KINNISON
PROPERTY FINANCE EXPERTS

Mortgage Market Update – COVID-19 Questions Answered

In such unprecedented times many of us are feeling the financial and emotional strain of 'lockdown'. Given the uncertainty of when life will return to the 'new normal' many are reviewing their finances.

Are banks lending at the moment?

Many banks/lenders are certainly keen to receive new mortgage applications and continue to issue mortgage offers. However, they are experiencing staffing issues and are under considerable pressure processing mortgage payment holidays, hence the process may take slightly longer than normal. You may have heard of mortgage lenders "withdrawing from the market", but for most this was only very temporary as they reassessed their position, took the recent Bank of England base rate cuts into account, considered the impact to borrowers of some of the government business support initiatives for employees and re- launched new products into the market.

Are valuations happening during the lockdown?

Many lenders are using something called a "Desktop Valuation" where they look at recent sales data and use algorithms to estimate the property value. Until now, these were used for very low-risk applications, typically with a large deposit (so a low loan-to-value ratio), but lenders are exploring ways to expand this capability in order to carry out more business whilst managing their risk. Where a lenders' internal policy requires a physical valuation (eg high loan-to-value, new build properties) some are issuing 'agreements in priniciple' until valuers can leave their own homes to carry out the valuations.

My initial mortgage rate will end in 2020. What options do I have now?

At the end of the 'initial' mortgage term the interest charged on a borrower's mortgage should revert to the lenders' Standard Variable Rate (SVR). SVR is the interest rate that a lender chooses to apply to mortgages, typically when a customer's fixed rate or tracker rate ends. Quite often the SVR will be higher than the rate of interest during the initial mortgage term and hence monthly payments are likely to be larger than during the initial mortgage period. You should not feel helpless and can certainly start working towards securing the right mortgage for your personal circumstances. You can start by speaking to your existing lender to ascertain which alternative products maybe available to you. You can also start to speak to and make a formal application to other lenders who may provide you with a formal mortgage offer or an 'agreement in principle'.

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How can I reduce my outgoings during this period?

Now is a good opportunity to spend some time reviewing your cash flow and setting yourself a monthly budget (if you haven't already). Go through your last 3 months bank statements and split your outgoings into committed expenditure (outgoings that will not stop e.g. council tax, utility bills, mortgage payments, loan payments, credit cards, insurance etc.) and lifestyle expenditure. Look at what lifestyle habits you are able to cut back on slightly e.g. if you are a foodie - it may be a case of spending less on takeaways/deliveries as we have more time to try home cooking, if you like to unwind with some wine - reduce consumption to a glass or two, retail therapy/Amazon - whilst we are in lockdown there is the tendency to spend more online, however unless it's essential set yourself a budget on this spending too. If after cutting back on lifestyle expenditure you still need to reduce outgoings, you can look at taking payment holidays on your mortgage and unsecured debt. You will need to speak to your lender to obtain approval before reducing/stopping your payments, however be aware after your payment holiday/s your monthly repayments and outgoings may increase in the future.

Am I eligible to take a payment holiday for three months?

You are eligible if you are a homeowner (with a current mortgage not already in arrears), and are concerned about your ability to meet your monthly mortgage payments. Your lender should not ask for proof that you have been financially affected by COVID-19. If you are a landlord whose tenants have lost income because of the impact of COVID-19 you may also apply for a payment holiday. This is on the understanding that you are expected to pass on this relief to your tenants to ensure that they are supported during this time. Similar to residential mortgages, you must be up to date with your payments and not in arrears. You may be required to self-certify that you tenants' income has been impacted and that you are having difficulty paying the rent due to COVID-19. If you are currently in mortgage payment arrears you may be able to agree with your lender a mortgage payment holiday. However, each lender will have their own policy on this.

If I take a payment holiday will it affect my ability to get a mortgage after COVID-19?

The government, through the Financial Conduct Authority (FCA) have issued guidance to lenders requesting that lenders should ensure that taking a mortgage payment holiday **does not** affect a borrowers' credit score. At this early stage it is too difficult to ascertain what future policies lenders will introduce that may impact your ability to secure a mortgage.

Can I still get a mortgage if I've been furloughed?

Yes. However, lenders will assess affordability based on 80 per cent of basic income up to a maximum of £30,000 gross per year. This may reduce the amount you are able to borrow. Where top-up income is being paid by your employer, the affordability will be based on the level of income received. Documentary evidence will be required to validate both furlough and top-up income.

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I've been made redundant but my employer says they will hire me back. Can I still get a mortgage?

Unfortunately, if at the time of applying you are redundant you will be unable to get a mortgage. As soon as you restart employment and are able to provide appropriate documentary evidence you may apply.

If you are currently looking for a residential mortgage, to refinance your existing mortgage, or would just like to discuss your personal position and current options please contact the Kinnison team at www.kinnison.finance or directly at e: info@kinnison.finance ; t: +44 (0)20 3871 2823

The above information is our understanding of the position as at 16th April 2020. Both the government and lenders are introducing changes on a regular basis.

Your home or property may be repossessed if you do not keep up repayments on a mortgage or any debt secured upon it.

Through our partnership with the ICAEW we have a dedicated mortgage advisory service for ICAEW members, through Kinnison Limited, offering our bespoke service at a significantly discounted fee structure.

For mortgages below £750,000 our typical fee is £498 (£199 payable on application and £299 on completion). For more complex cases and mortgages above £750,000 our typical fee is up to 0.6% of the mortgage amount. Of this, 20% is payable when you receive your mortgage offer and the balance of 80% on completion. For example on a mortgage application of £800,000 the fee would be £4,800 in total. Of this, £960 (20%) would be payable on issuance of your mortgage offer and the balance of £3,840 (80%) on completion. The total fee is non refundable. We may also be paid commission from the lender.

These fees apply to mortgages regulated by the Financial Conduct Authority. The Financial Conduct Authority does not regulate most buy-to-lets, commercial lending and some bridging finance. Fees for non-regulated mortgages will vary depending on your requirements and individual circumstances.

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