impact of the crisis on households. However, the scopes of these studies' data are not very current as they are limited to the financial crisis period.

The financial crisis was viewed with regards to the household debt situation in Korea. By the end of 2011, household debt stood at W912.9 trillion, which was the highest ever in their history. At the end of 2010, household debt was W93.3 trillion. This is an increase of W76.3 trillion, compared to the situation in 2009. In 2010, the ratio of household debt to disposable income was as high as 146.1%. This is 1.7 times higher than the 87.4% registered in 2000 (Eunmi, 2011). Household loans in non-bank financial sector expanded significantly compared with those of the retail banking sector. In 2010, non-bank household loans experienced a growth rate of 51.4% of the growth in the retail banking sector household loans. Between 2005 and 2006, non-bank household loan growth was just 20% of the level seen in this sector. It is only in 2007 that these figures began to rapidly increase. Most of the lending to households in Korea is in the form of mortgages. In December 2011, mortgage loans accounted for 67.2% of retail bank mortgage loans. This is a 6.2% increase from the percentage recorded in August

2008 (Eunmi, 2011). This study does not look at the implications of these changes to households.

Tse (2014); Thomas (2010) and Leece (2006) in his study carried out a test on mortgage demand in the UK. Leece carried out his findings using Bruceckner's model of mortgage demand in the UK mortgage market data. He used the mortgage instrument in identifying patient borrowers who borrow at intermediate levels and impatient debt maximizers. His results identified two groups of mortgage holders: mortgage maximizers and borrowers. Borrowers are likely to demand for an intermediate size of mortgage debt, known as endowment mortgage holders. Those mortgage holders with an alternative investment in housing are referred to as repayment mortgage holders. He found the elasticity of the interest rate of mortgage demand may be less than 0.2. To him, income is not statistically significant in the UK equation compared to the USA. This is however not surprising given that his work was conducted at a time when obtaining a mortgage was not based on merit. That is before the financial crisis, households' income was not a limiting factor to obtaining a mortgage.

Amuedo-Dorantes and Mundra (2013) argued that there is a huge gap in homeownership among permanent residents compared to non-residents. Their findings revealed that permanent residents in a country usually have the highest homeownership rate while the temporary residents and the undocumented immigrants are less likely to own a home. Their study was based on immigration status and homeownership in Spain with the use of secondary data. A similar study was carried out in the Miami - Dade country in an attempt to investigate the gap between homeownership, home foreclosure and nativity at both the community and individual levels. Their measurement of homeownership was based on the respondents' place of birth and/or year of entry to the US. A community-level foreclosure was based on the demographic composition of their neighbourhood.

Their findings revealed that all subgroups, except the Cubans, are less likely to be homeowners than white, non-Hispanics and only Cuban neighbourhoods had foreclosure rates significantly lower than rates in white, non-Hispanic neighbourhoods. They concluded that the nativity has a stronger effect on homeownership than on foreclosure levels. Early researchers (McConnell and Akresh, 2008; McConnell and Marcelli, 2007; Painter et al., 2001; Coulson, 1999) in the USA and Pereda et al., (2004)

in Spain carried out similar studies on homeownership and immigration. These studies are limited to the disparity in homeownership between nationals and non-nationals.

An investigation on the impact of the financial crisis on the subprime mortgage market was done for the African Americans. This was aimed at over viewing the linkages between historical housing inequalities and the adverse wealth gap suffered by the African American community (Brown, 2010; Reuben, 2010; Phillip, 2010; Rugh and Massey, 2010; Goldstein and Urevick-Ackelsberg, 2008; Leigh and Huff, 2007). It was discovered that the disparity was worsened by the subprime mortgage crisis, which reduced both African American homeownership and African American access to wealth-building for entrepreneurial development. The findings also revealed that in order to expand financial literacy, regulatory oversight has to be put in place. He concluded that the financial crisis worsened the existing gap in mortgage loan for the American Africans. This study is limited on the African American population only.

A similar study of ethnic identity and immigrant homeownership was conducted in the USA using a two-dimensional composition index of ethnic identity to incorporating attachment to both host cultures and origin. They controlled for a broad range of socioeconomic characteristics, life-cycle and housing market conditions. The analysis of immigrant housing tenure choice was done by an explicit accountability of the ethnic identity as being a potential influence on homeownership status (Constant et al., 2006). The case of Germany proved that immigrants who already have a strong commitment to the host country are more likely to achieve homeownership for a given set of demographic and socioeconomic characteristics regardless of their level of attachment to their home country. Forrest and Lee (2004) debated on the volatile nature of house prices and the uneven benefits of homeownership for different cohorts of homeowners.

Likewise, Borjas (2002) in his empirical study analysed the determinants of homeownership in the USA between the period 1980 and 2000. His study focused on the native born and immigrants from Mexico, Germany, US, European countries and other less developed countries of Asia and Latin America. He used descriptive statistics and found that most immigrants have much lower homeownership rates than the natives with the homeownership gap widening significantly within the period of study. The reasons for the nature of homeownership were as a result of two important factors. He identifies these to be associated with the differences in the national origin of the immigrant population and the differences that exist in the location decision of both

immigrants and native households. The data collection for this work is limited to 2000. That is it does not include the financial crisis period.

On the contrary, earlier empirical studies (Krueckeberg, 1999) discussed the issues in renting and how less privilege renters were being treated in the USA. He discovered that there was a lot of bias regarding treatment giving to homeowners as against those renting. He considered renters to be among the lowest income earners. In addition to owning their homes; homeowners were given an additional subsidy while renters were less privileged. Also in many of their property tax laws, these renters were also not considered as stakeholders of their communities. He found homeowners to be citizens and denied the existing fact that they are likely to be taking part in community activities than tenants. Homeownership celebration stigmatizes these renters. Krueckeberg shares the view that renters and owners of property should be treated with fairness and equality. His view disagrees that homeownership should favour citizens only.

The arguments of Lee et al. (2009); Choi (2008); Kim and Lee (2004); Chung (2002) and Yoon (2002) were based on housing tenure only. They studied the structure of housing in countries so as to understand the concept of mortgage loan in every given economy. Other studies by Lee and Myers (2003); Gyourko et al. (1999); Boehm (1993) and Goodman (1988) base their interest on permanent income rather than current income in determining mortgage loan decision. The use of permanent income is because sustainability can be determined with greater certainty. These studies however limited themselves to housing tenure and the importance of income in obtaining a mortgage.

According to Schwartz and Seabrooke (2009) and Dymski (2008), 'residential housing and housing finance systems have important causal consequences for social stability, political behaviour, macroeconomic outcomes and the structure of welfare states. To them, mortgage securitisation enables the liberal supply of mortgage loans. The resultant liberal housing finance system is entrenched within the liberal market capitalism. A main characteristic of this form of residential capitalism is the continual inflation of equity values sustained by the liberal system which enables homeowners to cash out their gains for general consumption, welfare expenses of their families and in their old age. Levels of government welfare spending were not considered a priority. Since purchasing power is diminished by mortgage payments and political pressures which keep tax rates at lower levels. A relatively low level of public welfare minimises the possibility of tax rises. In addition, to ease the burden of mortgage payments,

homeowners favour low inflation rates and low interest rates. This form of mass homeownership creates a population hostile to the welfare state. The bound of this study is the consequences of mortgage repayment only.

Wood et al. (2006) studied the difficulties encountered by tenants in acquiring a home. They looked at the transition from a tenant to a homeowner. They based this on the deposit requirement and transaction costs relating to purchasing a home for the first time. This regards whether the gap can be bridged between their savings and the up-front cash requirements that must be met. It also assessed whether the reduction in stamp duty obligations will help potential first-homeowners. Their discovery was that those with low-to-moderate permanent income earnings have a very large gap between up-front and savings cash requirements. Most important in their findings was that stamp duties typically account for 23% of total up-front cash requirements. They concluded that exempting first time buyers from stamp duty tax will increase their savings towards initial deposit and thus increase homeownership. The study of Turner and Smith (2009) found high-income families to be more likely to sustain homeownership than low-income families. Furthermore, low-income homeowners were often found to return to renting (Dieleman and Clark, 1995). These studies are work is to curbed homeownership status transition.

Skaburskis (1997) in his study examined the effect of gender differences in tenure choice, household formation, location and housing expenditures for the Toronto and Vancouver. His empirical study showed that the continuing increase in the income of women's career orientation prospects with increased fertility and divorce rates, reduce family formation and change housing demand such that it will affect the growth and character of large Canadian cities. Furthermore, in-migrants increase the demand for rental prices in the inner-city, especially as women's income approach men's. Lundqvist (1998) based his research on various kinds of political participation by women but found no substantiation. Other studies on political implications include those of Tranoy (2009) Broome (2009) Mortensen and Seabrooke, 2009 and Watson (2008). These studies based their attentions on gender view of mortgage and homeownership.

In contrast, Kabsung and Jeon (2012) and Avery et al. (2006) analysed the effect of household characteristics on housing sub-tenure choice. This was done in an attempt to also understand the behaviour of families who opt to rent while owning other homes in South Korea. They subdivided the tenure, according to the difference between

consumption and investment demands for housing. They found that most tenants do not rent above the age of 50 as the percentage of those renting tends to decrease after that age. In addition, they found that the number of households choosing to rent while owning another home is greater, especially when a member of that household is married with school-age children. It can be concluded from this study that some households rent as a matter of choice and not just because they cannot afford for a mortgage.

Similarly, Crawford and Faruqi, (2012) in their article tried to measure the trend of household indebtedness in Canada. Their finding revealed that over the past thirty years, there has been an upward trend of growth in household lending. They discovered that population ageing had a moderate effect on the overall growth in credit over this period. This is, however offset by the strong positive cohort effect. According to their finding, the widespread nature of the increases across every age group and in both mortgage and consumer credit suggests that a variety of factors contributed to the growth in total household debt. This research work is based solely on the ageing aspect of the population in relation to mortgage loan. Sinning (2010) and Zhou and Myers (2007) disputed that the younger the immigrants entering a country, the more likely they are able to adapt to the system thereby increasing their chances towards homeownership.

Based on religious factor, Hanafi (2012) made an attempt to explore and analyse critically the demand and supply issues related to musharakah mutanaqisah home financing in Malaysia for Islamic mortgage only. Mixed method using questionnaires and interviews was used. The findings revealed that in addition to the legal framework, non-standardised agreement, treatment in the event of default, ownership issue and Shari'ah issues like the use of purchase undertaken, there are also a couple of other issues involved in musharakah mutanaqisah home financing. Ahmed (2009) carried out a related study on Islamic finance but based on lessons from the crisis. Similarly, Tameme (2009) in his empirical study dwelled on the demand side of Islamic mortgage finance in the UK for the Muslim population only. Using the quantitative method, he found out that staunch Muslims will never go for conventional mortgages. Other Muslims, however do not really base their attention on the type of mortgage provider but on the cheapest provider.

A study was carried out in Kenya on how mortgage interest rates, availability of credit, demographic trends and property prices can influence the demand for mortgage financing (Wesutsa, 2014; Blake and Muellbauer, 2009). The real estate firms,



registered mortgage financial institutions and a mortgage brokerage company are the targeted population. Primary data for the study was obtained through self-administered questionnaires and interviews while the secondary data was obtained from bank reports, reviews of mortgage investment surveys and vision 2030. The results of the finding revealed that credit cards, mortgage interest rates, property prices and demographic trends have an influence on the demand for the financing of mortgage projects. Among the four factors influencing the demand for mortgages, the interest rate was found to be the main determinant factor.

Mortgage demand and mortgage supply were examined through the causal effect of house price in Switzerland by exploring the exogenous shocks to immigration (Basten and Koch, 2014; Lou and Yin, 2014; Haung and Ratnovski, 2011; Peek and Rosengren, 2000). The findings revealed that mortgage demand was increased at higher house prices, especially for higher leveraged households. With increases in house prices, lenders did not expand the mortgage supply. Instead, banks were found to induce fewer supplies while charging higher rates. A 1% increase in house price raised the requested amount of the mortgage by 0.52%.

The conclusion on his finding was that low income earners found it very expensive to build or buy a house and even to afford rental payments in formal housing systems. This led to more than 80% of the residents living in informal settlements which lack good hygienic conditions. The general factors affecting the supply of housing in both regions were identified to be Treasury bill rate or commercial lending rate, the plinth area and cost of capital. Cost of capital is important because households mostly borrow to finance their investments. Housing forms the largest investment for households, thus requiring huge capital investments (Vuluku and Gachanja, 2014; Akbar, 2014; Sorensen, 2013; Shiller, 2007).

Another exploratory research was undertaken to examine the supply of social housing in the UK and setting out the implications for housing associations responsible for a sustainable community development. Census data from historical desires were used, besides population projections and current macro-economic data. Of the 63 million people living in the UK, about 80% live in urban areas where the demand for affordable housing is very high. The supply of new dwelling is a long way short of demand (Schmickler and Park, 2014). Three things make England's housing market among the least responsive in the developed world. This includes a weak private rented sector, a

high proportion of owner-occupiers and lack of sustainable financial models. He explained that a chronic undersupply of affordable housing in England is exacerbated by the changes in policies relating to the supply of land for building and construction.

Banks et al. (2012) studied the effect of the financial crisis on older households in England. Their first aim was to document the effect of the crises on their finances. The second aim was to estimate the effect of wealth shocks on their household consumption, expenditures and individual future expectations regarding bequest and future resource adequacy. They used a panel survey study on a longitudinal study of the ageing population or over 50 years. A sample size of over seven thousand was considered. Questionnaires were administered and validated both longitudinal and cross sectional. Most households were discovered to have experienced a severe wealth shock which led them to modest spending. They subsequently had small revisions to expectations regarding future bequests.

Barton (2011) carried out an empirical study of the supply of housing finance in the San Francisco Bay area, where residential rent is perceived to be highest in the US. The data for the study were analysed from several sources. The analysis demonstrated that high rent cannot be accounted for by higher operating costs, higher quality or higher construction costs. At least one-third of the total rent paid by tenants is land rent. Despite increases in real incomes, very-low-income tenants in the study area today have less income remaining after payment of rent than tenants did some years back. The geography, a strong economy and the density of its urban centers, resulting from High land rent from construction is a long-term feature of the Bay area from rental market rather than from regulatory barriers to new multifamily construction. Deregulation should not be a sufficient response to the effects of land rent on low-income tenants. The government owes the responsibility to subsidize non-profit housing organisations, notably land trusts that tend to remove residential land from the market. The appropriate funding source would be taxes on land rent.

Dagher and Kazimov (2015) studied the financial crisis in relation to bank exposure to liquidity shocks. They used loan level data while isolating supply-side effects; they found a negative relationship between the supply of mortgage and the financial crisis. The work was limited to only the supply side of housing finance. Similarly, Vuluku and Gachanja (2014) empirically studied the supply side of residential housing in Kenya. He used time series analysis for a period of 31 years, ranging from 1980 to 2011. His

secondary data was taken from the Kenya's National Bureau of Statistics in order to define the factors that could be used to revive the low cost of housing market in the economy. The instrumental Variable estimation technique was applied and a regression analysis was done for two towns in Kenya – Nairobi and Mombasa. From their result, it was seen that the important determinants of housing supply in Nairobi were: lending rates, labour and input cost index, plinth area, cost of supply, real interest rates and inflation. For Mombasa, the coefficients were commercial bank rates, the cost of building a house and their lagged values. These studies are important as it investigates the determinants of mortgage demand though in a developing country. It therefore gives an idea of the situation in the developed world.

Earlier studies proved that the wealth of parents is a great determinant factor in homeownership status of their children (Helderman and Mulder, 2007; Charles and Hurst, 2002; Rohe et al 2000; Green and White 1997). This is strong among higher socioeconomic groups than the disadvantaged groups. An argument was put forth by Holupka and Newman (2012); Mohanty and Raut (2009); Kurz and Blossfeld (2004) that unobserved parental characteristics like income-levels rose, it also influence their ability to assist their children towards home purchase. However, some researchers see homeownership to be statistically insignificant as according to them, a house is a home, be it a rented accommodation or a mortgage (Barker and Miller, 2009; Staub, 2008; Galster et al., 2007; Harkness and Newman, 2003; Aaronson, 2000).

However, some researchers do agreed that owning a home plays a very important role to the members of the household. Aratani (2011) and Haurin et al. (2002) argued that owning a home as compared to renting a home provides a higher quality home environment, fewer child misbehaviour problems and greater cognitive ability. On their academic performances, children living in their own homes had reading achievements of up to 7% higher, math achievements of up to 9% higher and 1 to 3% lower behavioural problems. Emmons and Noeth (2013); Park and Kim, 2006); Cho (2005), Spilerman (2004); Englund et al. 2004; Boehm and Schlottmann (2002); Fan and Chen, (2001) based their study on the positive effects of parental homeownership on offspring. Similar studies were conducted for homeownership and general effects on members of the household (Butcher and Megargee, 2001; Angleitner et al., 1998).

## **2.7 Investment Property Market**

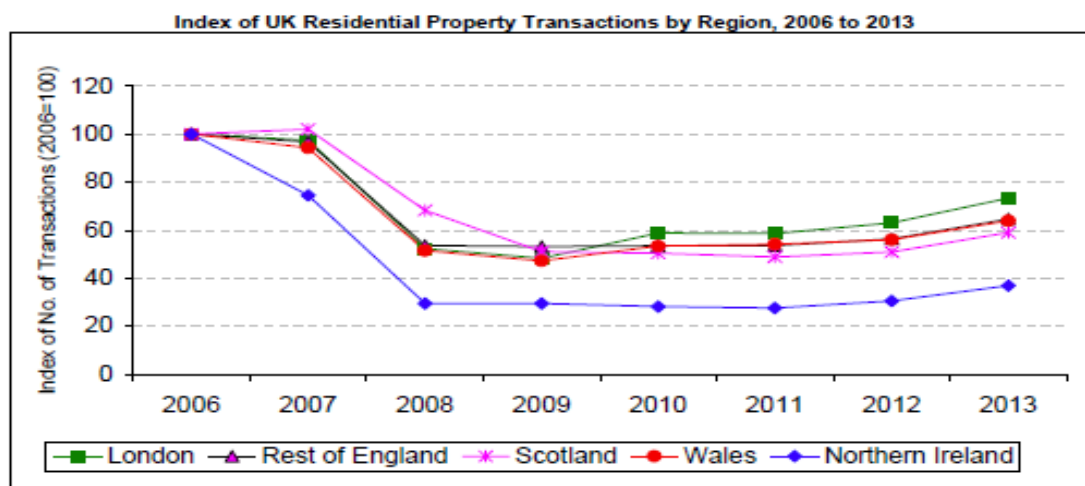
Compared with other developed countries, the British banking system has been characterised by a much lower level of financial crisis and bank failures. 1974 saw the most severe crisis ever experienced by the banking system where heavy lending to the property sector led to the failure of some secondary banks, thereby threatened the liquidity of the entire banking system.

In the 1950s, property values were increased steadily due to the introduction of the rent review clauses in leases where adjustments of rent paid for a property to the market levels after every 33 years. This was followed by shorter intervals progressively. This innovation transformed investment property from a bond-type investment to an equity security. In the late 1950s and early 1960s, there was an oversupply of office floor space and a consequent reduction in office values. A tremendous increase in the property market was witnessed in the early 1970s. In order to reduce the upward pressure on rent, and to allow the office stocks to expand in anticipation of Britain's entry into the EEC, controls were made on office development. In order to encourage economic growth, money supply was increased at an annual rate of 25% between 1972 and 1975 (Scott, 1996). Following these restrictions an office development expansion to meet the demand for office space stood at 9,273,000 square feet in the South East of England. The relaxation drove the figures up to 26,353,000 square feet between 1979 and 1983 while controls in other regions were completely removed.

Britain also experienced a speed up inflation during the property explosion years. There was a rise in retail prices, which rose by 5.48% from 1978 to 1970 and by 8.62% from 1970 to 1973. This was an increase compared to its figures between 1965 and 1967 where the average growth rate has been just 3.6% per annum. These rises in inflation increased the attractiveness of property for institutional investment as this was now perceived as a hedge against inflation. This thus resulted in a rapid growth in real estate investments with rising prices in sellers' market, accelerating an upward trend in property values. Looking at the period between 1965 and 1967, the return on UK investment property only just managed to out-pace inflation at an average of 1.55% per annum in real terms. From 1968 to 1970 however, the return on property stood at an average of 10.65% in excess of inflation. This further rose by 14.20% per annum in real terms between 1971 and 1973 despite the acceleration in retail price inflation.

Most financial institutions in the 1970s did not find it easy to acquire sufficient property in order to meet up with the investment targets as at board level and the use of unorthodox methods to acquire property assets like the takeover of property companies. In an attempt to control the economy, the government restricted supply while there was an inevitable upward push in prices arising from the rise in investors demand. To meet up with their needs, therefore, these property companies turned to the banks for short term development finance as well as medium funding. Advances made by banks to the property sector rose substantially during this period. Following the increasing rate at which money was entering this sector, the BoE on the 8 of August 1972 made a request that banks should cut down on their lending to the property and financial companies and focus on the provision of finance for industries. But with the introduction of competition and credit control, this decision by the BoE was not enforced. Interest rates rose significantly. July 20, 1973 marked the beginning of the end of the property price rising where the BoE's key minimum lending rate rose to 9% from 7.5%. The interest rate was increased again just a week later to 11.5%.

Fears arose as many companies were forced to sell their property at a giveaway price so as to generate income to repay their loans, given that a lot of property assets entering the market could overflow prices still further. This resulted from the failure of the property companies during the crisis and the difficulties faced by some secondary banks. In order to increase the liquidity of the banking sector, a fund of £2,000-£3,000 million was established. Financial institutions were cajoled and encouraged to purchase properties from troubled property companies.



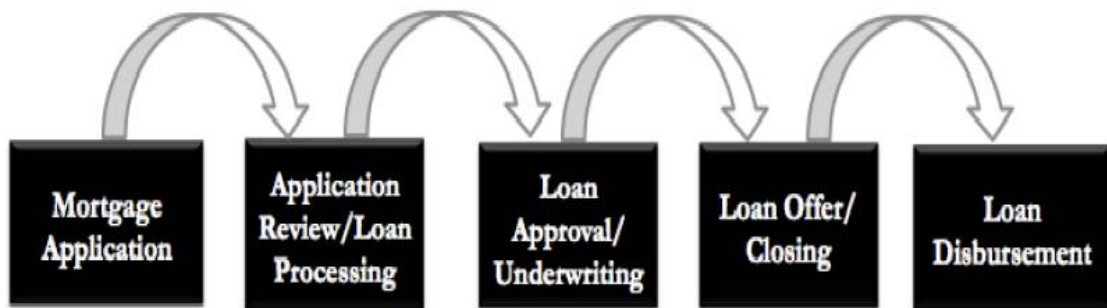
*Figure 4.5 UK Residential Property Market by Regions*

*Source: HM Revenue and Customs, 2014*

The residential property market in the UK by region as observed in figure 4.6 is not equitably distributed. England has had the highest transaction since 2006 to 2009. From 2010 to 2013, London which is the capital of England has been on the top of all residential property transactions. This is because of the high and ever increasing population density of the region.

## 2.8 The Mortgage Lending Process.

Loan application is a stage by stage process. Johnson (2014) identified five stages from the time the customer makes the application to the time when the property is being purchased. These stages and activities are as shown in the figure below.



*Figure 4.6: The Mortgage Lending Process*

*Source: Author's summary form literature review, 2016*

As observed in the Figure 4.6, the process of loan application involves lots of stages for the loan to be granted. It originates with a prospective mortgage loan applicant making an application to a preferred mortgage provider. This is followed by the mortgage provider reviewing the application and going through the necessary loan processing checks involved in loan application using the loan underwriting standards to be able to ascertain whether or not the applicant is eligible for the loan. An approval will then be made to successful applicants only or decline as the case may be. This will be followed by a loan offer which states clearly the conditions of the loan and the conditions precedent to disbursement. The closing is done whenever the customer meets the stated conditions. Finally, the process ends at the point where the loan is disbursed for the purchase of the property.

## **2.9 The Demand and Supply of Housing Finance**

### ***2.9.1 The Demand for Housing Finance***

According to Jihad (2015), there has been a decline in the demand for housing finance across banks. Home buying is an exceptionally significant investment for customers. It will serve as a means of investing in the future and also ensures the security of their housing provision. Customers usually deliberate with caution when making their home purchase as they display high levels of price sensitivity. Newly build houses usually account for a relatively small portion of most housing markets in most economies in comparison to the sale of the existing homes. Existing houses are usually a substitute for buying a new home. There are some specific reasons that influence home buyers to prefer newly built homes over existing ones. They could be influenced by the existence of government support schemes which are directed specifically at the newly completed housing, price, location, or by modern construction standards. Residentially rented housing is usually a substitute for those who are unable to obtain a loan or afford a home. Rising prices can be a hindrance for buyers to purchase a new home.

The most important reasons for the demand and desire of homeownership are for investment (Belfield et al., 2015 and Zhu, 2014). As it is with the case of housing finance, the demand for loanable fund could be for investment. This can either be for short term or for long term investment. The investment focus here is the long term investment. A long term project like housing is usually financed by borrowing. The demand for housing finance arises because of the fact that most individuals or households may not be able to afford all the large sum of money needed in order to acquire a home. As a result, they turn to get the finance needed by borrowing from housing finance providers. This results in the demand for loanable funds. In the London market, demand is outpacing supply. Real house prices already reached their pre-crisis peak while other regions have not yet recovered due to the regional disparities (Abbas, 2014).

### ***2.9.2 The Supply of Housing Finance***

The supply of residential houses in the UK is covered by the homebuilding industry. Barratt's building segment is responsible for building family homes, homes for first-time buyers and social housings. The UK economy is faced with a housing crisis, given the decline in the number of houses. Its home building industry value accounts for 9.9%

when compared to the figure in Europe. The home construction industry in the UK used to be a very buoyant one. More than 300,000 new homes used to be built on a yearly basis few decades after the Second World War. In 2013, the home building industries shrink by 6.5%. Between the period 2009 and 2013, the compounded annual rate of change in the industry was -0.4%.

The estimate in 2007 by the labour government of a targeted number of homes to be built a year by 2013 was 240,000. This target has never been met. Conditions worsen between 2006 and 2007 when as low as 135,500 new homes were built. This came as a result of the financial crisis. The BoE's governor, Mark Carney on May 2014 complained that home building did not match the size of the population. He compared this with the fact that the UK has about twice the size the population in Canada, but home building in Canada is about twice that of the UK. Consequently, prices have been rocketing in areas like the South East of England, London and other areas between 2000 and 2007 where house prices increased to 124%. In 2010, house building levels fell to its lowest levels, creating a supply shortage of 140,000 homes (Alakeson, 2011).

House prices have become unbearable to most average and below average income earners. This is because the shortage in the supply of houses has greatly pushed house prices upward. The estimate by the Barker Review of Housing Supply a decade ago was that 250,000 new homes needed to be built each year in order to prevent the shortage of affordable homes and spiraling home prices (Barker, 2004). A survey was conducted for 95% of house builders declared that the estimated targets for new homes in a year is unachievable. Their reasons were attributed to the bureaucratic, very slow and expensive nature of the local opposition to building and the planning system. There are over 150,000 plots for new homes that have been stuck in the system waiting for approval. Some have even expired. The head of housing and planning Chris Walker said it is most likely that the target will not be met. According to Cheshire, et al. (2015); Schivardi and Viviano (2011), the supply of housing is limited by license requirements.

Housing provision has also been affected by skills, a fall in the number of firms and material shortages. The high and continuous increase in demand led to the shortage of materials like bricks. During the financial crisis of 2007, many construction workers left the building industry. The industry has been struggling to recruit new workers. It takes a while to train new workers to work in the industry. The doubt here is whether the new building trend is a correction after the low level of home building following the effect of

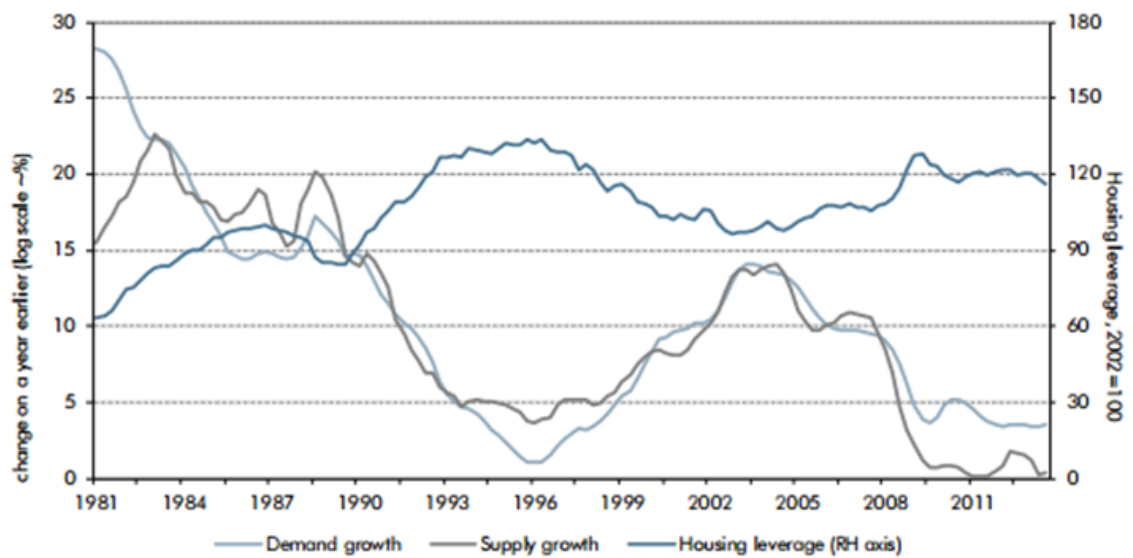


the financial crisis or will this upward trend put forth carry on. The representatives of the housing association: National Housing Federation (NHF) and the private sector HBF both agreed that the main long-term constraint to this is identified to be land. The NHF further explained that several housing plans have been drawn up by councils but have failed to identify the required land space to meet local housing demand. From 2000 to 2007, the prices of residential lands rose by 170% as reported by the IPPR. Some land has been released from formerly used public sector land surplus for the construction of 100,000 homes with plans to release more land in the next five years for 150,000 homes. It was reported in August 2014 that every day, 15 homes are approved on the greenbelt.

Public sector surplus land release is just a small portion compared to the high nature of demand. Lands could also be released around the protective zones of urban areas or greenbelt. There is still the need for private landholders to be encouraged to release sites for home building as recommended by Jeremy Blackburn, Royal Institution of Chartered Surveyors. The financial institution's ability to lend for housing is known as the supply of housing finance. This determines the quantity of housing finance available that could be supplied for the housing acquisition. The Financial institutions often consider two elements before giving out loans to borrowers. These are the riskiness of the loan and the interest rate to be charged on the loan. The availability of housing finance can be reduced if the identifier factors which are components of the liability side of the balance sheets are dwindling.

Capital adequacy, asset quality and bank liquidity are very important factors that determine the supply of housing finance besides other factors like earning performance and management quality. Capital adequacy is one of the most important indicators used by credit rating agencies in emerging markets. Capital adequacy can affect the behaviour of the bank in two ways: it strengthens banking capital and improve bank's resilience to negative shocks. Secondly, the risk taking behaviour of banks is influenced by their capital adequacy. Banks with Good capital base are better off in their ability to absorb risk. Bank liquidity is enhanced by customer deposits. There exist a positive relationship between deposit and loan. This means that an increase in customer deposit leads to increasing the bank liquidity and thus a subsequent increase in the availability of money for housing finance.

The review of literature on finance reveals that there exist two broad types of finance available which can be classified into debt and equity finance. In a study of the theory of the firm, Jensen and Meckling (1976) argue that when the owner's ability to exploit potentially profitable investment opportunities is limited by their resources, debts are often utilised. Debt financing as a form of bank lending can be classified into either corporate loan or asset specific. Debt finance can either be classified as short-term or a long-term. Bank overdraft, short-term trade credit and long commercial papers are all forms of short-term debt finance instruments. Long-term debt financial instruments consist of mortgage loans or housing loans and other forms of informal credit transactions. Given that the future is very bleak, one of the major challenges faced by the banking sector and other lenders is to be able to determine with certainty whether or not the principal and the interest will be paid by the borrowers when they fall due. These are very relevant to be considered in making lending decisions. Therefore the ability of the financial institutions to provide loan for housing is known as the supply of housing finance.



**Figure 4.7: Demand and Supply of Housing Finance**

*Source: OBR estimates*

The figure above illustrates that since 2008, the demand for housing is growing faster than the supply of it with the gap between the two remaining wide. This leads to a shortage in the supply of mortgages. With the fall in house prices and the value of housing during the financial period, there was a sharp rise in housing leverage which fell back again with the recovery of house prices. The importance of housing finance

cannot be over emphasised as it is a major factor that determines the quality and tenure of housing consumption as well as the overall financial portfolio of households. Housing finance plays a very important role in shaping a country's wider housing system which makes the development of it to be of utmost importance in most developed economies. By 2001 in the European Union (EU), the total volume of outstanding mortgage loans exceeded 3.9 trillion euro. This figure is up to about 40% of total bank lending in Europe and covers 40% of GDP in the EU. For some decades now up to 2015, housing association has been at the top in the building industry (Bentley, 2015).

### **2.10 Future of the Housing Market**

The 5% yearly increase in house prices and a shortage of affordable homes suggests that over the next decade (by 2025), more than half of the population under 40 will be living in properties owned by private landlords (Osborne, 2015). Private renting has become the norm and the default option for those who cannot afford to buy and do not qualify for social housing. Therefore, the predictions by 2015 is that 7.2 million households will be in rented accommodations, compared with only 2.3 million in 2001 and 5.4 million today. 35% of homes are estimated to be owned outright by 2025, compared to 71% in 2003. By 2025, the average home in the UK will be worth about £360,000, compared with £279,000 today, even though the rate of house price growth is set to fall to 5% yearly. The chief economist of PwC (PowerwaterhouseCoopers), John Howksworth's suggestion indicates that homeownership does not need to increase. Instead, tenancy should be made more secure and improvement be made on the quality of rented homes.

Without interventions by the government, about a third of people aged over 60 will be living in rented accommodations in 35 years' time (Osborne, 2015). The struggle for a deposit will continue to be thwarted, given the continuous rise in house prices that outpace earnings growth. After considering the trend in the pattern of housing for young people from 1999 to 2008, Clapham et al. (2014) concluded that in the near future, there will be the growing demand for private rented sector by young families and very vulnerable young people. In order to create market confidence which would result in greater local knowledge and stimulate growth in the UK mortgage market, it was recommended by Khansalar et al. (2015) that a separation be made between banks and building societies. White (2015) suggested that help-to-buy may help overcome the limitations created by the reaction of the mortgage lending sector.

## **2.11 Structure of housing market**

The mortgage suppliers in the UK housing market are made up of the banks, building society and other smaller lenders.

### ***2.11.1 The bank***

In the 1960s, the system of bank regulation was undermined by developments in the financial market, which reduced the effectiveness of existing control mechanisms. The BoE was dissatisfied with this system. In May 1971, a new regulatory framework was set out in a consultation document issued by the Bank. Competition and credit control which came into effect in September of the same year. It marked a move away from the formal system of quantitative restrictions on bank lending, where control was being implemented by putting pressure on the liquidity of banks with the use of changes in the reserve assets ratio. This system also made interest rate adjustments as a major instrument of monetary policy. This was an unfortunate situation which meant that major increases in interest rates would turn expected profits on many development projects into heavy losses, given the precarious financial margins on which development was currently undertaken. There was a substantial expansion in money supply as a deliberate policy put in place to stimulate the economy.

### ***2.11.2 Building Societies***

The Friendly Society Movement of the late 17<sup>th</sup> century spread rapidly in the UK, leading to the coming up of building societies. The Friendly Society Movement was a mutual association which at that time was offering a form of protection for the working class in the rapidly industrialised environment. One of the objectives of this association was to pool together the savings of its members in order to make provision in the event of infirmity, sickness or in case of immediate necessities arising on the event of the death of a member or partner. By the end of the 18<sup>th</sup> century, other mutual institutions with similar purposes were also formed. Therefore, in order to meet up with their efforts for mutual protection and improve the idea of establishing these building clubs or societies for the provision of houses emerged. Around 1775 in Birmingham, the first known building society was established known as Katley's Building Society. The name was given following the fact that its meetings were held at the Golden Cross Inn where Richard Ketley was the landlord.

The origin of homeownership in Britain is associated with this mutual movement organisation. The essential concept underpinning a building society was that each member was to contribute a regular subscription to a fund to finance the building of a house or purchase a house which will then be allocated to a specific member. All of the members were required to continue paying this regular subscription until they have acquired houses for all of their members. At this point, the society will then terminate. It was from this basis that permanent societies later developed. To accelerate housing provision to another level, societies started offering interest payments to people who were pledging their savings to them. In order to cover the cost of this fund, interest was charged to those who came to borrow. This movement rapidly spread across Britain, while their operations remained predominantly local.

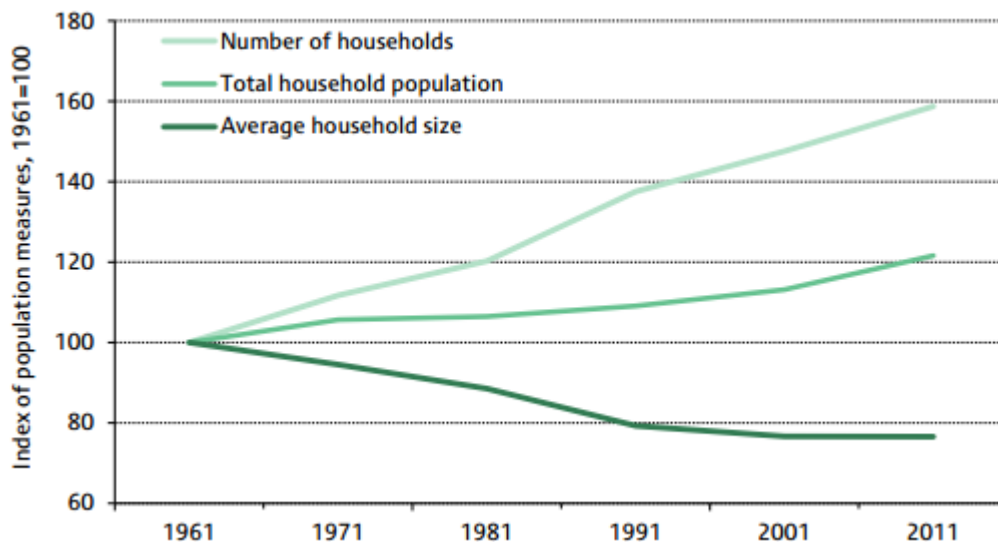
In 1845, the first society with a constitution was established. A recognisable and prudential regime was recognized in 1874 which restricted sources of funding and monitored borrowing. Building societies began serving as a sort of financial intermediary between investing members and borrowing member. This continued until 1868 when the Society Act was enacted and there was a definite on what should be called a building society in terms of the membership, size and wealth of individual societies. The number of building societies kept on multiplying and by 1895, the total number of building societies in the UK had reached a peak in 3,642, compared to its figure in 1890 which stood at 2,795. After this period, however, the number continually decreased. In 1935, the number had almost reduced to 1,000 and by 1987; there were only 187 building societies left. Building societies provided affordable houses for the working class in a society which was mostly the rich. While the intention of the bank is to profit from lenders so as to satisfy the interest of shareholders, building societies serve the mutual benefit of its members, guided by the Victorian virtues. The Victorian virtue is a virtue of thrift and self-help meant to facilitate and promote homeownership.

## **2.12 Population Growth and Housing Demand**

The growth in the population of the country has been accelerating. Between 1971 and 1981, it increased by 0.4 million. Between 1981 and 1991, it rose by 1.05 million. Between 1991 and 2001, it increased by nearly 1.6 million. This growth is not only as a result of natural increase, but also with immigration. Natural increase is the excess births over deaths. In the 1970s and early 1980s, the number of people who leave the country exceeded the number that entered the country. In the mid-1980s, however, the

reverse was true. The number of immigrants exceeded the number of emigrants and that pattern has continued at a higher and rising level. Of these immigrants, a greater proportion is made up of the young adults (Holmans et al., 2006). For natural increases, England had a baby boom period in the late 1950s and 1960s. The increase began in 1956 and attained a peak in 1964 of over 200,000 higher than 1955. After this period, the number of births began falling yearly until 1973 where it returned to the same level as in 1955. Between 2009 and 2011, the population increased from 62.3 million to 63.3 million. The growth rate remains constant at 0.8% annually. In 2012, the population increased to 63.7 million and reached 64.1 million in 2013. In both 2011 and 2012, the population increased, but the growth rate declines to 0.6 where it remained constant for both years.

London has experienced an outright fall in household numbers in the 1970s and early 1980s, but between 1991 and 2001, it had a net increase of between 250,000 to 300,000. This was basically due to the rise in inward migration from outside the UK, most of which settle in London (Jihad, 2015). The number and nature of separation in households are so fundamental in understanding the demands and needs of housing as well as the number and age structure of the population. Figure 1.4 illustrates the population trend of Great Britain. From 1999-2009, the total number of households increased by 7% with London having the highest overcrowding of 7.2%.



**Figure 4.8: Population Trend since 1961**

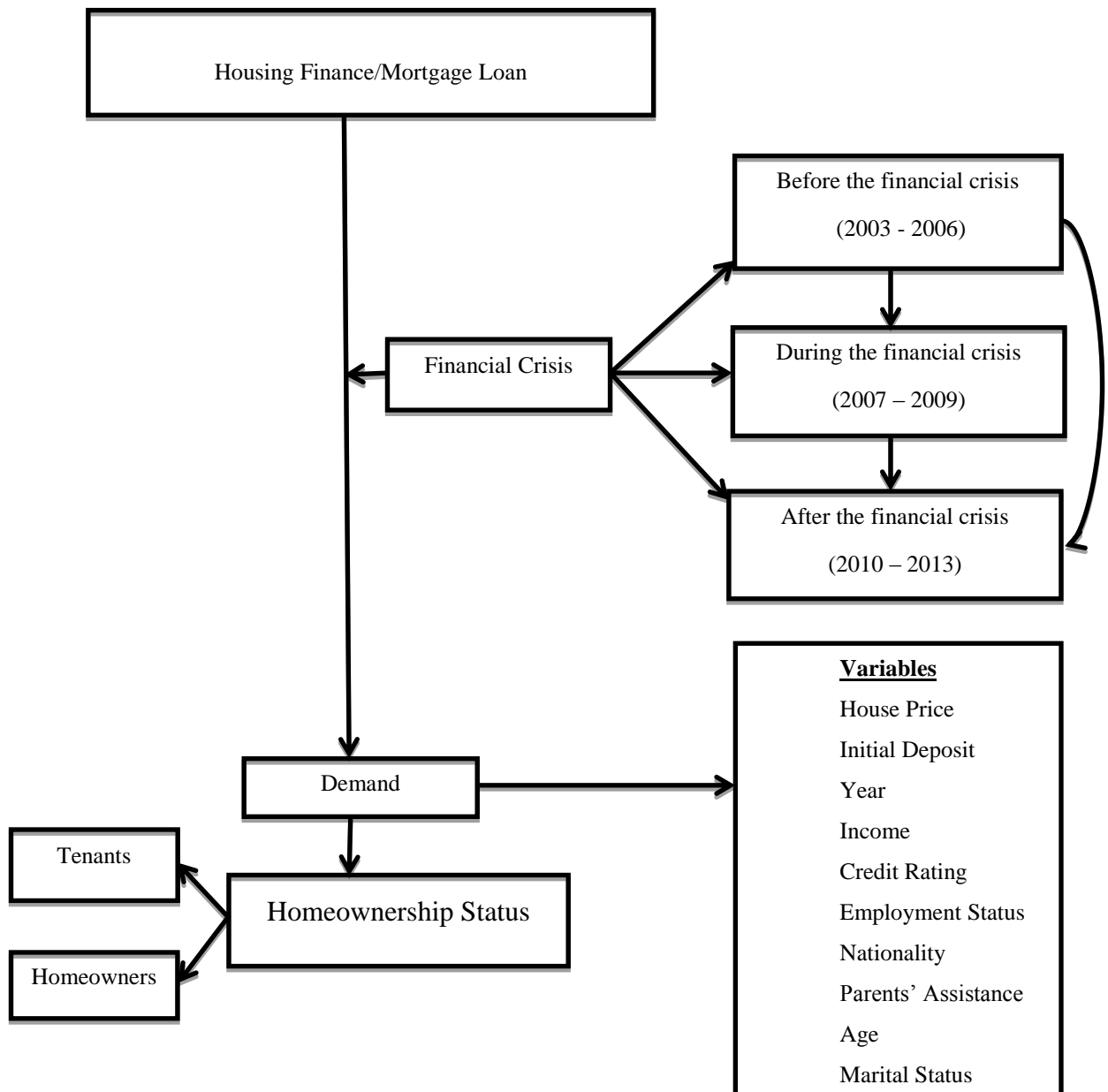
*Source: Belfield et al., 2015*

Figure 4.8 depicts that the number of households as well as the total household population has been on an increase since 1661. The age distribution of the population is very important. Under the age of 21, less than 1% of all households are headed. As a result, it is the adult population over the age of 20 and above that is actually significant as household heads. Marital status is also of paramount importance in the demand for housing. Divorce for instance generates a net increase in the demand for separate housing. The rise in hardship rates also increased the demand for council subsidize housing among widows and widowers, for divorced couples and recently, among singles. Over 45% of the net increase in households in 1970s was as a result of rising hardship rates. The figure was between 30 to 35% in the 1980s.

### **2.13 Research Framework**

The model is built from the critical review of relevant literature. In this study, the dependent variable is mortgage loan/housing finance, while the independent variables are house price, initial deposit, year, income, credit rating, nationality, parents' assistance, employment status, age and marital status. These variables therefore influence the demand for mortgage loan and thus homeownership status. Households/customers and mortgage advisors are the units of analysis.

## Research framework



**Source: Derived by author from literature review, 2016**

Unlike other studies, this study has used the financial crisis to act as an intervening variable in the demand for housing finance and the supply of it. In order to understand clearly the changes brought about by the financial crisis, three distinct periods were identified to include the pre, within and the post crisis period as explained in section 1.5. The demand for housing can also be seen in terms of homeownership status, which has been identified in this study to include tenants and homeowners. In addition, the research framework aids in identifying the gap in the research which the researcher in



this study has filled. This research is an empirical study on housing finance with focus on the HSB (micro scale) and not on the macro scale as it is with most previous researchers. It has also assessed the effectiveness of the demand for housing finance from both the perspective of the banks as well as from the customers' perspective.

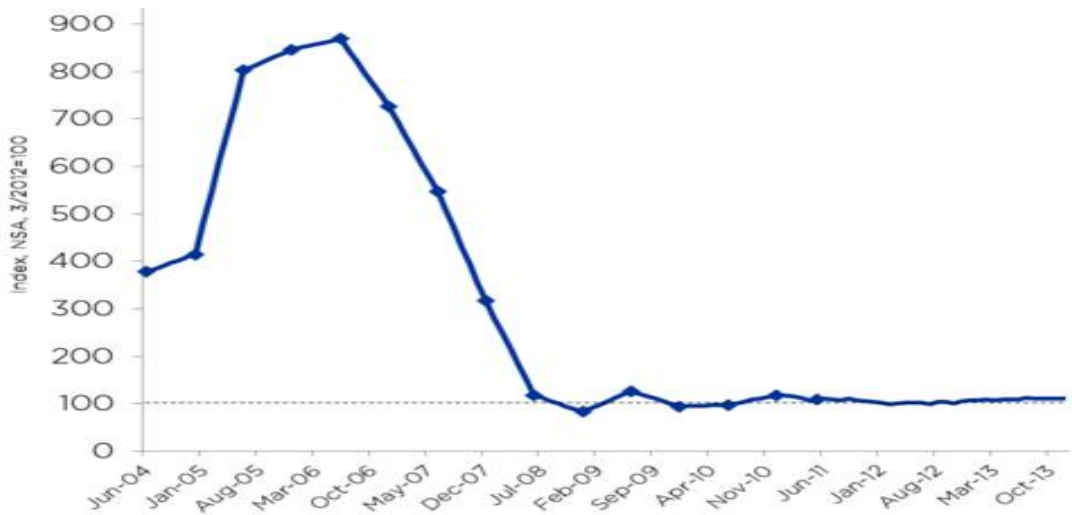
The UK housing market comprises 27.8 million residential properties. In 2013, the average price of a property in the UK stood at £242,000 (Pettinger, 2016). The average house price in 1975 was £83,126, using 2014 as the base year. But in 2014, the figure rose to £188,810. This means 126% increase in house prices.



### UK house prices

Source: Pettinger, 2016

In 2003, house prices were £155,000. By 2007, house prices were high and increasing (£214,000). After 2007, there was a drastic fall in house price which continued to £194,000 in 2009. After 2009, house prices gradually increased and reached £242,000 in 2013. The mortgage credit available has also been fluctuating as observed below.



**Mortgage credit available**

**Source: ONS, 2014**

Before 2006, the mortgage credit available was high and increasing. By the end of 2006 to 2009, credit available decreased and remained low thereafter. This affected households differently, given their different circumstances. In the financial crisis of 2009, deposit for first time buyers peaked at 22% of the purchase price. Deposits for existing owners remained fairly stable with a little increase of 1.2% between 1988 and 2013.

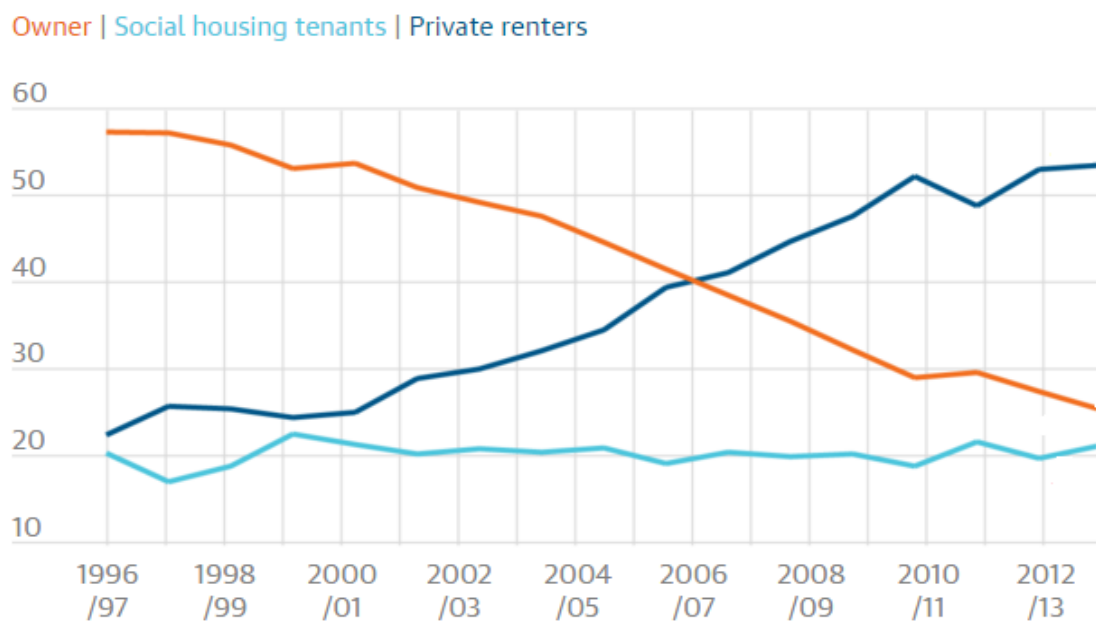


**Different mortgage applicants**

**Source: ONS, 2014**

There was a steep fall in mortgages for first time buyer in 2008/09. The number of first time buyers has been on a decreased. This decrease is particular with age group. In 2011/2012 for example, only 43% of homeowners were between the ages 25-34 while

in 1991, it was up to 67%. Also, there was a decrease from 36% to 10% in the same period for ages less than 24. In 2013, the average deposit as a percentage of purchase price had an increase of almost 10% point from the figures 25 years back. The average house price for first time buyers in the UK is 5.1 times average earnings. However, there exists a disparity. While those in London have an average house price of 9.2 times average earnings, those in the North's average house price are only 3.4 times average earnings. This further highlights the fact that London is a congested zone as far as the demand and supply for houses is concerned.



### Ownership changes

Source: Pettinger, 2016

Those under the age of 35 accounted for only 10% of homeownership as

This has contributed to the decrease in the number of homeowners in the UK. Before the financial crisis, homeownership was high in the UK. This means that the number of homeowners were more than those renting. However, during the financial crisis and after the financial crisis, homeownership drastically dropped while the number of private tenants drastically increased. In the financial crisis of 2009, deposit for first time buyers peaked at 22% of the purchase price. Deposits for existing owners remained fairly stable with a little increase of 1.2% between 1988 and 2013.

## **2.14 Summary**

This chapter has reviewed the relevant literature in respect of housing finance and homeownership and the intervention of the financial crisis. This extensive empirical review was carried out which was able to establish the basis for this research. With the majority being business write-ups, very little academic writing was found in this area of study. Specifically, no empirical literature was found in the area of the demand for residential mortgage loan from the main HSB in the UK. The review of literature also identified gaps in the area of methodological approach. None of the reviews have done data triangulation which enhances this research study. To fill this gap, this research has identified the gap in data triangulation by using semi-structured interviews as well as questionnaires for data collection and using qualitative data from the supply side of housing finance to back up the demand side of the study. Besides, the review of literature has identified the use of the financial crisis as the cause of the fluctuation in the mortgage market while this study considers the financial crisis to be an intervening variable in the mortgage market. In the next chapter, further discussion will be done on the review of literature relating to the financial crisis and mortgage lending.

## **Chapter Three: Review of the Financial Crisis**

### **3.1 Introduction**

This chapter aims at reviewing the literature involved in the UK financial crisis in relation to bank lending. This will enable us to understand the gap that exists in the literature and to better understand the purpose of this study. It starts with an overview of the financial crisis. This is followed by the British housing system, government intervention and regulations, lending scheme and policy measures. This is succeeded by a review of related theories used in the study. The chapter ends with an evaluation of the market for the financial crisis and the provision of mortgage finance.

### **3.2 The Financial Crisis in the UK**

In October 2007, equity prices in the UK were exceptionally volatile as several banks approached the government for funding. This led to a steep decline in their share prices with a more than 50% decline in the shares of RBS over a few days while there was another fall in their shares by more than 50% (Economic Outlook). There were lots of worries as banks' balance sheets became too weak to withstand further losses. Lending among the banks was equally at a halt. Before the period of the financial crisis, the housing system in the UK included a fiscal system that favoured owner-occupier with some gains that accrued from house price rises. Before the 1980s the economy had a highly deregulated financial market with a relatively small number of players in the mortgage market.

There was the problem of insufficient supply responses and a considerable volatility in house prices, coupled with market activities associated with changes in demand that arise from variations in economic growth and expectations (Whitehead and Williams, 2011). Long term changes in the tenure structure were generated, exposure to debt and financial risks increased while affordability conditions worsen. From the 1950s until the early 2000s in particular, the ownership of houses in England became dominant and reached a peak level of 70.9% in 2003. This very high percentage later declined to 67% in 2010. Most of this big fall is accounted for by the younger age groups and subsequently the late 1980s and early 1990s financial crisis (Whitehead, 2010). The main reason that can account for this decline in the homeownership in the UK within these periods was due to affordability coupled with rising prices, which offset the

impact of the fall in the rates of interest in the late 1990s and 2000s (Kentikelenis et al., 2011). For those who were able to afford homeownership by 2009, their price to income ratios were 4.47 compared to the figure in 2001 which was 3.23. The payment of interest over the same period of time increased from 13.4% to 19.6% of income. The granting of loans to first time buyers reduced by 31%.

There has been a significant restructuring within the rented sector. In 1981, social renting reached a peak of 32% of households in England. This was just before the Right to Buy large scale sell off of houses to owner occupation. This led to a drastic fall in the proportion of social tenants to below 18% before 2008 which further fell to 17% by 2009/10. From 1989, the main means of funding for new social housing supply was the contracting of private debt finance. The lowest figures for private renting were reached in 1988. It then increased by 75% and by 2008; it had reached 14% of households. By 2009/10, it climbed to 15.6%. The development of the Buy to let mortgage market has facilitated this growth. There were over one million outstanding mortgages in 2008 and by 2010, the figures had increased to 1.3 million (Whitehead and Williams and 2011, Aalbers, 2008). This restructuring leads to high requirements for private sector funding and equity of houses for homeownership and renting.

There is also an important shift in the balance between outright and mortgaged owners. The first year when these data were actually split out was in 1981. The percentage of outright ownership for households was 25%, while the percentage of mortgage owners was 32%. The percentage rose to 28% and 42% respectively by the year 2000. But by the year 2008, the pattern had been reversed as there were more outright owners than mortgage owners (Blackburn, 2008 and Serfati, 2009). The percentage of outright ownership rose to 31%, but the percentage of mortgagors had a 10% decline as it dropped to 37%. This decline is however in contrast with the fact that the mortgage debt in the UK as a proportion of GDP had increased by 30% to over 80% in 2000 (European Mortgage Federation, 2010). This is a reflection of the extent to which existing mortgagors increased their indebtedness by re-mortgaging as house prices were constantly increasing and as there was growth in Buy to let mortgages.

The rise in house prices has been rapid in the UK. Demand continues to grow as a result of the long-term demographic trend, including the increase of immigrants into the economy, increases in income, the decline in the cost of funding low interest rates, inflation and easy access to funds. The extent of the risk associated with mortgage loan

was actually increasing, especially after 2005. The consequence of this was the pressure to which existing households in the mortgage market were faced with a threat to them being excluded from the market (Scanlon et al., 2012; Duca et al., 2010). The supply of houses has been on a low turnover compared to the number of additional households. In 2001/02, housing completions in England fell to under 130,000. In 2007/08, it increased to only 167,000 which are actually well below the estimated additional households of between 180,000 and 240,000 that were in expectation to form each year over that period of time.

Between 2000 and 2005, general household lending was affected by variations in the payment of dividends due to tax changes around that time. Prior to September 2000, dividends were not taxed. By 2001, dividends were taxed at a rate of 11%, but became tax free again in 2002 (Riiser, 2009). It was however made clear in 2003 that from 2006, dividends will be reintroduced. This resulted in extraordinarily high tax on dividends being paid in the period between 2002 and 2005, leading to high net lending.

Before the financial crisis of 2007, household debt had reached 175% of all disposable income. This was fueled by rapid mortgage lending. In the UK, household indebtedness increased faster than in the USA and other euro zone areas as a whole. The reason for this high household indebtedness was as a result of the increase in the value of housing along with pension funds and other financial assets held by households (IMF, 2012). Definitely, there was a rapid growth in net worth resulting from the rapid increase in the asset side of household balance sheet over total debt. However, there was a downturn in the UK household balance sheet. It was hard hit by the financial crisis and the deleveraging of the sector. As households responded to increasing economic uncertainty and plunging asset prices, private consumption declined very drastically. Net worth declined significantly following the fall in equity prices and home values (Leathers et al., 2010).

In the early 1990s the euro areas had accumulated a rapid build-up of household debts, both in terms of debt to GDP and in terms of the ratio of debt to disposable income. In the early 90s, the total household debt to disposable income ratio rose by more than 50%. At the end of 2004, the ratio had reached a total of 86% (Wolff, 2010). In spite of this, the debt service burden to income ratio which measures the ability to face repayment commitment remained unchanged during the last decade. The decrease in interest burden offsets the increase in principal repayments. Even though the ratio

remains almost the same, the increases in debt levels involve higher sensitivity to the changes in interest rates.

This general trend in the euro area only gives us a picture of the general trend. This is because the situation varies widely across different euro countries. For example, among the largest five euro area countries, the ratio of household debt to GDP in the Netherlands reached 108%, while the same ratio amounts to only 34% in Italy. The share of mortgage loans also widely diverse, ranging between 50% and 88% in Italy and Netherlands respectively. These disparities can be attributed to the differences in each country's specific factor in explaining debt behaviour like the regulations in the housing market and in the mortgage market. Following the financial crisis, the UK government part-nationalised or nationalised a number of banks such as Northern Rock, Lloyds Banking Group and Bradford & Bingley (Marshall et al., 2011). Virgin Money bought over Northern Rock in November 2011 while the rest of the banks remain in public ownership. Most of the banks that experienced severe problems during the crunch, like Halifax, Northern Rock, Alliance & Leicester and Bradford & Bingley were former building societies that transformed to bank status in the late 1990s (Michie and Llewellyn, 2009).

### ***3.2.1 Neoliberalism***

The neoliberalism system of government is one which is based on promoting rational self-interest through the implementation of policies such as deregulation, globalisation, privatization and a cut down on taxes. It is a form of the free market neoclassical economic theory. Chile was the first country to experiment the application of the neoliberal theory in 1973. Margaret Thatcher in the UK and Ronald Reagan in the US were the first democratically elected neoliberals (Clark, 2012). Through three decades, there was a constantly widening wealth gap in the UK as a result of this policy. Those who benefited from this wealth were a minority of the population. These included the financial sector workers, business classes, the political classes and the mainstream media elite. For the majority of the population who could not benefit from this wealth, it has been a disaster. The crisis can be attributed to the symptoms of the expansion of neoliberalism and finance-led capital accumulation over the past decades where mortgages were an important part of it.



Before the neoliberalism period was a system of government known as the Keynesian economics. John Maynard Keynes was its founder. It was a system of government characterised by mass production and consumption with a high level of state intervention. This came increasingly under constraint as neoliberalism was already becoming more popular when the global economy at varying degree entered a period of stagflation and the dominant doctrine at the time which was the Keynesian economics could not explain how. Stagflation is an economic situation where both inflation and unemployment become very high (Foucault, 2010 and Smith, 2008). In a bid to modify and revive the free market capitalist system in the 19<sup>th</sup> century, therefore, Thatcher introduced the neoliberalism system of government. It was aimed at reanimating capitalist growth and reducing inflation. The administrations of Bill Clinton and New Labour embraced neoliberalism. Freedom was the highest possible achievement of humanity that underpinned the philosophy of neoliberalism. There was freedom to own private property and to trade. This ideology has catapulted the deregulation of markets and the privatization of state-owned enterprises, especially financial markets on an unprecedented scale.

During the 1980s in Britain, Thatcher and her supporters championed the privatization of a vast range of public utilities, council homes for the creation of a property owning democracy characterised by private ownership of housing and wide shareholding and nationalised industries. In the past, financial capital dominated the market, but was relatively of a short life span. It was not politically, economically and culturally entrenched as it is now. It has increasingly been recognised in the wider social sciences in the term financialization (Epstein, 2005). The term refers to the fundamental qualitative and quantitative changes that have led to a proliferation of financial actors, financial markets, financial motives and financial institutions which enabled all sorts of financial innovation and also an associated explosion of credit-financed consumption. Under the neoliberalism regime, financialisation was politically backed in order to revive capitalism and make up for the continuous erosion of the welfare state, the decline in industrial production and the stagnation of real wages. The population was opened to the increasing access to credit and financial claims such as shares since there was the democratisation of finance. Instead of reducing social inequality, financialisation rather significantly deepened it (Klimecki, 2012 and Lapavitsas, 2009).

### ***3.2.2 Consequences of the crisis***

The outbreak of the financial crisis was dominated by devastating consequences in the economy. There was increased unemployment across the globe which in many countries stayed stubbornly high (Guichard and Rusticelli, 2010). An increase in the level of unemployment has a negative impact on the households in terms of obtaining a mortgage loan. With increased duration of joblessness (Verick, 2009; Paul and Moser, 2009), it became extremely difficult for banks customers to change their homeownership status from say tenants to homeowners. This frustration created a lot of vices in the economy like increases in crime waves, violence, mental health problems, social exclusion and drug taking, psychological and behavioural morbidity (Kalousova and Burgard, 2014; Bell and Blanchflower, 2009).

Countries like Germany however made efforts to keep workers in their jobs through policies as work sharing scheme. This scheme played an important role in preventing unemployment from spreading in the economy (Bundesagentur Fur Arbeit, 2009). In Greece, the situation was a bit different as women were more affected than men (Chadi, 2011; Henkel, 2011, Doling et al., 1986). As a means to meet up with their basic necessities, households finance consumption by reducing savings and increased their debt levels. However, some households made a permanent decline in consumption in order to reduce their levels of indebtedness (Reigh, 2010), Recession and general economic recovery (Benmelech et al., 2015; Chodorow-Reich, 2014) and stringent lending (Hyman, 2011).

### ***3.2.3 Household Borrowing***

After the financial crisis, credit availability had been high-risk, especially for the low-income households with credits impairment. Most of the low-to-moderate-income (LMI) consumers are financially challenged and are not eligible for credit from the HSB. These sets of household lenders fall within the ultra-sub-prime credit sector. Recent research studies by Sharifi and Flores (2013) consumer credit market for LMI is served by Alternative financial service (AFS) providers offering other products like home credit and payday loans. Thus, they often turn to the credit product of the low-value short term alternative financial service to fund their large expenses like buying a car or owning a home and to fund other day to day expenses. With the exception of overdrafts, HSB are constrained from offering these products because of the cost and risk involved.

Furthermore, HSB usually do not underwrite unsecured personal loans with figures less than £1,000 (Ellison et al., 2011). This makes it increasingly difficult for LMI consumers have access to credit from the HSB through low-value, short term unsecured credit. They therefore see the AFS as the best option available for them that can respond to their needs and can provide them with loan amounts of less than £1,000. As observed from the table below, since the commencement of the financial crisis, total consumer credit outstanding from banks with the exception of student loans has continuously declined while credit from AFS lenders have been on an increase. Table 3.1 below illustrates the statistics for household borrowing through the financial crisis period and beyond for both banks and non-banks.

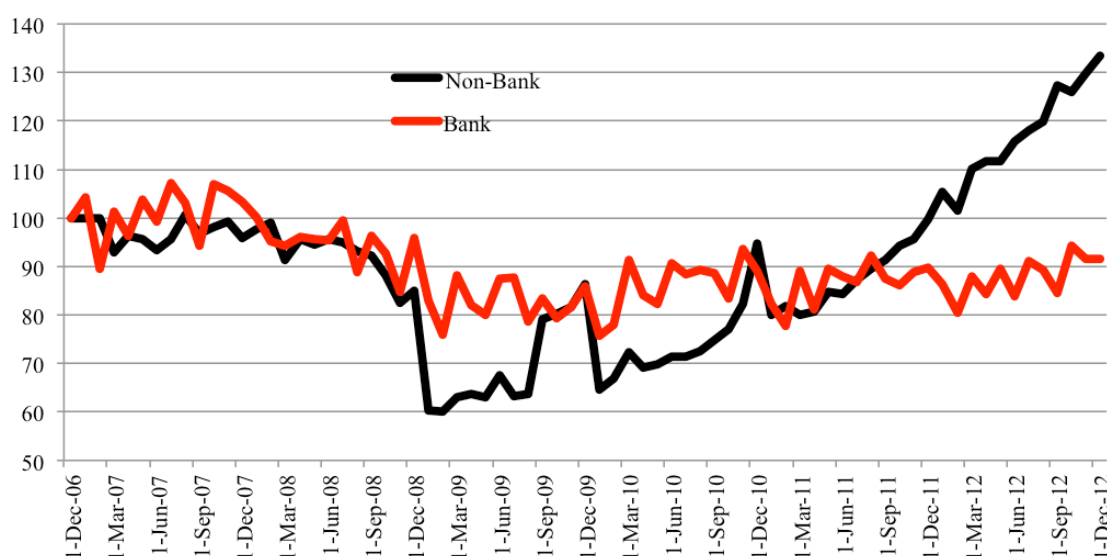


Figure 3.1: Statistics for Household Borrowing (Source: BoE – Bankstats)

With the exception of high-cost credit, the use of unsecured credit has declined since 2008 in all categories (Ellison et al., 2011). For people who belong to the lowest 20% of household income, the most frequently used credit sources are from overdrafts, family and friends, home credit and social fund loans, with overdrafts been the primary source of all credit (over 40% usage).

Among other reasons therefore, there are two main reasons that prevented the HSB from offering short-term low-value loans to customers. These include the cost and the risk involved. Generally, large distribution costs are associated with larger financial institutions. This is driven mainly by the inflexible legacy information technology system and the oversized network branches. Problems are further exacerbated with the legacy bank business model margin erosion caused by increasing operating and

regulatory costs. Regulatory cost problems also abound from the capital adequacy framework of Basel III, resulting from the effort of the Basel Committee on banking supervision after the financial crisis. The requirements from Basel III demanded that banks should hold a better quality and a higher quality of capital against outstanding loans (Financial Services Authority, 2011). With these requirements for additional capital, cost of bank lending also increased the cost of borrowing for consumers while reducing the volume of lending. This makes loans to LMI consumers to be very expensive for banks, which are under Basel III, given that such loans are riskier and requires a greater percentage of the loan total held as capital. The requirements for Basel III therefore favour banks to lend only to more creditworthy and wealthier borrowers (Euro Week, 2013; Ryznar, 2012).

In summary, HSB are limited from lending money to LMI consumers. The reasons for this are as follows; firstly, their rates of default are much higher compared with upper-income consumers and require higher default risks. Secondly, the bank's return on equity will be reduced given that the banks must have to maintain a higher amount of capital. Thus, these loans pose more risk to the bank. Thirdly, the loans are proportionately more expensive to originate and service as originating and servicing costs must have to be covered from only a small revenue stream. The low monetary value attached to these loans compared with higher value loans from affluent and traditional customers is too small, incurring a high recovery cost. Therefore, HSB cannot profitably underwrite small value loans to customers, especially amounts of less than £1.000.

### **3.3 The British Housing System**

The British housing system has been subjected to a drastic restructuring of the tenure characteristic on housing provision, with the shift of emphasis from housing provision as the social right of citizenship to housing provision as a social housing provision. This shift in tenure has resulted in the establishment of owner-occupation as the most preferred tenure while the public rented sector is perceived by households as welfare, housing and last resort for households who are not able to gain access to owner-occupation. Between 1971 and 1997, there was a decline in the number of households renting from the local authorities from 28% to 17% with a corresponding increase in homeownership from 52% to 68% in England (Hunter and Nixon, 1999). The growth in owner occupation has been so great that a good number of marginal households have

been drawn into the tenure. From 1979 to 1989 for instance, households who are among the lowest 10% of income brackets that moved into the sector increased three fold. The number of home buyers with a mortgage was less than two. Among the main European countries, the UK had the highest level of mortgage debt to GDP (Earley, 1998).

Successive conservative administrations developed ideologies which were opposed to welfare and housing provision by the public sector in the 1980s (Malpass, 1993). This shift in emphasis has moved from assumptions of a Keynesian welfare state to a new right and public sector choice theory. This system comprises assumptions of competition and market superiority. In identifying the factors that make social rented housing to gradually fade out, Mishkin (2010) grouped them as: the housing for low-income households; non-market rents; the administration of the housing stock of the local authority or a non-profit agency; state support for housing construction and state subsidies.

Initially, the RSL played a minor role in providing social housing. The main suppliers then were the local authorities. According to McIntyre and McKee (2012), the RSL sector experienced the first change of rapid expansion in the 1970s, when the housing association was brought by the Housing Act of 1974 into the public sector and slowed them to access substantial public funding. The housing association was pushed into the forefront a decade later by the Housing Act of 1988. It took over most of the social housing activities of the local authorities and became the state's welfare agent on account of meeting the needs of the low-income households. This resulted in a great increase in RSL housing from 2.0 million in 2005 from a low figure of 0.5 million in 1981. This result made a corresponding reduction in the number of council homes to 2.9 million from 6.4 million over the same period.

The banks had in the past felt disadvantaged over the provision of housing finance due to favourable tax status activities of the cartel as well as restrictions placed upon them by the corset until the late 1970s. Competition within the consumer finance market intensified with Citigroup announcing in 1979 that it would take over the mortgage business which building societies frowned at (Stephens, 2007). Banks in the UK became increasingly interested in the mortgage market. Lloyds became the first British bank in the Mortgage market, lending over £25,000 to homeowners, a figure which was rarely ever met by the building societies.

### ***3.3.1 Government Intervention***

The problems in the banking sector made the government to derive a measure of three part packages with each of them looking at a slightly different aspect of the problem. The decision was arrived at for the government to inject a sum of £37 billion in order to recapitalise some banks in return for an arrangement on preference and ordinary shares. These banks were HBOS, Lloyds TSB and RBS. Without government assistance, other banks were also required to increase their tier 1 capital. Recapitalisation was necessary to bolster the confidence of the market in order to withstand any future losses. Banks like Northern Rock, Lloyds Banking Group and Bradford & Bingley were also rescued by the government. While the rest of the banks remained under government control, Virgin Money bought over Northern Rock in November 2011 (Marshall et al., 2011). In order to give banks more freedom to raise market funds in the form of increasing the collateral they can offer, the size of the Special Liquidity Scheme was raised to £200 billion, which doubled the previous size. This left the public sector finances under severe strain, raising net borrowing to £2.7 billion. The government projected deficit to be set to £38 billion in the year 2009/10 but the actual rise more than doubled to £88 billion.

A coordinated 50bp interest rate cut by most central banks and the BoE quickly followed the announcement of the bailout package. This was expected to mark the beginning of a form of loosening in the monetary policies. The official bank rate for the BoE fell from 5.75% in July 2007 to 0.5% in March 2009 (Scanlon et al, 2012). Up to 2015, this rate has remained low at 0.5%. After 2009, certain government programs were instituted. This is in order to prevent excessive consumer retrenchment. This cut is however not enough as further cuts were required to avoid future recurrences. Inflation has been on a continuous increase, reaching 5.2% in September 2009. Finally, the government encouraged interbank borrowings by establishing a new government backed company for a fee to guarantee that new medium as well as short term debts are issued by banks with up to 3 years maturity. The economy was expected to fall into a recession after the second half of 2008 as the GDP remained flat with more timely data indicating a sharp drop in economic activities since then. The outlook of the economy does not only depend on banking issues. Thus the main constraint on growth may be on the demand for credit, and not just depend on the ability of the bank to lend.

In Qatar, many banks, found themselves in the crisis in 2008 where these banks were operating with lax procedures that had developed during the lending boom periods. Inadequate risk management highlighted this lax procedure which raised credit risk and eroded loan portfolio quality (Freeman and Sudarsanan, 2012) the government intervened by injecting funds worth US\$7.22 billion to support the banking sector. The support given by their government at the early phase of the crisis took the form of equity injection equivalent to 10% of total assets. In March and June 2009 when the financial crisis became so significant, the support took the form of a complete purchase at par value of all bank loans for local equity and real estate as well as the injection of equity in most banks. The banks received in exchange for this loan portfolio a mixture of a 10 year government band cash bond with a fixed coupon of 6.5% per year as payment. Within the 10 year period, banks were given as an option to repurchase some or all of their respective portfolios. Thus, despite the effect of the global financial crisis, Qatar banks in 2009 and 2010 were still able to register a positive return on asset of 2.6%. In other parts of the Gulf countries like Kuwait, the global financial crisis was not so severe.

The government assigned FCA to take over control from FSA commencing April 2014 Humphrey and Scott (2013). On 1 April 2014, the CMA was launched to succeed the OFT and the Competition Commission. Also, the government gave concurrent competition enforcement powers to the FCA and the PSR which will become effective as from 1 April 2015 (HM Treasury, 2015). According to Mishkin (2010) the mixed funding regime which comprises of both the public grant and the private finance introduced in the 1988 Act exposed the housing associations to some commercial risk. Given such a mixed operational background, both the level of the annual rent and the rental price increased for RSL units must therefore be decided upon by the market and non-market forces. In April 2002, the English rent restructuring or rent harmonisation policy was introduced. (Scanlon et al, 2012). This is unlike other European countries where it had been introduced some years back like Denmark (1967) and Netherland (1987). For these countries, the main reason was in order to correct the misallocation of subsidies where highly subsidised older social rented housing units were occupied by better-off households, while the higher-priced and new housing were occupied by the poorer households.

The response of the government to the real estate crisis was limited to the voluntary program which encourages loan modifications for borrowers experiencing financial difficulties regarding their mortgage repayment. The overnight LIBOR rate decline from 2007 to 4.72%, while the real estate crisis continued as the decline in property prices continued. Great Britain decided to bail out its banks by taking shares in them. European governments guaranteed safety for their depositors in banks and insurance on deposit which already existed in the US (Davidoff and Zaring, 2009).

### ***3.3.4 Lending Scheme***

A Funding for Lending Scheme (FLS) was launched by the BoE and HM Treasury on July 13 2012. It was aimed at boosting banks and building societies' incentives to lend money to UK households and non-financial companies for an extended period (Churm and Radia, 2012). In order to make the loans cheaper and easily accessible, the scheme reduced funding costs for banks and building societies. Banks that lend more to households and building societies were given the opportunity to borrow more from the scheme at a reduced cost than those that scale back their lending. The scheme came as a result of the fact that there has been market deterioration in the outlook for the UK economy since the euro area debt crisis (BoE, 2013). There has been a slowdown in export growth. Household spending has also been cut down following the increasing unemployment and reducing income. The authorities assumed that if there is easier access to bank credit, it will boost consumption and investment by both households and businesses. With the increase in economic activities, incomes will of course rise. To ensure a smooth running of the scheme, the BoE is assessing the direct and indirect impact of the scheme by monitoring a range of indicators.

The scheme was launched because outputs in the economy have been broadly flat over the past two years. Announcement made by the FLS also confirmed that lending made by banks to households and private non-financial companies have been broadly flat for three years. Thus, the basis why the FLS was launched is that the Monetary Policy Committee (MPC) has provided substantial stimulus to the economy since the start of the financial crisis. It began by cutting bank rates to 0.5% and then purchased £375 billion worth of assets as Part of its quantitative easing program (Chu, 2013). In the period preceding the launching of the FLS, interest rates on loans increased. This occurred following the intensification of the financial crisis in the euro area which



increased bank funding costs. Subsequently, there was some sort tightening in the credit conditions of most banks.

The key determinant of the interest rate banks charge on loans like mortgages, personal and business loans is the funding cost. If the FLS can reduce them, it will mean that more and cheaper credit will flow into the economy. To boost the economy therefore the FLS will have to reduce the cost of other bank funding sources. For instance; sinking the requirement needed for participating banks issuing debts in public markets. By lowering the overall funding cost for the banks, the availability of credit made by banks will increase as banks reduce loan rates. It is expected that by increasing lending, there will be an increase in consumption and investment spending. As stipulated under the design of the FLS, banks that lend out more money to households and businesses are allowed additional cheap funding from the bank. This cheap funding enables cheap lending. This boosts the economy. The deposit rate offered by banks was so low (Fatouh, 2015). This discourages deposits and savings. Aggregately this encourages most households to increase the amount of money they spend on consumption.

The FLS uses a more direct way of reducing borrowing cost than through Quality Easing (QE). FLS reduces borrowing cost by going directly through the banking sector. Thus, those reliant on banking as their source of finance are the immediate beneficiaries. Whereas QE worked by increasing the amount of money held by the non-banking private sector. It does so by reducing the cost of capital market issuance and increasing asset prices. When asset prices are high, it implies an increase in the wealth of its owners. Also, portfolio balancing for riskier assets could reduce interest rates for new corporate bond issuance (BoE quarterly bulletin, 2012). Therefore QE is of benefit to the owners of assets and businesses who are able to issue equity or debt in the capital markets. Thus, the impact on households and businesses is indirect through the impact on demand and incomes. FLS and QE can therefore be complements to each other. Both can work together to reduce the cost of finance through the banks and the capital markets respectively to benefit the economy as a whole.

The initial amount each bank can borrow is a minimum of 5% of its stock of existing loans to the real economy. No upper limit was set for the amount of funding that each bank can access. Banks are only required to show proof of sufficient collateral. Subsequently, banks are allowed access to additional funding, which must be equal to any net positive lending. In most cases, each net lending made by the bank makes it

possible for the bank to borrow an equal amount of additional cheap funding from the scheme. The factors that determined the supply of credit to the real economy in the scheme are: the funding cost, the need for some banks to repair their balance sheets and the response of other banks' funding costs.

### **3.4 Policy Measures**

There were some measures put forth to support and sustain the core elements of the banking system, ensuring that there is enough fund available to support the level of economic activities and to protect the savings of households. Given their level of importance to the economy, a support package was made available for banks that provided capital injection into the economy with guarantees and a liquidity facility provided through the BoE. Some of these measures were costly and overlapped with other measures. As a result, not all measures were taken up by the market. They were, however helpful to the main banks in getting through the financial crisis. In 2010 which is just three years after the start of the financial crisis, the UK's mortgage market structure was almost unrecognisable, though the organisations involved were very similar as those that existed (Scanlon and Whitehead, 2011). At this point, the industry had become more heavily concentrated.

The market share of the top six lender's new lending was at a peak of 91% in the second quarter of 2010. This figure was just 67% in the second quarter of 2007 (CML, 2010b). The government's response to the housing market was geared towards offering support to existing homeowners, the construction industry and the housing market. The first government assistance following the crisis was in 2008 where it stimulated the housing market, offered support to homeowners faced with difficulties in meeting up with their mortgage payments and clearing the backlog for new supply (Wallace and Ford, 2010). The second support from the government was aimed at reducing the effect on individual households and on the market as there were already projections of an increase in possession cases. According to Scanlon et al. (2012), the BoE's base rate reduction was the key measure to this achievement. The household number assisted by this specific initiative was less than the anticipated number.

With regards to the market, the rate of interest has remained very low, resulting from market behaviour in response to the recession and policy action. Since the year 2009, short-term arrears and possession numbers have been in a decline, although the long-

term arrears and possession figures did not follow suit until 2010 where it started declining slowly. In the first quarter of 2009, property in possession was estimated at 24,100 (Whitehead and William, 2011). By reducing house prices and interest rates, there has still not been of complete help to accessibility and affordability. This is because most first time buyers still cannot afford the high deposit. Nevertheless, it helps in reinforcing emerging trend tenure structure by a shift in both supply and demand of housing into private renting. There has been a catastrophic impact on the supply of houses. The capacity of the house building industry has been slow to respond (Wilcox et al., 2010). If care is not taken, a future balance sheet constraint will result as some house builders have been forced to offer their own equity loans in order to sustain sales.

### **3.5 Reviews of Related Theories**

These are theories related to this study that will be used to explain some concepts. These includes: agency theory, credit rationing theory and the theory of demand and supply as explained below.

#### ***3.5.1 Agency theory***

The theory explains the coincidence that exists between positive research and normative research. Positive research here describes what economic agents actually do while what they should do is described with the use of normative research. They discovered that many households normally seek advice from financial planners and other experts. However, some of these households end up making decisions that are hard to reconcile with the advice. In the running of a business where the principal mandates a duty to another person called the agent, certain costs are bound to arise. This includes the cost incurred by the shareholders or the principals in monitoring the activity and actions of the managers or agent. This cost is what is referred to as the agency cost. Agency cost comes as a result of the uneven balanced information system or information asymmetry. These monitoring costs usually lead to an increase in the cost of capital to the firm (Gorman, 2002). Three factors as identified by Jensen and Meckling could have an influence on the agency cost. These include monitoring and bonding costs, incentive effects and bankruptcy and reorganisation costs.

The agents are meant to represent the interest of the principals. However, it is sometimes not the situation. Agents in the banks, for example, are limited from acting completely in the interest of the principal because their activities are sometimes

influenced by a third party which is the government through their regulatory body. Gutner (2005) used the agency theory to explain the gap that exists between mandate and performance in organisations. His findings concluded that the gaps between mission and performance are unlikely to disappear, but can only be reduced (Gutner, 2005). At times, the principals may sometimes be agents while the agents may sometimes be seen as principals. It all depends on what is being analysed.

### ***3.5.2 Credit Rationing Theory***

Credit rationing has evolved over the years and has been explained by a considerable body of literature. Credit rationing can be understood by simply understanding the law of demand and supply. The law of demand and supply suggests that if the demand for loan is so high such that it exceeds the supply, interest rates will have to rise in order to reduce demand and establish an equilibrium in the market (Stiglitz and Weiss, 1981). In a similar manner, when the supply of loans exceeds the demand for it, interest rates are expected to fall so as to reduce the cost of borrowing, thereby increasing demand and restoring equilibrium. This implies that interest rate acts to clear the market and re-establish equilibrium. Banks, however do not always act in a like manner by increasing and reducing rates. What they do when the demand for loans exceeds supply is to ration credit or to make available to customers less than what is demanded.

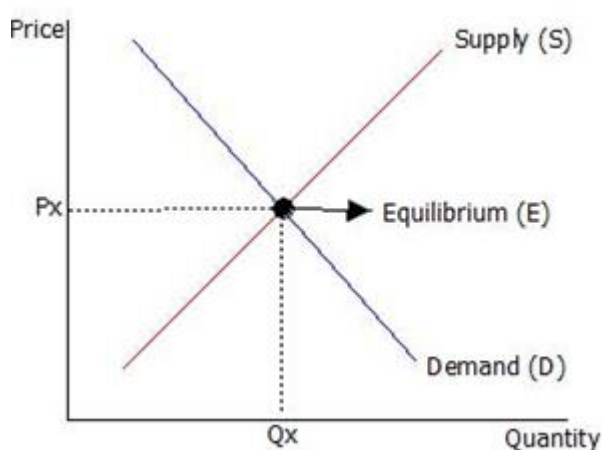
Credit rationing's theoretical explanation can be traced and explained far back to the so-called Availability Doctrine. The argument put forth by Rosa was that monetary policy can have an impact on credit availability through its effect on lenders. Other subsequent contributions that followed offered theoretical explanations that were mainly descriptive and institutional in nature and based primarily on the imperfection existing in the commercial loan market. Bikker and Hu (2012) argue that in a cyclical downturn, credit rationing is barely driven by a shortage in bank capital as the capital crunch hypothesis assumes. No assumptions were given exogenously from the early models of credit rationing which made a consideration of the demand for loans and loan rates (Gorman, 2002). The only available assumption was that the reaction of lenders to changes in yields on government security determined credit availability.

Another alternative approach to credit rationing has been the use of collateral. There are two types of collateral in loan contracts. The first one involves a situation where the borrower pledges some assets as security in the event of any default. The second is

when the borrower pledges additional assets such as personal assets of the borrower which otherwise would not normally be made available to lenders. Stiglitz and Weiss' view considered collateral in the same light as interest rates and view collateral as a disincentive for the borrowers to default. As a result, increasing the requirements for collateral has the same potential negative effect as increasing interest rate. Nevertheless, they studied the separate effects of interest rates and collateral requirement. Another study by Bester (1987) allowed banks to make adjustments in interest rates and collateral requirements simultaneously.

### ***3.5.3 The Theory of Demand and Supply***

Demand is the quantity of goods demanded by the consumers at a particular price or interest rate and at a particular time. On the other hand, supply in the context of the housing finance represents the availability of mortgage loan that can be made available to the borrowers at a particular time upon demand. Any effective demand must be backed by the ability to pay. Therefore, banks always consider the ability of the customers to pay back the mortgage loan as the most important factor in the demand and supply of housing finance. The ability of the borrower to pay back is often determined by the employment stability of the borrower, credit rating and the net income (Basten and Koch, 2014). The theory is always better explained with the use of the demand and supply curve as illustrated below.



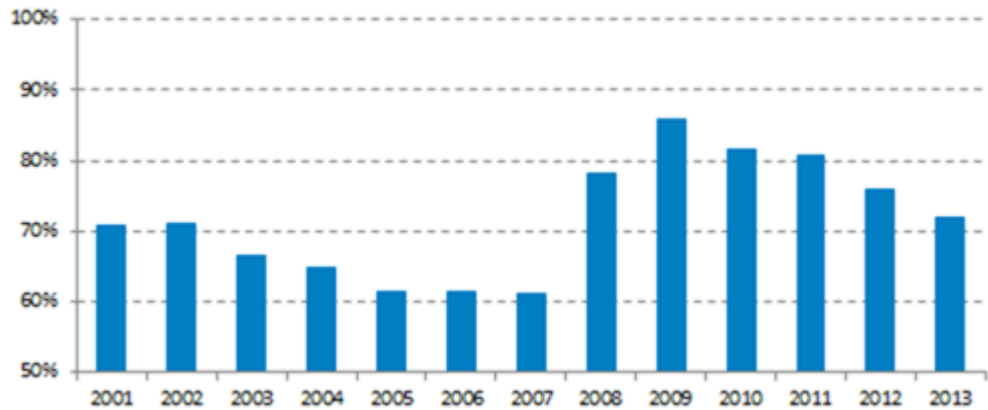
***Figure 3.2: Demand and Supply Curve***

As observed from the Figure 3.2, equilibrium levels are reached when quantity demanded is equal to the quantity supplied. At that point, the price is set by the market. The demand and supply for housing finance is usually determined by the following factors (Chandler and Disney, 2014).

1. Interest rates. *Ceteris paribus* (everything being equal), when interest rate rises, it leads to a decrease in the quantity demanded while a decrease in interest rates lead to an increase in the quantity demanded. On the other hand, supply increase with increases in interest rates.
2. Net income levels. Individuals have varying income levels. Generally, when the net income of households or individuals are high, there is a greater probability that their application for a mortgage loan will be granted. This is because higher net income serves as the ability to repay the monthly installment on the mortgage loan.
3. Price. The increase in house price usually leads to increase in supply *ceteris paribus*. In relation to demand, it leads to a fall in demand while a fall in house prices leads to a fall in supply and an increase in the demand for mortgages.
4. Availability of credit. Supply is only possible where there is credit readily available. Therefore, the availability of credit increases supply.

### **3.6 Evaluating the Market for the Financial Crisis and the Provision of Mortgage Finance**

In contrast to industrial experience, gross lending for mortgage loans have been on the increase after the credit crunch. However, this expansion has been on marked differences in terms of the individual figures by the lender contributing towards this overall increase. It is very striking to note that before the onset of the financial crisis, the top six lenders were leading the mortgage market. In 2006, they account for 61% of the total gross lending. During the financial crisis, many smaller lenders exit the market, leading to the increasing dominance of the market by the six largest lenders. By 2009 therefore, these lenders reached a peak and accounted for an estimate of 86% of all lenders in the market. After 2009 however, there was a shift in market concentration as there was a significant reverse in this trend (CML news and views, 2014). From 2010 up to 2013, there has been a sharp fall in the combined market share of these top six lenders. In 2012, their gross lending went down to 76% and in 2013; there was a further fall down to 72%. As observed in figure 3.3 below.



*Figure 3.3: Top Six Lenders' Share of Gross Lending*

*Source: CML news and views, 2014*

It is observed from the figure that there has been a fluctuation in lending activities by the top six lenders. Their market shares decreased gradually from 2000 to 2005. From 2005 to 2007, the share of lending remained almost the same with a very low rate of increase. It picked up again during the 2007 financial crisis period as many smaller firms dropped out of the market. From 2007 to 2009 (throughout the financial crisis period), their market share remained high. However, from 2010 to 2013 the market share of these top six lenders has remained low and declining.

### **The Top Six Lenders**

Table 4.9 below shows that despite the removal of the TSB banking group from the total, Lloyds banking group ones again remained the largest overall lender. Although their market share increased from 18% in 2012 to 20.2% in 2013, the amount of lending dropped from £26.2 billion to only £35.5 billion. Nationwide Building society and Santander also gained market share by emerging the second and third largest providers respectively. Nationwide occupied the second position among the top six lenders. In 2013, the market share for its new lending increased to 15.3% in 2013 from 14.6% in 2012. The third position on the list is Santander. In 2013, Santander increased its market share from 10% in 2012 to 10.4% in 2013. Its total lending increased to £18.3 billion or by 23%. Santander's tremendous increase in lending is very remarkable as the bank went up from the fifth position in 2012 to the third position in 2013.

The market share as well as the total lending for Barclays bank reduced from 12.5% to 9.6% and from £18.2 billion to £16.9 billion respectively. HSBC bank followed the

same pattern of decrease. The Royal Bank of Scotland also witnessed a decrease in their market share and a slightly insignificant increase in its lending gross lending. The Royal Bank of Scotland PLC and NatWest imposed a financial penalty of £14,474,600 for misconduct in their advised mortgage business by breach of principle 9 and 2 of the FCA between 1 June 2011 and 31 March 2013. Barclays bank was imposed a penalty of £284,432,000 by the FCA for failing to control business practices in its foreign exchange business in London. Table 4.9 below shows the lending activities of the first 20 lenders in the UK.

*Table 3.4: Gross Mortgage Lending*

		Gross mortgage lending in year				
Rank 2013	Rank (2012)	Name of group	2013		2012	
			Estimated £bn	Estimated market share	Estimated £bn	Estimated market share
1	(1)	Lloyds Banking Group	35.5	20.2%	26.2	18.0%
2	(2)	Nationwide BS	26.9	15.3%	21.2	14.6%
3	(5)	Santander	18.3	10.4%	14.6	10.0%
4	(3)	Barclays	16.9	9.6%	18.2	12.5%
5	(4)	HSBC Bank	14.5	8.2%	16.4	11.3%
6	(6)	The Royal Bank of Scotland	14.3	8.1%	13.9	9.6%
7	(9)	Yorkshire BS	6.8	3.9%	4.6	3.2%
8	(7)	Coventry BS	5.9	3.3%	5.1	3.5%
9	(8)	Virgin Money	5.6	3.2%	4.9	3.4%
10	(10)	Clydesdale Bank	3.1	1.8%	3.1	2.1%
11	(13)	Skipton BS	2.3	1.3%	1.4	1.0%
12	(12)	Leeds BS	2.2	1.2%	1.7	1.2%
12	(11)	Co-operative Financial Services	2.2	1.2%	2.8	1.9%
14	-	TSB Banking Group	1.4	0.8%	-	-
14	(14)	Principality BS	1.4	0.8%	1.2	0.8%
16	(15)	Bank of Ireland	0.9	0.5%	0.8	0.6%
16	(18)	Aldermore Mortgages	0.9	0.5%	0.5	0.3%
18	(20)	Kent Reliance BS	0.8	0.5%	0.3	0.2%
19	(16)	UBS	0.7	0.4%	0.6	0.4%
19	(16)	Nottingham BS	0.7	0.4%	0.6	0.4%

*Source: CML news and views, 2014*

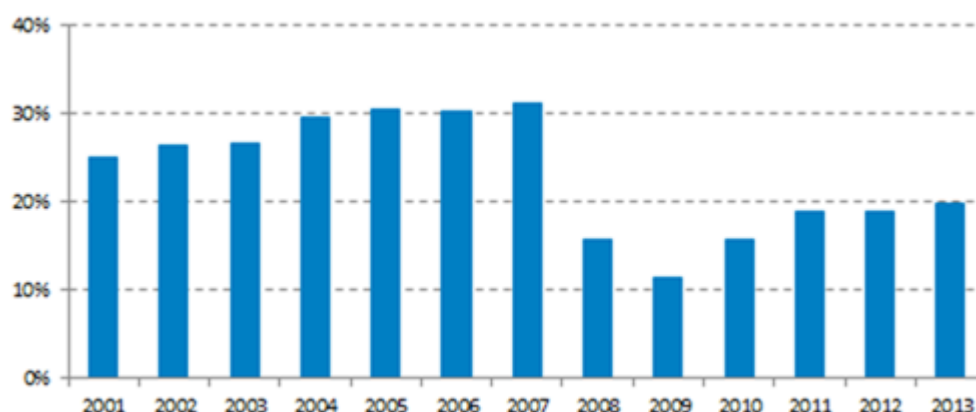
As observed from the Table 3.4, Lloyds Banking Group maintained the first position in both 2012 and 2013. Nationwide Building Society also emerged second in both years with its market share increasing from 14.6% or 21.2 billion pounds in 2012 to 15.3% from 26.9% in 2013. In 2012, the third position was held by Barclays but in 2013, there was a decline in their lending activities which took it to the fourth position. Santander, which had occupied the fifth position in 2012 now had an increase in its gross lending, bringing it to the third position in 2013 with an increase in its market share. HSBC



Bank was 4<sup>th</sup> in 2012 but in 2013, it moved to the 5<sup>th</sup> position with a fall in its market share. The Royal Bank of Scotland occupied the last position amongst the top mortgage lenders. It also witnessed a fall in its market share from 9.6% in 2012 to 8.1% in 2013 (CML news and views, 2014).

It is important to note that despite the fall in the market share of the top six lenders, some banks among the top six still had a slight increase in their market share. These are those banks that occupied the top three positions like the Lloyds Banking Group, the Nationwide Building Society and Santander bank. Barclays bank, HSBC bank and The Royal Bank of Scotland, which occupied the fourth to sixth positions respectively all had lower market shares of new lending in 2013 than in 2012 which more than offset the gains that were made by those in the top three places. This effect, therefore leads to a decline in the overall activities of the top six lenders.

Despite these decreases in their market share, there is a great increase in terms of their total lending from 110.5 billion pounds in 2012 to 126.4 billion pounds in 2013. The mortgage market provides a competitive environment with these top 20 lenders accounting for up to 91.6% of total gross lending, a decrease from 95% in 2012. The lenders outside the top lenders (seventh to twentieth lenders) advanced mortgages that were worth £34.9 billion in 2013. This increase of 26% was more than the amount they lent in 2012 which was worth £27.6 billion (these totals for 2012 do not include figures from the TSB Banking Group as it was included already in the totals for Lloyds Banking Group.) Figure 4.10 below shows the gross lending for the 7<sup>th</sup> – 20<sup>th</sup> largest lenders ‘share.



**Figure 3.5: Gross Lending for 7<sup>th</sup>–20<sup>th</sup> largest lenders**

*Source: CML news and views, 2014)*

Figure 3.5 shows that out from 2003 to 2007, there was an increase in the lending activities of these lenders. But due to the effect of the financial crisis, there was a sharp decrease in their market shares from 2007 to 2009. From 2010 up to 2013, there has been an increase in their lending activities which has increased their market shares comparatively. Eleven lenders out of 14 outside the top six lenders showed increases in lending in 2013, with a strong year-on-year growth. Yorkshire Building Society showed the largest change, increasing her advances by 48% or from £4.6 billion to 6.8 billion in 2013. This very strong growth saw an increase in its market share by 0.7%, which moved it up the 7<sup>th</sup> position in 2013 from the 9<sup>th</sup> position in 2012. The other lender which experienced drastic growth in their market shares includes Skipton Building Society, Aldermore Mortgages and Kent Reliance.

### **3.7 Summary**

This chapter has covered the general view of the financial crisis and the relationship with housing finance. It has aided in identifying the gap that exists in the review of the literature on housing finance and fluctuations in the market as well as the recent shift in the provision of mortgage loan from the main HSB to other residential mortgage providers. It is observed that a lot of studies have discussed on the changes in bank lending during the financial crisis, but no study has actually been able to identify the actual mean difference in the changes before, during and after the financial crisis period or proved the level of statistically significant of these changes which is what this study seeks to identify. The chapter has also successfully identified and discusses the relevant theories that underpin this study. The following chapter reviews literature on the UK banking system.

## **Chapter Four: The UK Banking System**

### **4.1 Introduction**

This chapter is an overview of the literature in the UK retail banking system in order to attain a level of understanding that will ascertain the objectives of the study. It identifies existing gap in the literature in order to understand the position in the retail banking sector and the changes that have occurred over time. It starts by reviewing the literature in the banking industry, which is followed by the banking regulations and the review of some empirical studies on general bank lending. It then proceeds with the determinants of banks 'lending and ends with a review on risk management in household lending.

### **4.2 The banking System in the UK**

Historically, the banking system in the UK has been one of the most stable worldwide, though the financial crisis has had some effect on the banking system. Barclays, NatWest, Lloyds, HSBC is traditionally the “big four” retail banks in the UK as well as two large Scottish banks: the Royal Bank of Scotland and the Bank of Scotland. There also exist a good number of building societies which have over the years demutualized to become banks (BoE, 2013). The Bank of Scotland bought over the largest building society - Halifax and became HBOS and began to go after mortgage and savings market. The renowned Lloyds bank, which was known for its caution bought the Cheltenham and Gloucester building society so as to use it to sell their mortgages and savings. Some building society like the Northern Rock and others borrowed large amount of money in the short term money market and offered them up as lenient mortgages. They allowed 125% of the value of these houses to be borrowed and sold over the phone and internet (Bush, 2014). This behaviour by banks and building societies were mostly because in the early 21<sup>st</sup> century, large amount of money was printed by the BoE, thus driving interest rates down.

All of these came to a halt in 2007 following the credit crunch. Money markets stopped lending and the first bank run in Britain emerged when it was announced that the Northern Rock bank was in need of emergency funding from the government. The short term money market froze with the collapse of Lehman Brothers. The Royal Bank of Scotland and Halifax Bank of Scotland were on the verge of going Bankrupt with just hours away from stopping withdrawal of funds. The government funded both banks,

nationalised the Royal Bank of Scotland, and merged Lloyds with Halifax Bank of Scotland group (Thelwell, 2007). A good number of building societies also ended up merging with bigger societies like Nationwide Building Society and Yorkshire Building Society due to either poor loans or the collapse of Icelandic banks. The central bank in the UK is the BoE which controls the monetary policies in the economy. It stabilizes and regulates the commercial banking industry and sets their primary borrowing rate, also known as lending interest rate (Buckley, 2011).

#### ***4.2.1 Competition in the banking sector***

The banking system in the UK is generally said to be highly concentrated with insufficient competitiveness. It comprises of many separate product marketing. In terms of lending stock, Lloyds is the largest in mortgage, RBS in SME and Barclays in credit cards. There are different competitors to these HSB (Granitsas, 2012). These include: Building Societies for the mortgage market, Tesco and Metro Bank for current accounts, MBNA and Capital One in credit cards and Aldermore, Handelsbanken, Santander and Shawbrook in SME lending. The recent announcement by Virgin is that it has grown its mortgage book by 17% in 2013 and has topped £20 of mortgage balances (Barty, 2014). The big six mortgage lenders in the UK are Lloyds, Barclays, Santander, RSB, HSBC, and Nationwide. The share of gross mortgage lenders outside the big six rose to 28.8% (2013) from 22.8% (2012) and 17.5% (2011). For banks and building societies outside the big six, their share of gross lending more than doubled to £50.8 billion in 2013 from £24.7 billion in 2011 (Prager, 2013). This makes a total of £79.6 billion outside the big six providers. Saffron Building Society, Cambridge Building Society, UBS, Aldermore Mortgages and Market Harborough Building Society, were identified as new entrants into the mortgage market. These together made up 2.5% share of total gross lending.

The major banks are facing challenges as different parts of their businesses are increasingly being challenged by competitors. Some are in terms of product types, opening hours or offers on products. This enhanced innovation as already established in the supermarket and airline industries. The growing activities of small lenders have increased competition in the UK and the benefits of a healthier and even more competitive mortgage market for consumers (Thelwell, 2012). The restoration of the lenders outside the top 20 of the levels of participation last seen before the onset of the credit crunch is the most striking features of the market in the last couple of years. In

2011, lending by these small firms collapsed to less than 1% of the total market share. Since then, however, there has been a strong recovery in their activities to a market share of more than 8%, matching the pre-crunch levels in just two years (CML news and views, 2014).

#### ***4.2.2 Ring-fencing in Banks***

Bailey and Vickers (2013) have publicly stressed on the need to separate trading activities of banks into separate legal entities. On November 6 in London at a Bank of America Merrill Lynch conference, Andrew Bailey - the managing director of prudential regulation at the FSA addresses the challenges in evaluating the capital requirements for banks. In a like manner, John Vickers, who headed the Independent Commission on Banking made a proposal last year on the banks' ring-fencing. This demands that major European banks would have to build a firewall separating retail from investment banks. Bailey then proposed certain considerations to shape the answer of some key questions like what type of capital will UK banks need; do they really need extra capital and how fast should this be introduced. He emphasised the need for the Financial Policy Committee to reach a conclusion as soon as possible so as to avoid future uncertainty.

Bailey's considerations stems from the uncertainty surrounding judgments on the quality of asset classes and their valuation. This reflects the unusual and difficult economic juncture in addition to the challenges involved in determining the scale and nature of loan forbearance. Secondly, the possible impact of the disorderly break-up in the euro area could have a sizeable impact on many banks (Bailey and Vickers, 2013). Thirdly, Bailey made reference to the low market value of some banks in relation to their book value. Being considerably lower than were expected, he queried how much of this should be attributed to lending margins. The FSA chief of prudential regulation said with matters concerning its objectives, the Prudential Regulatory Authority should focus on its judgments. Bailey condemned the business model with low cost of equity and high return on equity as to him; it is only through the mismanagement of risk that such a model could be appropriate. To him, the cost of equity depends on whatever choice banks make on risk.

### **4.3 History of Banking Regulation in the UK**

The banking act of 1979 was the first in the UK that put banking regulation on a statutory footing. According to the Act, certain requirements were necessary for any bank to accept deposits from the general public, even though no definition was given yet of a bank (McConnachie, 2009). The general requirements were whether the bank could accept deposits or not. These were: The bank must provide the nature of its banking services; the bank must give the importance of these services with regards to business as a whole; the banks must provide the reputation of its institution. The second Act was introduced eight years later in 1987. It replaced that of 1979. It tightened the regulatory control of the BoE. The Johnson Matthey Bank crisis in 1984 was the impetus behind the 1987 Act, which exposed the loopholes of the 1979 Act.

Due to the crisis, Johnson Matthey was taken over by the BoE with the authorisation of the Chancellor Nigel Lawson. The BoE's intention of the bank was not to keep it going as a viable business as it did with the case of the Northern Rock but to run it down carefully (Thelwell, 2012). Another law was passed in 1966 for property investment. Loans to the property market by 1974 constituted about 20% of total commercial lending by the UK banks. This left the banking sector extremely vulnerable to any severe downturn in the property market. In April 1994, the 20% baseline mortgage tax relief (MITR). Interest rates were high in 1980, reaching a record of 17% while mortgage rates reached 15%.

According to the 1987 Act, BoE had the power to vet shareholders of UK banks. Also, any institution which was not authorized was prohibited from accepting deposits from the general public. A Deposit Protection Scheme was also established in order to protect the account of customers. This scheme was replaced in 2001 by the Financial Services Compensation Scheme (Prager, 2013). Authorized institutions had the responsibility to report to the bank it involves itself with any risky transactions relating to one person which could lead to a loss in excess of 10% of its capital. Regulations governing overseas institutions which were based in the UK were also included in the act. Two banking scandals occurred between this act and the next act of 1998. These were the 1991 Bank of Credit and Commerce International (BCCI) scandal and the Near Collapse of Barings in 1995.

In 1991, Fraud activities by senior staff led to the collapse of the BCCI. The BoE commissioned an inquiry team under its supervisory power. The report clearly stated that all those banking group structures that deny supervisors clear view of the running of their business should be banned. The Bingham report made several recommendations which were published in October 1992. There was an injunction of Opaque Financial Structures. Information flow to supervisors should be well improved upon. Lastly, that fraud should be detected and prevented. To summarise the recommendations therefore the BoE should be given express power to refuse the authorisation from banks where proper supervision is impossible (BoE, 2013). In conclusion, the opaque and the complex company structure was the main problem as defined in the Bingham Report.

The second scandal was that of 1995 where Barings almost collapsed. Baring suffered a lot of losses in the derivative market due to the activities of Nick Leeson, a trader for Bearing Singapore. Leeson's trade in the future market resulted in £827 million losses. The interests of depositors were protected only through the sale of most assets and liabilities of the Bearings Group (McConnachie, 2009). Thus, depositors were able to get back their money while Barings managed to survive. Investigations by Lord Wolff reported that due to severe confusion and failure of management and control, concealed and unauthorized activities in Barings Singapore resulted in losses. In 1998, another banking act was created with two main objectives: The FSA was to take over from the bank the supervisory responsibility of the deposit taking institutions. This is because of the Barings Bank scandal, the BCCI and the Robert Maxwell's fraud brought down the reputation of the City. The Bank was to be given the operational responsibility of setting interest rates to meet the inflation target of the government.

Following the negative inability of the FSA to handle the situation that led to the financial crisis, it was replaced by the FCA. The BoE was granted the responsibility to determine the operation of monetary policy and was answerable for this to the parliament. The goal of the monetary policy was retained by the government. The Financial Service and Market Act (FSMA) of 2000 replaced most of the other acts. Its aim was creating a unified system of statutory regulations which will preside over the financial service market plus regulating general insurance businesses and mortgages. It continued the emphasis on banks to be authorise before accepting deposits as a bank. The unauthorized ones were terminated under section 33 by the FSA Art 5(1).

### ***4.3.1 The British Bankers Association (BBA)***

The BBA is a leading association for financial service and banking sector in the UK. Its membership is over 250 and operates in 180 different countries. It represents over 200 financial institutions within the country (Barty, 2014). It operates 150 million personal accounts for UK customers and contributes over £60 billion to the UK economy annually, with its member banks making up the world's largest international banking cluster. They work together and represent their members' interest in policy making, regulating all key stakeholders and media across the UK, Europe and even beyond in order to promote a regulatory and legislative system that can help its customers to promote growth while raising standards in the industry (Edwards et al, 2012). The BBA came into existence in 1920 from the merging of the Association of English Country Banks and The Central Association of Bankers. This association on a daily basis publishes the London Interbank Offering Rate (LIBOR) at 11:45 a.m. UK time. After screening out the low and high rates, the average is calculated and published as the BBA Libor Fixing at 12 noon UK time. The Libor or bbalibour is an official rate (benchmark rate) set up by the BBA for banks to charge when borrowing from each other.

It was limited to representing only the common views of their members. The 1973 reconstitution of the BBA granted it a committee-based decision making unit which was agreed to be capable of promoting consensus amongst its members on community matters. Furthermore the 1974 decision made the BBA an identifiable spokesman for the banking community than ever before, given the separation of the secretariat and the administrative services from those of the committee of London clearing bankers. It was also rejuvenated to act as the bank's spokesman with its role extended to non-community derived legislative proposals (Sergeant, 1982). The attitude of the BoE towards the association was a very favourable one. Over the years, the BoE even went further to encourage various associations of groups of banks to present their views on particular issues not individually but collectively through the BBA.

However, the BBA has become an organisation under which the banking community can consolidate its representation on a more permanent and wide ranging basis. According to Kwan (2009) the rate at which banks lend to each other and to non-bank borrowers after the crisis increased to a very high rate that the rate offset that of the monetary easing implemented by the Federal Reserve after the crisis in 2007. Kwan



(2009) clearly states that the Libor rate is not a true transaction rate but is an indicative rate.

#### ***4.3.2 Changes in the FSA***

The financial service Act of 2012 brought major reforms in creating a UK's regulatory framework. Two new authorities: the prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) was created to replace the FSA. The FSA was responsible for the regulation of financial firms from both the prudence and conduct perspectives (BoE, 2013). The PRA is responsible for the prudential regulation of banks, building societies, credit unions and major investment firms, functioning as part of the BoE. As a prudential regulator, it is responsible for promoting the safety and soundness of the firms, seek to minimise any adverse effects that might arise on the stability of the financial system in the UK and also contribute towards ensuring the appropriate protection of policyholders.

The FCA's responsibility is to ensure the effective functioning of relevant markets. It is also responsible for the conduct regulation of all financial service firms and the prudential regulator of those financial service firms that are not supervised by the PRA like asset managers. It acts as a separate institution. The financial stability of the financial system in the UK became the responsibility of the BoE. The bank will in addition take the responsibility of the supervision of the central counterparties and securities settlement. It would also co-ordinate the financial sector resilience. The body charged with identifying, monitoring and taking action to reduce or remove systemic risk is the Financial Policy Committee (FPC) established within the bank. This body will make recommendations and give directions to both the FCA and the PRA with regards to specific actions that will be undertaken to achieve the objectives of the FPC.

#### **4.4 Reviews on General Bank Lending**

In a cross sectional study, Haas and Horen (2013) examined international bank lending during the financial crisis. In their cross-sectional study where international borrowing by firms at home during the 2008 financial crisis was compared with those abroad using the Dealogic Loan Analytics database. They realized that after the collapse of the Lehman Brothers, international banks adjusted their cross border lending negatively. On the other hand, the amount of lending within an economy was higher compared to the proportion of new credit across the border, especially to firms that were closer to

collapsing. Even though the work of Haas and Horen depicts the situation of the financial crisis, it is however limited to lending at international levels.

Fraser (2012) based his own study on SMS in the UK. He based his study on sampling large, representative sample businesses with less than 250 employees. He used econometric technique to analyse his data based on a longitudinal/panel study. The findings revealed that reducing the available bank debt has been the most important effect of the financial crisis besides increasing the cost as measured by overdraft facilities and term loan margins. His findings also confirm the fact that there were two phases in the financial crisis: the liquidity crisis and the insolvency crisis. Fraser's research is on the current financial crisis in the UK but limited to SMS only. This research will elaborate on this by looking at the situation of household lending on the retail banking sector.

In their research work, Coleman and Feler (2012) studied bank ownership, lending and local economic performance during the 2008 financial crisis. Only secondary sources of data were used for the analysis. This came from the central bank figures, yearly employment census and the ministry of labour. They found that areas with high share of government banks were experiencing increases in lending as well as increases in their GDP, employment, labour hours and wages. Those with a low share of government bank did not. This is because there was a more credit injection by the government for government banks which were used to offset the decline in lending by private banks and to mitigate the effect of national recession. The review of this study is relevant as it studies the reaction of bank lending during the 2008 financial crisis as well as the reaction of the government which is similar to the bailout situation of banks in the UK (Thelwell, 2012). It is however limited in that it uses only secondary sources of data in its analysis. Also, it considers only the intervening influence of the government.

Freedman and Sudarsanan (2012) carried out a cross sectional study of the retail banking sector of Qatar and Bahrain. They found that in both countries, the banking sector saw an abrupt slowdown in their amounts of housing loans during 2007 and 2010 after a very high growth registered during the boom periods. However, housing finance picked up again in both countries in 2011 with the help of financial injection into the economy by the government. Similarly, Kwan (2010) limited his study on the financial crisis and bank lending estimates on how banks tightened loan demands for commercial and industrial loans. Banks tightened loan rates by reducing the discounts on large loans

while raising the risk premium on riskier loans. This signifies how difficult it was for households to be able to obtain a loan during this period. This study focuses only on the supply side findings of bank loan.

Leask (2011) argued on the UK lending institutional activities to secured and unsecured household lending, non-banks, financial institutions, small businesses and non-financial corporations. He used the quantitative method of data collection in his study. Lenders were asked about the changes in their recent credit conditions. The results of the findings were weighted according to a firm's market share conditions. His findings revealed that residential mortgage-backed securities and other forms of consumer loan assets were beginning to find favour with investors as the market starts to slowly recover. During the third quarter of the year, a 17.4% jump in household lending was registered. The director of securitisation strategy at the Royal Bank of Scotland, Phil Adams said the continuous recovery in residential mortgaged-backed securities and covered bonds has continued to the uptick for household lending. This study did not look at the implications of these changes in lending on households.

Ivashina and Scharfstein (2010) discovered that during the peak period of the financial crisis, the issuing of new loans to large borrowers fell by almost half (47%) and again by 79% relative to the recent peak period of the credit boom. They also proved that banks which had better access to deposit financing did not cut down significantly on their lending while the less privilege ones in terms of deposit and funding sources considerably cut down on their spending. Aisen and Franken (2008) further pointed out clearly that during the crisis, the ability of banks to lend money to borrowers and other banks was being hurt by the fact that banks faced unparalleled liquidity stress. Contessi and El-Ghazaly (2009) also noticed that before 2008, total loans and leases remained fairly constant, but thereafter, it increased sharply and then declined. These reviews portray the level of difficulties faced by customers during this period in obtaining a mortgage loan in order to update their homeownership status. Nevertheless, they focused their study on general changes in bank lending.

Another research work done by Waweru and Kalani (2009) revealed that most of the lending policies used by bank managers to issue out loan was not well scrutinise. They carried out their study based on retail banks' lending during the financial crisis. They used primary methods to collect their data based on a sample of the 10 largest banks in the country. They came out with the conclusion that non-performing loans were the

reason for the collapse of most of their financial institutions. This resulted from the fact that the customers did hide vital information from bank managers when applying for their loan. Further discovery revealed that banks rely on non-core deposits as their main sources of funding (Gatev and Strahan, 2006; Feldman and Schmidt, 2001). These researchers based their findings on bank lending characteristics during the financial crisis period.

In their cross-sectional study, Puri et al (2011) examined the effect of the financial crisis on global lending to retail customers. They used experimental setting which enabled them to be able to distinguish between savings banks not affected by the financial crisis and savings banks affected by the crisis. Ramcharan et al. (2015); Jensen and Johannesen (2015) also found out that the financial crisis had an induced effect on the contraction in supply of loan to customers. This means the limited available loan was subject to credit rationing. Thus, not all the demand for mortgage loan was met by the supply of it, implying that there was a shortage in the market for the demand of bank loan over the supply of it. Their findings are only limited to identifying the shortage in the market or bank loan.

In a comparative study, Mora (2010) tried to identify the differences in loan growth between the period preceding the 2007 financial crisis and that of the 2007 to 2009 financial crisis. He used regression estimates for quarterly observations on individual banks for a period of nine years. He notices that loan growth increased sharply to a weekly average of 0.18% in the period preceding the crisis (Mora, 2010). However, during the July 2007 crisis of September 10, 2008, loan growth was relatively slow, averaging 0.11%. The slowdown on loans was consistent with the view that banks became less able to provide liquidity as they found it very hard to attract depositors (Huang and Ratnovski, 2011; Cornett, 2011 and Khwaja and Mian, 2008). In order to meet up with creditors' demand, banks had to turn to alternative sources of funds. In the last two weeks of September 2008, bank lending shot up, reaching a weekly growth rate of 0.56%. From October 8, 2008 up to July 2009, loan growth turned negative to an average weekly rate of 0.05% (Mora, 2010). These studies can be compared to mean that the decrease in loan growth resulted from the contraction in deposits. The researchers limited their studies to the difficulties encountered by the banks.

According to Kwan (2010), in November 2008, the Federal Deposit Insurance Corporation, the Federal Reserve, the Office of the comptroller of the currency and the

office of thrift supervision issued the interagency statement to meet the needs of creditworthy borrowers in an attempt to increase lending. The work of Mora (2010) however, goes beyond this scope to discuss the similarity of the current crisis to past crisis. Thornton (2012) in his paperwork on the Federal Reserve Response to the financial crisis made it clear that since financial institutions were holding large quantities of mortgage-backed securities, credit markets froze-up with increasing uncertainties. This is because the quality of these mortgage backed securities was unknown even to the holders. However, it was expected that the Federal Reserve could have eased the process by increasing the supply of credit through direct lending and open market operations (Allen and Gale, 2008). However, it also limits itself to just the period between 2007 and 2009. Also, while their findings are based on general bank lending, this study will focus on mortgage lending for the HSB.

#### **4.5 Determinants of Bank Lending**

From the review of literature, it is obvious that financial institutions always endeavour to be low risk lenders. Banks as part of these financial institutions also acknowledge this fact. In order to meet up with the lending needs of the borrowers, the banks have some critical decisions to make, known as credit decision making. There are two main components involved in credit decision making. These include loan structuring and risk assessment. What determines the features and terms that are attached to a loan is what is referred to as loan structuring. On the other hand, risk assessment is used to refer to the process that is involved in evaluating the risks associated with a loan request (Turvey et al., 2011 and Gorman, 2002). The “Cs” of credit is the general credit parameter that is usually applicable to carry out any risk assessment. The number of factors associated with this varies. The traditional approach includes the following parameters: collateral, capital, capacity, credit, character, condition and capability. These factors are explained below.

Collateral here refers to the assets, be it person or business that is made available by the borrower to the bank, which serves as security in the event of any default. The mount worth of this collateral depends on the amount of loan the borrower intends to borrow. Generally, the collateral presented must be equal or above the amount of loan requested. Capital refers to the investment of the borrower or the equity of the business. This serves as a measure of the firm’s ability to weather setbacks (Turvey et al., 2011). Capacity stands for the extent to which the organisation can be able to meet up with its

financial obligations. This is usually reflected in the cash flows of the business account. Credit is the availability of the loan to the customers. A character describes the intention and commitment of the borrower to repay the loan. This has to do with his or her track record. To this effect, a credit record check with the credit rating agency is usually done in order to effectively assess the borrower. The bankers usually refer to the character as the integrity, honesty and willingness of the borrower to deal with the bank reasonably.

The condition refers to the overall number of environmental and internal factors that could also affect the borrowers' ability to repay while capability describes the level of income sources. Diverging views usually arise regarding the degree of the relative importance attached to each of these factors (Gorman, 2002 p. 29). Loan structuring is the other component of credit decision making. Certain decisions are associated with the structure of the loan. They include: the amount of the loan, the repayment terms, the pricing of the loan and the conditions imposed on the use of the loan (Gorman, 2002). The last decision gives specificity to the type and the timing of the information that the borrower must provide so as to enable the lender monitor the loan. Some of the bankers indicated that some loan structuring could be used to turn acceptable some of the unexpected loans.

#### **4.6 Interest Rates and Bank Lending**

Tahmoorespour and Ardekani (2012) explained the behaviour of interest rates on changes in bank's behaviour for 14 international markets. Their study covered seven dependent variables which were financial ratios, with their data sampling ranged from 2001 to 2010. By using regression, they found that bank's behaviour regarding interest rates depends on the various markets where the banks are operating. This is because each market has its own unique, economic and financial characteristics. In his research on the financial crisis and loan rates, Kwan (2010) used transaction data for about a million industrial and commercial bank loans for a panel of 350 banks for a period of thirteen years. He used this to study how loan rates were behaving during the financial crisis with more specific reference to credit tightening and the supply side effect of bank credit. He found that the average loan spread had an increase of about one percent point from the loose condition in 2007 to a very much tighter condition in 2010. His result also showed that smaller bank loan rates were looser than those large and medium size banks. Furthermore, while those smaller banks tended to have a loose loan rates, they

always charge more. For loan sizes, the amount of tightening in small loans was found to be less than in larger loans.

Both Kwan (2010) and Tahmoorespour and Ardekani (2012) limit their work only to interest rates. This research will go beyond this scope to include other variable of lending with a focus on household mortgage loan. The financial crisis caused higher interest rates on deposits and loans across the euro area, with the high rate on deposit aimed at attracting deposits from customers. It is an important source of funding or capital for banks DNBulletin (2012). Subsequently, banks charged very high interest rates on borrowing or on loans in order to make up for the loss and maintain profitability. Most banks that had liquidity surpluses did not see it as an option to lend to other banks in the money market. This is because they considered the credit risk involved on loans to other banks to be too high. These banks preferred to hold their cash surpluses as a liquidity buffer while attracting deposits in order to narrow their funding gap and to reduce their dependence on the money market. This resulted to higher deposit rates as banks compete with their peers for households' savings. In the peripheral EU countries like Greece and Portugal, the competition is even more intense.

With the dry up of financial sources, banks in the EU areas offered increasing rates on deposits so as to make more money available for lending. This is in an attempt to boost mortgage loan. Shafique et al. (2012) worked on the impact of global financial crises on the Islamic banking system. They used interest rate as their main factor in carrying out their research work based on descriptive studies by comparing the impact of the crises on the conventional banking system and on Islamic banking. They found that Islamic banks performed better with less risk during the crisis than conventional banks because of its interest free nature. Thus the Islamic banks proved more stable during financial crisis than conventional banks. Earlier studies by Flannery and James (1984) discovered that conventional banks are being affected by changes in interest rates. However, the interest rate is just one of the factors affecting lending. They failed to look at other factors that could affect lending.

According to Fadare (2011) the use of monetary policies would enhance liquidity and assess the degree to which the recent financial crisis affected the liquidity of bank deposits in the country. In his methodology, he used a linear least square model and a time series data which he collected in a period between 1980 and 2009. The result revealed that the demand for cash decrease in monetary policy rates and liquidity ratio

leads to increases in loan-to-deposit ratios while the decrease in the loan to deposit ratio caused by the circulation of currency is proportional to the banking sector's deposits and lagged loan-to-deposit ratio. Their result thus suggested that in ensuring that the banking sector survives during periods of the financial crisis, it becomes crucial getting liquidity monetary policies right as during periods of the crisis, deposit money banks became significantly illiquid relative to benchmarks. Fadare's work is relevant to my research in that the liquidity of the banking sector has a direct impact on the lending capacity of the bank. That is, the more liquidity the bank has, the more it is able to lend money holding everything constant. His study is however limited to the liquidity of the banking sector.

Eunmi (2011) argued that most countries were facing a great difficulty in financing their current account which was increasingly having a current account deficit. This is because most of their external sources of finance like remittances and external borrowing had slowed down as a result of the financial crisis. Thus, the liquidity of banks was tightened since trade credit flow was reduced while liquidity was withdrawn from the local subsidiaries of foreign banks. This piece of literature is relevant to this research work in scope even though it does not say anything about the other factors that can could influence household lending.

#### **4.7 Risk Management in Household Lending**

Most literature reviews on bank lending confirmed that financial institutions are low-risk lenders. Since after the financial crisis, there has been a lot of increase in the cost of debt funding. Lending rates increase more than the cash rates for two reasons. Firstly, banks have increased their equity funding which appears to be more costly than debt financing. Secondly, the risk margins on loans have risen in order to account for the higher expected losses (Fabbro and Hack, 2011). The key driver of the increase in the banks' lending rates relative to the cash rates in recent years has been because of the high cost of deposits and long-term wholesale debt. The consequences of the higher equity funding cost and higher expected losses is that over the past couple of years, the average lending rates of most major banks have increased relative to the cost of their debt funding. The way banks set their lending rates are as a result of many factors affecting it. The two which are of paramount importance are the costs of debt and equity funding and the losses banks expect to incur on their lending activities (Chouinard and Paulin, 2014).



Seventy five percent of UK banks' domestic lending is accounted for by household. Most of which is secured against collateral. The level of indebtedness in household in the UK has been on an increase. This results from increases in the value of houses and also in pension funds and other financial assets held by households. This high level of household indebtedness raises a lot of concern about the stability of the financial sector and mortgage credit risk. This can be intensified if unemployment or interest rates were to rise or house prices allowed a further decline. The write-off rates for unsecured lending increased to almost 7%, from 2.5% points since 2008. The write-off rates on secured lending to households increased by just a little. A relatively large share of banks' unsecured lending is accounted for by low-income households. The effect of this is that if there is a rapid increase in interest rates, bank losses could multiply. Also, house prices-to-income ratios will remain significant (Jayasundera et al., 2010 and Rivera et al., 2008).

The level of household debt relative to disposable income both in the UK and internationally have remained very high. Despite the significant deleveraging, household balance sheets remained fragile. The impact can be mitigated to some extent by building up on savings as in the second half of 2010. This is because higher saving rates have the capacities to generate enough financial surpluses to reduce household indebtedness. The savings rate has, however already had a fall back from its peak of 7.5% in mid-2009 to as low as 5.3% in 2010 (Lang and Jagtiani. In 2009 and the first half of 2010, house prices recorded a very faster recovery than expected, after falling by 2% since their peak in 2007. The overall situation is that price levels have remained about 15% above their 2007 peak figures. At this level, the price-to-rent ratio and the price to income ratio remain 30% above historical averages. It is important to note that supply constraints are likely to prevent house prices from fully falling back to their historical averages.

Household debt reached 175% of disposable income in the run up to the crisis. This was fueled by rapid mortgage lending. The rise in household indebtedness in the UK was faster than the euro area as a whole and the US. This rise in debt was in line with the increase in the value of housing as well as of pension funds and the other financial assets that were held by members of the household. Within this period, there was a rapid growth in net worth prompted by the fact that the asset side of household balance sheet increased faster than the total debt. There are some factors that cushioned the impact of

the crisis on the household balance sheet. This averted a more severe adjustment. They include the following: forbearance and restructuring of loans by banks, containing the increase in foreclosures; records of low interest rates and dominance of variable mortgage rates, which had a boost on debt affordability; and the relatively limited rise in unemployment compared to other countries and previous recessions (Fabbro and Hack, 2011 and Lang and Jagtiani, 2010).

The sharp rise in non-bank lending to households poses a potential risk factor as retail bank lending to households continue to fall. For instance, while the growth in household loans provided by non-bank financial institutions expanded from W18.0 trillion in 2008 to 20.3 trillion in 2010, retail bank household loans declined from W24, 9 trillion to W22 trillion for the same period (Eunmi, 2011). The low interest rate environment and the bullish stock market have helped to improve the ability of households to service their debt. In this stock market, the robust rebound in the stock market since mid-2009 has increased the ratio of households' net financial assets. It has also enhanced the ability of households to service debt without disposal of real assets (Eunmi, 2011).

#### **4.8 Summary**

This chapter has successfully covered literature on the review of the general banking system and general lending. This has enabled the author of this thesis to set the bases for which this research is established by first understanding how the banking sector operates. A review has been covered on the competition that exists in the banking industry as well as Vicker's report on the separation of banks between investment banks and retail banks. Besides this separation, there have also been significant changes in the banking industry's regulations and operations among which is the change of the regulatory body from the FSA to the FCA. These changes came as a result of the failure of the existing body to handle the system effectively during the outbreak of the financial crisis. The determinants of bank lending and risk management were also review. It was generally identified that there are very few academic researchers found for studies relating to the HSB. In addition, none of these studies have attempted to look at why customers prefer HSB loan relative to other sources of loans provision. By so doing, it will fill in the gap in literature in this area. The next chapter will discuss the methodological aspect of this study in detail.

## **Chapter Five: Research Methodology**

### **5.1 Introduction**

The objective of this chapter is to explain the manner in which the research was carried out in order to achieve the research aims and objectives. The research aims to investigate the changes in mortgage loan as a result of the financial crisis in the retail banking sector. In order to achieve this aim, the methodology chapter is split in different sections. The first section explains the research design. This is followed by the strategy of the research. Next, the methods that were used in carrying out data collection are explained. This is followed by data collection. Next, the methods of analysing the data are explained. The pilot study that was collected prior to the main primary data collection is also explained. Finally, ethical consideration issues and the limitations of the data collection are looked into.

### **5.2 Research Design (take off explanatory and descriptive research)**

This refers to the procedure applied in this research in collecting, analysing, interpreting and reporting the data collection. Research design acts as a guide to the methods and decisions made in the course of this study. It also aids in setting the logic by which interpretations are made by the end of the study. There are different types of research designs as explained by Bryman and Bell (2011). These include: experimental design, cross-sectional design, case study design, longitudinal design and comparative design. The design adopted for this study is the longitudinal research design. The strength of this design is its ability to study changes and the development of a particular phenomenon over a given period of time (Saunders et al, 2012). This suit the purpose of this study as the researcher wishes to investigate the changes over time (2003-2013) in mortgage loan in the retail banking sector from the effect of the financial crisis and the implications this has on the household. This will give an understanding of the trend in household lending and which years were affected most.

From the perspective of its objective, a research study can either be classified as correlational, descriptive, exploratory or explanatory. Theoretically, more research studies are classified using one of these objectives-perspective categories. In practice however, most studies are a combination of more than one of these research and

researchers are encouraged to integrate these aspects (Kumar, 2012 p.11). This research study will use the research as the perspective of its objectives. This research design is explained below.

### ***5.2.1 Exploratory Research***

This study used an exploratory research to explore the situation of housing finance in the UK in order to develop an in-depth understanding of the changes in mortgage loan and homeownership status in the light of the financial crisis. This was achieved through the collection of primary data involving interview schedule and questionnaire. An interview was conducted on the experts involved in the field which in this study are household customers and mortgage advisors for the demand and supply side respectively. The advantage of using this research design is that the researcher was able to adapt to change from new discoveries, which may counteract some discoveries from existing literature. Adapting new insights that occur and new relevant data that appear in the course of carrying out the primary data collection added more value and meaning to the research. At the commencement stage, the focus was very broad but then, it becomes narrowed as the research progressed. Furthermore, by pursuing an exploratory study, a clear distinction was made of the actual differences in lending between the three distinct periods of study in this research.

Exploratory research study is a research type that studies a situation or a problem by asking questions in a survey or interview about what is happening in order to gain insight regarding a specific topic of interest (Saunders et al., 2012). It is very useful, especially if one is unsure of the precise nature of the problem. This type of research can be done in several ways. This includes interviewing experts in the subject; a search of the literature; conducting focused group interview or conducting in-depth individual interviews. Given its exploratory nature, the interview is usually unstructured or semi-structured.

### **5.3 Research Strategy**

There are different strategies used in research. These are experimental, survey, case study, action research, archival research, mixed methods research, narrative inquiry, ethnography and grounded theory (Saunders et al, 2012). Each of these strategies is used depending on the nature of the research. This research work will make use of the

survey and archival research strategies. The research strategies and the reasons for choosing them are explained below.

### ***5.3.1 Survey Strategy***

In this study, the survey strategy that was adopted is questionnaire survey and semi-structured interview. From the response and feedback of the pilot study, minor adjustments were made. This was reviewed by the supervisory team and then approved for the final data collection with the use of survey strategy. Given the expertise knowledge of the respondents, this strategy was considered the best method of easily getting them to participate in the study so as to get the most out of them. Most of their responses were based on their experiences, perceptions, opinions and expectations. However, this research strategy is usually considered by the population to be harsh and authoritative in nature. It is also very time-consuming as the researcher tries to get a good response rate while ensuring that the sample is a good representative. With readily available software, data analysis is still time consuming. The process is equally delayed at times because of the fact that there is over dependence on others for information (Saunders et al., 2012). Using a survey strategy therefore gives the researcher more control over the research process.

This research strategy is commonly used in business and management research to answer questions like what, where, who, how many and how much. It is associated with deductive research approach and is used for exploratory and descriptive studies. Such research is based on questionnaires, structured observations and structured interviews or the collection of quantitative data which is intended to be quantitatively analysed using descriptive and inferential statistics.

### ***5.3.2 Archival Research Strategy***

It is based on secondary data collection. It makes use of existing data from administrative records and documents as a source of data. Even though these data were not collected purposely for this research study, they are still part of reality, given that they are the products of the day to day activities of the organisation. Some of the research questions that focus on the past and are still changing over time are answered through the archival research strategy. It could be an explanatory, exploratory or a descriptive research.

This research strategy suits the purpose of this research as the researcher through some of the research questions, wishes to know how the household lending pattern has changed from 2003 through to the 2007 financial crisis and to the present. In this study, the researcher will make use of reports, administrative records and documents as well as other published information from the CML, House of National Statistics, Chattered Institute of Housing (CIH), just to mention a few as well as publications from financial institutions like the banks. This is because these institutions have extensive regular and most reliable information and write ups on issues which are of great relevance to this thesis. Also very little academic writing is available on this topic with many of the write ups coming from the business writings and publications and from institutions that deals directly with the mortgages.

Despite the fact that these records already exist, it may contain a lot of irrelevant data due to the fact that they were originally collected for some other purposes which are not research inclined. As a result, some data may also be missing. Thus the precise information needed to answer the research question may be very difficult to find. In addition, the data may be available, but getting access to it may not be an easy task for confidentiality reasons. Therefore, this method allows the researcher to use the available data to establish and design the research in a way that will make the most of it (Saunders et al, 2012).

## **5.4 Research Methods**

This section discusses the different methods that were used to carry out this study. Generally speaking, there are two types of research methods. These are the quantitative and the qualitative research methods. Some researchers use both methods, in which case is usually referred to as multiple methods. This section will also look at triangulation as a way of collecting data using multiple: sources, methods, investigators or theories. As argued by Creswell (2013), the basis for which a researcher selects a research method for a research project is dependent upon the objectives of the study.

### ***5.4.1 Quantitative Method***

This research is based on both the qualitative and the quantitative research design as Kumar (2012) strongly recommends that researchers should not take the practice of doing a research based solely on either quantitative or qualitative research. Kumar (2012) classified a quantitative study as the quantifying of variables in phenomenon

with the gathering of information using predominantly quantitative variables and the analysis geared towards ascertaining the magnitude of the variation. Quantitative methodology uses the positivist paradigm which brings out objective reality. It is an inquiry into a social problem which is based on testing a theory made of variables which are measured with numbers and are analysed using statistical procedures in order that predictive generalisations can be made on the validity of the theory (Creswell, 2013). In this method of research, a numeric description of opinions, trends and attitudes are provided by the population under consideration by studying a sample of that population. Creswell (2013) identified certain characteristics associated with this type of research method. They are as follows; that the researcher should be independent of the research and should remain distant from it so as to ensure that the assessment of the situation is objective. With the researcher's values kept out of it, qualitative research is considered not value-laden. Also, it considers that reality or truthfulness exists in the world which can be measured quantitatively and objectively (Waterman and Yanchar, 2011). This can be done in terms of the relationship that exists between what is being investigated and the investigator. Furthermore, the whole of the quantitative research method uses the deductive form of reasoning. This is a situation where hypothesis and theories are tested in cause-and-effect order. The variables, hypothesis and the concepts for the study are chosen before the study commences and they are meant to remain fixed throughout the study. Thus the study is intended to develop some generalisations that can contribute to theory and that can also enable one to better explain and predict a given phenomenon. It is also known as the post-positivist or the interpretative approach. Besides the quantitative method, this research will also make use of the qualitative method.

#### ***5.4.2 Qualitative Method***

The qualitative method deals with the phenomenological paradigm which brings out subjective reality through individual and collective definitions (Kothari, 2004). Kumar (2012) classified a qualitative study as one whose purpose is primarily based on describing a situation with information gathering done through the use of variables measured on ordinary or nominal scale like qualitative measurement scales and if the analysis is done to establish that which exists without quantifying it. Boslaugh (2007) highlighted some of the characteristics of qualitative research to include the following:

the research method is value-laden. This means that the researcher is inseparable from the research as his personality cannot be detached from his research-self; the researcher participates in the research process by actively collecting information from the targeted population.

This gives the researcher the opportunity to be able to obtain from the individuals their opinions and attitude with regard to some particular phenomenon. The researcher is thus able to get the actual experiences of the participants; this research type is highly inductive in its reasoning. The inductive method of reasoning is a research approach which starts from a particular reasoning to a general reasoning. This thus leads to the discovery of theories that can help to explain the given phenomenon. In the process of collecting data for the research, the research questions may change or be redefined as the researcher learn more from newly collected data which gives room for amendments to be made. This research work therefore makes use of both the qualitative and the quantitative methodology, also known as the mixed method approach.

#### ***5.4.3 Research Method Adopted for this Study***

The multiple method approach is adopted for this study. It is also known as multi-method or an integrated approach, employing both quantitative and qualitative research methods in one research project. The collection and analysis of both forms of data are done in this study. The process of data collection in this mixed method approach is for an amalgamation of both the qualitative and quantitative research paradigm strategies. The decision on which research methods to adopt for this research project was derived from the research objectives. The aim of this study was stated in chapter one as investigating the changes in housing finance for HSB in the UK from the impact of the financial crisis and the implications on the household. In making a choice on which of the research paradigms to use for this study, the mixed method approaches were eventually adopted as has been examined for their appropriateness. The justifications for implementing this method are explained in the paragraph below.

The advantage of using the mixed method over a single method in this research is that it provides some strong evidence for conclusion through the analysis and convergence of findings. Also, when both methods are used together, it improves the ability of the researcher to provide complete knowledge of both theory and practice. Furthermore, a combination of both methods will lead to greater understanding of issues that could



have been left out if a single method is applied. With the use of a mixed method approach, there is an expansion of the scope and a deepening of the researcher's insights upon completion of the study. It allows for the combination of research strategies which broadens understanding. The qualitative research is mostly involved with a sampling strategy which is purposeful. Purposeful sampling enhances the understanding of information. Quantitative research on the other hand allows statistical inferences to be made. Given the complexity of the human phenomenon, it becomes mandatory to use both methods in a single research study.

There are five general purposes of mixing quantitative and qualitative research approaches. These include: triangulation, development, initiation, complementarities and expansion. Triangulation means looking for the conjunction and validation of the researcher's findings from the two or more different methods that study the same phenomenon (Collis and Hussey, 2013). Development involves the use of the result obtained from one method to inform the other method. Initiation is when the researcher may in the process of collecting and analysing data discover paradoxes and contradictions that could lead to reframing of the research questions. Complementarities comprise the use of the result from the other method to enhance, illustrate, elaborate and clarify the results from the other method. The expansion includes using different methods for different inquiry components to expand the breadth and range of the investigation. In this research, triangulation is used to enrich the research as explained below.

#### ***5.4.4 Triangulation Approach***

According to Collis and Hussey (2009), triangulation is the use of multiple sources of data, different research method and/or more than one researcher in order to investigate a given phenomenon in a study. In addition to using different data sources, research methods and using more than one investigator, it can also be attributed to the use of different theories to provide corroborating evidence (Creswell, 2013). According to the definition by Cooper and Schindler (2014), triangulation can be used to describe the combination of several qualitative methods or a combination of both quantitative and qualitative methods in order to increase the perceived quality of the research. It allows the researcher to create a greater depth and breadth of understanding the research area.

This research makes use of triangulation for method, data and theory. In a piece of research work, triangulation can be done in either some or all of the four distinct categories, namely: data, investigator, theoretical and methodological triangulation. By using triangulation in this study, it will help in reducing the risk of a researcher's conclusion based on the limitations of one specific method used. This is done by the researcher viewing the research from different perspectives, thereby understanding the topic in a broader and complete style than would have been the case if viewed from only one method. The choice of triangulation is to enable the data complement each other and enrich the research as single methods are not generally accepted as the best for most situations. The aim of triangulation is not a strategy to increase validity, but it is an alternative to validity (Denzin and Lincoln, 1998, p. 4). It allows the researcher to view the core area of the research through different approaches. The different methods of triangulation are explained below.

- i. Methodological triangulation - This involves the use of multiple methods in the same research work as different means of data gathering. For instance, this can be done with the use of both questionnaires and interviews or the use of questionnaires or interviews and observations (Cameron and Price, 2010). With the same focus on the research, the different means are used in gathering data in order to see how the different forms of gathering data illuminates different or similar perspectives. Thus investigation done using the deductive method of reasoning can be confirmed using the inductive research approach. It is important for this to be chosen from the same paradigm. For instance an exploratory interview could be conducted to identify some key issues and provide insight into the issues before going about to conduct questionnaire survey.
- ii. Data triangulation - To triangulate data here refers to a situation where the researcher collects data from multiple sources in a single study or a range of different sources of data collected over different time frames. This could be from different groups of people within the same organisation or institution like internal and external stakeholders. This could also be a combination of primary as well as secondary data sources.
- iii. Triangulation by theories - It refers to the use of more than one theory in a single research work. Models can be borrowed from one discipline to explain or clarify

a situation in another discipline. Theoretical triangulation often brings out an insight into a data which may have been previously appeared to be less significant.

- iv. Triangulation by investigations - Here, the same investigation is being carried out by two or more investigators under the same situations and using the same data. The results are then compared from the different investigators' perspectives through their different insights and knowledge gained. It is one of the advantages of a multi-disciplinary research team.

For the purpose of this study, triangulation is done using three out of these four types explained above. These include data triangulation, theoretical triangulation and methodological triangulation.

With regards to data triangulation, this research collects data from multiple sources. These are the primary and the secondary data sources. The findings from primary data are complimented by the use of secondary data collection. The secondary data for this research is collected from sources like published information or intranet or internet sites. Data for this research collected from intranet, internet (annual financial reports and published information as well as newspapers). Furthermore, data triangulation makes use of time frame in this study as different time frames are also employed in collecting both forms of primary data. These are before, during and after the financial crisis. Also, most of the participants used for interview survey are different from those used in the interview schedule which gives provides more meaning to the research.

Secondly, triangulation by methodology makes use of questionnaire, semi-structured interview as well as the pilot study. This research work used semi-structured interviews to collect qualitative data as a valuable means of triangulating quantitative data already collected using questionnaire survey. Prior to the main data collection, the pilot study was first conducted to identify key issues in the research that provides insight into the research before conducting the final questionnaire survey and interview. The pilot study contained both questionnaires and interview. Besides being a miniature of the whole, the pilot study strengthens feasibility and minimises error. It also enhanced validity and reliability. Quantitative and qualitative methods of data collection are equally used in this study as a way of doing methodological triangulation. Methodological triangulation is however limited in that it is difficult to replicate, especially if qualitative data are

generated. Furthermore, data collection and analysis are more expensive and time consuming.

Lastly, this researcher makes use of theoretical triangulation in this research work by taking the theory of demand and supply from economics, which is a different discipline and applying it to this study which is a financial discipline. Triangulation by investigation is not used in this study because it is not recommended to be used in a PhD study given that the study is required to be done by an independent student not group of students.

## **5.5 Data Collection**

The aim of this section is to give a detail explanation of how data were collected. The two methods used to collect data are questionnaire administering and interview. These two methods will therefore be carefully explained below. The questionnaire survey is structured while the interview schedule is semi-structured. Qualitative and qualitative data were collected for a period of 4 months and 2 months respectively. These summed up to six months for data collection.

### ***5.5.1 Quantitative Method of Data Collection: Questionnaire survey***

This is the first method employed by the researcher in the data collection process of this research. It is a quantitative method of data collection where data were collected quantitatively in a manner that can easily be quantified and analysed. Questionnaires are used to refer to all the data collection techniques in which each of the participants is asked to respond to the same set of questions in a predetermined order (Johnson and Christensen, 2010).

#### **5.5.1.1 Quantitative method: Questionnaire Administration**

Questionnaires are used in most research studies to find out the opinions, expectations and perceptions of the participants with regard to a particular issue being researched upon. In this research work, the researcher makes use of questionnaires so as to know the general expectations, assumptions and perceptions of the UK's HSB customers with regards to housing finance following the effect of the financial crisis. The study also looks at the reasons why some HSB customers do not maintain HSB as their mortgage providers, while others do not have a home but are still renting. The researcher therefore deems it necessary to use questionnaires to a large sample of respondents in order to

integrate theory with practice on their choice of housing status so as to make a better judgment on the demand for housing finance.

#### **5.5.1.2 Significance of questionnaire for this study**

In most research studies, questionnaires are usually designed to get the perceptions and opinions of the participants in relation to the topic of interest. In a like manner, this research makes use of the questionnaire in order to find out the general perceptions, expectations, assumptions and opinions of HSB customers in relation to the demand for housing finance. The significance of questionnaire in this study is that:

- i. It provided a means through which the researcher was able to contact a large number of respondents easily, quickly and efficiently;
- ii. Secondly, since they were all closed questions, it was relatively quick and easy to create codes and quantify them through the use of the SPSS software package;
- iii. Furthermore, it proved to be a more reliable method as the questions were standardized with every respondent expected to answer the same set of questions;
- iv. It is one of the best methods used to explore potentially confidential information of the customers' personal information such as their financial information. Respondents are more comfortable completing such information in privacy.

#### **5.5.1.3 Sampling size**

For any good research, an adequate sample size must allow for reliability of the results such that the same investigation can be repeated by another researcher with a consistent result. Comry and Lee (1992) argued that a sample size of 100 is considered poor, 200 is fair while a sample size of 300 is considered to be good enough for a large sample study. Rao (2000) noted that any sample size more than 30 is considered a good enough estimate of the population. Krejcie and Morgan (1970) based their own sample sizes by looking at their sample size table. Tabachnick and Fidell (2007)

if the study makes use of factor analysis. Based on more recent studies on residential mortgage loan, Tameme (2009) used a sample size of 250 in a similar study on the demand for Islamic mortgage. Likewise, Hanafi (2012) based his empirical study on a sample size of 260 in the UK. Both had good results with their sample sizes. Therefore

with regards to the arguments by Tabachnick and Fidell, a large valid sample size of 320 for quantitative method which is the largest compared with previous studies can be considered appropriate for this study.

This large sample size is in line with the principle that it will ensure the inclusion of people with diverse ethnicity, religion and culture, thereby making the sample a representative of the study population. It is generally agreed that the larger the sample size, the more accurate the finding. Therefore, findings based on a large sample size generate more certainty than those based on a smaller sample size. In a study population, which is homogeneous with respect to its characteristics, a reasonably good estimate can be obtained with a smaller sampling size. The population study of this research is heterogeneous. This means that a small sample size will not be a good representation of the study population. In order to attain the same level of accuracy therefore, there is the need for a large sample size which eliminates the issue of biasedness.

#### **5.5.1.4 Sampling Technique for questionnaire survey**

##### **Random Sampling**

In administering the final questionnaire, the researcher followed all the necessary ethical issues mandatory to be considered as discussed in section 5.11. After making all the necessary amendments on the questionnaire from the pilot study, the main questionnaire was then administered to the respondents using random sampling. With this kind of sampling, each participant in the population was given equal chances of being selected. Thus, there is no opportunity for human biasedness to apply as participants are not selected based on a subjective basis. The participants remained dormant of whether they will be selected or not until they are contacted by the researcher.

The majority of the questionnaire was administered online with the use of software called lime survey while others were administered to respondents as hard copies. At first, the consent of the participants were sought (see appendix 2) through various sources like Facebook, LinkedIn, Skype, text message, WhatsApp, Viber and face to face contacts. At this stage, interested participants indicated the best means through which they would like the questionnaire to be sent to them. For the online questionnaire administering, a link was sent to the participants to click, follow the instructions and

start answering the questions. After the participants complete the questionnaire, the researcher received it immediately in the software database.

Hard copies of the questionnaire were randomly given to respondents who remained skeptical of using social media and those who did not have access to social media. The hard copy questionnaire was administered as a face-to-face administering through public administration. Most of the respondents were gotten around the banking premises of most of the HSB as the customers made their way outside the banks. Some of the questionnaires surveys were administered in congested areas like canary wharf where most of the HSB have their headquarters. The respondents were given the choice of either fill in the questionnaire immediately or take it home and then send the responds by mail. In this case, a prepaid envelope was given to them with the school address of the researcher for posting.

Lime survey was chosen as the best means for online survey because the software had all the qualities of the question types used in this research work and the desired pattern of answer needed. The software is also capable of exporting the responses of the participants directly into SPSS or excels for data analysis. Furthermore, the use of this software enables conditional questions to be limited only to those to whom it is applicable. The reason why majority of the questions were administered using online survey are that they are minimum costs associated with achieving maximum results, given the geographically dispersed nature of the respondents; it offers the highest level of convenience for the respondents as they can attend to it any time at their own pace; the internet offers a vast means of contacting hundreds of people within the shortest possible time; respondents' responses are automatically stored in online database where they can easily access it again and continue from where they ended. Nonetheless, online survey is not good for open-ended questions as it is not easy to explore the answer of the respondents. Moreover, it is exposed to survey fraud. It is also biased towards those who do not have access to the internet. To solve this problem of biasedness, some questionnaires were administered as hard copies.

#### **5.5.1.5 Targeted Population**

The participants for the questionnaire survey are the HSB customers. Although the study is looking at the UK retail banking sector, the researcher's target is the English market. This is big enough to cover up the study. A sample size of at least 320 is good

enough for this study given the fact that participants are dispersed or live in different regions of the country. It is therefore very difficult to reach all of them with the limited time frame allocated for this study. This large sample size is in line with the principle that it will ensure the inclusion of people with diverse backgrounds, thereby making the sample a representative of the study population.

Other areas like Ireland and Scotland which are part of the UK are independent with their own banking regulations, policies and practices. Also, most of the big banks, which occupy a greater market share, have their headquarters in England. In England, the research was mainly focused on London, whose housing market is in high demand, given the rapidly increasing nature of its population. Participants in Manchester and Reading also took part in the study. Although these two towns are not of very high housing demand as London, their findings provided a sort of regional balance for the study. Most part of the data collection was done in London. The choice of London is based on the following reasons:

- i. London, for example, has a very high population density and subsequently, a very high demand for housing finance. This makes it a suitable location for this study;
- ii. Also, London has a good number of HSB with most of these banks having their headquarters there around Canary Wharf. This makes it more suitable for the researcher's data collection for both the supply side and the demand side of housing finance;
- iii. Furthermore, London is the Centre of many economic, political and educational activities. This draws a large number of people into the city from different cultural, religious and ethnic backgrounds. This makes it suitable for data collection as the researcher was able to receive diverse opinion and perception with regards to the demand for housing finance.

#### **5.5.1.6 Content of the Questionnaire**

In order to formulate a good and appropriate content of the questions, the researcher in this study considered the research aims and objectives and ensured that the questions are related to those of the research questions. This means that only questions that are really vital and related to the research are taken into consideration. The researcher therefore



decided on what aspects the research should be covered using the questionnaire. The researcher equally tried to put herself in the position of the participants in order to have a clue of how they will respond to the questions. The questions are asked in a very straightforward and unambiguous manner with clarity, precision and use of simple languages free from jargon. Double-barreled questions as well as negative questions were also avoided. This is to enable the respondents have a clear view and to facilitate their responses. According to Bryman and Bell (2011), the most important aspect of any questionnaire should be its content. There is the need to monitor and ensure that the content of questionnaires do not irritate the respondents as they participate in it. A well designed questionnaire must have a good content and structure (Cameron and Price, 2010; Thelwell, 2007).

Using closed-ended questions, the participants were required to tick the boxes corresponding to the appropriate answers. The questionnaire is used to find out the general perceptions and opinions of HSB customers. The first section of the questionnaire which is titled general information consists of questions about the respondents' age group, gender, marital status, level of education, employment status, ethnicity and religion number from questions 1 to 7 respectively. The aim of this section is to enable an understanding of the general background information of the respondents which will aid in understanding some of the reasons for their responses to the main questions. The second section is titled financial information. The questions include the following: income range; number of dependents; whether they have anything left over as savings after their monthly expenses and whether they have other sources of income apart from their monthly income. These questions are numbered from question 8 to 11 respectively. The purpose of the section is to enable an understanding of the financial background of the respondents so as to better understand the reasons for their responses. This thus facilitates analysis, interpretation and discussion of the results.

The third section is titled affordability and homeownership. The questions here are aimed at assessing the respondents' choice of a homeownership status. It incorporates the financial crisis, housing finance, homeownership status as well as the possible implications this has on the HSB customers. The questions here start with asking the number of dependents living with the respondents which is question 12. Question 13 requires the respondents to state if the house or flat they live in is owned by them - be it shared ownership or not or whether they live in it as tenants. If the respondents indicate

that they have never had a mortgage or they live as tenants, they were required to answer questions 14-20 as the instructions indicated. The questions included the respondents to explain why they do not have their own home, whether or not they intend to have their own home in the nearest future, the kind of mortgage provider they would prefer if they decide to ask for housing financial assistance, the reason for their choice of that mortgage provider, the factors that can discourage them to buy a house in the nearest future, the proportion of their monthly salary they would be willing to allocate for their mortgage repayment and their satisfaction on their current status as tenants. The reason for these questions is to explore the minds of the respondents to understand why they do not own their own house but rather choose to rent.

If the respondents indicate that they own a house or flat, they are referred to question 22 where they are required to state their levels of agreements on the criteria used in making the choice of mortgage provider, level of agreement of the reasons for not using the HSB as their mortgage provider, Identify their mortgage provider, preferred provider, number of mortgage property, the year in which it was obtained, the proportion of their monthly salary allocated for mortgage repayment, satisfaction with their mortgage provider, criteria used in granting the loan to them, major push factor that made the respondents apply for a mortgage and whether it is their first time mortgage or they have other mortgage property. These questions continued from question 32 onwards.

Questions 32-36 were answered to be answered by both household bank customers who owned a house or flat and those who rent their house or flat. These are Likert scale questions where the respondents were asked to indicate their level of agreement regarding the financial crisis and mortgage loan accessibility. Questions 32-35 respectively demanded their level of agreement on whether or not it was easy to obtain a mortgage before 2007, between 2007 and 2009, between 2010 and 2013, the year they attempted asking for a mortgage but it was not given to them. Question 36 required the respondents in question 35 to state the reason why their mortgage loan application was rejected if applicable.

#### **5.5.1.7 Nature of Questionnaire for Data Collection**

After considering the research objectives and research questions of the study, the questionnaire was constructed. The construction of the questionnaire and nature of questions used in this study varied according to the type of information required.

Contemplation was made between the use of open-ended questions and closed-ended questions. After considering the best method that yields a higher response rate and the ease of analyzing the data that will be collected, closed-ended questions were considered appropriate for the study.

In this study, closed-ended questionnaires were administered to respondents for the quantitative data collection. Closed questions are those questions that are provided with a limited range of responses within which the respondents are obliged to choose from. The advantages of using closed-ended questions in this study are that they were easier and relatively quicker to answer; responses were provided with greater reliability and uniformity of answers which aids in reducing complications with data analysis; they require little or no direct confrontation. The questions were asked in the form of rank order, categorical choice, Likert scale and yes or no question (Cameron and Price, 2011). The Likert scale questions were in the form of 7 point scale with 1 representing strongly disagrees and 7 representing strongly agree.

This research used the Likert's scale to explore the attitudes, beliefs and opinions of the participants in order to have a clear picture of the changes or fluctuations that exist in household lending. Using the Likert scale in carrying out the questionnaire was the best way to easily get the responses of the participants (Page-Bucci, 2003; Likert, 1932). The Likert scale gives five or seven options of choice. The seven options which are used for this study includes strongly disagree, disagree, somewhat disagree, neither agree nor disagree, somewhat agree, agree, strongly agree. Seven points Likert scale was used because they are most universal method with regards to survey data collection and also easily understood by most participants; it provides more variety and limits the participants from answering a simple yes or no; the responses are easily quantifiable and can easily be analysed using computerized mathematical tools (Jamieson, 2004). Nevertheless, the Likert scale has its own shortcomings. It is subject to central tendency bias as some participants may avoid extreme response categories (Uebersax, 2006). Also, it could have some acquiescence bias because in order to please the researcher, some respondents may agree with statements as presented rather than their own experiences and perceptions. Moreover, social desirability bias may occur as some respondents may decide to respond in a socially favourable light rather than being honest.

### 5.5.1.8 Response Rate

The response rate for questionnaire administering is very important. A perfect response rate refers to one that is able to represent the exact population from which the sample is taken. A total of 700 questionnaires were sent out to participants. The total number of responses received from this study as feedback was 340 with the number of completed responses being 320. This gives a valid response rate of 45.7%. This sample size is large and can be considered sufficient for statistical reliability and generalisation. This high rate of response will undoubtedly improve reliability and validity of the survey given that greater responses lead to more accuracy of the estimated parameter in the population sample. Sekaran (2008) mentioned that a sample size of 30 people is capable of achieving a normal distribution for a random sampling survey. Details of the responses are displayed in the table below.

**Table 5.1: Response Rate for Questionnaire**

<b>Ethnicity</b>	<b>Distributed Questionnaire</b>	<b>Number received</b>	<b>Ethnicity Response (%)</b>	<b>General response rate (%)</b>
White	150	30	20	4.3
Asians or Asian British	95	53	55.8	7.6
Black or Black British Caribbean	70	24	34.3	3.4
Black or Black British African	230	176	76.5	25.1
Mixed	60	9	15	1.3
Others	95	28	29.5	4
Total	700	320		45.7

As observed in Table 5.1, the majority of the response rate for the questionnaire came from the black or black British Africans while the least response rate was registered by the white respondents. It should be noted that some of the questionnaires were

eliminated due to some missing items that were identified which could have affected the results of the study.

### ***5.6.2 Qualitative data collection: Semi Structured Interview***

Semi-structured interview was conducted for both the demand side and the supply side of housing finance. It is an interview in which the interviewer has a series of questions in the form of an interview guide, but is able to vary the sequence of questions depending on how the interview develops. Furthermore, the interviewer has the chance to ask further questions not in the interview guide which may develop from the response of the interviewee. It is not just a normal conversation as it involves a set of assumptions and understanding about the situation which normally may not be associated with a casual conversation. The total sampling size for the interview was 43. Out of this number, 31 were collected from the customers while 12 were collected from mortgage advisors.

#### **5.6.2.1 Significance of Interview for this Study**

Given that this research aims at investigating the opinions, attitudes, expectations and perception of customers with regards to housing finance in the retail banking sector, it necessitated the use of the interview. The aim of the interview is to develop a clear and deeper insight into the research topic. Thus, the research questions of what, how and why are fully covered as the interview evolved. Also, unlike closed-ended questionnaires, the interviewee can give the interviewer lots of extra information that could be of great importance in contributing to the research as it could lead to a whole new area of information. This usually happens either in the course of the discussion or at the end of the interview when the interviewee is asked if there are any further remarks that might be of relevance to the topic. Furthermore, the interview as a synchronous communication enables both the interviewer and the interviewee to be able to react directly on what each other say. Moreover, face-to-face communication enables the interviewer to read the body language of the interviewee which is sometimes important to consider. Skype interview for instance, offer a wide geographical access to respondents whom otherwise could have been limited by their location and time.

The interview schedule was prepared in a systematic order. Following the scale of preference, general questions were asked first, closely followed by the more specific ones and lastly by the supporting questions. Nevertheless, flexibility was maintained as

some questions were asked depending on how the interview process develops. In some situations where there were difficulties in understanding any of the research questions, the interviewer clarified the questions by either providing explanations to the intention of the question or by rephrasing the question. To this effect, the researcher tried as much as possible to make the questions clear, unambiguous and free from any form of jargons. All of the questions were numbered so as to keep track and avoid repetition. None of the interview sessions exceeded an hour. The researcher tried as much as possible to make the interview balance. This was achieved by the interviewer not talking too much, in order not to make the interviewee passive. This gives them the ability and time to express themselves fully. The interviewer also avoided a situation of not talking too little in order not to make the interviewee feel that he or she is talking out of order. This is also for the interviewee not to feel bored and think that the interview process is not interactive.

#### **5.6.2.2 Random sampling and Sampling size**

A random sampling technique was used in collecting qualitative data from the customers/households. In the participants' invitation form (appendix 2), the participants were asked if they would like to be contacted if need arises. The list of those who said yes (those whose questionnaires were not considered) were randomly selected and contacted for interview. More participants were contacted at random around the banking premises of most HSB. The sample size of the participants was not predetermined. The number of participants kept increasing with increases in new information. This ended when a point was reached where further interviews conducted did not bring in any new information. Saunders et al. (2012) agreed that data should be continuously collected by conducting additional interviews until data saturation is reached. Data saturation is a point where no new information is further collected or suggested by the respondents. Following this discretion, the sample size of the interview schedule collected was 31 since adding new participants after this point did not add any new information to the data collected. This sample size limit is in line with the definition made by Creswell (2013).

This sample size is reasonable enough for this study as a good quantity of data has already been collected quantitatively through questionnaire administering. Thus the interview data collection is a way of triangulating the data already collected from

questionnaire survey which further boosts the results of the findings. The issue of sampling size for qualitative research is very ambiguous as there are no straight line rules for it. The most important point of interest should not be sample size. The focus should rather be on the logical relationship between the sample selection and the purpose and focus of the research with generalisations made to theory rather than the population (Saunders et al., 2012). Many authors in addressing this issue simply recommend that data collection should end at the saturation point. Creswell (2013) suggested that for the purpose of generalisation, between 25 and 30 interviews should be considered while Saunders et al. (2012) added that where a comparison is to be made between distinct groups, the sample size would be larger with each group treated as a separate homogeneous population.

Most of the interviews were conducted in quiet environments at venues like the offices of the participants, school libraries and other public libraries. Each of the venues chosen had the right climate which made the interviewee feel comfortable and relax to participate freely and willingly and be able to provide good and honest answers to the interview schedule. However, a few of the participants were interviewed around the banking premises of the HSB since a better location and time could not be found which suites both the interviewee and interviewer. Moreover, some interviews were conducted through Skype. Skype as a substitution for face-to-face interview was also considered by the researcher as a good way of interviewing those very busy respondents since the researcher could see clearly the respondents' facial expression and body gestures as they respond to the questions. Besides the questionnaire and interview already collected from the demand side of the study, the data collected from the supply side helped to support, strengthen, verify and boost the results. Most of the interview done on the supply side of the study was done using purposive sampling and snowball sampling as explained below.

### **5.6.2.3 Purposive Sampling and Snowball Sampling**

On the supply side of mortgage loan, the collection of primary data was done with the use of purposive sampling and snowball sampling as the sampling techniques. The choice of using a purposive sampling for interviewee selection in this research was based on the researcher's target on a particular set of individuals whom the researcher thinks will provide the best possible information to suit the purpose of this study. The

researcher's selection was therefore not based on the general staff members, but on the top managers in the mortgage department like the mortgage advisors. The first attempt made by the researcher to contact these mortgage advisors was very difficult despite presenting a letter from the school addressed directly to the bank which identified the researcher and the purpose of the study. This is due to the confidentiality of financial information from these HSB. After several unsuccessful attempts, snowball sampling was considered the best technique used in approaching/interviewing these experts. Bryman and Bell (2011 p. 442) provided the snowball sampling and theoretical sampling as examples of a purposive sampling in a qualitative research. This research used snowball sampling for the supply side of the study to explore the data collection on the supply side of housing finance.

Snowball sampling is a non-probabilistic form of sampling in which the researcher starts by making an initial contact with one person or a small group of people who are considered relevant to the research topic (Cameron and Price, 2010). These are then used to establish further contacts. Considering the confidentiality of their information, they were not in any way willing to discuss anything about their financial information to any non-staff member. Consequently, the researcher found the snowball sampling technique to be most appropriate where an initial contact was made which provided the base for further contacts. This process continued until the researcher was able to reach the desired number of respondents. The desired number was reached when the researcher discovered that no other new information was provided by the respondents. The main respondents here were the HSB' mortgage advisors.

The term purposive sampling is used to refer to a non-probability sampling form of sampling, where the researcher does not seek to sample the research participants on a random basis. The aim of this kind of a sampling is in order to sample the participants in a strategic way so that those sampled are participants considered to be relevant to the research questions. The interviewees were selected purposively depending on their likely ability to contribute to the theoretical understanding of the subject under discussion. The reason for this is that the researcher wanted only participants who had good knowledge of the subject matter so that through the sharing of their opinion and experience, the researcher could explore the idea with them (Bryman and Bell, 2011 p. 492). Worthy of note is the fact that no single interviewee stands out in a qualitative



research. It only has meaning to the researcher when combined with all other interviews.

### **5.7 Reliability and Validity**

Reliability is used to determine whether the techniques used in collecting data in the research and the procedures used in analysing the data can produce exactly the same result if it was to be repeated on another occasion or repeated by another researcher (Kumar, 2012; Caplan, 2012). It is one of the major features in research quality. Reliability according to Bryman and Bell (2011) refers to the stability or the consistency of the measure of a concept. Ensuring reliability is not an easy task as there are some threats associated with it. These threats could come from both the researcher and the participants. This research ensured that such threats are well taken care of by ensuring that:

- i. The researcher's analysis and interpretation of the data was not altered by certain factors like tiredness or unstable mind. This usually occurs when the researcher may as a result misunderstand or misinterpret some of the more subtle meanings of the interviewees.
- ii. In addition, the researcher avoided the issue of bias in recording the responses of the participants. In recording and interpreting the responses of the participants, the researcher tried as much as possible not to allow her subjective views or disposition to interfere in the process.
- iii. Furthermore, reliability was enhanced by avoiding a situation where the respondents are asked to complete a questionnaire just before he or she boards a train, bus or plain which can affect their responses. In most instances, participants performance was enhanced by choosing the most suitable and comfortable time.
- iv. Lastly, environmental factors were well taken care of. We tried as much as possible to limit situations where the participants will have to be interviewed in public open spaces which could influence their results for fear of being overheard by others. Participants prefer to keep their identity anonymous. The researcher was therefore methodologically careful in carrying in the data collection and analysis process so as to avoid these threats.

Reliability is an important feature, but not the only feature to conducting a good research. There is another important feature for research quality known as validity.

Validity takes care of the efficiency of the research's measures use in the research. It measures the extent to which the research instruments measure exactly what the research intended to assess (Bryman and Bell, 2011). The validity of this research was enhanced by using the Cronbach alpha test of validity to test the various components used in the research. To ensure reliability and validity in this research therefore, the researcher decided to use the triangulation approach.

### **5.8 Secondary Data Collection**

Secondary data collection refers to data which is collected from already establish sources (Saunders et al., 2012). The secondary data for this study are gotten from secondary data sources like the annual financial reports of the banks, publications from the BoE, IMF, newspapers, CML, Mortgage Market Review, House of National Statistics, FSA, market research reports publications from sources like Mintel and Key notes. School and public library search will also be used to obtain information on the financial crisis, retail banking, and financial regulations to assess the changes in Lending statistics for household customers. The weakness associated with the use of secondary data collection is that non-involvement of the researcher at the time of the data collection. This means that the data may not suit the exact purpose of the research. This could be in the area of geographical location or the method used in analysing the data.

### **5.9 Data Analysis**

This section looks at the different ways in which the data collected through the qualitative and the quantitative research methods were analysed using the different analytical techniques available in social science. Data analysis provides a clear cut distinction between a qualitative and a quantitative research which is not very clear with the use of data collection.

#### ***5.9.1 Quantitative Data Analysis Process: Questionnaire Analysis***

When the collection of primary data was complete, it was assembled for analysis. Prior to the analysis, the researcher checked each of the questionnaire feedback for editing. Editing here refers to checking the questionnaires for completeness in order to ensure

that the respondents have actually answered the questions as given. The importance of this process is for the researcher to discover and eliminate any error that may possibly have been made by the respondents so that those left to be analysed are free from jargons. These data were then exported to Excel to give it more meaning. The next stage involved transforming the data from the word format into numbers which is the most suitable format of analysing quantitative data. The process here involves coding the data.

Coding refers to attributing a unique number to a piece of data or groups of data with the intention of allowing the analysis of such data to be done in quantitative terms. The raw data were organised in order to make them easily understood. At this stage, the data were exported into SPSS, which is a statistical package that is used to analyse quantitative data of this nature. SPSS is an acronym for Statistical Package for the Social Sciences. It is a widely used computer program that allows quantitative data to be managed and analysed. Cross-tabulation, chi-square test, t-test, one-way ANOVA and factor analytical tools were then applied where appropriate to achieve the desired result. These tools used in analysing the data are explained below.

#### **5.9.1.1 Cross tabulation**

Cross tabulation also known as cross tab or contingency table analysis is a descriptive statistical tool used to analyse categorical data. It is a two dimensional table that records the frequency of respondents having a specific characteristic as described by the cells in the table. This table provides a wealth of information regarding the relationship between the variables. Although it is used to compare two hypothetical variables by giving the relationship between them, it cannot however, give evidence of the relationship between the variables. To know the evidence of the relationship or the association between the variables, the chi square was usually used as an extension of cross tabulation.

#### **5.9.1.2 Chi-square for independence**

The chi-square test for independence was used to determine whether or not two categorical variables were related. It compares the frequency of cases found in the various categories of one variable across the different categories of another variable (Burns and Burns, 2013). The main assumption is that lowest expected frequency in any cell should be five or more. The result of the test is significant only when the p-value is less than 0.05. Otherwise, there is no association between the variables. The null

hypothesis is usually accepted or retained depending on the p-value provided by the table. If it is more than 0.05, the null hypothesis is retained, otherwise it is rejected. The mean difference between the different phases of the financial crisis and their significant levels were analysed using the t-test.

### **5.9.1.3 The t-test**

The t-test is perhaps the most widely used statistical tests for data analysis. There are different kinds of t-test: one sample and two sampled t-test. Among these, the one adopted for this study is the “student’s t-test” also known as the “independent samples t-test” or the “two-sample t-test” it is a simple test which compares the means of two unrelated groups of the same continuous, independent variable. It has the following assumptions: the dependent variable should be measured on a continuous scale; the dependent variable should be made up of two categorical or independent groups; there should be independent observations which means that there should be no relationship between the observations in each group; there should be no significant outliers; for each group of independent variable, the dependent variable has to be approximately normally distributed; there should also be homogeneity of variances. Homogeneity of variance is usually performed in SPSS by Levine’s test for equality of variance.

The two tables arrived at after running the t-test in SPSS are the group statistics table and the independent sample t-test table. The difference in variance is represented by the standard deviation. The p-value for the t-test is represented on the table as sig 2-tailed. It shows us how likely it is that the results may have been gotten by chance. If the p-value is less than or equal to 0.05, the null hypothesis is rejected. But if it is more than 0.05, the alternative hypothesis is rejected and the conclusion will be that there is no statistically significant difference between the variances of the two groups. The t-test uses only two levels of treatment. Therefore ANOVA which is an extension of the t-test was used for more levels of treatment of the variables.

### **5.9.1.4 One-way Analysis of Variance (ANOVA)**

It is an extension of t-test. ANOVA means one-way Analysis of Variance. It is used to determine whether or not there is a mean difference between two or more samples (Burns and Burns, 2013). It measures the variability of data within the data set. Unlike the t-test whose categorical explanatory variable has only two levels, the ANOVA can be used in a quantitative outcome with the categorical variable having two or more

treatment levels. This test assumes that each score should be independent of each other's score, homogeneity of variance and normality. This test is advantageous for this study because besides testing the difference between means, it reduces the chances of both types I and type II errors.

#### **5.9.1.5 Factor Analysis**

Factor analysis consists of two tests: Kaiser-Meyer-Olkin and Bartlett's test. It is important in its ability to compress many factors into a few components. The Bartlett's test measures the null hypothesis to ensure that the original correlation matrix is an identity matrix. This is verified by ensuring that the significance level is less than 0.05, meaning the use of factor analysis is appropriate. It reads that the sum of partial correlations is relatively large enough to yield distinct and reliable results. Kaiser-Meyer-Olkin's measures sample adequacy. Values are expected to be greater than 0.5. Below this figure means that the sample size is not large enough or suggests a rethink on which variables to include. Values close to 1 suggests that the patterns of correlations are relatively compact.

#### **5.9.2 Qualitative Data Analysis: Interview**

After conducting the interview, it was transcribed in order to take note of everything. It is usually well recommended and advisable for the researcher not to pile up these interviews, but to transcribe them immediately so as not to have any difficulty trying to recall some important data; especially in cases where voice recording was absent (Swift and Piff, 2014). Some of the interviews were recorded using a recorder while some were written down on a transcript. The researcher intended to have all the interviews recorded so as not to have any distractions or miss out a word through taking down notes in the course of the interview. However, this desire was not achieved since some of the respondents were not willing to let the interviewer record their voices. They rather preferred that the interviewer should take down the notes in the course of the interview. According to them, it is very risky for such vital financial and personal information to be given out to any member of the public.

Besides sharing this view by the customers, most financial institutions considered their financial information to be strictly confidential. As a result, they refused any form of recording other than taking down notes. Bearing this in mind therefore, the researcher made sure that there was no trace from the voice or being identified with their name or

place of work. The notes taken during this interview were immediately transcribed by the researcher on the same day. The transcribing was not done at a later date in order to avoid a situation where the researcher would not be able to remember all what was said during the interview even though some notes were taken down.

Nevertheless, some of the household respondents still gave their consent for the interview to be recorded. By recording the interview the researcher was able to repeatedly listen to the tape from the beginning to the end and be able to transcribe the information. Various themes were identified by their relationship. Creswell (2013) strongly suggests that conducting a thematic analysis is one of the most likely ways of analysing qualitative data. This is because qualitative data usually generate large amounts of data that is difficult to analyse systematically. The data collected from qualitative research are analysed with the use of the software called NVIVO through categorizing and coding. NVIVO allows data to be imported into it from excel files, word documents, field notes and voice/video recorder; help examine relationships and themes between the data; provides an organized storage file system for easy material search and location; models and charts can also be drawn easily. However, NVIVO does not allow you to edit data sets, correct spelling mistakes, remove confidential information or delete any unwanted data.

After collecting all the interview responses from the respondents, the transcripts or recorded voices as the case may be were read through or listened to for the first time in order to get the first impression about the overall view. The transcripts were read through again one after the other – line by line. The second step is called coding or indexing. This stage involves labeling all the relevant phrases, words, sentences or sections in the transcript. This can be labels of interviewee's opinion about a specific issue, concepts, differences or anything considered relevant which could add value to the study. The number of codes does not really matter. At the coding stage bias is avoided or limited by staying very close to the data or transcript.

After creating the code, the third step involves making a decision on which of these codes is important or relevant to the study. Categories or themes are then created by bringing several codes together. New codes are again created by combining two or more codes from the previous step. These themes or categories must not be of the same type. At this stage, the ideas are still at an abstract level. Some of the initial codes created were not very important to the topic. As a result, these codes were ignored. At the fourth

stage, the categories were labeled and a connection was made in these categories. This connection between them is described. These categories and connections became the main results of the study. These are new knowledge of the world from the perspective of the participants involved in the study.

At the fifth stage, a decision is made on the hierarchy of the categories. That is if one category is more important than the other. Figures and tables were then drawn and the results summarised. The sixth stage was then the writing up of the result. It begins with the write up on the categories and how they are connected. A discussion is then made in the interpretation and a discussion of the results. The results are discussed in the light of the results from similar or previous studies published in journals or other academic writing on the topic, theories or concepts in the field and other relevant aspects. Finally, the choice of methodology used depends on the interviewer. The interviewer can choose to be open-minded or use preconceived theories or concepts or code aim for the conceptualisation of the underlying patterns. The researcher in this study made use of themes and sub themes for ease of analysis.

### **5.10 Pilot Study**

Following the research aims and objectives with the research questions, the questionnaire and interview schedule for the pilot study was developed. These were presented to the supervisory team for content validity. Adjustments were made which was again presented to the supervisory team for approval. The piloted open-ended questionnaire was administered randomly to 40 respondents through the use of lime survey and some as hardcopies around bank premises. The respondents were required to fill the questionnaire and also provide feedbacks. In agreement with the supervisory team, relevant feedbacks were considered which helped to develop the main questionnaire for the study. Interview schedules were conducted randomly for 10 respondents. It was extremely difficult to collect data from the six HSB mortgage advisors, considering the confidentiality of information. After several unsuccessful attempts therefore, snowball sampling was considered the best technique. Interview data were analysed with the use of some statistical tools in SPSS while interview data were coded and analysed using NVIVO software.

This pilot study is a miniature of the major study. Its purpose is to ensure the researcher that the study is feasible. It makes the researcher to know the possibility of carrying out

the main research to its completion in terms of methods recruited, structure, treatment and follow-up assessment (Kumar, 2012). Also, piloting the questionnaires enables the researcher to be able to ensure that the questions and language used is well understood and accepted by the participants so as to determine if amendments are necessary or not. Thus, it ensures that the survey questions operate well while the research instruments function properly and accordingly (Bryman and Bell, 2011). Also, this pilot study helped the researcher to eliminate open-ended questions such that the main questionnaire for the study was structured. Piloting interview schedule for example gives the interviewer much experience of using it, thus infusing a greater sense of confidence to the researcher. Also, questions that made respondents feel uncomfortable as well as missing questions were easily identified and taken care of.

### **5.11 Ethical Consideration**

Given that this research has to do with primary data collection, ethical consideration becomes of importance. The researcher filled an ethical consideration form and submitted to the school's ethics committee. A letter of approval, which identified who the researcher is as well as the purpose of the data collection, was then given to the student which aid to boost confidence on the respondents during the data collection process. In addition, a consent form was also prepared and attached to the questionnaires. This enabled the participants to approve of their consent to participating in the research. The purpose of the consent form is to ensure that the researcher keeps in mind an obligation to respect the rights, desires, values, needs, opinion and attitudes of all the respondents. It also informs the participants of the strict confidentiality of their responses as will be used for academic purpose only; reminds them that their right to participate is voluntarily; the freedom to keep a photocopy of the filled questionnaires if they deemed it necessary to do so; acknowledged the fact that the rights of the participants are well protected in the data collection process till the end of the study.

The consideration of ethics in research is growing in importance, especially with research as this one which has to do with some members of the general community - households who serve as respondents in the research. Ethics has to be considered in data collection in order to ensure that the activities of the researcher do not affect or harm the respondents in any way. Respondents are always conscious of being harmed psychologically, financially or socially. In this research, the researcher took into account



these ethical considerations. It ensured also that the researcher, the supervisor and the institution are well protected so as to avoid claims from individuals on inappropriate behaviour that could result to public criticism.

### **5.12 Summary**

In this chapter, all about the methodology used in investigating the changes in housing finance as a result of the financial crisis have been discussed. The methodology used is aimed to provide sufficient information that will satisfy the aim and objectives of the study. The researcher ensured that the response rate (45.7%) to the number of questionnaires which can be considered a fair representation of the total population sample. Also the number of interviewees' was 43 which are large enough to ensure appropriate results of the finding. Justifications were also made on the choice of the research design, research strategy, sampling techniques and processes used to carry out the collected data. The final questionnaire and interview proved to benefit a lot from the pilot study from where necessary adjustments and corrections were made. Given that the study required the researcher to collect primary data from the general public, great attention was also placed with regards to ethical issues and considerations. Appropriate procedure and steps were followed to this regards to ensure that gate keepers were not a problem. Finally, the limitations and difficulties encountered in collecting the data for the study were also discussed. The next chapter focuses on the presenting and analysing the primary data collected from both the questionnaire and the semi-structured interview from both the perspectives of the customers and the banks.

## **Chapter Six: Presentation and Analysis of Qualitative and Quantitative Data**

### **6.1 Introduction**

The objective of this chapter is to present the primary research conducted and the analysis performed through the use of different statistical tests. It is divided into two sections with section one for questionnaire and section two for interview analysis and presentation. The chapter starts with the presentation of the profile of the respondents. It then continues with the presentation and analysis of the changes in housing finance in relation to the financial crisis for periods between 2003 and 2013. This is preceded by the presentation and analysis of housing finance with respect to homeownership status in the UK. Homeownership status analyse the data separately for those who have a mortgage property and those who are still tenants. The results are analysed using various statistical tools and techniques such as descriptive analysis, factor analysis, cross tabulation, chi-square test, reliability test, t-test and one-way ANOVA. The chapter continues with the presentation of the analysis of the semi-structured interview for both the demand and the supply side of the study.

### **Section One: Questionnaire**

#### **6.2 Profile of the Respondents**

This section presents the general profile of the respondents in order to understand their different backgrounds. This is important to start with before the analysis of the main variable as the direction of their responses may be influenced by their backgrounds. The respondents' profile includes their gender, age, marital status, ethnicity, and religion, level of education, qualification, and employment status as well as income range.

##### ***6.2.1 Gender, Age and Marital Status***

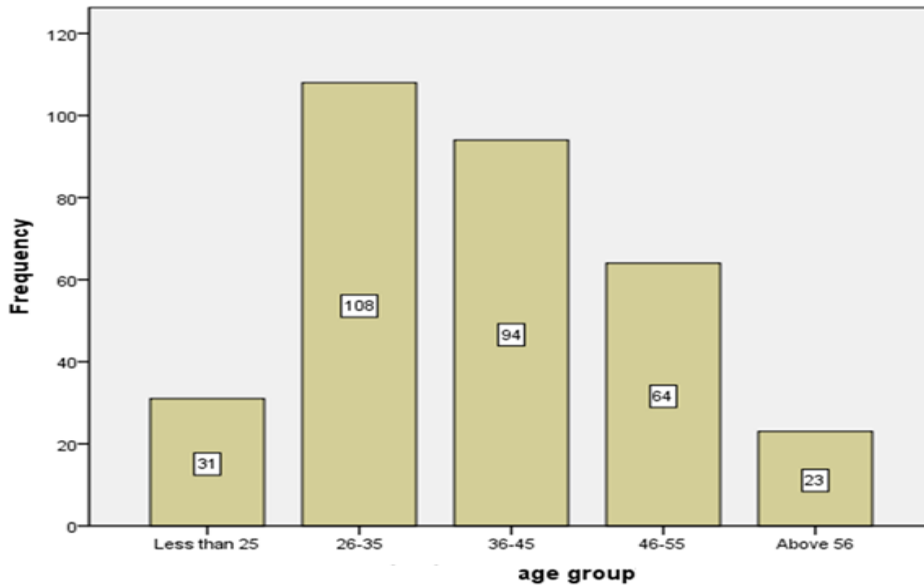
Table 6.1 below represents the summary of frequencies and percentages of the respondents' gender, age and marital status respectively.

**Table 6.1: Summary of Respondents' Gender, Age Group and Marital Status**

		Frequency	Percent
<b>Gender</b>	Female	174	54.4
	Male	146	45.6
	Total	320	100.0
<b>Age</b>	Less than 25	31	9.7
	26-35	108	33.8
	36-45	94	29.4
	46-55	64	20.0
	Above 56	23	7.2
	Total	320	100.0
<b>Marital Status</b>	Married	143	44.7
	Single	127	39.7
	Divorced	22	6.9
	Widow	19	5.9
	Widower	9	2.8
	Total	320	100.0

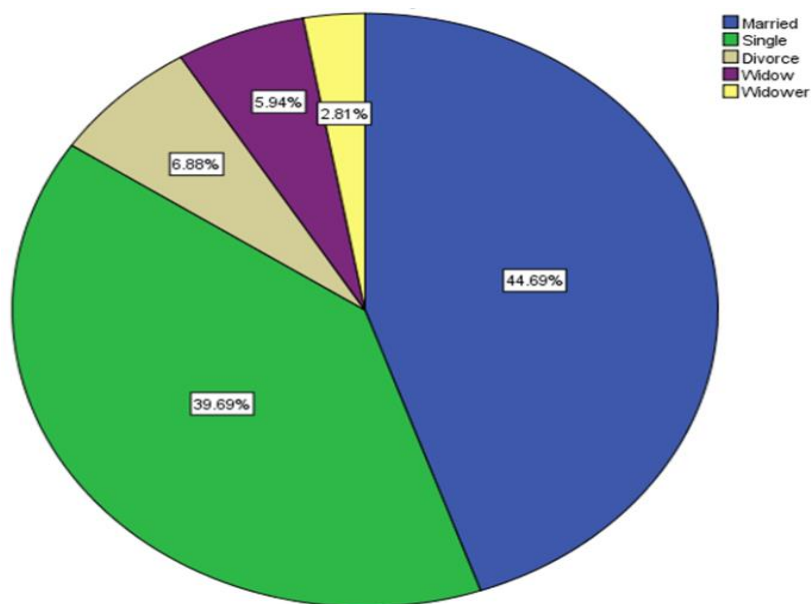
Table 6.1 demonstrates that there is an uneven distribution of the male and female respondents. Out of the 320 sampled participants, the female population formed the majority with 174 participants, representing 54.4%. The male participants were only 146, forming a total of 45.6%. There were generally more females than males around the banking premises of most banks.

The age distribution of the respondents shown in Table 6.1 is unevenly distributed. The age group with the highest number of respondents is between 26 and 35 years old. It makes up 33.8% of the total sample. This is closely followed by the age group ranging 36-45 years old with 29.4%. Those aged between 46 and 55 years old also have a high percentage of 20.0% compared to the least percentage of only 7.2% for those over 56 years old. The two age groups of between 26 and 35 and 36-45 years old alone make up 63.2% of the total respondents. These age groups are the most agile age groups and could easily be found around banking premises compared to the older age groups who do not prefer to stay at home and do internet banking. The age group distribution is displayed in the bar chart below.



*Figure 6.1: Bar Chart for Age Groups*

For marital status, the highest number came from the married people who made up 44.7% of the population as observed in Figure 6.1, compared to the singles that made up 39.7%. Those who were divorced consist of 6.9% of the entire population. The widows accounted for 5.9% compared to the widowers who consist of 2.8%. The high percentage of the respondents is found to be married because 83.2% of the respondents are within the age groups in the interval 26 to 55 years old. It is therefore expected that there will be more married respondents found in the sample. The marital statuses of the respondents are more clearly represented by the pie chart in Figure 6.2 below.



*Figure 6.2: Pie Chart for Marital Status*

### 6.2.2 Ethnicity and Religion

Table 6.2 below demonstrates the frequency distribution and percentages of the respondents' ethnic and religious backgrounds.

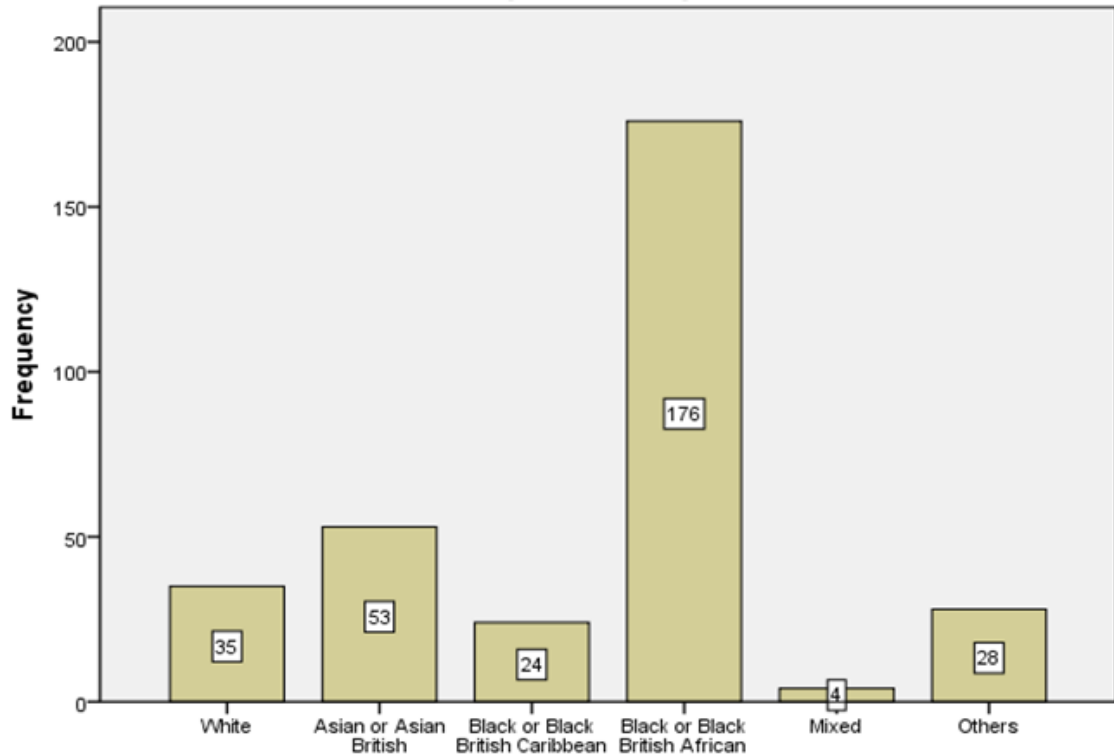
**Table 6.2: Frequency Table for Ethnicity and Religion**

	Frequency	percent
<b>Ethnicity</b>		
White	35	10.9
Asian or Asian British	53	16.6
Black or Black British Caribbean	24	7.5
Black or Black British African	176	55
Mixed	4	1.3
Others	28	8.7
<b>Religion</b>		
No religion	14	4.4
Buddhist	10	3.1
Christian	199	62.2
Hindu	9	2.7
Muslim	84	26.3
Sikh	4	1.3
Total	320	100.0

Table 6.2 displays the different ethnic groups and religion for the respondents. It shows that the majority of the respondents are from the black or black British African origin. This ethnic group alone makes up 55%, which is more than half of the sampled population. The second largest group came from the Asian or Asian British population with 16.6%. This is closely followed by the white respondents who made up 10.9% of the total respondents. 7.5% of the respondents are made up of the Black or Black British Caribbean population, while the mixed races consist of just 1.3% of the respondents. The other ethnic groups not mentioned make up 8.8% of the population.

The major percentage of the respondents is black or black British Africans because during the data collection process, they were found to be easily approachable compared to other ethnic groups. Most ethnic groups, especially the white just walked passed by without responding to even the greetings of the researcher. Putting all of the Asian background respondents together, they will emerge to be the second highest number of respondents. This is because the Asians just like the African population are a little bit

skeptical about internet banking compared to the white population. Thus the low percentage of the white respondents could be attributed to the fact that they prefer internet banking rather than going to the banks for their services. The outcomes on ethnicity are displayed in Figure 6.3 below.



*Fig 6.3: Bar Chart on the Ethnicity of the Respondents*

Based on the religious background, Figure 6.4 62.2% of the respondents are Christians. This is followed by the Muslims with 26.3%. Respondents with no religion accounted for 4.4%. This is closely followed by 3.1% for Buddhists, 2.8% of Hindus and 1.3% for the Sikhs. The reason for the Christians being the majority of the respondents is because the official religion in the UK is Christianity. Despite the fact that Christianity is the official religion in the UK, there is the freedom for other people, including immigrants to practice other religions in peace and harmony. Muslim is the second highest religious practice of the respondents because the Asians who are mostly Muslims have the second highest number of respondents - besides the fact that some Africans are also Muslims. Also, it has been proven that about three-quarter of the Asian population are Muslim. Individuals also have the liberty to decide not to belong to any religious group. This explains why 4.4% of the respondents have no religion.

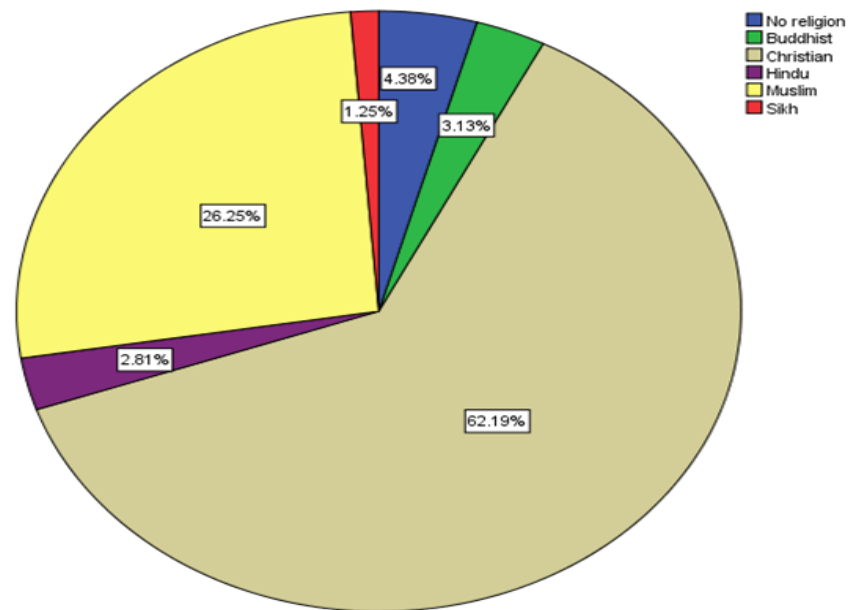


Figure 6.4: Pie Chart on the Religious Background of all Respondents

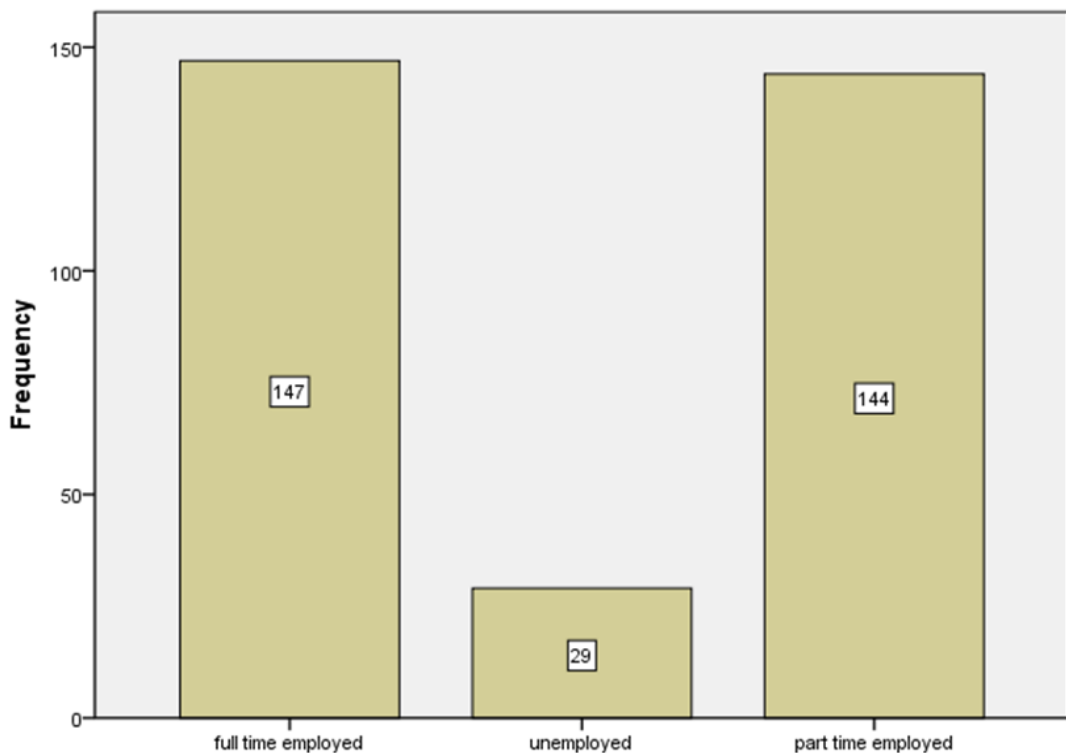
### 6.2.3 Educational Qualification, Employment Status and Income Range

Table 6.3 shows the frequencies and percentage distribution for educational qualification, employment status and the income ranges of the respondents.

Table 6.3: Educational Qualification Employment Status and Income Range

		Frequency	percent
<b>Qualification</b>	No qualification	5	1.6
	O/L	6	1.9
	A/L	31	9.7
	BA/BSc	111	34.7
	MA/MSc	142	44.4
	PhD	25	7.8
	Total	320	100.0
<b>Employment Status</b>	Full-time employed	147	45.9
	Unemployed	29	9.1
	Part-time employed	144	45
	Total	320	100.0
<b>Income Range</b>	Less than 10K	41	12.8
	11K-20K	105	32.8
	21K-30K	108	33.8
	31K-40K	49	15.3
	Above 41K	17	5.5
	Total	320	100.0

It can be seen from the Table 6.3 that the respondents are generally well educated. A very high percentage of 44.4% is sent to represent respondents with a master or post degree. This high percentage is followed by those who have a bachelor degree, representing 34.7% and 7.8% consisting of holders with a doctorate degree. A low percentage of 9.7% of the respondents are advanced level holders, while a very minimal percentage of 1.9% is ordinary level/GCSE holders. An almost insignificant number of 5 out of 320 respondents representing only 1.6% of the respondents have no formal qualification. The very high level of postgraduates and graduates can be attributed to the fact that a majority of the respondents are Africans, Asians and other immigrants, most of which came to the UK in order to further their studies.

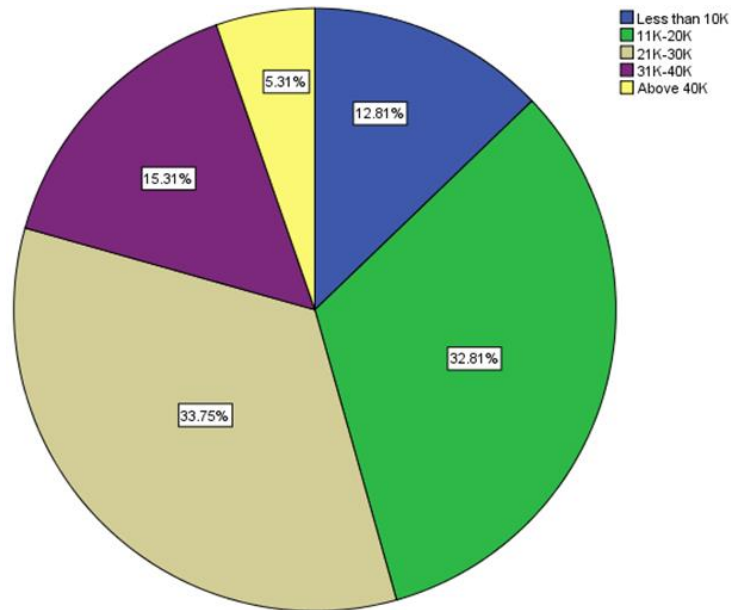


*Figure 6.5: Bar Chart on Respondents' Employment Status*

For the employment status in Figure 6.5, a very significant percentage of 45.9% as well as 45.0% of the respondents have full-time employment and part-time employed respectively. A very low percentage of 9.1% of the respondents is unemployed. The high percentage of full-time and part-time employment status is because most of them are graduates and students who are bound to find full-time and part-time jobs respectively.



The income of the respondents in Table 6.3 is unevenly distributed. 108 respondents representing 33.8% have income in the range 21k–30k. This is followed by 32.8% of the respondents in the income range 11k-20k. This is accounted for the fact that almost up to 45.9% and 45.0% of the respondents are full-time and part-time employed. 15.3% of the respondents earn income in the range of 31k–40k. Only 12.8% of the respondents have income less than 10k while 5.3% of them earn income above 40k as represented in Figure 6.5 below.



*Figure 6.6: Pie Chart on Income Range of all Respondents*

### **6.3 The Financial Crisis and Housing Finance Borrowing.**

This section establishes the relationship that exists between the financial crisis and housing finance for household HSB customers. The results of the findings will be analysed in three time frames. These are 1) the period before the 2007 financial crisis where the economy was still in its normal state 2) the financial crisis period which is between 2007 and 2009 and 3), the period after the crisis which is between 2010 and 2013. The split down of these three intervals in the study is in order that the effect of the crisis will be clearly differentiated. The periods before the financial crisis will enable us to understand how the economy used to be or the situation before the financial crisis so that the difference will clearly be seen when discussing the impact of the financial crisis. The collection of data during the crisis period will aid in understanding the changes in households' behavioural choices and preferences. The data collection after the financial crisis will also enable us to understand the demand for housing finance

immediately after the peak of the crisis up to 2013. The influence of the financial crisis can therefore be seen in the following ways.

### 6.3.1 Before the Financial Crisis

On a Likert scale ranging from one to seven, the customers were asked to state their levels of agreement on the ease of obtaining a mortgage loan before the 2007 financial crisis (question 32 in appendix). Their responses are displayed in Table 6.4 below.

**Table 6.4: Periods before 2007**

Levels of Agreement	Frequency	Percent
strongly disagree	9	2.8
Disagree	6	1.9
somewhat disagree	25	7.8
Neither agree nor disagree	59	18.4
somewhat agree	33	10.3
agree	96	30.0
strongly agree	92	28.8
Total	320	100.0

In Table 6.4 above, the respondents were asked to state their level of agreement on the ease of obtaining a mortgage before the 2007 financial crisis. Their responses indicate that out of a total of 320 valid responses, 96 respondents or 30% of the respondents agreed that it was very easy to obtain a mortgage before the financial crisis. 28% of the respondents strongly agreed while 10.3% of them somewhat agreed that before the financial crisis, mortgage loans could be obtained with ease. On the contrary, only 6 respondents, representing 1.9% said they disagree that it was easy to obtain a mortgage loan before the financial crisis. 2.8% respondents strongly disagreed while 7.8% somewhat disagreed. 59 respondents representing 18.4% were indifferent as they neither agreed nor disagree. In total therefore, it is observed that a great majority of the respondents representing approximately 70% were of the opinion that it was easy to obtain a mortgage loan before the financial crisis while a very small minority of 12.5% disagreed.

### 6.3.2 During the Financial Crisis

In Table 6.5 below, the respondents are asked to state their level of agreement on whether or not it was very difficult to obtain a mortgage loan from the bank between 2007 and 2009 (question 33 in appendix). Their responses are displayed below.

**Table 6.5: Periods between 2007 and 2009**

Level of Agreement	Frequency	percent
strongly disagree	8	2.5
disagree	18	5.6
somewhat disagree	62	19.4
neither agree nor disagree	73	22.8
somewhat agree	54	16.9
agree	72	22.5
strongly agree	33	10.3
Total	320	100.0

As observed from Table 6.5 above, for a total of 320 respondents, 49.7% agreed at different levels that it was very difficult to obtain a mortgage loan from the bank within this period. Out of this 49.7%, 22.5% of the respondents simply agreed, 10.3% strongly agreed and 16.9% somewhat agreed. 88 respondents, representing 27.5% disagreed at different levels that it was difficult to obtain housing finance within this period. Out of the 27.5% level of disagreement, 5.6% of the respondents disagreed, 2.5% strongly disagreed and 10.4% somewhat disagreed. However, 33.8% of the respondents neither agreed nor disagreed with the statement.

#### 6.3.2.1 Comparing Before and During the Crisis.

The mean difference and significance in the difference between the period before the financial crisis and the period after the financial crisis is represented below using a paired sample t-test.

**Table 6.6: Paired Samples t-test for Period before the Crisis and During the Crisis**

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Obtaining a mortgage before the 2007 financial crisis - obtain a mortgage between 2007 and 2009	.803	1.945	.109	.589	1.017	7.387	319	.000

Table 6.6 illustrated that the mean difference between the two periods is 0.80, at 95% confidence interval. The difference in the means lies between 1.02 as the upper limit and 0.589 as the lower limit. A t-value of 7.39 with 319 degrees of freedom, the t-test is statistically significant with a significant level of 0.001 which is less than 0.05. This indicates that there is a difference in mortgage loan between the two periods.

### 6.3.3 After the Financial Crisis

To be able to comprehend the differences between these periods and the other two periods, data was collected using the same seven point Likert scale. The respondents were asked to state their levels of agreement on the statement that it was easy to obtain a mortgage loan for the periods between 2010 and 2013 (question 43 in appendix). The results are displayed in Table 6.7 below.

**Table 6.7: Period between 2010 and 2013**

Level of Agreement	Frequency	percent
Strongly Disagree	60	18.8
disagree	72	22.5
somewhat disagree	53	16.6
neither agree nor disagree	63	19.5
somewhat agree	36	11.3
agree	32	10.0
strongly agree	4	1.3
Total	320	100.0

From Table 6.7 above, it is observed that 320 respondents took part in this study. Out of this total, more than half of the respondents, representing 57.9% disagreed at different levels to the statement that it was easier to obtain mortgage loans from the bank within the period 2010 and 2013. Out of the total of those who disagreed, 22.5% of the respondents disagreed, 18.8% strongly disagreed while 16.6% somewhat disagreed. Only 22.6% of the respondents had different levels of agreement. Out of this total, 10% agreed that obtaining housing finance was a bit easier within this period. A very small percentage of 1.3% strongly disagreed while 11.3% of the respondents somewhat agreed. A total 19.5% of the respondents remained neutral to the statement as they neither agreed nor disagree.

### 6.3.2.1 Comparing Before and After the Financial Crisis

Table 6.8 below is a paired sample t-test used to test the mean difference between periods before the financial crisis and periods after the financial crisis. It also tests the level of statistical significance between these two periods.

**Table 6.8: Paired Samples t-test for before the Crisis and between 2010 and 2013**

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Dev.	Std. Error	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Obtaining a mortgage before the 2007 financial crisis - Obtain a mortgage between 2010 and 2013	2.178	2.506	.140	1.903	2.454	15.550	319	.000

The results in Table 6.8 indicate that there is a statistically significant difference in the provision of housing finance between the two periods at a significant level of 0.000 which is less than 0.05. The mean difference is 2.18 which have a lower bound of 1.90 and a higher bound of 2.45 at 95% confidence interval.

### 6.3.2.2 Comparing During and After the Crisis

**Table 6.9: Paired Samples t-test for 2007-2009 and 2010 and 2013**

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Dev.	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Obtaining a mortgage between 2007 and 2009 - Obtaining a mortgage between 2010 and 2013	1.375	1.778	.099	1.179	1.571	13.830	319	.000

The paired sample t-test for the two periods in Table 6.9 indicates that there is a mean difference of 1.38 with a lower bound of 1.18 and an upper bound of 1.57 at 95% confidence interval. This gives a t-value of 13.83 at 319 degrees of freedom and a statistical significance level of 0.000. Thus the null hypothesis is rejected while the alternative hypothesis that there is a difference between the two periods is retained.

### 6.4 Ownership Status

In attempting to find out the status of homeownership, the respondents were asked to clearly state whether they were tenants or they actually own the houses they live in. Their responses were displayed in Table 6.10 below.

**Table 6.10: Homeownership Status**

	Frequency	Percent	Valid %	Cumulative %
Valid Renting	218	68.1	68.1	68.1
Own the house	87	27.2	27.2	95.3
Own as shared/co-ownership	15	4.7	4.7	100.0
Total	320	100.0	100.0	

From Table 6.10 above, it is observed that a majority of the respondents does not own the houses they live in. Out of a total of 320 respondents, only 27.2% of the respondents own the houses they live in while 4.7%, partly own the house they live in as a shared

accommodation. This makes a total of 31.9% for homeowners. The remaining 68.1% are reported to be renting.

#### **6.4.1 Homeowners**

This section of data analysis is for those who own houses or who live in their own homes as owner. This includes all those who own their houses either as outright or as shared accommodation/co-ownership. In this section, an analysis will be done on the nature of homeownership and the type of mortgage provider. The type of mortgage provider will refer to whether the customer’s home is being financed by the HSB or by other housing finance providers. Other housing finance providers include any other housing finance provider other than the main HSB. These could be the council, building societies or other housing providers. It is necessary to start by looking at the different types of mortgage providers.

##### **6.4.1.1 Types of Mortgage Providers**

The table below is intended to know the proportion of HSB customers who use the HSB as their housing finance provider and the proportion of respondents who instead use other mortgage providers as their sources of housing finance.

**Table 6.11: Type of Mortgage Providers for Homeowners**

	Frequency	Percent	Valid %	Cumulative %	Frequency	Percent
0	218	68.1	68.1	68.1	0	0
Bank	34	10.6	10.6	78.8	34	33.3
Building society	21	6.6	6.6	85.3	21	20.6
Council	18	5.6	5.6	90.9	18	17.7
Islamic provider	17	5.3	5.3	96.3	17	16.7
Others	12	3.8	3.8	100.0	12	11.8
Total	320	100.0	100.0		102	100

Table 6.11 illustrates that 34 respondents, representing 10.6% of all respondents and 33.3% homeowners indicated that their HSB are their housing finance providers. The remaining 66.7% respondents have their housing finance provided by other housing finance providers. The other housing finance providers are grouped into building

societies with 20.6%, council with 17.7%, and Islamic provider with 16.7% and others with 11.8%. The figure zero in the table with a frequency of 218 represents those who do not own a house. Our interest in this analysis does not include this category of respondents. It is observed that a greater majority of the respondents have their housing finance provided by non-HSB while a minority of mortgage loan is provided by the HSB. Several reasons could account for this. It is necessary to look at the period of time when this housing finance was obtained by the household customers so as to better understand the reason for this disparity in the provision of housing finance between the HSB and non-HSB.

#### 6.4.1.2 Mortgage Provider and Year of Mortgage Provision

Table 6.12 below is a cross tabulation which establishes the relationship between the mortgage providers and the period of time or the year in which the mortgage loan was obtained.

**Table 6.12: Cross Tabulation between Mortgage Provider and the Year the Loan was obtaining.**

		periods obtaining the mortgage(s)				Total	
		0	before 2007	2007-2009	2010 - 2013		after 2013
mortgage provider	0	100.0%					100.0%
	Bank		11.8%	64.7%	14.7%	8.8%	100.0%
	Building society		47.6%	14.3%	33.3%	4.8%	100.0%
	Council		27.8%	33.3%	27.8%	11.1%	100.0%
	Islamic provider		29.4%	23.5%	29.4%	17.6%	100.0%
	Others		33.3%	8.3%	33.3%	25.0%	100.0%

It is observed in Table 6.12 that for the period before 2007, both banks and other housing finance providers were proving mortgage loans to households. However, the building society and other providers provided more loans than the HSB, giving a percentage of 35.7%, 50.0% and 11.8% respectively. During the financial crisis period, the situation was reversed; the banks provided more loans than all of the other providers. The proportion of loan provided by the bank was a majority of 64.7%. After



the financial crisis period, the proportion of loan provided by these HSB dropped to 14.7% of all respondents while that of the other housing finance providers increased.

#### 6.4.1.3 Chi-Square Test for Mortgage Provider and of Year of Mortgage Provision

The cross tabulation above provides the relationship between the variables but does not actually provide any evidence of the relationship. To know the significance of the relationship between the mortgage providers and the period of mortgage provision, the chi-square test is used as in the Table 6.13 below.

Table 6.13: Chi-Square Tests for Type of Mortgage Provider and the Year of Obtaining the Loan.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	402.692 <sup>a</sup>	20	.000
Likelihood Ratio	427.501	20	.000
Linear-by-Linear Association	204.649	1	.000
N of Valid Cases	320		

a. 20 cells (66.7%) have expected count less than 5. The minimum expected count is .45.

From the Pearson chi-square test Table 6.13 above, it is observed that the coefficient of the test is 402.692 at 20 degrees of freedom. The test is proven to be significant as the p-value of the test is 0.000 which is less than 0.05. This means that the null hypothesis can be rejected while retaining the alternative hypothesis. Thus, the relationship between the period of mortgage provision and the type of mortgage provider also confirms the effect of the financial crisis in mortgage provision.

#### 6.4.1.4 General Criteria used to make a Choice of Mortgage Provider

Certain criteria are used or examined by the customers when applying for a mortgage loan. The respondents usually use these criteria in order to compare and make a choice on their mortgage provider. In furthering this research, these criteria will be analysed in Table 6.14 below.

**Table 6.14: General Criteria used by the Customers to make a Choice of their Mortgage Provider**

Criteria	Strongly disagree (%)	Disagree (%)	Somewhat disagree (%)	Neither agree not disagreed (%)	Somewhat agree (%)	Agree (%)	Strongly agree (%)
Quality of customer service	0.6	0.9	1.9	8.8	15.0	35.6	37.2
Repayment period	0.3	0.6	0.9	4.4	9.4	36.6	47.8
Amount of monthly repayment	0.3	0.3	0.3	4.1	8.1	34.1	52.8
Convenience of repayment	0.3	0.3	0.9	5.6	9.7	35.9	47.2
Process for approval	9.3	12.6	19.8	7.5	10.2	15.5	25.1
Initial deposit	0.9	1.3	1.9	10.3	16.3	33.8	23.6
Safeguarding customer's interest	0.9	0.3	0.6	4.1	9.4	35.9	48.8
Terms and conditions	5.9	8.2	3.3	11.1	22.9	28.1	20.5

As can be observed from the Table 6.14, the households use certain criteria when making their choice of a mortgage provider. These criteria are explained below

- i. The amount of monthly repayment. The respondents consider this factor to be very important to them as they have to be very sure of their monthly repayment so that judging from their monthly or past savings, they will be able to determine if they can afford for the mortgage. This is to avoid a situation where the mortgage property will have to be repossessed. 52.2% of the respondents strongly agreed that this factor is very important to them. Also, 33.8% of them agreed while only 0.3% and 0.6% of the respondents strongly disagree and disagree respectively.
- ii. The initial deposit. Majority of the customers always look at the initial deposit involved in a mortgage loan to be granted before making their choice of a mortgage provider. 35.6%, 33.8% and 16.3% of the respondents rated this factor to as strongly agree, agree and somewhat agree respectively. 10.3% of the respondents neither agreed nor disagree to this factor while 1.9%, 1.3% and 0.9% rated the factor as somewhat disagree, disagree and strongly disagree respectively. This gives a total of 4.1% of the respondents who generally disagree and 80.4% who generally agree with the importance of this factor.

- iii. Quality of customer service. This factor is rated by 37.2% of the customer as strongly agreed and by 35.6% of them as agreed. 2.4% disagreed at varying levels of disagreement while 8.8% remained neutral to the importance of this factor.
- iv. The processing time. Once households are ready to obtain their mortgage loan, they certainly do not want so much delay in obtaining it. They therefore consider the processing time before deciding on their choice of a mortgage provider. 43.8% of the respondents strongly agree that this factor is worth considering. 34.4% of them agree while 12.5% somewhat agree. 1.3% of the respondents somewhat disagree, 0.6% disagree, 0.9% strongly disagree while 6.6% neither agree nor disagree. This means that on a general scale, the majority of the respondents agreed that this factor is important.
- v. The convenience of repayment. Even though a loan is sometimes inevitable, it is necessary to be sure that the repayment is convenient enough. 46.9%, which is almost half of the respondents strongly agree that they consider how convenient it is for them to repay their mortgage loan before making their choice of a mortgage provider. 35.3% and 9.7% of the respondents agreed and somewhat agreed respectively to this factor. This leaves only 0.9%, 1.3% and 0.3% of the respondents who somewhat disagree, disagree and strongly disagree respectively.
- vi. The period of repayment. Some mortgages are usually spread over a longer period of years than others. While some individuals will prefer shorter periods of time, others desire a longer time period of repayment. Based on this factor, 47.8%, 36.6% and 9.4% of the respondents strongly agree, agree and somewhat agree respectively. A total of 1.8 respondents did not agree with this factor while 4.4 of the respondents remain neutral in their response.
- vii. Safeguarding the customers' interest. In obtaining a loan, the households usually check to make sure that their choice of provider safeguards their interest. 48.8% and 35.9% of the respondents strongly agreed and agreed that this factor is considered of importance to them while 1.8% of the respondents disagreed.
- viii. Terms and conditions. Customers consider this factor to avoid being embarrassed. In total, 71.5% of the respondents agreed at different levels with

20.5% of them strongly agreeing and only 15.3% of them disagreeing at different levels.

#### 6.4.1.5 Factor Analysis for Lending Criteria

The criteria used by the customers to make the choice of their mortgage provider have been identified to be numerous. The use of factor analysis is to reduce these factors by grouping them into fewer components as observed below.

**Table 6.15: Factor Analysis Table for KMO and Bartlett's Test on Mortgage Provider and Criteria used in Choice Making**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.894
Bartlett's Test of Sphericity	Approx. Chi-Square	3000.637
	df	28
	Sig.	.000

As observed in Table 6.15, the KMO result is 0.894 which is more than 0.5, indicating a high partial correlation. This implies that the sample size is good enough for factor analysis to be conducted. The Bartlett's test of sphericity is 0.000 which means that the test is statistically significant and that sufficient correlation exists between the variables.

#### 6.4.1.6a Total Variance Explained for Lending Criteria

**Table 6.16: Factor Analysis Table for Total Variance Explained on Mortgage Provider and Criteria used in Choice Making**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.958	74.481	74.481	5.958	74.481	74.481	3.763	47.040	47.040
2	1.001	12.517	86.998	1.001	12.517	86.998	3.197	39.958	86.998
3	.328	4.102	91.100						
4	.205	2.566	93.667						
5	.195	2.436	96.102						
6	.136	1.701	97.803						
7	.116	1.446	99.249						
8	.060	.751	100.000						

The test result on Table 16 depicts that out of eight factors on the table; only two of them have eigen values more than one. These factors have eigen values of 3.763 and 3.197 respectively. Thus, the eight factors have been reduced into two component solutions with component one explaining 47.04% of the variance and component two explaining 39.96% of the variance. These two factors together explain up to 87% of the variance which should be considered high enough for the explanatory variable.

#### 6.4.1.6b Rotated Component Matrix

**Table 6.17: Rotated Component Matrix on the Criteria or Making the Choice of a Mortgage Provider.**

	Component	
	Quality of service	Financial commitment
safeguarding customers' interest	.887	.331
quality of customer service	.872	.291
terms and condition	.869	.281
convenience of repayment	.797	.439
processing time	.670	.593
amount of monthly repayment	.336	.915
initial deposit	.270	.910
period of repayment	.438	.845

The Varimax with Kaiser Normalization in Table 6.4.1.6b shows that the factors have been reduced into two components with values greater than 0.5. These two components have been renamed quality of service and financial commitment. Quality of service factors are those related to service quality. These include safeguarding the customer's interest, quality of customer service, terms and conditions, convenience of repayment and processing time with values ranging from 0.670 to 0.887. Financial commitment consists of factors such as the amount of the monthly repayment, initial deposit and period of repayment with values ranging from 0.845 to 0.915.

#### 6.4.1.6c Reason for not using the HSB as your Mortgage Provider

The respondents were able to categorise the following using seven point's Likert scale as the reasons for not using the HSB as their mortgage provider.

**Table 6.18: Reason for not using the High Street Bank as your Mortgage Provider**

Criteria	Not important at all (%)	Low importance (%)	Slightly important (%)	Neutral (%)	Moderately important (%)	Very important (%)	Extremely important (%)
More expensive	3.8	4.7	5.9	12.5	13.8	27.8	31.6
High initial deposit	4.1	4.4	5.3	12.2	13.8	28.8	31.6
Religious factors	27.2	25.0	17.2	16.9	5.0	7.8	0.9
Less competitive	20.3	23.1	16.3	19.4	10.6	9.4	0.9
Less flexible	18.8	22.5	16.6	20.3	10.9	9.7	1.3
Unawareness	19.2	21.0	17.2	16.9	5.0	7.8	12.9

As concluded from Table 6.18, the two main reasons why respondents did not use the HSB as their mortgage provider is because of the expensive nature of it and the high initial deposit involved. This is followed by the level of unawareness of the products offered by the HSB as most bank customers use the bank just for their financial transactions only. The religious factor is also another reason considered mostly by the Muslim participants. The less competitiveness and less flexibility nature of it also do not capture the interest of the respondents.

#### **6.4.1.7 Level of Satisfaction on Mortgage Provider**

The respondents were asked to give their level of satisfaction on their mortgage providers. They had different views. It should however be noted that the opinions of these individuals may be influenced by the type of mortgage product as well as their relationship with their mortgage provider.

**Table 6.19: Summary of the Level of Satisfaction on Mortgage Provider**

Providers		Frequency	Percent
bank	Yes	30	88.2
	No	4	8.8
Other mortgage providers	Yes	40	58.8
	No	28	41.2
Not applicable	0	218	0

**Table 6.19: Summary of the Level of Satisfaction on Mortgage Provider**

From Table 6.19, those whose mortgages are provided by the HSB agreed at 88.2% that they were satisfied with their choice of mortgage provider. This leaves just a few minorities who said they were not satisfied. For customer whose mortgages are provided by the other housing finance providers, only 58.8% of them were satisfied with their mortgage provider, leaving 41.2% who were not satisfied at all with their mortgage provider(s).

#### **6.4.1.8 Chi-Square Test for Level of Satisfaction on Mortgage Provider**

The chi-square test is used to prove the evidence of the relationship between level of satisfaction and mortgage provider. This is shown by the level of significance as observed in Table 6.20 below.

**Table 6.20: Chi-Square Test for Level of Satisfaction on Mortgage Provider**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.803 <sup>a</sup>	4	.000
Likelihood Ratio	32.310	4	.000
Linear-by-Linear Association	6.054	1	.014
N of Valid Cases	102		

The test of significance between the type of mortgage provider and the level of satisfaction proved to be statistically significant at the significance level of 0.014. The alternative hypothesis is retained while the null hypothesis is rejected.

#### 6.4.1.9 Measure of Central Tendency

It is important to look at the proportion of the respondent's monthly salary that goes to the monthly repayment of a mortgage loan. Table 6.22 presents the amount of the respondents' monthly salary that goes to mortgage loan repayment while Table 6.21 is the measure of central tendency table.

**Table 6.21 Measure of Central Tendency**

	Valid	
N		102
		218
Mean		3.54
Median		4.00
Mode		4
Std. Deviation		1.333
Variance		1.776
Minimum		1
Maximum		5

With the minimum value as 1 and the maximum as 4, the median and mode are both 4.00 which are higher than the mean of 3.54. This means that the distribution is negatively skewed as more of the respondents are at the higher end of the distribution than at the lower end. This higher end of the distribution is found from 30% of their income and above. The standard deviation is 1.333 which is smaller than the mean. This means that a high proportion of the respondents are closer to the mean value.

#### 6.4.1.10 Proportion of Monthly Salary for Monthly Mortgage Repayment

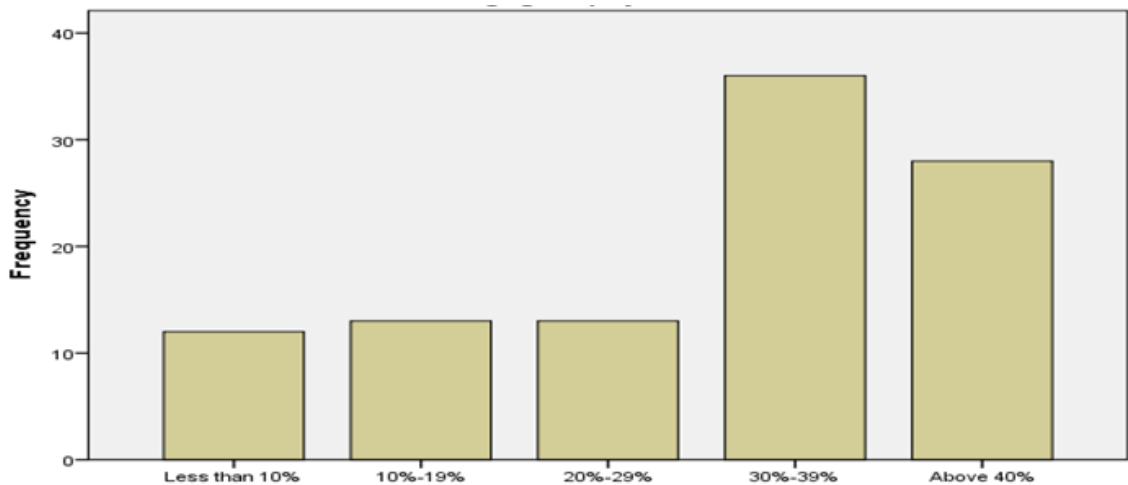
Table 6.22 below is an illustration of the amount of respondents' monthly salary that is attributed towards mortgage repayment. This enables us to apprehend the level of importance households attach on homeownership.



**Table 6.22: Proportion of Monthly Salary Allocate to Monthly Mortgage Repayment**

Income range		Frequency	Percent
Valid	Less than 10%	12	3.8
	10%-19%	13	4.1
	20%-29%	13	4.1
	30%-39%	36	11.3
	Above 40%	28	8.8
Total		102	31.9
Not applicable		218	68.1
Total		320	100.0

As observed from the table, the majority of the respondents are found between 30% - 39% and above 40%. The missing value of 68.1% represents those who do not own a house. The bar chart below is a graphical representation of the proportion of homeowners' salary allocated to mortgage repayment.



**Figure 6.7: Proportion of Monthly Salary Allocated to Monthly Mortgage Repayment**

Figure 6.7 shows that the respondents consider homeownership as a priority such that they provide a large proportion of their monthly income for their mortgage loan repayment. The observation also shows that the distribution is unevenly distributed.

#### 6.4.1.11 Anova Test for Income Range and Type of Mortgage Provider

**Table 6.23: Anova Test for Income Range and Type of Mortgage Provider**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20.704	5	4.141	3.922	.002
Within Groups	331.496	314	1.056		
Total	352.200	319			

The anova test of homogeneity of variance is statistically significant, indicating that the differences in the variance between each group are statistically different from each other. The f-value of 3.922 is statistically significant at p-value 0.002 which is less than 0.05. It is also important to look at the robust test of equality of means as observed below.

**Table 6.24: Robust Tests of Equality of Means for Income Range and Type of Mortgage Provider**

	Statistic(a)	df1	df2	Sig.
Welch	4.481	5	44.900	.002
Brown-Forsythe	3.737	5	79.434	.004

a Asymptotically F distributed.

Table 6.24 gives us two robust tests of equality of means. These are the Welch test and the Brown-Forsythe test. The two tests adjust the degrees of freedom to a unique value. The Welch test gives the same p-value as the anova while Brown-Forsythe gives a p-value of 0.004. Both tests support the anova test to say that the test is statistically significant. An added advantage of the Brown-Forsythe test besides unequal sample size and unequal variance is that it gives more protection against non-normally distributed data. The table below summarises the number of mortgage providers per respondents in the survey.

#### 6.4.1.12 Number of Mortgage Properties per Respondent

**Table 6.25: Number of Mortgage Properties per Respondents**

Valid	Frequency	Percent	Valid %	Cumulative %
1	86	84.3	84.3	84.3
2	12	11.8	11.8	96.1
3	4	3.9	3.9	100.0
Total	102	94.7	100.0	

The observation in Table 6.25 shows that 84.3%, which is an absolute majority of the respondents own only one house. Only a few of them own two houses and a further smaller percentage of them have three mortgage providers. The table below presents the significance of the relationship between religious background and mortgage provider.

#### 6.4.1.13 Phi and Cramer's V Test Religious Background and Mortgage Provider

**Table 2.26: Phi and Cramer's V Test for Religious Background and Mortgage Provider**

		Value	Approx. Sig.
Nominal by Nominal	Phi	.352	.032
	Cramer's V	.157	.032
N of Valid Cases		320	

The Phi and Cramer's V test prove to be significant. With a value of 0.352 and 0.157 respectively, the tests are statistically significant at a p-value of 0.032. This means that religious background influences the choice of mortgage provider. The table above shows the actual relationship between religious background and the choice of mortgage provider.

#### 6.4.1.14 Religious Background Mortgage Provider

**Table 6.27: Cross Tabulating Religious Background and Mortgage Provider**

		0	Bank	Buildi ng Society	Council	Islamic provider	Other s	Total
No religion	percentages	57.1%	14.3%	7.1%	21.4%	00		100%
	% of Total	2.5%	.6%	.3%	.9%			4.4%
Buddhist	percentages	90.0%			10.0%			100%
	% of Total	2.8%			.3%			3.1%
Christian	percentages	73.4%	10.6%	5.0%	4.0%	2.5%	4.5%	100%
	% of Total	45.6%	6.6%	3.1%	2.5%	1.6%	2.8%	62.2%
Hindu	percentages	55.6%	11.1%	11.1%	11.1%		11.1%	100%
	% of Total	1.6%	.3%	.3%	.3%		.3%	2.8%
Muslim	percentages	54.8%	11.9%	10.7%	6.0%	14.3%	2.4%	100%
	% of Total	14.4%	3.1%	2.8%	1.6%	3.8%	.6%	26.3%
Sikh	percentages	100%						100%
	% of Total	1.3%						1.3%
Total	percentages	68.1%	10.6%	6.6%	5.6%	5.3%	3.8%	100%
	% of Total	68.1%	10.6%	6.6%	5.6%	5.3%	3.8%	100.0 %

#### 6.4.1.15 Chi-Square Test for Marital Status and Mortgage Provider

The relationship between marital status and the choice of mortgage provider is estimated using the chi-square test as observed below.

**Table 6.28: Chi-Square Test between Marital Status and Mortgage Provider**

	Value	df	Asymp. Sig. (2- sided)
Pearson Chi-Square	58.963(a)	20	.000
Likelihood Ratio	47.731	20	.000
Linear-by-Linear Association	.016	1	.900
N of Valid Cases	320		

It is observed that no relationship exists between marital status of the respondents and the choice of their mortgage provider. This is because the significance of the relationship is 0.900 which is greater than 0.05. Thus, we accept the null hypothesis which states that there is no relationship between the two variables. The test is further conducted between educational qualification and the choice of mortgage provider. The results are displayed below.

#### 6.4.1.16 Chi-Square Test for Educational Qualification and Mortgage Provider

**Table 6.29: Chi-Square Test for Education Qualification and Mortgage Provider**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	51.566(a)	25	.001
Likelihood Ratio	44.836	25	.009
Linear-by-Linear Association	1.175	1	.278
N of Valid Cases	320		

With the p-value as 0.278 which is more than the standard level of 0.05, the test is statistically insignificant. This implies that there is no relationship between the level of education and mortgage choice of the respondents.

#### 6.4.1.17 Owning a Property and Age Group

It is also necessary to check if there is any relationship between age group and homeownership. Table 6.30 below is an illustration of this relationship.

**Table 6.30: Cross Tabulation between Age Group and Ownership Status**

			Do you own the flat/house you are living in?			Total
			Renting	Own a house	Own a house/share accommodation	
what is your age group?	Less than 25	% within what is your age group? % of Total	74.2% 7.2%	25.8% 2.5%		100.0% 9.7%
	26-35	% within what is your age group? % of Total	87.0% 29.4%	11.1% 3.8%	1.9% .6%	100.0% 33.8%
	36-45	% within what is your age group? % of Total	71.3% 20.9%	24.5% 7.2%	4.3% 1.3%	100.0% 29.4%
	46-55	% within what is your age group? % of Total	39.1% 7.8%	46.9% 9.4%	14.1% 2.8%	100.0% 20.0%
	Above 56	% within what is your age group? % of Total	39.1% 2.8%	60.9% 4.4%		100.0% 7.2%
	Total	% within what is your age group? % of Total	68.1% 68.1%	27.2% 27.2%	4.7% 4.7%	100.0% 100.0%

The results from the cross tabulation between homeownership status and the ages of the respondents shows that 68.1% of the respondents were found to be renting. The highest number of those renting were found in the age group between 26-35 years and those less

than 25 years with 87.0% and 74.2% respectively. Only 39.1% respondents in the age group 46–55 years, 56 years and above were each found to be renting. On the other hand, the majority of those who own a house or shared accommodation are found between the age group of above 56 and 46–55 years with 60.9% and 46.9% respectively.

Out of the total population, a very low percentage of 27.2% and 4.7% are reported to have a property on their own or as shared ownership respectively. This percentage is very low given the fact that more than 55% of the respondents are found in the age group of 36 years and above.

#### 6.4.1.18 Phi and Cramer’s V and Chi-Square Tests for Age Group and Ownership

The cross tabulation provides the relationship between the ages and homeownership status, but fail to show the evidence of this relationship. Table 6.31 and 6.32 below is the chi-square table which shows the evidence of this relationship.

**Table 6.31: Chi-Square Tests for Age Group and Ownership Status**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	98.139	16	.000
Likelihood Ratio	85.266	16	.000
Linear-by-Linear Association	45.686	1	.000
N of Valid Cases	320		

**Table 6.32: Phi and Cramer’s V test on Age Group and Ownership Status**

	Value	Approx. Sig.
Nominal by Phi	.554	.000
Nominal Cramer's V	.277	.000
N of Valid Cases	320	

The relationship between the ages and the status of homeownership is shown in both the chi-square test table and the Phi and Cramer’s V test. The two tests are significant statistically with the same p-value of 0.000 which is less than 0.01 or less than the benchmark level of 0.05. This means that there is very strong evidence in the

relationship between the ages and homeownership. A cross tabulation between gender and ownership status can further be used to explain the pattern of homeownership of the respondents.

#### 6.4.1.19 Cross Tabulation between Gender and Homeownership Status

Further exploration was done to see the effect of the relationship between gender and homeownership status. The result is shown in the table below.

**Table 6.33: Cross Tabulation between Gender and Homeownership Status**

		Do you own the flat/house you are living in?			Total	
		Renting	Own a house	Own a house/shared accommodation		
gender	Female	Count	105	59	10	174
		% within What is your gender?	60.3%	33.9%	5.7%	100.0%
	% of Total		32.8%	18.4%	3.1%	54.4%
	Male	Count	113	28	5	146
% within What is your gender?		77.4%	19.2%	3.4%	100.0%	
% of Total		35.3%	8.8%	1.6%	45.6%	
Total	Count		218	87	15	320
	% within What is your gender?		68.1%	27.2%	4.7%	100.0%
	% of Total		68.1%	27.2%	4.7%	100.0%

More female respondents were found to have a home compared to the male respondents. Of all the female respondents, 33.9% of them own a mortgage while 5.5% of them took a mortgage loan as shared accommodation. For the male respondents, only 19.2% and 3.4% are found to own their homes. The evidence of the relationship between homeownership and gender can be explained in the chi-square test table below.

#### 6.4.1.20 Chi-square test for Gender and Homeownership

**Table 6.34: Chi-Square Tests for Gender and Homeownership Status**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.638 <sup>a</sup>	2	.005
Likelihood Ratio	10.832	2	.004
Linear-by-Linear Association	9.121	1	.003
N of Valid Cases	320		

The relationship between gender and homeownership is found to be significant for the 2-tailed test at significance level of 0.003 since it is less than 0.05. At this stage, the null hypothesis is rejected while the alternative hypothesis is accepted that at 2 degrees of freedom, there is a relationship between the two variables.

#### 6.4.2 Those Renting

From Table 6.10 above, it was observed that a majority of the respondents did not own the houses they live in. Out of a total of 320 respondents, only 27.2% of the respondents own the houses they live in as outright, while 4.7%, partly own the house they live in as a shared accommodation. This makes a total of 31.9% for homeowners. The remaining 68.1% are reported to be renting. The reason for this could probably be due to the continuous effect of the 2007/08 financial crisis. This percentage of those renting is very high compared to those who own a house. It is of great importance to be able to differentiate various intentions towards homeownership. This is because out of this great percentage of those renting, it might not be due their choice to do so.

##### 6.4.2.1 Intention to own a House

**Table 6.35: Summary of Intentions to Own a House in the Near Future**

Response type	Frequency	Percent
Yes	107	49.0
No	36	16.5
Not Sure	75	34.4
Total	218	100.0



Respondents who responded to be renting were asked whether they had any intention of buying or owning a house in the near future. Out of the 218 respondents, Table 6.35 above indicates that 49.1% answered yes, indicating that they would like to own a house of their own in the near future. 16.5% of the respondents declared that they would not like to own a home of their own in the near future while 34.4% of them said they were not sure of their decision on homeownership. In all, 111 respondents or 50.9% of the respondents which is more than half of those renting are either not willing to buy a house or are still not sure of their intention to own a home of their own in the near future.

#### 6.4.2.2 Respondents’ Reasons for Renting Instead of Owning their Own Homes

Even though there are a very large proportion of respondents who indicated to be renting, almost half of them, representing 49.1% indicated that they would actually like to buy a home of their own in the near future. This means that renting a home may not be their desire. It is therefore necessary to understand the reasons why a great numbers of HSB customers choose to rent rather than having a home on their own. There are therefore certain possible factors or reasons accountable for this decision. These possible reasons are exploited below.

**Table 6.36: Respondents’ Reasons for Renting Instead of Owning their Own Homes**

Criteria	Not important at all (%)	Low importance (%)	Slightly important (%)	Neutral (%)	Moderately important (%)	Very important (%)	Extremely important (%)	mean
Increasing house prices	0.5	0.5	0.5	5.5	8.3	33.0	51.8	4.27
High initial deposit	2.2	2.2	5.0	7.4	10.55	36.2	36.2	3.92
Job insecurity	2.2	1.0	1.8	6.9	11.9	33.5	42.7	4.06
Poor credit rating	4.6	2.8	1.8	6.0	11.9	33.9	39.0	3.92
Marital status	2.8	2.3	3.2	8.3	13.3	34.4	35.8	3.91
Visa status	9.2	9.2	6.9	7.8	11.0	27.1	28.9	3.40

The findings in Table 6.36 depict the reasons why up to 68.1% of respondents are still renting. The respondents were required to rate each of the factors according to their

preferences. The rating scale is a seven point Likert scale, ranging from ‘not important at all’ as the least point to ‘extremely important’ as the highest point. The following list is developed from the summary of the ranking.

- i. Increasing house prices appear to be the main reason why this group of respondents is still renting. About 51.8% and 33.0% of the respondents indicated that this factor is extremely important and very important to them respectively. Also, 8.3% of them rated this factor as important. This gives a total of about 93.1% of the level of importance placed on this factor. Only about 5.5% of the respondents remain neutral to this factor while the remaining 6.9% of the respondents do not rate this factor as important to them.
- ii. The high initial deposit is also considered by the respondents as an important reason why they are unable to get onto the property ladder. It is observed that 36.2% of the respondents, 36.2% and 10.6% rated this factor as extremely important, very important and important respectively. This gives a total of 83%. This result implies that high initial deposit as a factor is considered significant in determining the reason why these groups of respondents are still enduring the difficulties they face in renting instead of owning their own houses.
- iii. Job insecurity also plays an important role as to why respondents choose to rent instead of obtaining a mortgage. 43% of the respondents rated this factor as extremely important while 33.5% and 11.9% responses were rated as very important and important respectively. 6.9% of the respondents remained neutral as they neither agreed nor disagreed to this factor while 4.9% of the respondents rated this factor as not important at different degrees.
- iv. Poor credit rating is another reason advanced by the respondents for not being able to climb up the property ladder. 39.0% of the respondents rated this factor as being of extreme importance while 33.9% of the respondents rated it as very important and 11.9% respondents that it is an important factor to them. 6.0% of the respondents took no stance on the importance of this factor while the remaining respondents considered this factor as not of importance to them.
- v. The visa statuses of the respondents also constitute one of the reasons why respondents are still renting instead of owning their own homes. As illustrated in Table 6.36, 67.9% of the respondents rated this factor as important at different

levels with 28.9% as extremely important, 27.01% as very important and 11.0% as important. 7.8% of the respondents neither see this factor as important nor as not important. The remaining 24.3% of the respondents do not consider this factor as important to them.

- vi. Marital status. Some respondents consider marital status as one of the reasons why they are still renting with 3.91 as the mean value. 35.8% of the respondents and 34.4% of them consider this factor to be extremely important and important respectively. The other respondents do not consider this factor as important as their reasons are related to other factors.

### 6.4.2.3 Comparing Financial Support Received with Homeownership Status

**Table 6.37: Comparing Financial Support Received with Homeownership Status**

	Do you own the flat/house you are living in?			Total
	Renting	Own a house	Own a house/share accommodation	
Apart from your income, do you receive any other financial support?				
No financial support	68.9%	27.9%	3.2%	100.0%
Support from spouse	54.5%	36.4%	9.1%	100.0%
From Other family members	91.4%	5.7%	2.9%	100.0%
From Friends	42.9%	57.1%		100.0%
From other benefits	66.7%	24.2%	9.1%	100.0%
Total	68.1%	27.2%	4.7%	100.0%

It is observed in Table 6.37 that most of those who own houses receive other forms of financial support besides their monthly income. 68.9%, which is a majority of the respondents who do not receive any form of financial support are those found to be renting. 36.4% and 9.1% of the respondents who own houses receive financial support from their spouse; also, 57.1% of them receive financial support from friends, 24.2% from other benefits while 27.9% and 3.2% do not receive any financial support at all.

#### 6.4.2.4 Comparing Respondents' Residual Income and Renting a House

Knowledge of the respondents' residual income will enlighten our scope of understanding of their attitude towards homeownership status as observed below.

**Table 6.38: Comparing Respondents' Residual Income and Renting a House**

		Do you own the flat/house you are living in?			Total
		Renting	Own a house	Own a house/share accommodation	
What aspect can your money cover?	Afford just what I need with nothing left over	74.3%	23.0%	2.7%	100.0%
	Afford what I need with little left over	73.5%	20.0%	6.5%	100.0%
	Afford what I need with much left over	47.9%	47.9%	4.2%	100.0%
	Cannot afford what I need and struggle to survive	75.0%	25.0%		100.0%
Total		68.1%	27.2%	4.7%	100.0%

In comparing homeownership with whether the respondents have anything left over after their monthly expenditures, Table 6.38 depicts that a majority of the respondents who rent are those who either can afford what they need with little left over, those who can afford just what they need with nothing left over or those who only struggle to survive. These make up 73.5%, 74.3% and 75.0% respectively as they cannot afford the standards of obtaining a home on their own. They can hardly afford for an initial deposit, the house price or the installment repayment.

#### 6.4.2.5 Comparing Income Range for those Renting

The majority of those who have a mortgage loan are those who can afford what they need and still have much left over. The reasons why those who rent have not been able to obtain a mortgage loan can further be explained by looking at the cross tabulation between homeownership and the income of the respondents as observed below.

**Table 6.39: Comparing Income Range for those Renting**

		Do you own the flat/house you are living in?			Total
		Renting	Own a house	Own a house/share accommodation	
income range	Less than 10K	33	8	0	41
	11K-20K	84	15	6	105
	21K-30K	59	43	6	108
	31K-40K	37	9	3	49
	Above 40K	5	12	0	17
Total		218	87	15	320

In comparing the income range, it is demonstrated in Table 6.39 above that a total of 218 respondents is found to be renting. The majority of these respondents are those whose income ranges are below 20k. At high income levels of 21k–30k, 31k–40k and above 40k, 43, 9 and 12 respondents respectively have a majority as mortgage owners. At income levels below 10k, there are only 8 respondents who own a property. This is however not based on their income level as they can barely manage to survive. They are homeowners not by virtue of their income, but either from other benefits received or because their spouse obtained a mortgage property which they live in. Their income is below the average standard of living in the UK. Therefore, this group of individuals cannot go beyond their cost of living to acquire a mortgage. As a result, they are unable to afford for a mortgage loan. Just a few numbers, representing 15 respondents out of the total own their home as shared accommodation.

#### **6.4.2.6 ANOVA and Robustness test for Income Range and Homeownership Status**

To understand the significance of the relationship between homeownership and income, ANOVA test is conducted while Welch and Brown-Forsythe tests the robustness of means.

**Table 6.40: ANOVA Test for Income Range and Homeownership Status**

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	15.511	2	7.756	7.302	.001
Within Groups	336.689	317	1.062		
Total	352.200	319			

The anova test of homogeneity of variance is statistically significant, indicating that the differences in the variance between each group are statistically different from each other. The f-value of 7.302 is statistically significant at p-value 0.001 which is less than 0.05. This concludes that the null hypothesis should be rejected. It is important to look at the robust test of equality of means as observed below.

**Table 6.41: Robust Tests of Equality of Means for Income Range and Homeownership Status**

	Statistic(a)	df1	df2	Sig.
Welch	6.719	2	39.458	.003
Brown-Forsythe	8.707	2	96.564	.000

The table gives us two robust tests of equality of means. These are the Welch test and the Brown-Forsythe test. The two tests adjust the degrees of freedom to a unique value of 2. The Welch test gives a p-value of 0.003 while Brown-Forsythe gives a p-value of 0.000. Both tests support the anova test to say that the F-value is statistically significant. An added advantage of the Brown-Forsythe test besides unequal sample size and unequal variance is that it also gives more protection against non-normally distributed data.

#### **6.4.2.7 Employment Status and Homeownership**

The cross tabulation table below is an illustration of the relationship that exists between employment status and homeownership status.

**Table 6.42: Cross Tabulation between Employment Status and Homeownership**

Employment Status		Homeownership Status			Total
		Renting	Own a house	Share accommodation	
Full-time employed	Count	86	55	6	147
	% within what is your employment status	58.5%	37.4%	4.1%	100.0%
	% of Total	26.9%	17.2%	1.9%	45.9%
Unemployed	Count	26	3	0	29
	% within what is your employment status	89.7%	10.3%	0.0%	100.0%
	% of Total	8.1%	0.9%	0.0%	9.1%
Part-time employed	Count	106	29	9	144
	% within what is your employment status	73.6%	20.1%	6.2%	100.0%
	% of Total	33.1%	9.1%	2.8%	45.0%
	Count	218	87	15	320
	% within what is your employment status	68.1%	27.2%	4.7%	100.0%
	% of Total	68.1%	27.2%	4.7%	100.0%

Majority of those who are found to be renting are those found to be unemployed and part-time employed. About 90% of those who are unemployed are found to be renting. Also, more than 73% of those who are part-time employed are renting their accommodation while a greater percentage of the full-time employed customers are homeowners. The small percentages of homeowners who are unemployed and part-time employee are accounted for by the benefits given to them by the government through council housing or housing benefits.

#### **6.4.2.8 Ethnicity and Homeownership**

It is essential to look at the relationship between ethnicity and homeownership to be able to analyse the relationship between them.

**Table 6.43: Cross Tabulation between Ethnicity and Homeownership**

Ethnicity		Homeownership Status			Total
		Renting	Own a house	share accommodation	
White	Count	15	17	3	35
	% within What is your ethnicity?	42.8%	48.6%	8.6%	100.0%
	% of Total	4.7%	5.3%	0.9%	10.9%
Asian or Asian British	Count	33	19	1	53
	% within What is your ethnicity?	62.3%	35.8%	1.9%	100.0%
	% of Total	10.3%	5.9%	0.3%	16.6%
Black or Black British Caribbean	Count	13	8	3	24
	% within What is your ethnicity?	54.2%	33.3%	12.5%	100.0%
	% of Total	4.1%	2.5%	0.9%	7.5%
Black or Black British African	Count	136	36	4	176
	% within What is your ethnicity?	77.3%	20.5%	2.3%	100.0%
	% of Total	42.5%	11.2%	1.2%	55.0%
Mixed	Count	4	0	0	4
	% within What is your ethnicity?	100.0%	0.0%	0.0%	100.0%
	% of Total	1.2%	0.0%	0.0%	1.2%

Evidence for Table 6.43 shows that majority of the white respondents (57.2%) are found to be homeowners. On the contrary, the majority of the African (77.3%) and Asian (62.3) respondents are renting.

#### 6.4.2.9 Significance test for Ethnicity and Homeownership

**Table 6.44: Chi-Square Tests for Ethnicity and Homeownership**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	31.990 <sup>a</sup>	10	.000
Likelihood Ratio	30.271	10	.001
Linear-by-Linear Association	5.154	1	.023
N of Valid Cases	320		

Table 6.44 also shows ethnicity is found to have some evidence of the relationship with homeownership status at a value of 31.990 with 10 degrees of freedom. The relationship is statistically significant with a p-value of 0.023 which is less than 0.05. We therefore accept the alternative hypothesis that ethnicity is an influential factor in homeownership status.



#### 6.4.2.10 Factors that can Encourage Tenants to Apply for a Mortgage

Given the importance of homeownership, it is necessary to understand the reasons that can persuade tenants to own a home.

**Table 6.45: Factors that can Encourage Tenants to Apply for a Mortgage**

Criteria	Not important at all (%)	Low importance (%)	Slightly important (%)	Neutral (%)	Moderately important (%)	Very important (%)	Extremely important (%)
Decrease in house price	2.3	1.8	0.9	6.0	9.2	32.1	47.7
100% mortgage	5.5	4.6	6.4	8.3	11.0	32.1	32.1
Provision of Islamic mortgage	32.1	23.9	11.1	8.3	6.4	6.9	11.5
Change of Visa status	4.6	2.8	1.8	6.0	11.9	33.9	39.00
Long term Investment	3.7	3.2	3.7	8.7	13.3	32.6	34.9
Married, expecting children	9.1	9.1	7.3	7.8	11.0	26.6	28.9

- i. Decrease in house prices. A decrease in house price appears to be the most significant factor as observed in Table 6.45 that can encourage those renting to climb up the property ladder. About 89.0% of the respondents are of the view that if house prices are reduced, it would definitely increase their chances of obtaining a mortgage loan. Out of this total, 47.7% of them rated this factor as being of extreme importance to them while 32.1% of the respondents said it is a very important factor worth considering. Only 2.2% of the respondents considered this factor as not important while 1.8% said it was of low importance to them.
- ii. No initial deposit requirement. The initial deposit is considered an important factor which hinders tenants from obtaining a mortgage loan. According to them, the scale rating is 32.1% and 32.1% for extremely important and very important. This gives a total of 64.2% excluding those who rate the factor as important. This means that if the initial deposit for obtaining housing finance is completely removed (100% mortgage), this could increase their chances of having a home on their own instead of enduring the inconveniences of renting.

- iii. The provision of Islamic mortgage. This is another factor that can encourage some homeowners to own a house if improved upon. This factor is rated as of extreme importance by 11.5% of the respondents, very important by 6.9% of the respondent and 6.4 as important. This gives a total of 24.6%, leaving a majority of the tenants who do not consider this factor of any importance to them. As observed in Table 6.42, 32.1% of the respondents' rate this factor as of no importance to them at all while 23.9% of them considered it as of low importance. The low attached to this factor is however not because the factor is not important. It is actually important to people of a certain religious background which are the Muslim population. In this survey. The Muslims are made up of only 26.3% of the total respondents. Therefore, a total of 23.9% indicating this factor as important means that the factor is of great importance to them.
- iv. Change in respondents' visa status. A change in the respondents' visa status is also regarded as an important factor that can encourage them to have a home. 39.0% of the respondents believe that a change of their visa status is of extreme importance to them while 33.9% affirms that it is a very important factor. 6.0% of the respondents do not have a say on this while a total of 9.2 respondents at different levels of agreement do not think this factor is of any importance to them.
- v. Escape from high rent payment. Most respondents are of the view that escaping from high rent payment is one of the reasons why they would like to obtain a mortgage loan. As many as 34.9% of the respondents agreed that this factor is of extreme importance. While 32.6 of them see this factor to be very important. 11.9% of them rate it as important. A total of 10.6 respondents rate this factor to have no importance to them.
- vi. Married with children. Many respondents are of the view that they can be encouraged to buy a house if they get married and/or if they have children or are expecting children. Respondents who rated this factor as extremely important made up 28.9% of the tenants. 26.6% of them reported this factor to be very important to them and 11.0% said it was important. This leaves a total of 25.5% of the respondents rating this factor as not important at different degrees, with 7.8% respondents being neutral to this factor.

### 6.4.2.11 Income Range and Employment Status

**Table 6.46: Cross tabulation between Income Range and Employment Status**

Income Range		Employment Status			Total
		full-time employed	unemployed	part-time employed	
	Count	0	24	17	41
Less than 10K	% within income range	0.0%	58.5%	41.5%	100.0%
	% of Total	0.0%	7.5%	5.3%	12.8%
	Count	1	4	100	105
11K-20K	% within income range	1.0%	3.8%	95.2%	100.0%
	% of Total	0.3%	1.2%	31.2%	32.8%
	Count	84	1	23	108
21K-30K	% within income range	77.8%	0.9%	21.3%	100.0%
	% of Total	26.2%	0.3%	7.2%	33.8%
	Count	45	0	4	49
31K-40K	% within income range	91.8%	0.0%	8.2%	100.0%
	% of Total	14.1%	0.0%	1.2%	15.3%
	Count	17	0	0	17
Above 40K	% within income range	100.0%	0.0%	0.0%	100.0%
	% of Total	5.3%	0.0%	0.0%	5.3%

Table 6.46 above illustrates the relationship between those employment status and the various income ranges. The total number of respondents who are full-time employed is 147, making 45.9% of the total number of respondents. 45.0% of the respondents are employed as part-time while only 9.1% of the respondents are unemployed. Those whose income range is above 41 thousand pounds are those who are fully employed. In the income range 31k–40k, up to 91.8% of the respondents are those who are fully employed. 8.2% of this income range is made up of those who are part-time employed. This is possible depending on the nature of the job as some jobs are well paid than others. There are 108 respondents found in the income range 21k–30k. Out of this number, 84 respondents or 77.8% of them are full-time employees while 21.3% are part-time employees. An insignificant percentage of 0.9% is unemployed. At the lowest level of income of less than 10k, 58.5% which is more than half of the respondents are unemployed. The remaining 41.5% of the respondents are part-time employed. There are no full-time employed respondents found in this income range. In a like manner,

there is an insignificant percentage of only 0.03 for full-time employed respondents in the income range of 11k–20k. This is because these income ranges are below minimum wage. A high percentage of 95.2% of the respondents in this income range are part-time employees. This is logical; given the fact a majority of them are foreigners who are mostly students. Thus, their statuses as students do not permit them to work as full-timers.

#### **6.4.2.12 Respondents’ Satisfaction Based on their Current Status as Tenants**

**Table 6.47: Respondents’ Satisfaction Based on their Current Status as Tenants**

	<b>Frequency</b>	<b>Percent</b>
Yes	101	46.3
No	117	53.7
Not applicable	102	0
Total	320	100

Table 6.4.2.12 illustrates that out of the total number of respondents who are renting, 46.3% or 101 of them are contented with their status as tenants. However, a total number of 117 respondents or 53.7% of them said they were not satisfied with their homeownership status. The figure 102 for not applicable represents those who are not tenants.

#### ***6.4.3 Effective Demand for Housing Finance***

The purpose of this section is to determine the effectiveness of the claim made by the HSB customers to the statement that the banks are not willing to lend mortgage loan to them. There is the need to know whether these customers asked for mortgage loans, but were not given or they just assume that the banks would not give it to them. If they probably did ask for the loan and were not given, there is the need to know why they were not granted access to this loan. That is, whether they qualified or not. If they were qualified, there is the further need to know why they still did not obtain the loan. On the other hand, if they just assume that the loan would not be given to them, then there is the need to check their claims properly.

### 6.4.3.1 Respondents who's Loan Requests were rejected

The respondents were asked to state their level of agreement/disagreement to the statement that they asked for a mortgage loan from the bank but it was not given to them. There were no missing values as all of the respondents gave a response to the questions. Their responses are displayed below.

**Table 6.48: Between 2003 and 2013, have you Ever Asked for a Mortgage from any of the High Street Banks and it was Not Given to You?**

Response	Frequency	Percent
Yes I did	174	54.4
No, I just assumed it will not be given to me	76	23.7
Not applicable	70	21.9
Total	320	100

From Table 6.48 above, it can be depicted that out of this 320 respondents, 23.7% of them agreed that they did not bother asking for a mortgage from the bank because of their perception that the bank will not give it to them. A majority of respondents reaching 54.4% accepted that they did ask for a loan, but it was not given to them while 21.9% of the respondents rated this question to be not applicable to them.

### 6.4.3.2 Reasons for Rejecting Customer' Mortgage Application

The following factors in Table 6.49 gives an illustration of the reasons why customers did not qualify in their application for a mortgage loan.

**Table 6.49: Reasons for Rejecting Customers' Mortgage Application**

	Not important at all (%)	Low importance (%)	Slightly important (%)	Neutral (%)	Moderately important (%)	Very important (%)	Extremely important (%)
Credit rating	1.6	1.9	2.8	10.3	16.3	33.1	34.1
initial deposit	0.3	0.9	1.6	7.5	14.4	36.6	38.8
Status of my visa	18.8	20.5	16.6	12.7	11.3	10.0	10.3
Economic situation	21.3	11.3	10.5	8.8	6.4	15.0	26.9
Employment status	14.8	10.4	5.3	12.2	8.1	22.8	26.6

Table 6.49 above identifies some of the factors by the respondents based on the claim that they asked for a mortgage from the bank but it was not given to them. In terms of credit rating, 34.1%, 33.1% and 16.3% of the respondents rated this factor to be extremely important, very important and moderately important respectively only 1.6%, 1.9% and 2.8% of them rated the factor as not important at all, of low importance and slightly important respectively while 10.3% of them remain neutral to the claim. Looking at the initial deposit, a total of 89.8% respondents rated this factor to be important in varying degrees of agreement while a total of 2.8 rated the factor to be of no importance to them. 7.5% of the respondents remain neutral to the validity of the factor.

About 31.6% of the respondents responded that their visa status was the reason why they were denied access to the loan. A total of 54% of them did not consider this factor to be an important reason at different degrees of importance. Some of the respondents also declared that the economic situation was another important factor. Generally, 48.3% of the respondents at different degrees considered this factor to be important to them while 42.8 of them rated that this factor was not one of the important reasons. The employment status of some respondents also hindered them from accessing housing financial assistance. More than 56% people considered this factor to be important while 30.6% respondents denied that this was not a reason why they were not given the loan.

#### **6.4.3.3 Affordability and Attempts at Demanding or a Mortgage Loan**

To further understand why the respondents asked for a mortgage loan from their banks and it was not given to them, a cross tabulation is done between the affordability of the respondents and the validity of the statement that they asked for a loan and were not given. The cross tabulation results are displayed in the table below.

**Table 6.50: Affordability and Attempts at Demanding or a Mortgage Loan**

		Asked but not given		Total
		Yes	No	
Afford just what I need with nothing left over	Count	48	26	74
	Expected Count	43.0	31.0	74.0
	% within What aspect <u>can</u> your money cover?	64.9%	35.1%	100.0%
	% of Total	15.0%	8.1%	23.1%
Afford what I need with little left over	Count	90	65	155
	Expected Count	90.1	64.9	155.0
	% within What aspect <u>can</u> your money cover?	58.1%	41.9%	100.0%
	% of Total	28.1%	20.3%	48.4%
Afford what I need with much left over	Count	37	34	71
	Expected Count	41.3	29.7	71.0
	% within What aspect <u>can</u> your money cover?	52.1%	47.9%	100.0%
	% of Total	11.6%	10.6%	22.2%
Cannot afford what I need and struggle to survive	Count	11	9	20
	Expected Count	11.6	8.4	20.0
	% within aspect <u>can</u> your money cover?	55.0%	45.0%	100.0%

It can be observed from Table 6.50 that majority of the respondents who asked for a mortgage loan, but it was not given to them are found among those who can hardly afford for it. 58.1% of those who can afford what they need with just a little left over are among those who responded that they asked for a mortgage loan but were not granted access to. Also, 64.9% of those who can only afford what they need with nothing left over attested that they asked for a housing finance but were not given access to. 45.0% of those who cannot afford all their needs, but only struggle to survive did not bother asking for a mortgage loan. 41.9% of those who can afford for their need, but have only little left also did not bother asking. 35.1% of those whom after affording for their basic needs have nothing left also did not ask for a loan. These categories of respondents already know that they are not qualified for the loan.

## Section Two: Interview

### 6.5: Demand Side Perspective on the Financial Crisis and Changes in Housing Finance

This attempts to analyse research question 1 besides the analysis already done from the questionnaire survey. Table 6.51 below summarises the opinion, behaviour and explanation of the customers regarding the three different phases in order to understand the changes that have occurred in housing finance.

**Table 6.51: Data Analysis for Research Question 1: Demand Side Perspective**

<b>Research Question 1a</b>	Can you please explain the changes in mortgage borrowing as a result of the financial crisis? (Interview question 18)
<b>Coding</b>	<b>Sub-themes/Remarks</b>
1	<p><b>Customers' experience and opinion</b></p> <p>Periods before the financial crisis.</p> <ul style="list-style-type: none"> <li>• Self-certification.</li> <li>• Poor credit rating and subprime mortgages.</li> <li>• 100% mortgage.</li> <li>• Rising house prices with low interest rates</li> </ul>
2	<p>Periods between 2007 and 2009.</p> <ul style="list-style-type: none"> <li>• Verified certification became mandatory.</li> <li>• Change in credit checks.</li> <li>• Stringent lending.</li> </ul>
3	<p>Periods between 2010 and 2013.</p> <ul style="list-style-type: none"> <li>• Increased affordability check criteria.</li> <li>• 10% initial deposit or 5% through the government scheme.</li> <li>• Drastically increasing house prices.</li> </ul>
<b>Concluding Theme</b>	The three phases observed above have had changes in the pattern of mortgage lending for households.



### 6.5.1 Interview Analysis for Periods before the Financial Crisis

**Table 6.52: Coding No. 1 (a) for Research Question 1**

Sub-Theme	The situation of mortgage lending before the 2007 financial crisis.
Interview No	Remarks
3, 6 and 11	No checks were done on the income statements presented to the bank.
15, 23	The bank just accepted any kind of self-certification we presented to them.
20, 28 and 31	No questions were asked then on the verification of the account certification presented.
5 and 24	No detailed credit checks.
6, 12, 16 and 30	People with poor credit checks were still allowed mortgage loan.
18 and 19	Credit check was just a formality.
1, 9 and 16	No compulsory requirement for an initial deposit.
11 and 30	The house prices were at an increase with low interest rates.

Interview 3, 6, 11, 15, 20, 23, 28 and 31

In terms of self-certification as observed in Table 6.52 above, interviewee numbers 3, 6, 11, 15, 23, 20, 28 and, 31 declared that before 2007 financial crisis, it was much easier to get a mortgage loan from the bank. This is because according to them, individuals could self-certify their income statements and present to the bank for a mortgage loan. Interviewer 20, 28 and 31 further explained that “I self-certified my income statement and took to the bank for a mortgage loan. Without a prior check on it the bank granted me the mortgage loan. I was surprised because I know that what I presented to them was not a true picture of what it should be.”

Interview 5, 12, 18, 19 and 24

Based on credit rating, interviewee numbers 5, 6, 12, 16, 18, 19, 24 and 30 affirmed that customers whose credit rating was not good were still granted access to mortgage loan even though the bank or lenders knew that the borrower did not have a sound credit record. Interviewee 18 and 19 said that to them, credit check was just like a formality because despite their poor credit rating, the banks still gave them their mortgage loan. This was called subprime mortgage lending, which means lending to those who cannot afford to pay back.

Interview 1, 9 and 16

With regards to initial deposit, interviewee number 1, 9 and 16 gave their opinion and experience before the financial crisis as a better era for them. They declared that initial deposit was not a compulsory requirement for a mortgage loan to be granted to anyone.

According to them, “initial deposit was a matter of choice for all borrowers as one could obtain a mortgage without a deposit. I got a 100% mortgage on my property, meaning that the mortgage was without any initial deposit.”

Interviewee 11 and 30

The customers further explained that before the financial crisis, there was a rise in house price. The demand for houses did not fall as shelter is a basic necessity in life. This was encouraged by the fact that there were low interest rates and mass lending by housing finance providers.

### ***6.5.2 Interview Analysis for Periods during the Financial Crisis***

Table 6.53 gives an illustration of the situation of housing finance in the financial crisis period. The explanation given by the households will help to better understand the changes compared to the period before the financial crisis.

**Table 6.53: Coding No. 1 (b) for Research Question 1**

<b>Sub-Theme</b>	Changes in mortgage loan during the financial crisis (2007 – 2009) period?
<b>Interview Number</b>	<b>Remarks</b>
5, 9 and 29	Generally fall in house prices, mortgage loan, but an increase in the market share of HSB.
11 and 18	Proper credit checks required and mandatory certification of bank or income statement.
1, 12 and 25	Increased lending by HSB. Smaller lenders quit the market.
16	10% initial deposit became obligatory.

Table 6.53 illustrates that during the financial crisis period, which is considered the period between 2007 and 2009, interviewee number 5, 9 and 29 noticed that housing finance providers tightened their lending activities to households including mortgage loan. They further explained that although there was a fall in general mortgage lending, HSB still gave out more mortgages loans compared to other providers of housing finance. According to interviewee number 11 and 18, the credit check requirements were properly being investigated compared to the loose system before the financial crisis. Self-certified incomes or bank statements were no longer accepted and were properly verified. Furthermore, interviewee 1, 12 and 25 acknowledge that although

lending became more stringent, many households turned to the HSB for their mortgage loan given that many smaller lenders who could not withstand the crisis left the market. Interviewee number 16 affirmed that there was no longer 100% mortgage as borrowers were required to make a deposit of 10% before acquiring a mortgage loan.

### **6.5.3 Interview Analysis for Periods after the Financial Crisis**

Table 6.54 depicts the situation after the financial crisis, which will enable a better understanding of the changes in household lending, especially when compared to the other periods.

**Table 6.54: Coding No. 1 (c) for Research Question 1**

<b>Sub-Theme</b>	The situation of mortgage loan after the financial crisis (2010 – 2013)
<b>Interview Number</b>	<b>Remarks</b>
1, 24,26 and 30	Increases in the level of affordability check
16 and 25	Income statement must be certified by a professional
1, 8, 11, 21 and 30	Further Increases in house prices
9, 12, and 18	5% initial deposit introduced through the government scheme

A demonstration of the situation of mortgage borrowing after the financial crisis is displayed in Table 6.54 above. The table tells us that obtaining a mortgage from the bank has not been an easy accomplishment for the households. These households advance certain reasons for these changes to include: increases in the level of affordability check as explained by interviewee number 1, 24, 26 and 30. Interviewee number 16 and 25 opined that unlike before the financial crisis period where individuals could self-certify their income, the situation became tough after the crisis as only certified bank statements by a professional were allowed. Besides, interviewee number 1,8, 11, 21 and 30 complained that the house prices drastically increased over the years as the demand for houses increase over its supply. Nevertheless, the 5% initial deposit introduced by the government also helped to increase the number of homeowners.

## **6.6 Supply Side Perspective of the Financial Crisis and Changes in Housing Finance**

Table 6.55 is an illustration of the supply side of mortgage loan. Three phases will also be used to analyse the supply side. Analysing their responses will help to bring out a

clearer picture and understanding of the changes that have occurred in housing since 2003 through to 2013. Banks which in this case are mortgage advisors were asked about their expertise knowledge, experience, opinions regarding the three different phases in order to understand the changes that have occurred in housing finance.

**Table 6.55: Data Analysis for Research Question 1: Supply Side Perspective**

<b>Research Question 1b</b>	Can you please explain the changes in mortgage loan as a result of the financial crisis?
<b>Coding</b>	<b>Sub-themes/Remarks</b>
1	<p>Banks's opinion of mortgage loan for periods before the 2007 financial crisis</p> <ul style="list-style-type: none"> <li>• Laxity in lending criteria</li> <li>• Rise in house prices</li> <li>• Fall in interest rates</li> <li>• Credit availability</li> </ul>
2	<p>Bank's opinion of mortgage loan during the financial crisis (2007 and 2009)</p> <ul style="list-style-type: none"> <li>• General fall in mortgage lending, but increased lending for HSB relative to other housing finance providers as smaller providers quit the market.</li> <li>• Stringent lending.</li> <li>• The initial deposit required as a prerequisite for a mortgage loan.</li> <li>• Cut down on fraud activities.</li> </ul>
3	<p>Bank's opinion of mortgage loan after the financial crisis (2010 - 2013)</p> <ul style="list-style-type: none"> <li>• Affordability and lending criteria checks intensified.</li> <li>• Decrease in lending activities of HSB as smaller lenders started gaining greater market share in the mortgage market with more variety of mortgage services offered.</li> <li>• Excess demand over supply – increasing high house prices.</li> <li>• Checks on fraud.</li> </ul>
<b>Concluding Theme</b>	There has been a great change in the supply side of housing finance following the three phases of the data analysis.

### 6.6.1 Interview Analysis for periods before the Financial Crisis (Supply Side)

Table 6.56 provides the opinion of the customers as well as those of the banks regarding the situation of housing finance from the period before the 2007 financial crisis up to 2013. This is further divided into three sub periods. These are periods before the 2007 which is the pre-crisis period, the peak period of the financial crisis, which is between 2007 and 2009 and periods after the crisis which is between 2010 and 2013. A focused coding is provided for each of three periods through the remarks from the respondents on every theme of the focused coding.

**Table 6.56: Coding No. 2 (a) for Research Question 1**

<b>Sub-Theme</b>	<b>Banks' opinion (the situation before 2007)</b>
<b>Interview Number</b>	<b>Remark</b>
35 and 40	Laxity in lending criteria. Increases in loan to income ratio.
36, 41 and 43	Fall in interest rates with rising house prices.
34, 40 and 43	Lots of mortgage fraud from customers.
36 and 43	Increased competition from other smaller lenders.

Interviewee 35, 40, 41, 34, 36, 34 and 43

Table 6.56 depicts the opinion of mortgage advisors for periods before the financial crisis. Interviewee 35 and 40 explained that there was laxity on the part of the bank when it comes to checking the criteria used by the bank in lending. Despite listing the criteria for mortgage loan, most of these criteria were not met before the loans were granted to the customers, coupled with the high lending activities in the economy. This was driven by the increasing house prices at that time, coupled with low interest rates. At that time the banks were given incentives to provide loan products to customers. There was the availability of credit as the banks were only interested in taking advantage of the rising property prices. This led to the issuing of sub-prime mortgage loan to the customers. The experience from interviewee number 36 and 43 shows that before the financial crisis, there was high competition in the housing finance market from other smaller lenders or other housing finance providers.

Interviewee 34 and 43 opined that before the financial crisis, there was a lot of mortgage fraud resulting from the borrowers misleading the lenders to secure their loan. This happened sometimes with the help of corrupt brokers and solicitors which led to the

lending boom for most housing finance providers. At that time, there was a lot of competition in the mortgage loan industry. The period following the financial crisis has been analysed. It is therefore necessary to look the crisis period where we can actually understand the changes that have occurred as a result of the financial crisis. Table 6.57 below will look at the situation of housing finance in the UK during periods of the financial crisis.

### **6.6.2 Interview Analysis for periods During the Crisis (Supply Side)**

**Table 6.57: Coding No. 2 (b) for Research Question 1**

<b>Sub-Theme</b>	Changes in mortgage loan during the financial crisis (2007 – 2009) period.
<b>Interview Number</b>	<b>Remarks</b>
39 and 32	Limited credit availability
37	Restricted lending
32, 42 and 43	Cut down on fraudulent activities by customers.

Periods between 2007 and 2009 are considered the period where the crisis was really felt in the economy especially 2008/09. Interviewee number 39 and 32 affirms that during this period, there was limited credit availability. This was supported by Interviewee number 37 who said that there was tighter lending criteria of the bank as the bank became more stringent in their lending policies. In addition, interviewee 32, 42 and 43 explained that during this period, there was improvement in the level of credit fraud which cut down on the number of fraudulent documentations presented by customers in an attempt to obtain a mortgage loan by all means. This reduced the number of mortgage loans issued to such customers on the general scale; although HSB still had a greater market share of mortgage loan during this period compared with other housing finance lenders.

### **6.6.3 Interview Analysis for periods after the Crisis (Supply Side)**

Analysis has been done for the period before the crisis and during the crisis. This cannot however be used to fully explain the changes that have occurred with mortgage loan without looking at what happened immediately after the crisis period. As a result, it is necessary to understand what happened after the financial crisis.

**Table 6.58: Coding No. 2 (c) Research Question 1**

<b>Sub-Theme</b>	The situation of mortgage loan after the financial crisis (2010 – 2013). <ul style="list-style-type: none"> <li>• Affordability</li> <li>• Lending criteria changes</li> <li>• Fall in the supply of houses</li> </ul>
<b>Interview Number</b>	<b>Remarks</b>
33, 36, 37, 40, 42 and 43	Proper income verification check of about 2-3 years prior to application date.
35 and 42	Basic expenditures/outgoings check.
34, 39 and 40	Other commitments which are a negative to borrower's income.
34, 37, 38, 39, 41 and 42	We look at the borrower's income balance left on a monthly basis to assess whether they can still afford repayment if prices rise.
32, 36, 41 and 43	Stricter measures on lending criteria.

Table 6.58 depicts the situation after the financial crisis for an affordability check from the bank. Comments by the majority of the mortgage advisors who were interviewed suggest that a proper check was done on the affordability assessment of the customer. This means that they did income verification on the individual or joint lenders in order to demonstrate that the mortgage is affordable. This takes into consideration the income of the borrower(s) and also their commitments like basic expenditure and household expenditures. For these criteria to be met, interviewee number 34, 37, 38, 39, 41 and 42 explained that the borrower's income balance must be able to cover the monthly repayment of the mortgage loan besides meeting all other lending criteria. Interviewee number 32, 36, 41 and 43 further expressed that the necessary lending criteria checks done before granting loans to customers were intensified while customers with poor credit rating were not granted access to the loan. Table 6.59 below continues with the opinion of the bank after the crisis period.

**Table 6.59: Coding No. 2 (d) for Research Question 1**

<b>Sub-Theme</b>	The situation of mortgage loan after the financial crisis (2010 – 2013) competition, excess demand over supply and fraud check.
<b>Interview Number</b>	<b>Remarks</b>
32, 33, 34, 36, 38, and 43	Lending activities by HSB decrease with increasing competition from other mortgage providers.
33, 35, 36, 39 and 41	Limited supply relative to demand resulting in higher prices.
34, 37, 40 and 42	Proper credit fraud checks.

As observed in Table 6.59, interviewee number 32, 33, 34, 36,38 and 40 stated that after the financial crisis period, the share of mortgage loan offered by the HSB reduces relative to that of other smaller housing finance provider. This came as a result of increasing competition in the market with new entrance and greater variety of services offered. According to interviewee number 33, 35, 36, 39 and 41, there has been high demand for houses over the supply of it as the population continues to increase. As demand is not matched by the supply of houses, house prices have been increasing rapidly over the years. This has made it difficult for households to meet up with the necessary requirements of obtaining housing finance. Furthermore, interviewee number 34, 37 40 and 42 opined that since the financial crisis brought about devastating consequences, proper checks against credit fraud have been carried out to ensure that the bank has not been misled by the dodgy behaviour of the customers. Thus, there were checks done by the National Fraud Authority in 2011. Following this check, sanctions were placed on borrowers and/or a broker and solicitors who cooperate with their clients in fraudulent actions.

### **6.7 Interviewees' Reasons for not using the HSB as their Mortgage Provider.**

All of the customers in this study attested to the fact that they all have an account with the HSB. However out of the customers who own a mortgage property, not all of them are provided by their banks. Some are provided by other housing finance providers. An interview was conducted on these customers in order to get their experiences, opinions and perceptions on the reason for not choosing their HSB as mortgage provider. Table 6.60 illustrates the various categories of responses given by the interviewees.



**Table 6.60: Data Analysis for Research Question 2**

<b>Research Question 2</b>	In your opinion, elaborate on the reasons why you chose alternative sources of housing finance instead of those offered by the HSB? (Interview question 5)
<b>Focused coding</b>	<b>Sub-Themes/Remarks</b>
<b>1</b>	Initial deposit
<b>2</b>	Lending criteria
<b>3</b>	Recommendations from friends and family
<b>4</b>	Variety of services offered
<b>5</b>	Broker's professional advice
<b>6</b>	Strict credit checks
<b>7</b>	Assisted by my company/employer
<b>8</b>	Parents assistance
<b>Concluding Theme</b>	The customer could not have a mortgage with the bank because they could not meet up with all of the conditions necessary to obtain a mortgage.

The responses from the interview schedule are grouped into eight categories. These are explained using two tables. Each table is a combination of four factors. Table 6.61 is made up of the high initial deposit, strict credit check, credit rating and recommendation from friends and family while Table 6.62 comprises variety of products offered, using the broker, lending criteria check and parents' assistance.

**Table 6.61: Coding No. 1 for Research Question 2**

<b>Sub-Theme</b>	<ul style="list-style-type: none"> <li>• High initial deposit</li> <li>• Lending criteria</li> <li>• Strict credit rating</li> <li>• Recommendation from friends and family</li> </ul>
<b>Interview Number</b>	<b>Remarks</b>
1, 12, 18, 22, 28 and 31	I cannot afford the high initial deposit of 10%. Also, I do not qualify for the help to buy scheme.
3, 9, 16, 18, 22, 28 and 31	Even with the help to buy scheme, I still cannot afford to pay the 5% initial deposit.
5, 18, 22, 25	Too many lending criteria checks.
6, 12, 16, 20 and 31	The bank assessed my credit rating to be poor.
5, 6, 26 and 28	My family members recommended their banks to me.
16, 20 and 26	I asked information on my mortgage provider from my friend who was already a mortgage owner.

Table 6.61 above illustrates that interviewee number 1, 12, 18, 22, 28 and 31 preferred other forms of mortgage rather than those offered by the high street because they could not afford the initial deposit of 10%. Besides, they were not eligible for the government scheme. Interviewee number 3, 9, 16, 18, 22, 28 and 31 further approves this by stating that even the reduced deposit of 5% offered through the help to buy scheme, they were still not able to afford it. Interviewee number 5, 18, 22 and 25 used other providers because they could not meet the criteria used by the bank to give out mortgage loans to customers. The experience of interviewee number 6, 12, 16, 20 and 31 is that the bank could not give them a mortgage loan since their credit rating was very poor. Some other individuals like interviewee 5, 6, 16, 20, 26, and 28 said that they got their mortgage loan through the recommendations made by their friends and families. Table 6.62 is a continuation of the reasons why HSB customers use other mortgage providers than their own HSB.

**Table 6.62: Coding No. 2 for Research Question 2**

<b>Sub-Theme</b>	<ul style="list-style-type: none"><li>• Variety offered</li><li>• Broker’s professional advice</li><li>• Offer assistance by my company</li><li>• Parents assistance</li></ul>
<b>Interview Number</b>	<b>Remarks</b>
3, 6, 16, 22 and 31	Other providers offer more variety of mortgage products than banks.
16, 20, 22, and 28	The bank is not very flexible compared to other mortgage providers.
5, 9, 26, 28 and 31	I did not make a choice as to a specific mortgage provider. Through the broker, we simply went for the cheapest mortgage provider.
1, 15, 18 and 20	I could not afford a house on my own. My parents assisted me with the initial deposit to get one through other mortgage providers.
3 and 12	My company offer housing assistance to its staff.
6, 22, and 31	The requirements by the bank were too much.

It is depicted from Table 6.62 above that interviewee number 3, 6, 16, 22 and 31 attested that the reason for the choice of housing provider is because non HSB mortgage providers offer more variety of products. Interviewee number 16, 20, 22 and 28 also confirmed that the other providers are more flexible and considerate than HSB. Interviewee 5, 9, 26, 28 and 31 stated that

“My choice of a mortgage provider has nothing to do with the bank with which I belong to. Bank customers have no preference over someone who is not a member of the bank in terms of a mortgage loan. In fact, I did not even ask from my bank about mortgage provision. I simply used a broker to search the market and get the best deal in relation to the size of the property that I want with my budget as my constraint factor.”

Interviewee number 1, 15, 18 and 20 got their home from their parents’ assistance with the initial deposit, a service which is offered only by other mortgage providers. Interviewee number 3 and 12 used other providers because they could not meet the criteria used by the bank to give out mortgage loans to customers. Their companies offered them some accommodation benefit The experience for interviewee number 6, 22 and 31 was that they were unable to meet the bank’s requirement.

## 6.8 Households' Reasons for Renting Instead than Owning their Own Accommodation

It has been observed that households who rent are actually paying higher amount monthly towards accommodation while those who own a mortgage pay a lesser amount monthly for their mortgage repayment. In addition to paying a lesser amount, there is an added advantage of the house eventually becoming theirs after completing the repayment. Despite these benefits of having a mortgage, some individuals still choose to rent. This section will analyse the reasons why these individuals still choose to rent so as to be able to better understand the problem they face in this aspect. Table 6.63 below will elaborate on this.

**Table 6.63: Data Analysis for Research Question 4**

<b>Research Question 4</b>	Can you please elaborate on the reasons why you choose to rent rather than to own your own home? (Interview question 11).
<b>Focused coding</b>	<b>Sub-Themes/Remarks</b>
	Visa status
	Affordability
	Monthly commitment
	High and increasing house prices
	Initial deposit
	Credit rating
	Occupation
<b>Concluding Theme</b>	Some people's choice of renting is because they could not afford a mortgage while others rent because owning a property would not be ideal for them.

Table 6.63 above states the various reasons advanced by customers as to why they choose to rent and not have their own home. These reasons include: their visa status, affordability, not ready for any monthly commitments, high and increasing house prices, high initial deposit, failing to meet the credit rating test and the type of occupation they are in. The concluding theme draws our attention to the fact that the choice of renting is in two folds: not able to afford a property and renting as a matter of choice for them. These are spitted down into three tables as observed below.

**Table 6.64: Coding No. 1 for Interview question 11**

<b>Sub-Theme</b>	<ul style="list-style-type: none"> <li>• Visa status</li> <li>• Affordability</li> <li>• Monthly commitment</li> </ul>
<b>Interview No</b>	<b>Remarks</b>
7, 10, 21, 25, and 29	It is eligible only for nationals. Only outright purchase can be granted.
11, 14, 19 and 21	Student/Visitor with no intention to remain after my studies or the purpose of my visit.
13, 24 and 30	My family is not here with me. They are in my home country. Thus there is no incentive to have a mortgage.
17 and 29	I have so many dependents such that I do not have enough monthly savings to acquire a mortgage.
21, 24 and 27	I am not ready to engage myself into any monthly commitment.
7 and 21	I am not sure to afford the monthly commitment when I know that my property will be repossessed if I fail to do so.

Table 6.64 gives the experiences of the interviewees with respect to their visa status, affordability and monthly commitments. Interviewee number 7, 10, 21, 25 and 29 stated that “Despite their level of savings which was assessed to be very good, high net income as well as good credit rating, they were surprised that their nationality was the only reason why their mortgage application was rejected. “I was asked to wait until I become a citizen or have indefinite leave to remain before I could become eligible for it.” The only situation for him to own his own home is for him to obtain it as an outright. Interviewee number 11, 14, 19 and 21 declared that “We chose to rent because we do not intend to remain in the country in the near future as we are overseas students, visitors or business men. Besides owning a house is not worthwhile as our families do not reside in this country”.

From interviewee number 17 and 29’s viewpoint “I have so many dependents such that there is very little or nothing left over from my monthly income. Thus, I cannot save in order to acquire a house.” Interviewee number 7, 21, 24 and 27 said they were not prepared yet for any monthly commitment as they are scared that their property may be repossessed if they breach the contract. Table 6.65 further explains the reasons why some people prefer renting compared to owning their own mortgages. It looks at other factors like high and increasing house prices, initial deposit and credit rationing.

**Table 6.65: Coding No. 2 for Research Question 4**

<b>Sub-Theme</b>	<ul style="list-style-type: none"> <li>• High and increasing house prices</li> <li>• Initial deposit</li> <li>• Credit rating</li> </ul>
<b>Interview No</b>	<b>Remarks</b>
8, 11, 21 and 30	The house prices are too high
2 and 11	House prices are not just high but they increase on a yearly basis
8, 17 and 24	The initial deposit is not within my reach
13, 17, 25, 27 and 29	I can only own a house if there is no initial deposit
19	My credit rating is really bad that despite the initial deposit that I have, I am still unable to get a mortgage property
14, 21 and 23	I am qualified for a mortgage loan but am just not ready to have one yet until I am married

Table 6.65 illustrates that interviewee number 2, 8, 11, 21 and 30 all give their experiences in relation to house prices as the reason why they are still renting. According to them, they cannot afford a mortgage because of the fact that house prices are very high and keeps on increasing on a yearly basis. Since after the financial crisis, house prices have never reduced. It has rather been on a continuous increase. Interviewee number 8, 13, 17, 25, 27 and 29 based their arguments on initial deposit. According to them, they are still renting because they are unable to afford the initial deposit requirements. They are therefore able to join the property ladder only if the initial deposit were removed so that there could be a 100% mortgage as was the situation before the financial crisis.

Interviewee number 19 and 25 accepts the fact that they are not able to change their status to be homeowners because their credit rating is very poor. Before the bank grants any loan to a customer it checks the customer's credit rating score in order to ensure that the customer is not one of those who default on their payments. Unfortunately, some of these interviewees who were not granted access to the mortgage loan fall under this category. Despite the fact that they can meet up with other criteria, the mortgage lenders were unable to grant them the loan for fear of defaults as in their past credit history. Interviewee number 14, 21 and 23 actually says that they are qualified and able to get a mortgage, but are simply not ready for a mortgage loan yet until he gets married and settles down. The continuations of the reasons are illustrated in Table 6.66 below.

**Table 6.66: Coding No. 3 for Research Question 4**

Sub-Theme	• Occupation
Interview Number	Remarks
8	I am a full-time student
7, and 13	I only have a part-time job which is enough just for my basic needs and nothing left over
2 and 21	My job is not stable

The illustration in Table 6.66 reveals that some individuals are still renting because of their occupation. Occupation is very important in acquiring a mortgage because the lender has to be sure that the borrower's occupation as the main source of income is able to last for a long time depending on the length of time the loan is expected to be completely paid. Interviewee number 8 declared that they are still renting because of their current status as full-time students. Interviewee number 7 and 13 stated that their job is only a part-time one providing only little income for them. Interviewee number 2 and 21 said they are not secured as their jobs are unstable.

### 6.9 Bank's Opinion on Customers' Claim

Table 6.67 below summarises the supply side explanation of the conflicting claims on mortgage lending from the perspective of the banks.

**Table 6.67: Data Analysis for Research Question 5**

Research Question	What is your opinion on the claim by the households that the banks are not willing to give out mortgage loan to them? (Interview question 19).
Interviewee No	Remarks
33, 37, 41 and 43	We are willing to lend. The only difference from the previous years is that we now try to lend responsibly.
35, 39, 30 and 42	Some of them cannot meet up with our affordability criteria
35, 38, 40 and 43	They are right to an extent as demand often exceeds supply.
41 and 42	Self-employed customers could not provide two years income history
33, 34 and 39	The sources of income for some were not stable enough.
34, 37 and 41	Unfortunately, some were denied just because of their nationality

Table 6.67 the customers' claim is true to an extent. This is because interviewee numbers 35, 38, 40 and 43 affirmed that the demand for mortgage often exceeds the supply. This means that not all loan applications can be granted. Also, some loan applications were rejected just because of the nationality of the applicants. However, some other reasons account for the rejection of the mortgage applications. These include the customers not being able to meet affordability and other lending criteria checks (interview 35, 39, 40 and 42) and the fact that the banks are trying to be more responsible in their lending activities (interview 33, 37, 41 and 43).

## **6.10 Impact and Implications on Households**

The impact and implications will be viewed in two dimensions. The impact and implications will be viewed from the perspective of homeownership status and from the perspective of the financial crisis.

### ***6.10.1 Homeownership Status Impact/Implications***

The importance of homeownership cannot be overemphasised. Shelter is a basic and necessary commodity in life just as the importance of food is in livelihood. An analysis has been done on those who have a mortgage as well as for those who do not own their home. There are certain impacts and implications which come with homeownership status. This study has looked at some of them for the interview schedule conducted on household respondents in the UK. A summary of this is represented in Table 6.68 below.



**Table 6.68: Data Analysis for Research Question 6**

<b>Research Question 6</b>	The impact/implications of homeownership status on households (interview question 6 and 12).
<b>Focused coding</b>	<b>Sub-theme/Remarks</b>
<b>1</b>	<b>Those who do not have a mortgage</b>
	<ul style="list-style-type: none"> <li>• Little or no freedom/no sense of belonging</li> </ul>
	<ul style="list-style-type: none"> <li>• Loss of property through movements</li> </ul>
	<ul style="list-style-type: none"> <li>• Paying high rent</li> </ul>
	<ul style="list-style-type: none"> <li>• Disruption of children's education</li> </ul>
<b>2</b>	<b>Those who have a mortgage</b>
	<ul style="list-style-type: none"> <li>• Paying less with the hope of completely owning the entire property in the nearest future.</li> </ul>
	<ul style="list-style-type: none"> <li>• Stabilized (children's education) and secured.</li> </ul>
	<ul style="list-style-type: none"> <li>• Sense of belonging and can invest in it without regrets.</li> </ul>
<b>Concluding Theme</b>	There are generally negative impacts/ implications for those who do not own a mortgages (whether by choice or not) while those who own their property generally give positive feedback as impact and implications.

Table 6.68 above illustrated two situations. These are the implications of homeownership on those who own a home and on those who do not own a home. These have been further broken down into Tables 6.69, 6.70 and Tables 6.71, 6.72 below to incorporate the various interviewees who took part in the interview and each person's viewpoint.

#### 6.10.1.1 Homeownership Implications on Households who do not have a Mortgage

**Table 6.69: Coding No. 1 Interview Question 12**

<b>Sub-Theme</b>	<ul style="list-style-type: none"> <li>• Less freedom</li> <li>• Disruption of children's education</li> </ul>
<b>Interview Number</b>	<b>Remarks</b>
2, 14, 21, 23 and 30	Too much pressure/inconvenience and orders from the landlord.
13 and 21	No sense of belonging/innovation/less secured.
4 and 14	It destabilises the children and affects their education.
8, 13, 25 and 30,	Moving from one rented apartment to another makes me lose some of my property.

Interviewee number 2, 4, 8, 14, 13, 14, 19, 21, 23, 25 and 30

As observed from Table 6.69 above, interviewee number 2, 14, 21, 23 and 30 expressed their opinion on the impact of not having a home they can call their own. According to them, renting is not ideal as it creates too much pressure and inconvenience to them from the landlords of the rented property as most landlords have rules and regulations to be followed by all tenants. Besides, interviewee number 13 and 21 declared that renting makes them have no sense of belonging as they have no incentive for investment in the house or renovating the house to their personal taste. There is also the feeling of insecurity. Interviewee number 4 and 14 stated that “In addition, inconveniences from the landlords destabilises the children’s education as they keep changing from one school to another depending on the area where we move to. It is also stressful trying to adapt to a new environment of which we are not even sure of living there for a long period of time.”

Interviewee number 8, 13, 25 and 30 explained that not having one’s own home is usually associated with moving from one place to the other. As a result of this, there is usually the probability that in the cause of these movements, one is bound to lose some of his/her valuable property. Table 6.70 continues further to illustrate the implication of not owning one’s own accommodation.

**Table 6.70: Coding No. 2 for Research Question 6**

<b>Sub-Theme</b>	<b>Rent payment</b>
<b>Interview Number</b>	<b>Remarks</b>
8, 10 and 27	We pay higher rent monthly compared to buying our own home.
2, 7, 17 21and 29	We lose a great amount of money monthly which would have been used for our mortgage repayment.
4, 10, 13 and 14	No regrets since I will only pay the rent for a few numbers of years and return to my home country.

As observed from Table 6.70 interviewee number 2, 4, 7, 8, 10, 17, 13 14 27 and 29 all gave their viewpoints with regards to rent payment. Interviewee number 8 and 10 opined renting is so costly and has no benefits because in the end of the day, the house will still not become the tenants’ personal property as the owner may have it back at any

time. According to them, the amount of money paid to the landlord each month as rent is very high relative to the amount of monthly repayment if it was a mortgage property. Interviewee number 2, 7, 17,21 and 29 further explained that this money wasted on rent would have been used up as part of the mortgage repayment instead of wasting it on something which is not one's own. Interviewee numbers 4, 10, 13, and 14 however, have a different viewpoint when it comes to homeownership status. They stated that "I have no regrets renting despite the increasing rental charges. This is because I do not intend to stay for a long period of time in the country. As a student/visitor, I intend to go back to my home country as soon as am done with the purpose of my stay in the country. As a result, it is not worthwhile for me to buy a house or apply for a mortgage."

#### **6.10.1.2 Homeownership Implications on Households who have a Mortgage**

Table 6.71 below represents the impact/implications on interviewees who own a mortgage property. It is spitted into two sub tables. Table 6.71 is based on the coding from interviewees who talks about paying less for their property while Table 6.72 combines the other factors together.

**Table 6.71: Coding No. 3 for Research Question 6**

<b>Sub-Theme</b>	<b>Paying less plus owning the property</b>
<b>Interview Number</b>	<b>Remarks</b>
3,9, 28 and 31	<ul style="list-style-type: none"> <li>• It is exciting paying less relative to renting.</li> </ul>
1, 12, 20, 22 and 26	<ul style="list-style-type: none"> <li>• Feel relaxed with the hope of paying nothing in the near future after completion.</li> </ul>
6, 15,16, 18 and 20	<ul style="list-style-type: none"> <li>• Even if I pay more, it is a huge investment.</li> </ul>

As has been demonstrated in Table 6.71 above, the impact/implications on interviewee number 3, 9, 28 and 31 owning their own home have been good and exciting. This is because they now pay less relative to what they were paying as rent for the same size of property. Interviewee number 1, 12, 20, 22 and 26 further elaborated that they feel so comfortable owning their own home as in the near future when the property eventually becomes theirs, they will be paying nothing as monthly repayment. That is after completing the mortgage repayment. Also, interviewee number 6, 15, 16, 18 and

20 attested that they are comfortable paying any amount for their mortgage as it is a huge investment.

**Table 6.72: Coding No. 4 for Research Question 6**

Sub-Theme	Other factors
Interview Number	Remarks
1, 5 and 19	<ul style="list-style-type: none"> <li>Stabilizes children's education</li> </ul>
15, 18 and 26	<ul style="list-style-type: none"> <li>Sense of belonging and can invest in it without regrets</li> </ul>
9, 18, 20 and 31	<ul style="list-style-type: none"> <li>Living in a neighbourhood that I like</li> </ul>

As observed from Table 6.72, interviewee number 1, 5 and 19 confirmed that there are good implications of owning one's own home. To their perspective, owning one's own home limits movements. Thus, there is some form of stability in terms of children's education as well as stability for the entire family. Secondly, interviewee number 15, 18 and 26 said that it gives some sense of belonging to the owners as there is no more pressure from landlord to do things their own way. It is easier and better to invest in one's own house than on a rented one. Lastly, interviewee number 9, 18, 20 and 31 confirmed that it is a positive remark as living in one's own home often means that the individual/family is living in a neighbourhood that they like. Of course, no one would like to buy a house where they do not like.

#### **6.10.2 Impact/Implications of the Financial Crisis on Households**

**Table 6.73: Data Analysis for Interview Question 6**

<b>Research Question 4</b>	What is impact/implication of the financial crisis on you? (Interview question 7 and 13).
<b>Focused coding</b>	<b>Sub-theme/Remarks</b>
	<b>The Customers' Response</b>
	<ul style="list-style-type: none"> <li>Redundancy</li> </ul>
	<ul style="list-style-type: none"> <li>Repossession</li> </ul>
	<ul style="list-style-type: none"> <li>Loss of confidence and trust on banks</li> </ul>
	<ul style="list-style-type: none"> <li>Intensification of check criteria for mortgages</li> </ul>
<b>Concluding</b>	The financial crisis led to devastating consequences on households

<b>Theme</b>	as well as changes in the lending criteria for mortgages.
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**Table 6.74: Coding No. 2 for Research Question 6**

<b>Interview Number</b>	<b>Remarks</b>
1, 18, 25, 28 and 30	<ul style="list-style-type: none"> <li>• Loss of jobs as many companies closed down while others merged.</li> </ul>
3, 7, 15, 23, and 30	<ul style="list-style-type: none"> <li>• Many properties were repossessed as households found themselves in negative equity.</li> </ul>
5, 11, 20 21 and 23	<ul style="list-style-type: none"> <li>• Loss of trust in financial institutions, especially the big ones which I never believed could fail.</li> </ul>
2, 10, 14 and 17	<ul style="list-style-type: none"> <li>• It became so tough for the banks grant us access to mortgage loans.</li> </ul>
31 and 33	<ul style="list-style-type: none"> <li>• Our lending criteria were intensified, making us become stricter than before in scrutinizing qualified mortgage applicants.</li> </ul>

Observations made from Table 6.74 illustrate the combined interview remark from both the banks and the customers since they share certain viewpoints in common. The banks confirmed that they lay off some of their workers as a result of the crisis. This is confirmed by the customers who noted that they lost their job as a result of their crisis. Secondly, the banks repossessed so many properties from households as they could not afford repayment. According to the households, they were faced with negative equity as the value of their property dropped relative to the period before the crisis. Furthermore the crisis made some households lose the confidence they had in financial institutions. In addition, the banks established that the crisis made them to be more rigid with lending policies as scrutinized checks were done on the borrowers before they could be granted access to mortgages. The households also declared that it became almost impossible for them to obtain a loan from the bank with the new checking strategies put in place.

## 6.11 Government's Intervention in the Mortgage Market

**Table 6.75: Data Analysis for Interview Question 8 and 14**

<b>Interview Question 8 and 14</b>	How has the intervention by the government affected your attitude towards mortgage loan?
<b>Focused coding</b>	<b>Sub-theme/Remarks</b>
<b>1</b>	<b>The Customers and Banks' Responses</b>
	<ul style="list-style-type: none"> <li>• Introduced equity loans through Help to Buy</li> </ul>
	<ul style="list-style-type: none"> <li>• Introduced the Mortgage guarantees</li> </ul>
	<ul style="list-style-type: none"> <li>• Revamped Right to Buy scheme</li> </ul>
	<ul style="list-style-type: none"> <li>• Key worker scheme</li> </ul>
<b>Concluding Theme</b>	The government has introduced the Help to Buy scheme well as improved conditions for Right to Buy and Key Worker scheme

The attitude towards mortgage loan is viewed from two perspectives: from the perspective of the bank as well as from the customers' perspectives. It had different impact on them. These diverse views are examined below.

### 6.11.1 Customers' Perspective

**Table 6.76: Coding based on Customer's Perspective.**

<b>Sub-Theme</b>	Customers
<b>Interview Number</b>	<b>Remarks</b>
3, 12, and 20	<ul style="list-style-type: none"> <li>• I was able to get onto the property ladder because of the reduction benefits provided by the scheme.</li> </ul>
2, 11, 17, 19 and 21	<ul style="list-style-type: none"> <li>• It made no difference to me since I have no intentions of owning a home.</li> </ul>

4, 7, 8 and 13	<ul style="list-style-type: none"> <li>It did not affect me since I could still not afford the 5% initial deposit required. I could also not benefit from the key worker scheme.</li> </ul>
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As observed in Table 6.76, not all the customers took advantage of this support offered by the government. It benefited a few individuals while others without intentions of owning a home of their own did not bother about the scheme. However, some individuals who would have wanted to take advantage of the scheme were still not able to afford even the reduced deposit requirement.

### 6.11.2 Bank's Perspective

**Table 6.77: Coding based on the Bank's Perspective**

Sub-Theme	Banks
Interview Number	Remarks
24, 27, 30 and 33	<ul style="list-style-type: none"> <li>The problem faced by the customers regarding initial deposit was somehow reduced as some of them acquired their mortgages through equity loan.</li> </ul>
24, 25, 28 and 30	<ul style="list-style-type: none"> <li>Even though we offer mortgages through this scheme, Most of the banks do not prefer these services. It is best provided by other mortgage providers.</li> </ul>

Table 6.77 depicts that some customers were able to become property owners through the government schemes offered. However, not all HSB offer this service as it is best provided by other mortgage providers.

### 6.12 Preliminary Test

A preliminary test is usually conducted prior to analysing the data which offers a first look at the data through a reliable, descriptive and inferential analysis. This is because data quality and reliability is essential for acceptability and generalisation. The tests for reliability and normality are observed here.

#### 6.12.1 Reliability Test

A measure is reliable if it is consistent and stable in measuring the concepts (Bryman and Bell, 2011). Cronbach's alpha is the most suitable and most used method for analysing internal validity. The coefficient varies between 1 (perfect internal reliability)

and 0 (no internal reliability). As a rule of thumb, the generally accepted minimum figure for reliability is 0.70. The questions in this research are mutually exclusive but linked and supported each other. The test is done for 7 point Likert scale questions. The other questions were left out because they are dichotomous and categorical questions which were then tested for normality. The summary of Cronbach's alpha reliability test is displayed below.

**Table 6.78: Cronbach's Alpha Test for Selected Survey Questions**

Question Numbers	Cronbach's alpha
14	0.97
21	0.95
22	0.71
32	0.94
36	0.70

**Sourced: Author's summary derived from SPSS calculations**

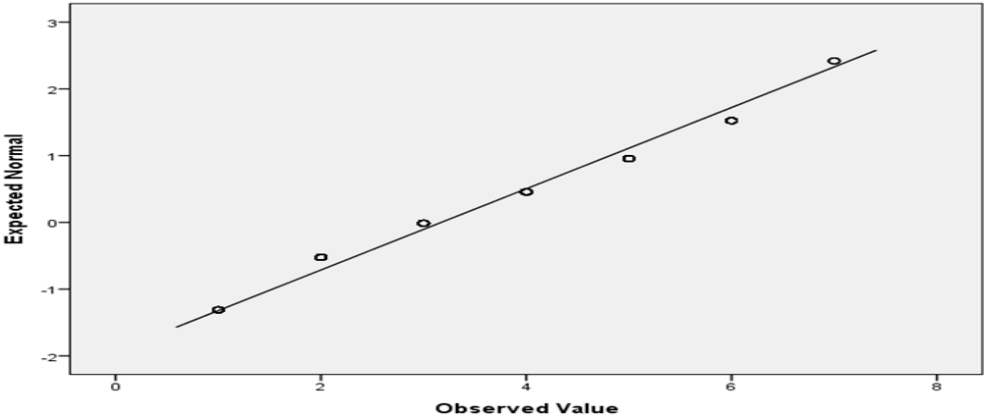
As observed in Table 6.78, all of the selected individual questions had their reliability results above the benchmark of 0.70. This means that the questions are reliable. It is also important to test for normality of the other questions. That will be analysed using the parametric method.

#### ***6.12.12 Test of Normality***

The test of normality is important with the use of parametric methods of data analysis. It is not necessary for non-parametric method analysis (Razali and Wah, 2011). This research makes use of both parametric and non-parametric method. The Shapiro-Wilk's test and a visual inspection of their histograms, box plots and normal Q-Q plots indicated that the data for the periods before, during and after the financial crisis are approximately normally distributed. The normality for the Q-Q plot is displayed below.



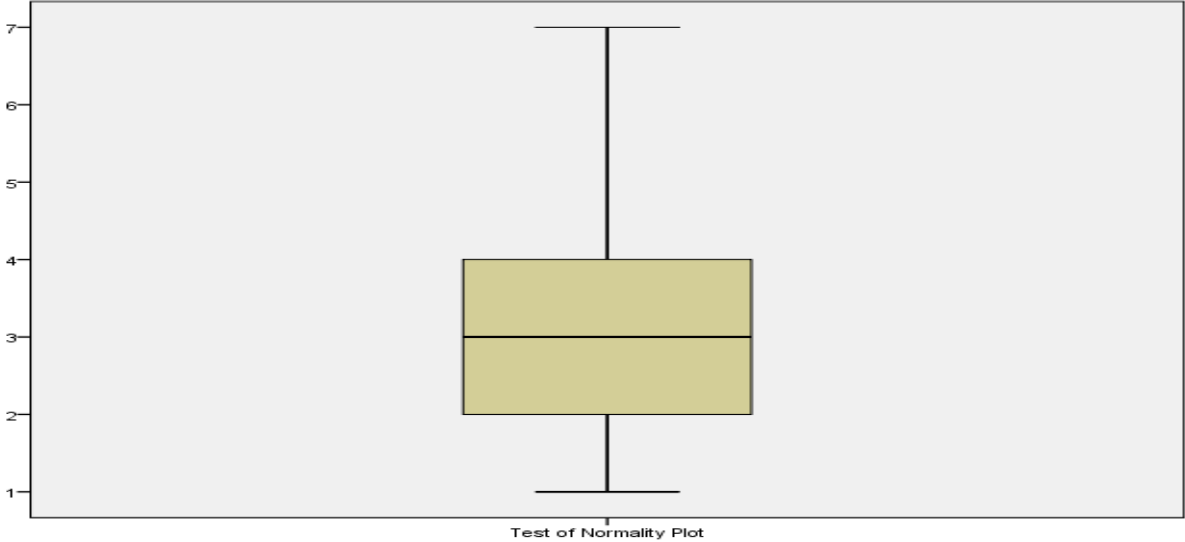
**Figure 6.8: Q-Q Plot for Normality Test**



**Source: Author of thesis (2016)**

As depicted by the curve in Figure 6.8 for test of normality, the data is proven to be normally distributed along the line of best fit with none of the cases significantly deviating from the line. The test for box plot is also displayed below.

**Figure 6.9: Figure Box Plot for Normality Test**



**Source: Author of thesis (2016)**

The normality test for box plot in Figure 6.9 also reveals that the cases are normally distributed with none of the cases lying outside the box.

### **6.13 Summary**

This chapter has presented the findings from the primary data for both questionnaire survey and interviews. The questionnaire survey has been analysed using various statistical tools like cross tabulation, chi-square test, a measure of central tendency, factor analysis, t-test and one-way ANOVA. These are all presented from the demand side of the study. The second part of this chapter presented the findings from the interviews. This was done for both the demand as well as the supply side of housing finance and analysed with the use of Nvivo. The presentations revealed important aspects of the housing market resulting from the effect of the financial crisis.

The findings revealed that in the housing market, the periods before, during and after the financial crisis all had different mean levels, which were tested to be significantly different from each other. In terms of homeownership status, those who own houses or have mortgages would have preferred their mortgage provider to be the HSB where they feel more secure. However, others do not mind who their provider is since they are only interested in the least cost provider. Those who rent do so because some of them are not ready; others are limited by deposit and other lending criteria while others are okay with their status as tenants.

## **Chapter Seven: Interpretative Discussion for Questionnaire and Interview**

### **7.1 Introduction**

This chapter covers an interpretative discussion of the findings of both the questionnaire and the interviews. The chapter is divided into two sections. Section one focuses on the questionnaire based on the findings from the customers' point of view while section two focuses on the interviews from both the customers and the banks' perspective based on the issues relating to mortgage loan in the UK. These were all done in line with the research questions and research objectives.

### **Section One: Questionnaire**

#### **7.2 The financial Crisis and Changes in Housing Finance**

To be able to understand the changes that occurred in housing finance in the period before, during and after the financial crisis, the respondents stated their levels of agreement or disagreement (the scale ranges from one to seven with one representing strongly disagree and seven representing strongly agree) on the ease/difficulties of obtaining a mortgage loan within the three periods under consideration. The results of the findings in Table 6.4 reveals that a majority of the respondents, representing 69.1% agreed at different levels that it was very easy to obtain a mortgage loan before the financial crisis period. This is justified by the fact that before the financial crisis, the level of bank lending was very high and increasing due to high prices and low interest rates. This findings support the work of Buckley (2012) and Acharya et al.(2011). This is in line with the law of demand and supply where low interest rates which is sometimes represented by price leads to an increase in the demand for mortgage loan (Lakhotia, 2005). The banks extended this lending by giving out subprime mortgage loans to households regardless of the high probability of these households not being able to repay the loan. This went on until the sudden, unexpected fall in house prices in 2007 which marked the beginning of the financial crisis.

Another reason for the easy access to mortgage loans before the financial crisis period was because lenders allowed potential borrowers to verify their levels of income through self- certification. This made lenders to approve loans following the multiplier of the applicants' false self-certified income (BBC News, 2014). Respondents who did

not agree or disagreed on the ease of obtaining a loan within this period can be accounted for by the fact that they represent the percentage of the population who probably did not ask for a mortgage.

For periods during the financial crisis, the customers declared that based on their experiences, it became very difficult for them to obtain a mortgage loan from the bank. At different levels of agreement, a total of 49.7% of the respondents agreed it was generally very difficult to obtain a mortgage loan with only 27.5% disagreeing at different levels. The others neither agreed nor disagreed. This result is not surprising because during this period, there was limited credit availability on the supply side of housing finance. The mortgage lenders tightened their lending conditions which made it difficult for borrowers to have access to mortgage loans (Sudarsanan, 2012)

The findings revealed that after the financial crisis, it became increasingly difficult to obtain a mortgage loan from the bank. A total of 57.9% of the respondents disagreed at varying degrees that it was easy to obtain housing finance from the HSB after the financial crisis. After the financial crisis, the banks became even stricter with their lending conditions which led to a fall in the demand for HSB mortgage loans and an increase in the demand for mortgage loans from other providers. This is due to the increasing competition in the provision of mortgage loan (Adair et al., 2009). With the increase in house prices, the demand for mortgage has not decreased following the law of demand and supply (Lakhotia, 2015). Demand has instead remain high given that a house is not a luxurious commodity but a good of necessity.

### ***7.2.1 Mean Difference between the Three Periods***

In comparing the period before and the period during the financial crisis, the paired sample two tailed t-test proved that there is a statistically significant difference between the two periods with a mean difference of 0.803 and a standard deviation of 1.945. The financial crisis period and the period after the financial crisis also portrayed a mean difference in mortgage lending between the two periods. For the period before the financial crisis and the period after the financial crisis, the mean difference was even wider at 2.179. This really signifies the great difference in housing finance brought about by the effect of the financial crisis. The difference is statistically significant, meaning that we reject the null hypothesis and accept the alternative hypothesis that there is a difference in lending between the two periods. Furthermore, comparing the

period during the financial crisis and the period after the financial crisis for a 95% confidence interval gives a wide mean difference of 1.375. Thus lending in all of the periods significantly differs from each other.

### **7.3 Interpreting and discussing the response of Homeowners in the UK**

It is observed in table 6.10 that out of the 320 respondents who took part in the questionnaire, 31.9% were homeowners. Out of these homeowners, 33.3% of them have their mortgages provided by the HSB while the remaining 66.7% of their mortgage loan is provided by other housing finance providers. The other providers as observed in table 6.11 include building societies, councils, Islamic providers and other smaller providers. It is surprising to know that even though all the respondents are HSB customers, they still prefer other housing finance providers instead of those offered by their current banks. The following discussions will elaborate on the explanation to this attitude by the customers.

#### ***7.3.1 Comparing Mortgage Provider with the Period of Mortgage Provision***

It is important to consider the period in which the loan was provided in order to understand better the mortgage provision choices made by HSB customers. As observed in Table 6.12, those who obtained their loan before the financial crisis were mostly provided by the building societies and other mortgage providers. The proportion of the building society alone made up 47.6% of all providers. During this period, the market share of mortgage loan provided by the top six lenders was low and declining compare to the provision made by other providers. It is confirmed that the proportion of gross mortgage lending by banks and building societies more than doubled between 2011 and 2013 to £50.8billion from £24.7 (Barty, 2014).

This is not surprising however, as the HSB are not the pioneers in the housing finance provision. The building societies were the first or the pioneer providers in the market before new entrants like the HSB and other mortgage providers came in (Klimecki, 2012). The building societies have been therefore already known by so many homeowners who could well have recommended the product to other aspiring homeowners. This means that the building societies enjoyed first mover advantages, existing brand name and other related advantages which give it a greater market share compared to the HSB.

However, during the financial crisis (2007 – 2009), the number of homeowners whose loan was provided by the HSB outnumbered those provided by other housing finance providers. 64.7% of household mortgages during that period were provided by banks while the other housing finance providers contributed only a small proportion. The CML news and views (2014) reported that during the financial crisis, many smaller lenders exit the market, leading to the increasing dominance of the market by the six largest lenders. By 2009 therefore, these lenders reached a peak and accounted for an absolute majority of all lenders in the market. The reason for this sharp increase by the HSB was because other lenders were not able to stay in the market as the financial crisis left them with little liquidity or limited credit availability to sustain them. On the other hand, most of the banks were able to remain in the market because the government helped to bail them out of the crisis situation (Buckley, 2011). This left them with some credit available for mortgage lending. In addition, unlike the building societies and other providers whose main activity is mortgage lending, the main activity of the bank is not housing finance provision. The provision of mortgage loan has been just an additional activity by the banks, perhaps to diversify their risk and enjoy the advantages associated with economies of scale. This means they have other sources of finance.

The results from Table 6.12 further divulge that after the financial crisis period, the banks, which were topping the market with greater market shares during the financial crisis, were instead facing a decline in their lending activities while the other smaller providers increased their market shares. This is the result of increasing competition in the market as many new lenders enter the mortgage market (Williams, 2014). This leaves the consumers or the households with so many varieties in which to make a choice of the best provider. Secondly, the first Help to buy mortgage guarantee scheme was introduced in early 2013 with 12 mortgage providers. These included Woolwich, Virgin Money, Chorley Building Society, Cumbria Building Society, Dudley Building Society, Leeds Building Society, Newbury Building Society, and Teachers Building Society, Barclays, NatWest, Halifax and Santander with only the last four as banks. This scheme guarantees a 95% mortgage loan. Thus, many participants took advantage of the scheme, the majority of which was provided by non-HSB.

In addition, the banks tightened their lending policies towards general lending as well as mortgage lending in order to protect not only the lenders but also the borrowers. They expect the borrowers to have more confidence that the poor banking practices of the

past which led to the financial crisis with hardship and anxiety do not repeat itself in the future (FSA, 2014). The evidence of the relationship between the mortgage provider and period of time in which the respondents applied for their mortgages proves to be significant using the chi-square test of significance. This means that the null hypothesis is rejected while the alternative hypothesis is retained. Therefore, one of the reasons for the disparity in the provision of mortgage loan by the mortgage providers is accounted for by the period of time in which the loan was obtained. It is also important to look at the discussions on the criteria used by the customers as explained below.

### ***7.3.2 Interpretative Discussion on the Criteria Used to Compare between Mortgage Providers***

Generally, there are other criteria that are used by customers in order to make their choice of a mortgage provider, given the competitive nature of the market environment. These criteria include quality of services offered, repayment period, convenience of payment, initial deposit requirement, the process for approval, safeguarding customers' interest, processing time and terms and conditions as discussed below.

Households always bear in mind the amount they are expected to pay each month towards monthly repayment of the loan (Tameme, 2009). This factor is rated by 52.8% of the respondents as strongly agree. Different individuals have different needs and monthly commitments. The importance of this factor enables them to be able to plan ahead of time so as not to miss their repayment with its devastating consequences. Secondly, the repayment period is considered by many respondents as important. Customers need to take precaution against this factor in order to avoid a situation where their homes might have to be repossessed.

Furthermore, customers consider the convenience of their mortgage repayment. 47.2% of the respondents and 35% of them strongly agree and agree respectively that they take into consideration this factor before making their mortgage choice (Hanafi, 2012). No one would like to be asked for something when they do not have it in order to avoid any form of embarrassment. Moreover, the process of approval is agreed to be important to the respondents when making their choices. Reasons being that some mortgage providers' take a very long process and procedure to reach an approval stage while it is shorter with some providers. This therefore depends on the level of urgency at which the mortgage applicant needs the house. Applicants in urgent need of a house will obviously go for a mortgage provider whose processing time is not very lengthy. An

applicant who is not in urgent need of a mortgage will not consider this factor as important. Processing time will not be an issue to such applicant.

In addition, households mostly consider the amount they are charged as initial deposit before making their choice of housing finance provider. This is because some customers, especially the low income earners with little savings and the younger population usually find it extremely difficult to raise this amount. This is common with first time buyers. In most cases, parents often help their children to climb up the property ladder by providing them with assistance for initial deposit. Lastly, some customers consider the quality of services rendered by their lenders as it is normal that some lenders have good customer service qualities than others.

Given that the criteria considered by customers before making their choice of a mortgage provider are numerous and also depends on individual circumstances, factor analysis for total variance explained was used to extract and group these factors into two broad components. These two broad components accounted for 86.99% of total variance. These two components are the quality of services offered and the financial commitment involved. The factors under the component quality of services offered includes safeguarding the customer's interest, quality of customer service, terms and conditions, convenience of repayment and processing time. Components associated with financial commitment include the amount of the monthly repayment, initial deposit and period of repayment.

### ***7.3.3 Reasons why some Customers do not use the HSB as their Mortgage Provider.***

With most HSB it is virtually impossible for a mortgage loan to be issued to any household without an initial deposit. This initial deposit is usually a minimum of 10%, which is often not easy to rise especially for first time buyers who are still struggling to get their feet onto the property ladder. These borrowers prefer using other housing finance providers, some of which usually would not require such an amount as initial deposit. Beckett (2014) declared that some of these customers who are financially weak simply go for affordable housing.

Homeowners also confirmed that mortgages provided by HSB are more expensive compared with other housing finance providers. Besides the initial despite, other expenses exist which are all related to the initial deposit. These include stamp duty charges, brokers' fees, solicitor's fees and surveillance fees. Stamp duty charges have



increased the amount put forth by buyers towards a deposit. Some early researchers found that exempting stamp duties especially for first time buyers can help to reduce the expensive nature of acquiring a home (Wood et al., 2006). Lending rules in the UK have become even tougher with stamp duty reforms encouraging buyers to put down even more before gaining full access to their home. These fees also compound to the issue of initial deposit. 73.2% of the respondent rated this factor to be one of the important factors to them.

Religious factor is another factor which is very important to a minority of the respondents. These respondents are mostly the Muslim population who form about 26.3% of the total respondents. 13.7%, which is about half of the Muslim rated this factor to be very important to them. This is because apart from HSBC, most of the HSB do not offer Islamic mortgage products. Staunch Muslims who are very committed to their religion will not consider the HSB as their mortgage provider because their services are not in line with their religious practices (Hanafi, 2012 and Tameme, 2009).

The less flexible nature of some HSB is one of the reasons why some customers prefer other housing finance providers. Given that the future is never certain, changes are bound to occur. Flexible mortgage providers attract a great deal of customers' attention compare to rigid mortgage providers. At the time of their mortgage purchase, 21.9% of the customers confirmed that the banks were less flexible while other housing finance providers offered greater flexibility of their products.

One of the minor reasons why the customers used other housing finance providers other than their HSB is because the HSB are less competitive relative to other providers. Also, until recently the banks have not created enough awareness of their product as other providers do. They simply assume that the customers will come to them when they need it. This is however not the case as there are many competitors in the mortgage market offering similar services. Moreover, some customers consider their banks as a place where they save, withdraw, borrow and perform other services. Traditionally, the activities of the banks were not inclusive of mortgage provision until recently. Therefore, traditional bank customers are definitely not aware of the existence of housing finance assistance offered by the banks if greater awareness is not created.

#### ***7.3.4 Satisfaction of Mortgage Choice***

The respondents were asked to rate their levels of satisfaction with the choice of their mortgage providers. Table 6.19 illustrates that 88.2% of those whose mortgages were provided by the HSB agreed that they were satisfied with their choice of mortgage provider. The customers attribute this high percentage of satisfaction to the fact that during periods of instability or crisis as was the case between 2007 and 2009, the banks will remain stable in the market with assistance from the government. This is unlike the other providers of housing finance who were not able to withstand the financial crisis while the government also did not bail them out. This implies that the customers do not only look at the present level of protection and satisfaction received, but they also care about their future safety and well-being.

For customer whose mortgages are provided by other housing finance providers, only 58.8% of them were satisfied with their mortgage provider, leaving 41.2% who were not satisfied at all with their mortgage provider. They maintained their mortgage provider because they are cheap and offer better service quality. They are not completely satisfied with their mortgage provider because they fear that in times of crisis, they could suffer greater instability and may be most affected compared to their counterparts whose mortgages are provided by the HSB.

The relationship between the level of satisfaction with mortgage provider and the type of mortgage provider is estimated using the chi-square test. The test proves to be statistically significant at a p-value of 0.014. The null hypothesis is rejected while the alternative hypothesis is accepted that there is a relationship between the level of satisfaction of the mortgage provider and the choice of mortgage provider made by the customers.

#### ***7.3.5 Further Analysis on Mortgage Ownership***

From the analysis in Table 6.21, most of the homeowners attach high importance to their housing and commit a great portion of their salary to it. With minimum as one and maximum as five, the mode and median being 4 indicates that the great number of households dedicate between 30% and 49% of their monthly salary towards the payment of their mortgages as observed in Table 6.22. The standard deviation is 1.33 which is quite smaller than the mean. This suggests that a good number of cases are quite close to the mean. The proportion of homeowners with a monthly salary of 30%

and above attributed to their mortgage is 62.8% of all homeowners. This confirms the analysis by an IMF analyst Zhu (2014) that a majority of households tends to hold their wealth in the form of their homes rather than in financial assets. He further assessed that about 60% of inhabitants in France owns their stock of wealth in the form of housing. In the US, he found that third of total assets are accounted for by real estate.

Testing the relationship between mortgage provider and marital status proves to be statistically insignificant at a p-value of 0.900 for a two tailed test with the use of chi-square. This means that marital status is not associated with the choice of respondents' mortgage provider. In addition, the educational qualification of the respondents using the Pearson chi-square with a value of 51.57 and 25 degrees of freedom also proved to be statistically insignificant at 0.278. This signifies that there is no evidence of the relationship between the choice of a mortgage provider and educational qualifications.

On the contrary, as depicted in Table 6.27, the relationship between religion and the choice of mortgage provider proved to be statistically significant at 0.01 significant levels for a two tailed test with 25 degrees of freedom. This result rejects the null hypothesis and accepts the alternative hypothesis that religion has an impact on the choice of mortgage provider as seen from the behaviour of staunch Muslims. Furthermore, the level of customer income is also statistically significant at a p-value of 0.014. This implies that the alternative hypothesis is accepted that the customers' choice of mortgage provider is associated with the level of customers' income.

Table 6.30 shows the cross tabulation between the different age group and homeownership status. It reveals that the age group 26-35 and below are those having the highest number of tenants. While more than 70% of them are still renting, less than the expected number of people in the upper age group are homeowners. Those in these upper age groups are expected to be homeowners as it is the most likely age group where many people are expected to have settled down with their families (Kabsung and Jeon, 2012). It is likely not the case here. This can be accounted for by the fact that more than half of the respondents were found to be immigrants from African, followed by Asians. These are immigrants who came to the UK, mainly for greener pastures and are expected to leave the country at a certain age in their lives – possibly by the end of the purpose of their visit/stay. It is therefore not surprising that they prefer to rent rather than to be owners of property. Generally, therefore, more respondents reported to be

renting than would be expected if the distribution of those renting and homeownership status was equally distributed.

Based on gender, the findings revealed that more of the female respondents own houses than the male population in the UK. While the females account for 67.6% of the homeowners, the male account for only 32.4%. This result is not surprising in the context of the country under study as for most couples who are divorced; the priority is usually given to the lady to stay in the house especially if she is the one who is granted custody of the children. Also, there are many single females with children than there are with the male population. This confirms the findings of Skaburskis (1997) that female turn to own more houses with increases in their income, career oriented and increased fertility. For this study, the relationship is proven to be statistically significant at a significant level of 0.003. This result rejects the null hypothesis that there is no significant relationship between homeownership and gender.

The tenants were asked to rate their levels of satisfaction based on their current status as tenant. Their results revealed that 101 respondents, representing 46.3% of the tenants stated that they were satisfied with their current status as tenants. On the other hand, 117 or 53.7% of them declared that they were not satisfied at all. It is therefore important to look at accommodation problems faced by households.

#### **7.4 Accommodation Issues and Problems Pertaining to Tenants**

Out of 320 participants in this study, 68.1% of them do not own their own homes. They rather prefer to rent. These figures are very high, regarding the fact that monthly rental prices are relatively more expensive compared to owning a home and engaging in mortgage repayment. These respondents were asked about their intentions to have a mortgage in the near future. 49.1% of them were positive of their intentions to own a home, perhaps those immigrants who already have some strong commitments to their host countries and are more likely to achieve homeownership for a given set of socioeconomic and demographic characteristics (Constant et al., 2006). They surely have some impediments that act as a barrier to their current ownership status.

Only 16.5% of the households absolutely declared that they were not interested in owning a house in the near future. This could probably be due to the fact that not all the respondents are British and or have the intention to stay in the UK in the near future. These could be individuals who are just visitors in the country. As visitors they do not

have a long period of time to stay in the country. Thus, there is likely no need of a house for this category of people. Also, some of them could be students whose sole motive for coming into the country is for academics. These categories of people are ready to go back home immediately they finish school. Thus, they do not have any intention of staying in the economy in the near future.

On the other hand, the 34.4% of the respondents who were still not quite sure of their intention to own a house are probably those respondents who are not very certain of their continuous stay in the country in the near future. This could possibly be attributed to the following reasons: as visitors, most people may not want to return back to their home country due to one reason or the other. Besides, they are not very sure if they would be allowed to stay in the country for as long as they wish; Also, most international students are not sure of remaining in the country after their studies. Although most of them would like to stay in the UK after their studies in order to have some work experience before leaving for their home country, they are not very sure how long they would be allowed to stay. Their staying longer in the country after their studies is conditional as it greatly depend on whether they are able to find a good and rewarding job or not. Their continuous stay in the country after studies means that their employees are willing to retain them; otherwise, they are expected to return back to their home country after their studies. Hence, they do not know what the future holds for them. It is necessary to look at the general reasons why they are still a good number of tenants.

#### ***7.4.1 Why Tenants have been Unable to own their own Homes.***

The respondents who are renting instead of owning their own houses were further asked to state the reasons for their current homeownership status. Their responses included the following: increasing house prices, high initial deposit, job insecurity, poor credit rating, high dependency ratio, marital status and visa status or nationality criteria. The interpretative discussions of these points are as follows.

**Increasing house prices.** House prices are unstable and are increasing very rapidly in the UK as the years go by. Table 6.36 depicts that 93.1% of the respondents rated this factor as important to them at different degrees of importance. The reason for these continuous increases in house prices could be attributed to the fact that there is high demand over the supply of houses in the UK, especially in London where a lot of the

data for this study was collected. The population is on a high increase, which automatically leads to a high demand for housing as stated by the law of demand and supply. Empirical findings by Wesutsa (2014) and Skaburskis (1997) confirmed that an increase in the number of people in the inner city increases the price of accommodation as shelter is of inelastic demand. Thus, with an increase in the population, there is an inevitable increase in the demand for houses. This is because just like food which man needs for survival, shelter is also one of the basic needs in life which cannot be avoided. Individuals who are not privileged to benefit from the government support schemes could have bought their homes as an outright, but are prevented from doing so due to the high and increasing house prices.

Only 6.9% of the respondents did not rate this factor as important to them. This is because other reasons other than house price could be the basis for them still renting. These other reasons could be that they are not yet ready to own their own home or that they are not sure of staying longer in the country. As a result, even if the house prices were stable and not so high, they could still not have any reason to get a mortgage.

**High initial deposit.** Most households who have the desire to own their own homes are usually faced with the issue of initial deposit. 83% of the total respondents agreed at different degree that this factor is of importance to them. Before the 2007 financial crisis, it was possible to obtain a 100% mortgage loan. That is with no initial deposit. But after the financial crisis, no one was allowed to obtain a mortgage from the banks without an initial deposit. The initial deposit for a mortgage has increased from a 100% mortgage for the pre - crisis period to 10% initial deposit from the crisis period till date. This made homeownership difficult as not everyone was able to afford it. The government introduced the help to buy scheme in April 2013 to encourage more homeownership by reducing the amount of deposit to only 5% (Howard, 2013). However, the scheme was not favourable for everyone. It excluded immigrants who have not naturalized. Also, it is eligible only for mortgages worth less than £600,000.

**Job security.** In terms of job security, about 88.1% of the respondents agreed that this factor is one of the reasons why they are still renting. The lenders always check this criterion under the ability of the customer to repay the loan before giving out loans to the borrowers (Pollock, 2011). Pollock explained that learning from the lessons of the past crisis, it is necessary to stop poor lending practices re-emerging in the future. Since after the financial crisis, many people lose their jobs and have still not recovered from

the shock. Respondents are also not very sure of the security of their jobs as they do not want to enter into a mortgage contract when they are not sure of sustaining their jobs for a good number of years. They are also not sure how long it could take them to find another job if they happen to lose their jobs. This is based on their past experience as some of them may not have been able to sustain a particular job for a good number of years. They keep hopping from one job to another as the years go by. This is common for most immigrants.

**Poor credit rating.** 39% of the respondents who are still renting stated that this factor was of extreme importance in determining why they are still renting. Without a good credit history, lenders would not give out loan to any household. In fact, just the slightest blemish on an applicant's credit history rating can lead to the applicant's loan been turned down (Williams, 2014). A credit rating is an important check for most lenders because it gives them a rough picture of how trustworthy the borrower is terms of not missing out repayments.

**Marital status.** This factor was considered by 67% of the respondents as important. It is almost normal that most people will only choose to climb up the property ladder when they are married. An economist sees this as a waste of financial resources buying a house as a single person. On the other hand, when people are married, it becomes economical to buy a house as the number of heads is now more than one. The increasing need to move out of a rented house to becoming a homeowner becomes urgent when the couple starts having children.

**High dependency ratio.** Given that more than half of the respondents are Africans, the probability that they can own a home in a relatively expensive economy like that of the UK is low. This is because of the fact that they are usually many dependents in the African society than other continents. 83.5% of the respondents accepted the fact that this statement is true. Statistics show that non-UK born inhabitants had a high dependency ratio that the UK born natives. The Africans had the highest number with three or more dependents which is closely followed by the Middle East and the Asians (ONS, 2014). With many dependents, the affordability of homeownership is affected ((Hulse et al. 2011). This is because the net income of each month becomes limited. Lenders usually scrutinise the borrowers' ability to repay in order to assure that there

will be no situation of default. Thus, knowing that they cannot meet up with the requirements of the loan, households prefer to rent rather than apply for a mortgage.

**Nationality.** The nationality of most respondents limits their homeownership status to tenants. 67.9% of the tenants in this study rated this factor important. This is due to the fact that most of the respondents are not born British but immigrants. The granting of mortgage loan among immigrants is usually not the same as for nationals. While nationals can obtain their mortgage once they meet all the criteria, immigrants are usually faced with the additional requirement of waiting till their immigration status change. Krueckeberg (1999) found that nationals are more favoured than immigrants in terms of homeownership because they are assumed to be more committed to their communal activities. Other studies in the USA confirmed that natives are found to own more houses than immigrants due to their national origin (Borjas, 2002 and Phillip, 2010). In the UK, homeowners must either be born British or be naturalised to be eligible for a mortgage loan. This process usually takes a while to materialise. This means that these respondents must remain as tenants till that condition is met even if they meet all the other lending criteria.

#### ***7.4.2 Further Analysis***

The cross tabulation result of financial support received and those renting shows that more than 68% of those renting do not receive any form of financial support. These financial supports could come from their spouses, family members, friends as well as benefits. It is further observed that the majority of those renting are those found to have little or nothing left over after their monthly expenditures. Out of those who are found to be renting, the majority of them are found in the category of those who can afford just what they need with nothing left over, those who can afford their basic needs with just a little left over and those who only struggle to survive. These groups of individuals do not have enough to keep aside as savings towards home purchase. The reasons why some people are still renting can also be attributed their age limit. This is applicable to the younger age groups who have not yet had enough savings to afford the initial deposit. As observed, most of the respondents who are faced with affordability problem are found in this age group of less than 35 (Burke et al., 2011; Scanlon and Kochan, 2011).



Furthermore, the table on ownership and marital status illustrates that the majority of those renting are those who are still single with up to 47.7% of the respondents who are single found to be renting. The other proportion of those renting is distributed between the married, divorced, widows and widowers.

More than 50% of those who own their homes are those found in the category of those who can afford their needs and still have much left over. This can enable them to save more money towards initial deposit or repayment. The small percentage accounted for by those who own their own houses but cannot afford their basic needs, those who can afford their basic needs, but have nothing left over and those who can afford their needs and only have a little left over is as a result of the support and benefits they receive from elsewhere. These support received could come from their spouses, friends, family members or other forms of government benefits. Early researchers argued that those with low to moderate permanent income earnings cannot acquire a home on their own, which makes them remain as tenants (Wood et al., 2006). Thus, comparing the income of the respondents with those renting indicates that on a general note, most of those renting have a smaller income compared to those who own houses. It is not easy for this group of respondents to afford initial deposit.

Furthermore, in comparing the employment status to those renting, the findings reveal that the majority of those who are renting are found to be either unemployed or part-time employees. More than half of the respondents (54.1%) are under this category of employment status. Unfortunately, to be qualified for a mortgage loan, one of the criteria the customers must meet is to be able to prove that they are gainfully employed as full-time employees.

The result of the statistical test of ethnicity and homeownership status is revealed to be a significant relationship. This means that ethnicity is associated with homeownership. Only a very small portion of the white respondents who is probably the natives are found to be renting. On the contrary, the Asian, African and the Caribbean majority have a great number of them who are tenants. The tenants are therefore dominated by the immigrant population. Recent studies have found ethnicity to have a strong effect on homeownership than the immigrant population (Cahill and Franklin, 2013).

### ***7.4.3 Factors that can Encourage Tenants to Apply for a Mortgage Loan / Housing Finance***

A decrease in house price is rated by more than 47% of the tenants to be of extreme importance. They believe that it could increase their desire to own a home instead of renting. House prices in the UK over the past years have been on a continuous increase, depriving many households to become homeowners.

The initial deposit is another factor considered by the respondent to be important. Most of them are unable to afford it. According to them, a 100% mortgage will increase their chances of obtaining a mortgage. This was the situation before the financial crisis. The government guarantee scheme which enables qualified individuals to acquire a mortgage at 95% is still not attainable by many of the tenants.

Most of the tenants are of the view that most banks do not offer Islamic mortgages, especially in the areas where they are located. This is a very critical point, especially for the Asian community who believe so much in the Islamic system of banking as against conventional mortgage. Therefore, an increase in the provision of Islamic mortgage will encourage tenants to own their own homes. This view is supported by Hanafi (2012) and Tameme (2009) who observed that staunch Muslims will only obtain a loan if it is Islamic.

The majority of the respondents are immigrants who migrated to the country for one reason or the other. Some of these reasons include: as students, dependents, visitors, businessmen, just to mention a few. These statuses greatly hinder them from obtaining a mortgage loan. They are supposed to have at least an indefinite stay or they wait until they become citizens before becoming eligible for a mortgage loan. The process and duration of becoming a citizen or obtaining an indefinite stay in the UK is not an easy one (House of National Statistics, 2014). Thus being under their current status, they find it difficult to obtain housing finance. A change of status will therefore enable them get onto the property ladder.

The tenants suffer a lot in the hands of landlords as far as rent payment is concerned, despite the fact that some of the houses are of very low standard. Given that shelter is an inevitable need to every individual, there is no way that people will not continue to rent if they cannot be qualified to obtain a mortgage loan or buy a house of their own. In addition to escaping from high rent payment, tenants will be encouraged to obtain a mortgage loan because it serves as a source of long term investment to them. It is not

easy to remain as tenants after getting married, especially if the couples are expecting children. Moving from one rented house to another with one's belongings as well as the children is not an easy task. This has so many effects on the parents as well as the children.

### **7.5 Assessing the Effectiveness of Mortgage Demand.**

It is important to assess the effectiveness of mortgage demand in order to be able to assess the customer's claim that the banks are not willing to give out mortgages to them. In response to the question of whether the respondents have ever asked for a mortgage from the bank and it was not given to them, the results revealed that 54.4% of the respondents accepted that they asked and it was not given to them. 23.7% of them did not actually ask for the loan even though they needed it. They just assumed that if they asked for the loan, it will not be given to them while 21.9% of the respondents did not ask for any bank loan within this period of study. From the data findings of the interview conducted for both the demand and supply side of the study, the following reasons are advanced as reasons why customers asked for a mortgage loan and it was not given to them.

They had a poor credit rating, which made the bank to turn down their application. 34.1% of the applicants rated this factor to be extremely important. Aalbers (2008) had a similar result in his study in the USA where credit rating was a limiting factor to the granting of a mortgage to applicants. Secondly, the high initial deposit requirement was another important factor which prevented the banks from giving them a loan. The bank can only grant the loan if the customers meet the initial deposit requirement together with other payments associated with the up-front. The initial deposit is 10% or 5% for those qualified for the government's help to buy scheme.

Furthermore, the status status of the applicant's visa is also a factor which caused the mortgage provider to reject the application. The limitation on the applicants' visa status applies only to immigrants and not native born. For immigrants to be granted access to housing finance, they must have been naturalised or at least have an indefinite leave to remain.

In addition, the net income of the respondents is another reason why their application for a mortgage was not considered. Earning a high income is not enough for the bank to conclude that the customer can afford the monthly repayment of the loan. It is the left

over balance of the customer after all monthly expenditures have been deducted that really matter. Most respondents' applications were not accepted because their net incomes were very small that it could not take care of the monthly repayment. This result is contrary to that of Leece (2006) whose study considered applicants' incomes to be insignificant in determining their eligibility for a mortgage. Early researchers discovered that using the housing expenditure-to-income-ratio, an average household should be able to spend 25-30% of their income on housing (Smets, 1999). However, most of these respondents who asked for a loan, but were not given were unable to spend that proportion of their income on housing because of other financial commitments.

Lastly, a majority of the respondents accepted that their loan application for housing was rejected because they were not in full-time employment. The findings of the results on employment status revealed that a total of 54.1% of the respondents were not in full-time employment.

## **Section Two: Interviews**

### ***7.6.1 The Changes in Housing Finance in the Light of the Financial Crisis***

The interpretation of the findings is done in three phases. These three phases include: the phase before the 2007 financial crisis, the phase between 2007 and 2009 and the phase between 2010 and 2013. An interpretative discussion of these phases is used to bring out the changes that have occurred in housing finance in the period between 2003 and 2013. The analysis of data was done from both the demand and the supply side perspectives.

In relation to the period before the financial crisis, the customers confirmed that during this period, nearly anybody could walk into the bank and obtain a mortgage loan even without being qualified for it. The common norm at that time was that most customers self-certified their income statement which is one of the requirements for a mortgage. This is an illegal practice because it is associated with fraud as most of these self-certified income statements did not reflect the true picture of their financial situations. In addition, customers with a very poor credit rating were also granted access to mortgages. A credit rating is often used to assess the customer's ability to make regular repayments. Under normal circumstances, only those whose credit records are assessed to be good are supposed to grant access to housing finance while those with poor credit history should either be denied or granted access to the loan with certain conditions like increased interest rates. This was however not the situation as credit rating check has been just a formality and not an appropriate measure.

Before the financial crisis, initial deposit was another factor not taken into serious consideration as the situation after the crisis. At that time, the customers were granted access to mortgages without requiring any deposit from them. There was increasing demand in the market as population growth increased. The increasing demand was as a result of the fall in interest rates, high level of employment and high loan-to-income ratio which allowed borrowers access to large volumes of mortgage finance. The banks confirmed the experience of the customer that no proper credit check was done as there was laxity in their lending criteria. The bank's reaction to increase the level of mortgage loan supply in mortgage loan was fueled by the increases in the level of house price following the constraints in the market for housing supply (Adair et al, 2009). This led to the granting of sub-prime mortgages to many households. This was in line with the law of supply which states that at higher prices, the quantity supplied increases all

things being equal. Within this period, other housing finance providers provided more loans as the HSB.

For the financial crisis period, there was an unexpected fall in house prices. Some smaller lenders quit the market as they could no longer withstand the situation. This led to a general fall in supply, thus agreeing with the law of supply that when there is a fall in price, the quantity supplied also reduced. The market share of housing finance provision by the HSB subsequently increased while those of smaller lenders dropped (CML news and views, 2014). Since 1980, the greatest annual fall in house price was 7.6% in 2009. The fall in house prices imply a loss in the value of the ones that had been sold out at exorbitant rates. Customers who bought their homes before the financial crisis at a fixed rate of mortgage repayment now had to suffer the consequences of continuously paying higher monthly repayment. There was stringent lending as banks tightened their lending to other banks as well as to customers. Subprime mortgages were no longer made available. There was now a critical check done by the bank before they could issue out any loan to customers. The banks ensure that customers met lending criteria. In addition, self-certified income statements were abolished while income statements were verified. Some banks were checked against fraud actions practiced by some customers.

Furthermore, customers with poor credit rating were not granted any mortgage loan for fear that they may not be able to keep up with repayment till the end. However, some few individuals whose credit ratings were very poor managed to get a mortgage, but at very high rates due to the risk involved. During this crisis period, banks also faced liquidity problems (Buckley, 2012). This means that their ability to lend was reduced. Besides, the banks no longer gave out 100% mortgages. This means that every individual was required to present an initial deposit of 10% or 5% through a government scheme before they could be granted access to the loan. As a result of the implementation of a compulsory initial deposit, it automatically incapacitated those who could not afford an initial deposit as they were unable to get the loan to finance their housing. They therefore began looking elsewhere for assistance.

For the periods after the financial crisis, the customers noticed that the banks became stricter as they increased their affordability check criteria. This made it even worse for the customers as they found it increasingly difficult to obtain a mortgage. Most of them had to turn to other housing finance providers who could provide them with better

options. Lending by the HSB therefore became stringent. In addition, house prices have continued to be on an increase with no sign of it falling back to normal. This has made it even scary for the households to engage themselves with joining the property ladder. This fulfills the law of demand, which states that all things being equal, less is demanded at a higher price while more is demanded at a lower price. This is not applicable in the housing market. In 2007/08, the ratio of average house prices to the average earnings of 25-34 year-olds peaked at 7.7 while in 2013, it stood at 7.2 (Belfield et al, 2015).

The banks confirmed that lending criteria check became intensified after the financial crisis period. A check of up to three years prior to applicants' application date became mandatory. The check included the income and expenditure pattern of the customer in order to ascertain the balance left for the borrower each month. Other financial commitments of the customer were also looked at. Thorough checking was also done on the nature of the applicant's job in order to ensure it is not temporal. In this regards, a letter was required from the employer stating the nature of the applicant's job and their sustainability in the near future. This led to a fall in the general share of mortgage loan for the top six lenders in the UK. During this time, there was competition in the market for the supply of housing finance as new firms enter the market while existing smaller lenders expanded their lending activities while offering product varieties to customers (House of National Statistics, 2012).

Furthermore intensification of fraud check was done. The National Fraud Authority began to review borrowers' income details and other details against fraud. This period has been marked by great increase in house prices. The increase in price is probably as a result of the fall in the supply of houses relative to demand. When supply exceeds demand, prices are expected to increase everything being equal. This is usually caused by scarcity in the provision of the said commodity. The population in the UK has been on a continuous increase, especially in towns like London with the influx of people from different countries who seek for better opportunities. This has pushed up the demand of houses.

### ***7.5.2 Reasons for not using the HSB as your Choice of Mortgage Provider***

The analysis and discussions on the reasons why HSB customers do not use their bank as their mortgage provider is identified as follows: higher initial deposit required, strict

credit rating, recommendations from friends and family, variety of products offered by other mortgage providers, broker's professional advice, assistance offered by employers and assistance from parents. The interpretative discussions are elaborated below.

Most customers share the experience that they would have preferred the HSB as their mortgage provider, but have used other provider because of the high initial deposit involved in obtaining a mortgage from the bank. The rates in the bank for the initial deposit is fixed at 10% of the value of the property this means that the larger the property size, the higher the amount of initial deposit which also depends on the site where the property is located. It is therefore not worthwhile for the customer to carry on with rent payment because of the initial deposit requirement. As a result, they turn to other providers who can offer better opportunities for them. Also, they share the view that banks are very strict on credit rating check requirements such that even if other conditions are met and the credit rating record is not very clear, they would not offer loan except at exorbitant rates of interest which are usually unbearable. They prefer other providers who are more considerate.

Other customers use alternative mortgage providers because of the recommendations given to them by their friends and family members. It is often unlikely that everyone would ask for legal advice before making their choice of provider. They could just be content with the recommendations given to them by those around them, which they would take into considerations ones it suits their circumstances. As a result, they end up choosing the same providers as their recommenders which may happen not to be a HSB as the case may be. Furthermore, some HSB customers ended up using not using their banks as their mortgage providers because of the variety of products offered by other smaller providers which may not be offered by their own banks. Customers are rational human beings who would always like a variety services in order to make the best choice from the scale of preference.

A good number of customers attest to the fact that their choice of a mortgage provider has nothing to do with their existing bank. They consider these two as separate legal entities. Through the mortgage brokers whom they consider to have a better understanding of the market, they were able to make a good choice of a mortgage provider depending on their circumstances. Further reasons advanced by the customers are that their choice was influenced by their job or opportunities offered by their companies. In the UK, there are certain exclusive offers for housing assistance for some



people working in certain professions which are often the cheapest one could ever get. These are key workers found in occupations like nursing, teaching, doctors, just to mention a few. This thus influences their choice of provider. In addition, the continuous increase in house prices makes it unaffordable for most young people who are trying to get onto the property ladder. As a result, their parents assist them in order to get their home. Most of these services are offered by non-HSB. In the course of assisting their children to get a mortgage, these parents in most cases maintain their mortgage provider, especially if they had a good relationship with them.

The Non provision of Islamic mortgage finance is also advanced by some HSB customers as the reason why they do not use their banks as their mortgage provider. Islamic mortgage finance is a form of mortgage which is interest free. Most Muslims believe that it is illegal to collect interest rates on any form of loan. Their Koran forbids them from such practices. Therefore, any practicing Muslim will not engage in such HSB mortgage, but will look for an Islamic mortgage provider (Tameme, 2009). As a result, a Muslim will only be ready to obtain a mortgage from a provider who is ready to provide the mortgage at a zero percent interest rate. This type of mortgage is usually not provided by the HSB.

### ***7.5.3 Accommodation Issues Relating To Tenants Choice of Homeownership Status***

There were diversified reasons advanced by the customers with regards to their choice of renting instead of owning their own accommodation. They are both positive as well as negative reasons, some of which are because the customer wants it so while other reasons are beyond the customers' control. From the interview analysis and findings, the reasons advanced by the customers include: their visa status, affordability of the property, monthly commitment towards repayment, high and increasing house prices, initial deposit, credit rating and occupation. An interpretative discussion of the reasons identified is explained below.

A good number of customers confirmed that the status of their visa is the main reason why they are unable to get onto the property ladder. Their visa status has to do with their nationality as they are obviously foreigners whose immigration statuses do not give them access into certain priorities. From the questionnaire analysis, it was observed that more than 80% of the participants are immigrants with more than 50% of these immigrants not yet naturalized as British citizens. This impedes their accessibility to

obtain a mortgage as their passports clearly state no recourse to public funds. According to the general criteria, the applicants must either be a UK citizen, or an EU citizen. Otherwise, they must show proves of both right to work in the country and rights to reside in the UK which must be for a sufficiently long period to justify granting such a long term loan (House of national statistic, 2014). This means that foreigners with student visa or visitor's visa have no option than to rent which may not be their best choice. These groups of individuals are therefore those who intend to remain in the country in the near future or permanently. As foreigners the only possible option to become a property owner is to get a mortgage outright which is often not easy.

Also, affordability is another reason mentioned by some tenants for not being able to own a home (Hulse et al., 2012). If a customer cannot have enough money left over at the end of the month, it will be difficult to apply for housing finance. Some people have good income, yet do not have a positive net income balance. This is because of some other commitments which take some portion of their incomes. Besides some interviewees share the view that they have so many dependents who consume a great portion of their income. This is true with most African societies. Unlike the western world, most Africans have many dependents that are from both the internal and the external family (ONS, 2014). With a majority of the interviewees being Africans therefore, it is likely difficult to save towards home purchase. Thus, they are unable to afford the monthly commitment as well as the initial deposit.

In addition, high and increasing house price is another limiting factor advanced by the interviewees from becoming homeowners. Since after the financial crisis, house prices have been on a continuous increase. In 2013, average house prices in the UK were up to 6.9 times the level of average earnings. This is about the same as a decade earlier but still below the 2007–08 peaks of 8.1. Young adults are most likely to be considering buying their first home. In 2007/08, the ratio of average house prices to the average earnings of 25-34 year-olds peaked at 7.7 while in 2013, it stood at 7.2 (Belfield et al, 2015). Some people's annual income does not permit them enough savings to buy a house. Once a target is set up for house purchase and plans are put in place towards it, there is always a change in the house price upward before the target could be met. The increase in house prices means an automatic increase in the initial deposit of the property. Hence some people fail to always meet their target of getting a home.

Similarly, initial deposit hinders some HSB customers from acquiring a mortgage. To be able to afford an initial deposit means that the individuals should have been saving up some money over the years that should cover the deposit. The amount of this deposit depends on the size of the property. It is usually 10% of the house price or 5% if it is obtained through the help to buy scheme. Not everyone is often qualified for this help to buy scheme (Howard, 2013). The initial deposit is often associated with certain other costs like surveillance cost, solicitor's fees and broker's fees for those who obtain their mortgage through a broker. There are also other related charges involved before the mortgage could be rightly granted to the applicant. All of which adds to the initial deposit. Thus, the initial deposit is often one of the reasons why people cannot afford a house, but prefer to be paying the high rates charged by the landlords.

Another reason advanced by tenants for not owning their own home is credit rating, in the past; credit rating was not an issue in acquiring a mortgage, but from the experience of the financial crisis, a lot of attention has been placed on this factor (Williams, 2014). The purpose of a credit history check is to ensure that the applicant has not had any defaults in the past. A clean credit history means that the applicant can be trusted otherwise, the loan will not be granted. In exceptional cases, the loan could still be granted, though with outrageous interest rates. Some of the tenants happen to have a poor credit rating, which hinders them from obtaining a mortgage loan.

Nevertheless, some individuals prefer to rent as a matter of choice because they have no intention of remaining in the country in the near future. They intend to go back to their home countries immediately after the purpose of their visit to the UK. Some prefer to spend the rest of their lives in a different country. Another reason given by some individuals is that they do not see the need to buy a house when their families are not living with them as it is not a good way to invest. Staying temporarily in a place without the intention of a long stay is best not to invest in a house as owning a house is a long term investment. They prefer to buy a house where the rest of their family members are so that the benefit of it would be well exploited.

Other groups of individuals give the reason why they are renting as not ready to engage themselves into any monthly commitment (Hanafi, 2012). Most people like to be free and do things on their own rather than being under such pressure. Besides, they have the fear that if they fail to meet up with the monthly commit, their property may be repossessed. For most repossessed property, the owners are not well compensated. In

some situations, no compensation is given to them. Therefore, most people prefer not to have anything to do with a mortgage until they are ready to commit themselves with the monthly repayment involved.

Moreover, some individuals chose to rent because they are just not ready yet. They intend to get married or start having children before getting a befitting accommodation. Most singles prefer to rent because they do not want to get an accommodation which their future partners may not like. In order to avoid such situations, they prefer to wait until they get married. Also, marriage comes with people trying to live a more responsible live with the intention of owning something of value like a house. Other individuals may prefer to rent until they start having children as an additional child in the family is often associated with an additional room for the child (Tameme, 2009). In order not to waste so much money renting many rooms for each additional head count into the family therefore requires obtaining a mortgage. Until then, these individuals are happy with their current status as tenants.

The occupation of most tenants is another reason why they choose to rent. Some tenants are full-time students. This means that they are not ready yet to own a house or afford the monthly commitment, given that some of them are not working while others only manage to do part-time jobs. These part-time jobs can only take care of their basic needs with very little or nothing left as savings. Other tenants may not be students but are involved in other activities that enable them to do only part-time jobs. With most part-time jobs, the bank does not trust the tenants as to giving them a mortgage. Furthermore, some tenants feel contempt with their status as tenants. This is because they feel unsecured with the unstable nature of their jobs. Therefore, they do not see the need to get involved in any form of monthly commitment when they are not sure of the near future of their source of income.

#### ***7.5.4 The Effectiveness of Mortgage Supply***

The effectiveness of mortgage supply is an attempt to effectively assess the claim by the customers that the banks are not willing to give out a mortgage loan to them. Based on the supply side of mortgage loan, the interview schedule for the bank customers explains that the supply of housing finance is not often match with the demand for it. Demand always exceeds supply which means that not all the applications put forth by the customers can be considered by the banks without effective supply (Osborne, 2015).

Besides, some of the applicants are not nationals. None nationals in the UK are not entitled to certain benefit like mortgage loan. The mortgage applications of these applicants were all turned down even though most of them were actually qualified for the loan.

Nevertheless, some applicants' loans were rejected because they could not meet up with all lending criteria. The self-employed for example, are required to provide an income statement of not less than two years. This is unattainable by the newly self-employed applicants who have not been self-employed for more than two-years. Some were refused because they could simply not meet up with affordability criteria while some had a very poor credit rating record (Beckett, 2014).

#### ***7.5.5 The Impacts and Implications of Homeownership Status***

The analysis of homeownership status was done in two fold. These are for those who own a mortgage property as well as for those who do not own one. An interpretative discussion on these implications will enhance the understanding of the challenges facing each of these two categories of individuals.

- i. Those who do not own a mortgage.

The analysis done on those who do not own a mortgage revealed that it had devastating consequences on them. These were grouped into little or no freedom or sense of belonging, loss of property through movements, high rental payment and disruption of children's education.

Renting someone else's house is not an easy task to perform. The customers feel it is like being in bondage as they have little or no freedom in the rented accommodation. This is because they will have to receive instructions from the landlord regarding the roles and regulations of the house. As a result, they cannot be innovative and/or do things in their own way in order not to offend the landlord which might even result in them being evacuated from the building. Some landlord usually place a lot of restrictions on the use of their homes such as restrictions on the number of visitors, no pets, not cooking certain food, not entering the house with the shoes on, just to name a few. The last two restrictions are usually placed on tenants who rent houses from landlords who are Muslims. As a result, there is no sense of belonging coupled with the feeling of being unsecured.

Furthermore, not owning a home leads to disruption of children's education as they move from one rental accommodation to another. This leads to destabilization in the children's education as in most cases, they are always lacking behind. Trying to get used to one's new environment is not easy for some people as it may take up to a couple of months to do so. The households also experienced that moving from one rental accommodation to another makes them lose some of their property. This could either be through theft or because they are unable to keep moving some of these belongings as some are very heavy and costly to carry about. Renting is a demotivation towards buying certain valuable and affordable assets. It has a negative implication because the price of these same assets could increase, especially if they were on sales at the preferred time.

A good number of people who rent share the viewpoint that they end up paying a very high amount each month for their rent. Rental prices have become very high compared with monthly mortgage repayments (Haurinet et al. 2002). Paying rent is not ideal as the money used for rent payment could have been used for monthly mortgage repayment. In addition, mortgagees feel the joy of their monthly repayment knowing that it is their own home and also hoping that the property will one day eventually become theirs. Nevertheless, the amount of mortgage repayment depends on the size of the property. Paying very high on rental accommodation results in high demand from continuous population growth, which is not matched by increases in the supply of houses. Given that landlords of rental accommodation are rational beings, they react to the market forces of demand and supply by increasing the prices of rents where necessary since demand is inelastic.

ii. Those who own a mortgage

Those who own their homes share the view that with homeownership, they feel stable, secured and comfortable. Their children's education becomes stabilized as they will not have to be changing schools within the year. Furthermore, the sense of belonging gives room for innovation as the owner can do whatever they want at their own pace. Investment is encouraged as the owners have no fear of losing the property to someone else. Besides, the location of most properties purchased is often the desire of the owner. This means that people actually get to live in the neighborhood that they like. There is a

lot of comfort one can get in living in the most desirable place and the fulfilled desire of living in an accommodation with no thought of disturbance from the homeowner.

## **7.6 Summary**

This chapter has discussed interpretatively the findings from both questionnaire and interview. The questionnaire, as well as the interview schedule from both the customers and the banks' perspective based on the issues relating to household mortgage loan in the UK for a period of between 2003 and 2013. These were all done in line with the research questions and research objectives. 43 respondents took part in the interview schedule with 31 representing the customers while 12 were representatives of the HSB. An interpretative discussion of the interview was also done on 320 responses. The analysis, findings and interpretative discussion reveal that there are marked changes in housing finance in relation to certain aspects. Comparatively the period before the crisis was marked with the following: bank's lending irresponsibly and fraudulent activities by the customers; increase in house prices with a fall in interest rates; 100% mortgage.

The striking changes during the financial crisis period, was the abrupt fall in house prices, compulsory initial deposit required, a stop to self-certified income statements and stringent lending as the banks were faced with liquidity problems. After the financial crisis, the changes that were observed are increases in affordability check with stricter measures towards lending, drastic increase in house prices, increasing competition as the market share of mortgage loan provision for HSB fell while those of other smaller providers increased with increasing demand for housing finance and a fall in the supply of houses.

The analysis also considered the reasons why some HSB customer uses other housing finance providers and not their banks as their housing finance provider. These reasons are summarised as follows; high initial deposits required, an increase in the lending criteria, recommendations from friends and family members, the wide variety of mortgage products offered by other providers, advice by mortgage broker on the best deals available in the market, poor credit history, exclusive offer assistance offered by some job and assistance from parents to help their children get into the property ladder. Besides, the provision of mortgage loan has nothing to do with one's existing bank given the customers' level of awareness of the existence of the product by other providers.

In exploring the reasons why despite the high rents paid on renting, some people still chose to rent, it was noticed that some people rent because they are not yet ready to obtain a mortgage. Such tenants advanced the following reasons; not ready yet for a monthly commitment towards repayment of a mortgage, being foreigners who have no intentions of remaining in the country in the near future, being full-time students with no good source of income, waiting to get married first and waiting to start having children. On the other hand, other tenants are not contempt with their status as tenants. They would have preferred to have a home on their own if given the opportunity. Their reasons for still renting are as follows: their visa status, affordability, high initial deposit, high and increasing house prices, poor credit rating and employment status.

Finally, implications of homeownership status on the household revealed that there were negative implications on those who do not have a home such as no sense of belonging, paying high and exorbitant rent, loss of property in the course of moving from one rental apartment to another and disruption of children's education. Those who own their home had positive implications like paying less for their monthly mortgage repayment compared to the high rental cost in addition to the fact that the property remains theirs; they feel the sense of belonging, freedom and can further invest in the property by changing it to their taste. The stability involved in owning a home also stabilises their children's education. The preceding chapter focuses on contextualizing the findings of the study. That is examining the extent to which the findings of the study have been able to meet the aims and objectives of the study.



## **Chapter Eight: Contextualising the Finding - How they Met the Research Objectives**

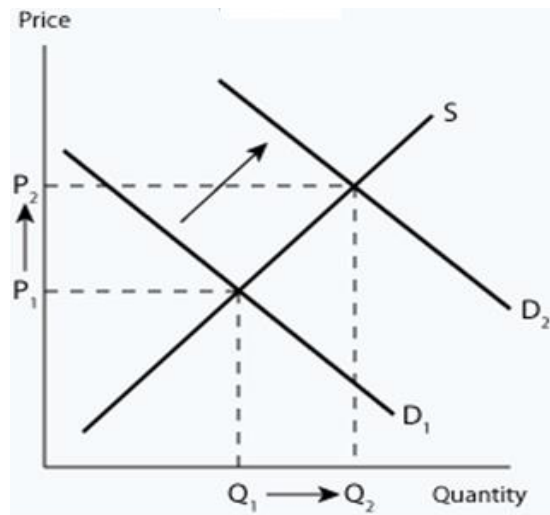
### **8.1 Introduction**

This chapter aims to establish whether or not the findings were able to meet up with the research objectives of the study. It begins by reflecting on the changes in housing finance resulting from the financial crisis. This is followed by a reflection on the reasons why HSB customers prefer alternative sources of finance; reflecting on the reasons why some households prefer to rent instead of owning their own homes; reflecting on the effectiveness of demand and finally, reflecting on the impact and implications of homeownership as well as housing finance on households.

### **8.2 Reflecting on the Changes in the Mortgage Market as a Result of the Financial Crisis**

Before the onset of the financial crisis in the UK, the mortgage market was more liberal than it is now. The primary data collection resulting from both the questionnaire survey and the interview proves that before 2007, it was actually much easier for the customer to be granted a mortgage loan. This period had unprecedentedly strong and long-lived growth in house prices.

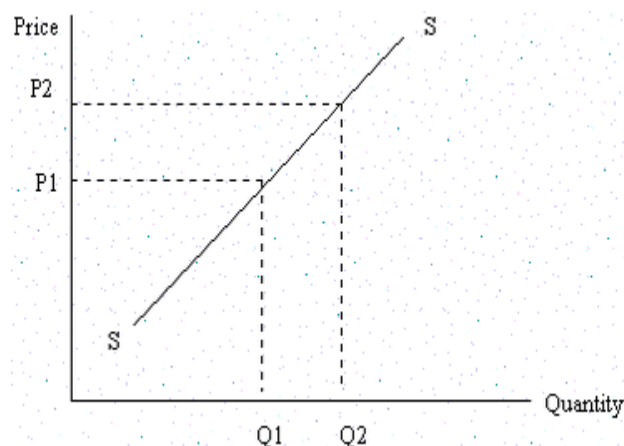
The high house prices and low interest rates encouraged growth in the mortgage market. On the demand side, the customers were encouraged by the fact that there were no mandatory initial deposit requirement and no affordability checks. Many customers obtained their mortgages at 100% (Osborne, 2015). This means that customers with low incomes were also granted access to mortgage loan. There was no assessment check on those who were self-employed. Also, low interest rates kept the cost of borrowing to remain low. Thus, 59.1% of the respondents agreed that it was very easy to obtain a loan in the bank within this period. The demand situation during this period did not follow the law of demand and supply where less is demanded at a higher price than at a lower price (Chandler and Disney, 2014). Rather, it followed the exceptional law of demand, which is applicable in situations where the commodity in question (shelter) is inelastic in nature and has no substitute. This is represented on the demand curve below.



**Figure 8.1: Increase in Price, Increase in Quantity Demanded for an Inelastic Good**

The demand curve illustrates that as the house prices increased from  $P_1$ - $P_2$ , the quantity demanded also increased from  $Q_1$ - $Q_2$  following increases in population and low interest rate. This leads to a shift in the demand curve from  $D_1$ - $D_2$ . This is because there no substitution effect for shelter. This was a free period where the prices were set by the forces of demand and supply. Increase in demand increased prices until the market reached its peak. Then affordability problems began to set in (Osborne, 2015).

On the supply side, the banks were encouraged to lend more as house prices continued to rise, coupled with the fact that there was credit availability. With no follow up on the laid down rules for the banks to follow, they simply gave out as much loans as they could since liquidity was also not a problem. Thus, more was supplied at high prices as stated by the law of supply.



**Figure 8.2: Increase in Price, Quantity Supplied**

As the price of houses increased from  $P_1$ - $P_2$ , the quantity of mortgage loan also increased from  $Q_1$ - $Q_2$  wit increase credit availability. Nonetheless, from late 2006, the

market began to soften as the pace in mortgage borrowing slowed dramatically. There was however no “soft landing” as real house prices fell sharply after reaching the peak. During this period, other mortgage providers also increased their supply of mortgage loan.

During the financial crisis period, there were several changes and adjustment made in the residential property market. New borrowers were affected in three ways; affordability assessment; self-certification; and down payment requirement. Instead of obtaining a mortgage at 100%, borrowers were now required to make a compulsory down payment of 10% or more before they can be granted access to mortgage loan. Self-certification of the customers’ income statement was abolished. Affordability assessment was enhanced to ensure repayment, even if interest rates rise. From the questionnaire survey, about 50% of the customers agreed that it was very difficult for them to obtain a mortgage loan from the bank within this period. Existing borrowers faced increased risk of negative equity. The situation was worst for those who had withdrawn equity through re-mortgaging as the amount of money they were paying was very high compared to the fall in the price of property. This affected the capacity of the borrowers to meet up with their mortgage repayments. This is especially because interest rates did not remain low indefinitely.

On the supply side, there was a sharp contraction in the mortgage market. Many potential lenders judged the risk at that point and started assessing the market and began charging higher interest rates on mortgages. This was pertinent with those housing finance providers whose funding came from the money markets than from depositors as the case of most banks (Gatev and Strahan, 2006; Feldman and Schmidt, 2001). These non-high street mortgage lenders lend at higher rates because they were paying higher spreads above the central banks’ base rates while in some cases, they found it difficult to borrow even from their normal sources.

There was stringent lending as lenders considered it riskier to lend more with the expectation that house prices could continue to fall. This was also due to lack of credit availability (Pollock, 2011 and Adair et al, 2009). Some smaller mortgage providers and building societies vacate the market while other merged. The HSB remain more or less stable. This accounts for the increase in the provision of mortgage loan by the HSB within this period and the reason for the decline in the provision of mortgage loan by the non-HSB. These HSB, unlike other smaller lenders were able to stay in the market

because of the support offered by the government to some of them. Lloyds banking group and Royal Bank of Scotland are examples of some of the banks, which were bailed out by the government. In addition, the uncertainty about future employment and incomes increased the risk for both the banks and the customers.

Between 2010 and 2013, some changes took place following the devastating effect of the financial crisis. The Mortgage Market Review made a new change in the lending criteria used by the banks to grant loans to customers. As explained (BBC News, 2014) these changes were essential in order to avoid the resurgence in risky mortgage lending seen during the previous crisis. It was also to protect customers by making them feel very confident that the hardship and anxiety experienced from poor practices in the past are taken care of. From the questionnaire survey, more than half of the customers responded that it became increasingly difficult to obtain a loan from the bank relative to the previous years. Affordability check criteria ensured that the lenders place the borrowers' realistic ability to repay under greater scrutiny. Self-certified mortgages were completely outlawed. Interest-only mortgage customers were to pay higher than it used to be since the changes meant that lenders were to assume that the interest rates are higher than they are at the time of issuing the mortgage. It is only on this basis that they will be able to determine how much loan they can charge a customer after assessing their financial situation.

Existing buyers were not better off following the new changes. In early 2011 for example, Stephen Beechcroft-Key - a British Airways pilot who is an existing homeowner found it extremely difficult to find a lender who would give him an 85% mortgage at three times his salary. He was surprised that despite his clean credit history, his loan application was rejected by several lenders until he found a loan from Nationwide. He noted that "It was a big surprise as I have been through the process before and it was a piece of cake. This time, it took a long time, even with my mortgage broker's contacts. I was turned down several times. It was a shock and was embarrassing. Previously, my mortgage was all agreed in six days or so. Three months have passed by for this one and it is still a problem. I nearly lost the purchase of the house as a result. Fortunately, the house developer was very patient." (BBC News, 2011). The problem with his situation was that those lenders were fussy about the variability of his earnings as it was made up of his basic salary, flight pay and a

subsistence allowance. His flight pay was subject to the number of hours he flies. This signifies instability in his income flow.

During this period also, there was a decrease in the lending activities by the HSB compared to periods during the financial crisis where the lending activities of the HSB were at its climax. The decrease in the lending activities of banks is as a result of competition in the market as smaller lenders started gaining greater market share thereby providing more loan than the HSB. It is supported (Williams, 2014) that smaller providers have had long established presence in the market offering attractive services as they understand how difficult it is to get on the property ladder. These lenders are fully regulated by the Financial Conduct Authority which gives the customers some peace of mind. There was excess demand over the supply of mortgage loan. This has made house prices to remain high and increasing.

The changes in the period before the financial crisis and during the financial crisis were proven to be statistically significant at 0.000 for a two tailed test with a mean difference of 0.803 at 319 degrees of freedom. This implies that the financial crisis made a significant difference in mortgage loan between these two periods. Furthermore, the difference in the period before the financial crisis and the period after the financial crisis was compared. The p-value for the two tailed test was statistically significant with a mean difference of 2.178 at a t-value of 15.550 with 319 degrees of freedom. This signifies that there was a difference in the two periods for mortgages. Finally, the test result for the financial crisis period and the period after the financial crisis also proved to be statistically significant at a p-value of 0.000 for the two tailed test. The mean difference was 1.375. This also means that there was a difference in the demand for and supply of housing finance between these periods.

### **8.3 Reflecting on the Reasons Why Most HSB Customers do not use the HSB as their Mortgage Provider.**

Besides the primary and secondary functions of the bank like accepting deposits, granting advances, agency functions and utility functions, the banks in recent years have also engaged in the provision of housing finance. Despite this additional service provided by the bank, most of its customers use alternative sources of mortgage loan instead of those offered by their HSB. The findings and analysis of this study have been able to meet up with this research objective by providing the different opinions, expectation, experiences and perception of the customer.

Compiled results from both the questionnaire survey and the interview reveal that most customers consider the HSB to be relatively more expensive compare to other mortgage provider. 74.2% of the respondents who are homeowners attached a lot of importance on initial deposit as the main reason for why they prefer other mortgage providers. The required initial deposit for a mortgage is usually a minimum of 10%. Most households escape from this cost by using other sources which are cheaper. Another cost which adds to this initial deposit is the stamp duty fees which is not a fixed amount, but is charged depending on the value of the property.

Interviewee22 stated that “My choice of a mortgage provider has nothing to do with the bank with which I belonged to. I simply used a broker to search the market and get the best deal in relation to the size of the property that I want with my budget as my constraint factor. Moreover, my bank has no preferential treatment for someone who is already their customer for other services over someone who is not an existing member but uses the bank for a mortgage loan only”.

Another reason can be attributed to the year in which they obtained their mortgages. A statistically significant relationship was found between the type of mortgage provider and the period of the year in which the mortgage was obtained. Those who obtained their mortgages before the financial crisis had a greater portion of their mortgages provided by other mortgage providers, while the HSB accounted for just a little percentage as observed in Table 6.12. However, the results also revealed that for household whose mortgages were obtained during the financial crisis, the bank was their main mortgage provider. During this period, the banks alone accounted for up to 64.7% of all mortgages while the other mortgage loan providers accounted for only a smaller percentage of it. This is because the crisis made many of the mortgage providers to leave the market while the banks continued to survive especially with assistance from the government. After the financial crisis period, the market share of HSB dropped while that of other mortgage providers increased. During this period, many new entrances emerged in the market while competition increased with other mortgage providers offering attractive products to the customers which captured their attention.

Furthermore, the result of the findings depicts the customers’ declaring that they use other housing finance providers because of stricter lending criteria used by the banks to

check on their credentials. The bank became more restrictive in their lending policies to households (McCord et al., 2011). These are the credentials like affordability checks, customer's credit rating and the income and employment status of the applicant. Before the financial crisis, the importance placed on these detailed checks was not so severe. But the impact of the financial crisis aggravated the severity of these factors. Before granting a mortgage to the customers, the banks always make sure that the customer is able to meet up with the monthly mortgage repayment by checking on the income and expenditure of the customer in order to determine the net income. Their credit rating is also checked to avoid the risk of default. Most customers who do not meet up with these criteria by the banks usually turn to other housing finance providers who may not be so strict on these criteria but may offer slightly higher rates on the mortgage.

Some interviewees indicated that their choice of using other sources of housing finance as their mortgage provider is due to recommendations from friends and other family members. Others stated that their choice is based on the advice provided by mortgage brokers whom they consulted. Being aware of the numerous mortgage providers, most applicants employ the services of the brokers whom they trust had a better knowledge of the market. Other reasons advanced were that non-HSB providers offer more variety of services and product than the banks. They also considered that the banks are less competitive and do not create enough awareness and attractive attention on their products. 25.7% of the customers highlighted that their choices was based on the fact that they had limited knowledge of the type of mortgage services offered by the banks.

Some interviewees also confirm that since they could not meet up with the borrowing criteria put forth by the banks; their choices were influenced by their employers or the company where they work. Some employments in the UK offer exclusive housing assistance to their staff members. Even though the test result between respondents' incomes and the choice of their mortgage provider is statistically significant at 0.002, they prefer to take advantage of the opportunity offered by their employer. This is because as rational human beings, they would prefer to make use of the golden opportunity rather than obtaining it from the HSB which is more expensive to them.

Another group of interviewees declared that their choice of not using the HSB is influenced by their parents who offered them assistance with their initial deposit. The questionnaire survey identified majority of these groups of respondents to be under the age of 26-35 years or below. They have limited savings for a deposit (Williams,

2014 and Humphrey and Scott, 2013). As a result, their parents usually assist them to get onto the property ladder. In most cases, these customers maintain the mortgage provider which their parents already had, especially if their parents are satisfied with the quality of services offered to them.

Religious factor is another major reason that some denominations attribute to their reason for not using the HSB as their mortgage providers. Results from both the interview and questionnaire identified this group of customers to be from the Muslim denomination. According to the respondents, most of these HSB in the UK do not offer Islamic mortgage products. Among the six main HSB, the only bank which offers Islamic mortgage product is HSBC. Most Islamic providers are non-HSB. From earlier findings (Hanafi, 2012 and Tameme 2009), a staunch Muslim would normally not go for any kind of a mortgage provider except it offers Islamic products. That is, it must be interest free as anything with an interest rate clause attached to it is considered as offensive to their religious believe.

The lending criteria used by the customers to compare the mortgage provider that will be best for them were made up of eight factors. These included safeguarding customers' interest, quality of customer service, terms and conditions, convenience of repayment, processing time, amount of the monthly repayment, initial deposit and period of repayment. Using factor analysis, these factors were grouped into two components which were quality of service and financial commitment. Quality of service accounted for the first five factors while financial commitment accounted for the last three factors. These two components account for 87% of the variance which is considered to be high enough for the explanatory variable.

A great majority of the customers whose mortgages are provided by the banks indicated that they were very satisfied with their choice of mortgage provider. Their Satisfaction level accounts for 88.2%. Only 58.8% of those whose mortgages were provided by other mortgage providers were satisfied with their choice of mortgage provider. Following the negative effects of the financial crisis, those whose mortgages were provided by other mortgage providers prefer to have their mortgages provided by the banks. This is because they believe that the banks would offer them greater security in case another crisis erupts. Also, it is more likely that the government always bails these banks in case of bankruptcy. However, both banks are covered by the FCA. The statistical test between the choice of mortgage provision and marital status, education



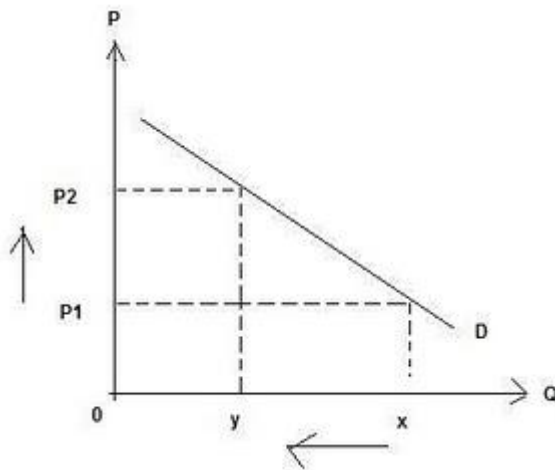
qualification, gender proved to be statistically insignificant. This means that these factors do not affect the reasons why homeowners prefer other housing finance providers to the banks.

#### **8.4 Reflecting on the Reasons why most Tenants Choose to Rent**

A total of 68.1% of the respondents was found to be renting. This percentage is very high, especially if we consider the fact the amount of monthly mortgage paid by homeowners is relatively cheaper to the amount of monthly rents paid by tenants. Earlier studies confirmed that the financial crisis led to a fall in homeownership rates (Jones and Richardson, 2014). As rational human beings; everyone would obviously aim for something cheaper and comfortable with everything being equal. This is however not the case as proven by this study. In reflecting on the objective of this study, the following evaluations are arrived at.

Compiled results from both the questionnaire survey and the interview reveals that most customers consider initial sunk costs involved in owning a house, in addition to the initial deposit to be relatively more expensive as a lump sum compared to renting. These costs besides initial deposit includes stamp duty, valuation and survey fees, mortgage adviser fees, solicitor/conveyance fees, arrangement fees, building and contents insurance. These factors account for 83% of the survey results. The most expensive of these costs was identified to be the initial deposit. Very few of these costs can be avoided depending on the process used by the customer to get the mortgage. The mortgage advisor's fees, for example, can be avoided if the customer decides to deal directly with the bank. Most of the other costs are unavoidable as they have to be fulfilled before the applicant can fully gain access to the mortgaged property. Stamp duty is charged on property worth £125,001 and above with the exact amount depending on the value of the property. Despite the fact that the Help to Buy scheme by the government have tried to make things easier for buyers, it is still not suitable for everyone.

Since after the financial crisis, the price of houses has been constantly high and increasing. Going by the first law of demand, which states that less is demanded at a higher price and more at a lower price, many households are therefore not able to increase their demand for a home at higher house prices.



*Figure 8.3: Demand Curve for Increase in House Prices*

As demonstrated in Figure 8.3, with house prices increasing from  $P_1$ - $P_2$ , the quantity demanded for mortgage loan decreases from  $x$  to the lesser quantity  $y$ .  $D$  is the demand curve,  $P$  represents price and  $Q$  represents the quantity demanded. Under normal circumstances, an increase in house price is followed by an increase in the quantity supplied as stated by the law of supply. However, the demand for houses is related to one's ability to obtain a loan

Some respondents are limited in their capacity to buy or own a house because of job insecurity. Since after the financial crisis, most people lose their jobs. Since then, it has become increasingly difficult for them to have a permanent job. Unfortunately, one of the criteria required by the lenders to grant a mortgage loan is that the applicant must be in full-time employment. Otherwise, if self-employed, they should be able to provide proof of at least two years income history, which is often very difficult for those who are newly self-employed. 42.7% of the respondents rated this factor to be of extreme importance to them. From Table 6.62, the majority of those who are tenants are found in the category of those who are part-time employed or unemployed. Contrary to the findings in this study, early researches by (Skaburskis, 1997 and Borjas, 2002) establish that some households' application for a mortgage could not be granted due to location factors.

Poor credit rating has crippled some tenants such that they are unable to get their feet on the property ladder. This criterion was not an issue before the financial crisis. This factor only became paramount after the financial crisis where even the slightest blemish on a lender's credit score can lead to a turn down on their application. Some

interviewees attested that despite the fact that they had good income flow, available deposit and were in full-time employment, they found it difficult to obtain a mortgage loan from the bank.

Many respondents remain as tenants because according to them, it is not economical to get a mortgage for just one head count. They intend to get married or start having children before they can acquire a mortgage. From the survey, 70.2 of the respondents attach high importance to marital status as one of the reasons for their homeownership status.

Lastly, visa status also known as immigration status or nationality factor is seen to be another main reason why most respondents are tenants. The results of the study reveal a statistically significant relationship at 0.023 between homeownership status and ethnicity. 67.9% of the tenants noted this to be one of the reasons behind their status as tenants. Immigrants are restricted from certain benefits including housing benefits. The law in the UK states that they can only be eligible for housing finance if their immigration statuses change. For instance, they must either become British citizens or a European Union member. In a like manner, Amuedo-Dorantes and Mundra (2013) and Borjas (2002) found that the level of homeownership is higher for nationals for non-nationals. However, some immigrants are simply not interested in owning a home as they know their stay in the country is short lived. Interviewee number 11, 14, 19 and 21 declared that

“We chose to rent because we do not intend to remain in the country in the near future as we are overseas students, visitors or business men. Besides owning a house is a long term investment which is not worthwhile for people like us with short stay. Besides, our families do not reside in this country”. From interviewee number 17’s viewpoint “I have so many dependents such that there is very little or nothing left over from my monthly income. Thus, I cannot save in order to purchase a house”.

In comparing income levels to homeownership status, most homeowners are those who can afford their basic needs, but will still have much left over while the majority of tenants are made up of those whom, after deducting their monthly expenditure from their monthly income will have little or nothing left over and those who only struggle to meet up with their needs. Among these groups, only a few benefit from housing supports like social housing. The majority of income levels for those renting is found in

the income range of within or less than 21k – 30k. Likewise, 78.9% of tenants are found to be those who do not receive any form of financial support. There is a statistically significant relationship between income levels and homeownership status. Generally, a majority of the work force was found in the income range of between 21k and 30k.

Some factors were identified that can encourage tenants to own a house or apply for a mortgage loan. These include a decrease in house price, 100% mortgage provision, provision of Islamic mortgage, change in immigration status, long term investment, married and/or expecting children. 47.7% of the tenants supported that a decrease in house prices can encourage them to own a home. This decrease in house price will also mean that the amount requested by lenders as initial deposit will fall. However, 32.1% of the respondents stated that they would only own a home if mortgages are given at 100%. Some staunch Muslims declared that until Islamic mortgage are provided, they would remain as tenants. With the view of most individuals that a house is a source of long term investment, they will be encouraged to own a house only when they are ready to be engaged in a long term investment.

Another group of respondents said they would only be committed when they are ready to get married or when they are already married or when they are expected to start having children. A great number of respondents also said if their visa status is changed, they would be encouraged to apply for a mortgage. Based on their current status as tenants, 46.3% of the respondents accepted that they are satisfied with their current status while 53.7% of the respondents said they were not satisfied with their current status as tenants

### **8.5 Reflecting on the Effectiveness of Demand**

Based on the customer's claim that the banks are not willing to lend money to them, the customers were asked to state whether they have ever asked for a mortgage loan from the bank and it was not given to them. 54.4% of them accepted while 23.7% of them said they did not ask. They just assumed that it would not be given to them while others did not see the need for it. The respondents who asked for a mortgage loan but were not granted access to it as a result of reasons like nationality status, deposit requirement, credit rating, affordability criteria or the economic situation. Cahill and Franklin (2013) similarly found that nationality status have a negative effect for non-nationals. 33.1% of the respondents considered credit rating to be an extremely important reason why the

loan was not given to them. This factor affected 36.6% of the respondents. Initial deposit was also another limiting factor which made the applicants' request for a loan to be turned down.

The result from the supply side of the interview attests that the demand for houses always exceeds supply. With an excess demand over supply, it is practically not possible that demand can be met. Without enough supply therefore, the loan cannot be granted to all the customers at their request. Thus, some of their applications were turned down while only the most creditworthy customers were able to get a mortgage. A good number of the participants also considered their visa status to be an impediment to their loan application. This results from the fact that a majority of them are immigrants with much stricter constraints to their entitlements than nationals. They are under privileged and restricted from many benefits.

Lastly, affordability was another major constraint to acquiring a mortgage. Lenders are required to ensure that the borrowers are able to meet up with their monthly installments. They were to ensure this by looking at their net income as well as their employment status. These applicants' net incomes were unable to cover the required amount of their expected monthly repayment. Bentzien et al. (2012) found that some households can be considered excluded from the homeownership market due to their affordability status. Also, those who were not in full-time employments were also considered not qualified. On a general note, a majority of these respondents whose loan application for housing finance were rejected were those who applied for the loan either during periods of the financial crisis or after the financial crisis where a lot of attention and strict restrictions was placed on this factor. These groups of individuals therefore either ended up as tenants or alternatively applied for their mortgage loan with smaller mortgage providers. Among all of the factors listed above, the only factor whose requirement has remained unchanged is visa status.

In the cross tabulation table result between affordability and rejected application, it is observed that those whose applications were rejected are those unable to afford a reasonable amount of saving after their monthly expenditure or those who had very little or nothing left over after their monthly expenditure. However, besides the customers not being able to meet up with the lending criteria, it should also be noted that the supply of houses in the UK has not been able to meet up with demand. Demand has always exceeded supply for some years now (OBR, 2013).

## **8.6 Reflecting on the Impact and Implications of the study on households**

The impact and implications of the study can be reflected upon in two different perspectives. These are the impact and implications of the financial crisis on households and the impact and implications of homeownership on households.

### ***8.6.1 Impact/Implications of the Financial Crisis on Households***

The households were greatly affected by the financial crisis in different aspects which led to serious implications for them. The different effects on them included their property being repossessed, redundancy, difficulties in obtaining a loan. Jones and Richardson (2014) found a similar case of repossession and relative unemployment. The implications on them among other things include loss of confidence in financial institutions, faced with negative equity, loss of property and difficulties in obtaining a mortgage from the bank as lending conditions became intensified. These highlights are elaborated below.

The interview results reveal that as a result of the financial crisis, many households' property was repossessed by the lenders as the borrowers were unable to refinance their monthly repayments. This is because the households faced negative equity with the fall in the value of their property as some of them had just re-mortgaged their property just before the crisis. A default reduces the borrower's credit standing, making it difficult for such households to become eligible for a new mortgage. This removes the households from the pool of potential home buyers (IMF, 2011). Moreover, some of them lose their jobs as there was redundancy by most companies (Drydakis, 2015 and Tefft, 2011). This implies a fall in the income of households and of course in their purchasing power. Many households lost the confidence and trust they had in banks or financial institutions in general. Furthermore, it became increasingly very difficult for the customers to obtain mortgage loan from the banks. The banks' mortgage advisors confirmed that this was as a result of the tightening in lending conditions put forth by the regulatory authority in an effort to avoid the recurrence of the crisis incident.

### ***8.6.2 Impact/Implications of Homeownership Status on Households***

Reflecting on homeownership status involves two categories of household. This includes households who have mortgages or who own their own homes and those households who are tenants. These two categories of households are affected differently given that they are faced with two different circumstances.

a. Most interviewees who do not own their own homes claim that as tenants, they do not feel the sense of belonging in whatever house they find themselves. This makes them think of themselves as visitors all the time with little or no freedom to do whatever they like as they are always bound to receive instructions from their landlords on what to do and what not to do. Also, hopping from one house to another after the end of each tenancy leads to loss of some of their belongings. This inconveniences them as they usually do not feel like buying any valuable thing which they might lose in the cause of movements. Furthermore, not owning a home means paying rent which is usually very costly for tenants. Rent payment is usually considered a waste of investment because there is no benefit like owning the house after some years or at the end of tenancy as it is the case with paying a mortgage.

In addition, moving from one rented house to another usually disrupt children's education

b. The results from the semi-structured interview shows that for those who own houses, the amount they pay monthly is less compared to the amount paid by tenants. It is like a good source of investment because after some years, the house becomes theirs with no further monthly repayment. Besides, owning a home stabilizes children's education as they do not need to be changing schools in the same class caused by movements. Moreover, the results of the findings revealed that it gives household a sense of belonging as they are free to do whatever they like at their own pace without pressure from anyone. Owning a house encourages further investment and renovations without any form of regrets.

### ***8.2.3 Intervention by the Government and Credit Rationing***

The rationale for government intervention in the housing market lies in the view that shelter is a human necessity. Government intervention is in the form of mortgage rationing in order to ensure that individuals lacking in financial resources are able to find some form of shelter. This includes concerns about the well-being of low income earners. There is however, no significant correlation between government intervention and homeownership as Australia and many other countries in Western Europe have achieved high homeownership rates without extensive government participation (IMF, 2011). Their intervening effort should however be well calibrated to avoid unintentional

financial instability. However, tighter lending standards, rising house prices, high initial deposit and fall in the number of first-time buyers calls for the attention of the government to rescue the less privileged.

Given the importance of housing to the economy, Credit rationing became mandatory. In April 2013, the government launched the help to buy mortgage scheme to help first time buyers get on the property ladder. The scheme was designed to assist those with initial deposit problems where households were only required to raise a 5% initial deposit. This means 95% mortgage (OBR, 2014). The second phase of the help to buy scheme was introduced in October 2013 known as the mortgage guarantee scheme (Howard, 2014). In the March 2010 budget, there was the removal of stamp duty for first-time buyers on properties worth under £250,000. These activities by the government interferes with those of the banks, which often lead to the agency problem where instead of the bank agents to satisfy shareholders' interest, they tend to satisfy their own interest or the interest of a third party which in this case is the government.

## **8.7 Summary**

The chapter has combined the analysis and discussion of the questionnaire, interview as well as secondary data to provide a reflexive discussion on the aims and objectives of this research. The theory of demand and supply was used to elaborate on the different phases of the financial crisis and the behaviour of the housing market. Certain factors by other housing finance providers were found to attract the attention of some household, giving them a variety of providers. Tenants were found to have diverse reason why they are still renting, ranging from age and status to affordability issues. The effectiveness of demand was found to be a combination of both effective and ineffective demand. The impact and implications of the study were viewed from both the perspective of the financial crisis, which was found to be negative and on homeownership status, which was found to be positive for homeowners and negative for tenants. The general findings of the study were able to cover all aspects of the research aims and objectives. The last chapter will be concluding chapter. It will give a general conclusion of the study as well as recommendations and will identify the area for further research to be carried out.



# **Chapter Nine: Conclusions, Contributions, Implications and Recommendations**

## **9.1 Introduction**

This thesis has investigated the changes in mortgage loan for the main HSB in the UK, from the impact of the financial crisis and the resulting implications on the household. The aim has been achieved by exploring the demand of housing finance, supported by the supply side of it. This chapter begins with a brief overview of the study and then recapitulates the salient conclusions derived from the findings. It further highlights the unique contribution of this study to the existing body of knowledge and also presents the implications and recommendations of the study. Finally, the limitations are outlined which ends with the areas for further studies.

## **9.2 Overview of the Study**

This study explores issues related to residential mortgage loan, the financial crisis and also, issues related to homeownership status in the UK. The introduction provides an overview of the global financial crisis, which started in the USA, the role of subprime mortgage in the crisis and the situation of the crisis in the UK. In order to achieve the goal of the study, some objectives were formulated. These are: to investigate the changes in household mortgage lending in the UK for HSB as a result of the financial crisis (periods between 2003 and 2013); To explore the reasons why some HSB customers prefer other providers of mortgage loan than those offered by their HSB; to assess the diverse opinion of households as to why they still prefer to rent rather than own their own houses despite the high rents charged by landlords; to analyse whether there has been any effective demand for household mortgages by the bank customers in order to assess the validity of their claim that the banks are not willing to lend to them and finally, to survey customers opinion on the implications/impact of the financial crisis as well as homeownership status on them.

An extensive review of relevant literature was done, which clearly identified the gap filled by this research. The methodology incorporated in this research was discussed to include the following: exploratory, explanatory and descriptive research was employed for the research design; experimental, survey and archival as research strategies; multiple method as research method for the study; questionnaire survey and semi-

structured interview as methods of data collection; random sampling for demand side and purposive and snowball sampling for supply side were used as techniques of collecting the data; cross tabulation, chi-square test, t-test, one way ANOVA and factor analysis was used to analyse the quantitative data while Nvivo was used to analyse the qualitative data. This was followed by the empirical research presentation and analysis of the study' interpretative discussion and a reflection of the findings based on the research objectives on this study.

### **9.3 Key Findings of the Study**

From the data collected in the study, the researcher was able to identify key findings in relation to the objectives of the study which answered the research questions. These are presented below:

#### ***9.3.1 Findings Related to the Distinct Periods – before, during and after and Mortgage Loans.***

##### **Before the Financial Crisis**

The findings revealed that about 70% of the respondents agreed that before the financial crisis period, it was very easy to obtain a mortgage loan from the HSB. The interview results attested that the reasons for the easy access of mortgage loan during this period was because of the self-certification of income statements by customers, 100% mortgages offered, low interest rates and the granting of loans to customers who were less able to afford repayment. Some empirical findings (Buckley, 2011 and Adair et al., 2009) also confirmed that during this period, there was the availability of credit by the banks. In addition, findings from the interviews with the banks confirm that they were also motivated to lend because of the availability of credit and the rise in house prices. Going by the theory of demand and supply, increase in demand leads to increase in price and increase in price leads to an increase in quantity supplied, everything being equal.

##### **During the Financial Crisis**

The situation became very different with the emergence of the financial crisis. 49.1 of the respondents supported that it was difficult for them to obtain a mortgage during periods of the financial crisis. This is because of the changes in credit check by the banks, which did not meet many customers' criteria, the implementation of a 10%

minimum initial deposit for all customers with many customers less able to afford it. Self-certification which accounted for a high proportion of new lending before the financial crisis was outlawed. The banks also confirmed that there was a fall in house prices, which had been their motivating engine. There was also limited credit availability (Whitehead et al., 2012). This made many smaller lenders quit the market while the HSB became the main supplier during this period. The percentage of the market share occupied by the banks according to the survey rose to 64.7%. The financial crisis did not make them quit the market because the government intervened by bailing out some of them.

### **After the Financial Crisis**

Lending activities of the banks fell drastically as they employed more stringent lending. The changes made by the MMR required tighter lending criteria entrenched by the banks with closer scrutiny of the borrowers' ability to repay. This means that most of the major players or the HSB could only lend to the most creditworthy customers. Customers with the slightest blemishes on their credit history were not entitled to any mortgage loan. During this period, most HSB reduced their lending activities from the market. 57.9% of the respondents reported that after the financial crisis, it became increasingly difficult for them to obtain a mortgage loan from any of the HSB (Mintel, 2010). A distinct statistically significant difference was observed from the survey result for the three different phases as abridged below.

### **Significance Level and Mean Difference**

At 95% confidence interval and a p-values of 0.000 which is less than 0.05, the t-test for differences in the three phases were found to be statistically significant at 319 degrees of freedom. A mean difference of 0.803, 1.375 and 2.178 were found in comparing the periods before and during the crisis, during and after the crisis and before and after the crisis respectively. These significances in the mean differences confirm the level of significance of the changes in housing finance from the intervention of the financial crisis. The period before the crisis and the period after the crisis give the highest mean difference, signifying the great changes that have occurred in the mortgage market in the past decade.

### ***9.3.2 Findings Related to the Reason for the Choice of an Alternative Mortgage Provider instead of the HSB***

Only 33.3% of homeowners' mortgages were found to be provided by the banks while 66.7% was provided by other housing finance providers. 88.2% of customers whose mortgages were provided by the banks were completely satisfied with their mortgage providers compared to only 58.8% for mortgages provided by other mortgage providers. The relationship between satisfaction and type of mortgage provider was statistically significant at 0.014 which means that customers attach a lot of importance on their level of satisfaction. Several reasons relating to the financial crisis were found to account for the explanations why most HSB customers prefer other housing finance providers instead of maintaining the relationship with their banks.

### **Year of Mortgage Provision and Type of Mortgage provider**

Comparing the differences in the years in which these mortgages were provided and the type of mortgage provider proved to be statistically significant. Customers whose mortgages were approved before the financial crisis and after the financial crisis had most of their mortgages provided by other housing finance providers with the banks accounting for only a relatively small proportion. On the other hand, those whose mortgages were provided during periods of the financial crisis had a majority of their mortgages provided by the banks. Most of those whose mortgages were provided after the financial crisis had a majority of their mortgages provided by other providers with the bank accounting for only a little portion.

### **Initial Deposit and Parents Assistance**

The expensive nature of banks made it difficult for their customers to stick to them as their mortgage provider. 73.7% of the respondent regarded high initial deposit a major constraint to homeownership. Most customers therefore turned to non-HSB lenders who could lend to them without such high deposit like Aldermore and Family Building Society who are offering mortgages at 100% (Williams, 2014). This issue of the initial deposit is very pertinent for those in the age group 26-35 as they have not been able to save enough for the deposit. This results in parents assisting their children with an initial deposit by placing some savings in special accounts or using their own property as security. This option is mainly offered by non-HSB. In addition, the majority of providers offering help to buy service provided by the government with a deposit of only 5% is provided by non-HSB.

### **Choice Criteria and Religious Reasons**

The criteria used by the customers to make the choice of their mortgage provider were of paramount importance. These included the repayment period, the amount of the monthly repayment, initial deposit, quality of service, safeguarding the customer's interest, terms and conditions, convenience of repayment and processing time. These variables were grouped into two components using factor analysis. The two components were financial commitment for the first three factors and quality of service for the last five factors. Comparing this with those laid down by the bank, the customers were therefore not able to meet up with the financial commitments put forth by the banks. Hanafi (2012) in his research work on Islamic housing finance found similar factors to impede households' choice of mortgage provider. Also, the customers found the quality of services offered by other providers to be more attractive. Furthermore, about half of the Muslim respondents who are homeowners use other providers because apart from HSBC, the banks do not offer Islamic mortgage products. This result is similar to that of Tameme (2009) although his targeted population was restricted to the Muslim respondents.

### **Less flexibility, Less Competitive and Unawareness**

Some respondents prefer other providers because they are more flexible and more competitive. There have been new entrants into the mortgage market who are more competitive, offering flexible and better services than the HSB. Kensington and Precise Mortgages offer special services to borrowers who are self-employed while Metro Bank offers flexibility based on customers' circumstances (Williams, 2014). Therefore, while the banks offer inflexible and restrictive criteria, other providers offer attractive, flexible services with the broker playing a major role in providing customers with a variety of options. Furthermore, 25.7% of the respondents declared that they are not very aware of the mortgage products offered by their banks as they only use their banks for traditional banking services. Some interviewees said that they did not use the HSB as their provider due to some good recommendations from family and friends.

### **Significance Levels**

The findings between income range and homeownership designated that the differences in the variance between each group are statistically different from each other with a significant p-value of 0.001. Ethnicity also had a statistically significant relationship of

0.023 with homeownership. Most of the African and Asians were found to be renting compared to the natives. Employment status was also significant as a majority of those renting were those found in part-time employment or unemployed while most home owners were in full-time employment.

Income, satisfaction and religion were all found to be statistically significant for their relationship with the type of mortgage provider at p-values of 0.002, 0.014 and 0.003 respectively. Most high income earners have their mortgages provided by the banks while homeowners with low income mortgages were mostly provided by other housing finance providers. Leece (2006) on the contrary found income to be statistically insignificant in the demand for mortgage loan in the UK. The majority of those satisfied with their mortgage providers are those whose mortgages were provided by the banks. Also, on average, most Muslim respondents' mortgages were provided by other providers since most of the banks do not offer Islamic mortgage products.

### ***9.3.3 Findings Related to the Criteria used by the Households to make a Choice of their Provider***

In order to make a choice of their preferred mortgage provider, households consider the following eight factors: safeguarding customers' interest, quality of customer service, terms and conditions, convenience of repayment, processing time, amount of monthly repayment, initial deposit and period of repayment. Factor analysis was used to group these factors into two components: Quality of service for the first five factors and financial commitment for the last three factors. These two components account for as high as 87% of the variance in the explanatory variables which is considered a good representative of the total factors.

### ***9.3.4 Findings Related to Reasons why Tenants Chose to Rent Instead of Owning their Own Home***

The tenants agreed that paying monthly rent is relatively more expensive to monthly mortgage repayments. Generally, some tenants were satisfied with their status as tenants while others were not. There are several explanations accounting for the reasons why 68.1% of the respondents are still renting as summarised below.

#### **Increasing House Prices, Initial Deposit and other Sunk Costs**

51.8% explained that high and increasing house prices are one of the main reasons why they are still renting. This increases the amount required as initial deposit. 36.2% of the

respondents consider initial deposit to be of extreme importance. Despite the fact that the government intervened by offering customers an opportunity to obtain a mortgage with only 5% deposit, it was still not favourable for everyone (Howard, 2013). Besides the initial deposit, there are other sunk costs required prior to the applicant being granted access to the mortgage like stamp duty charges (for property above £125,000), solicitor/conveyance fees, land registration, lenders' valuation and many other costs involved if the applicant decides to use a broker. While this study found high house prices and initial deposit to be the most important determinants in obtaining a mortgage in the UK, Wesutsa (2014) and Gachanja (2014) found interest rates to be the main determinant in Kenya.

### **Immigration Status and Job Insecurity**

More than 60% of the tenants considered their immigration status to be one of the important reasons why they are unable to climb up the property ladder. The interviewees explained that although they were qualified for the mortgage loan, the bank refused giving it to them because they were neither native born, naturalized nor members of the European Union as the law states. Similar results were obtained in studies carried out in the USA by Cahill and Franklin (2013), Amuedo-Dorantes and Mundra (2013). Another study disagrees with the issue of nationality as a criterion for mortgage loan. To the researcher (Krueckeberg, 1999), everyone should be given equal opportunity in the mortgage market. Besides, most of these immigrants have already established strong commitments to their host country which they now consider as their home (Constant et al, 2006).

Furthermore, 42.7% of the tenants were found to be limited from obtaining a mortgage because of the nature of their jobs. Majority of the tenants were found to be in part-time employment while some were unemployed. This did not meet up with the requirements of the bank. Moreover, given that most of the respondents/participants were immigrants; their income when compared with their outgoings leaves them with little residual income which cannot secure a mortgage. The low residual income is because they have other responsibilities/dependents back home, which takes a great portion of their income (ONS, 2014). However, some interviewees declared that they had no intentions of staying longer in the country after the purpose of their visit. This means that they do not have any need for a mortgage loan.

### **Poor Credit Rating, Affordability Check, Marital Status and Age**

Due to poor credit rating, 35% of respondents with imperfection on their credit history were found to be unable to obtain housing finance. Due to the increase in affordability check requirement implemented by MMR, lenders like the banks have been very strict compared to previous years on lending criteria. Earlier studies also support that the financial crisis led to affordability scrutiny and prolong affordability pressure in the near future (McCord et al., 2014). Interest-only mortgages are no longer offered by HSB. Borrowers' ability to repay is now well scrutinized by lenders making sure that the customer can still be able to repay if interest rates further increase. 35.8% of the respondents attributed the reason why they are still renting to their marital status. According to some interviewees, it is more worthy to obtain a mortgage when married or when expecting children than when single. Also, those in the younger age prefer to rent because they think that they have not saved enough to be able to afford a home.

#### ***9.3.5 Findings Related to the Effectiveness of the Demand for mortgage loan.***

In assessing the effectiveness of the customer's claim that the banks were not willing to lend mortgage loan to them, two categories of responses were discovered: effective demand and ineffective demand summarised below.

For the effective side of demand, the banks made it clear from the interview schedule that their willingness to lend was restricted by the strict regulations put forth by the regulators which led to credit rationing. Thus, they try to lend responsibly and to the most trustworthy customers. Besides, "we cannot give what we do not have." The demand for mortgages far exceeds the supply of it, making it difficult for each applicant's loan application to be granted. On the demand side, some customers claimed that though they fulfilled all the lending criteria, the banks found one reason or the other to reject their application. The newly self-employed for example said that the banks were just being skeptical of them while some immigrants said that the rejection was based solely on their immigration status. On the contrary, some early researchers (Skaburskis, 1997 and Borjas, 2002) found that some mortgage loan applications were turned down due to the location of the applicants, since some locations are already overcrowded.

For the ineffective side of demand, 54.4% of the customers agreed that they asked for a mortgage loan from the bank, but their application was turned down for several reasons,



some of which are poor credit rating, limited initial deposit, or reasons related to affordability. For the remaining group of the respondents, some of them simply did not bother asking for a loan because they either did not intend to remain in the country after the purpose of their visit or they were already homeowners. The last group of respondents reported that they did not ask for a loan because they knew the loan would not be given to them.

### ***9.3.6 Findings Related to the Impact and Implications of this study on Households***

The impact and implications of the study are summarised in two folds: of the financial crisis on households and of homeownership status on households.

#### **9.3.6.1 Financial Crisis on Households**

The financial crisis led to redundancy as many people lost their jobs. Some homes were repossessed because customers could no longer afford repayment. Customers lost their confidence and trust in banks since they thought that the banks were ‘too big to fail’. There was an intensification of credit check criteria for mortgages. As confirmed by Jones and Richardson (2014) the financial crisis led to a decline in homeownership rates for residential mortgages.

#### **9.3.6.2 Homeownership Status on Households**

Homeownership status was divided into those who do not own a mortgage and those who have a mortgage. For those who do not have a mortgage, they have limited freedom and do not feel the sense of belonging. Also, by moving from one rental apartment to another, they are liable to lose some of their property. In addition, they pay high rents on rented accommodation compared to monthly repayment by mortgage owners. Moreover, the children’s education became disrupted.

For those who own their own homes, they pay less compare to those in rented accommodation and are also entitled to own the house after completing repayment of the mortgage. In addition, their children’s education becomes more stabilized. Furthermore, it makes them have a sense of belonging. They are able to further invest in it without any regrets. Generally, homeowners are positively affected while the implications on tenants are negative.

### ***9.3.7 Summary of other Findings***

Ethnicity was found to play an important role in the findings of this study. In London where majority of this data was collected, there was found to be many immigrants from different ethnic origins. Majority of these were the African and Asian population. In these ethnic groups, it was found that majority of them did not have a mortgage despite the fact they were qualified for it. One of the key reasons attached to this was the impediment by virtue of their nationality, not minding the fact that some of them already had established ties to their host country. Thus, at p-value of 0.023 which is less than 0.05, ethnicity was found to have a significant relationship with homeownership in the UK. Constant et al. (2006) found a similar disparity in homeownership between ethnic groups in the USA. Likewise, in the same USA for data between 1980 and 2000, the native born and immigrants from Mexico, Germany, European countries and other less developed countries of Asia and Latin America were found to portray differences in their approaches to mortgage loan Borjas (2002).

Income was found to be statistically significant at 0.002 p-value, unlike the findings of Leece (2006). Furthermore, the findings disagreed with the law of demand and supply where less is demanded at higher price than at a lower price. The findings established that despite the high price and increasing price of houses after the financial crisis, the demand for mortgage did not fall but rather increased. Housing is not a giffen good or an ostentatious good as this would have been in line with the exceptional law of demand. Rather housing is a good of necessity.

### **9.4 Contribution to Knowledge**

The initial purpose of carrying out this research was in order to make a contribution to the existing body of knowledge. The research provides new and unique contribution to knowledge by focusing on mortgage loan for HSB which is an area of empirical study that recent researchers have paid less attention to. Continuation and contributions have been made in this study in terms of theory, method used as well as filling the gap in the existing literature. These contributions can be of help for banks, customers as well as for policy makers in the banking industry. The following contributions to knowledge can be identified in this study.

- i. This research makes theoretical contribution to knowledge. The theory of demand and supply which is an economic theory has been applied in the field of

finance in this study. Before the financial crisis, there was low interest rates which led to increasing demand and high house prices as confirmed by the law of demand. The provision of mortgage loan also increased following the law of supply *ceteris paribus*. During the early phase of the financial crisis, house prices and the supply of mortgage loan fell but the fall in the demand for mortgage was minimal. After the financial crisis, house prices have been high and increasing but the demand for mortgage loan also remain high. This does not follow the law of demand, given the inelastic nature of a house. This contributes to knowledge as it proves that not only ostentation and giffen goods follow the abnormal law of demand but also goods of necessity.

The findings of this research also contributes to credit rationing theory by the government's activities in the mortgage market in ensuring that mortgages are not only given to the high income earners but also rationed out to low income households. The government achieved this through its help to buy policy where it limited the value of the mortgage to £600,000. Lastly, this research makes contribution to the agency theory by extending it to the intervening influence of a third party which is the government. That is instead of the agents (bank managers) acting in the interest to the principals (shareholders), their activity are sometimes interrupted by the government's ambitions to achieve its macroeconomic policies.

- ii. Another significant contribution of this research is its uniqueness in its methodological contribution through triangulation. This is in two folds: method used and data. Triangulation using the method was done with the use of both interviews as well as questionnaires. On the other hand, triangulation by use of data involved the use of different time frame (before, during and after the financial crisis) as well as using different stakeholders (customers and mortgage advisors). The use of different stakeholders enabled the information on the demand for housing finance to be supported by the information from the supply side of the study.
- iii. This study is the first to the best of the researcher's knowledge to provide an empirical study on housing finance with focus on the HSB and not on the macro scale. It is not only descriptive as in most of the literature review, but it is also quantitative. It actually gives the mean difference and the statistical significance

of the changes in the three distinct periods used in the study. Most of the write up in this area of study is focused on business writing.

- iv. This research is also the first to assess the effectiveness of the demand for housing finance from both the perspective of the banks as well as from the customers' perspective.
- v. By investigating the reasons for customers' preference to rent over owning their own homes and their preferential choice of a mortgage provider, the study is unique in contributing to the comparative study on homeownership status. It also provides their level of statistical significance.

## **9.5 Research Implications and Recommendations**

The completion of this study has led to some research implications and recommendations as explained below.

### ***9.5.1 Implications for knowledge Gap in the Literature***

This piece of research has contributed to knowledge development by successfully addressing or filling the gap in existing literature for HSB mortgage loan. The questionnaire survey covers the empirical gap in the literature on the customers' choice of behaviour. The interviews with customers further provide in-depth knowledge on this issue while the interview with the mortgage advisors provides significant knowledge on the supply side of housing finance for HSB. Furthermore, the study covers a comprehensive approach by triangulating the method used in achieving the research aims and objectives by looking at both the demand and the supply side of the study. Triangulation was done on the data, method and theory. This increase in knowledge development is imperative in shaping the future and the improvement of the retail banking industry on mortgage loans

### ***9.5.2 Implications and Recommendations for Housing Finance Providers***

Even though the motive of most financial institutions is guided by profit making and satisfying shareholders' interest, social dimension should also not be forgotten. The banks can consider retaining their customers for traditional banking services to mortgage with them by offering them exclusive services or preferential treatment. Most customers prefer their mortgages to be provided by the banks, but are limited by the rigidity in bank lending criteria. The bank could therefore offer more flexibility in their services so that customers who satisfy other mortgage conditions could be considered.

There is also the need for HSB to consider providing Islamic mortgage products as some of the respondents who indicated to be renting and those whose mortgages are provided by other providers alleged that it is not easy for them to find an Islamic mortgage provider based on their location. With the exception of HSBC, most HSB do not offer Islamic mortgage products.

Of great importance is the fact that the banks need to constantly educate their stakeholders about mortgage loans. This should start with the employees who deal directly with the customers. There should be the effective dissemination of information on mortgage loan to customers, especially when new products are introduced. The customers only get in touch with the banks' mortgage advisors when they have made up their minds on the choice of their mortgage provider. By constantly reminding the customers on new mortgage products offered, it could increase the demand for mortgages for HSB. Employees should also be educated on improving their quality of service, given the competitive nature of the product.

Furthermore, promotion, marketing and advertisement strategies could be improved in order to boost customers' knowledge and demand for the product. This should be done together with emphasis on the advantages while highlighting the different benefits over other mortgage loan providers.

### ***9.5.3 Implications and Recommendations for Customers***

Most customers cannot afford to pay for the high and increasing house price which definitely requires a high initial deposit. As an alternative however, they can consider the providers of housing finance with cheaper products such as shared ownership, which is already on offer by Santander - one of the HSB. This is recommendable especially for the younger age group of 26-35 who find it extremely difficult to enter the market as first time buyers, despite the help to buy scheme introduced by the government. Moreover, although customers' preferred providers are the HSB, it is necessary for them to look beyond that for smaller providers who are offering an exclusive variety like no credit scoring (Hinckley and Rugby), flexibility (Metro bank), no initial deposit (Aldermore) and self-employed applicants (Kensington and Precise Mortgages) (Williams, 2015).

#### ***9.5.4 Implications and Recommendations for Regulators and Policy Makers***

As explained by Boyce (2015), stamp duty reforms have recently been introduced. This only helps to add extra funds for a deposit, but still does not solve the issue of excess demand over supply. There is the need to build more homes to reduce the gap and bring about equilibrium in the mortgage market. In addition, the visa status or the nationality of the applicants should not be the limiting factor towards housing finance as portrayed by the situation in the UK. Immigrants who indicate interest in obtaining a mortgage should be granted access if they fulfill all the other lending criteria. There is no need to restrict immigrants on this, given the fact that the mortgage can still be repossessed if they fail to meet the terms and conditions of repayment. In support to this recommendation, Krueckeberg (1999) disagreed with the idea of including immigration status or nationality status in determining the eligibility of a mortgage. He stressed on the equality of all in the mortgage market. Besides Constant et al. (2006) established that most of these non-nationals have established ties to their host countries.

#### **9.6 Limitations of the Study**

The aim and objectives of this research has been successfully reached based on data gathered through primary and secondary collection. This research can be considered successful. However, just like other studies in social science projects, limitations are inevitable.

To begin with, there was scarcity of material for academic and empirical literature review on; HSB' residential mortgage lending, the financial crisis and homeownership. To the best of the researcher's knowledge, available literature in this area of study is only limited to mortgage loan in general. It should however be noted that a few empirical studies have been done by early researchers, but focus was on the demand side or the supply side of housing finance only. Some researchers have attempted studying the demand side of mortgage loan, but were limited to Islamic mortgage only.

Besides, the time allocated for the study was limited coupled with the financial constraint of the researcher. This limited the collection of primary data to only a few regions in the UK. A more rigorous result could have been expected if the researcher expanded the study area to other areas in the UK like Scotland and Northern Ireland.

Furthermore, the interview schedule for the banks concentrated on the top managers like the mortgage supervisors. The support staff at the lower levels was not considered. They

would have had an impact on the result as they are the ones who in most cases deal directly with the customers. Their participation could therefore be of help.

### **9.7 Area for Further Research**

- i. Further research should be carried to expand the scope of this study by including other geographical areas in the UK which have not been included as well as increasing the sample size.
- ii. It would be good also for a research to be carried out on the characteristics of the African population and homeownership in the context of the developing world so as to clearly understand their viewpoint on homeownership.
- iii. It could also be worthwhile for a cross sectional study to be conducted between the developed and the developing countries for homeownership following the impact of the financial crisis.
- iv. More research could be extended to the other providers of mortgage finance so as to be able to fully understand the concept of mortgage supply.
- v. Further studies could also be done to examine the shortage in the supply of mortgage finance in the UK and to look for possible remedies that could bridge the gap between demand and supply.

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## APPENDIX 1



PRIFYSGOL CYMRU  
**Y Drindod Dewi Sant**  
UNIVERSITY OF WALES  
**Trinity Saint David**

Yr Athro/Professor Medwin Hughes DLDPHI DPS FRSA FLSW  
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05 August 2014

### I BWY BYNNAG A FYNNO WYBOD / TO WHOM IT MAY CONCERN

Dear Sir/Madam

Name	Eunice Anu
Student University Number:	120593
Course	PhD in Business
Faculty	Business and Management
Start date	10 October 2012
End date:	30 September 2015

Title of Thesis

**The Impact of the Financial Crisis on the UK Retail Banking Sector and its Implications on household lending**

This is to confirm that the above named student is registered as a full-time postgraduate research student at the University of Wales, Trinity Saint David, London campus. The students' research proposal and methodology has been approved by the Research Degrees Committee and the Ethics committee.

We trust that you are able to support and facilitate the research of this student.

Please do not hesitate to contact me should you require any further information on this matter.

Yours faithfully,

Alison Sables MSc  
Postgraduate Research Office  
Swyddfa Ymchwil Ôl-raddedig



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## APPENDIX 2



### Participant invitation form

Research Title: **The Impact of the Financial Crisis on the UK's Retail Banking Sector and its Implication on Household Lending**

My name is Eunice Anu, 2<sup>nd</sup> year PhD finance student at the University of Wales Trinity St. David – London campus. I will like to invite you to participate in my research project. The project aims to investigate the changes in mortgage loan/housing finance for HSB in the UK as a result of the financial crisis and its implications on household lending. What you will be expected to do is to answer few questions with regards to household lending. I look forward to receiving your feedback.

This study is limited only to respondents from 18years and above, holding an account with one or more of the HSB. Your participation will be of utmost importance even though it is voluntary. The information provided will be strictly confidential, securely kept and will be used for academic purpose only. Please indicate in the list below the best and most convenient way in which you will like the questionnaire to be sent to you:

- By e-mail (if you choose this option, please provide your e-mail address so that I can forward the questionnaire to you).
- Through Skype (if you choose this option, please provide your Skype name and the most convenient day and time that I can reach you).
- Face-to-face conversation (if you choose this option, please provide your number/email so that I can call you for us to arrange on the day and time).
- Others (please indicate)

Please, can I contact you for an interview if need arises?  Yes  No

Thank you for your time and consideration.

## APPENDIX 3

### QUESTIONNAIRE SURVEY

Relevant answers should be indicated with a cross (X) on the box (es)

#### Section A: General Information

**1. What is your age group?**

- Less than 25
- 26 – 35
- 36 - 45
- 46 - 55
- Above 55

**2. What is your gender?**

- Female
- Male

**3. What is your marital status?**

- Married
- Single
- Divorced
- Others

**4. What is your educational qualification?**

- No formal qualification
- GCSE/O Levels
- A Level
- BA or BSc
- MBA or MSc
- PhD
- Other professional qualifications

**5. What is your employment status?**

- Full-time employed
- Part-time employed**
- Unemployed

**6. What is your ethnicity?**

- White
- Asian or Asian Britain
- Black or Black Caribbean
- Black or Black African
- Mixed
- Others

**7. What is your Religion?**

- No religion
- Christian
- Muslim/Islam
- Hinduism
- Sikhism
- Buddhism
- Others Religion

**Section B: financial Information**

**8. What is your income range?**

- 10K and below
- 11K – 20K
- 21K – 30K
- 31K – 40K
- 41K and above

**9. How many people depend on you financially?**

- 0-1
- 2-3
- 4 and over

**10. What aspect can your money cover?**

- Can only afford what we need with nothing left over
- Can afford our need but will not have much left over
- Can afford our want and still have much money left over
- I cannot afford what I need. I struggle to survive

**11. Apart from your income, do you receive any other financial support?**

- No
- Yes from my spouse
- Yes from other family members
- Yes from friends
- Yes from other benefits

**Section C: Affordability and Homeownership**

**12. How many people live with you?**

- 0
- 1
- 2 - 3
- 4 and over

**13. Do you own the flat/house you are living in?**

- No, I rent the flat/house I am living in
- Yes, I own the flat/house I am living in (proceed to question 21)
- Yes as shared/co-ownership (proceed to question 21)

**14. State the level of importance on the reasons why you choose to rent instead of owning your own home.**

	Not important at all	Low important	Slightly important	Neutral	Moderately Important	Very Important	Extreme important
Increasing house prices							
High initial deposit							
Job security							
Credit rating							
Marital status							
Visa status							

**15. Do you intend to buy a house in the nearest future?**

- Not Applicable
- Yes
- No
- Not sure

**16. What kind of mortgage provider would you prefer?**

- The bank
- Council
- Other home providers

**17. What is your reason for choosing that mortgage/home provider?**

- More secured
- Less costly
- Volume of activities

**18. What factors can discourage you from obtaining a mortgage? (tick all the boxes that applies to you)**

- Job security
- The tight conditions involved from the effect of the financial crisis
- Increasing house prices
- My income is too low
- SDLT (Tax)
- Non provision of Islamic free mortgages (religious reasons)

**19. From your monthly salary, what proportion would you be willing to allocate to your monthly repayment?**

- Less than 10%
- 10% - 19%
- 20% - 29%
- 30% - 39%
- 40% and more

**20. Are you satisfied with your current status as a tenant?**

- Yes
- No

**21. State your level of agreement on the criteria you use to make a choice of your mortgage provider**

	Strongly disagree	disagree	Somewhat disagree	Neither Agree/Disagree	Somewhat agree	agree	Strongly agree
Amount of monthly repayment,							
Safeguarding customers' interest							
Period of repayment							
Convenience of repayment							
Processing time							
Terms and conditions of repayment							
Quality of customer service							
Initial deposit							

**22. What is your level of agreement on the following as your reasons for not using HSB as your provider?**

	Strongly disagree	disagree	Somewhat disagree	Neither Agree/Disagree	Somewhat agree	agree	Strongly agree
high initial deposit							
less flexible							
more expensive							
religious factors							
less competitive							

**23. Who is your mortgage provider?**

- The bank
- Building society
- Council
- Islamic provider
- Others

**24. Who is your preferred mortgage provider?**

- The bank
- Building society
- Council
- Islamic provider
- Others

**25. How many mortgage properties do you have?**

- 1
- 2
- 3

**26. Which of these periods did you obtain the mortgage?**

- Before 2007
- Between 2007 and 2009
- Between 2010 to 2013
- After 2013

**27. From your monthly salary, what proportion do you allocate to your monthly mortgage repayment?**

- Less than 10%
- 10% - 19%
- 20% - 29%
- 30% - 39%
- Above 40%

**28. Are you satisfied with your mortgage provider?**

- Yes
- No

**29. What are the factors/criteria the bank considered when granting a mortgage to you?**

- Credit check
- Nature of my job
- My monthly net income
- Credit rating
- My nationality status
- Ability to repay



**30. What major reasons made you to buy a home or apply for a mortgage?**

- Got married and expecting children
- Married with children and need more space
- Encouraged by the discount in the right to buy scheme
- To live in the neighbourhood that you like
- Rent payment is not a good investment
- It provides a good long term investment
- The prestige of owning something of value of your own

**31. Is this the first time you applied for a mortgage in your bank?**

- Yes
- No

NB: SD=Strongly Disagree, D= Disagree, SWD= Somewhat Disagree, N=Neither Agree/Disagree, SWA=Somewhat Agree SA= Strongly Agree, A= Agree.

	SD	D	SWD	N	SWA	A	SA
<b>32.</b> To obtain a mortgage was very easy before the 2007 financial crises							
<b>33.</b> To obtain a mortgage became very difficult between 2007 and 2009.							
<b>34.</b> To obtain a mortgage was easier between 2010 and 2013.							

**35. Between 2003 and 2013, which year did you attempt asking for a mortgage from the bank but the bank did not give it to you.**

- 2003 - 2006
- 2007 - 2009
- 2010 – 2013
- After 2013
- Other periods

**36. Why was your mortgage application rejected?**

	Not important at all	Low important	Slightly important	Neutral	Moderately Important	Very Important	Extreme important
Credit rating							
Initial deposit							
Status of my visa							
Net income							
Net income							
Employment status							

## APPENDIX 4

### INTERVIEW SCHEDULE (HOMEOWNERS/MORTGAGE OWNERS)

1. Can you please explain the changes in mortgage borrowing as a result of the financial crisis?
  - i. Before the 2007 financial crisis,
  - ii. During the financial crisis (2007 – 2009)
  - iii. After the financial crisis up to (2010 – 2013)
2. Which of the HSB do you have an account with?
3. For how long have you been a customer with this financial institution?
4. Which of them do you have your mortgage with?
  - a. If none, who is your mortgage provider?
5. In your opinion, elaborate on the reasons why you chose alternative sources of housing finance instead of those offered by the HSB?
6. Can you please explain the impact/implications homeownership has on you?
  - i. Impact
  - ii. Implications
7. Can you please explain the impact/implications of the financial crisis on you?
  - iii. Impact
  - iv. Implications
8. How has the intervention by the government affect your attitude towards mortgage loan?
9. Do you have any further information or documentations relating to this topic that you might want to contribute?

## APPENDIX 5

### INTERVIEW SCHEDULE – TENANTS

10. Can you please explain the changes in mortgage borrowing as a result of the financial crisis?
  - iv. before the 2007 financial crisis,
  - v. During the financial crisis (2007 – 2009) and
  - vi. After the financial crisis up to (2010 – 2013)
  
11. Can you please elaborate on the reasons why you choose to rent rather than to own your own home?
  
12. Can you please explain the impact/implication of renting (not having a mortgage) on you?
  - v. Impact
  - vi. Implications
  
13. Can you please explain the impact/implications of the financial crisis on you?
  - vii. Impact
  - viii. Implications
  
14. How has the intervention by the government affect your attitude towards mortgage loan?
  
15. Do you have any further information or documentations relating to this topic that you might want to contribute?

## APPENDIX 6

### INTERVIEW SCHEDULE (BANKS – SUPPLY SIDE)

16. What is your managerial Position?
17. For how long have you been working with this financial institution?
18. Can you please explain the changes in mortgage Loan as a result of the financial crisis?
  - vii. Before the 2007 financial crisis,
  - viii. During the financial crisis (2007 – 2009)
  - ix. After the financial crisis up to (2010 – 2013)
19. What is your opinion on the claim by the households that the banks are not willing to give out mortgage loan to them?
20. How has the intervention by the government affect your attitude towards mortgage loan?
21. Do you have any further information or documentations relating to this topic that you might want to contribute?