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Remortgaging in the UK

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Panellists discuss the latest trends in the remortgaging market and the outlook ahead

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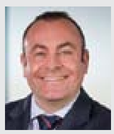
CHAIR

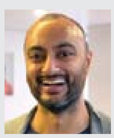
KATE DAVIES
IMLA Executive Director
A graduate of Durham University, Kate joined the Building Societies Association/Council of Mortgage Lenders in 1991. When the BSA and CML split in 1996, she stayed with the CML as senior policy adviser, specialising in mortgage regulation. Since leaving the CML at the end of 2008, Kate has worked freelance for a number of trade associations, and served as a non-executive director at Darlington Building Society.



CRAIG CALDER
Head of Barclays intermediaries
Craig was appointed to his current role in July 2017 and is responsible for building the Barclays intermediary proposition across the UK and building and cementing new relationships in the market. In his previous role Craig managed the product portfolio and associated income. He joined Barclays from RBS where he held several roles including head of mortgage acquisition, head of category development and head of existing customers.

OLIVER MEDDICK
CO-Founder and COO, The Moving Hub
Oliver has worked in the industry for 21 years, 15 of those within the family conveyancing practice, where he worked his way from archive boy to fully qualified licensed conveyancer and director. One of his best bits of advice he can give is to 'look up when walking down a street, properties can be far more beautiful than you realise when you do!'

GREG CUNNINGTON
Director of Lender Relationships and New Homes, Alexander Hall Associates
Greg has worked for Alexander Hall since 2007, starting as a graduate scheme mortgage adviser. He has worked his way through the business covering various areas of sales management and is now a member of the senior management team. Key responsibilities include managing lender relationships and overseeing the businesses growing New Homes department.



HEMEL SHAH
Sales Director, Eligible.ai
Hemel is sales director at Eligible.ai. Prior to joining Eligible.ai at the start of 2019, Hemel was a mortgage broker for just over nine years starting his career at London & Country before moving on to John Charcol. He has experience in various sectors of the market and is now applying this knowledge to help brokers extract the maximum value out of their client banks by improving customer retention.

HITEN GANATRA
Managing Director, Visionary Finance
As the managing director of Visionary Finance, Hiten is passionate about all things investment, property and finance. The strategic links the firm has with a number property developers across the country has enabled it to propel its growth in the last three years and is fast becoming the go to firm for developers. Trusted also by lenders, it has helped to pilot a number of specialist mortgage products entering the market place.

ALASTAIR MCKEE
Managing Director, One 77 Mortgages
Alastair has been in the mortgage industry since 2000 and during that time played a significant role in the growth of one of the largest brokers in the UK and is now doing the same at One 77 Mortgages. With a huge passion for the industry he works in, Alastair seeks to improve standards, questioning the status quo to ensure the industry keeps moving forward.

MIKE DAVIES
Business Development Director, Mortgage Brain
Mike has 35 years' experience in the financial services industry predominantly in the mortgage sector. He has worked for Mortgage Brain for the last 16 years of his career. The Mortgage Brain business, is the market-leading supplier of mortgage sourcing and compliance software and online trading services to mortgage introducers and financial advisers and all lenders in the UK.

STEVE CARRUTHERS
Principal Mortgage Consultant, IRESS
With over 30 years in financial services, Steve has a wealth of experience across the banking and building society sector, including large, traditional models, niche lenders and challenger banks. He joined IRESS in February 2019 as principal consultant for lending. He has in-depth knowledge and understanding of the UK intermediary mortgage market across both lending and distribution.

CHAIR: What trends are we seeing in the buy to let remortgage market at the moment, and what are the reasons behind these trends?

MEDDICK: There has been a massive increase in general enquiries around buy to let remortgages recently, and also where people are now dealing with their requirements in relation to tax planning and transferring over to limited companies.

CHAIR: Is that to do with existing landlords setting up limited companies, or is it new landlords entering the market?

MEDDICK: There has definitely been a return to the marketplace of a certain amount of landlords, due to the healthy returns in certain areas. Small to medium sized landlords, which we class as owning between 3 and 10 properties, are now looking at getting correct advice, and want to put these into a better managed limited company, so they can be more tax efficient and plan for the future.

CALDER: When talking to today's brokers, you start to see a slight return back to doing it in a personal name, as opposed to setting up a limited company because of the complexity. If you are a small landlord, of say three to four properties, there are a few people that say, well actually, the burden of setting up a limited company, is that actually worth the extra tax that you save?

CHAIR: There is also stamp duty attached to it as well.

CALDER: Going back to remortgaging in general, there is obviously a massive uptake in product transfers, which has an impact on the gross remortgaging market. The market forecast outlook for next year is massively down, because of the number of people that have taken longer term fixes in the last a few years, so the gross market is going to be much lower than originally forecast.

SHAH: I think it is expected to peak in October 2019, and will drop off in 2020/2021 as all those people are on a 5-year fixed rate. The margins between 2 and 5-year fixed rates have just dropped off from 1.6% to 0.36%, so there is now just the incentive to take a 5-year fixed rate mortgage.

CALDER: And if you are looking at swap costs, there is very little difference between a 2 year swap and a 5 year swap.

CHAIR: Is it coincidental that the rates have dropped off, or was it being driven by the regulatory fact that you didn't have to conduct stress testing for 5-year plus?

CALDER: I think it is to do with funding costs. We still stress test at 2-year and 5-year, there is no discrimination there.

GANATRA: Also the implications of a buy to let 5 year fixed is that the rental stress test being used by lenders is devised to extract more equity from the property when remortgaging. When it comes to looking at 2 or 3 year fixes, they are using the higher of the stress tests, especially for higher rate tax payers, but for also limited company buy to lets you are looking at 125 at 3.69% with some lenders, which means you can borrow a lot more.

MCKEE: It still amazes me how many clients look at properties without having the appropriate tax advice on buy to let.

CALDER: There will however be those who have never been a landlord before, and will enter the arena with their eyes open and say those returns are fine for me even if they are paying more tax. It could actually create a market for a new generation of landlords if some landlords exit as a result of increased taxes.

MCKEE: I would also be interested to see the number of landlords in the UK, compared to the number of landlords that declare their taxers on their properties.

MEDDICK: The taxation rules for landlords plus the stamp duty implications all came at once. Landlords were ripped out of the marketplace when this happened, but did the government do that for a reason? Did they do that because they now have something they can retract and give back to the market for when it really does start to stagnate? Back in 2008, they didn't have anything. The banks were already gone, and they had nothing to help with that. Now if there is an issue, they can relieve tax on landlords and reduce stamp duty for first time buyers to assist and support the market place.

MCKEE: Going back to the product side of things, I have got a big issue with what the regulator has done, in terms of the way in which they are now forcing landlords hands to take five year fixed buy to let remortgages. It's distorting the market.

CUNNINGTON: In terms of trends in the residential remortgaging space, a reason for more activity here is that some clients are holding fire temporarily due to the Brexit uncertainty, and some clients are looking at the moving costs of stamp




duty. There is a huge demand to release equity for home improvements linked to this.

CARRUTHERS: This will have a knock-on effect on stock levels naturally in the market.

MCKEE: That's particularly true in the South East, yes.

MEDDICK: If you go back, say, 40 to 50 years, you started off with a one bed flat or studio and you did the whole 'going up the Property ladder' - that's where the phrase came from. Now you get the first time buyer, whose expectation says they want a three bed house with a garage. It is the whole 'get it now' culture.

SHAH: Stamp duty also encourages first-time buyers to purchase larger property at the first step, as they do not want to pay stamp duty again down the line.

CALDER: I was talking to a broker recently, who feels that when help to buy truly matures,

there will be a whole load of people that will have to come out of those 3 or 4 bed houses because the costs are bigger than they anticipated. They will have to downsize and perhaps enter into a shared ownership arrangement.

Stamp duty and affordability

CHAIR: We have mentioned stamp duty quite a bit in this discussion. Should the industry be campaigning to impose stamp duty in a different way?

CALDER: The tiering system is the problem around stamp duty. A flat amount of stamp duty to be paid is a far better option.

GANATRA: The implication of stamp duty is that you have got to have that cash available on top of the deposit. A nominal amount of tax should be introduced when you come to realise the sale of the property, not capital gains tax as you would do for buy to let, but for residential property, so for example you might have a 2% levy that would come from the sale proceeds. So psychologically you are not feeling so bad about the money needing to be paid.

SHAH: It's the same thing as the help to buy equity loan.

CALDER: The issue there, is, if you repossess the property then who has to pay the tax?

MEDDICK: Stamp duty is just too complicated full stop. One of the most unfair instances is where someone has inherited a property and suddenly they are not first time buyers, so then are paying huge sums for stamp duty. It's just easy money for the government and bluntly always has been.

DAVIES: If property prices slow down, then the desire to move house with the way stamp duty is set up is taken away, because you have lost property value. Any growth is offset by stamp duty. If you have no growth, then there is no incentive to move. Whereas if you harnessed stamp duty, at say 1%, over perhaps 250, then actually the cost to the individual is smaller, therefore the acceleration of the house price can be less to actually cover those costs.

Brexit

CHAIR: If we now turn our attention to the Brexit, my perception and IMLA's, is that it has had a completely deadening effect on the housing market. You can't get anything out of the housing governmental departments at the moment, as they are all swamped with Brexit related issues. We have been promised guidance any day now on the new Help to Buy Scheme – but we are still waiting. There is just so much uncertainty going around at the moment.

CALDER: If we do leave on 31 October, will there suddenly be a whole host of new properties coming on to the market? I don't think so, because it is just a notional date that says we are leaving with or without a deal, and there could be this hiatus for many years to come.

MEDDICK: There is massive uncertainty at the moment. The Bank of England, I don't think, will suddenly start sky rocketing the interest rates, in my opinion. When Brexit happens there will be a period of time to see how the dust settles and the same if we remain, so is it not now the perfect time to go and borrow money and lock in as the outlook for rates is still very good.

CALDER: People are always worried about house prices falling. Nobody wants this to happen.

DAVIES: This goes back to the mindset issue again. People when they retire want to be the king of their castle. They want to pay the debt off, so that they are mortgage free, and have no liability against the property on retirement. For my generation, that was the goal. You bought a house, and you knew it was going to be paid off in 25 years.

GANATRA: A strong housing market is in the best interests of the 'feel good' factor of the economy.

CHAIR: Do we actually think that house prices will fall?

CALDER: When you come out of




London, markets are perfectly normal.

CARRUTHERS: In the North and in Scotland, particularly across the central belt, house prices have held up well and continue to grow in parts of Edinburgh and Glasgow.

CHAIR: We could mention as well that where house prices are falling in certain areas, it is making it more affordable for those looking to buy. There have been two very striking reports recently from the House of Lords and a discussion paper from the FCA on intergenerational unfairness. Baby boomers have done very nicely, but the difference between those that have been able to get on the housing market and those that haven't, is chronic in terms of what it does to their ability to accumulate wealth. It is such an unfair difference and the government is very aware of this. It is only going to get worse as well.

SHAH: In my generation, it is very much going to be a generation of 'haves and have nots'. I am fortunate as I managed to get onto the housing ladder with help to buy, and if I continue to pay my mortgage down, in 25 years then I will suddenly have an asset worth, let's say £300,000, whereas someone else with the exact same expenditure but doesn't have the home, the asset, means that I am automatically £300,000 better off. This is happening up and down the country.

DAVIES: The other thing is that the generation below me have only been used to low interest rates. Lenders used to charge interest rates of circa 14.75% in the late 80's.

CARRUTHERS: I am also interested to see the reasons for remortgaging just now. Is there an increase in remortgaging for debt consolidation reasons? We are still fairly heavily indebted as a society

CHAIR: And that is partly because of the low interest rates at the moment.

Carruthers: Are we seeing an increase in debt consolidation, from a lending perspective?

CALDER: I am not seeing it, but as a lender we are fairly strict on debt consolidation on remortgaging. We only go to 80% on debt consolidation, some lenders go to 90% on debt consolidation which I think is a bit on the high side.

CUNNINGTON: What we do see, is quite a lot of clients, who halfway through a fixed rate mortgage, have not thought about approaching the intermediary or the lender about a further advance. I think the advice around this should be promoted more.

CALDER: We see some instances where customers come to us for a mortgage, but their outstanding debt is far higher than their gross annual income.

Products

CHAIR: If we move on to products now and the sort of things that are around. It is always a bit of a chicken and egg situation – what comes first? The product or the customer's needs? Is there enough variety with products in the market to meet customer needs? Or is it a case of lenders saying this is what we can give you (etc)…?

GANATRA: It is more about policy I think. We tend to look at policy to make sure that every client has a unique circumstance. It is about looking at the policy and then finding the best lender to lend on that policy rather than looking at the rates. There isn't a scenario where you cannot find an option for someone, but it just depends on what cost it comes in at and whether the client is prepared to pay that price.

CUNNINGTON: We are definitely seeing more innovation in products. As the market has got so competitive, lenders have spent two years fighting on enhancing criteria. We are seeing now product changes. Santander introduced a 1-year buy to let, which for remortgage landlords was quite popular. We have seen TMW introduce a 10-year fix with a 5-year ERC. We will see lenders carrying on with this innovation and new products. A few of the private banks are now offering mortgage account schemes also. It wouldn't surprise me if some of the high street lenders started to innovate with things like this as well.

MCKEE: I think there is a lack of product innovation on the self-employed side of the market. It just seems so antiquated. Lenders are still working off figures that are 12 to 18 months out of date.

CALDER: The product side is really interesting because everything could be described as very vanilla. There will definitely be more innovation around things like helping customers know whether moving home or improving their existing property is the right thing to do? If we also look at risk based pricing, from a lender point of view, I don't think anyone has sophisticated enough systems that could do it.

DAVIES: I don't disagree with that, but will it come?

CALDER: The issue there is the transparency piece. There is no transparency here at all. For a lot of

people it could work, but for a lot of people it could seem like the lender is profiteering because you could put the price up. Customers like to know what is on the menu of choice and about all the costs involved.

CHAIR: This brings us nicely onto the issue of hidden charges and fees. What are your thoughts on this?

DAVIES: Well the trouble is they are not standardised. Lenders in their own world know what their fees are, but when you try and bring everything together, you have to try and decipher what the fees actually are, and whether a booking fee is the same as an application fee. It is all the wording associated with it as well, that you have to try and get your head around.

CALDER: So we have product fees, but there is a lender, that where you have a fixed rate, you have a booking fee and if you have a tracker rate you have an application fee and a product fee.

MEDDICK: Product fees need to be clearer. When someone is buying a property, or remortgaging, they are in an emotional state. They either want this beautiful house, and will do anything to get it, or they are remortgaging for consolidating debt, they want a better rate, or they are worried as they are divorcing. There needs to be complete clarity on what they are looking at, and understanding. Do I think that clients look at a mortgage offer, look at a decision in principle and completely understand, no. The majority do not understand the associated cost of having a mortgage.

CHAIR: What happens when you have a leasehold property and the charges associated with that?

MEDDICK: Leasehold fees can vary very widely indeed, up and down the country with the same management company and very similar information.

CUNNINGTON: My mind immediately thinks about the conveyancing process with this question, particularly with lender's free solicitors. There are some charges for leasehold properties which can be quite steep that clients do not always realise will come up.

Technology

CHAIR: Is technology a threat to mortgage professionals?

MEDDICK: There is a large generation, that we are experiencing at the moment using technology more efficiently. Technology in some ways has been great, because it opens up a knowledge base of clients.

CHAIR: It encourages people to search, but do they get the right answers?

MEDDICK: If they go to the right firm, yes and obtain the right support?

Chair: How do they know if they have gone to the right firm?

MEDDICK: The simple answer to that, is reviews, and the way in which you are dealt with at the time of making enquiries. Reviews give a feeling of a company and aid your decision when speaking to them regarding your potential transaction.

SHAH: Technology doesn't have to replace mortgage advisers. It can support them, augment their job and take a lot of the administration tasks away from them on a day-to-day basis, thus giving them more time to advise. The customer should then receive more quality advice from the adviser

CARRUTHERS: Research (2019 Intermediary Mortgage Survey) published by IRESS recently, spoke very loudly about intermediaries emphasising the importance of technology in that exact sense. They feel that technology will allowaccess to a wider reach in terms of distribution. If I am a broker and I want to expand my business elsewhere in the UK, technology will help me to do that, and it will allow me access to new generations.

SHAH: The thing that technology can do for advisers in today's market, is it can help advisers communicate effectively with their customers. It is about communication with a person as an individual rather than as a generic market.

CHAIR: If communication is good, and you are giving the adviser more time to advise in a better way, it seems to me that that is also likely to open up the market to a much wider range of products.

CALDER: If technology can take away some of the non value add it is very useful. I think robo-advice, however, is just a decision tree execution only model. It's not advice. To get advice, you have to have an interaction.

DAVIES: There are two elements to technology. There is what the lenders can offer, and then what the likes of myself can offer. The lender will want to transact with various platforms, and that is the bit that the lenders are providing, but actually there is another bit which says, well what is being provided for the advisers to get end to end processing. The issue we have is, how old is the average adviser? The average adviser is circa 50-55 years old, so they have been used to a regime in the past where it is all paper. They don't like change. What are you going to provide for the front end, the advisers, the up and coming advisers, and from a lender's perspective, how easy are you going to make it to deal with you? You can have a really really slick front end and a shocking back-end or vice versa. Unless the two meet, then you are going to experience a good service.

SHAH: That's key with regards to the tech firm providers, because you have to understand your market. If your market consists of 50 year old advisers, you have to know your audience. The tech can be the most sophisticated tech in the world but unless it is easy for the adviser to use, you will not be successful.

MCKEE: It amazes me on a simple remortgage how many lenders still send someone out to value a property. This is the same for purchases as well. They are way behind the curve when it comes to technology.

CALDER: As AVMs go, we are one of the biggest users. We do it on purchase and remortgaging. It is based on the quality of data and the number of transactions. So if you have got somewhere with very few transactions, then there is a low confidence score and then we will send someone out. The data is all there but it is dependent on the lender's risk appetite.

CHAIR: Is technology making the remortgage market more efficient?

CARRUTHERS: It will eventually make it more efficient, but it won't happen overnight. Most lenders will take advantage of existing and new technology and there is a consideration, or risk, that more and more remortgage or product transfer business may go down the execution route. Mortgage advisers and brokers should look at their business models over the next few years to counter that. As a lender, why wouldn't you look at technology to make your business more efficient? Some brokers may have to look at more specialist types of lending perhaps.

CHAIR: What is the outlook for remortgaging over the coming year?

GANATRA: One of the challenges we have around remortgaging is associated with flats with cladding where updated fire risk assessments haven't been done by freeholders resulting in valuers declining to lend on blocks and so creating mortgage prisoners. DCLG should set out clear parameters on fire/risk reports and insist freeholders obtain these to avoid flat owners being unwilfully penalised.

MEDDICK: There needs to be more noise about the effect and benefits of making overpayments. Educating people around their mortgage and the implications of obtaining a mortgage is also key, ie assisting them with their financial management, more like a financial MOT.

DAVIES: I think the remortgage market will decrease in terms of value, but transfers will rise. Lengthening fixed rates will also have a massive impact on the remortgaging market.

CARRUTHERS: And brokers will have to think about the knock-on effects of that in terms of their business and business models, and how do they embrace technology. And, I do see more straightforward remortgage business occurring, being in the domain of execution only and direct.

SHAH: Brokers are going to start to feel the pain in the next 12 months, especially if they haven't already got an established client bank. The ones who have, need to start thinking about how they are going to maintain that and grow it.

CUNNINGTON: I am extremely bullish that good lenders and good brokers will carry on working together effectively, and that if anything these partnerships can strengthen to ensure continued best outcomes for clients.

MCKEE: I think there is still quite a big remortgage market out there. Over the last 10 years or so, people have just been sat on low standard variable rates. There is a big part of the market that has never remortgaged. Once the Bank of England's base rates start to rise it will be the trigger for quite a few people.

CALDER: I think there is enough for everyone in the market, to get their fair share of the pie. Technology will drive the market. PTs are always going to be there, and the PT piece is around client demand.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