



COUNCIL of MORTGAGE
LENDERS

NORTH WEST WING, BUSH HOUSE,
ALDWYCH, LONDON WC2B 4PJ

tel: 0845 373 6771

fax: 0845 373 6778

website: www.cml.org.uk

Flooding Lessons Learnt Review

Response by the Council of Mortgage Lenders

to the Pitt Review Team

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Introduction

1. The Council of Mortgage Lenders (CML) welcomes the opportunity to make a submission to the Pitt Review Team in response to the call for evidence for the Flooding Lessons Learnt Review. The CML is the representative trade association for the residential mortgage lending industry. Our 163 members currently account for around 98% of the UK residential mortgage market.

2. This response concentrates on the issue of flooding, insurance and mortgageability.

Buildings insurance and mortgageability

3. There is a long standing link between the insurability and mortgageability of a property. Mortgage lenders offer a mortgage against the value of a property, normally with up to a 25 year contract to the borrower. It is a standard condition of all mortgages for the property to be covered by standard buildings insurance, including flood cover, for the full term of the contract, in order to protect the borrower and the lender. If insurance is not available, then it is unlikely that a property will be mortgageable.

4. The CML has been working closely with the Association of British Insurers (ABI) on flood risk issues. Currently the vast majority of properties in the UK are insurable on normal terms under the ABI's Statement of Principles and, therefore, mortgageable. In order for this situation to continue, significant investment in flood defence and mitigation infrastructure is required.

5. A particular concern would be if the ABI were so dissatisfied with the government response to flooding that their members decided to withdraw cover from existing properties. Insurance contracts are normally only valid for 12 months, and if insurers did not renew cover at the end of this period, it would leave both lender and borrower exposed to an increased risk of loss and potentially invalidate the mortgage. The desire to retain flooding cover as a standard aspect of buildings insurance is, therefore, extremely important to the working of the mortgage market and the wider housing market. Properties that could not get either insurance or a mortgage would be significantly devalued.

6. Consequently, we welcome the Pitt Review into the causes of, and response to, the recent floods, and hope that the recommendations will focus on reducing the risks that may result in the removal of flood insurance as a standard offering and ultimately affect the mortgageability of properties.

The summer floods: more properties at risk

7. Whilst the CML is encouraged by the government's commitment to spend £2.15 billion on flood defences over the next three years, we remain concerned that this will not be enough. The ABI have stated that the spending plans announced at the 2007 comprehensive spending review fall short of the £2.25 billion they believed was required to defend significant numbers of high risk properties prior to the summer floods.

8. Our main concern is that the number of properties that are considered by the Department for the Environment, Food and Rural Affairs (Defra)/the Environment Agency (EA) to be at high risk (greater than a flood event every 1 in 75 years) will increase at a rate greater than the number protected by improved defences.

9. The summer 2007 floods, in some cases were caused, or significantly exacerbated, by inefficient urban drainage in the face of torrential rainfall. This will not necessarily be remedied by increased spending on flood defences, and also needs to be considered in terms of the insurability and mortgageability of properties. It is predicted that such intense storms will become increasingly frequent as the impacts of climate change become more prevalent, bringing into question the risk level for thousands of homes that were previously thought to be safe from repeated flooding.

Recommendations and next steps

10. The CML believes that in order to allow the insurers to continue insuring properties in line with the ABI's Statement of Principles and not to endanger the mortgageability of a large number of properties, the flood defence budget should at least be in line with the ABI's recommendations, and should fund projects that defend the greatest numbers of properties at the highest risk.

11. Improved co-ordination and collaboration between the responsible bodies, namely the EA, local authorities and water companies, is needed to improve the urban drainage infrastructure, backed by funds from Defra to make the improvements necessary.

12. The ABI and Flood Forum have produced a very helpful pamphlet encouraging flooded householders to opt for resilient reinstatement. We believe that resilient reinstatement should be offered to every householder when a property has been flooded. If insurance is insufficient to meet any increased cost of resilient reinstatement, then lenders may be prepared to offer a further advance to meet this cost, provided it would be within a reasonable loan-to-value range, and meet their other normal underwriting criteria. Resilient reinstatement can significantly reduce the likelihood of needing to make an insurance claim following a further flood and, more importantly, means that a householder can return to normal more quickly.

Further contact

13. This response has been prepared by the CML in consultation with its members. Comments and queries should be addressed to Matt Smith, senior policy adviser

Telephone: 020 7438 8930

email: Matt.Smith@cml.org.uk.