Why under-served borrowers should not rule themselves out

Borrowers should explore all their options after the mortgage industry’s radical steps to innovate in response to the pandemic

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imla
INTERMEDIARY MORTGAGE LENDERS ASSOCIATION

Contents

Introduction

There is a vast range of mortgages available out there – from well-known high-street names to small specialist lenders whose names will not be familiar to the majority of borrowers.

Recently there has been a lot of press focus on competition – which is great for consumers who can access the cheapest deals – but may discourage others whose circumstances don't fit the criteria.

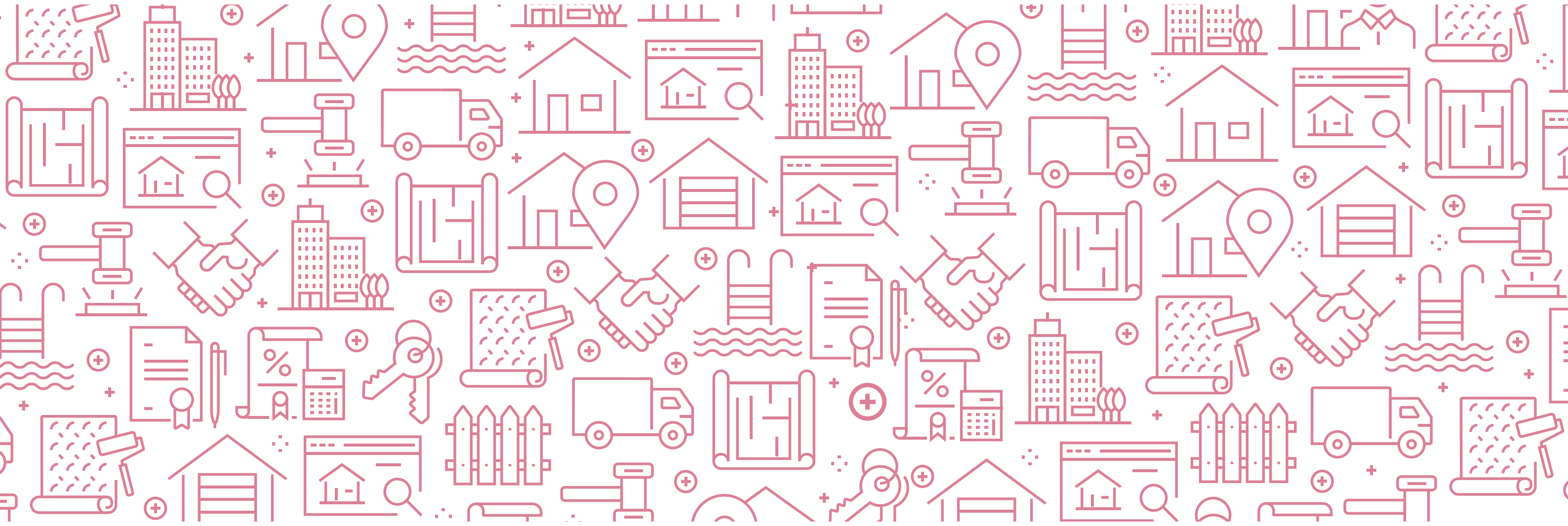
There's a risk that too many people believe their finances aren't perfect enough for them to secure a mortgage.

New research by the Intermediary Mortgage Lenders Association (IMLA) shows that the mortgage industry, which has for years provided mortgages for borrowers with non-standard financial circumstances, has now also responded to changes required in the post-pandemic world by developing new products and solutions for people who may in the past have been "under-served".

This report aims to highlight how lenders are being increasingly flexible in the post-pandemic world, whilst remaining responsible and considered in their lending decisions, and show how, by seeking expert mortgage advice, many borrowers can find a mortgage which is well suited to their financial needs, regardless of whether they have complicated financial circumstances.

Kate Davies
Executive Director at IMLA

Kate Davies



Who are "under-served" borrowers?

Traditionally, "under-served" borrowers are those who don't fit the mainstream high-street criteria for the cheapest loans deals. They include:

- Self-employed people, whose businesses may have suffered or even had to close down as a result of the pandemic. Some may be recovering – others may have started up completely new businesses

- People who have a number of part-time jobs and sources of income

- Those who need to borrow with more than one person in order to afford mortgage repayments

- Those who have some form of impairment on their credit record

The pandemic has added new categories to this list, in the form of people who:

- Took a payment deferral but have not yet been able to get back on track with regular mortgage repayments

- Were put on furlough by their employer and are not yet certain whether they will be able to return to their former job and previous wages/salary.[1]

[1] https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics

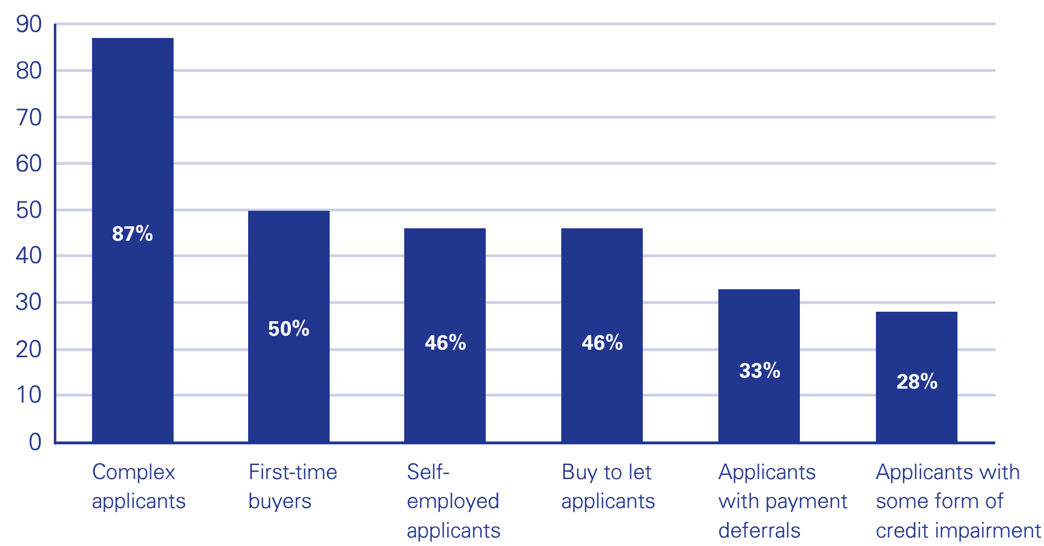
The impact of the covid crisis

The early days of the crisis created numerous operational challenges for lenders. As an immediate response, a number of products were withdrawn, including those designed for borrowers with small deposits, who need larger loan-to-value products, and whose applications generally take longer to consider and underwrite. But, as the market has recovered, the number of products now available (around 4,800) is almost double what it was 12 months ago – and competition amongst lenders is fierce[2]. This is good news for borrowers who fit the criteria for the cheapest deals available – but there are similarly lots of good deals out there for borrowers with more complicated financial circumstances, whose cases need more considered assessment by lenders. Even as the pandemic progressed, lenders noted increases in types of application.

×2 **4,800**

The number of products now available (around 4,800) is almost double what it was 12 months ago

How mortgage applicant demand has changed since the pandemic

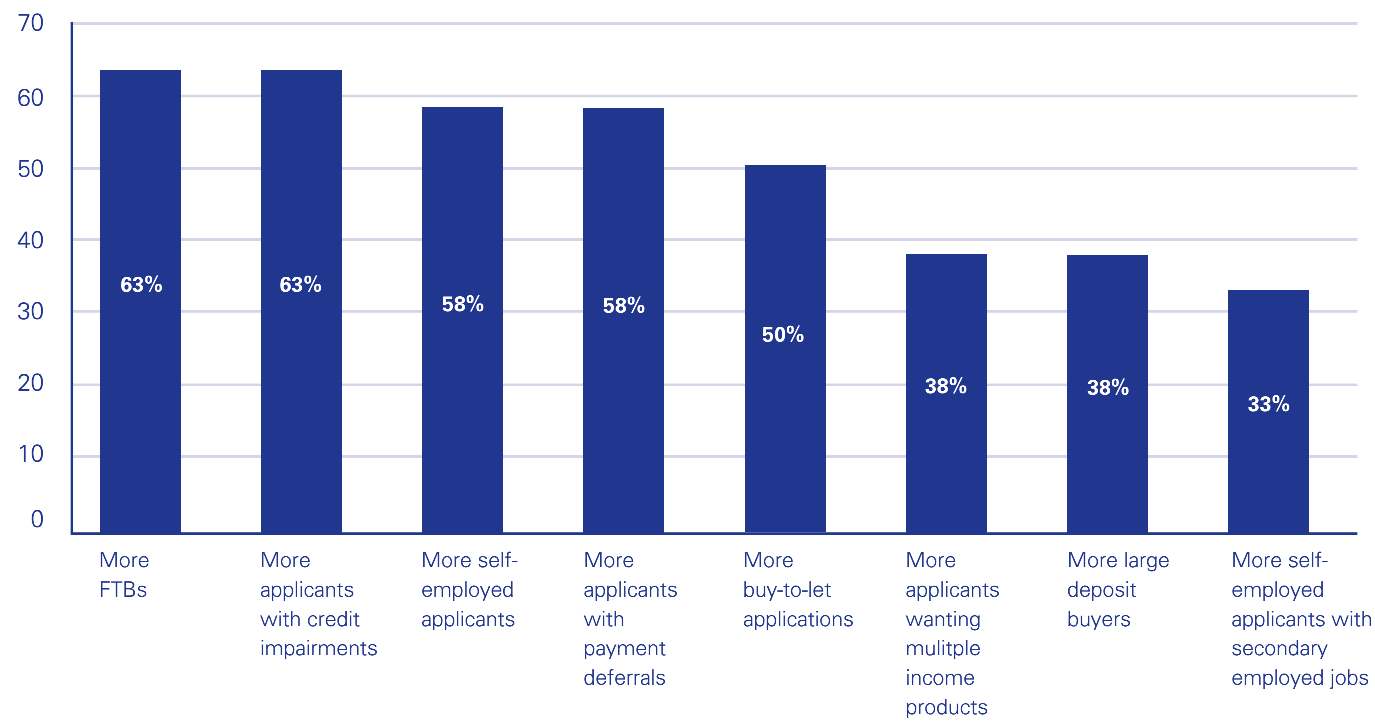


[2] https://moneyfacts.co.uk/

Not all of these should be regarded as "under-served" categories: the increase in applications from first-time buyers and buy-to-let investors, for example, is likely to have been fuelled by borrowers wanting to take advantage of the temporary stamp duty holiday.

Other developments look likely to have a longer-lasting impact: the recent rise in self-employment alone – which surpassed five million people at the start of 2020[3]- equivalent to 15.3% of the UK workforce, according to the Office for National Statistics[4] - means lenders increasingly expect to consider applicants with inconsistent incomes.

What lenders expect to see from borrowers in the next 12 months



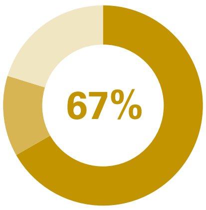
Again, not all of these are immediately relevant to the "under-served" categories of applicant – but the need to cater for the self-employed and those who may have some form of credit impairment is very clear.

[3] https://www.statista.com/statistics/318234/united-kingdom-self-employed/
[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandselfemploymentintheuk/2020-04-24

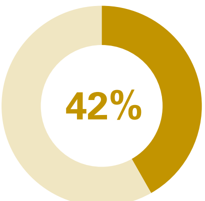
How have lenders reacted?

So what have lenders done to react to the shift in demand from borrowers? 63% stated they were preparing to support borrowers with non-standard circumstances, and had made active decisions to launch new products for this growing market, or to amend existing mortgages to make them applicable to a wider range of individuals.

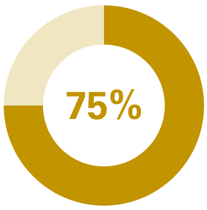
How the industry has reacted



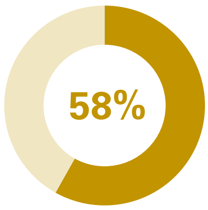
Have increased
their underwriting teams
13% have plans to do so



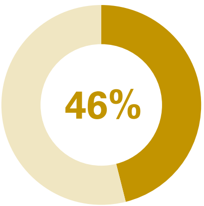
Have also expanded
their wider mortgage team



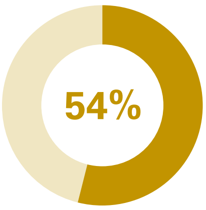
Have invested in
staff training



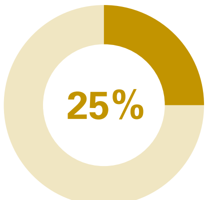
Have invested in
broker training



Have also invested
in technology aimed
at supporting
their underwriters



Plan to invest in
technology to further
support advisers



Have also begun
manually underwriting
more cases

In addition to launching new products, many lenders are adopting more flexible approaches to underwriting, while ensuring they continue to consider all the facts and remain prudent in their decisions:

58%

have launched higher loan-to-value mortgage products

17%

have increased the loan-to-income ratio they accept for borrowers

16%

have either reduced the period that employed / self-employed applicants need to provide earnings for

25%

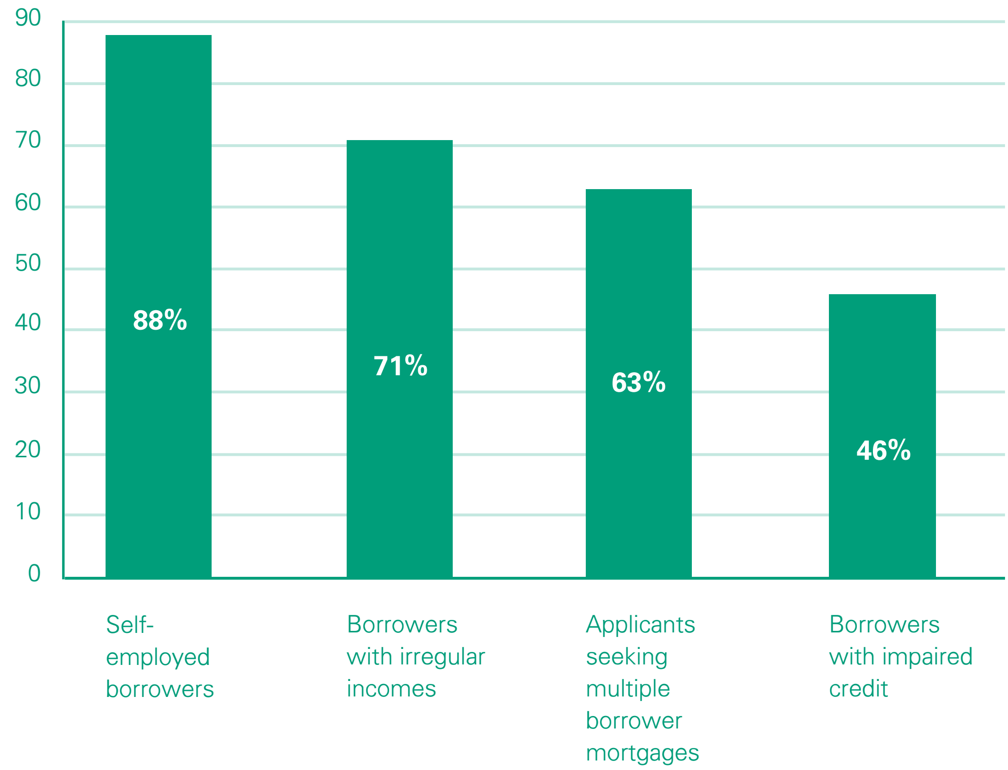
now accept predicted revenues from self-employed borrowers, rather than requiring specific accounts

21%

are accepting pre-covid accounts, and more than one in 10 lenders (13%) are allowing self-employed borrowers to disregard the 20/21 tax year altogether

So who will lenders lend to?

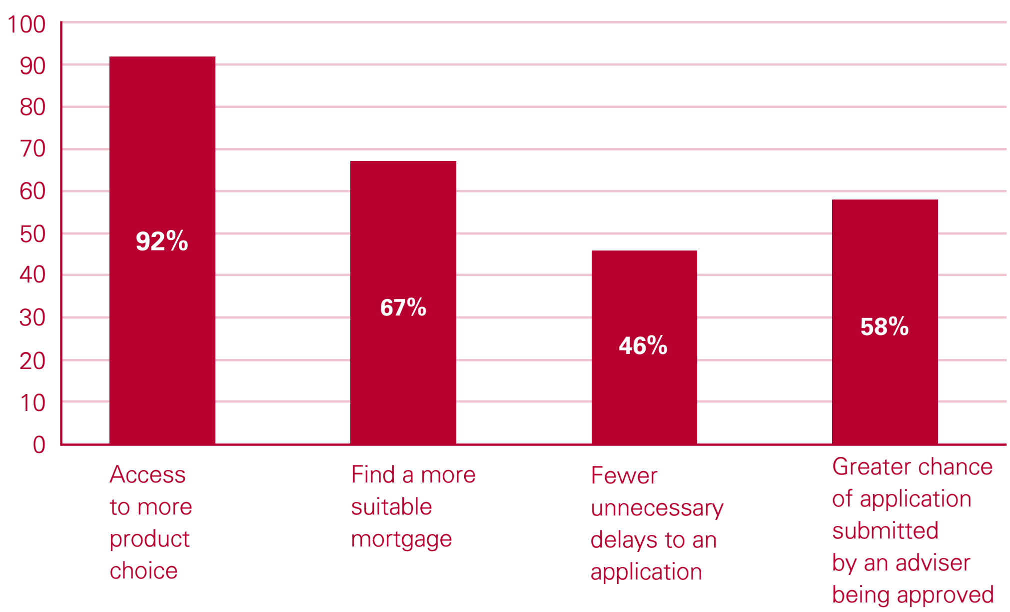
Underserved borrowers may already have more options than they think



All this shows that even though the mortgage market is more flexible than under-served borrowers might expect, seeking advice can help consumers to ensure they discover all potential options.

Uncovering every possibility – taking advice

The benefits of advice



Our research clearly shows the benefits of seeking advice when trying to secure a mortgage.

More than nine in 10 lenders (92%) surveyed agreed that using an independent mortgage adviser would provide non-standard borrowers with more product choices, while more than two thirds thought applicants would find a product that better suited their needs.

Finding an adviser

Some consumers may be unsure about how to find a mortgage adviser, but help is at hand. A good place to start is the Register held by the Financial Conduct Authority, which authorises and regulates all mortgage advisers and lenders operating in the UK[5].

Other websites such as VouchedFor and Unbiased can help borrowers find an adviser.

Moneyhelper.co.uk outlines what borrowers can expect from an adviser and also has a directory function, while the Personal Finance Society also has useful guides and a search tool.

All mortgage advisers are required to explain the range of lenders and products that they will take into account when giving advice, and must also disclose up-front whether they will charge borrowers a fee, and/or whether they will receive commission from the lender by way of payment.

[5] https://www.fca.org.uk/consumers/finding-adviser

Andrew Montlake,
Chairman of the Association
of Mortgage Intermediaries

"In today's complex mortgage market, where there is a myriad of information and thousands of different mortgage products, getting professional advice from a mortgage broker can help to cut through the red-tape and jargon.

As an industry we are blessed with a wide-range of local and national mortgage brokers, all of whom are dedicated to not just finding the very best mortgage product to fit your circumstances, but also to smooth the whole house buying process and alleviate unnecessary stress.

For those who want to take out the biggest loan they are ever likely to have without obtaining any kind of advice then the internet is a wealth of information. However, the cheapest product does not take into account the myriad of personal requirements and future flexibilities you may need, as well as looking into how to protect your new home once you have it. It is often the case that a small fee paid to a broker can save thousands of pounds over the term of a mortgage or avoid costly penalties in the future.

When looking for a broker, especially on Google, look for testimonials and reviews from previous clients especially on forums such as Trustpilot, whilst recommendations from colleagues and friends are always a good guide.

Remember that mortgage brokers act exclusively for you and having that one point of contact as a guide is immensely reassuring".

Conclusion

Borrowers who have been unable to access a mortgage might feel that any difficulties they experienced pre-pandemic have simply worsened in the wake of covid-19.

They might believe that the impact on their financial circumstances now prohibits them from accessing the mortgage market.

But our research shows that under-served borrowers should not rule themselves out, regardless of previous experiences or what they may have heard about people in similar situations struggling to secure a mortgage.

Lenders have not been living in a bubble: they have witnessed first-hand the damaging effects that the coronavirus pandemic has had on their existing and potential clients, and in many cases have made substantial efforts to engage with consumers with a wide variety of personal circumstances.

The best approach for consumers worried about their ability to access lending, or in fact any borrower looking for the best deal, is to seek out expert mortgage advice. This will significantly improve the chances of borrowers securing the product best suited to their needs and achieving their goal of home ownership.

Methodology

The Intermediary Mortgage Lenders Association conducted its research among 24 individual mortgage providers, including a range of banks, building societies and non-bank lenders. The research was completed in June 2021.

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