GROWING COMPLEXITY:

The rise of the specialist customer

For our second market-focused webinar of the year, we looked to brokers for what topics they wanted us to cover, and popular demand was the changing customer circumstances with the current cost of living crisis. We ran a poll across LinkedIn, asking our connections which area of the specialist market they believe they will see the highest growth in this year. Nearly 100 responses revealed that 42% of brokers believe adverse will be the biggest specialist growth area this year, while 26% believe affordability will play the biggest role, 16% believe self-employed will be the biggest growth area, and 16% think green mortgages will see the biggest rise.

These results laid the foundation for exploring in our webinar, in which I was joined by Alex Maddox, Capital markets and Digital Director at Kensington Mortgages, Shelley Walker, Senior Mortgage Broker at The Mortgage Mum, Greg Cunnington, Chief Operating Officer at LDN Finance, and Frances Cassidy, Head of National Accounts at Kensington Mortgages.

Market Update
To kick things off, Alex Maddox shared an update on inflation and the impact it's had on interest rates and the property market.

The Bank of England has raised the base interest rate 11 times since December 2021 in an attempt to combat rising inflation in the UK. The Bank of England base rate now stands at a record 4.25%, which hasn't been seen since 2008. But there are signs that the inflation rate may be coming down. Forecasts vary, with some experts predicting inflation to drop to 2% within the next 12-24 months, while others estimate it is more likely to fall to between 4% and 5%. Such high rates will come as a shock to many younger mortgage customers and first time buyers – particularly as the cost-of-living crisis remains a key concern for UK consumers and lenders. This 'shock' among those new to the market is supported by recent research from Uswitch around how younger customers are 50% more likely to take out a tracker rate mortgage than a customer with more home owning experience.

The rise in interest rates has led to a sharp increase in mortgage rates over the last few months – but these are also now slowly coming down. We have seen a notable increase in the percentage of customers taking up longer fixed-term mortgages, and we can expect this to continue as customers look for stability in a volatile macro environment. Swap rates are still well above where they were in 2021, but hopefully as inflation drops, we may see them coming down slightly, as they have recently begun to rise again.

The rise in interest rates and lower mortgage availability, combined with the cost-of-living crisis and a weakened housing market, has led to lower sales and lending activity in recent months. The good news is that house prices look set to recover, and mortgage performance remains resilient, with early and late-stage arrears both remaining at historic lows despite customers feeling the effects of higher living and mortgage costs.

The rise of the specialist customer
In our panel discussion, Shelley Walker, Greg Cunnington and Frances Cassidy joined me to discuss how the cost-of-living crisis is impacting customer needs. This year, the debt charity StepChange revealed that they had seen a 38% increase in customers calling them to discuss concerns about their debts and finances.

This figure resonated with Shelley, who has noticed an increase in customers expressing concerns about credit blips and debt consolidation. Greg, meanwhile, told us that LDN Finance recently set up specialist team in response to customers' shifting financial needs. The silver lining here, our experts agreed, is that customers are mostly not experiencing heavy credit issues, but one-off missed payments. To help brokers support their customers, Kensington has increased the amount for a utility default that we'll accept up to £250 whilst continuing to ignore all communication defaults,and can consider remortgage up to 90% LTV for debt consolidation.

Research by Kensington Mortgages shows that employed workers only have an average of 31 days' worth of savings, whereas the self-employed have six months' worth. Lending to customers with more provisions is a no brainer – but around 40% of self-employed buyers won't approach a lender or broker out of fear of being rejected. Our recent acquisition by Barclays is enabling us to navigate this access challenge to further help self-employed workers.

The uncertain economic landscape has caused many homeowners to review their options, and so we have seen a significant increase in product transfer and remortgaging activity this year. Our panel agreed that brokers and lenders must take this opportunity to outline the benefits that these options bring to customers - helping people see the value of looking around, even if it seems like the easy option is to stay put. Frances noted that Kensington's product transfer process has been hugely successful since it launched last year, having supported 870 transactions to date.

Finally, we discussed the challenge of encouraging more first-time buyers to use brokers. Research by Statista Research Department, shows that 70% of first-time buyers used a mortgage broker last year, in comparison to 83% of the rest of the market. Our panel agreed that the end of Help to Buy and a shortage of support for initiatives such as shared ownership might be driving the reluctance among first-time buyers to use a broker.

Shelley believes this is a trust issue, and that it is down to lenders and brokers to educate people and ensure people get the support they need. Social media presents an exciting opportunity to do this in new and innovative ways, while appealing to a younger audience. As do reviews, which 60% of first-time buyers prioritise when selecting their mortgage broker. Contacting your existing client base to help grow your review profile on Google and Trustpilot - and putting your scores on your website – will be key to attracting first-time buyers.

With affordability as a hot topic of our discussion, Shelley raised an interesting point around the LTI gap in different regions, supported by data released from UK Finance. In London for example, the average LTI required is 12x income, in the South East it's 9x income and if you are based up North like I am, its 6x income in Yorkshire. With these big challenges in the market, regardless of the north south divide, there are solutions available. At Kensington, our heroes mortgage offers up to 5x income for certain key workers, our young professionals range could offer up to 6x income for selected professions and our high earners criteria can offer up to 6x income of those with large household income. Even our long term fixed product, Flexi Fixed for Term, offers an affordability boost as we don't hve to stress test the rate and affordability. If you don't know about these products I would urge you to reach out to your local Kensington BDM.

Kensington business update
Frances reported that Kensington's service continues to be market leading, earning us a consistent score of 4.5 on Trustpilot. We have been offering day one reviews on new applications and new documents for 15 consecutive months, and we were proud to offer 43 cases in less than 48 hours last month.

Kensington is leading the way in service for lenders across the whole mortgage market –not just in the specialist market. We are proud to have maintained our service level throughout the turbulence of last year and to be continuing this into 2023.

My takeaways
This fascinating session left me feeling inspired, informed and optimistic. My key takeaway was that in such a complex and shifting market, the specialist customer will be more important than ever. As brokers and lenders, we need to make sure we are set up to meet our customers' changing needs – whether that's by changing the way we market our services or simplifying the remortgage process.

Finally, it's been encouraging to see demand return to the market following the lull that we experienced after the Mini Budget. It's been a long winter for many brokers – but the early signs of change are starting to emerge. I'm looking forward to the exciting opportunities that this will bring to create more flexible and innovative options for our customers and mortgage brokers.

Eloise Hall – Interim Head of National Accounts
Eloise joined Kensington Mortgages as National Account Manager in 2019, bringing a wealth of experience from both Leeds Building Society and Principality Building Society, and has worked with many accounts throughout the UK. Eloise has continued to grow Kensington's brand as an innovative and forward-thinking specialist lender and has won an array of awards since adopting the Interim Head of National Accounts role, including British Specialist Lender award for Lender: Business Development in 2021, Woman in Specialist Lending at Financial Reporter Women's Recognition Awards 2022 and Head of National Accounts at the 2022 British Specialist Lender awards.

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