

RHA 21
Bil Rhentu Cartrefi (Diwygio) (Cymru)
Renting Homes (Amendment) (Wales) Bill
Ymateb gan: UK Finance
Response from: UK Finance

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UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We welcome the opportunity to respond to the [Committee's Call for Submissions](#) to the Stage 1 Scrutiny of the [Renting Homes \(Amendment\) \(Wales\) Bill](#).

Introduction; general principles of the Bill

The private rented sector (PRS) in Wales is undergoing significant policy and legislative change. The rights of landlords and tenants are being reset by the Renting Homes (Wales) Act 2016 (the 2016 Act), which will be subject to amendment by the Bill ahead of implementation.

The 2016 Act, as amended, will set the balance of rights more in favour of tenants ("contract holders") with the Bill provisions specifically ensuring greater protection from "no fault" evictions.

We support the general principles of the Bill and the policy intention to better protect tenants by providing greater security of occupation. We support the overall resetting of contractual rights and obligations between the parties in a contract for the occupancy of a rented home.

We caution, however, that this balance should be struck equitably. The legislation should continue to protect (as the existing Housing Act 1988 – the 1988 Act – does) the legitimate interests of buy-to-let lenders to enforce and recover their mortgage security in a timely way, if it becomes necessary to do so.

Buy-to-let lending in Wales; possible impact of changes

According to our most recent mortgage statistics, gross buy-to-let (BTL) mortgage lending in Wales in 2019 totalled £920 million - a rise of 8.1 per cent on 2018. In Q4 2019, BLT lending in Wales was up 4 per cent (by value) compared to Q4 2018.

The BTL sector in Wales is buoyant, with a mix of UK and Welsh lenders providing compelling and competitive product offers to a range of landlord businesses, from larger portfolio landlords to smaller and "hobby" landlords with only one or a few properties.

Lenders often enforce their security by appointing a Law of Property Act (LPA) receiver. Currently, lenders may choose to appoint a receiver when a borrower is in arrears or may choose to take possession directly.

The proposed changes, if implemented, will remove one key ground on which possession might be sought by a landlord (section 186 of the 2016 Act – landlord's notice to end fixed term tenancy) and increase the notice periods applicable to another (section 173 of the 2016 Act – landlord's notice to end periodic tenancy).

In the absence of lenders' possession Ground 2 in the 1988 Act, the grounds under sections 173 and 186 are likely to be among the main possession grounds relied on by landlords, LPA receivers and lenders once the 2016 Act is implemented.

The view of BTL lenders is that the longer notice periods could fundamentally increase credit risk and impact their ability to repossess a property, if necessary, in a timely way. This could be to the financial detriment of the defaulting borrower, which mortgage conduct regulation requires lenders to minimise as far as possible.

Further, lenders are concerned that longer notice periods, coupled with the abolition of possession Ground 2 in the 1988 Act, could result in increased costs when taking enforcement action.

As a result, lenders might be forced to increase the cost of borrowing or other fees charged to BTL landlords. This could, in turn, increase landlords' operating costs and drive up rents.

As the 2016 Act has not yet been introduced, and amendments to it by the Bill are subject to scrutiny, it is not possible to forecast in a quantitative way how the BTL market might respond to the changes.

We can reasonably foresee, however, that there could be changes in risk, appetite and pricing for BTL lending in Wales as the impact of the changes becomes clearer post-implementation.

Impact evaluation research

The Welsh Government's [Integrated Impact Assessment](#) published in January 2020 highlights that, subject to passage of the Bill, the implementation of the 2016 Act as amended will be monitored and evaluated on an ongoing basis. It highlights that an independent evaluation project will be commissioned for a minimum two-year period. We understand that the intention is for the effectiveness of the legislation to be evaluated by looking at the impact on all stakeholders.

As the availability and cost of BTL mortgage finance is key to the effective functioning and viability of the PRS, we expect the impact evaluation project also to consider the impact on BTL lending in the Welsh market.

UK Finance stands ready to engage with this research work, when it begins. We suggest the researchers might like to survey BTL lenders and LPA receivers in the Welsh market, to ensure a full understanding of the impacts of the changes on landlord businesses and their BTL funders.

Unintended consequences

The potential for unintended consequences arising from the legislative changes should be minimised or avoided.

In the wider debate about the need for legislation, concerns have been expressed that quality landlords of good repute might leave the sector if it is perceived as riskier and more costly. Landlord numbers might fall, leading to fewer properties available for rent and putting further upward pressure on rents due to reduced supply.

As highlighted above, BTL lenders could have reduced appetite for the market in Wales if they see higher risk and costs. They might choose to increase product prices.

The combined effects of increased credit risk, reduced appetite and/ or increased pricing could have a dampening effect on the PRS in Wales.

Given also that a lenders' mandatory possession Ground is specifically retained in the equivalent Scottish legislation, lenders are concerned that Wales could be an outlier in not providing this form of legal protection for BTL lenders, which is essential to a well-functioning PRS within the overall Welsh housing system.

The effect of the Bill proposals, combined with recent fiscal, regulatory and BTL underwriting changes, could be a smaller PRS in Wales, with reduced quality and choice for contract holders, and potentially increased rents.

These effects would be counter to the Welsh Government's desire to see a vibrant, viable high quality and growing PRS for all who choose or need to use it.