

Lending renaissance in 2011

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When I am asked about the state of the market for secured loans, the answer has to be given in two parts. To have a market for a product or service requires both demand and supply. There is no doubt there is huge demand for secured loans so one part of the equation is in rude health, but the second part, namely the ability to fill that need, is still pretty weak.

So we have strong demand clearly showing there is a market for the product, but inadequate resources to meet that need. As far as the causes are concerned, unless you have been asleep for the past three years, I won't state the obvious. But the remaining obstacles to improving the supply side revolve around a number of factors.

Coming out of recession, funding sources have concentrated on consolidating their balance sheets and restructuring. While lending in general for residential first and second charge and commercial lending has definitely come off the bottom, in the absence of any kind of resurgent securitisation market, along with the other forms of lending, we are still in recovery mode.

Critically, the restriction in criteria has also played its part. Naturally lenders are cautious in the level of risk they are prepared to take on and while much of the dead-end enquiries for clients with multiple credit problems have thankfully all but ceased, we, along with our fellow secured loan packagers, are inundated with good quality enquiries with good security and credit that still won't fit.

Arguably, secured loans have more flexibility than first charge lenders in terms of criteria and this has helped, particularly where brokers have clients who traditionally took further advances or remortgaged for consolidation purposes or for large ticket items such as holidays. As the cost of remortgaging has increased and the supply has dried up, secured loans have provided a much needed resource.

Looming over us all is the impact of the Mortgage Market Review. I realise that secured loans are not under the Financial Services Authority's regulatory control, but for a lending industry already punch drunk from the recession, the effect of the time taken to consult has already had an adverse effect on likely new starters and the return of older brands. We know there are plenty of lenders ready to come into the market, but many are still waiting on the sidelines.

Above all this is the precarious economic climate and the state of the housing market. It is hardly surprising that we have still hardly got out of first gear. That being said, there have been some positive moves from lenders this year and 2010 has been a better year than 2009.

But ever the optimist, I believe that 2011 will see a renaissance in secured loan lending, albeit slower than we would like.

“Brokers need to have more than one tool in the toolbox,” he says. “Secured loans have an early repayment charge of only one month of the interest on the loan – it's a good way to borrow for the short term.”

Restrictions mortgage lenders have placed on criteria and lending volumes have helped the secured loan market cater for borrowers who otherwise would have been turned away.

“Borrowers on low SVRs do not want to remortgage because they know they will end up paying a higher rate,” sales Dale Jannels, sales and marketing director at All Types of Mortgages. “If they are looking to consolidate their debt a secured loan would be better.”

AToM has recently signed up as the exclusive distributor for Portal Portfolio, a new secured loan lender. The lender has received a mixed reaction to its proposition because it uses a pension fund to fund its loans. It is offering loans up to £75,000, with rates from 9.9% up to 80% LTV for the employed or self-employed.

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Whether or not its strategy will succeed, it is still good for the sector to have new blood and funding.

Lenders are restricted by the funding available to them, just like mortgage lenders. But at its height the sector was unsustainable and what is emerging is a market more consistent with that in the 1990s.

“Products are limited and are reminiscent of when I first started in secured loans in 1997 but we managed fine back then,” says Matt Cottle,

commercial director at Y3S Group.

Y3S recently launched a 90% LTV product called the lifestyle loan. It is funded by a special purpose vehicle via high net worth private investors and some adverse credit will be accepted.

“Until this April we still had funding issues with most lenders, but the secured loan industry has more funding now,” says Cottle.

He says there are numerous rumours among secured loan brokers and lenders about new providers launching into the market.

“The robustness of the industry never ceases to amaze me,” he adds. “Every financial intermediary should have the number of a good packaging broker in their mobile. Roll on 2011, I can't wait.”

At the moment the secured loan sector has the upper hand on the mortgage market in terms of products it can offer, but this could be in jeopardy if new regulation is pushed through. In November 2009 the Treasury announced that it would extend the scope of FSA regulation to include secured loans.

The sector is regulated by the Office of Fair Trading and those working in it must hold a consumer credit licence. But there is no timescale for the regulatory changes.

In a speech in June this year, Lesley Titcomb, director of small firms and contact centre at the FSA, reaffirmed its commitment to regulating secured loans.

“It may be helpful to transfer to us responsibility for the second charge market and secured loans,” she said at the time. “The previous government said this was also its policy preference. We don't know when this transfer will happen, especially given the change of government, but it makes sense for us to be thinking now about our regulatory approach as there is plenty of detail to work through and questions about what we should take from current consumer credit protection into any FSA regime.”

The Treasury proposes that the regulation of secured loans should fall under the FSA's Mortgage Conduct of Business rules.

“FSA regulation will be bad news for the industry,” says Walker.

He doesn't have a problem with the FSA regulating the sector per se, but he is concerned it could impose similar restrictions on the sector as it is doing on the mortgage market through the Mortgage Market Review. But it is unclear whether the FSA or the Consumer Protection and Markets Authority will regulate the sector before regulatory reform in Europe.

“I can see the FSA deferring regulation of the secured loan market until Europe has acted,” says Sinclair.