NOVEMBER 2022

The Race to Remortgage

What we can learn from the race to remortgage

In September, Liz Truss and Kwasi Kwarteng's mini budget outlined their plan to cut taxes by borrowing, forcing the Bank of England to act more aggressively with their interest rate hiking cycle. Consequently, there was a surge of mortgage approvals as home-buyers and property investors raced to lock in loans ahead of any further central bank action, according to official figures, while many lenders were forced to withdraw mortgage offers for deals that they could no longer provide the loans for. Indeed, similar panic was felt amongst those who withdrew a loan or mortgage before the mini-budget announcement, who saw their payments increase dramatically practically overnight.

Mortgages became unaffordable for many. As a result, many brokers had to communicate quickly with lenders to determine what they could or couldn't do, and to establish which loans and mortgages they could secure for their clients, if any.

A month on, this seems like a good opportunity to take stock of the situation and explore the lessons that can be learned from the so-called 'race to remortgage'. Against the challenging economic landscape, what can lenders do to help brokers and borrowers find a financial solution that best matches their needs?

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Paresh Raja is the founder and CEO of Market Financial Solutions (MFS) – a London-based bridging loan provider. Prior to establishing MFS in 2006, Paresh worked as a senior professional consultant in one of the top five management consultancy firms, and also set up an independent investment group.

Speed

First and foremost, lenders must be able to deliver their services at speed. What became clear following the mini budget was that brokers and borrowers needed to move quickly to secure a financial product that they could afford.

In a fast-moving situation, lenders must be able to react as quickly and efficiently as possible to support homeowners' needs. As such, it is vitally important that lenders can respond within 24 hours of an enquiry to let brokers know whether they can or can't help them secure a deal and to indicate which products they'd be willing to provide them with.

Similarly, lenders must be able to move quickly once a deal is struck. No borrower or broker wants to be waiting for days for the delivery of their loan, so lenders must be able to provide the agreed capital in a timely fashion.

Proactive Communication

It is also imperative that lenders are proactive with their communication to their clients. With so much uncertainty in today's property market, lenders must be able to communicate effectively and honestly with new or existing borrowers to explain how rising interest rates might impact their loans. Indeed, they must also explain whether their products are changing as a result of economic uncertainty and the rising cost of borrowing.

Flexibility

Moreover, lenders need to demonstrate flexibility in the ways in which they assess applications and deliver their loans. With inflation at 10.1% and the cost-of-living increasing, many borrowers will be experiencing a squeeze on their finances, so lenders need to assess ways in which they can be flexible with their affordability checks to ensure that borrowers can still access their financial products.

Indeed, the most skilful lenders are the ones who can take on cases that other lenders might shy away from, finding a way around complex situations and ensuring that their clients can secure a financial product that suits them.

For example, lenders can make interest payments more manageable for borrowers by providing rolled-up interest options. By allowing them to add the interest payments to the outstanding principal amount of the loan, borrowers pay their interest as a lump sum at the end of the loan. As a result, they don't have to pay additional monthly costs on top of their loan repayments. This should ease the pressure on many borrowers who might be feeling the pinch at the end of each month during the cost-of-living crisis.

Similarly, lenders could allow for deferred interest, which is when interest payments are deferred for a specific period of time. This would allow borrowers to pay no interest as long as the entire balance of the loan is repaid before this period finishes. Again, this should ease the cost to the borrower, allowing a wider range of loanees to acquire financial products.

Certainty and Stability

Channelling stability is more important than ever, particularly when the rest of the economy is at sea. As such, lenders have to be able to deliver a high level of certainty to their clients. Indeed, if there's one thing that brokers and borrowers look for in a lender, it's that they can provide clarity and transparency over their products and terms.

Even with rates rising, lenders must proceed with caution when pulling products and deals, as it diminishes confidence amongst buyers and brokers. Moreover, lenders could provide indicative loan terms upfront to instil borrower and broker confidence to a greater extent. However, once these terms have been agreed, lenders cannot go back on the deal, and must respect the rates that they originally agreed upon. By underwriting from day one, lenders can be clear with their clients from the outset. In turn, this will mean that brokers and borrowers can proceed with confidence, because they'll know that they won't encounter any unforeseen costs or other unwanted surprises.

Despite all that has happened in the last few months, there are certainly opportunities to be had in the property market. Whether it's helping a first-time buyer onto the property ladder or helping an existing landlord to acquire another property for their portfolio, lenders can help by delivering speedy and flexible financial products. Those who can communicate their products clearly and provide their services with a high level of stability, will contribute to the continued robustness of the market.

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