MORTGAGE PROFESSIONAL

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Society of Mortgage Professionals
Chartered Insurance Institute

Market focus
Why advisers should target the private rented sector

Rising threat
The impact of growing flood risk on lenders

Fund times
Is 2022 the year of equity release?

VALUE OF ADVICE

Carlos Thibaut welcomes members to the spring edition of Mortgage Professional

Welcome to the Spring edition of *Mortgage Professional*. As a board we are committed to promoting the value of professional standards and advice both within the sector and with consumers.

This year we aim to raise awareness of the benefits of professional advice with consumers, firms and protection specialists involved in the mortgage market. The launch of our Associate Firm initiative last year to broaden the appeal of the Society of Mortgage Professionals (SMP) to firms and not just individual advisers has been a huge success.

We now have 37 member firms representing 5,855 employees. The SMP's focus this year is on five key themes:

- **Careers**
  We aim this year to promote mortgage advice as a socially useful and important career. To discuss succession planning and managing exit and retirement from the profession.
- **Professionalism**
  To provide thought leadership on how to identify a mortgage professional as well as the values, behaviours and culture of firms.
- **Sustainability**
  A core focus for the SMP this year. We aim to look at the environmental issues affecting our sector, including heat pumps, energy certificates and working with partners to publish documents on the subject.
- **Best practice**
  Providing thought leadership for firms on best practice will cover a number of key areas including technology, client management and engagement as well as lead generation. Growing firms, business planning and developing and maintaining a distinctive and relevant company culture.
- **Customer focus**
  In any business building a customer centric culture is a prerequisite of successful organisations. An ESG culture can act as a framework to ensure the business focuses on key issues to respond to changing consumer demands. From deciding on the core advice proposition and what services are included, to considering how to communicate and engage with consumers, we will be looking at a range of subjects to help businesses create long term value for all stakeholders.

KEY ISSUES

In this issue we cover a number of subjects that are a must read. Property prices and what happens next, how home insurance and mortgages are impacted for consumers living in areas affected by extreme weather events and the UK rental market, which for many is the only housing option.

With unprecedented pressure on consumer budgets from National Insurance increases, rapid and large increases in energy costs and fuel prices and rising interest rates it has never been more important for advisers to reach out to clients.

It will be vitally important in the months ahead to ensure clients circumstances are regularly reviewed by ensuring a robust process of client engagement is in place, reinforcing the value of protection in stretched budgets and ensuring suitable advice is in place to reflect individuals changing circumstances. Enjoy the read.

To find out more, visit: **www.smp.org.uk**

__Carlos Thibaut__ is chair of the Society of Mortgage Professionals

THE BOOM GOES ON

Following an extraordinary 2021, the UK housing market shows no signs of slowing down this year, as **Liz Booth** reports

By all accounts, last year was a momentous one for the UK housing market, with an extraordinary 11.8% annual rise in house prices through 2021.

However, late last year many experts were predicting a slowdown as the stamp duty holiday ended and as the Covid-19 savings bubble was exhausted too.

It seems reports of the death of the housing market were exaggerated, however, and it is still going strong into 2022 with recent news showing that house prices have seen the biggest rise for 20 years as the average price tag on a home grew by nearly £8,000 in the space of February alone.

The housing experts say this jump in February represents the biggest month-on-month increase in more than 20 years. The average asking price in the UK now stands at a new record £348,804, representing an increase of nearly £40,000 in the previous two years.

This, say experts, is welcome news for the UK housing market as many advisers thought that the boom in the UK house prices was likely to end this year due to household finances becoming increasingly stretched and with raised interest rates.

Mortgage lenders too, seem relatively relaxed, despite the interest rate increase. Nationwide Building Society, for example, is now lending up to five-and-a-half times income to those first-time buyers with a 5% deposit.

The Society's 'Helping Hand' gives first-time buyers the option of borrowing more when taking one of the Society's five or 10-year fixed rate mortgages. However, from February, it is now be available on those mortgages up to 95% loan-to-value (LTV), up from the original 90%.

It means a first-time buyer couple with a joint income of £50,000 could borrow up to £275,000 rather than the £225,000 they could borrow with a conventional 95% mortgage, assuming no other costs impacting affordability.

Nationwide stated: "The lending boost comes at a time when the house price to earnings ratio continues to rise. In the last 10 years, this ratio for a first-time buyer has gone from 4.4 (Q4 2011) to 5.6 (Q4 2021), while the average first-time buyer house price has increased by 54% - from £139,472 (Q4 2011) to £214,638 (Q4 2021)."

GREATER DEPOSITS

Meanwhile, online mortgage broker Trussle reports that, post-pandemic, the size of housing deposits have increased dramatically year on year. "Faced with limited spending options due to less commuting and the closure of hospitality and retail, many buyers have been able to use the lockdown period to review their finances with the hopes of buying a new home," it said.

Its research showed that next time buyer applications increased by 93% year on year during 2020 and grew a further 85% in 2021. Like first time buyers, next time buyers also had greater deposit sizes in the last year. Trussle found that in 2019 only 51% had a deposit of more than £25,00 when moving home. But this grew to 67% in 2020 and further increased to 76% in 2021.

In 2020 and again in 2021, there was talk of a move away from urban areas, fuelled by the claustrophobia of the pandemic. However, according to Cornerstone Tax, London has particularly seen a big increase in popularity for home buyers with buyer demand being 16% greater than this time last year as workers are being encouraged to return to the office.

It also reflects the societal changes in that 10% of Brits have moved away from a city or urban area and 24% of Brits have seriously considered moving out of the city to a more rural area due to the pandemic in the past year.

It has meant that supply is becoming increasingly short in rural areas as well as the increase demand of London properties, bidding wars have emerged and with research showing that March is the strongest month for competition between buyers in the UK housing market, this trends seems set to continue.

76%

OF NEXT TIME BUYERS HAD A DEPOSIT OF MORE THAN £25,000 WHEN MOVING HOME – INCREASING FROM 51% IN 2019 AND 67% IN 2020

David Hannah, principal consultant at Cornerstone Tax, explained "Last year was certainly a record-breaking one for the UK housing market and the increase in house prices has continued throughout 2022. The nearly £8,000 increase in average house prices is directly connected to the ever-increasing demand of property from buyers, but an ever-decreasing shortage of supply of available properties on the market."

Simon Bath, CEO of iPlace Global, believes that the pandemic bubble is finally playing out. "We have finally reached a point where the property market has slowly transitioned back to pre-pandemic times – with the return of Brits to the office causing a greater surge in what is already an outrageously high demand and low supply arena," he said.

"It is hard enough to get on the property ladder or afford an upgrade at the moment, even without overpaying on the move itself. So many people have paid over the odds on property in the past year. Homebuyers must now – more than ever – take their time to compare services and providers to get the best deals possible."

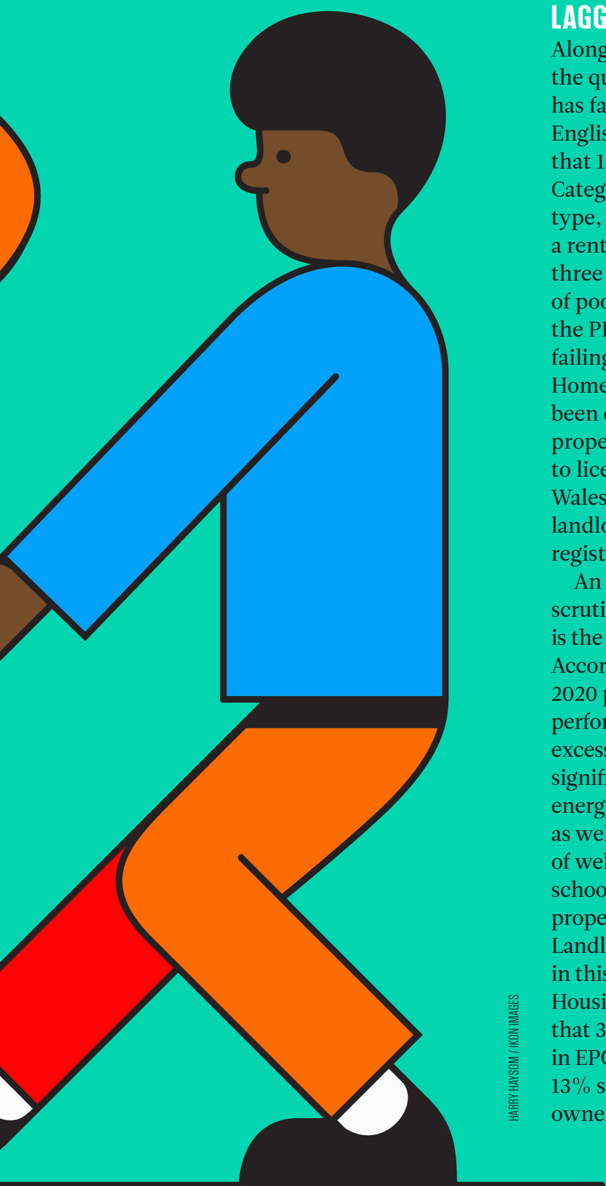
ISTOCK

VITAL SUPPORT

Esther Dijkstra on why advisors must rethink their interactions with the private rented sector

For me, the private rented sector (PRS) has been an area of increased focus in the last year. One of the most common challenges we face in the UK mortgage market is how we can support more first-time buyers into homeownership. However, against a backdrop of the cost of living crisis, wage increases being outstripped by the biggest annual rise in house prices since 2007 and pressures on the overall supply of housing in the UK, it has become increasingly apparent that not everyone will be able to – or wants to – buy a home. Therefore, it's important that we support a well-functioning and thriving private rented sector to support the c. 20% of the UK population living within it. The government's recent Levelling Up white paper also recognises this with dual housing ambitions of increasing homeownership alongside improving standards in the PRS.

The number of households in the PRS has doubled in the past 20 years. The mortgage market has supported this growth by increasing the availability of cheap finance, such that today more than 50% of the estimated 2.7m landlords in the UK fund their properties with a buy to let mortgage. Growth in the sector has led to a doubling of the number of families within it. The number of people in private rented accommodation in later life has doubled since 2008/09 – meaning that increasing numbers will continue to pay rent in retirement when current financial services policy, products and guidance assume that they would have paid off a mortgage. With a shift in the types of households making up the private rented sector, how can the UK mortgage market support landlords to keep pace with renters' different requirements?



HARRY HAYSOM / IKON IMAGES

LAGGING BEHIND

Alongside the growth of the sector, the quality of some PRS properties has failed to keep up. The latest English Housing Survey estimates that 12% of PRS properties contain a Category 1 hazard – the most severe type, carrying the risk of death to a renter or their children. Of the three housing sectors, the incidence of poor-quality homes is highest in the PRS, with 21% of PRS properties failing the government's Decent Homes Standard. Despite this, it has been estimated that only 7% of PRS properties in England are subject to licensing schemes. In Scotland, Wales and Northern Ireland all private landlords are subject to mandatory registration requirements.

An aspect of quality under increasing scrutiny across the UK's housing stock is the energy efficiency of properties. According to the government's 2020 paper on improving energy performance in the PRS, homes with excess cold, damp and mould create significant direct costs in higher energy bills and in NHS treatments, as well as indirect costs such as a lack of wellbeing, underperformance at school, lost working days, loss of property value and more void periods. Landlords have made great strides in this area already – the English Housing Survey for 2019-2020 states that 38% of homes in the PRS were in EPC bands A to C, an increase of 13% since 2009 and 2% higher than owner-occupied homes. Investing in energy performance measures provides multiple mutual benefits to the environment, landlords and renters – how can we all increase awareness and support more landlords to make these improvements?

We know that landlords struggle to keep up to date with the ever-evolving patchwork of devolved housing regulations; it is the most common reason why landlords are looking to sell a property in the next 12 months. Across the UK, devolved governments are planning further rental reform to raise standards and tackle the worst landlords and properties. While measures to improve the sector's quality and reputation are to be supported, it is key that the vast majority of landlords who do a good job are supported to keep providing this vital accommodation to c.4.5 million UK households and do not face a further reason to throw in the towel. Rental reform should look to simplify and decipher the 150+ pieces of regulation into a digestible format to give landlords the best shot at complying, as well as improving quality across the sector.

> OUR INDUSTRY HAS A GREAT OPPORTUNITY TO WORK TOGETHER TO CONSIDER HOW WE WORK AND WHO WE DO BUSINESS WITH

MEETING THE CHALLENGE

Given the multiple touchpoints lenders have with the private rented sector – with landlords, brokers, renters, builders and investors – I have been challenging my team to look at what levers we have to drive up standards in the sector. To start to shape our activity in this space we've worked on a research paper with not-for-profit organisation Social Finance, to ask a range of experts in the PRS "How can lenders improve quality in the private rented sector?". From the report's recommendations, Lloyds Banking Group is now highlighting the golden opportunity for lenders to be involved in the design of a National Landlord Register in England – as announced in the Levelling Up white paper – such that lenders can use the register to act against criminal landlords.

Our industry has a great opportunity to work together to consider how we work and who we do business with, the impact this has on the quality of the private rented sector and on the lives of the millions of people who rely on the PRS as they have no other choice. What can we all do with our connections to the private rented sector to help raise standards? ●

Esther Dijkstra *is managing director of Intermediaries for Lloyds Banking Group and board member of the Society of Mortgage Professionals*

It may seem like common sense not to build on flood plains, but it appears the UK has little choice, given the squeeze on available land across the country. **Liz Booth** reports

PLAIN AND SIMPLE

"Just a few inches of water from a flood can cause tens of thousands of dollars in damage," according to the US National Flood Insurance Program.

That one statement sums up why homeowners need insurance for their properties. While UK mortgage lenders will usually want buildings cover, the growing flood risk across the country means it is also good practice to have contents cover too.

One of the challenges of recent times is that areas not known for flooding have been impacted in the past couple of years. Some of that has been attributed to building on flood plains and "pushing" the water from those building sites down the road to near neighbours.

While that might be an over-simplification of the issues, GlobalData's 2021 UK Insurance Consumer Survey shows that weather incidents, including floods and storms, now account for 27% of all home insurance claims. Of these weather-related incidents, storms only account for 7.3% of the 27%.

At the same time, figures from the Environment Agency show that approximately one in six homes across England run the risk of being flooded and that the number of new homes being built on flood plains is increasing.

RISKY BUSINESS

In April 2016, the Law Society introduced a practice note to advise solicitors of the issues involved with clients looking to buy or sell a property that is situated in a flood risk area. These issues include:

- Problems getting a mortgage.
- Difficulties finding suitable insurance.
- Damage caused by flooding.
- Complications when reselling your property.

For those with problems getting insurance (and hence a mortgage), Flood Re is a not-for-profit insurance scheme that works with a range of insurers and has been set up to help anyone that lives in a flood risk area receive reasonable home insurance. The scheme will also make it easier for people to replace or repair their property if it is damaged by flooding.

But before that, the question is why build on a flood plain at all? According to a report in *The Guardian* last year, more than 5,000 new homes in flood-risk areas of England were granted planning permission, as local authorities try to tackle the housing shortage.

The newspaper said "Researchers analysing 16,000 planning applications lodged between January and September discovered about 200 had been approved, for a total of 5,283 new homes,

1 in 6

APPROXIMATELY ONE IN SIX HOMES ACROSS ENGLAND RUN THE RISK OF BEING FLOODED

Source: Environment Agency

in areas where more than 10% of homes were already at significant risk of flooding.

Insurers said they were concerned about the numbers of homes being built where owners were at risk of experiencing "traumatic and devastating losses".

MPs are also among those calling for change, saying that if new houses have to be built on flood plains then, for starters, they should have new building regulations, including sealed floors and raised electrical sockets and fuse boxes, as well as mandatory installation of sustainable drainage systems (SuDS) in new builds.

The government's public accounts committee report talks of "a disconnect between the developers who financially benefit from new housing developments and those who face the consequences of it not being sustainable or insurable".

According to The Guardian, the committee fears that "While government policy is not to build on flood plains unless unavoidable, the Agency's analysis indicates that there could be a large increase – of up to 50% – in the number of houses built on flood plains in the next 50 years."

Insurer LV= and Localis have also produced a report into the issue. *Plain Dealing: Building Flood Resilience* points to the Climate Change Committee which, in 2019, warned that the most recent climate change risk assessment revealed 1.4m people in England face a significant risk of flooding of some kind.

Added to that, in 2020, the National Audit Office estimated that 1.9m homes are at risk of flooding, due to being situated on or near a floodplain.

The report warned "Flood damage can be extensive, causing disruption in the community, infrastructural damage and even the loss of life. The Bonfield Report found that persistent rain in 2016 caused extensive damage across the country, with 17,000 properties being flooded and costs expected to amount to £1.3bn.

"While we cannot quantify the cost of flooding at a local authority level, we can observe the disparity in the overall flood-risk faced by a local authority through looking at the percentage of homes at risk of flooding."

This is particularly acute in those high-risk districts where 10 percent or more are already at risk of flooding – in South Holland, 34% of the district's land is at high risk of flooding for example. So far in 2019, these high-risk planning authorities have approved 5,283 new dwellings on floodplains, with 4,255 planned in areas identified as highly likely to flood.

In the top five local authorities for flood risk, 31% of approved planning permissions for new residential buildings on floodplains did not come with a Flood Risk Assessment. "Clearly, a refresh and revitalisation of governance procedures is needed as we face down ever-increasing risk," concluded the report. ●

ALAMY

In the UK, 14% of adults are planning to buy a home in the next 12 months. However, a third (34%) of them could see their mortgage application rejected due to 'adverse credit histories', according to research by The Mortgage Lender (TML).

The past two years have placed significant financial stress on individuals, particularly those with complex incomes, such as the self-employed. The study revealed that those hoping to buy a home this year have unsecured debts worth an average of £2,732, 34% higher than the UK average of £2,035.

With the cost of living rising in the UK and people facing significant cost increases from their utilities, groceries, and mortgages, there is concern that more individuals could be reliant on unsecured debt to get by month to month.

A reduction in government pandemic support measures has already prompted consumer borrowing on credit cards to jump to its highest level in more than a year, pushing all forms of household unsecured credit to £1.2bn, according to the latest Bank of England figures.

The research also found a number of people were involved in serious 'adverse credit' events. These situations could cause the majority, if not all, lenders to reject a mortgage application. Indeed, 15% of those planning to buy this year had previously received a default notice. 8% have previously applied for a debt relief order or individual voluntary agreement.

A further 6% of those planning to buy a home this year have previously applied for a debt management plan and 8% have been issued with a county court judgement over a credit related matter.

CHALLENGING TIMES

"The past few years have been challenging for everyone and these findings illustrate just how many people planning to buy a home this year have also had to contend with credit issues," says Peter Beaumont, CEO of TML.

"The reality is a number of those who are expecting to buy a home this year are likely to see their mortgage rejected out of hand. With more 'buy now pay later' products on the market and the rising costs of everyday items, there is a real risk that people will unknowingly walk into a bad credit score. It is vital that people

ENDS OF THE SPECTRUM

Mortgage rejection in 2022 could affect one in three while many current homeowners look to release equity understand the impact that even a small amount of debt could have on a lending decision to make an informed choice before taking on any additional debt.

Mr Beaumont believes this is not only a concern for those first-time buyers trying to get onto the property ladder, but also for homeowners looking to remortgage in the next few years.

“The risk for this group is that lenders no longer deem them a viable option, and they tick up onto the SVR rate,” he says. “With the Bank of England expected to continue to raise the base rate over the next year, this could mean they end up paying substantially more in their repayments than expected.

“In real life, things go wrong – and it seems unfair to punish someone for a short-term credit blip here or there. Luckily, for those people who would otherwise be left with no option, there are specialist lenders out there who have more flexible criteria and believe in real-life lending.”

> **HYBRID WORKING SCHEMES HAVE CONTINUOUSLY FUELLED THE CHANGE OF PACE AROUND THE HOUSING MARKET, WITH BRITS' REQUIREMENTS NOW COMPLETELY DIFFERENT THAN PRE-PANDEMIC LEVELS**

YEAR FOR REMORTGAGES

This comes alongside reports that with house prices at a two-decade high, 30% of homeowners in the UK could be opting to remortgage to release equity in 2022.

February marked a record-breaking month for the property market, with house prices up £8,000 from the previous month – the highest monthly rise since 2001. Research from the Statista Research Department shows that the number of approvals for re-mortgages in the UK has significantly increased from the beginning of 2020 to the end of 2021. In the past year, 30% of homeowners have applied for a re-mortgage to release equity in their property, according to LMS.

Simon Bath, CEO of iPlace Global, comments: “Hybrid working schemes have continuously fuelled the change of pace around the housing market, with Brits’ requirements now completely different than pre-pandemic levels. Homeowners are now inclined to either make the move to larger spaces, or alternatively making sure that their home is suitable to flexible working conditions.

ISTOCK

“With house prices already being the highest they have ever been and inflation also reaching another record high, homeowners are enjoying this rise as it means the value of their property continues to steadily increase; therefore, they can easily afford a re-mortgage to release equity.”

With house prices continuously reaching new heights and demand significantly outstripping supply, remortgage activity is likely due to the changing attitudes caused by the pandemic; businesses have continued to fuel hybrid working schemes. Therefore, Brits are potentially more focused on finding the right space or renovating their current spaces to support their working models.

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