SEPTEMBER 2021

MORTGAGE AND PROPERTY REPORT

Welcome to the seventh edition of Kensington's Special COVID-19 Update Series. In this newsletter, we look back on the COVID-19 crisis and the impact it has had and continues to have on the mortgage industry. We focus on the mortgage payment deferral scheme which has now come to an end, the government's two income support schemes and the end of the repossession moratorium.

Key Highlights

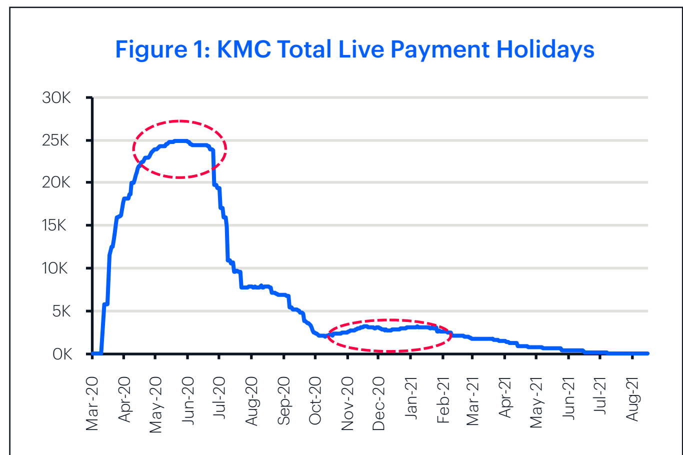
- Mortgage Payment Holidays (MPHs) which were used by close to 2 million mortgage customers in the UK during the pandemic, have ended, and Kensington has exited the last of its MPHs
- Despite initial concerns, the impact on loan performance to date has been limited, but the impending end of the income support offered by CJRS and SEISS could change this
- The moratorium on repossessions has led to an increase in late-stage arrears in UK mortgage portfolios and this is expected to take some time to reverse as the backlog of cases is dealt with

Introduction

Eighteen months after COVID-19 first hit the UK, wreaking havoc on the mortgage market, the wider economy and most aspects of day-to-day life, it seems we have at last turned the corner. The roll out of the vaccine programme is largely considered to have been a success, all restrictions on daily activities and the operation of businesses have been lifted, and a cautious sense of normality is returning. In this edition of our special COVID-19 newsletter series, we look back in detail on how the crisis has impacted the mortgage industry, the extent to which we have emerged from it and what we can expect going forward.

Mortgage Payment Holidays

One of the first and most significant impacts of COVID-19 on the mortgage industry was the introduction in March 2020 of payment holidays to help alleviate the financial impact of the virus and resulting restrictions on customers. Within weeks, more than 1.8 million (c. 16% of the market) MPHs were taken by customers in the UK, and Kensington saw close to a quarter of its serviced book opting for a payment deferral by June. Starting in the later summer months however, we saw these numbers decrease heavily, and despite several extensions to the scheme (from an initial period of 3 months), live MPHs continued to reduce steadily. A small rise was experienced at the start of the first winter lockdown in November 2020, but new take ups remained low (possibly in part due to the fact that new MPHs and extensions to existing ones could not exceed a total period of 6 months). The scheme closed fully at the end of July this year, and Kensington exited its last payment holiday at the beginning of August. Data for the wider UK market mirrors that of the Kensington portfolio, with a sharp initial take up followed by a steady decline (but is not available for publication).



A key concern when the scheme was launched was the potential long-term repercussions it might have, especially on loan performance. While it is still too early to form a precise picture of how loans that were on a payment deferral will perform, initial data is encouraging. We examined c. 24,000 loans in our serviced portfolio that were on a payment deferral at some point during the crisis. We limited the examined pool to loans that were originated at least 1 year prior to the crisis to ensure there was some level of pre-crisis performance data for comparison. We then compared the arrears multiple of each loan 3 months after it exited its final (as some loans were on multiple) payment holiday to the loan's arrears multiple at the end of February 2020 (i.e. the last month before COVID hit the

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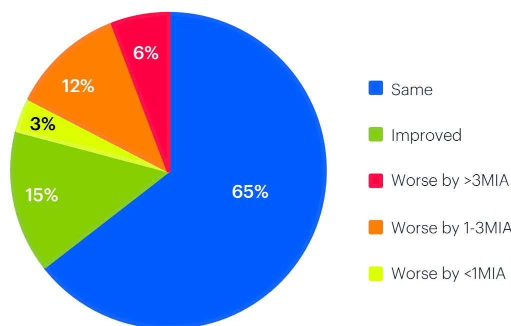
UK). We found that for c.65% of loans the status was unchanged and for c.15% it actually improved in this period. The arrears multiple of c.21% of loans worsened, but for 3% this was by less than 1 contractual monthly payment, and for 12% between 1 and 3 – only 6% are more than 3 months further in arrears than prior to the crisis. This suggests that the post-MPH performance of the majority of loans is unaffected. Of course, at this stage this data is very preliminary and the topic will need to be revisited in 6-12 months, when all other support schemes have come to an end and the long term effect can be more reliably observed.

Figure 2: Arrears Performance of Payment Holiday Loans 3 months after Exit vs Feb. 2020



Income Support Schemes

In parallel to the end of payment holidays, the other two key schemes for customers, the Coronavirus Job Retention Scheme (CJRS, also known as furlough) and Self Employed Income Support Scheme (SEISS), are also closing at the end of this month. Both had a significant impact, as over the 16 months to July 2021, £67.4bn of claims were made for CJRS, and £25.2bn of claims were made in SEISS grants (a fifth and final one covering May-Sep 2021 is still due to be paid). Similar to payment holidays, uptake for both peaked early in the crisis, but they continued to play very important roles in supporting a huge number of people's incomes, particularly in some of the most impacted industries (see prior editions). The number of employees on furlough increased markedly during the winter lockdown. While it has now decreased substantially from a high of almost 9 million in June 2020 to c. 2 million as of this July, there is considerable concern regarding how the end of the scheme will impact the 2 million people still relying on it, even after all restrictions have been lifted. The last SEISS grant covered the period to April 2021, when the UK was still in lockdown, so it is more difficult to gauge the number of self-employed workers still relying on it, but its end will no doubt leave a mark.

Figure 3: Number of Employees on Furlough

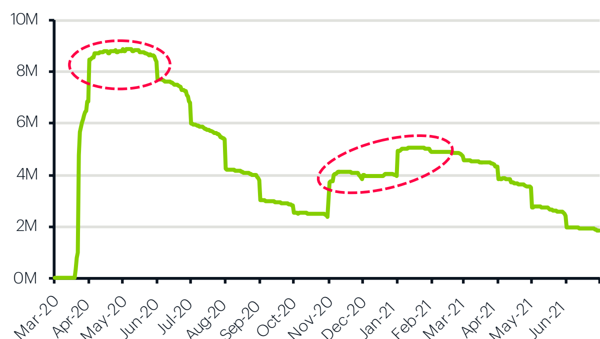


Figure 4 : SEISS Claims Made

Grants	Period	Total no. of claims	Total value of claims
1st grant	Mar - May 2020	2.6m	£7.6bn
2nd grant	Jun - Aug 2020	2.4m	£5.9bn
3rd grant	Nov - Jan 2021	2.2m	£6.2bn
4th grant	Feb - Apr 2021	1.9m	£5.5bn
5th grant	May - Sep 2021	TBC	TBC
Total 1-4th		**9.1m**	**25.3bn**

Moratorium on Repossessions

In addition to the schemes described above, mortgage customers who were already experiencing financial difficulties before the pandemic also benefited from the moratorium on repossessions, which was effectively in place from the start of the crisis until April 2021 (it ended briefly at the end of 2020, but a winter truce was in place during most of this time). This essentially means no proceedings took place for over a year, and evictions only resumed in June. The impact this has had can be seen in figure 5, which shows the very sharp drop from an average of almost 2,000 repossessions per quarter in the year before COVID-19 hit, to just over 300 (almost all of which almost would have been voluntary) during the pandemic. While this protection was clearly very important for customers during a difficult time, the consequence is that lenders lost the only tool left to encourage customers in

Figure 5: Mortgage Possessions by Number

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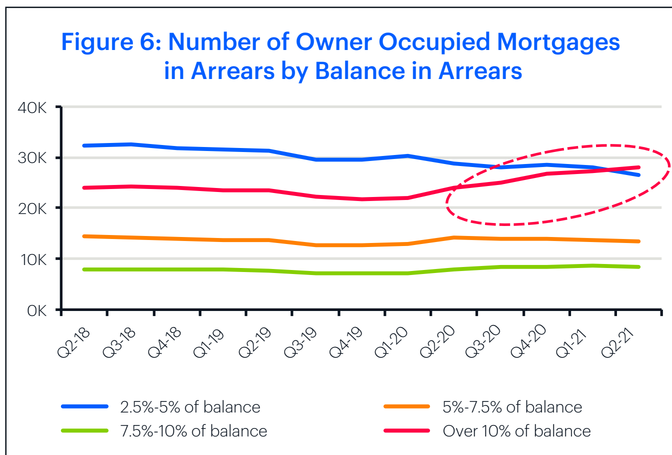

serious payment arrears to rectify this position. This means that one area where we have seen notable mortgage portfolio deterioration is in the late stage arrears bucket. With litigation unavailable, loans that would normally exit via the repossession route have remained in portfolios. As seen in figure 6, while most arrears buckets have remained fairly constant over the last 3 years, there has a notable increase in the number of loans with a balance of more than 10% in arrears since the 2nd half of 2020. While proceedings have now resumed, we expect the backlog to take upwards of 18 months to clear.

Conclusion

While the end, after 18 long months, of all schemes to support individuals who have been financially impacted by COVID-19 suggests we have finally moved past the point in the pandemic in which people could not get through the crisis without government support, cautious optimism is likely more appropriate than celebration. Many customers have been able to take advantage of the breathing space offered by payment holidays and income support schemes and then returned to making normal payments, but others have not and are unlikely to. Although businesses have had all restrictions lifted, many sectors including travel, entertainment and hospitality are still far from being able to operate at their prior levels. As the schemes come to an end, the extent to which they have been propping up businesses and individuals in unsustainable positions is likely to be revealed. Even those who have come out well will face certain economic hurdles, such as trying to take out a new mortgage after a year of lower income and profits. These issues will be the easier ones to solve – for example Kensington launched an Income Recovery product last week to help customers whose income was affected by Covid. For the rest, we can only hope that as we go into winter the grip of the virus on our health system, economy and day-to-day lives does not strengthen once again, and we can continue to focus on the recovery.

Sources

Fig 1 and 2: KMC internal Data
Fig 3 and 4: HMRC coronavirus (COVID-19) statistics
Fig 5 and 6: UK Finance Mortgage Data

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