Why now is time to talk about Remortgaging

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The impact of policy changes made five years ago, as well as more recent measures introduced in response to the Covid-19 pandemic present well-timed opportunities for brokers to discuss remortgage options with their clients.

Industry data highlights how the incentive offered by the Stamp Duty holiday created surges in buying activity that were followed by dips- mortgages written for buy-to-let purchase totalled £2.8bn in June, a figure that fell to £800m in July and £1.1bn in August. A further £2.1bn was written for buy-to-let purchase in September, with post-Stamp Duty purchases of £900m recorded in October - this suggests that some buyers brought forward their planned sales in order to take advantage of savings. As a result, some brokers may be experiencing a slowdown in purchase activity but remortgaging offers an alternative source of business.

And it is not just the absence of Stamp Duty savings that may be stopping landlords from responding to the strong tenant demand seen over the past year, recent research from ARLA Propertymark highlights how there is an average of 29 buyers for every property available on the market.

Perhaps a symptom of this shortage of stock, at TBMC we've recently seen an increase in enquiries from landlords who are looking for finance to either improve their existing portfolios, maybe making them more energy efficient ahead of the proposed changes to EPC requirements I wrote about recently, or to purchase properties in need of renovation before being let to tenants.

Although the number of loans available to borrowers has increased after many lenders withdrew their offerings to mitigate the increased risk brought about by the pandemic, it seems as though the refurbishment subsection of the market is one that is currently underserved.

Remortgaging against one or more properties that a landlord currently owns can be a cost-effective way of raising funds in the absence of suitable products. This is especially true considering that many re-mortgage deals are offered with free valuations and legal fees, meaning there are limited upfront costs.

The competitiveness of today's market means that rates are still low despite the Bank of England's recent decision to raise the base rate of interest by 0.15% to 0.25%. With inflation forecasted to continue its ascent, further base rate increases are expected so borrowers would be wise to beat the central bank to the punch and lock into a new fixed-rate mortgage.

And it's not just the current low rate environment that should have remortgaging on brokers' radars; next year will see a swell of 5-yearfixed rate mortgage mature.

This is because in 2017 the Prudential Regulation Authority(PRA) introduced new rules to reduce the risk of investors becoming too highly geared, as was the case in the lead up to the global financial crisis.

The PRA's new underwriting standards required lenders to take a more comprehensive view of a landlords' property and business activity, something that was not routine as some lenders relaxed criteria in response to the demand for buy-to-let mortgages that had been rising since the turn of the new millennium.

A key aspect of the standards was the introduction of a minimum affordability calculation. Signalling a shift away from the previously tenure neutral policy, Government changes that were effective from April 2016increased landlords' tax burden. These updated overheads were required to be considered, alongside a minimum stressed interest rate, when assessing whether a borrower could afford mortgage repayments.

To take into account the benefits to the customer of rates being locked in for longer terms, mortgages fixed for five or more years were generally subject to a lower stressed rate. When combined with a shift towards fixing for longer in anticipation of increasing rates, this boosted borrowing over five-year terms – according to industry data, 3,008 five-year fixed rate mortgages were written in December 2016. This number increased to 4,167 the following month, on its way to hitting 10,717 in January 2018.

While the Omicron variant has reminded us that the sector still needs to be ready to respond to changes that impact the market and wider economy, the year ahead of us does appear to bring with plenty of positives and opportunities to support customers in providing much needed homes.