

Mortgages – are we turning the corner?

By Doug Cowan

Introduction

The ever changing market place continues to throw up more questions than answers in what has been a very dramatic couple of years. The credit crunch, with all its implications, has changed the mortgage market for ever - or has it?

It is certainly true that borrowing new money or moving existing mortgages is not as easy as it used to be. This could be put down to a number of factors including regulation, underwriting criteria or affordability calculations. The end result is that the mortgage market has taken a long hard look at itself and changes have been made.

Is the future brighter?

At the time these changes appeared to restrict lending practices and availability of suitable products for the vast majority of borrowers. This was totally different to what went before, and I believe that changes had to be made, by way of responsible lending practices, so that the mortgage market could move forward on a firmer footing. Like any change it takes time to settle down before the benefits can be seen. So what does the future hold? Let's look at some of the changes in the last twelve months. Research from Yorkshire Building Society suggests 1.7 million people are now able to remortgage from standard variable rate deals, if they choose to, saving themselves up to £1.8bn in the process.

According to Moneyfacts, the 85% loan to value market is now supported by 345 different products compared with 186 a year ago, an increase of 85%. The percentage increases are more dramatic at 90% loan to value, with 152 products now available compared with 71 a year ago (an increase of 114%), and at 95% loan to value 13 products now available compared with three in 2009 - an increase of 333%!

The buy-to-let market is also showing signs of resurgence. Incredible as it may seem, there were 3,662 products at the height of the 2007 boom, dropping to 179 at the low of September 2009. However we are now back at 304 products with ever increasing competition.

Lenders who closed to new business a year or so ago are now re-entering the market place, offering products to non-mainstream borrowers. This is good news for mortgages in general as

increased competition leads to more choice and product availability.

We are also seeing an increase in competition in the mainstream markets, with improved products and criteria from

a number of lenders. Skipton is back in the market and Northern Rock, Accord, Woolwich and ING have all reduced their rates.



Regulation

The Financial Services Authority (FSA) has produced a consultation paper on responsible lending. Mortgage trade bodies, including the Council of Mortgage Lenders (CML), Building Society

Association and the Association of Mortgage Intermediaries have been brought together to discuss these proposals to make sure they are workable. What has been introduced, and probably not before time, is the

individual registration of advisers who work in the mortgage market. This brings this area of financial advice in line with pensions, investments and protection.

Underwriting and affordability

It is true to say that each lender is responsible for its own underwriting and calculation of what is affordable. This forms part of its risk assessment and that is why different lenders will lend to different sections of the market, for example not all lenders will lend to the self employed or those with adverse credit.

Although in the last couple of years there has been a great deal of change in lenders' criteria for loan qualification, it is still true to say that whilst there is a willingness on the part of the lender to provide the loan, and more importantly the willingness and ability on the side of the borrower to repay the loan, mortgages will remain available to all.

Conclusion

The last two years have seen historically low base rates, which has led to many borrowers happy to pay less on a lender's standard variable rate and not to look around for alternatives. Add to this the general tightening up of lending and it's easy to see why the market has become stagnant. Now that there is more availability of funds and products, should borrowers be taking a longer term view? Are bank rates always going to remain at 0.50% and if not, when are they going to rise and by how much?

There has been a great deal of speculation surrounding this with varying opinions. It has been said that low interest rates will remain with us until 2014. Others say that rates need to rise to 8% within the next two years to head off inflation. One thing is certain, nobody is really sure. However, it is generally accepted that rates will rise, this in turn will lead to an increase in interest rates for all mortgage products so now is a good time to review your options.

Although there has been change and at times confusion in the mortgage market, there is evidence of a brighter outlook for the future. The fundamentals still remain the same and as mortgages form a major part of any financial planning, advice should always be sought before any commitment is made.



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