FIRST RATE MAGAZINE

SUMMER '22

Paragon in the Spotlight

Why is Life Insurance Crucial for Mortgage Borrowers?

Landlord Q&A: Secrets to Holiday Let Success

The Director's Letter

Welcome to our latest and newly refreshed 'First Rate'. A lot has changed in the two and a half years since we last published an edition back in Q1 of 2020. Most noticeably, we are now all too familiar with 'COVID-19'. Looking back, it's astonishing to reflect on how much the world - and the property market - has changed.

Even Rishi Sunak could not have foreseen what he would have to deal with following his appointment and the subsequent catastrophic impacts of the pandemic on both the UK and global economies. The measures introduced by the Government, such as the Coronavirus Business Interruption Loan and the extension of the Stamp Duty Land Tax (SDLT) holiday, went a long way to ensuring the housing market stayed afloat; but under the surface, lenders and borrowers really did have a torrid time.

During what turned out to be a two-year lockdown, we saw the housing market completely close for two months, thousands of mortgage products withdrawn, hundreds of criteria changes, and much tighter underwriting in the specialist and mainstream residential markets. In the commercial space, lenders all but completely withdrew as whole sectors of industry were unable to trade.

> *"The Land Tax holiday, went a long way to ensuring the housing market stayed afloat...*

So fast forward to the present day. As the UK cautiously moved out of one of the biggest global economic crises since 2008, with hints of optimism about our GDP and a recovery in the market, Russia declared war against Ukraine. The war has triggered global increases in energy, fuel and food costs and caused UK inflation to rise at the fastest rate since WWII. In an attempt to curb inflation, the UK has seen four interest rate rises so far this year, and SWAP rates haven't escaped the volatility. Most interestingly, as the money markets react, mortgage rates, which have been at record lows for so long, are now increasing at such a rate some lenders are changing product sets more than once a month!

As I write this, we have seen 5,795 buy to let mortgage products withdrawn and replaced with more expensive alternatives in the last 30 days as a reaction to the Bank of England Base Rate rises and increased SWAP rates. Along with many other industry experts, we anticipate a further increase in August. I would not be surprised if there is another round of increases in the interim period as SWAP rates remain high.

As lenders increase their rates, many clients are scrambling to secure competitive deals before they go. In today's market, clients are faced with frustrating delays and frequent product withdrawals - both these challenges come down to lenders struggling to manage their existing pipelines and remain profitable. Some clients are experiencing a fifteen-day delay before their application is even looked at. In some circumstances, some clients have had their mortgage product removed from the market altogether. No one is particularly enthralled at the prospect of completing another mortgage application, and as brokers, we're doing all we can to make these difficult circumstances easy and stress-free for our clients.

Looking at Zoopla's most recent house price index, there is a current 8.4% annual UK house price growth and a demand increase of 61% in the four weeks to May against a five-year average. The ongoing increase in house prices is yet another challenge for borrowers to overcome. Whilst the likelihood of house prices suddenly dropping is very unlikely, we expect them to plateau later this year, hopefully making the market more stable for landlords and residential buyers.

The buy to let industry has also recently experienced some legislative changes. We've seen further proposals for the abolishment of Section 21 evictions, the introduction of the Rental Reform Act, and some additional information on the EPC regulation changes that will be taking force in 2025 and 2028. These factors all strive to further the industry's professionalism and boost its reputation. Still, it is understandable that many already disengaged landlords only see the further strain these changes pose to their property investments. Many still call on the Government to provide better support and care for landlords.

However, we are always encouraged by the resilience and opportunism of our landlords. We've noticed a clear surge in applications in HMOs and the Holiday Let market, a sector that thrived throughout the past couple of years of staycations. Lenders are supporting borrowers by increasing their product offering to assist with the demand, a clear example of how the market is continuing to flourish despite all difficulties faced.

Despite the turbulent economic, political landscape, and lengthening impact of the pandemic, I am proud to say that MFB has gone from strength to strength.

We have continued to push the boundaries of what's possible to ensure a better experience for our clients, including improving our service levels and conversion rates by building stronger relationships with key lenders. We've invested in developing our technology to better support the complex nature of our clients transactions, and as a result, we're advising on a record number of applications each month. We're also widening our services, such as our Bridging and Development finance departments, and have recently introduced Second Charge mortgages and partnered with specialist Life Cover and General Insurance providers.

Whilst business levels are an important measure for us, I remain focused on ensuring we continue to delight our clients old and new, with just shy of 500 5-Star reviews on Trustpilot, and a recent Employee Engagement Survey recording record-positive scores. We will continue to strive to be "The mortgage brokerage that our client's love working with, and our employees love working for."

We'd love to hear from you in regard to any property finance needs you may have, but in the meantime, I hope you enjoy this edition of First Rate. Packed full of news, case studies and market insight, this is an informative guide for anyone interested in the property market.

Contents

Lender in the Spotlight

paragon

Tell us about Paragon's history and what the comapany looks like today?

Paragon was formed in 1985 and started out as a specialist residential mortgage lender. Ten years on we were one of a small group of lenders to pioneer buy to let lending, launching our first mortgage products for UK landlords in the growing Private Rented Sector. By 2006, we had achieved a 10% share in the buy to let market. In 2014, we began a strategic transformation from a monoline lender to a diversified, specialist bank and we continue on this path today.

Our mortgages for landlords and loans for business customers are funded by deposits from savings customers, together with wholesale funding.

We are a FTSE 250 company listed on the London Stock Exchange, employing almost 1,450 people.

Why do Paragon and MFB work so well together?

Both organisations enjoy a positive relationship due to understanding each other. MFB are part of a select group "gold club" and being part of this has benefits including exclusive deals and direct access to decision makers with dedicated underwriter support.

What does a typical customer of Paragon bank look like?

Being experts in the specialist lending space means that many of our buy to let mortgage customers are professional landlords, defined as those with four or more mortgaged BTL properties. We engage with our customers regularly and our research shows that many of these landlords have extensive experience, with almost four-in-10 for operating lettings businesses between 11-20 years.

What sort of properties will you accept?

We accept houses in multiple occupation (HMO), multi-unit blocks, single self-contained units and holiday lets.

What makes you stand out from other lenders?

Like our competitors we use technology to streamline some of our processes, but this supports the expertise of our people and doesn't replace it. This manual approach means that we can look at applications on an individual basis and lend in some of the most complex cases.

Tell us a little about how applications are underwritten and processed. What can landlords expect? And what advice would you give landlords hoping to source a mortgage with you?

We acknowledge that every landlord and portfolio is different. Paragon's manual underwriting ensures a thorough understanding of their customers' businesses. This fosters prudent and responsible lending and provides MFB with solutions for some of the most complex cases, whilst also enabling Paragon to identify opportunities to support landlords to grow their businesses.

What part of the country do you feel is hot for investment right now?

Although demand for privately rented homes is high across much of the UK, we're seeing particularly strong tenant demand in the South West and Wales. The East Midlands and North West are also very active markets. Particularly interesting is the resurgence of the London lettings market after the impact of the pandemic. Rented property in both central and outer areas is sought after but the imbalance between supply and demand is more acute here than in many other locations.

What piece of advice would you give to a new investor just starting out?

While I can see the appeal of chasing yields and perhaps investing in an area where you can see greater returns, for those starting out I'd say do your research and really get to know the markets you intend to operate in. It may sound obvious, but the private rented sector is relied on by a diverse mix of tenants and the sector is always evolving so it is vital that investors understand how to meet their varied needs now and in future.

How do you see the property investment market evolving over the next 12 months?

While the current economic environment, along with further anticipated interest rate rises, will undoubtedly have an impact on the market over the next 12 months, I think that demand for rented homes will remain and this will sustain momentum, albeit at a lower level than what we've seen over the past year.

What trends do you see emerging in buy to let in 2022?

Industry data highlights how new PRS underwriting standards, introduced in 2017, resulted in a threefold increase in borrowers opting for five-year fixed rate mortgages between December 2016 and January 2018. With many of these loans maturing we expect to see strong levels of remortgage business continue throughout 2022.

With the Government proposing that all property being let for new tenancies will be required to achieve an EPC rating of A-C by 2025, extending to all rented properties by 2028, we have already seen a shift towards landlords investing in properties with greater energy efficiency and bringing the properties they already own up to the required standard. While we await confirmation of the changes, we anticipate a further push to make PRS properties more sustainable and this is something we're working to support.

Richard Rowntree
Managing Director for Mortgages, Paragon Bank

Given the current economic climate, what challenges are you facing with client applications, if any?

We aren't facing any additional challenges with client applications due to the current economic climate.

Primarily serving the specialist section of the buy to let market means that many of our customers are professional landlords who, due to the experience I mentioned previously, have a good understanding of the property market and how it is influenced by the macro environment. Many have also weathered previous storms such as the Global Financial Crisis so know that it is important to take a long-term view of the sector and make considered investment choices.

At Paragon, we pride ourselves on being a prudent and responsible lender and as part of this we only lend when we can be confident with the level of risk we're exposing ourselves to. This means that we undertake the same checks and balances regardless of the factors influencing the economy.

> *We have already seen a shift towards landlords investing in properties with greater energy efficiency.*

Why is Life Insurance Crucial for Mortgage Borrowers?

CaspianInsurance

One of the main advantages of having any kind of financial protection in place is peace of mind, not just for yourself but for your loved ones too.

As a landlord, you may be used to juggling a million different things at once such as maintaining the quality of all your different properties, sorting out domestics between tenants and being on call 24/7. But searching for life insurance should not be another thing you need to juggle. At Caspian Insurance, their team of mortgage protection specialists always ensure that choosing a life insurance policy that suits you, and your loved ones, is a straightforward process.

Why do I need life insurance for my mortgage(s)?

Mortgage protection life insurance does what it says on the tin - financially protecting your mortgage/mortgages, however many you may have, in the event of the policyholder's death.

Think of the reasons why you initially decided to invest in property. Was it to ensure a regular income for yourself and your family? Maybe to give yourself a nest egg for retirement? Or perhaps it was to build a property empire to leave a financial legacy behind for your loved ones? Either way, all of this could be for nothing if you were to pass away without having any protection in place for your mortgages.

There are also extra additions that many people now add to their policies such as critical illness insurance. Having a mortgage protection policy with the addition of critical illness cover on it ensures you are not only protected if you were to pass away during your term length but also if you were to get a critical illness or become terminally ill. This option adds an extra layer of protection, ensuring more peace of mind when looking at life insurance.

What if I have different types of mortgages?

Not to worry, there are a few different types of mortgage life insurance policies. Mortgage protection policies can either be decreasing, level or increasing, all of this being dependent on which type of mortgage you have on the property. Decreasing life insurance is one of the cheapest life insurance policies you can get as the amount you pay decreases in line with your mortgage. If you have a repayment mortgage, the mortgage protection specialists would offer a level term policy.

At Caspian, their mortgage protection specialists will discuss a multitude of factors that come into play when choosing the best mortgage policy. There is always room for flexibility when discussing financial protection, meaning the advice you receive at Caspian will always be tailored to your specific budgetary needs.

We're proud to be working in association with Caspian Insurance to offer all MFB clients life insurance tailored to their needs and requirements. For more information, please speak to one of our advisors on **0345 345 6788**.

> *Financially protecting your mortgage with a life insurance policy should be a must-have for landlords and property investors.*

What could happen to my mortgages if I were to pass away without financial protection?

If your properties are owned to provide regular income for your family then if you were to pass away and the properties to be sold - this could then leave your loved ones without a regular income.

However, if you were to have covered some of the mortgages on your properties, for instance, maybe your most profitable properties, this could significantly reduce the financial hardship your family could face if you did not have any financial protection in place at all.

Financially protecting your mortgage with a life insurance policy, should be a must-have for landlords and property investors. To ensure that you obtain the most modern, comprehensive, and tailored policy for you, the experienced financial protection specialists at Caspian are on hand to help with any queries you may have. It is always important to seek advice from a protection specialist when looking at financial protection and the specialists at Caspian offer free and impartial advice on all things life insurance. Do not delay your search any longer - get a free quote today!

Mike Donohoe
Strategic Development Director
Caspian Insurance

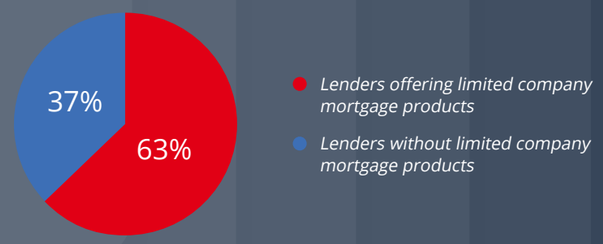
Research Data Trends

The rapid increase in mortgage product volumes continued throughout Q1 2022 to reach 2,461 total products, albeit at a slightly lesser pace than in 2021.

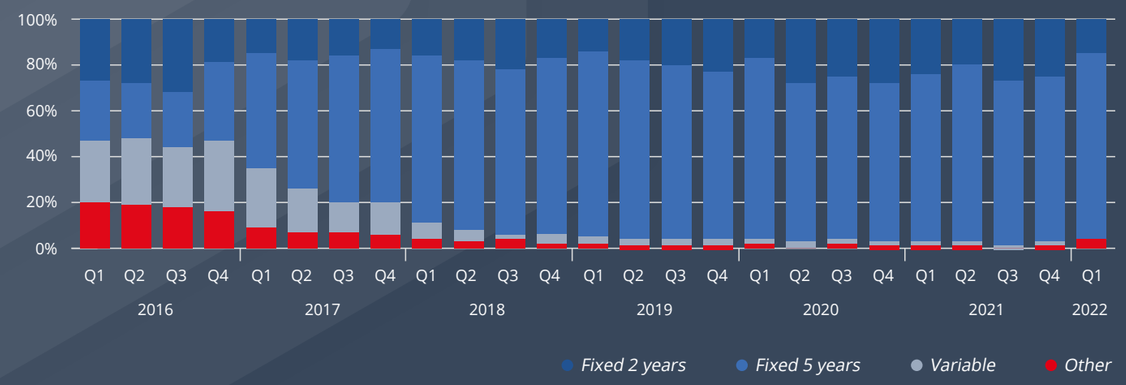
In April 2020, total mortgage product numbers reached their lowest point since our Buy to Let Mortgage Index started. The number of BTL mortgage products contained in the MFB sourcing system was just 816, following a sharp decline due to the Coronavirus pandemic and the temporary closure of the property market.

Since Q2 2020, mortgage numbers rapidly recovered and exceeded pre-pandemic levels. It is worth noting that within the Q1 numbers, there are now six lenders with over 120 products in each of their product ranges.

Lenders offering both limited company and individual mortgage products



Landlord Mortgage Preferences



Landlord Q&A:
Secrets to Holiday Let Success

In our new series, we chat to long-standing landlords to understand what type of investments they own, why they got into the business and their top tips for success. In this edition, we speak to Helen about her successful holiday let business.

Tell us a bit about yourself?

After graduating from University, I worked in media as Head of Commercial Development at a national paper. This was a very strategic project management role requiring a great deal of attention to detail and focus on brand alignment. In my mid-thirties, I left the position and wanted to pursue a new career.

How long have you owned holiday lets, and why did you decide to start in this industry?

We actually bought our first holiday let in Morzine, France, in 2001. Initially, it was a holiday home for us, but we let it out via a local agent to help cover bills. It seemed silly to have an empty property in such a popular tourist area! Based on this success and with intentions to move to France full time, we sold our UK buy to let properties to purchase a substantial catered ski chalet in 2006, which we owned for 10 years. In the end, we didn't move to France, and found the tax complications (and costs!) surrounding holiday let properties abroad too much hassle, so we sold up. However, having got the bug and realised we were pretty good at running a holiday let, started hunting for something here in the UK.

How many and what types of holiday let properties do you own?

We currently own one stunning house in North Wales. Having bought it as a three-bedroom, two-bathroom bungalow, we renovated it heavily to turn it into a fantastic, purpose design holiday let. It remains a bungalow but now has four good-sized bedrooms and three bathrooms.

We know the area incredibly well, having holidayed there a lot ourselves in years gone by, and now live there full time. I think local knowledge is essential for a holiday let landlord, in order to give your guests an outstanding experience.

We're currently looking for a couple of new, smaller properties along the Essex coast, having lived there until fairly recently and knowing there's a demand. However, the lack of stock on the market is proving challenging, so it's an ongoing process.

> *A good website and professional photos are essential to attract guests; we're booked up 95% of the year.*

> *I think local knowledge is essential for a holiday let landlord.*

Do you own any other types of investment properties, such as buy to lets?

No – the holiday let is a full-time job for me! We did have a small portfolio from around 1990 through to 2006, when we sold up to purchase the second Morzine property. Due to the success and income of holiday letting, we decided to focus solely on our holiday letting business.

Who is your target audience for your properties?

Anyone and everyone. While the North Wales property has four bedrooms, we often get couples staying there during the week or in the "off-season" and larger groups of adults and children during the holidays. Some people want cheap and cheerful holiday accommodation, and that's fine. However, our property is finished to a high specification and includes lots of features not many people have at home, such as a hot tub and outdoor pizza oven, so it attracts an appropriate price. We provide a level of luxury most aren't accustomed to at home and are priced accordingly, so naturally attract guests with more disposable income. We also tailor our online advertising to people within a 75-mile radius (Liverpool, The Wirral, Cheshire, Shropshire etc.); many don't want to travel for hours for UK holidays (although lots will!).

The property's location is very dog friendly; a lot of the pubs and beaches are dog friendly, and being in North Wales, there's a lot of walking for guests to enjoy. Consequently, we market our property as dog friendly, which certainly attracts a lot of business. However, if none of the pubs and restaurants around a holiday home allows dogs or the beaches have restrictions, then be mindful about advertising yourself as dog friendly!

Do you use agencies to help run and market your holiday lets? If so, which?

We used to use a local agency to help run the property but now do most of it ourselves. We still have housekeepers to complete the bulk of the change-over work, but I'll always go in for a couple of hours and do the finishing touches. We'll probably have more agency involvement with the new properties in Essex (when we find them!). However, I'll still travel over regularly to check on things.

My background means that marketing is easy for me to manage, but if it wasn't, I would enlist help. A good website and professional photos are essential to attract guests; we're booked up 95% of the year.

We are on sites like Airbnb, but only really for the off-season. The commission charged by these sites, especially in peak season, pushes the weekly price for guests above what I think it's worth, which has a negative effect on bookings. I tend to use Airbnb to help fill in gaps in the calendar, but as I manage the bookings myself via our website, we can offer more competitive prices if guests book direct.

Continued on the next page...

What does a typical week look like for you as a holiday let owner?

Managing bookings and enquiries is a daily job. We use Facebook a bit for enquiries, but the market there is pretty saturated and not always the most professional. Mostly, these come directly through our website, so I need to manage that to ensure it's all up to date and enquiries are responded to promptly.

If any issues arise during a guest's stay then we'll jump on it to try and resolve it, so that can be pretty unpredictable! And as I said, I do like to pop in on the change-overs to ensure everything is just as I like it; ensuring those little touches are in place to make everyone's stay really special.

Of course, some legal/health and safety documentation must be kept up to date, so I'll sometimes need to book Fire safety checks and inspections for the electrics and boiler. I think it's essential to keep this all up to date.

> *I think many people expect a little more indulgence than maybe 10 years ago.*

What is the number one thing you get asked most about by your guests?

I provide a lot of information upon booking, including clear instructions for appliances like the hot tub and pizza oven. Therefore we don't get a lot of questions beyond "when is it available?". I think it's vital to provide as much information as possible about the property and the local area in some kind of guest book. Some clients really appreciate this, and if others would rather find out for themselves, then there's no harm done! At the end of the day, they're usually only there for a week or so, so having a "locals guide" upfront is really helpful.

How have holidaymakers' demands changed in recent years?

I think many people expect a little more indulgence than maybe 10 years ago; unique features like hot tubs, pizza ovens etc., are certainly more in demand. There's also more demand for short stays; mid-week and weekend getaways. While this can complicate the calendar, it helps fill in gaps and minimise void periods! Otherwise, things like location, local attractions and amenities are still crucial to most holidaymakers. While really rural properties can have a lot of charm, I know a lot of other holiday let landlords who've really struggled to make it work. Coastal properties always seem to do well!

What's one piece of advice you wish you had known when you first started as a Holiday Let owner?

I will give you two pieces because I think they're equally important!

Firstly, it requires hard work to do it really well. If you want your holiday let business to stand out above the competition (because there's a lot!) and get repeat bookings year after year, you're going to need to put the work in. Agencies can do a lot, and I'm sure the more you pay them, the more they'll do, but ultimately it is a business. Be prepared to get hands-on.

Secondly, if you want to give all your guests that 'wow factor', attention to detail is essential. It's not the same as buy to let; you can make or break someone's valuable time off by how quickly you fix things and resolve problems. It's better to spot issues before guests do, which is why I am so hands-on and meticulous about our property. But it pays off!

Mortgages for Business Partner with Absolute Military

Established in 1990, with three men and a dog, Mortgages for Business has more ties to the armed forces than first meets the eye. Our founder and CEO, David Whittaker, served 10 years in the Royal Engineers until 1987, posted to Germany and other overseas locations. To this day, two of his children are also active military personnel, with his daughter serving in the 16 Air Assault Brigade and a son in the Army Reserves.

The Mortgages for Business head office stands on what, for nearly 30 years, was RAF West Malling in Kent. As Britain's premier night fighter station until the early 1960s, it was then the home of several US Navy squadrons before returning to the RAF. In 1989 the base was reimagined into the thriving residential Kings Hill community we see today.

It's fitting, therefore, that our military protection partner, Absolute Military has also found its home here in Kings Hill. The directors have a history in supporting the military through their legacy with Abacus and Michael Nicholson's leadership in bringing IED coverage to troops during Iraq and Afghanistan. Since its launch in November 2020, Absolute has brought innovative services explicitly designed for armed forces personnel to the market.

Mortgages for Business are delighted to be working with Absolute to provide first-class mortgage advice as part of Absolute's campaign to dispel as many myths as possible and help military clients get closer to their finances. Not only will Armed Forces personnel benefit from fee-free mortgage advice, but those completing a mortgage transaction will receive £250 cashback from Absolute to help them settle into their new homes.

Thanks to our background and values, we understand the requirements service personnel have outside of the forces, including complexities around mortgage finance. As a business, we treat every client with integrity, giving fair and honest advice that adds value to their property finance needs. For this reason, and in recognition of the value military personnel and their families contribute to our country, we have signed the Armed Forces Covenant to pledge our commitment to supporting the Armed Forces Community to our best ability.

ARMED FORCES COVENANT

Broker Insights...

Residential

Emma Miller CeMAP
Consultant Mortgage Broker
Mortgages for Business

Lenders are pulling and increasing interest rates far more frequently in the residential mortgage space. Sometimes, this can be multiple times a week, so I'm not surprised that my clients are looking into their remortgage options much further in advance of their deals ending than they usually do. Their fundamental priority now is getting a low rate whilst they still can.

Most of the residential lenders we deal with will be able to provide a mortgage offer that's valid for six months, meaning that you can look at your remortgage options up to seven months before your current deal ends. I've recommended this to all my clients and will continue to do so for the foreseeable future. Like the buy to let space, we're not expecting rates to come down any time soon. If you can get a low rate now before they continue to hike, why wouldn't you?

Other than making sure you've got a good deal in place, remortgaging has other benefits. Quite a few of my clients are looking for ways to fund home refurbishments or even property investment purchases. Luckily, some lenders on the market are happy to let you release available equity via capital raising to fund these pursuits, so you can finally get round to doing up your home or even add that extension you've been dreaming of! If you're considering investing in buy to let, remortgaging can help that become a reality too. Some lenders will even offer you the money before you've found the right property! On completion of your remortgage, the extra funds for your buy to let purchase will be released to you, ready for when you find your first investment property.

In summary, interest rates are rising, and it's a financially worrying time for many. But this shouldn't put you off from remortgaging. If anything, it should spur you into action. You might even find you could save on your monthly repayments, and rates are still lower than they were five years ago – for now, anyway! Please speak to your broker about your remortgage options sooner rather than later – I'd hate for you to miss out on the low rates while they're still available!

Commercial

Paul Hart
Consultant Mortgage Broker
Mortgages for Business

Looking forward to the next quarter, my feeling is that the commercial investment sector will continue to see the high street lender's turning their backs on the retail and office sectors. These were two of the worst-hit sectors during the Covid lockdowns and although life has started to return to normal, the banks are shunning their customers where they had previously enjoyed long, warm relationships. One customer told me he had a great relationship with his high street bank until last month when he was told they would no longer support the financing of his retail units after over 40 years of working together. This came as a rather considerable shock and a story I have heard many times this year.

The void being left in these sectors by the high street banks is being filled by the challenger banks. Where they had previously been viewed as a last resort and their rates were seen as uncompetitive, they are now at the forefront of the commercial investment space. For example, challenger banks will allow borrowing up to 75% LTV, whereas a high street bank typically would have been at 55%-65% LTV for a retail unit. In addition to more competitive rates, they've simplified their application process, their stress tests are considerably more lenient than their high street peers, and offering interest-only products makes it an attractive proposition for customers to turn to.

This market is also an excellent opportunity to diversify a buy to let landlord's portfolio. Yes, rates will be higher than buy to let; however, properties can be more affordable to purchase, come with the comfort of longer leases, and have the prospect of higher yields.

> *"Challenger banks will allow borrowing up to 75% LTV.*

Buy to Let

North

Andy McOwat
CeMAP & CertBB&C
Senior Consultant Mortgage Broker
Mortgages for Business

This quarter, investing in Scotland is really sparking an interest with my clients. Although the BTL market has always been relatively active in large cities like Edinburgh and Glasgow, landlords are now looking further afield to places like Dundee. Property prices here are still relatively modest (an average house is around £188,000), but rent rates have increased an average of 8.5% (in the year to April 2022). Furthermore, the average time to let has decreased from 38 to 18 days (Citylets), demonstrating the increase in rental demand. Average house prices also increased 16.2% during the same time, benefiting investors in solid capital gains too. I anticipate more landlords will enter this region as 2022 progresses.

Thanks to the Section 24 changes, an increasing number of my clients with individually invested portfolios are looking to incorporate their properties into new SPV limited companies. While there can be many benefits to incorporation, it's fair to say the primary motivation is to do with tax. Incidentally, for those landlords who own their portfolios in their personal names but would like to incorporate them into a limited company, it's worth speaking with an experienced property tax specialist. They will be able to talk to you about the various options which may be available and also financially advantageous in terms of deferring capital gains tax and stamp duty. Which options are open to you depends heavily on your circumstances and can impact which lenders you can access, so having an experienced property tax specialist and a broker on hand is essential.

Lastly, although not fully legislated (but inevitable), changes to EPC regulations in 2025 and 2028 have driven many landlords to refurbish and make energy-efficient improvements. Reluctant to break into savings (especially amidst the cost-of-living crisis), most landlords want to release available capital from their portfolio to fund the work. While predominantly motivated by not wishing to face fines and un-lettable property later down the line, marketing green properties to tenants and accessing preferential mortgage interest rates with A-C EPC ratings is undoubtedly helping. With the first deadline for new tenancies fast approaching in December 2025, more landlords will likely evaluate their funding options over the coming months!

South

Deepinder Bhangoo
CeMAP
Consultant Mortgage Broker
Mortgages for Business

The last couple of months has created a new-found urgency in clients as the reality of the quick succession of Base Rate rises and subsequent increasing mortgage interest rates start to bite.

Getting the necessary documents together for a mortgage application can take a little time and is not often a process that's met with much jubilation! Previously, the "I'll do it tomorrow" approach didn't matter too much; mortgage rates would be available for at least a couple of weeks. Fast forward to today, rates are regularly changing, and sometimes we get just a couple of hours' notice before they are withdrawn. So, getting documents submitted quickly is more important than ever. Thanks to the economic climate, the rate increases can mean thousands of pounds difference over the duration of a mortgage, a bill most will try to avoid if they can!

Consequently, clients are hyper-focused on securing their chosen rates as quickly as possible and getting documents in for their applications faster than I've experienced before!

I've also seen a shift in what landlords are looking for mortgage-wise. While many would keep their options open with a short two-year fix, rising interest rates are encouraging landlords to fix in for longer. In the last quarter, 81% of our BTL mortgage applications were for five-year fixes, the highest majority since before 2016. Some are even considering seven- and ten-year fixes. Other clients are looking at paying one year (or even two) of their early repayment charges (ERCs), so they can remortgage and fix onto a long-term competitive rate; rather than weather the next few years of interest-rate uncertainty. While this doesn't work for everyone, it can be more cost-effective to pay the penalties to move to a cheaper new fixed rate (which is where a broker doing the maths comes in very useful!).

Given how every landlord's journey is individual and unique, it's been interesting to see so many naturally align their actions with each other, demonstrating how in touch our clients are with the market.

Buy to Let

Market Update

Jeni Browne Adv CeMAP, CertBB&C
Sales Director at Mortgages for Business

It's been a busy few months in terms of mortgage applications. The quick succession of interest rate rises from lenders and the Bank of England (causing a record 5,795 buy to let product rate changes in the last 30 days) has often meant just a few hours' notice of product withdrawal, leaving clients and us to scramble to submit applications and secure rates. The cost of missing out? Assuming an average increase per 5-year fixed product is 0.2%, on a £250,000 loan, you will pay an extra £2,500. If you had applied three months ago, however, you would have saved £8,750 by the end of the product term.

So, whilst I have your attention, the first message I want to give is that if you can apply for a mortgage now (and in the remortgage world, this can be up to seven months in advance of your current ERCs ending), please do not delay. Every week you leave it will only cost you more money. We are on an interest rate escalator which is travelling up very quickly!

Frequent Questions

Clients frequently ask whether we think rates, especially the Bank of England Base Rate (BBR), will come down again. I am sure they will; I am positive they will – just not in the next five years. When they do eventually ease down, reaching the low, competitive levels we have seen recently is unlikely. Another popular question is how high they will go and how quickly. It's a tough one to call, as inflation levels play a large part in this, and many factors will influence when this reduces.

However, I can share the predictions from the economists, who are way better at this stuff than me. Many predict to see BBR at 3% by the end of 2023; some even expect us to reach 5% in the next five years. Interestingly, if you have been around as long as I have, you will have experienced much higher interest rates than this – 14%, anyone?!? 5% is generally regarded as a normal base rate; it's just we haven't seen that for the last 13-odd years because of the fall out of the credit crisis and the many challenges we have faced since, which have kept rates down. Anecdotally, I remember saying to clients that it was a brilliant deal if they could get a 5-year fixed rate for under 5%. Perhaps we should regard the more recent years as (from an interest rate perspective) a bonus, and now it's time to get back to "normal".

> *"If you can apply for a mortgage now, please do not delay.*

Future of the Market

Looking to the future, what can we expect? I think we have covered off interest rates, and the lending market is far more interesting than just mortgage deals. What sits behind every lender's suite of products is a complex lending policy which differs for every provider. As the purchase market slows (note slows, not goes into meltdown, more on this in a moment), lenders will begin to look at how to win business – pricing is one area, and the other is their criteria. So, expect to see a steady flow of lender criteria enhancements over the coming months. These may be minor tweaks here and there, which can sound pretty insignificant, but actually, these small changes can mean the difference between someone actually being able to get a mortgage. I also expect lenders to pick up the Green Mortgage agenda and really get running with it. Assuming the Minimum Energy Efficiency Standards (MEES) change remains on track for 2025, lenders and landlords (some 33% of us) will need to get their skates on and start preparing for the new regulation.

The property market has remained incredibly robust thus far. House prices are still going up, with a record low number of new properties being listed for sale, and whilst the number of new buyer registrations has cooled, they're still up from the months preceding Covid. Supply therefore remains outstripped by demand, with a general prediction for house prices to slow throughout this year and then further growth of 2% for the next two years.

The story is similar in the rental market just now, which is also witnessing rent increases. According to a report from The Mortgage Works, 62% of landlords have seen an increase in tenant demand over the last 3 months, 50% of landlords have increased rent in the previous 12 months, and 42% plan to increase rents in the coming 6 months.

Therefore, my take on the current situation is that once you have acclimatised to the cost of borrowing, buy to let remains a really attractive proposition. Just please, get your mortgage applications in quickly!

Case Study

Limited Company Purchase of Complex Ex-Council Property

The Client: Our client was an extremely experienced landlord, with 22 properties owned in their own name.

The Property: Located on the outskirts of the capital, the property was an ex-council flat, let as a four-bed HMO. With access to plenty of local amenities and transport into central London, it was a popular location for young professionals.

The Finance: Our client was looking to incorporate the personally-owned property into his limited company. At the same time, he was looking to capital raise for further buy to let investment. Consequently, he required a limited company buy to let purchase mortgage at around 70-75% LTV.

The Challenge: This case was challenging due to the property's type and layout. Firstly, all flats in the block had deck access, which can be an issue for lenders as it can make the property more difficult to resell. Furthermore, the property also had a full flat roof, which is considered risky due to the possibility of water leakages.

Secondly, a high proportion of the surrounding flats were still council-owned, rather than private. Some lenders require the block to be majority privately owned as, again, they believe it can impact resale potential.

Thirdly, being used as an HMO restricted the number of lenders willing to lend on this case due to it being a more complicated property type, especially as the property had a lack of communal space. Again, both aspects make it more difficult to resell and potentially less attractive to prospective tenants.

Lastly, we'd have to approach more specialist lenders as typically high-street lenders won't work on incorporation transactions, especially with a capital raise element.

The Solution: From our whole-of-market access, we quickly identified a lender that did not require a block of flats to have a set percentage in private ownership to offer on it and would consider the other complications surrounding the type of property. Due to the lower number of bedrooms, the property didn't require an HMO licence from the local authority, which the lender was happy to accept. Due to the deck access and flat roof, the lender capped LTV at 70%; but this was still more than enough for our client to repay their current loan as part of the purchase into their Limited Company, and borrow the extra for his further investments.

Property Details

Property value: £325,000
Loan amount: £227,500
LTV: 70%
Rate: 3.29% 5-years fixed
Term: 25 years, interest-only
Mortgage payment: £633 per calendar month
Lender arrangement fee: 1.5% (£3,412)
Rental income: £2,370 per calendar month
Application: SPV Limited Company

Rates as at February 2022, and is subject to change.

Commercial

Market Update

Andy Elley CeMAP, CertBB&C
Head of Commercial at
Mortgages for Business

It's fair to say that the commercial property sector has had a particularly turbulent few years – I'd argue more so than buy to let. The pandemic hit hospitality and leisure businesses particularly hard, impacting the profits of owner-occupiers and commercial investors alike.

Where buy to let lending has returned to pre-pandemic levels in terms of criteria and loan to value (LTV) levels, high street commercial lenders have not. Redundancies and department re-shuffles have only compounded the issues, meaning the lending landscape in these institutes is almost unrecognisable to pre-Covid days.

The fall out of this is that many commercial investors and owner-occupiers are left in difficult positions, unsure where to turn. Lenders that have supported them for years can no longer lend to the loan to value required. I know for some of my clients, this has irreparably damaged their trust in the big five high street lenders, and it will be incredibly hard for these banks to get these clients back.

And yet, the sector is recovering, and well. How? You might ask, given the somewhat dire picture I have painted. Challenger banks, which started to make a mark on the commercial lending landscape at the end of 2019, have come to the rescue. By working with experienced brokers, like the team here at Mortgages for Business, and listening to what borrowers need and want, they're producing excellent finance terms. While rates are slightly higher than the traditional high street banks, they're still competitive. Plus, the criteria are broader, with longer terms and LTVs up to 75% against freehold values.

Furthermore, they're open to the quirky and unconventional. We've built some strong relationships with the challenger banks, meaning we can take complex cases to them, and they will work with us to find a solution that suits everyone. Sure, sometimes it requires our team of six commercial brokers (with over 150 years combined experience!) to think outside the box, but that's what we love about commercial lending.

As you can see, commercial investment and owner-occupier lending are making a healthy recovery. Consequently, we've had a few more traditionally buy to let landlords venture onto our books looking to diversify their portfolios. Many find it a tempting proposition with fewer regulation changes, lower stamp duty charges (for commercial property) and higher average yields.

There are some sectors where even the challenger banks are struggling to lend. Unfortunately, pubs and restaurants are a difficult area, having been so severely affected by lockdowns. I'd hope that with another 18 months to two years of uninterrupted trading, they'll be back in favour again. The care sector and assisted living facilities are also difficult to place at the moment. As you might expect, any businesses that saw a downturn in turnover and profits over the last couple of years will struggle, as will start-ups with no financial accounts to back them up. I hope that the further behind us the pandemic gets, the easier these areas will become to secure funding.

So, what options does that leave you with? Well, plenty! Thanks to a booming UK holiday industry, holiday let complexes and guesthouses have been incredibly popular for those venturing across from buy to let. For the more experienced landlord, semi-commercial property (i.e., shops on the ground floor and residential flats above) boasts excellent average yields – around 6.09% compared to 5.35% for vanilla buy to let.

With the exponential rise in internet shopping over lockdowns, lenders are happy to back industrial units rented by online businesses, likewise local convenience stores. Generally, businesses that were relatively unaffected by the pandemic are still in favour, as long as the financial accounts back it up.

Changes to regulation about developing empty commercial units into residential property (especially in town centres) have caught the attention of a lot of developers, especially as the returns can be excellent. Recognising this, it's another area for which many commercial and development lenders will offer terms.

We are seeing an increasing number of business owners who have always rented their premises look to buy and swap rent for mortgage repayments. As with any property finance application, you must have strong accounts that ideally show growth.

While the commercial lending space has been slower out the blocks than other property investment sectors, it's by no means lagging behind. Ever resilient, we will always do our absolute best to secure commercial mortgages on the very best terms available.

Case Study

Scottish Multi-Unit Holiday Let Purchase using Further Advance

The Clients: Experienced landlords and holiday let owners. They had a substantial background income from their day jobs, making them ideal applicants to lenders.

The Property: A multi-unit property located in the Scottish Highlands, comprising of a detached house, detached garage, and a detached cottage. The property was ideally located, with access to local amenities such as shops and transport facilities for visitors to use.

The Finance: Our clients were looking to purchase this property, so required funding to support their deposit.

The Challenge: The case created two challenges for us, the initial being the deposit source. As experienced landlords, our clients wanted to use a Further Advance to capital raise on one of their existing Scottish holiday let properties as a deposit. Despite the fact this property had increased in value following refurbishments, our clients only completed on the purchase during the 2021 COVID lockdown. This meant it lacked the track record of holiday letting income which lenders use to calculate borrowing.

The second challenge we faced was that the Highlands location meant limited lender appetite and availability. With very few lenders happy to offer on properties in this area, our options were restricted.

The Solution: Our experience and expertise in holiday lettings meant that we knew to get in contact with a reputable holiday let agent local to the area. The agent used their professional opinion to work out projected holiday lettings income for both properties, which worked out at £36,000 per annum for their existing property and £60,000 per annum for the new purchase. With these projected earnings presented to our clients' current lender, they were happy to offer a loan for the purchase.

Property Details

Property One: Further Advance

Property value: £400,000
Further advance amount: £84,850
LTV: 21%
Rate: 3.99% 5-years fixed
Term: 14 years, interest-only
Mortgage payment: £282.13 per month
Lender arrangement fee: £999
Rental income: £3,000 per calendar month.
Gross yield: 9%
Application: SPV Limited Company

Property Two: New Purchase

Property value: £450,000
Loan amount: £337,500
LTV: 75%
Rate: 4.84% 5-years fixed
Term: 15 years, interest-only
Mortgage payment: £1,361.25 per month
Lender arrangement fee: £999
Rental income: £5,000 per calendar month
Gross yield: 13%
Application: SPV Limited Company

Rates as at April 2022, and is subject to change.

Residential

Market Update

Neil Bishop CeMAP
Consultant Mortgage Broker at
Mortgages for Business

Over the previous quarter, the homebuyer market has been subject to the same trend of rising interest rates as the wider mortgage industry. Despite the increases in mortgage costs, it's pleasing to see the Government trying to support this sector by introducing the Mortgage Guarantee Scheme. Since its launch, we are seeing more and more lenders bring out 95% Loan to Value (LTV) products which open up the market for those struggling to get onto the ladder in particular. After the success of the Help to Buy scheme pre-COVID, this is just the thing we needed to boost mortgage applications and get buyers moving in the market again.

The scheme works as lenders can purchase a government guarantee (for a commercial fee) to mitigate their risk in case the borrower can't repay their loan. With just a 5% deposit required, the scheme will hopefully help more people get onto the property ladder or move into a new home without encouraging irresponsible lending as 100% mortgages did previously. The scheme closes to new applicants on the 31st of December 2022, so I expect more 95% products to be released by lenders soon. I believe this shows growing confidence in the market, which we haven't seen too much since pre-lockdown in 2020.

Moving on to what everyone is most concerned about – the rates. Rates are rising across the board, but interestingly, it's the two-year fixes that are really showing some movement. Usually five-year and ten-year rates are more expensive and less popular than the average two-year product. However, this has been flipped on its head in today's market; the rate increases for the longer fixed rates are far less significant than for the two-year rates, making them more competitive and appealing for landlords. My gut instinct is that we'll see this pattern continue until rates eventually calm down a bit.

> *We are seeing more and more lenders bring out 95% Loan to Value products.*

A lesser known product type which is becoming more appealing in today's market is Flexi-Fix rates. Flexi-Fix products offer long, fixed rates with the option to remortgage or exit the deal early for a lower charge. Or, in some cases, without incurring an Early Repayment Charge (ERC) at all. This type of product will be an attractive option for people looking for the longer-term security of a fixed rate while maintaining flexibility. So, if rates have come back down in three years, with any luck, these products allow you to take advantage of remortgaging at a lower rate. If they don't, you have the security of a longer-term fixed rate. Typically, we'll see these rates on five, seven or ten-year products. However, they may still have ERCs for the first few years, so bear that in mind when looking at this as an option.

I wish I didn't have to mention the cost-of-living crisis that we're all too well aware of, but it would be remiss to ignore how inflation levels impact people's mortgages. For context, as inflation rises, the Bank of England's Base Rate (BBR) will increase too to try and curb it. The rise in BBR affects the rates at which mortgage lenders borrow money from each other (SWAP rates), subsequently causing lenders to increase mortgage rates. If you're applying for a mortgage or remortgage, I want to stress the importance of understanding your budget. You don't want to leave yourself short every month after your mortgage payments, and lenders will want you to demonstrate that you have spare money aside for unexpected occurrences that come each month. This kind of 'buffer' is crucial in our current cost-of-living crisis.

What does this mean if you're trying to get a mortgage? You might want to wait and build up a larger deposit to get a better rate on your mortgage. Or it may mean that the increasing day-to-day living costs may make your originally planned mortgage repayments unaffordable. This is where a good broker can help you understand your finances, set a realistic budget, and ensure that the mortgage you commit to is truly affordable. Don't forget time is of the essence to make sure you don't miss out on the lower rates!

> *Flexi-Fix products offer long, fixed rates with the option to remortgage or exit the deal early for a lower charge.*

Case Study

Generous Mortgage Affordability Calculation for Dream Home Purchase

The Client: A second-time buyer who, having recently secured a new well-paid job, was looking to purchase their dream home.

The Property: A four-bedroom semi-detached house located only a short distance from a popular city centre in the Midlands.

The Finance: Having moved back in with their parents after selling their first home, our client had a substantial deposit to put towards the purchase. However, they still needed a 70% LTV mortgage to secure their dream property.

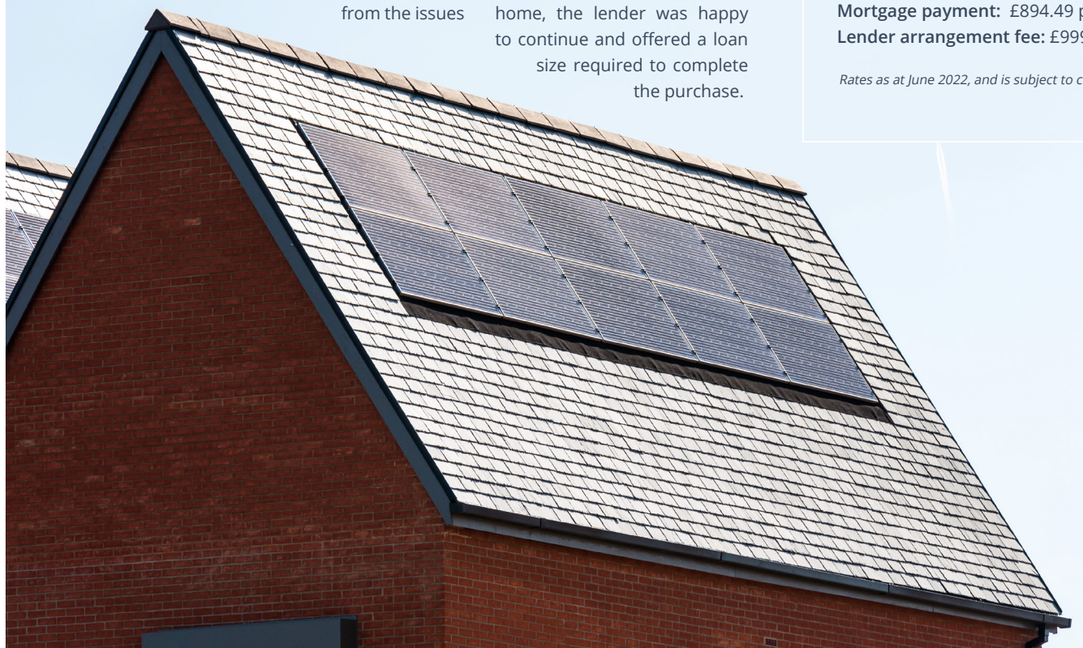
The Challenge: The primary challenge with this case was that despite a large deposit, our client still wanted to borrow a significant amount in relation to their annual income. Typically, lenders will offer borrowing up to 4.5x a client's income. This wariness around affordability multiples primarily stems from the issues that contributed to the 2008 financial crash, and a lot of regulation is now in place to prevent mortgage applicants from borrowing more than they can comfortably afford. However, our client was hoping to secure around 5.5x their annual income in order to secure their forever home.

The Solution: Our experience with specialist lenders in the residential market meant we knew which could be open to considering larger income multiples, providing there was sufficient evidence the client could afford it, and their income was likely to increase over the coming years. Given our client's occupation, we put together a case highlighting their strong financial position and future increased earning potential. Alongside the large deposit from the sale of our client's first home, the lender was happy to continue and offered a loan size required to complete the purchase.

Property Details

Property value: £305,000
Loan amount: £215,850
LTV: 70%
Rate: 3.29% 2-years fixed
Term: 33 years, capital and interest repayment
Mortgage payment: £894.49 per calendar month
Lender arrangement fee: £999

Rates as at June 2022, and is subject to change.



News from the Office

Awards

Over the last year, we’ve won three prestigious industry awards and been highly commended at the Mortgage Strategy Awards.

Best Buy-to-Let Mortgage Broker

Highly Commended

New Faces

Since our last edition in Spring 2020, the MFB Team has expanded 150%! We’ve had new hires throughout the business, including marketing, client relations, broking and data management. Here are some of the new faces we’ve welcomed so far in 2022:

Olivia Coulby
Client Relationship Manager

Richard McRoberts
Consultant Mortgage Broker

Kat Wells
Risk and Audit Officer

Paul Hart
Consultant Mortgage Broker

Neil Bishop
Consultant Mortgage Broker

Upcoming Events

- National Landlord Investment Show
  London
  5th July 2022
- National Landlord Investment Show
  Manchester
  11th October 2022
- National Landlord Investment Show
  London
  2nd November 2022
- NNMT Nursery Estate, Acquisition & Expansion Forum
  Epsom Downs Racecourse
  21st September 2022
- Property Investor Show
  London
  7th to 8th October 2022
- Farm Business Innovation Show
  Birmingham
  2nd to 3rd November 2022

Who are Mortgages for Business?

Established in 1990 by three men and a dog, Mortgages for Business is an award-winning, independent mortgage brokerage with an expert team of 50+. Specialising in complex buy to let, commercial, semi-commercial and homebuyer mortgages, and development and short-term finance, we help make property investors' plans a reality in every sector. With a head office just outside West Malling, Kent, and another in Wilmslow, Cheshire, our team covers England, Scotland and Wales.

Our specialist brokers have a combined experience of around 400 years! This depth of knowledge allows us to deal with the most complex property finance cases and guide our clients seamlessly through the process. Not only is this experience recognised by our clients but also our peers; we work with lenders to develop new products to suit the changing needs of property investors better.

Our clients benefit from a dedicated broker and client relationship manager providing a truly personal service; including independent advice, updates and expert guidance right through to completion and beyond. Over the years, we've designed our bespoke systems to ensure a smooth and efficient process for our clients, helping to take the stress out of purchasing and remortgaging property. We benefit from unique relationships with some of the most prominent specialist buy to let lenders, ensuring our clients receive the best service and mortgage solutions tailored to their individual property finance needs.

FIRST RATE MAGAZINE by Mortgages for Business