

Are Ethics Up For Sale?

*Building societies may be an Ethical Consumer Best Buy, but how ethical are their buy-to-let mortgages, asks **Simon Birch**.*



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As a mass action that's taking on the might and vested interests of the Big Banks, Move Your Money is clearly a Good Thing. However what's raising the eyebrows of some are the financial products being sold by the majority of the ethical alternatives to the Big Banks as recommended by Ethical Consumer. The thing is that every mutual – that is building societies and the Co-op Bank – provide buy-to-let mortgages. For a growing number of people this is a problem.

Buy-to-let

“Many young people are now being effectively disenfranchised from the property-owning democracy by buy-to-let investors,” says Matt Griffith, director of the campaign group Priced Out. Griffith argues that buy-to-let investors benefit from both cheaper mortgage finance thanks to the use of interest-only mortgages and tax breaks on interest payments.

“This means that when first-time buyers try and get a foot on the property ladder they are easily outbid by buy-to-let investors,” says Griffith. “Buy-to-let is radically transforming the UK housing market to one dominated by an equity rich landlord class whilst home-ownership for lower income groups is becoming a thing of the past.”

Property bubble

I first looked at buy-to-let mortgages in Ethical Consumer over six years ago. Since then the role that buy-to-lets have played in stoking the UK's housing boom has become clearer.

“Buy-to-let was perhaps the single biggest contributor to the property bubble in the UK and Ireland. It is the principal reason why we now have a ‘priced out’

generation of young adults and families unable to get on to the fabled property ladder,” says Patrick Collinson editor of the Guardian's Money section, who has been tracking the buy-to-let market since it emerged in the late '90s.

So given the largely negative impact that buy-to-lets have had on the housing market and in turn on the plans and aspirations of an entire generation, why do the mutuals, which are identified as an ethical alternative to the Big Banks, still offer them?

Mutual response

“There is a demand out there for buy-to-let to which we are responding. However we remain committed to first-time buyers with a range of products such as mortgages that require small cash deposits” says Andy Hammerton from the Co-op Bank defending the Co-op's decision to ramp up its involvement in the buy-to-let market earlier this year.

The Nationwide, the UK's biggest building society and one of the biggest providers of buy-to-let mortgages has a similar line: “We are one of the UK's leading lenders in its support for the housing market and first-time buyers,” says a Nationwide spokesperson. “The provision of buy-to-let mortgages helps support those people who, out of choice or necessity, choose to rent rather than buy.”

Neither the Co-op nor the Nationwide would comment on the apparent contradiction between claiming to want to help first-time buyers whilst at the same time still offering buy-to-let mortgages. They claim that the difficulties facing first-time buyers are complex and couldn't be pinned on buy-to-lets alone.

Priced Out's Matt Griffith however is dismissive of this argument: “The position of the mutuals that buy-to-let is a separate

market with no impact on first time buyers is simply not tenable. Buy-to-let investors and first-time buyers are in close competition with each other. Both focus on the lower end of the housing market in flats and starter homes where buy-to-let investors find yields most attractive,” says Griffith.

Evil landlords?

Whilst not being against landlords or property investment in general, since the rental sector is an important part of any healthy property market, by providing buy-to-let mortgages Griffith believes that the mutuals are taking a short term, cynical and profit-driven decision whilst abandoning their historical roots. “Mutual organisations, who were often started by groups of working families seeking to access home ownership after being shunned by the short-termism of the banking sector, should take a long hard look at themselves. Building societies used to see themselves as helping to shape the market to create a valuable social good, now they hide behind simply ‘responding to market demand’ whilst doing great social damage.”

Given then that many people see their buy-to-let property as a long-term investment should we view buy-to-lets as an unethical investment? “Landlords aren't evil and immoral per se,” says Patrick Collinson. “They can provide an excellent service, good properties and decent rents. The problem is that too many don't do that, which is probably part of a wider get-rich-quick mentality that infects so many people brought up in Anglo-Saxon capitalism. The reality is that some buy-to-lets are ethical and some aren't.”

For more information contact Priced Out: www.pricedout.org.uk