

MBE 2011 Round-table: Getting in the game

Short-term finance is hotting up with several lenders launching into the market this year already. *Bridging Introducer*, in association with Mortgage Business Expo, talks to a panel of experts about what competition means for the market. Sarah Davidson and Yuan Phoon report

The bridging market has seen various new entrants in the past 18 months, how has this changed the market?

Danny Waters: From a broker perspective criteria has relaxed. Businesses that have come into this space over the last 12 or 18 months have increased the markets level of professionalism. You only have to look at where bridging finance was three or four years ago, it was almost seen as lending of the last resort. Clearly that's now not the case due to the lack of liquidity in the high street market. All in all it has increased professionalism and driven down pricing.

Liz Locke: In terms of new entrants and changes in the market I think there's still a lack of clarity about who actually is seriously in the market and to what levels and extent they're able to lend. I think what it has done is it's shifted bridging to become a little bit more

institutionalised. We're seeing a lot more transparency and a lot more clarity, people publishing rates whereas it was a niche and closed market and that's completely changed. There is a lack of liquidity in the more mainstream market so enquiry levels in the short-term market have definitely rocketed but in terms of then converting them into bridge deals that complete, I think there's still that sort of middle ground that's a little bit unsure because there's still the need for education about bridging and the short-term market. For Omni the brokers that we're talking to and the clients that we're dealing with there's still a need for a bit more understanding of how bridging can actually work because obviously it's more expensive.

Robert Sinclair: I think one of the challenges is how we get the right engagement with the right people. Brokers want to pick the



low hanging fruit containing the easy stuff and this stuff is difficult and more complex and that's the challenge, and more and more entrants with slightly different criteria almost makes that harder for people because they're continually more and more confused about the options out there and how they work. How we get to that point is why we need more of this kind of event where the industry comes together a little bit more both from a lender perspective and core brokers who really get this and we get that through specialisation from both the manufacturer and the distributor to get the better



(Top left to bottom right) Gareth Lewis, head of business development at Tiuta; Gary Bailey, group director at Bleiman Group; Fahim Antoniadis, group director at Mortgage Centre IFA; Robert Sinclair, director at AMI; Geoff Philpot, managing director at DMI Finance; Laurence Goodman, managing director at Bridgebank Capital; Pete Turner, commercial director at ATOM Mortgages; Danny Waters, chief executive at Enterprise Finance; Liz Locke, business development director at Omni Capital; Paul Brett, business development director at Borro; Alan Cleary, managing director at Precise Mortgages

understanding. I'm not sure how we get all of that in the same place. The problem is that every lender is slightly different and that's part of the challenge we've got.

How do you see the market developing?

Gareth Lewis: The market has changed the most because of the clientele that utilise the product nowadays. Going back seven years when I first joined the market, you were almost seen as a lender of last resort and that's probably why people weren't educated to utilise it because you were only

trading towards a certain market. The market is now in a position where you are looking at banking clients who just aren't being backed. The liquidity for the mainstream banks coming into the space doesn't help. Their lack of wanting to do a transaction means that clients happen to be pushed somewhere else and I guess that's where we're picking up the slack because at the end of the day, we're looking at lending with a common sense based approach rather than, it has to fit certain criterion and if it doesn't fit that criterion then you can't get that deal. It's all about making a deal happen. Bridging in the past has

always been about educating people to people who don't necessarily want to be educated. What we're finding out is more mainstream high net worth individuals will want to utilise bridging more now and those in turn, their brokers will want to use bridging more because they see it as a niche specialist area.

Laurence Goodman: The credit crunch has really been a godsend to the bridging sector. It's elevated us from lending predominantly to non-status or sub-prime with a margin on super-prime. I think the biggest fear of some of the new entrants that are coming is that only time

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will tell as to what they're doing.
LG: I agree it's much more dynamic than it used to be and now only the good brokers are left.

DW: The key for everyone is that partnership's important. Clearly you don't want to be originating business which lenders are suffering losses on. Good brokers firmly look at exits and do make sure they are trying to cover off as much potential downside as possible for the lender. We are much more pro-active now protecting the lender.

LG: I don't disagree, it wasn't meant to be a comment which was inflammatory, far from it, we must all work in partnership. The point that was being made was that the assessment of risk and the assessment of a realistic ability to exit a bridging loan probably isn't going to hit the same sort of score or view between a lender and a broker.

DW: But that's why some of the lenders in this space are looking at the long-term products because they appreciate and understand that liquidity isn't out there within the high street market so maybe

they can support the borrower for a longer-term than just a shorter period in 12 months. The guys at Precise and Dragonfly have bred a product where if for whatever reason there isn't obvious refinance available within 12 months then they are more than content to keep the borrower for a 36 month period when maybe the landscape will have changed.

Alan Cleary: Competition in this market is moving. Some of the banks have exited, the whole world has changed over the last few years. As a result of that the bridging market is actually a benefactor but I think certainly where we're coming from we're bringing funding into the space, that's absolutely good for the whole industry for brokers and other lenders included. This is not a saturated market where new entrants are actually going to cause dysfunctional behaviour. This is a market that has potential to grow, it probably needs some seed capital to go there to help it along and lenders like us and others bringing cash in will be good for the whole market.
GL: I think new lenders like

yourself also have an ability to help on the education side of things. You deal with a different marketplace through the mortgage business and those people who place business that way maybe don't understand what bridging finance is all about. Bridging finance is not rocket science but what it is, is it's time consuming to make sure you have the right information to hand and again that goes down to the education that people are aware of what it is all about because it is old fashioned underwriting.

What has changed from a broker point of view?

Fahim Antoniadis: Bridging is changing. The new entrants to the market are definitely adding new flavour to it all. Product innovation is an area which is quite healthy at the moment. Market conditions have forced bridging lenders to innovate and fill in a gap which wasn't there before.

GL: Longer-term lending is a clouded issue because that actually isn't bridging finance.

LG: Correct.

FA: No.

GL: It's a specialist area. A traditional bridge is 12 months or less. New entrants have evolved the market to encompass something completely different so it's that medium-term lending which is a different kettle of fish - something truly different from bridging.

Will more "mainstream" lenders enter the bridging sector?

LG: The bridging sector always attracts new entrants - it's expensive money and new entrants keep everyone on their toes. It gives brokers and clients more choice and that has to be a good thing.

At the moment the sector is particularly attractive and the opportunities far superior than pre-credit crunch.

AG: This market is going to behave like any market. The laws of economics mean it will attract more lenders because it's growing. It's a virtuous circle. The actual threat is not new entrants, if you look at where the money is coming from, it's a lack of liquidity or lack of interest by banks who are predominantly dealing with the high net worth clients and the big risk is when they decide they get back in, that's when it's going to get interesting.

LG: The market does go in cycles. Within the next five, seven years, some lenders will come back to their work four or five years ago, that's bound to happen.

I think you'll find that it gets even tighter virtually immediately within

this quarter to the next quarter, I don't think there's any doubt about that.

Is the short-term market getting bigger?

Paul Brett: Yes absolutely. The wider discussion on that comes back to the point on broker education. Brokers and intermediaries are looking at other areas of finance to ensure they are meeting customers' demands and making sure their businesses continue to grow especially in difficult times.

From our perspective we believe the market is growing and we've seen evidence of that fact. Brokers are looking at short-term finance as part of their portfolio of products.
Pete Turner: From a packagers point of view, it's looking for the options to find solutions. That's what we need to do and the more lenders that come in and come back up the terms and service will only help.

PB: It's a tougher world out there and brokers have got to add value. No longer can they be order takers, just processing deals. They've really got to add value to their client base to make sure they do well.

AG: Well you can see growth. The buy-to-let market looks like it's going to gain some strength over the next cycle because I don't think it's funding that's the problem. That market was £44bn, its £12bn today and probably should be £20bn before it becomes dysfunctional again. Just that strip could fuel quite a significant growth in our market over the next few years so I think that's highly likely to take place. There are of course other areas that

could come alongside but we certainly see this as a growth story for this market for the next five to 10 years.

Garry Bailey: When you look at the growth of the market there are three fundamental factors: new entrants, new funds and education. When you look back over three, four years ago, a lot of packaging brokers didn't even consider bridging as an option. Now we look at it and with the likes of Precise, Bridgebank and Omni etc, you see that you get a panel of lenders now which has predominantly always in the mortgage and security bond market. One time it was all very specialist.

Do you think the market has grown in the last 18 months?

Geoff Philpot: High street lenders are trying to lend as little as possible and are trying to put up barriers all the time. Bridging finance did appear to fit into a fairly predictable but very worthwhile sector of the market. Now to get a client you've got to give as much information to a bridging lender as you have to the likes of Royal Bank of Scotland or Lloyds bank and the whole thing has turned on its head!

LG: You can't underwrite bridging loan now just on the property knowing fine and well that there's so much liquidity out there it doesn't matter who judged their remortgage. It may well be dead and buried. You have to underwrite to the nth degree and that's where experience and skill of the established lenders and the new entrants with the right teams comes in. ▶

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Is the shift towards a more professional market and better quality underwriting a reflection of an increasingly watchful FSA?

LL: No.

LG: I don't think that

GL: From my perspective I don't think it is. It's an evolution of who you're dealing with in terms of clientele and let's face it, it's probably magnified more when you're looking at bridging finance in terms of you saying that before a bridging finance loan would lend against the asset then yes we would because that was the market that it was.

DW: Because they've always got someone else to take over the problem, the sub-prime market was so fast and there was lots of liquidity within the sub-prime market they could rest assured that they would find an exit that way and also the property market was bailing them out of a lot of problems as well because we were seeing significant capital growth in the property market over a decade period of time and now we're looking at assets which are a bit more stagnant with a lack of liquidity within the high street markets.

LG: We're a regulated lender and we apply FSA regulatory principles and assistance to all of our lending even though 95% of our loans are unregulated, we do everything as if it was a regulated loan in terms of our finance structures, TCF issues, compliance issues and information flow etc. And not in terms of just loans you need to demonstrate to your investors that you are

professional and good at what you do and there are no gaps at all in your underwriting and in your credit control processes.

GL: Bridging finance is always evolving. Whatever the need is of that product at that moment in time follows what that lender does. So as the market changes that lender evolves. You see it more with a niche lender and considerably smaller lender than the main high street banks. Bridging finance has had to evolve to that market and what trends that market is following so you continue to evolve.

DW: That's an excellent point because the bridging market has always been quite dynamic so as and when liquidity does return there comes more exits for bridging lenders. There's no doubt they will loosen they will loosen their underwriting criteria and they will adopt a fair approach to risk but in the current economic climate and a lack of exit then you can't blame people for looking at a complete holistic view of the application.

GL: When the credit crunch happened it could've been quite easy for bridging finance lenders to just turn around and say, "we don't want to be involved, we don't want to do anything. We're going to stop and pack it in." And the sector could have died. But what they actually did was they evolved the business to make sure they continue to lend through the turmoil when there wasn't anybody else backing that market place. It goes back to the principles of what bridging finance is all about, it's using your common sense.

FA: People used to go for a bridging loan when they needed money



quickly but now you've got to underwrite everything properly and there's not the liquidity there. But you can underwrite a case fairly quickly and then it's down to the legals and how long that takes and it use to be that you could go in and see someone Monday and you could have your money by Friday and we've kind of lost our track in that regard because it's taking forever and a day in post-underwriting to actually draw down the monies. In that sense it has lost its way.

LG: Fahim's right, it's not down to the lenders it's down to the legals. Don't get me wrong that's probably poor words to choose for an answer. But lots of lenders share the same view.

FA: Now what's changed in the legal process then? If we remove the market forces aside what's changed?

LG: The cynics view is that the lawyers are so bereft and instructed.

Over the last four or five years a piece of work they could've done in two days, four years ago they're making it last two weeks now so they can charge more fees it's as simple as that.



FA: Wouldn't that be another area to evolve product-wise and to not just how you're underwriting your case and what terms you're lending on but also to put in procedures to shortcut the deal?

GB: We have team of solicitors and they know what they're doing, they're on our premises, we can almost walk a file downstairs and drive it through. What you do find particularly through a bridging transaction is that the clients solicitor is less educated with what they've achieved and how to do it. They may have used them for a property purchase 20 years ago and they just stuck in that mode of using the same solicitor. So they don't necessarily have the skill or experience to drive a bridging loan through.

How will regulation affect the market?

RS: I think the problem we have on regulatory cases we have there are three parties to the debate at the moment. There's the EU who have a view, there's the FSA who have a view and there's Treasury who've got

a view and these three views are not aligned in any way.

The FSA will produce a paper before the end of July and it's likely anything under 12 months will be unregulated and anything over 12 months is going to sit in a regulated space. Well we're trying to keep commercial out of it. It's business to business. So if you set up a company to run buy-to-lets i.e. you've incorporated, you should stay outside.

LG: Who's first, second and third in the pecking order?

RS: Europe is first, FSA is second but FSA will always listen to Treasury because they have to. Although the Treasury will say they have no power over them. It's funny because the industry is fearful of regulation.

FA: Does Europe understand?

LG: Yes. But does anyone know whether there is an actual more sizable bridging industry in the rest of Europe?

AC: Well most of Europe is all private rented.

GP: I'm not sure if there's a market of entry there, we stand out head and shoulders above other countries as to how we treat properties. We can buy it as a commodity, we look to make profit on it whereas most countries you just don't get the market.

RS: London understands that it is the most liquid property market in the world.

AC: With Europe, the risk is we get the German regulatory regime in the UK just because they happen to have more weight across the country and clearly we are not the most Europe friendly

country in the Union and there lies the risk. We have very different markets intermediated much more significantly than Europe and home ownership is considered completely different.

Where is the potential for growth?

PE: From our side of things I think it's the property refurbishment. There's nothing on the high street that's filling that gap.

LL: Yeah I would agree from the development finance space so the small end developers there's just absolutely nothing out on the mainstream market. It's still very closed.

PB: Part of the reason we've positioned our self in the bridging market is effectively our product is a short-term loan but against something which isn't bricks and mortar. You've got the small build-up or developer who just can't get the finance they need.

GL: Good growth is just going to come from those people who are adding value so it will be those clients who are looking to do developments, do refurb, add value to a portfolio that type of thing. That's where the growth is probably going to be in this marketplace, it's not going to be the regulated lending or our new weird and wacky way of lending but it's going to be those people that are actually looking to increase the value of their investments by either buying more property or buying property to add value straight away through the refurb and looking at the development side of things. ■

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