IndustryVoice

Analysis, commentary and trends for the UK mortgage and protection industry | Edition 13 Summer 2023

Mortgage, Lending & Equity Release

Let's talk about it

Articles from

Pepper Money
Leeds Building Society
Skipton Building Society
more2life
Royal London
Furness
Standard Life Home Finance
Pure Retirement
And Iress

Our partners:

Welcome

For this edition we have asked a number of lenders to share their viewpoints and to give a taste of "what's next"?

The financial markets have experienced yet more turbulence and volatility in recent months with interest rates and inflation at record highs. The knock-on impact on consumers, lenders and the industry as a whole is difficult to overstate.

This issue looks at the future of Mortgages, Lending and Equity release and takes a deep dive into positive changes that are being made to drive the industry forward during this period of uncertainty for practitioners and pain for consumers.

A special thank you to our partners and contributors for sharing their thoughts about new plans, approaches, and driving positive change to the relationships between lenders and consumers.

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We are always keen to hear your thoughts about this issue and the topics raised.

If you would like to get in touch, please contact the Advertising & Sponsorship Manager, Neal Ray.

Visit: iress.com/industry-voice for more perspectives from our provider & lender partners about the issues affecting our industry.

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Chicken and Egg

Jacqueline Durbin
Global Head of Product - Life, Pensions & Mortgages

I couldn't think of any better timed industry voice publication focused on mortgages. The speed of change in mortgage rates and products, coupled with consumer duty and indeed technology advancements means there is a lot to keep pace with, understand and navigate. Now more than ever we need to keep talking and working together to make a difference. We see from the thought leadership and perspectives in Industry Voice that there are many people and organisations out there to support brokers with what's happening now, what's about to come and to raise awareness of technology tools that are out there to help.

Recently It has been really difficult to accurately predict interest rates and the subsequent impact on swap rates, mortgage rates and the wider housing market. With the recent Bank of England rise we are seeing 2 year fixed products nudge towards 6% and then there is the harsh reality of Lenders needing to pull products at short notice and the subsequent Broker frustration with this.

More positively however there is recognition of the need to help consumers and mortgage brokers. The government backed, lender endorsed Mortgage Charter will hopefully bring reassurance to those facing mortgage challenges. And there is technology to help with the increasing burden on Brokers. Whether this is with 'always online' sourcing technology or Lenders' broker platforms improving speed to decision. Even better there is the collaboration between technology providers and lenders to increase broker efficiency and data accuracy. EIther by pre-populating data between systems saving time on rekeying and reducing the risk of errors or bringing the decisioning forward into the broker systems to further improve the speed of a Decision in Principle and KFI's - absolutely critical in this time of rapid product change.

API connectivity has been a vital enhancement for mortgages which has the opportunity to deliver some wide scale efficiencies but what we need to see now is increased broker adoption of new technology alongside continued innovation from Lenders and technology companies. I have lost count of the number of times I have said Chicken or Egg over the last few years, specifically in the context of mortgage technology, i.e what needs to happen first - do more lenders need to innovate before brokers will adopt connectivity or do more brokers need to adopt the existing technology before more lenders will invest and develop. Given where we are right now I would say it's Chicken and Egg please. Success is dependent on both sides leaning into innovation.

Either way It feels like a pivotal moment for the industry. Will the work, collaboration and innovation that's been happening beneath the surface start to come to the fore and really bring a step change in mortgages? I really hope so. I am personally buoyed by the people and organisations around the market that are working together to make the end to end mortgage process better and whilst this won't happen overnight, finally we are starting to see the difference this technology can make. I'm excited to see how this change expedites over the next 12 months.

"We're proud to be the first lender to work with Iress on their new API Decision in Principle (DIP) proposition. This collaboration helps brokers get a faster DIP with Nationwide directly from Iress Xplan Mortgage.

Simplifying the process of obtaining a standard Remortgage and Purchase DIP. Brokers can also obtain DIP Certificates for New Purchases applications, benefit from seeing data pre-populated when continuing in NFI Online saving about 10-15 minutes and reducing the chance of keying errors. Cases will also benefit from automated valuations where possible.

The collaboration between all parties has been tremendous, but this is only the first step and we're already planning future improvements to use this technology to bring further efficiencies for Brokers

See the Nationwide dedicated webpage to check what cases can be submitted."

Andy Tilsley

Nationwide Building Society

A specialist way to help **hopeful homeowners**

Jonathan Manton
Head of Proposition Development at Pepper Money

The government has said it wants housing supply to reach 300,000 homes a year by the mid-2020s, while some commentators say we need at least 340,000 homes a year to address the housing deficit. However, with the new supply reaching a peak of 243,000 in 2019/20, before falling away again, we are a long way off from hitting either number.

This fundamental disparity between the demand for housing and the supply of property means that for millions of hopeful homeowners, taking a first step onto the property ladder is an ambition that might often seem a long way from reality. This has been exacerbated by increasing rental costs, with Rightmove saying that the price of renting has hit record levels across the country. The situation is only likely to worsen as the increased cost of buy-to-let mortgages and higher taxation encourages many landlords to sell their properties, decreasing the amount of available rental stock.

Help to Buy was the government's flagship scheme to increase home ownership, and it was very successful, with more than 375,000 customers taking a Help to Buy Equity Loan. However, the withdrawal of Help to Buy doesn't leave Hopeful Homeowners bereft of options. There are several new and upcoming meaningful replacements, both government and private led. Lenders and Brokers must recognise and understand these schemes to fill the void left by Help to Buy and provide alternative solutions to those struggling for a deposit. Awareness of these new schemes enables a more holistic approach to advice.

Allowing penetration of markets, some may have thought closed.

This will become even more important with the introduction of Consumer Duty regulations. These schemes all provide a similar solution but with different restrictions, so understanding and articulating each detail will be necessary for brokers and enable consumers to understand the fine print of these new products, ensuring that they meet the customer's life plan.

Three current schemes that provide customers with a more affordable step into homeownership include First Homes, Shared Ownership and Right to Buy, with more on the way.

First Homes

The First Homes scheme offers new build properties on sale for a discount of at least 30% on the open market value, and local authorities have the discretion to set deeper minimum discounts of either 40% or 50% through local planning policy.

Shared Ownership

Shared Ownership enables customers to buy a proportion of a home, with a housing association owning the rest of the property. A first-time buyer will then pay the mortgage for the share of the property they own and rent to the housing association for the remainder.

Right to Buy

Right to Buy enables eligible council and housing association tenants the opportunity to buy their homes at a discount. Pepper Money's Right to Buy mortgages are available on houses in England.

These schemes are supported by several lenders - and not just the big high street banks. There are now specialist lenders, like Pepper Money, which take a hands-on approach to underwriting every application, and this means they can look at a case as a whole, making lending decisions based on all of the considerations.

This means that lenders like Pepper can provide good options for customers who have a record of missed credit payments, are self-employed and want to use their latest year's accounts, contract workers and employees who earn income from multiple sources.

According to our recent Specialist Lending Study, 44% of people have missed a credit payment in the last three years, while 22% have missed several consecutive payments. For the self-employed, our study found that 20% say that their business made over 10% more profit in the last year than the previous two years - so using the latest year's accounts could prove the difference in whether or not they can demonstrate affordability. And a report by Royal London last autumn revealed that 16% of workers, equating to 5.2 million people, have taken an additional job to help pay for rising costs.

At Pepper Money, our Affordable Home Ownership proposition plays a vital role in helping Hopeful Homeowners who don't fit the constraints of high street criteria. With the rising cost of living, more customers will become part of this group. But we do more than that. For every scheme we support, we'll provide comprehensive instructions for brokers and their customers, making the process more straightforward for everyone.

We understand the complexities involved with affordable home ownership schemes, the importance of informed advice and that they may not be suitable for all Hopeful Homeowners. However, they will suit some, and brokers have an excellent opportunity to change the customers' lives by enabling them to take a first step onto the ladder.

So, don't write-off these schemes as only for mainstream customers. With lenders like Pepper Money active in this area, there are more options to help a broader range of customers to take their first step onto the ladder.

Buy to Let in a changing world

Martese Carton
Director of Mortgage Distribution

A growing number of Buy to Let investors are buying their properties through limited companies. Landlords are operating through a limited company mainly for tax and wealth planning purposes, as well as for future flexibility. It's not hard to see why forward-thinking landlords are making the switch, says Leeds Building Society's Martese Carton.

A growing number of property investors are changing how they purchase residential rental property[1]. They're now making use of limited company structures as they seek to shape their Buy to Let portfolios for the long term.

There's been a significant increase in the number of new company registrations as more landlords plan to purchase property in this way[2], with annual incorporations having more than doubled since 2016[3]. This has likely been driven by changes to tax relief that were introduced in 2016[4], which led to an eventual end to tax reduction on Buy to Let mortgages.

Buy to Let landlords who operate through a company tend to do so for tax and wealth planning purposes.

While some landlords are 'amateur' or 'accidental' landlords, limited company landlords typically benefit from larger overall investment portfolios and are more likely to expand their portfolios.

Almost two thirds plan to buy through a limited company

Recent research shows almost two thirds of landlords plan to purchase their next rental property within a limited company structure, up from half a year ago[5]. While landlords intending to purchase under a limited company structure are more likely to have larger portfolios, more than half of landlords with up to ten properties plan to buy through a company[6].

Limited companies can offer tax efficiencies

Rental income from properties owned by individuals is subject to income tax. This amount is determined by the individual's tax status - whether they're a basic, higher or additional tax rate payer.

> The Buy to Let market is changing, as limited company structures are being increasingly chosen by current landlords.

Income received from rental properties is added to the landlord's overall income. This means that any rental income, when added to other income, could push the landlord into a higher tax bracket.

Since April 2020, restrictions on tax relief for individual landlords have been fully in place, meaning they no longer benefit from tax relief on their mortgage interest. These changes, however, do not affect Buy to Let property held within a limited company. The mortgage interest for limited companies is classed as a business expense, and is fully deductible against income.

Furthermore, limited companies pay Corporation Tax, but this is paid on the profit generated by the business after all deductions have been considered. This includes mortgage payments and arrangement fees, and so buying rental properties through a limited company offers full tax relief on finance costs and access to potentially lower tax rates.

Limited companies also benefit from a tax-free dividend allowance.

Limited company structures can offer flexibility when planning for the future

Many landlords plan to pass on property to family in the future.

Transferring or inheriting a privately held property isn't always simple though. There can be a fair bit of administration, and certain taxes may need to be paid, such as Inheritance Tax, Stamp Duty and Capital Gains Tax.

Making use of a limited company structure though, with family as directors and/or shareholders, can make it easier to pass on wealth and offer flexibility for inheritance planning.

It's often simpler and more cost-effective to transfer company shares than property or interests in property. And, as the property remains owned by the company, it's potentially protected from the taxes mentioned above.

The Buy to Let market is changing, as limited company structures are being increasingly chosen by current landlords[7]. As professional landlords overtake accidental ones, Buy to Let through limited companies looks set to be an increasingly important segment of the Buy to Let market.

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[1] In Q1 2023, 62% of landlords intended to buy properties through a limited company, up from 57% in Q4 2022. Sources: Core Landlords Panel research report, Q1 2023 and Q4 2022, BVA-BDRC

[2] In Q1 2023, 62% of landlords intended to buy properties through a limited company, up from 57% in Q4 2022. Sources: Core Landlords Panel research report, Q1 2023 and Q4 2022, BVA-BDRC

[3] Basic Company Data Files, Companies House

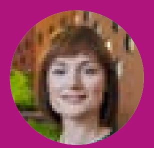
[4] www.gov.uk/government/news/changes-to-tax-relief-for-residential-landlords

[5] Q3 2022 Landlords Panel report, BVA-BDRC, September 2022

[6] Q1 2023 Landlords Panel report, BVA BDRC, April 2023.

[7] In Q1 2023, 62% of landlords intended to buy properties through a limited company, up from 57% in Q4 2022. Sources: Core Landlords Panel research report, Q1 2023 and Q4 2022, BVA-BDRC

Delivering on our founding purpose for **generation rent**



Jen Lloyd
Head of Mortgage Products, Skipton Building Society

Skipton Building Society was founded in 1853 to help more people to have a home of their own. 170 years later, we're still here, doing just that. However, whilst our founding purpose remains, the world we find ourselves in is, in many ways, unrecognisable. Whilst buying a home has always been a significant milestone and investment, the barriers that exist today can seem at times insurmountable.

The ongoing cost of living, elevated house prices, increased mortgage rates and lack of access to the Bank of Mum and Dad, means that for many would-be buyers, owning a home feels out of reach. In fact, our research reveals that 8 in 10 tenants feel trapped in the rental cycle, with over a third struggling to save anything as their rent has increased. Of those that can afford to save each month towards a deposit, we estimate that it will take on average almost 8 years to save enough to buy.

Helping turn generation rent into generation home-owner!

In our view, we as an industry need to tackle the UK's housing affordability crisis to enable more people, especially renters, to buy their first home. We recognised a clear gap in the market for people with a strong history of paying rent who can evidence affordability – there was no solution for them to buy. We're proud to have taken the lead on bringing to market, solutions that start to answer such a massive social problem. That's why in May, we introduced our Track Record Mortgage, a product that enables borrowing up to 100% LTV, for those able to provide sufficient evidence of paying rent. It was carefully created with the challenges generation rent is facing in mind, together with the potential risks and challenges they may encounter in the future too.

Protecting borrowers

The Track Record mortgage isn't a one-size-fits-all solution and won't work for everybody, our proposition keeps in mind the need to look after our customers, and the need to remain a responsible lender. There are therefore strict lending controls and criteria in place because we don't want to put people in a difficult position.

We've also been mindful of negative equity risk along with the broader medium-term economic outlook, ensuring that customers understand both the risks and benefits.

We're thrilled with the reception Track Record has received

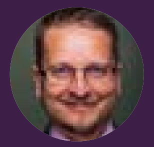
We've been absolutely delighted with the response to Track Record so far. The media and industry commentators have been supportive and have applauded our bravery in taking this important step in supporting would-be buyers. Most importantly, the product has had a warm reception from the broker community and their customers – it was this that meant the most to us, and the numerous real-life examples of customers we've helped since launch makes all the hard work worth it.

We'll keep delivering on our purpose, with your help...

We believe Track Record is a brilliant product for some, and we hope to see other lenders join us in offering similar solutions for generation rent. However, this innovative product isn't a silver bullet that will solve the numerous challenges facing First Time Buyers, and we must continue to think expansively to bring more options to market to help even more people take their first step onto the ladder. With over 90% of our lending done through you, the brokers, we place huge emphasis on ensuring our proposition remains relevant and well suited to helping you to support your customers into owning homes of their own. With that in mind, we'll continue to listen to you and collaborate with you when shaping our proposition.

@skiptonbuildingsociety
forintermediaries

Stepping up to the challenge of navigating client vulnerability



Ben Waugh
Managing Director of more2life

A look at how the later life lending market supports its customers.

Vulnerability can strike at any age and comes in various guises. In many cases, it can come out of the blue and be the result of circumstances beyond a person's control.

Most recently, the Covid pandemic and subsequent soaring inflation brought on by numerous geopolitical events around the world, has increased the vulnerability of many people either through job loss, financial stress, displacement or loss of life.

In the UK specifically, the cost-of-living crisis has seen the price of everyday essentials such as fuel, groceries and household utilities reach eyewatering levels, while stagnant and low wage growth coupled with a squeeze on disposable household incomes, has led to a significant drop in living standards. All these factors have had an impact on how people approach life and more specifically, their finances.

The Financial Conduct Authority (FCA) defines a vulnerable customer as "someone who, due to their personal circumstances is especially susceptible to harm - particularly when a firm is not acting with appropriate levels of care."

This broad-ranging spectrum of risk means that everyone is potentially at risk of becoming vulnerable at some stage of their life, but having certain characteristics of vulnerability heightens this risk.

These can be anything from poor health or cognitive impairment to experiencing major life events such as new caring responsibilities or being unable to cope with financial or emotional shocks. Poor literacy and numeracy skills also play a massive role in increasing an individual's risk of becoming vulnerable.

While over-55s who are the demographic that the later life lending industry supports are not automatically more vulnerable, they are more likely to be vulnerable due to health or cognitive challenges than some other age groups.

In a bid to better understand how the later life lending advice community is supporting their customers as they navigate financial decisions, more2life conducted research in February 2023, with 300 advisers operating in the later life lending market. This longitudinal study builds on data collected on vulnerability since 2018.

Advisers were asked how they recognise vulnerability in clients, the reasons why they are vulnerable and how they ensure vulnerable customers understand the equity release process. Given the important role that families play in the advice process, they were also asked how this impacts customer choices.

The results have been published in The Vulnerability Report 2023 - the fifth of its kind - which was last undertaken in 2021 at the height of the Covid pandemic. It shows that since 2021, that the percentage of clients that advisers consider as vulnerable has doubled from 15% to 30%.

These figures highlight not only the impact of the last few extraordinary years on over-55s but also a growing understanding amongst advisers of the impact and potential indicators of vulnerability. The main reasons cited for this heightened level of vulnerability were significant financial worries such as a large interest-only mortgage (43%) and being of an advanced age (42%).

Against this backdrop, the biggest challenges advisers felt they faced when working with vulnerable clients were documenting the support they provided (22%) and understanding their needs (21%).

As lenders in this space, we have a duty to ensure our customers fully understand the decisions they are making when taking out products. We also have a responsibility to educate and help advisers access the guidance they need to identify and help vulnerable clients.

As an industry, we must work harder to ensure we achieve these goals and protect the interests of both our customers and the advisers that serve them, particularly during this time of increased economic volatility.

View full report: www.more2life.co.uk/learning-lab/market-insight/vulnerability-report-2023

It's no surprise that volatility in the market is impacting everyone involved in the mortgage process. Brokers may not have a crystal ball, but keeping a keen eye on upward movement in SONIA swap rates and higher than expected inflation figures will provide an early indicator for product withdrawals and rate increases. I hope that more lenders join the pledge for a minimum of 24 hours notice for product withdrawals.

Kyle Greck, Mortgage Distribution Manager, Bath Building Society

In the modern mortgage market, lenders need to deliver a range of responsible, innovative and viable solutions. Allowing family members to use existing wealth or to combine borrowing power to purchase a property would be a great enhancement and open up avenues to the market that have previously been unavailable.

Loughborough Building Society's Family Assist mortgage range aims to do just that, and is specifically designed to enable family members to use existing wealth or combine borrowing power to purchase a property.

Ashley Pearson, National BDM, Loughborough Building Society

Current market volatility represents a rare opportunity for brokers. Amidst a complex and fast-shifting economic landscape, consumers need their expert mortgage knowledge and advice more than ever. Lenders need to help brokers rise to this challenge, by providing them with the information and insight to help their clients navigate a path through the uncertainty. Our Growth Series resource hub contains free-to-access guides and ideas to help them do this, while adapting their businesses to ensure they remain agile and profitable in these times of change.

Accord

Mortgage intermediaries can expect to see an increasing market for specialist residential borrowers with layered complexities. As well as more borrowers wanting to use 100% of their additional income sources like commission, they may also have late payments on credit, as well other issues that require manual underwriting. Look out for our F1-F4 range of credit tiers which allows for a wide range of credit blips up to 6 months ago.

Grant Hendry, Director of Sales, Foundation Home Loans

Technology collaboration in the market, the right partnerships can unlock a better experience. At Halifax, it is critical we use technology which allows us to pivot to address ever changing needs and circumstances of our customers. Taking the time to understand a partner's technology ensures that we can develop solutions together, seamlessly and swiftly, keeping the customer's needs at the heart of the partnership.

Laura Myers, LBG

The current volatility and frustration in the mortgage market just emphasises the importance and need for increased connectivity and automation between lenders and sourcing systems.

Kelly Yolal, Iress Senior Product Manager

At Beverley Building Society, our primary focus has always been how can we help people get on the property ladder and with the removal of Help to Buy innovation is key. We launched our Property Assist mortgage in 2022, it allows us to lend 100% of the purchase price of a property to first-time buyers, with assistance coming from their parents to secure the equivalent of a 20% deposit against their home in the form of a legal charge.

Simon

The key trend we see is an increase in collaboration: in an uncertain economy it's essential to get closer to client needs and respond quickly to market changes. One recent example at Saffron is our deep dive on Self Employed: we commissioned independent research to understand perceptions and barriers among Self Employed people about getting a mortgage. Rather than keep the insights to ourselves, we're sharing them with our broker partners so they can optimise their marketing and training. It's a win-win: as a lender we can design better products & criteria, and brokers better understand the drivers of this specific market so they can write more business.

Tony Hall, Head of Business Development

With Consumer Duty incoming, it's time to think about broadening your offering to ensure you recommend the best customer option.

LiveMore could be your secret weapon. With the most product options and fixed rate terms in the later life market, we are a Consumer Duty dream!

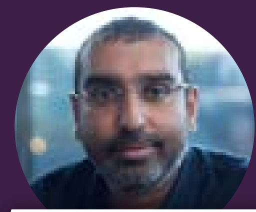
Using industry-leading tech, broad criteria, and common sense underwriting approach, we're here to help your borrowers aged 50-90+ get the mortgage that meets their needs.

Give us a call today to discuss how we can help your client.

Bill Purves, MD, Risk & Compliance, LiveMore

To say that it's a challenging time for millions of homeowners right now is an understatement, given that interest rates are continuing to rise and people are feeling the pinch due to escalating costs. It's truly great to be able to leverage cutting-edge technology at Sprive and collaborate with brands like Morrisons, M&S, Waitrose, Asda, and Sainsbury to help people save money on their mortgage just by doing their weekly shopping.

Jinesh Vohra, CEO of Sprive



Diversification and why it matters for **protection advice**

Gregor Sked
Senior Protection Development and Technical Manager, Royal London

I'm a passionate believer that protection is the bedrock in achieving holistic financial planning. After all, without it, all other plans clients are making for the future could quickly come crumbling down.

What is protection diversification?

One of the fundamental strategies for managing risk is diversification. In an investment context this generally means having money invested in different asset classes to reduce over exposure to risks faced by a single asset class.

Diversification in a protection context is about ensuring the financial resilience of customers is not over exposed to specific foreseeable harms such as being diagnosed with a serious illness, being unable to work due to injury or illness and even premature death. Exposure to these risks can occur where customers either receive minimal or no protection advice.

Why does protection diversification matter for customers?

It's human nature to have a slightly skewed perception of the risks we face. After all, nobody wants to think of bad things happening. As advisers, providing quality advice, being able to show customers the risks they face and how to manage such risks (after all we can't avoid it altogether) is one of the main principles of financial planning. But how do you get customers engaged with a conversation about the likelihood of something bad happening?

Let's look at an example. Nuala is 33 years old, she's a non-smoker with a retirement age of 68.

Using data from The Institute and Faculty of Actuaries we can see that Nuala has a 3% chance of passing away prematurely, a 18% chance of developing a serious illness and a 40% chance of being off work due to sickness or injury for two or more months. All-in-all there's a 52% probability that Nuala could encounter any of these events during her working life.

> Firms must take proactive and reactive steps to avoid causing harm to customers through their conduct, products or services where it is in a firm's control to do so.

If Nuala has no financial protection, what might her risk capacity (i.e. the monetary amount that she could afford to lose without it endangering her financial objectives) look like?

Let's say her financial objectives are relatively simple; to be able to maintain her standard of living if she can't work due to illness or injury and to ensure that if she passes away suddenly that her family don't have to worry about keeping a roof over their heads.

I'd say Nuala's risk capacity is worryingly low. Even with some mortgage protection in place the impact of being off work sick, which we can see to be her highest risk, could very quickly jeopardise her financial objectives.

A possible solution? Building a diversified protection portfolio that includes provisions for both mortgage repayments and lifestyle costs.

Why does protection diversification matter for advisers?

The phrase diversification has started to blossom across the mortgage intermediary space of late. Whether it's specialist lending or protection advice, during turbulent markets being able to have more strings to your bow is no bad thing.

Protection advice not only offers another revenue stream, but it allows you to recommend solutions that provides some level of protection to suit your individual customers' risk profile, meeting their individual needs and budgets.

Protection is now everyone's business

Love it or loath it, Consumer Duty will put more focus on protection discussions taking place during the fact-find, or at least ensuring clients are being signposted to a protection specialist. Within the finalised guidelines the FCA make this very clear.

"Where a firm declines to provide a customer with a particular product or service, the firm should still consider whether there is information or support it could provide to help the customer pursue their financial objectives"

The FCA are also very clear about their expectations for ensuring foreseeable harms are identified and addressed.

"Firms must take proactive and reactive steps to avoid causing harm to customers through their conduct, products or services where it is in a firm's control to do so"

The fact we have access to data on the likelihood of making a claim on life, critical illness and income protection policies should be the encouragement needed to make sure protection advice is being put on the table. After all, if we know the risks clients face, does the absence of protection advice help or hinder the avoidance of foreseeable harm?

For further information, visit our website.

[1] Royal London Marketing Studio Risk Report / The Institute and Faculty of Actuaries (accessed June 2023)

[2] FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty, July 2022 (accessed June 2023)

100% Mortgages and Extended Terms: How beneficial are they?

Alasdair Macdonald
Head of Intermediaries, Furness

From the base rate to the cost of living crisis, it's safe to say the housing market's seen its fair share of ups and downs recently. When you also consider how rising house prices mean an increased deposit, it's no wonder first-time buyers are more confused than ever.

To help make housing more accessible, some lenders have introduced 100% mortgages, meaning no deposit is required. Not only that, but 40-year mortgages are also becoming more popular. Could these two features pose the best solution? At a glance, they appear to be the answer to the problems first-time buyers are facing.

However, as with all significant financial commitments, they should be approached with caution. The potential pitfalls of these types of products may not be worth the short-term benefits.

This doesn't mean such incentives should be avoided. Rather, borrowers must carefully consider the long-term implications before committing. After all, responsible homeownership requires a realistic assessment of your financial capacity weighed against your mortgage options.

100% Mortgages

With 100% mortgages, there are some significant pros and cons to consider before committing.

On the positive side, these mortgages offer greater accessibility for first-time buyers. This can be life-changing for those who have long dreamed of owning their own home but struggled to save for it with rent price increases and an ever-changing economy.

Consequently, buyers can purchase their home sooner than with a traditional mortgage. This could pave the way for other milestones that would have otherwise been on hold, such as marriage or children. For some people, it could mean an earlier retirement, as their mortgage will be paid off at a younger age.

No-deposit mortgages also allow buyers to invest their money elsewhere instead of tying it up in a deposit, potentially setting them up for a better financial future.

However, there are downsides to 100% mortgages too. These mortgages often come with higher interest rates, which can be a disadvantage in the long run.

Additionally, buyers would have a higher loan-to-value ratio, making them more susceptible to negative equity. This presents a significant financial risk and could limit the ability to sell or remortgage the property in the future.

Finally, no-deposit mortgages may not be widely available or offered by all lenders, which can restrict buyers' choices and limit their ability to shop around.

40-Year Mortgage Terms

Spreading the cost over a longer period means lower monthly payments. With the cost of living crisis hanging over us, increased disposable income could be an essential lifeline for most families.

The reduced strain on monthly outgoings also maintains the flexibility to make overpayments. This could reduce the total interest by paying off the capital, whilst also shortening the overall mortgage term. So, a 40-year mortgage may be paid after 35 years, for example.

Furthermore, extended mortgage terms may allow buyers to secure higher loan amounts, enabling them to purchase a larger or more expensive home. Put simply, they can skip right to that 'forever home'.

On the other hand, a longer loan period means more interest overall. Also, equity builds much slower on 40-year mortgages. As a result, this could limit options if a homeowner ever needs to take out this equity in the future.

There's also the age of mortgage holders to consider. With the average age of UK first-time buyers now over 30, a 40-year mortgage would mean paying it off into your 70s. For many, this could delay retirement. Of course, lending into retirement is possible, but buyers must consider all options before jumping into such a long commitment.

Protecting your Finances

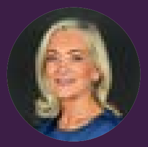
No deposits and longer mortgage terms have certainly raised some eyebrows because of the obvious risks. One key thing to remember is whilst 100% mortgages are available, they come with strict criteria. In practice, those benefiting from a 100% mortgage are in the minority.

For most first-time buyers, saving for a deposit is still the best route onto the property ladder. It's also the safest option for all involved. Giving a 100% mortgage to somebody with no savings could damage their financial security. After all, a deposit isn't the only cost associated with buying a home. For this reason, 100% mortgages are quite exclusive.

Equally, 40-year mortgages cannot be handed out freely either. For example, approving a loan of that length to a person in their 50s would put them in their 90s by the time the loan is paid. This is a huge risk for lenders and borrowers alike. Not to mention the real possibility of family members inheriting a mortgage they cannot afford to cover.

For a select few, these products can be genuinely beneficial. For the majority, traditional mortgage products will likely remain the safer and more attainable option.

Wealthier borrowers twice as likely to gift the proceeds of equity release



Kay Westgarth
Director of Sales, Standard Life Home Finance

Less affluent borrowers look to repay borrowing, boost income and age-proof homes.

Following the mini-budget challenges, almost a third of potential customers are adopting a 'wait and see' attitude having not made a firm decision.

A new study from equity release lender Standard Life Home Finance has highlighted the impact of customers income on how they use the proceeds of housing equity. Wealthier borrowers are twice as likely to gift the proceeds of equity release while less affluent borrowers are looking to repay unsecured borrowing, boost their income and age-proof their homes.

Building on last year's insights, Standard Life Home Finance's Lightbulb Moments II research* collated 503 responses from those over the age of 55 who have considered equity release and those who have taken out a plan. The findings highlight that equity release has become a central financial tool for the over-55s, helping them manage their finances and provide much needed support for family members.

Impact of Customers Annual Income on Equity Release uses:

The most common reason for taking out an equity release plan across all income brackets was to age-proof their homes or undertake essential repairs. However, 43% of those with an annual income of up to £20,000 used equity release for this purpose compared to only 31% of those with an annual income of over £60,000.

Interestingly, the proportion receiving more than £60,000 per year using equity release to provide financial support for family or friends was almost twice (29%) that of those with incomes up to £20,000 (15%).

Additionally, there was a greater proportion of people on higher incomes using equity to repay mortgages (42% of those with over £60,000 in annual income vs 33% of those with under £20,000) and for estate or IHT planning (18% vs 1% respectively).

While the relative wealth of the customer played a role in how the equity was used, the value of the home is also likely to play a role with more affluent customers likely to have more potential funds to access.

Impact of Potential Customers Annual Income on Equity Release uses:

While those who considered equity release were driven by similar desires to those of actual customers - namely, home/garden renovations (24%), financial support for family and friends (19%) and repaying a mortgage (12%) - these needs were not as prevalent or pressing.

Instead, more potential customers looked to equity release to repay an interest-only mortgage (17% vs. 14%), for estate planning (10% vs. 7%) and extra monthly income (15% vs. 14%) than actual customers.

Given the challenges the market has seen around rates, LTVs and product availability, it is perhaps not surprising that some customers chose to wait with almost one in five (19%) saying that they are waiting until conditions are more favourable and 8% were still considering their options. A further 3% had been doing initial research and would revisit their choices when the funds were required.

Kay Westgarth, Director of Sales at Standard Life Home Finance comments: "Equity release has always been a multi-use product with customers often choosing to use their housing equity to fulfil a range of needs and desires. The Lightbulb Moment research highlights the positive impact that these products can have on people with a range of incomes.

"Whether you are wealthier and want to support your loved ones or less affluent and looking to clear your unsecured borrowing and boost your income, there are many options and product flexibilities. As we start to see green shoots in the market with lower rates, higher LTVs and better product availability, we anticipate that the 30% of people who put off making a choice will once again consider whether equity release is for them.

"The first step is to speak to a specialist adviser who will not only discuss all the features of modern equity release but also continue to encourage more consideration of other options such as retirement interest-only mortgages, downsizing or accessing other sources of funds."

To offer your clients the very best solution for a brighter retirement, explore our Defaqto 5 Star rated Horizon lifetime mortgages today.

Can **later life lending** embrace green finance initiatives?

Paul Carter, CEO, Pure Retirement

The pressing issue of climate change and its impact on the environment remains at the forefront of public discourse, capturing attention amid competing news stories such as war and the ongoing cost-of-living crisis similarly fighting for airtime.

For many, those seemingly separate narratives are intertwined, with harsher winters and rocketing wholesale energy prices in the immediate aftermath of the war in Ukraine pushing many into fuel poverty and 'heating or eating' dilemmas. Consumers' awareness of a need to update or enhance the efficiency of their home is met with the barrier of a lack of financial means (or, on a more fundamental level, of a lack of understanding of what to target to see the most significant gains), creating a cycle that isn't easy to navigate a way out of.

The state of the UK housing stock continues to be a point of discussion, and even before the rising property prices became an additional factor, the lack of good quality housing was cited as a reason why many weren't moving or downsizing as part of their retirement planning. The reality is that the UK has the oldest and least efficient housing stock in Europe, with 54% of properties being built before 1963, and 20% before 1919. Cumulatively, domestic housing currently accounts for nearly a fifth – or 17% - of our total CO2 emissions output, highlighting the work still to be done within the domestic housing space.

This was the theme at the heart of the opening keynote panel at the recent Equity Release Council summit, and if nothing else it demonstrated a keen awareness from the participants from several adjacent industries of both the inherent challenges when it comes to decarbonisation of the UK's housing stock, but also of the role equity release can potentially play in that journey. With £23bn of lending having taken place over the last five years, and a third of the country's housing being owned by over-55s, the synergies seem apparent.

> Cumulatively, domestic housing currently accounts for nearly a fifth – or 17% - of our total CO2 emissions output, highlighting the work still to be done within the domestic housing space.

As mentioned, for some there will be the potential frustration of appreciating the need to update their home (either for their own quality of living and reduce their utility costs long-term, or in order to potentially provide a more valuable asset for their family as an inheritance), allied to an inability to do so amid their current financial situation.

As a financial tool designed to allow those in later life to meet their financial objectives and achieve their aspirations, should the equity release space be giving greater thought to the role it can play in this discussion - both in terms of what green finance initiatives it can develop, and the messaging around its current offering?

The residential mortgage market has offered a window into how green finance initiatives can work, with Nationwide offering 0% lending for efficiency-improving works to be undertaken. But at the same time, there needs to be consideration given to overcoming consumer anxiety and thinking from a customer's perspective.

Consequently, if we're genuinely going to be presenting a united front, then there needs to be greater thought given as to how the industry can come together to develop tools and resources that enable advisers to explain the possibilities, and potential benefits, to consumers.

Get in touch

Industry Voice is shared with an audience of over 15,000 people in the UK mortgage and protection industry. We produce four editions a year and target an online audience of mortgage and insurance brokers, product providers, financial advisers and individuals with a vested interest in Industry Insight.

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