

## Two-fold certainty

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Three months is a very long time in the mortgage industry and, for many of us, the last three months are ones that we will never forget. We have seen some 400-plus products being withdrawn, repriced or lenders pulling out of the market.

This turbulence in the credit market has impacted the nature and shape of specialist products. What was considered specialist a few years ago was mainstream until the beginning of August and in a very short period of time has become specialist again.

For brokers this change represents both a challenge and an opportunity to add real value. No longer are lenders parading a range of product features designed to tempt the home owner and specialist product features, such as high loan-to-values (LTV), heavy adverse, large loan sizes or builders deposits. These have become difficult to source.

For brokers this means that, rather than a landscape where specialist products were selected by price and feature, it is

now increasingly a question of first finding a lender prepared to consider the application and then working out the details on a case by case basis. Focusing on key determinants, such as affordability and LTV is key. For the sake of all parties, there is no longer any sense in putting forward applications where, in these conservative times, all information hasn't been checked and double-checked.

Thus, our experience is showing that it's less a question of specialist lending, but more a case of specialist underwriting, with those lenders that use both on-site underwriting and credit scoring tending to be more flexible.

But the impact has varied across specialist product types. While most areas of non-conforming have seen a real fall in product availability, other markets, such as self-cert and buy-to-let, remain robust. Overseas mortgages also remain buoyant, but are obviously showing signs of consumer hesitation. The second charge market is quite bullish and is likely to

remain so, as consumers look to refinancing options that do not necessarily mean remortgaging while the prevailing LIBOR remains high.

So where's the certainty? It's becoming two-fold. Firstly, the packager or distributor is being looked upon as the broker's eyes and ears. They are normally in the know and can be first to inform the brokers of any withdrawals or product releases, ensure funds are booked and in some instances, have a longer deadline that the direct to lender market. At the same time, if the application changes for any reason, the choice of lenders on the packager's panel, should allow replacing the case with minimum of fuss.

Secondly, one of the obvious changes is the shift towards balance sheet lenders. It remains to be seen how long the liquidity crisis will inhibit the securitisation lenders from extending the depth and breadth of their ranges, and not until investor confidence returns, will some of the products return.

The whole specialist lending sector, and how we define the areas it comprises, is also changing. It is widely held that the so-called niche markets go to make up 'specialist lending' which would include non-conforming, self-cert, buy-to-let, etc but perhaps we should also be considering the commercial market, secured lending or bridging loans as well. There is an argument to suggest that a market such as buy-to-let should not be considered specialist as it has become more of a mainstream product with rates closer to those of residential mortgages over the last few years. The fact that buy-to-let now accounts for over 10 per cent of all mortgage balances also shows the mainstream nature of this sector.

Specialist could indeed mean any sector which is outside the mainstream and this means we have a particularly wide and diverse array of niche areas to look at. The 'credit crunch' will undoubtedly impact on some lender's ability to look at new specialist areas and provide criteria

and affordability led products which deliver the key ingredients for borrowers and, rather importantly, are profitable for lenders. Sustainability must be the watchword for all lenders looking to operate in this particular sphere and branch out into new areas.

### Showing commitment

In this current climate, intermediaries want to know that lenders operating in these specialist sectors are not just there for a quick buck and, when the pressure comes on as it clearly is at the moment, they are not going to quickly vacate their ground. Certainty, in this regard, is essential and we believe that it is important not to try to be all things to all men. If a lender has a specific specialist focus then it should aim to be the best that it can be in those markets. Those lenders who have over-stretched themselves in the quest for quick 'big numbers' are the ones who are right now beating a hasty retreat.

Experience counts for a great deal and intermediaries want to work with lender partners who provide certainty of offering, certainty of criteria and certainty of service.

The past 10 years have without doubt seen the almost unabated rise of specialist lending. This period has resulted in many believing that the market could continue to grow forever with new lenders entering the sector and moving continually around the risk curve with no consequences for both their borrowers and their own operation. If the credit crunch has proved anything it is that this state of affairs was not sustainable. Lenders are being forced to look in more depth at the way they lend and who they lend to, and while in the short-term the consequences are clearly being felt by those who work within the mortgage industry, perhaps at the end of this period we will see a much more sustainable lending community which will be in a far better position to deliver real value to all stakeholders.