Bank of England probing risk that cladding crisis could make mortgage lenders go bust

Labour Party figures separately showed that insurance premiums for affected flats have soared

By Edward Malnick, SUNDAY POLITICAL EDITOR 24 October 2021 • 8:02pm



The Bank of England is examining whether mortgage lenders could go bust due to the cladding crisis, The Telegraph can disclose, as Labour figures separately reveal that insurance premiums for affected flats have increased enormously.

The Bank's Prudential Regulation Authority is

reviewing the extent of lenders' exposure to leasehold flats blighted by building materials that are deemed unsafe. While an initial analysis is believed to have suggested that banks would cope with the crisis, the regulator is in discussions with trade bodies and lenders to draw firmer conclusions.

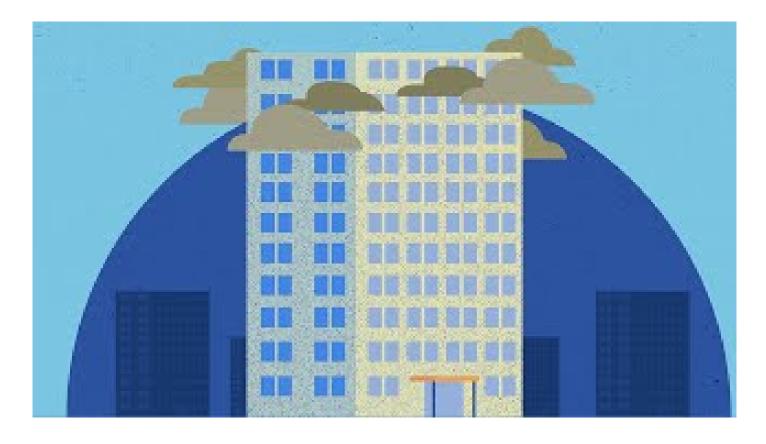
The move comes after MPs were warned earlier this year that banks could end up "in trouble" if leaseholders increasingly end up being unable to pay their mortgages due to the costs of funding remediation work to their blocks.

One of the significant costs being faced by leaseholders in affected flats is <u>soaring insurance premiums</u>, according to Labour.

Analysis of a sample of nine blocks of flats affected by fire safety concerns found that average premiums increased by more than 600 per cent in the last two years, with costs for individual flat owners rising from $\pounds 234$ to $\pounds 1,734$ per year.

For one building in Runcorn, Cheshire, insurance costs rose from £34,000 in 2019 to £525,000 in 2021. Those

costs are then divided between individual leaseholders.



Lucy Powell, Labour's shadow housing secretary, said the figures highlighted a "loss of any sense of proportionality around risk". She warned that banks were refusing to lend on properties and insurers were hiking premiums as a result of overzealous inspections that highlighted features like wooden balcony decking, which while not "desirable" did not amount to an <u>equivalent fire hazard to Grenfell-style cladding.</u>

New regulations banning the use of combustible materials on residential buildings were introduced in the wake of the Grenfell Tower fire in 2017. But in recent years leaseholders have been saddled with hefty bills to replace combustible cladding, insulation and balcony decking that has been outlawed.

Many leaseholders living in buildings found to be constructed from non-compliant materials are unable to sell their homes because the changes have meant they cannot acquire the paperwork needed for lenders to provide mortgages on the properties.

Surging insurance premiums

Mike Amesbury, the shadow housing minister, said: "<u>The</u> <u>insurance premiums being charged to leaseholders</u> is a scandal ... We urgently need a Building Works Agency, to go block by block, assessing risk, commissioning and funding necessary works, signing off buildings as safe, and have the power to pursue those responsible to ensure the polluter pays." Mr Amesbury has written to the Financial Conduct Authority seeking an investigation into whether insurers are "profiteering of the backs of innocent leaseholders".

Michael Gove, the new Levelling Up Secretary, is said to be examining how to cut insurance premiums for leaseholders. A source close to Mr Gove said he was "looking closely at all the issues to ensure we are doing everything we can to protect and support leaseholders. He will not hesitate to take further action if required."

Earlier this year, Dr Dean Buckner, a <u>former official at the</u> <u>Prudential Regulation Authority</u>, warned MPs that rising costs for leaseholders could result in significant losses to lenders if borrowers began defaulting on their mortgages.