Issue 27
Autumn 2021

MORTGAGE PROFESSIONAL

Society of Mortgage Professionals
Chartered Insurance Institute

SHOPPING AROUND

Record low mortgage rates start a lending price war

Lasting effects
How will Covid-19 impact the market long-term?

Tech power
Lending platforms helping brokers work smarter

Rest assured
The importance of mortgage protection

SETTING STANDARDS

Marie Grundy welcomes readers to the new issue of *Mortgage Professional* and shines a light on the ongoing work of the Society and its members

I am delighted to have the opportunity to welcome you to the Autumn edition of *Mortgage Professional*. In this issue we are taking a closer look at the increased price competition between lenders following the introduction of record low mortgage rates as well as reflecting on the impact of Covid-19 on the mortgage market. We also examine how mortgage lending platforms are changing and what benefits this brings to both advisers and borrowers.

It is just over 18 months since a new board was formed as part of the relaunch of the Society of Mortgage Professionals (SMP). The board members bring a diverse range of experience from across the mortgage profession to help shape and drive the new strategic direction of the Society. During that time, the board has worked closely with the SMP to deliver initiatives and practical support to those advisers who share our vision of raising professional standards within the mortgage advice sector.

One such initiative was the introduction of Associate Firm status which is approaching its first anniversary and is open to both lenders and broker firms. Associate Firms voluntarily demonstrate the adoption of the professional standards set by the SMP enabling them to publicly commit to creating a culture that places clients and staff at its heart. I am delighted that Aldermore Bank has just been announced as the latest lender to sign up to Associate Firm status. There is currently a discounted membership scheme on offer to employees of Associate Firms who wish to become individual members of the SMP. For more details on this, please contact Laura Gauden and her team for further information.

11,000

WE NOW HAVE MORE THAN 11,000 SMP MEMBERS

FUTURE OPPORTUNITIES

The SMP is also committed to providing a clearer pathway to career progression through greater opportunities for personal development. Don't forget to visit our website to access the full range of tools and information available including good practice guides, webinars, additional qualifications and events. We are excited to be working closely with the Equity Release Council to provide advisers with the opportunity to access a clear roadmap to achieve full competency in the later life advice market. More details to follow so keep a close eye out for future developments here.

We now have more than 11,000 SMP members which is fantastic to see but we are keen to continue to grow our membership to incorporate a greater cross section of mortgage and protection specialists. We are working hard to engage more closely with consumers, so they understand the benefits of choosing a firm who is committed to delivering a higher standard of professionalism. As part of the increased focus on raising awareness of the work the SMP is undertaking we have recently stepped up our social media activity. If you haven't already done so, please follow us on Linkedin and Twitter so you are kept up to date with all the very latest news. You will also have immediate access to regular thought leadership pieces and membership benefits.

I really hope you enjoy this issue of *Mortgage Professional* and thank you for supporting the SMP. We will keep working hard behind the scenes to continue to promote greater opportunities to achieve a high standard of professionalism across the mortgage advice sector. ●

***Marie Grundy** is managing director of Second Charge Mortgages at West One and board member of the SMP*

CHANGED LENDING LANDSCAPE

Liz Booth finds out how 18 months of living with the pandemic has affected the mortgage market

"As the Covid-19 crisis deepens across the globe, its impact on the financial services sector and individuals' wealth and debt levels is becoming more severe."

Those were the words of Deloitte back in 2020. It explained that for individual homeowners, mortgage debt is the single largest source of debt and has the greatest impact on their finances and their ability to stay solvent. For lenders, residential mortgages are typically the most significant asset on their balance sheet and thus changes in originations, repayment schedules and default rates have significant impacts on profitability and liquidity.

"As such, maintaining the continued health of the global residential mortgage market is critical to ensuring that countries can recover from, and thrive after, the Covid-19 crisis," suggested Deloitte.

So, what has happened in the intervening months and has the mortgage market been sustained?

Globally it is a far from even picture. In the US, for example, a report from the Fed warned: "The Covid-19 pandemic's disproportionate impact on minorities in the US extends to home ownership and the mortgage market. The report notes that 44% of black homeowners who began missing payments after January 2020 – at the onset of the pandemic – were still past due in October 2020. Meanwhile, only 35% of white homeowners with past-due payments had failed to "cure" their loans."

CLOSER TO HOME

And what of the UK? UK Finance reports that, overall, mortgage arrears remain near to the historically low levels as of Q4 2020, as a direct result of payment deferrals and other tailored forbearance. Eric Leenders, managing director of personal finance at UK Finance, said: "While there was a slight rise in total arrears in Q1 2021 compared to the historic low levels seen before the pandemic, the additional support from lenders has helped many mortgage customers stay out of arrears."

However, Covid-19 has changed the landscape. David Lauder, independent mortgage adviser at ESPC Mortgages, says there are greater restrictions on lending and stricter assessment of documents and criteria in general.

"One of the biggest changes to mortgages as a result of the Covid-19 pandemic, is that for much of 2020 mortgage lenders raised minimum deposit levels to 15%, compared to 5% before Covid-19."

Other changes he identified included:

- A greater number of lenders started to offer 10% deposit mortgages at the start of 2021. The UK government also introduced the mortgage guarantee scheme to bring 5% deposit mortgages back.
- Many lenders are asking if clients have been affected by furlough. Lenders will generally only use full income if the client has returned to work or can evidence a return to work in the near future.
- Self-employed people are being assessed more rigorously with questions about how their business has been affected during Covid-19, with business bank statements as evidence.
- Mortgage applications are generally taking longer due to current service levels and the high volume being submitted. The normal two- to three-week turnaround may now take four to five weeks.

However, generally mortgage experts are optimistic. Alex Maddox, capital markets and digital director at Kensington, suggests: "The resilience of the UK housing market is something we should all recognise and celebrate.

"There was a lot of doom and gloom when it came to predictions about house prices, but after an inevitable fall at first, house prices have performed well and increased beyond pre-Covid levels in many areas. This – combined with the V-shaped economic recovery that we've witnessed – means that the future looks bright for the mortgage market as we emerge from the pandemic." ●

***Liz Booth** is contributing editor of the CII*

MORTGAGE FIGURES DURING COVID-19

● From March 2020 - 31 March 2021, lenders offered payment deferrals of up to six months to customers and buy-to-let landlords, with almost 2.9 million granted while the scheme was active. For borrowers who need additional support beyond the six-months, lenders are continuing to offer tailored forbearance.

● Mortgage payment deferrals have helped to support customers who were not in financial difficulty at the beginning of the pandemic to remain out of arrears. There was a small increase of 230 mortgages in arrears compared to the previous quarter, with a total of 77,640 homeowner mortgages in arrears of 2.5% or more of the outstanding balance.

● Within the total, there were 28,100 homeowner mortgages in early arrears (those between 2.5% and 5% of balance in arrears), a decrease of 1% on the previous quarter. In the same period in 2020, the number of mortgages in early arrears increased modestly, largely due to early payment difficulties prior to payment deferrals. Since then, payment deferrals allowed borrowers to pay these arrears off and prevented additional borrowers from going into arrears. This resulted in an overall decline in early homeowner arrears in the course of 2020, with the number of cases in Q1 2021 remaining lower than the number of cases before the Covid-19 pandemic began.

● Within the overall total, there were 27,280 homeowner mortgages with more significant arrears (representing 10% or more of the outstanding balance), an increase of 620 on the previous quarter. This figure has slowly increased since Q1 2020 but from a low base.

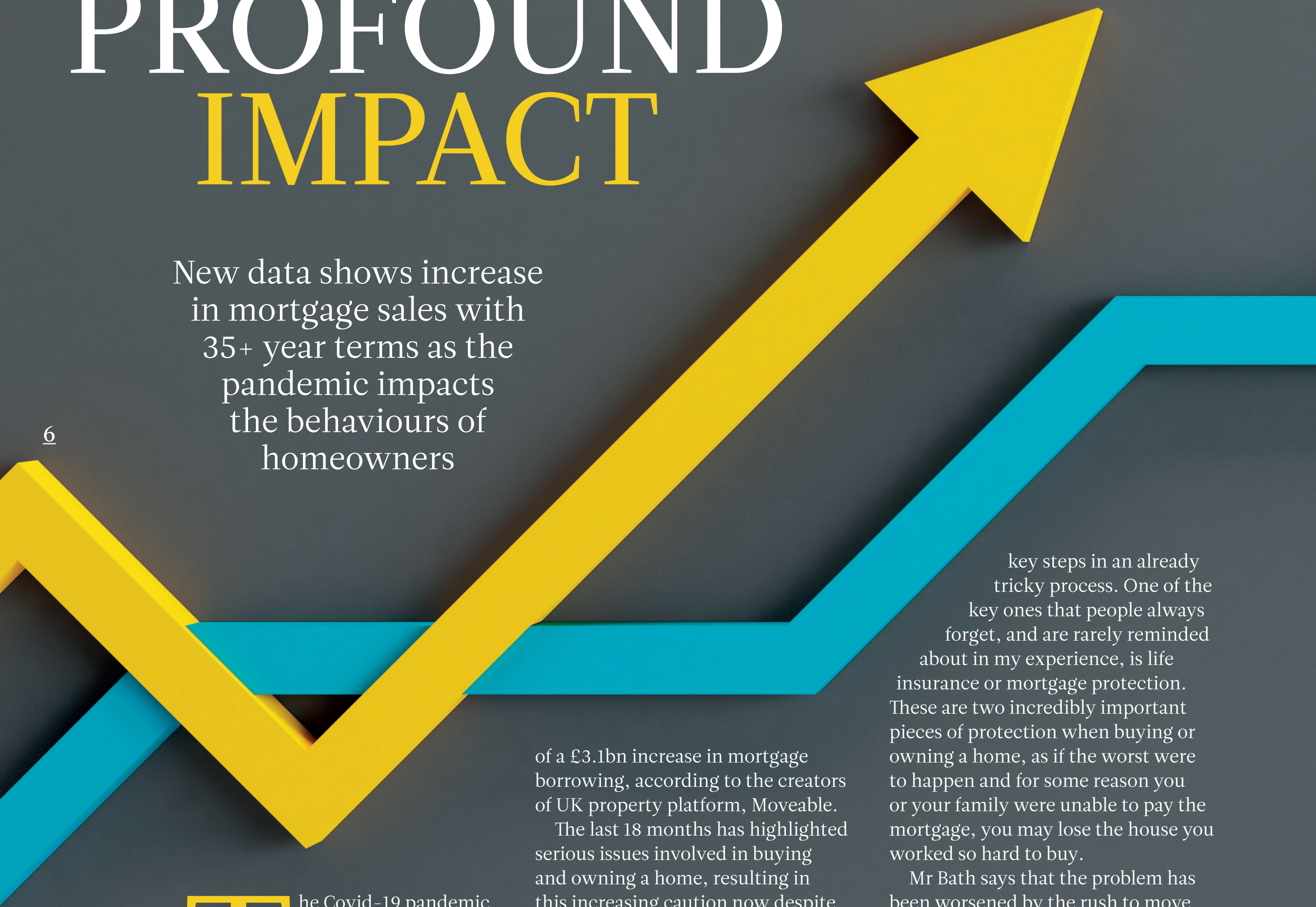
● There were 5,970 buy-to-let mortgages in arrears of 2.5% or more of the outstanding balance in the first quarter of 2021, a small increase of 130 on the previous quarter.

● Only 190 homeowner mortgaged properties and 180 buy-to-let mortgaged properties were taken into possession in the first quarter of 2021. There were 40 more possession cases in Q1 2021 than the quarter before. Possessions will remain low until government restrictions on bailiff activity ends but are expected to increase due to the backlog of cases.

Source: UK Finance

ISTOCK

PROFOUND IMPACT



New data shows increase in mortgage sales with 35+ year terms as the pandemic impacts the behaviours of homeowners

The Covid-19 pandemic and the stamp duty land tax (SDLT) holiday last year have had a profound impact on the behaviours of homeowners.

Contrary to some predictions, widespread caution on the part of homeowners has seen households make a net repayment of £1.4bn in July 2021 despite predictions of a £3.1bn increase in mortgage borrowing, according to the creators of UK property platform, Moveable.

The last 18 months has highlighted serious issues involved in buying and owning a home, resulting in this increasing caution now despite the initial boom in housing market activity. Research from Moveable shows that 12% of movers rushed through a transaction due to the stamp duty holiday and 11% overpaid by thousands as a result.

Simon Bath, CEO of iPlace Global, says: "The past year or so, with the impact of the stamp duty holiday and the rush to move to more rural locations, has left thousands missing key steps in an already tricky process. One of the key ones that people always forget, and are rarely reminded about in my experience, is life insurance or mortgage protection. These are two incredibly important pieces of protection when buying or owning a home, as if the worst were to happen and for some reason you or your family were unable to pay the mortgage, you may lose the house you worked so hard to buy.

Mr Bath says that the problem has been worsened by the rush to move in the last year with homebuyers chasing a rising market and taking out mortgages that are at the very limit of what they can afford.

Commenting on the issue of mortgage protection, he says: "It is a difficult conversation to have and hence many forget and are not reminded, as many professionals may be reluctant to ask the difficult or awkward questions required."

14%

OF UK HOMEOWNERS SURVEYED REGRET WORKING WITH THE OUTSIDE SUPPLIERS THEY CHOSE DUE TO A RUSH WHEN THEY MOVED (2,900,000)

Source: Moveable

THREE-YEAR HIGH

This comes as new Freedom of Information (FOI) data from the Financial Conduct Authority and gathered by wealth manager, Quilter, reveals a sharp increase in the number of mortgage sales with a term of 35+ years at the beginning of 2021.

In March of this year, 25,112 mortgages were sold with a term of 35+ years, a 70% increase compared with 14,765 in March 2019. In March 2018 14,683 were sold. For three years prior, at no point did sales surpass 20,000.

The same FOI request revealed that March 2021 also saw the highest total number of mortgage sales for the past three years, likely due to the original stamp duty holiday deadline of 31 March.

Charlotte Nixon, mortgage expert at Quilter commented: "Following an overall decrease in sales in the first few months of the pandemic, the government's introduction of the stamp duty holiday caused a rush to the housing market to snap up deals. The savings made with the removal of stamp duty, as well as lockdown-driven 'accidental' savings, may have allowed buyers to purchase higher cost homes than they would have expected.

"Ultimately, this rush to buy has pushed house prices up significantly across the country and may have contributed to the upswing in buyers opting for longer term deals.

Ms Nixon says that for some borrowers, particularly first-time buyers, securing a mortgage with a 35+ year term was the only way to afford a property due to the lower monthly repayments, but stresses it is important that the risks of such long mortgage terms are properly understood by customers.

"One of the largest knock-on effects of securing a mortgage with a term of 35+ years is that the longer the mortgage term, the older you will be when making the final repayment," she says. "This means that people are likely to be borrowing beyond their retirement age. While some mortgage providers allow this, paying a mortgage in retirement can have a major impact on standard of living with many people becoming unable to comfortably afford the repayments.

17%

OF BRITS WERE BLINDSIDED BY THE HUGE NUMBER OF PROCESSES INVOLVED IN MOVING HOUSE AND WERE CAUGHT OUT FINANCIALLY (3,900,000)

Source: Moveable

But she also highlights that while there are risks to longer term mortgages, certain products allow customers to make overpayments which can serve to make repayments past retirement age more manageable.

"Seeing a mortgage adviser is very important if you are looking to commit to a 35+ year term," concludes Ms Nixon. "An adviser can help you find the best product for your unique financial circumstances and ensure a mortgage product has the flexibility to overpay without being penalised. Having this ability will allow you to pay more off your mortgage if you are in a position to do so and ultimately reduce your term."

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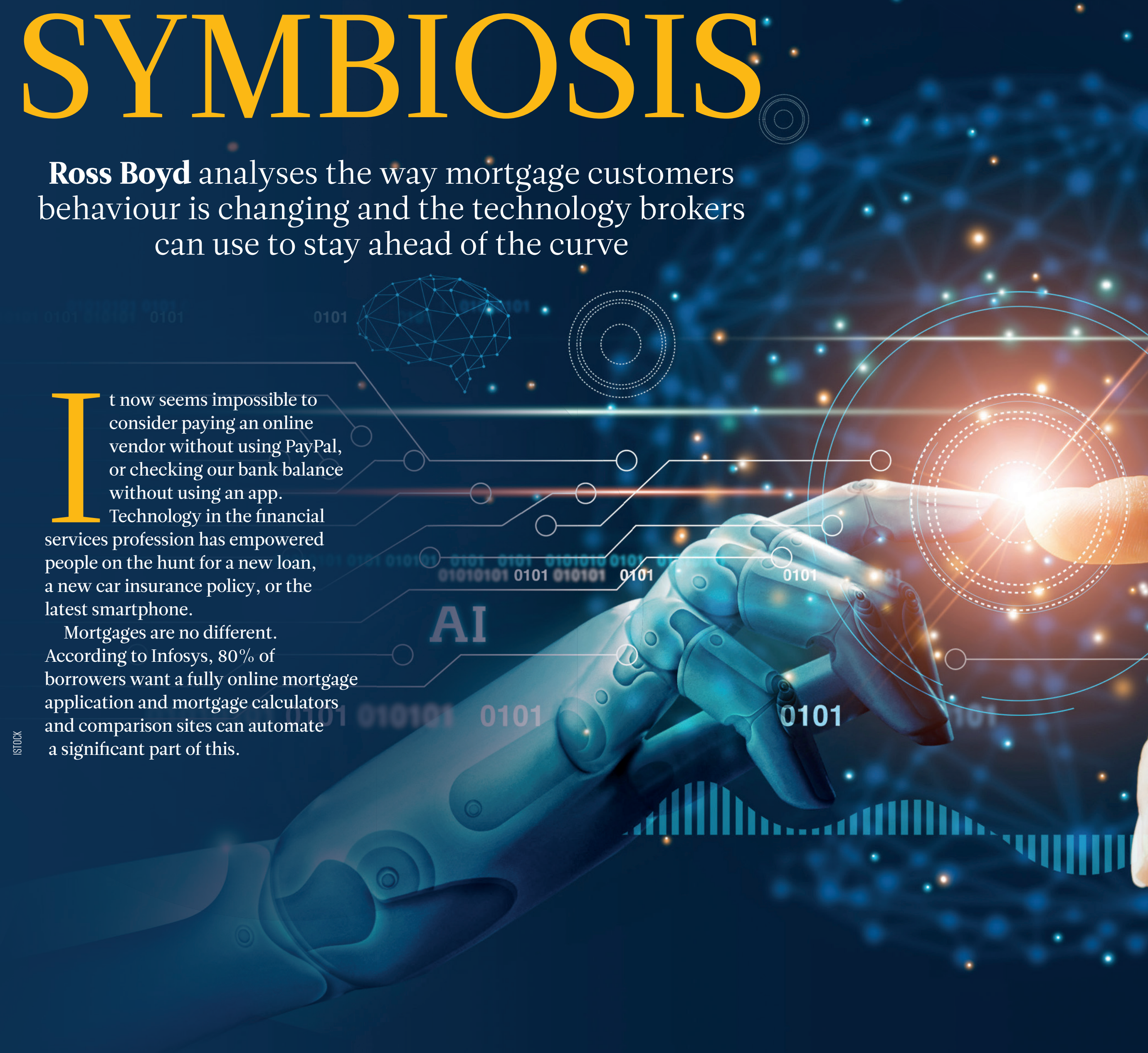
TECH SYMBIOSIS

Ross Boyd analyses the way mortgage customers behaviour is changing and the technology brokers can use to stay ahead of the curve



ISTOCK

It now seems impossible to consider paying an online vendor without using PayPal, or checking our bank balance without using an app. Technology in the financial services profession has empowered people on the hunt for a new loan, a new car insurance policy, or the latest smartphone.

Mortgages are no different. According to Infosys, 80% of borrowers want a fully online mortgage application and mortgage calculators and comparison sites can automate a significant part of this.

THE BEST DEAL?

But many customers will be unaware that the best deal on a comparison site may not be the best deal for their specific circumstances. Customers are either overwhelmed with digital information, or apathetic towards new deals because they expect technology to find savings for them automatically.

And just as borrowers have new tools at their disposal, so do property professionals. Artificial intelligence (AI), open banking and front-end fact-finding technology can all help mortgage brokers to build detailed profiles of customers, while estate agents can use tech to automatically process and store information to match buyers with properties.

AI can even underwrite mortgage applications by making real-time decisions, quickly crunching numbers and eradicating fraudulent activity.

Building more accurate profiles of clients using technology means being able to better predict their behaviours. Open banking can show a broker or lender two people who earn the same salary, but who may have radically different spending habits, or even that someone who earns a higher wage is not as good a candidate for a mortgage as someone earning less.

HUMAN TOUCH

So arguably, human advice is more important than ever. In getting to grips with tech, brokers can more easily analyse and compare mortgage rates, thus being able to help their customers find the best deal. Better deals mean more frequent and more meaningful customer interactions, and this contributes to a broker's bottom line. Symbiosis at its best – broker and buyer in perfect harmony.

> WE WILL ALSO START TO SEE THE PERSONALISATION OF MORTGAGE PRODUCTS AND INNOVATION, WITH NEW CHALLENGES FOR THE INDUSTRY SUCH AS MANUFACTURING AND DISTRIBUTING GREEN MORTGAGES, FOR EXAMPLE, AS THE MECHANICS OF THE MARKET CHANGE

In my own organisation, we know that a tailored, properly analysed mortgage deal can only come from a broker with years of experience. Without it, the tech is almost redundant and does not serve the ultimate goal of helping people buy their dream home.

Just as QuickBooks and Xero are now ubiquitous in accountancy, brokers are finding that by working with technology, their customers are more satisfied with the new, streamlined mortgage application process – as we know from our successful pilot scheme and now partnership with housing provider Paradigm and its members.

And there's no better time – the market is booming. Brokers will have a backlog of work thanks to the stamp duty holiday and tech is at the heart of easing the load. We will also start to see the personalisation of mortgage products and innovation, with new challenges for the industry such as manufacturing and distributing green mortgages, for example, as the mechanics of the market change.

Although paper-based processes are still very prevalent – despite the pandemic forcing a move to more digital processes – anything that saves customers money and speeds up the lending process can only be a good thing. Fintech, it seems, is here for good.

For more information, visit: **www.dashly.com**

***Ross Boyd** is CEO of Dashly*

ACT FAST TO SNAP UP A BARGAIN

Homeowners are being advised to move quickly to take advantage of the mortgage price war between major lenders. **Liz Booth** reports

Easing of Covid-19 restrictions has coincided with a loosening of people's purse strings, according to data from Nationwide's latest quarterly Spending Report that shows both essential and non-essential spend have soared.

According to the Society's latest report, more than £22bn was spent by Nationwide members during the second quarter of the year as inflation jumped to 2.5% in June. This is based on around 566 million transactions made by members between April and June – a 20% increase on the number of transactions made in the first three months of the year.

Spending continued to rise across the board during the second quarter of the year – essential household spend increasing by 13% compared the first quarter of the year, while non-essential spend in Q2 grew by 60%.

PRICE WAR

Some of that could possibly have been fuelled by newly available lower cost mortgages. There are now 11 banks and building societies offering a total of 33 home loans priced below 1%, sparking headlines of a price war and a summer housing remortgage frenzy.

The news comes as data from Halifax shows that, for the first time in a year, house prices have fallen, which could be attributed to the gradual reduction in the stamp duty holiday and a slowing in the frenzied sales market – something that could slow still further as the furlough scheme comes to an end.

In turn, say the experts, that impacts lenders who become increasingly competitive and lower their rates.

Now the pundits are predicting two-year mortgage rates could drop as low as 0.75% as big banks wade into a price war in a desperate bid to win more customers.

Martin Lewis, of MoneySavingExpert, told consumers: "This is warning to everyone with a mortgage. Rates have dropped below 1% – check urgently if you can switch and save £1,000s. Acceptance isn't always easy but don't just accept the status quo."

He believes new mortgage deals are at their lowest ever rates, with two-year fixes down to 0.95% and five-year fixes at 1.17.

The cause? He said it is a perfect storm of:

- Ultra-low UK interest rates;
- A house-buying boom boosted by a stamp duty cut; and
- Banks with a glut of cash to lend as so many people built up savings during the pandemic.

"The result is ferocious lending competition for the best customers," he suggested. "That means, for some, remortgaging can result in phenomenal savings."

However, he does have one caveat. "Getting accepted for super-cheap mortgages ain't easy, especially if you've received Covid-19 support."

Other experts are warning that the stamp duty deadline and house-buying boom means brokers, lenders and conveyancing solicitors are in massive demand. This means things are taking longer, sometimes months right now.

There is a warning too for those on fixed or discount deals ending this year. Mortgage professionals are in prime position to advise their clients on this one and to urge them to shop around well ahead of their deadline to avoid being put onto more expensive standard variable rates.

However, it seems there will be more options available. Experts at Trinity Financial, for example, point to the way in which mortgage lenders are reducing the price of their lower deposit mortgage rates as they target first-time buyers following the end of the stamp duty holiday.

Trinity Financial has secured access to Barclays for Intermediaries exclusive 10% deposit mortgage. The bank is offering a 2.25% rate which is fixed until 31 August 2023 and it has a £299 arrangement fee. It has a maximum loan size of £570,000 and low early repayment changes.

Aaron Strutt, product director at Trinity Financial, says: "It is not just the mortgages available to borrowers with the largest deposits that are getting better, the low deposit mortgages are improving and they are significantly more attractive than they were a year ago."

For those looking to remortgage, Halifax has launched a five-year mortgage with an interest rate of 0.98%, undercutting rival Nationwide which set a British record last month by becoming the first lender to offer a below 1% rate. The new rate is available for homeowners looking to remortgage with a 40% deposit. It comes with a £1,499 fee and allows customers to borrow as little as £25,000.

The Nationwide deal is for 0.99% for those with a 40% deposit remortgaging or moving, fixed until 2026.

Chris Sykes, of broker Private Finance, reports a large increase in inquiries from existing clients looking to remortgage despite early repayment charges often being involved. He said: "While charges can be sizeable, the sub-1% rates on offer represent a significant saving over the life of a mortgage product and when compared to rates from a few years ago there could be some decent savings available.

"We suspect we will see an increasing number of remortgage inquiries in the coming weeks, as more and more people take advantage of this incredibly favourable situation for borrowers."

__Liz Booth__ is contributing editor of the CII

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