HARPENDEN BUILDING SOCIETY

local reputation, national recognition

INDUSTRY INSIGHTS

Blurring the boundaries between mortgage products

Brexit, intercontinental trade wars, quantitative easing, house price escalation. Back in 2000, when people were getting anxious about the Millennium Bug, very few would have believed that we would be grappling with the big political and economic questions that we are experiencing right now. In addition to these, there are other less obvious factors that are shaping the way we live. For anyone in the mortgage industry, these changes are creating increasing levels of complexity.

At Harpenden Building Society, we have seen more and more brokers coming to us seeking help with high-value, complex mortgages. There are many reasons we are seeing this change and we think the trend is likely to continue.

CHANGING ATTITUDES TO WORK

Since the days when we all realised the Millennium Bug posed no threat to our technology systems, the number of self-employed workers has been on the up in the UK. The total has increased from 3.3 million in 2001 to 4.96 million in May 2019, according to the Office for National Statistics (ONS)[1]. The self-employed now account for around 15% of the working population, and behind these headline figures are some important trends.

People at the start of their careers are increasingly keen to become their own boss. A total of 181,000 sixteen to twenty four year olds were classified as self-employed in 2016, up 74% from 104,000 in 2001. The most rapid increase though has occurred among the over 65s. Since the 2008 recession, the number of self-employed workers aged 65 and above grew from 159,000 to 469,000. The largest number of self-employed workers overall remains in the 45 to 54 age group.

Source:

[1]Growth in self-employed : https://www.bbc.co.uk/news/business-44887623
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/july2019

[2]Later life growing market: https://www.mortgageintroducer.com/later-life-lending-double-next-10-years/

LATER LIFE LENDING

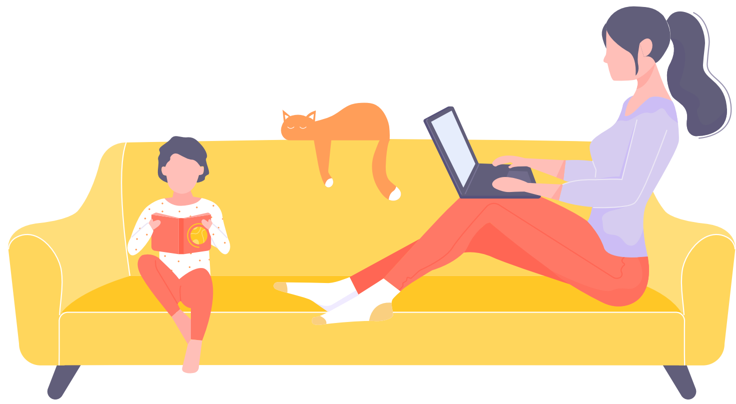
In June's Mortgage Introducer, the Centre for Economics and Business Research forecast that the later life lending market would almost double in size over the next decade. In this time, it is anticipated that the over 55s will go from owing £295bn in 2019 to £548bn in 2029[2]. This comes as no surprise to us at Harpenden as we are seeing later life lending becoming more popular.

More people are looking to take out loans later in life to help fund their children's deposit or move to a larger home, and accept that they will be making mortgage repayments into retirement. The money is also being used to fund social care for themselves or their parents.

HOW ARE LENDERS RESPONDING?

In the light of these social changes, many lenders are launching specialist niche products for specific needs. Self-employed mortgages are on the rise. Retirement Interest Only products are increasing. Contractor mortgages, the list goes on. However, defining discrete segments is becoming harder as homeowners come in many shapes and sizes. What if you have a 55 year old self-employed person who wants to borrow money into their retirement on an interest only basis?

Recently, we had a case where a business consultant wanted to re-mortgage a house to buy a second home. Despite a consistently healthy income over many years, he was unable to find a provider to lend him the money. We were able to find a solution after looking at his circumstances in greater detail.



FLEXIBILITY IS CRITICAL

We were able to lend to him and he bought his new property. After completing the transaction, we talked about his whole experience of buying his new home. He was frustrated that the vast majority of lenders were unable to put his circumstances through their algorithm and provide a positive answer. The brokers seemed powerless to help. All the conversations were about different product types and, quite simply, he wasn't interested. The name, the discount, even the rate. He just wanted someone to take the time to understand his employment history, and talk to him about his income potential and future plans.

While he was unable to provide contracts for his income, he was able to demonstrate that he had consistently earned enough to afford the amount of money he wanted to borrow. Above all, he wanted someone to be flexible and to avoid technical conversations about product types.

What does all this mean for the industry? As the levels of economic and political uncertainty remain high, flexibility and judgement will be the most valuable characteristics when assisting clients. The length and breadth of the product range will largely be irrelevant, particularly for people on higher incomes. It may become harder to match the clients' needs to a niche product as their circumstances become increasingly complex, and do not fit neatly into either one product or another.

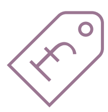
Ken

by Ken Hale, Head of Lending, Harpenden Building Society

We individually assess and approach applications.

We offer a manual underwriting process, no credit score involved.

A flexible view on merits of all cases - we're very accommodating.



We provide clear, fair and transparent charges for all cases.

Many types of income are considered when assessing affordability.

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