Mortgage Intermediary

INSIGHT REPORT

SUMMER 2023

Economic volatility continues to disrupt the mortgage market, unsurprisingly impacting intermediary confidence. Despite the challenges faced by the sector, there are encouraging signs of growing optimism, with brokers striving to support clients.

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Director - Mortgage Sales

Mortgage business mix

The average number of cases placed by each mortgage intermediary during the previous 12-month period has continued to increase. The summer 2022 edition of MIIR saw intermediaries place an average of 93 cases per year, rising to 96 in the winter edition and now standing at 100.

Similar to previous editions of MIIR, mainstream residential mortgages accounted for the highest proportion of business placed by brokers, with each managing an average of 54 cases per year, unchanged from our Winter 2023 report. Intermediaries placed an average of 40 buy-to-let mortgages during the previous 12 months, two more than the previous wave. 'Other mortgages', such as bridging finance and later life lending, accounted for the six remaining cases placed.

Buy-to-let business

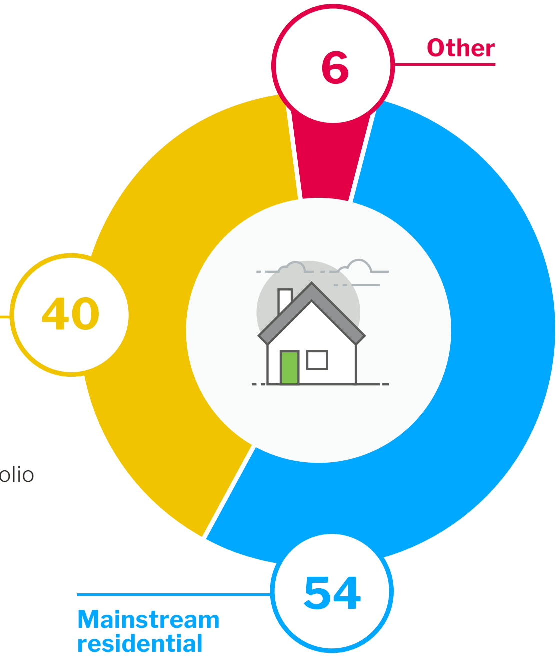
Focusing on buy-to-let mortgages, the highest proportion of business placed by brokers is classed as non-portfolio, accounting for four in 10 cases placed. This is followed by limited company portfolio cases, which make up just under a quarter, 24%, of business. A similar proportion, 22%, of business is made up of portfolio buy-to-let in personal name, while trading companies account for the 2% that remains.

MORTGAGE BUSINESS MIX

Source: BVA BDRC

Buy-to-let

40% Non-portfolio
24% Limited company portfolio
22% Portfolio
12% Limited company non-portfolio
2% Trading companies



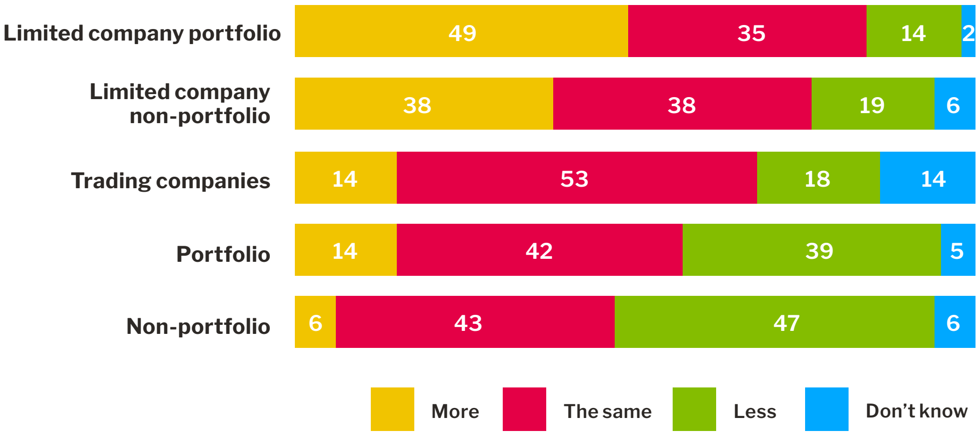
The rise in limited company lending

49% of intermediaries expect to place a higher volume of buy-to-let mortgages written to portfolio landlords operating through limited companies during the next 12 months.

At present, just under a quarter (24%) of buy-to-let mortgages are written to portfolio landlords operating through limited companies. Brokers expect this to increase throughout the next year, with just under half (49%) anticipating more business from portfolio landlords operating through limited companies and 38% predicting growth in non-portfolio limited company business.

BROKER FORECASTS FOR CHANGE IN VOLUME OF BUSINESS IN THE NEXT 12 MONTHS (%)

Source: BVA BDRC



The favourable tax treatment of incorporated businesses was cited as the driver of this anticipated rise by 56% of survey respondents.

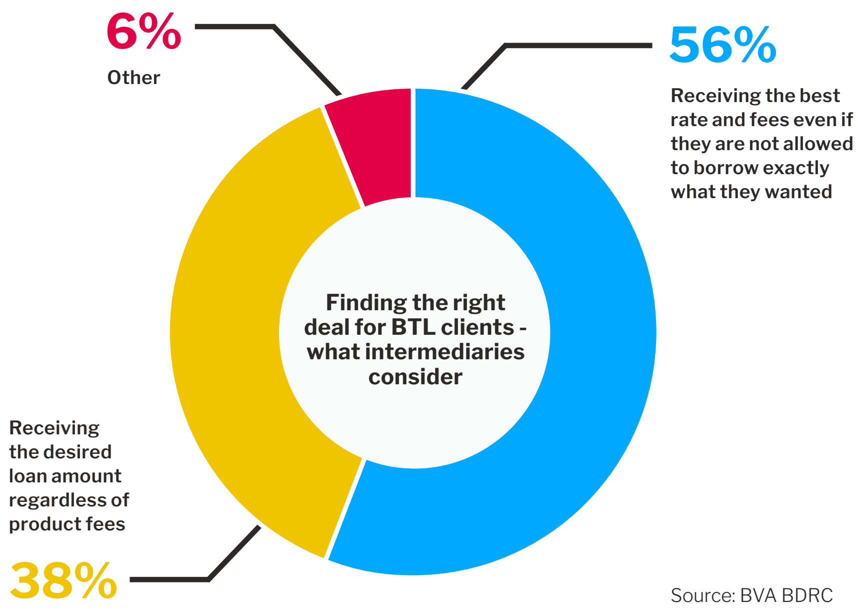
Operating a lettings business as a limited company can deliver a number of benefits, including offsetting mortgage interest, finance costs, and mortgage arrangement fees against rental income.

Landlord priorities

In order to identify how lenders can support investment in the sector, intermediaries shared what they deem to be landlords' main priorities at the moment.

More than half of intermediaries think that landlords prioritise securing finance with the best rates and fees over borrowing the loan amount they apply for.

While rates and fees are always an important consideration for borrowers, with current economic instability causing rates to rise, it stands to reason that landlords are willing to put up larger deposits for purchases or forfeit capital when remortgaging in order to secure a deal that is more financially viable.



Source: BVA BDRC

Working with lenders

Source: BVA BDRC

Brokers identified what is important to them, besides the rates on offer, when placing business with the specialist lenders that operate in the buy-to-let space.

43% Clear and consistent underwriting

35% Flexible criteria

30% Access to an underwriter

28% Effective BDMs

Easy to deal with	28%
Certainty of decision	28%
Clear criteria	27%
Efficient online application system	25%
Time to offer	18%
Efficient case updates	12%
Option to underwrite manually	12%
Effective retention offers	10%
Efficient online application journey	3%

Clear and consistent underwriting was deemed to be the most important aspect of dealing with specialist buy-to-let lenders, followed by flexible criteria and access to underwriters.

This suggests the factors brokers value most are centred on working with lenders to find solutions that work for their clients in today's market, with speed and the products available to borrowers at the end of term considered less important.

Buy-to-let business obstacles

The rates used to stress test interest coverage ratios (ICRs) were identified as the most prominent obstacle for placing buy-to-let business, selected by 62% of intermediaries. Linked to this is the inability of landlords to meet affordability criteria, seen as an obstacle by 13%.

Trying to balance rates with product fees on lower-value properties, where flat fees account for a higher percentage of the total price, was cited as a barrier for one in 10 intermediaries.

The influence of market conditions on investment behaviour was deemed to be impacting buy-to-let business levels to a lesser degree, with 8% of intermediaries identifying landlords preferring to wait for lower rates as an obstacle and 4% seeing reluctance amongst landlords to buy or sell due to current housing conditions.

Future strengths of the mortgage market

Repeating the theme seen in the Winter edition of MIIR, intermediaries expect the business they place during the next six to 12 months to be driven by remortgaging, primarily amongst residential borrowers but also in the buy-to-let space.

ANTICIPATED DRIVERS OF BUSINESS

Source: BVA BDRC

78%	Remortgagers
43%	Buy-to-let remortgage
37%	First-time buyers
25%	Later life lending

Home movers	24%
Interest only mortgages	24%
Buy-to-let purchase	18%
Adverse credit/Sub prime	17%
Bridging loans	16%
Second charge mortgages	12%
Green mortgages	10%
Development finance	8%
Flexible mortgages	8%
Offset mortgages	6%

Despite interest rate rises and the ongoing elevated cost of living, there has been a notable increase since the previous MIIR, from 23% to 37%, in the proportion of brokers who feel that mortgages for first-time buyers will be a contributor of business over the coming six to 12 months. A similar situation can be observed, although reversed, with interest-only mortgages. In the Winter MIIR, interest-only mortgages were expected to be the third strongest contributor of business, chosen by 33% of intermediaries, but this has decreased by nine percentage points to 24% this time around.

ANTICIPATED PRODUCT POPULARITY

Source: BVA BDRC

68%	2-year fixed
64%	Product switches
54%	5-year fixed

Interest-only mortgages	29%
Base-rate tracker	19%
Bridging loans	16%
Further advances	16%
Second charge mortgages	14%
3-year fixed	13%
Green mortgages	11%
Discounted SVR mortgages	8%
Offset mortgages	7%
1-year fixed	5%
Greater than 5-year fixed	3%
Other	2%

With remortgaging anticipated to be the main source of business, it is unsurprising to see that intermediaries expect product switches to be a popular option amongst their clients.

The predicted demand for product switches was only surpassed by 2-year fixed rate mortgages, which 68% of brokers expect to be a popular product during the next 6 to twelve months, following an increase from the 44% recorded in the previous MIIR. This means that intermediaries expect 2-year fixed rate mortgages to be more popular than 5-year fixes, anticipated to be the favoured product option in Winter's report, and is likely influenced by financial markets' forecasts of interest rates stabilising after peaking during 2024.

Mortgage Intermediary outlook

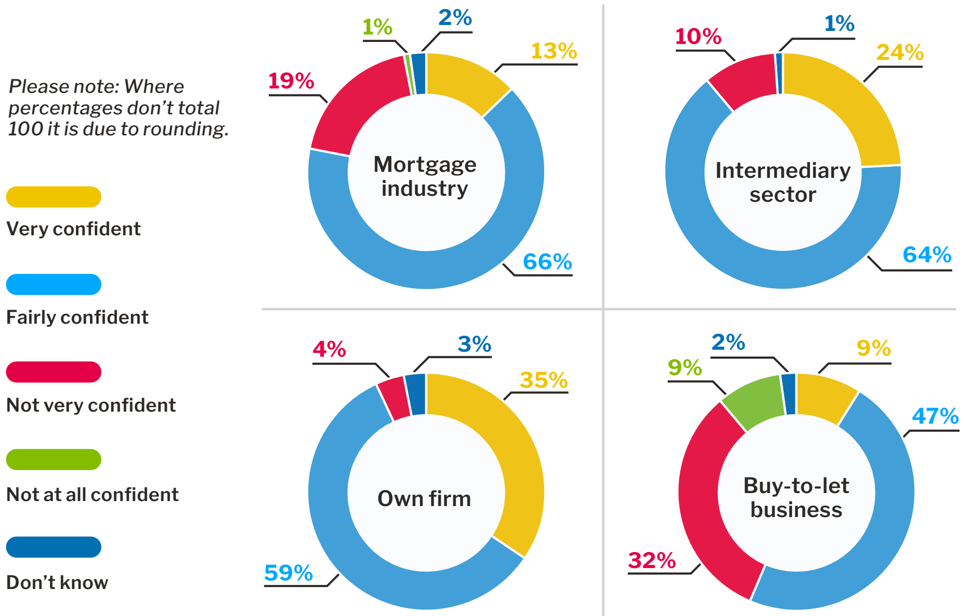
We asked intermediaries how confident they feel about four different aspects of business – the mortgage industry, the intermediary sector, their own firm, and buy-to-let business. It is encouraging to see a significant uptick in intermediary outlook for each of these areas in the time since the previous report.

The most notable change was net confidence in the mortgage industry, which increased from -5% to +58%. Optimism in the intermediary sector has also grown substantially since the winter edition of MIIR, climbing from +34% to +78%. Despite these trends, confidence in brokers' own firms remains the strongest, increasing from +73% last wave to +89%. Although brokers don't feel as confident about the future of buy-to-let business, sentiment still improved, with net confidence rising from -10% to +15%.

INTERMEDIARY CONFIDENCE LEVELS

Source: BVA BDRC

Please note: Where percentages don't total 100 it is due to rounding.



Future threats to business

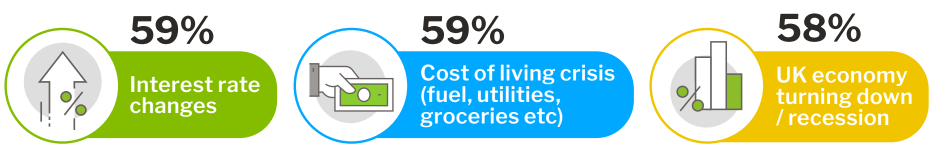
The five most prominent threats identified by brokers were consistent with the Winter MIIR, albeit with lower proportions of brokers identifying each.

Almost one in six (59%) brokers see changes to interest rates as the primary threat to business, down from 76% since the previous report. This was tied with the cost-of-living crisis, the same proportion pinpointing it as a factor that could negatively impact business, following a drop from 69% in the six months since the Winter edition of MIIR.

An economic downturn or the UK entering a period of recession closely followed, with 58% of intermediaries determining it as having the potential to jeopardise deals placed, down from 67%.

ANTICIPATED BUSINESS THREATS

Source: BVA BDRC



Slowing housing market	54%
Changes to EPC regulation	38%
Automated mortgage switching / re-mortgage systems	38%
Changes to tax regulation	38%
Regulation of the BTL market	36%
Lenders improving their direct mortgage offering / service	25%
Tighter regulation of broker activity	19%
Robo-advisers / online & digital brokers	18%

Unemployment	13%
Brexit	10%
Retirement / ageing mortgage intermediary base	8%
Lack of new / young intermediaries coming through	6%
Lasting impact of the Covid19 pandemic	4%
Open banking	3%
GDPR	2%

Intermediaries are adopting several different strategies to mitigate these threats with common areas including increased proactive communication with clients, additional marketing to attract new clients, investing in technology and diversifying into other markets.

Growth plans

Despite the challenge of current economic conditions, we see that the growing sense of optimism amongst intermediaries does positively influence future business strategy.

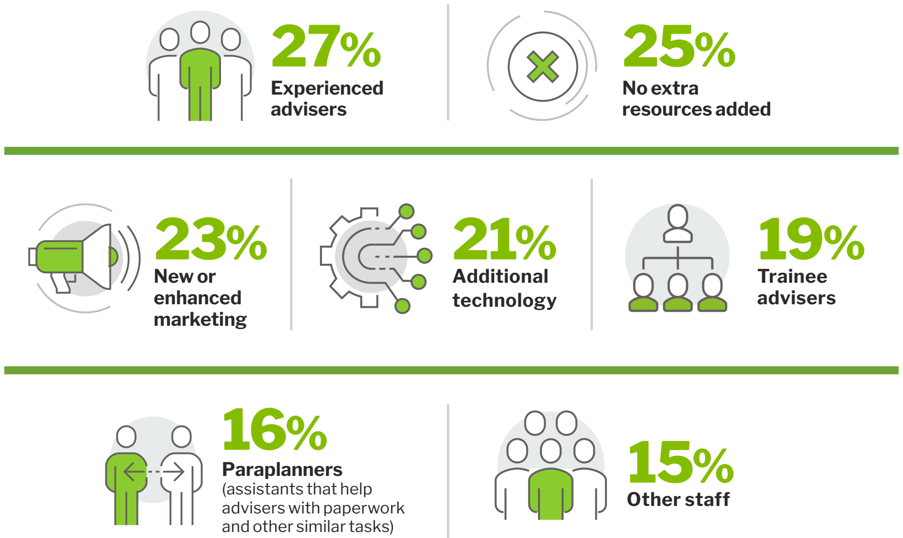
Over four in 10 (43%) intermediary firms are expanding, up from 38% since the previous MIIR, while 48% are remaining the same. There has been a slight increase in the proportion who say that they are reducing in size – 4% vs 3% last wave.

Expansion is most likely to take the form of additional personnel, with 77% of intermediaries expecting to bolster their workforces. Looking at the types of roles firms will look to recruit shows that experienced advisors will be targeted by 27% of firms, while 19% expect to hire trainee advisors. In addition, 16% would like more paraplanners to assist advisors with paperwork and other similar tasks, while the remaining 15% is made up of ‘other’ staff.

Interestingly, a number of brokers noted that the mortgage market is becoming increasingly complex, and this leads to a greater need for experienced advisors who are capable of managing such business.

BUSINESS INVESTMENT

Source: BVA BDRC



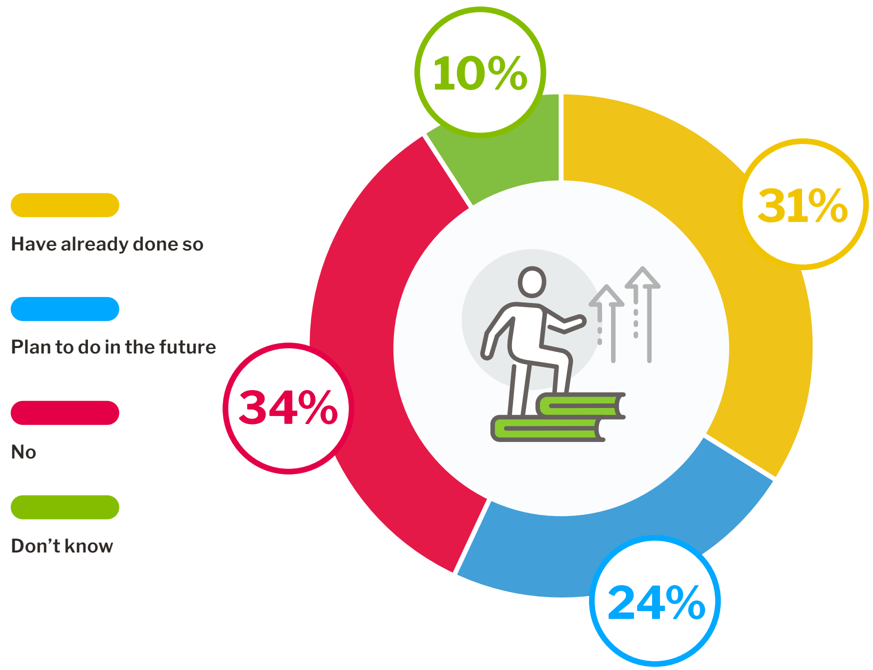
Alongside recruitment, just over one in five (21%) of brokers say that their firm is likely to invest in additional technology and a similar amount, 23%, expect to undertake new or enhanced marketing.

Asked to think about the recruitment challenges they may face, 41% of brokers say that it is either fairly or very easy to hire experienced advisers, rising to 50% of those who feel it is difficult. Intermediaries think it is a little easier to take on trainee advisers, with 51% stating that it is either fairly or very easy, while 42% indicate that it is either fairly or very easy.

To overcome any difficulty that they may face in adding extra resource to their teams, some firms are working to upskill existing employees.

UPSKILLING EXISTING EMPLOYEES

Source: BVA BDRC



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