The Agencies and 'One Bank'

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- The Bank's Agents have had a long-standing role to provide economic intelligence for monetary policy purposes. Increasingly the Agents have also been gathering intelligence to inform financial stability policy.
- Developments in credit conditions and property markets are examples of issues relevant to both monetary and financial stability policy that the Agents are particularly well placed to provide information on.

Overview

The Bank of England's Agencies have had a long-standing role to provide economic intelligence to the Monetary Policy Committee (MPC), principally through regular meetings with businesses to take the temperature of the UK economy. In recent years the Agents have also been increasing the amount of intelligence gathered and synthesised on behalf of the Bank's financial stability functions. The development of that part of the Agents' work has been given added impetus by the creation of the Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA), and the 'One Bank' approach subsequently set out in the Bank's Strategic Plan.[(2)]

The Agents meet with some 9,000 contacts a year across a range of sectors. In so doing they have access to a deep pool of business intelligence. Some of that is relevant to both monetary and financial stability policy — particularly non-financial companies' reports on the availability of finance. The Agents can also focus on contacts in key sectors that have been a source of risk to financial stability in the past, such as property markets.

The intelligence gathered is synthesised and communicated internally for the purposes of monetary and financial stability policy, including through presentations to the Bank's policy committees and in regular internal notes. The Agents' intelligence is shared externally through the publication on the Bank's website of the *Agents' summary of business conditions* and the Agents' national scores.

Two examples of where Agencies have provided intelligence that has informed both monetary and financial stability policy over the past couple of years are on corporate credit conditions and the housing market.

In their reporting of credit conditions, a particularly useful aspect of Agency intelligence has been on new forms of non-bank finance, such as peer-to-peer lending and crowdfunding, given the limited data available on those markets. Another focus has been the increasing need among smaller suppliers for working capital finance due to a lengthening of their larger customers' payment times, and an associated increase in the use of so-called 'supply chain finance'.

Agents gather intelligence on the housing market from a wide range of contacts including house builders, estate agents, financial advisors, surveyors, conveyancers and mortgage brokers and lenders. That information has been particularly useful in tracking the changing conditions in the housing market over the past two years, including in house building, regional variations in housing market activity, and the effects of regulatory change.

External representation of the Bank is also a key part of the Agencies' role. This includes through presentations to business audiences on both the *Inflation Report* and the *Financial Stability Report*. And the Agencies also host regional visits by policymakers from the MPC, FPC and PRA Board.

(1) The authors would like to thank Simon Caunt, Tim Pike and Pamela Wright for their help in producing this article.
(2) For more details on the Strategic Plan see www.bankofengland.co.uk/about/Pages/strategicplan/default.aspx.

The Bank of England's twelve Agencies[1] have provided economic intelligence to the Monetary Policy Committee (MPC) since its inception in 1997, although representatives in the regions and countries of the United Kingdom have been providing the Bank with economic intelligence, in one form or another, since as far back as 1930. The Agencies gather that intelligence principally through regular meetings with business contacts to gauge UK economic conditions. They also help to explain monetary policy to business audiences — for example, by providing regular briefings on the *Inflation Report*.[2] But, alongside those key roles, in recent years the Agents have been increasing the amount of intelligence gathering and representational work undertaken on behalf of the Bank's financial stability functions. The development of that part of the Agents' work has been given added impetus by the creation of the Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA), and the One Bank approach subsequently set out in the Bank's Strategic Plan (see the box opposite).

This article sets out the Agencies' wider work across the Bank's functions. It looks firstly at the representative work undertaken by the Agencies on behalf of the Bank, before setting out the process of business intelligence gathering and reporting. It then focuses on two case studies of Agency work that have informed both monetary and financial stability policy.

One Bank representation

The Agents undertake a wide range of representational activities that help promote businesses' understanding of Bank policy and can also help gauge the effectiveness of policy communications.[3] The Agents' work has expanded in recent years to include a greater element of financial stability policy representation.

In particular, the Agents host visits by MPC, FPC and PRA Board members, providing opportunities for both formal speeches and informal discussions with business contacts. For example, in 2014, the Agencies hosted 46 formal visits of MPC, FPC and PRA Board members. Another key part of the Agents' representational work is providing or hosting presentations on the *Inflation Report* and the *Financial Stability Report* to regional business audiences. Agents also facilitate briefings by staff across the monetary policy, macroprudential policy and prudential regulation areas. The number of attendees at presentations given or hosted by the Agents totalled around 20,000 in 2014.

A key part of this representational work is gathering feedback offered by business contacts on the communication of the Bank's policies. That information can help gauge the extent to which the Bank's policies are understood and are having the expected effect on business conditions. For example, feedback from the Agency network has been crucial in gauging contacts' understanding of forward guidance and its effect on their businesses.

The Agencies also facilitate consultation across the Bank with the wider business community. For example, the Agents played a key role in the consultation process leading up to the decision to introduce polymer bank notes, helping to arrange focus group meetings around the country to gather feedback on the new notes. More recently, the Agents have also assisted

Recent changes to the Bank of England and the creation of 'One Bank'

In April 2013, the Bank of England experienced its most important institutional and functional changes in a generation, as the Government introduced wholesale changes to the UK regulatory landscape in response to failings in pre-crisis arrangements.[1] This regulatory reform resulted in the Bank gaining significant new responsibilities, including: microprudential regulation of insurers, deposit-takers and major investment firms, through the creation of the PRA; macroprudential regulation of the financial system as a whole, through the creation of the FPC; and supervision of some critical financial market infrastructure providers.

Following those changes, the Bank undertook a major strategic review of its operations, and on 18 March 2014 launched its Strategic Plan for the next three years.[2] That Plan is aimed at transforming the institution to take full advantage of the Bank's expanded policy responsibilities. It creates a single, unified institution — One Bank — that will maximise its impact by working together across all its functions. At the core of the Strategic Plan lies a shared vision for the Bank, embodied in a new mission statement: promoting the good of the people of the United Kingdom by maintaining monetary and financial stability. The Plan sets out how the Bank will be guided in everything it does by its mission statement and its commitment to a diverse and talented workforce, analytic excellence, outstanding execution and openness and accountability.

(1) See Murphy and Senior (2013).
(2) For more details on the Strategic Plan see www.bankofengland.co.uk/about/Pages/strategicplan/default.aspx.

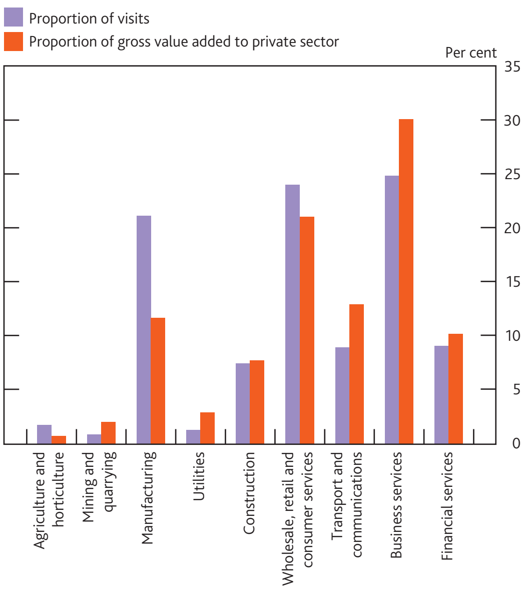
(1) The Bank has Agencies for Central Southern England, the East Midlands, Greater London, the North East, the North West, Northern Ireland, Scotland, the South East & East Anglia, the South West, Wales, the West Midlands and Yorkshire & the Humber. For more detail about individual Agencies see www.bankofengland.co.uk/monetarypolicy/Pages/agencies/default.aspx.
(2) See Eckersley and Webber (2003) for more details.
(3) In addition, the Agents play a major part in helping to judge the Bank of England and *The Times* 'Target Two Point Zero' Interest Rate Challenge for schools and colleges. For more details see www.bankofengland.co.uk/education/Pages/targettwopointzero/default.aspx.

with the Fair and Effective Markets Review,(1) arranging meetings for the review team with corporate treasurers.

Economic and financial intelligence gathering

Although representation is an important part of the Agents' work, their primary role is the gathering of business intelligence. Agents undertake some 5,500 company visits a year across a range of sectors, broadly in line with those sectors' contributions to UK economic output (**Chart 1**). These visits are supplemented by panel discussions with some 3,500 businesses. The Agents' meetings take place across all regions and countries of the United Kingdom and allow in-depth discussions with contacts on business conditions, including the credit conditions they face as well as their output and pricing. As such, they provide a deep pool of information that can inform both monetary and financial stability policy. Aside from providing a source of information that is more timely than many economic, and some financial, statistics, this intelligence can shed light on key puzzles facing both monetary and financial policy makers.(2)

Chart 1 The Agents' contact visits: sectoral composition(a)



Sources: Bank of England, ONS and Bank calculations.

(a) Proportion of company visits and gross value added are both measured as a share of private sector totals in 2014.

While the majority of the Agents' contact visits are with non-financial companies (**Chart 1**), the Agents also meet a range of financial companies. These meetings are distinct from and complementary to those undertaken by other parts of the Bank such as the Market Intelligence function and the PRA. The Agents' discussions are aimed primarily at understanding the economic and financial conditions faced by contacts and their business plans, often at a local level, rather than conditions in, and the operation of, specific wholesale markets. And, while Agents meet contacts from financial firms regulated by the PRA, the Agents' meetings are explicitly not of a supervisory nature. There is, however, information sharing between the Agents and Market Intelligence and the PRA to prevent possible duplication, and contacts are made aware that anything said to an Agent that bears on regulatory matters will be shared with the PRA.

After each meeting, a confidential record of the discussion is produced, summarising the key points across demand and output, supply, costs and prices and credit conditions. This provides the main source material for the synthesising and reporting of intelligence. Where relevant, Agents also assign individual company visit scores to the information gained from the meeting, which are collated in an internal database, allowing for additional quantitative analysis of the intelligence.(3)

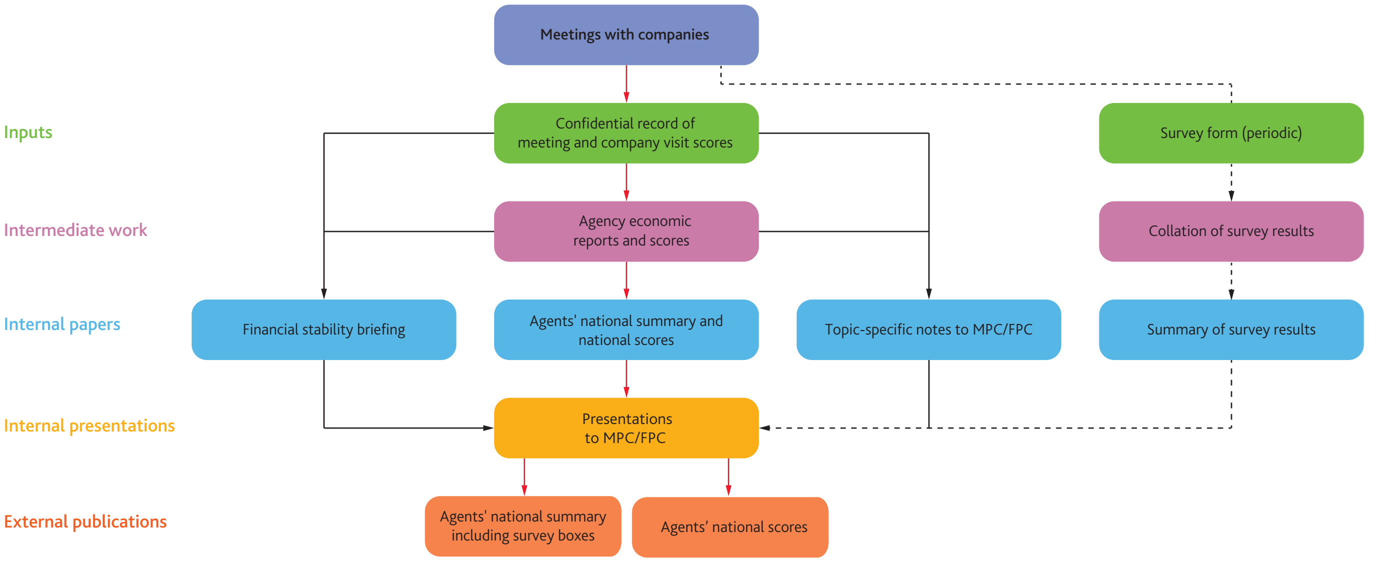
In addition to their regular intelligence gathering, from time to time the Agents undertake surveys of contacts on specific issues.(4) These are generally on issues that relate to monetary policy — such as investment or pay — rather than issues of direct interest to financial stability policy, given that these surveys need to apply across a broad base of contacts to generate a sufficient sample of respondents. But some surveys will inform the work of both committees, such as Agents' surveys of credit conditions facing non-financial companies.

Regular economic and financial reporting

Agents' intelligence is collated and synthesised to provide briefing to inform both monetary and financial stability policy, as illustrated in **Figure 1**. Central to this process is that the Agencies use the intelligence gathered from businesses in their region or country to produce regular confidential economic reports, covering developments in demand and output, supply, costs and prices and credit conditions. Agents also produce quantitative assessments of economic conditions across similar categories — the Agents' national scores (see box on page 51). These scores are separate to, but informed by, the company visit scores made after individual meetings. The Bank publishes an overview of the economic and financial intelligence from the Agents' reports in the *Agents' summary of business conditions*, which also contains summaries of the Agents' special surveys, and the Agents' national scores.(5)

(1) The Fair and Effective Markets Review was established by the Chancellor in June 2014 to conduct a comprehensive and forward-looking assessment of the way wholesale financial markets operate, help to restore trust in those markets in the wake of a number of recent high profile abuses, and influence the international debate on trading practices. For more details see www.bankofengland.co.uk/markets/Pages/fmreview.aspx.
(2) For more details on the interactions between monetary policy and macroprudential policy see Shakir and Tong (2014).
(3) See Relleen *et al* (2013). Company visit scores are distinct from, but inform, the published Agents' national scores for the economy as a whole. The Bank has made available a dataset of historical company visit scores, suitably anonymised, for the purposes of economic research. See www.bankofengland.co.uk/research/Pages/onebank/datasets.aspx.
(4) See Belsham, Caunt and Duff (2012) for further details and examples from earlier surveys.
(5) See www.bankofengland.co.uk/publications/Pages/agentssummary/default.aspx.

Figure 1 A stylised picture of the use of Agency intelligence



In addition to the *Summary*, the Agents produce regular briefing notes on financial stability issues for policymakers. And across their work for both monetary and financial stability policy, Agents have been undertaking deeper intelligence gathering and analysis on specific topics. This can be through targeted groups of meetings with contacts, the analysis of company visit scores or using the extensive database of company meeting records to analyse a particular issue in more depth.

Drawing on that range of material, the Agents give a presentation to the MPC as part of the regular 'Pre-MPC' meeting in which Bank staff brief the Committee on economic and market developments. An Agent also provides a presentation of the results of any special surveys focused on a particular topic, when relevant, as part of that meeting. Where joint briefing meetings are held of both the FPC and MPC, the Agents will generally give a presentation that focuses on areas that are of direct interest to both committees.

Case studies of use of Agency intelligence

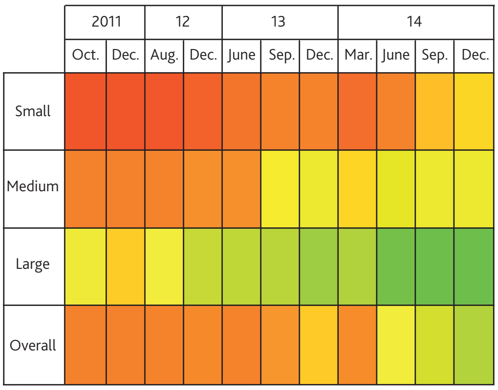
Among the aspects of work that are relevant to both monetary and financial stability policy, the Agents have focused on developments in two key areas over the past couple of years: corporate credit conditions and the housing market. This section sets out some of that analysis as 'case studies' of Agents' work that has been used right across the Bank.

Corporate credit conditions

Agents' monitoring of corporate credit conditions intensified in the wake of the financial crisis. The Agents have regularly reported on credit conditions in the *Agents' summary of business conditions* and have conducted special surveys of credit conditions. In their internal work, the Agents have tracked credit conditions in more granular detail — from the perspective both of the borrowers and providers of corporate finance.[1]

Part of the Agents' monitoring of corporate credit conditions has been through the production of a heatmap, which summarises the Agents' assessment for small, medium and large non-financial businesses (**Chart 2**). The heatmap, constructed based on the judgements of the Agents, shows how overall credit availability has eased across firm sizes since 2012. This is broadly consistent with the picture provided by lenders in the Bank of England's *Credit Conditions Survey*.[2]

Chart 2 Agents' assessment of corporate credit availability[a]



(a) This mapping is based on individual Agencies' national assessments of corporate credit availability, weighted by the gross value added of their regions or countries. The greater the intensity of red, the tighter credit availability; the greater the intensity of green, the looser credit availability. Yellow indicates normal conditions. Includes bank and non-bank credit.

(1) For the Bank's latest assessment of credit conditions see the February 2015 *Inflation Report*; www.bankofengland.co.uk/publications/Documents/inflationreport/2015/feb.pdf and the December 2014 *Financial Stability Report*; www.bankofengland.co.uk/publications/Documents/fsr/2014/fsrfull1412.pdf.
(2) See Butt and Pugh (2014) for a description of how the Bank captures credit conditions in its measures of credit spreads, which are used in forming the MPC's central macroeconomic projections.

Agents' national scores

Each month, the Bank's twelve Agencies make quantitative assessments of economic conditions for 25 variables covering demand, output, labour market conditions, capacity, and costs and prices. These assessments, the Agents' scores, provide a numerical measure of conditions at a national level, as seen from the Agents' respective countries and regions. They are then aggregated into national scores, weighted by regional contributions to UK gross value added. The scores act as a useful quantitative summary of the intelligence gathered by the Agents. The scores, however, will only be useful if they broadly track trends in the economy: in other words, they should be well-correlated, on average, with official data.

This box provides a simple review of the scores by comparing them to equivalent official data published by the Office for National Statistics (ONS). The results indicate that many scores are consistent with UK economic trends.(1)

The scoring scale

The score for each variable ranges from +5 to -5. For the majority of variables, +5 indicates a rapidly rising level, 0 indicates an unchanged level and -5 indicates a rapidly falling level. Most scores compare the level of the variable in the past three months with that in the same period a year earlier. The scores of some variables, such as recruitment difficulties and capacity utilisation, instead reflect conditions relative to normal. Here, 0 indicates normal conditions, and a score of +5 or -5 indicates extreme conditions. In the cases of capacity utilisation, employment and investment intentions, scores are forward-looking, over the coming six, six and twelve months respectively. Wherever possible, the Agents' scoring is calibrated against ONS data.

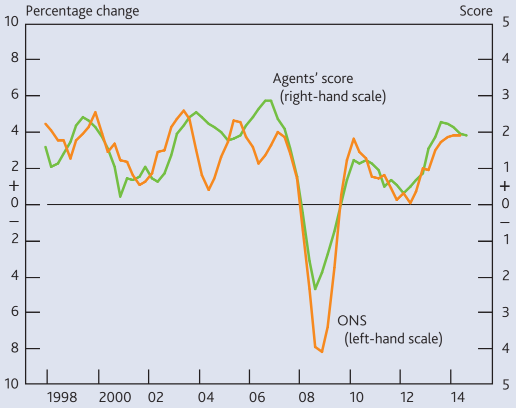
Comparing the scores with official data

Although correlations vary across the scores, on average the Agents' scores appear to track trends in the economy reasonably well. For example, **Chart A** shows a composite score for private sector output tracking the broad trends closely. With Agents' scores available ahead of ONS data releases, that indicates that Agents can provide a useful early steer on the pace of economic activity.

Chart B lists the correlation coefficients in order of strength, comparing ONS data with the Agents' scores. A majority of the scores have a correlation coefficient of over 0.7, indicating a strong degree of comovement. Some of the highest correlations are for output measures for key sectors of the economy, such as business services and manufacturing output. Correlations in pricing for those sectors are also very high, although retail goods price inflation has the highest correlation of any individual score.

In a limited number of cases, the correlations with ONS data are weak. There are a number of possible explanations for

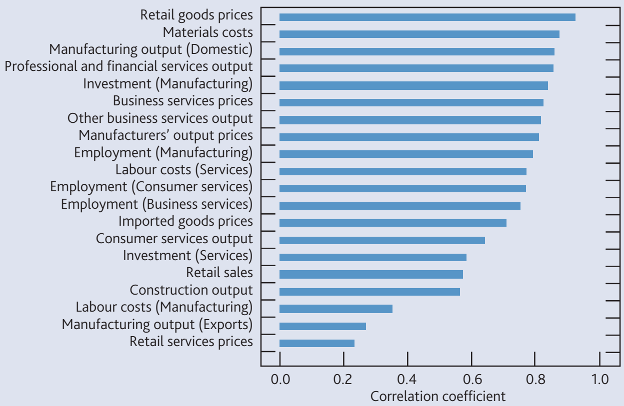
Chart A Measures of private sector output(a)



Sources: Bank of England, ONS and Bank calculations.

(a) Output and Agents' scores measure the change in the past three months relative to a year earlier. The scores are a mix of turnover and volume measures. Data are shown on a quarterly frequency; the Agents' score for 2015 Q1 uses February data, the latest available.

Chart B Correlations with comparable ONS data(a)



Sources: Bank of England, ONS and Bank calculations.

(a) Sample periods over which correlations are measured vary depending on the availability of ONS data and Agents' scores. In all cases a period of at least nine years is available. Correlations shown are with contemporaneous ONS data, other than for forward-looking scores where the highest correlations with lagged data are shown. Depending on ONS data availability, quarterly or monthly series are used.

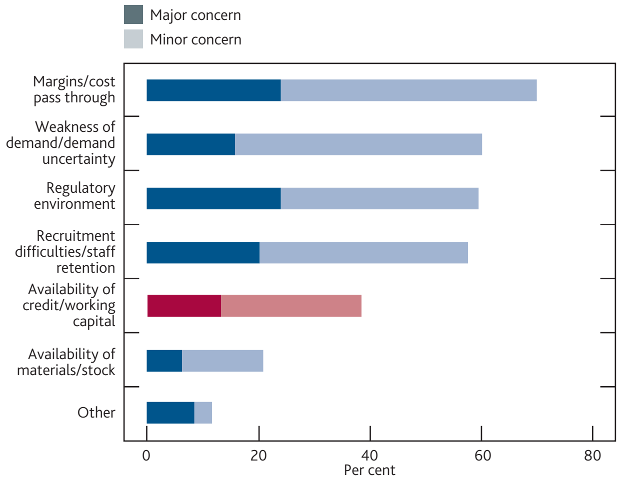
those low correlations. Series that are volatile, or where production is concentrated among relatively few companies, such as manufacturing exports, are more difficult to capture. There can be differences in definitions between the Agents' score and ONS data, such as in the sectoral comparisons of labour costs per employee with ONS data for average weekly earnings, which excludes some elements of non-wage labour costs. In the case of retail services prices in particular, a lack of variation in the series over time may also contribute to a low correlation.

A high correlation with ONS data at all times is not an aim in itself. For example, earlier vintages of the official data for investment in the period 2011 to 2013 were much weaker than indicated by Agents' investment intention scores. Over time, the ONS data for investment during this period have been revised up so that they are now more in line with the Agents' scores.

(1) See Dwyer (2008) for a fuller review of the properties and usefulness of Agents' scores.

The picture of improving credit availability was also reflected in the results of Agents' special surveys on credit conditions that were run in the spring of 2012, 2013 and 2014. One aspect where information from the Agents has added to other sources of information is in assessing how important an issue credit conditions are to contacts relative to other factors affecting their businesses. By 2014, credit conditions were said to be well down the list of contacts' key concerns (**Chart 3**), in contrast to the general impression from Agents' meetings in 2012 and much of 2013.

Chart 3 April 2014 Agents' survey: key concerns for contacts



Non-bank finance

One aspect of credit conditions where Agents' insights have been particularly useful is on developments in non-bank finance, parts of which are less well covered by data and survey evidence than bank finance.

Agents have reported how the ease with which large companies have been able to raise finance, relative to smaller firms, over the past couple of years has been supported by the strong availability of capital market finance — often at very low rates. In part, contacts attributed this to investors' appetite for purchasing riskier assets, such as corporate bonds, as they sought higher returns in a continuing low interest rate environment. For some larger commercial property companies, the increasing availability of non-bank finance meant that they were able to refinance away from bank debt, in some cases strengthening their balance sheets in the process.

Evidence on large firms' use of finance from capital markets is widely available, but evidence on markets for finance available to smaller companies is harder to come by. One focus for Agency intelligence has been on how the market for lending to small and medium-sized companies has responded to limitations in the availability of bank finance. In particular, Agents have tracked the expansion of new forms of non-bank finance, such as peer-to-peer lending and crowdfunding.(1)

Agency intelligence has indicated that while the absolute value of funding provided by these platforms has been low, their growth has been fast. Contacts note that the rapid and simple application and decision-making processes makes these sources attractive, albeit with lending often at a higher cost than bank finance. Some have reported using such finance effectively as a bridging loan that can be replaced when they obtain cheaper bank lending. But many contacts that have used such borrowing have done so more than once and/or plan to use it again.

Although demand for finance has continued to be subdued among smaller businesses overall, some companies have reported an increasing need for working capital finance, as large customers have lengthened the time taken to pay for goods and services delivered. There have been increasing reports, however, of arrangements being set up whereby large customers help their smaller suppliers meet that financing need, albeit at a price, through the use of so-called 'supply chain finance'. These arrangements often involve a lender extending credit to a small supplier, but secured against the larger customer, whose credit quality would normally be much the stronger of the two.

Future plans

As part of plans to track credit conditions over the longer term, Agents have been trialling the formal scoring of credit conditions, as for other economic variables. This has been done by measuring credit availability relative to normal (a similar approach to that taken for capacity utilisation and recruitment difficulties). Some time will be required to assess the time-series properties, but the Agents intend to publish these scores on a regular basis alongside their other national scores in due course.

The housing market

Developments in the UK housing market can have implications both for the macroeconomy and for financial stability. A direct macroeconomic impact was illustrated during the 2008/09 recession, when a 40% fall in private sector housing investment accounted for about 40% of the decline in GDP.(2) Financial stability risks can emerge when developments in the housing market are associated with rising levels of household indebtedness. At higher levels of debt, households are more likely to encounter mortgage payment difficulties in the face of shocks to income or interest rates. This could pose direct risks to the resilience of the UK banking system. It could also pose indirect risks via its impact on economic stability, as highly indebted households might react

(1) See also 'An update to estimates of external finance for UK businesses' in *Trends in Lending*, October 2014; www.bankofengland.co.uk/publications/Documents/other/monetary/trendsoctober14.pdf.
(2) For more details see 'Macroeconomic implications of the housing market' on page 20 of the November 2013 *Inflation Report*; www.bankofengland.co.uk/publications/Documents/inflationreport/2013/ir13nov.pdf.

by cutting spending sharply in order to maintain their mortgage payments.[1]

Following a prolonged period of weakness after the financial crisis, housing market activity picked up markedly during 2013 and the first half of 2014, reflected in higher levels of transactions and significant increases in house prices in some areas. Agents have covered the housing market in the *Agents' summary of business conditions* for many years, drawing on regular meetings with a range of contacts, including house builders, estate agents, financial advisors, surveyors and mortgage brokers and lenders. But given the monetary and financial policy implications of the housing market recovery, the Agents intensified their intelligence gathering in this area, including on house building and regional variations. As the housing market subsequently eased during 2014, contacts offered views on the possible drivers of that slowing, including the potential effects of regulatory change.[2]

A recovery in house building

One macroeconomic aspect that Agents focused on was the response of house building to the recovery in demand. During 2013 Agents noted a pickup in activity from house builders who began to develop more sites — many of which they had owned since the pre-crisis period — and acquire new ones. This was increasingly reflected in the company visit scores for house building output which began to rise sharply, following an increase in estate agents' turnover scores (**Chart 4**).

Chart 4 Company visit scores for housing-related turnover[(a)]

(a) Based on company visit scores data that measure turnover for the past three months relative to a year earlier. The chart shows six-month moving averages for these data series.

As the recovery developed during 2013, Agency intelligence also provided early warning of supply constraints, including shortages of labour and materials, which began to lead to significant cost inflation for developers. For example, contacts were highlighting the specific issue of brick shortages before the issue received significant coverage in the media, and subsequently provided insights into how suppliers were responding to that challenge, for example by restarting mothballed brick kilns. For smaller house builders, meanwhile, access to finance remained a challenge and many were unable to deliver the increase in output that was being demanded in the market.

Regional variations

The Bank sets monetary and macroprudential policy for the United Kingdom as a whole. However, the implications of housing market developments for policymakers depend to some extent on the degree to which they are confined to particular areas. While there was a pickup in the UK housing market overall during 2013 and early 2014, the rate of price and activity growth differed markedly between regions. For example, central London started seeing extremely sharp house prices rises that outpaced the rate of inflation in the wider South East, where prices have traditionally moved more closely in line with the capital. While house prices also started to increase in other areas, contacts reported to Agents that the recovery in prices was much weaker in some areas, particularly in Northern Ireland and parts of northern England. Contacts also noted that, although transaction levels had picked up across the United Kingdom, activity was often still significantly below pre-crisis levels.

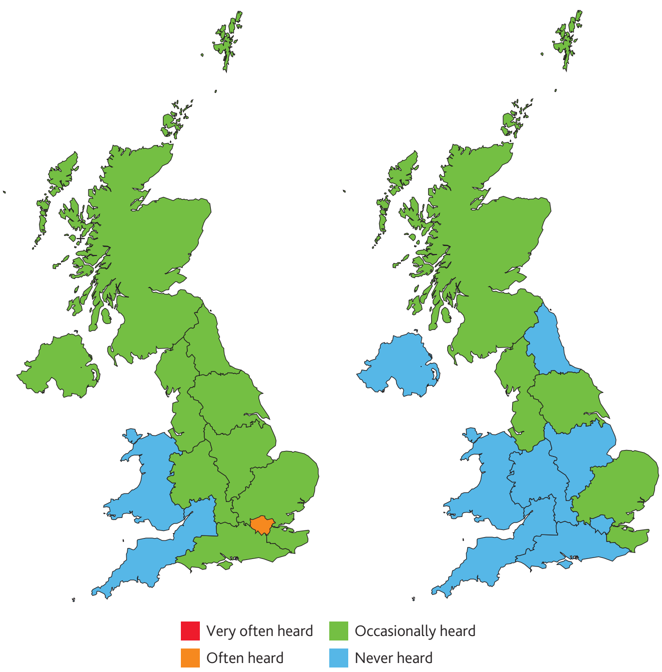
The Agency network has sought to complement other sources of information on regional housing market developments by the production of regular heatmaps, focusing on aspects for which data are not readily available. For example, Agents have been monitoring indicators of behaviour associated with an overheating market, such as 'sealed bids' (where a buyer places an offer on a property without knowledge of what others have bid) and 'gazumping' (where a vendor accepts an offer from one buyer but subsequently accepts a higher offer from another party). As an illustration, heatmaps for May and October 2014 show how the frequency of reports of those behaviours decreased for a number of areas over that period, consistent with a widespread cooling in the housing market (**Figure 2**).[3]

Regulatory change

April 2014 saw the implementation by the Financial Conduct Authority of the Mortgage Market Review (MMR), which provided new regulations governing conduct in the mortgage market. The changes had significant implications for lenders, borrowers and intermediaries as they required a more thorough assessment of affordability prior to a mortgage being offered. In the run-up to the implementation of the new

(1) See also Bunn and Rostom (2014).
(2) For the Bank's latest assessment of the housing market and the effect of regulatory changes on the sector see the February 2015 *Inflation Report*; www.bankofengland.co.uk/publications/Documents/inflationreport/2015/feb.pdf and the December 2014 *Financial Stability Report*; www.bankofengland.co.uk/publications/Documents/fsr/2014/fsrfull1412.pdf.
(3) Evidence from Agents of regional variation in the slowing of housing market activity during 2014 was also noted on page 24 of the December 2014 *Financial Stability Report*; www.bankofengland.co.uk/publications/Documents/fsr/2014/fsrfull1412.pdf.

Figure 2 Agents' heatmap for frequency of reports of 'gazumping' or 'sealed bidding'(a)



(a) 'Gazumping' is where a vendor accepts an offer from one buyer but subsequently accepts a higher offer from another party. 'Sealed bids' are where a buyer places an offer on a property without knowledge of what others have bid.

regulations there was uncertainty about what effect they would have on the market, both in the short and long term.

Agents' intelligence provided a key means of insight into the early impact of the MMR. For example, estate agents and financial advisors often painted an alternative perspective of the practical implications of its implementation to that offered by the major banks and building societies. While it was clear that some lenders and intermediaries had brought their practices in line with the new regulatory framework well ahead of the April deadline, others had been less prepared. This resulted in some teething problems with IT systems and staff training that created delays. Other contacts highlighted an increase in the time required for lenders to conduct interviews with borrowers, some of whom were now unable to get mortgages of the size they had anticipated. Contacts reported that these operational problems were contributing to slower housing market activity during 2014 Q2.

As housing transactions slowed, Agents' intelligence gathering switched towards the extent to which the effects of the MMR might be permanent or temporary. The Agents held in-depth discussions with more than 40 contacts in August 2014, to gain a better understanding of recent housing market developments and the effects of regulatory changes. Contacts reported that, overall, the operational impact from the implementation of the MMR had been addressed by lenders. However, contacts suggested that, as a result of MMR, underwriting standards would remain tighter than they had been during the pre-crisis period over the long term. This would especially be the case for certain groups such as the self-employed or those with irregular incomes.

The Agents also asked contacts about the implications of the FPC's recommendations in June 2014 regarding the interest rates banks should use when testing mortgage affordability and the proportion of lending at higher loan to income ratios.(1) These recommendations were made to insure against the risk of a marked loosening in underwriting standards and the possibility of a further significant rise in the number of highly indebted households. Contacts of the Agents expected that the FPC recommendations would contribute to a tightening of underwriting standards over the longer term for some lenders, but they reported limited immediate impact on housing market activity. Those findings were broadly in line with the FPC's expectations, although the Committee has also noted that a signalling effect from the recommendations might have encouraged some lenders and borrowers to move away from higher-risk mortgages.(2)

Conclusion

Agents have a key representational role across the breadth of the Bank's work, most notably through arranging regional visits for senior Bank policymakers to meet and speak to business contacts across the country. Feedback from businesses can help the Bank to gauge the effectiveness of policies and their communications.

The core of the Agencies' work is, however, the gathering of business intelligence on behalf of the Bank. Agents meet a range of business contacts and generate economic and financial intelligence that can inform the work of the MPC, FPC and the PRA. While traditionally the Agencies' role has focused on providing economic intelligence to the MPC, the network has increasingly been developing its financial stability capacity and expertise.

Two examples of where the Agencies can provide 'One Bank' intelligence are on corporate credit conditions, in particular from the 'demand side' of finance, and on the housing market, given the network's extensive set of house building, estate agent, surveyor, conveyancing and mortgage market contacts. That intelligence has already been of value for the Bank.

(1) These included amending the affordability test introduced as part of the MMR to state that lenders should assess whether borrowers could still afford their mortgage if Bank Rate were to be 3 percentage points higher than at the origination of the loan. A cap was introduced stating that no more than 15% of any in-scope lender's total number of new residential mortgages should be at or greater than 4.5 times the borrower's income.
(2) See page 51 of the December 2014 *Financial Stability Report*; www.bankofengland.co.uk/publications/Documents/fsr/2014/fsrfull1412.pdf.

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