enterprise FINANCE

SECOND CHARGE REPORT

NUMBER 3

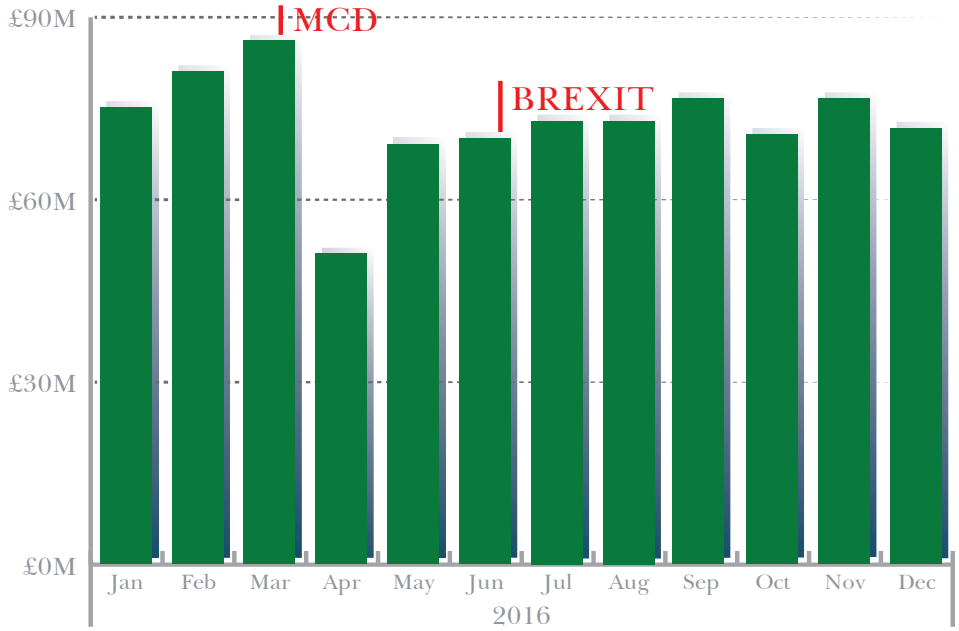
020 8731 5333
www.enterprisefinance.co.uk

RENEWED OPTIMISM FOR SECOND CHARGE MARKET FOLLOWING DISAPPOINTING 2016

THE HIGHLIGHTS

- Second charge market grew just 4% in 2016, compared with 34% growth in 2015
- Brexit and Mortgage Credit Directive (MCD) caused investors to take stock
- Positive economic outlook suggests stronger growth likely in 2017

SECOND CHARGE MONTHLY LENDING



HARRY LANDY
SALES DIRECTOR

of Enterprise Finance, said:

"Overall, 2016 has been a transition year for the second charge sector.

However, the market has shown its resilience, and we believe there is cause for optimism in 2017.

Firstly, the quality of second charge mortgages being issued now is much improved – something reflected in the fact that repossessions are down considerably compared to 2015.

And as more brokers begin to consider second charge for their clients, we expect that we will see growth pick up again."

The third edition of specialist master broker Enterprise Finance's Second Charge Report has found that the second charge mortgage market grew just 4%, year-on-year to December 2016, owing to disruption caused by the implementation of the MCD and the UK's vote to leave the European Union.

The report – drawing on data from the Finance and Leasing Association (FLA), Enterprise Finance's expertise and wider market input – analyses the market's behaviour in 2016, with a particular focus on the latter half of the year. It found that the first few months of 2016 started off strongly, continuing the rapid growth trajectory that typified the sector's performance in 2015. Indeed, in the run-up to the Mortgage Credit Directive (MCD) implementation in March, the second charge market actually hit record lending figures, posting £86m for that month alone.

However, running counter to predictions that the MCD regulations would further this growth trend – as a result of brokers now being compelled to present second charges as an option to their clients – the immediate effect of its implementation was one of disruption. Indeed, March's record high was followed by a 41% reduction in April at £51m.

Although the sector began to show signs of recovery after this low, the UK's decision to leave the European Union proved another disruptor, causing investors to take stock and harming the market's recovery.

The final months of the year saw the market continue with its recovery, but not at the exceptional level of the growth forecasted by some, pre-MCD. Total lending for December 2016 was £874m, 4% higher than December 2015, but the lowest since January (£864m).

The rate of market expansion decelerated steadily throughout the second half of 2016 with 12 month year-on-year growth falling from 24% in June to 4% in December. Meanwhile 12 month month-on-month growth ranged from 1% to -1% from March onwards.

Interestingly, there was a significant fall in the number of second charge mortgage repossessions in 2016, dropping to 144, a fall of 37% from 2015. The rate of second-charge mortgage repossessions, as a percentage of average outstanding agreements, has fallen from 0.34% in 2009 to 0.07% in 2016. These factors reflect the progressive increase in quality of second charge mortgages being written over the last 6 years – a trend which the structured advice regime of the MCD will reinforce.

Indeed, in the second half of 2016, the average LTV of second charge mortgages written by Enterprise was just 57%, with a typical £60,000 loan sitting behind a £235,000 first charge mortgage. These figures are very similar to our 2015 experience, indicating that the

quality of second charge lending, to prime credit clients has held up through MCD implementation.

Despite the overall slowdown in growth, the market has shown its resilience and held up well considering the macroeconomic context, most notably the uncertainty created by the Brexit vote. Many had predicted that a vote to leave the European Union would spark an immediate downturn in the housing market.

Instead, what we have seen is a pause in activity for some investors as they monitored the situation. Given the better-than-expected performance of the wider UK economy in the months that have followed the EU Referendum and improved range and quality of products, we forecast that the second charge mortgage market will perform well in 2017.

MCD

The implementation of the Mortgage Credit Directive in March 2016 was predicted to prompt growth on second charge market volumes, owing to the fact brokers would now have to consider this option for their clients where appropriate. However, the immediate short-term impact of the MCD implementation was to disrupt the market.

The main positive change following the introduction of the MCD is that consumers are receiving better advice and having an experience of process that's in line with the first charge mortgage market which they know better. Further, a wider range of product options, such as fixed rates, trackers and discounted rates are coming to market, increasing the fit of products to borrowers' needs.

With reduced interest rates as low as 3.83% also coming to the market, second charge mortgages are an increasingly attractive option for borrowers. These are important steps forward, as the improved suitability of loans –leading to increased loan conversation rates – is creating better value for providers and consumers alike.

HARRY LANDY CONCLUDED:

"

The market is in a good place for the coming year, but the truth is that more brokers need to be aware of the benefits of second charge mortgages, as they are now a mainstream alternative to a remortgage or further advance.

They need to understand the role second charge mortgages can play for their clients.

Doing so will make sure they participate in the market and can unlock growth.

We will certainly be continuing our programme of broker education to deliver that outcome.

"

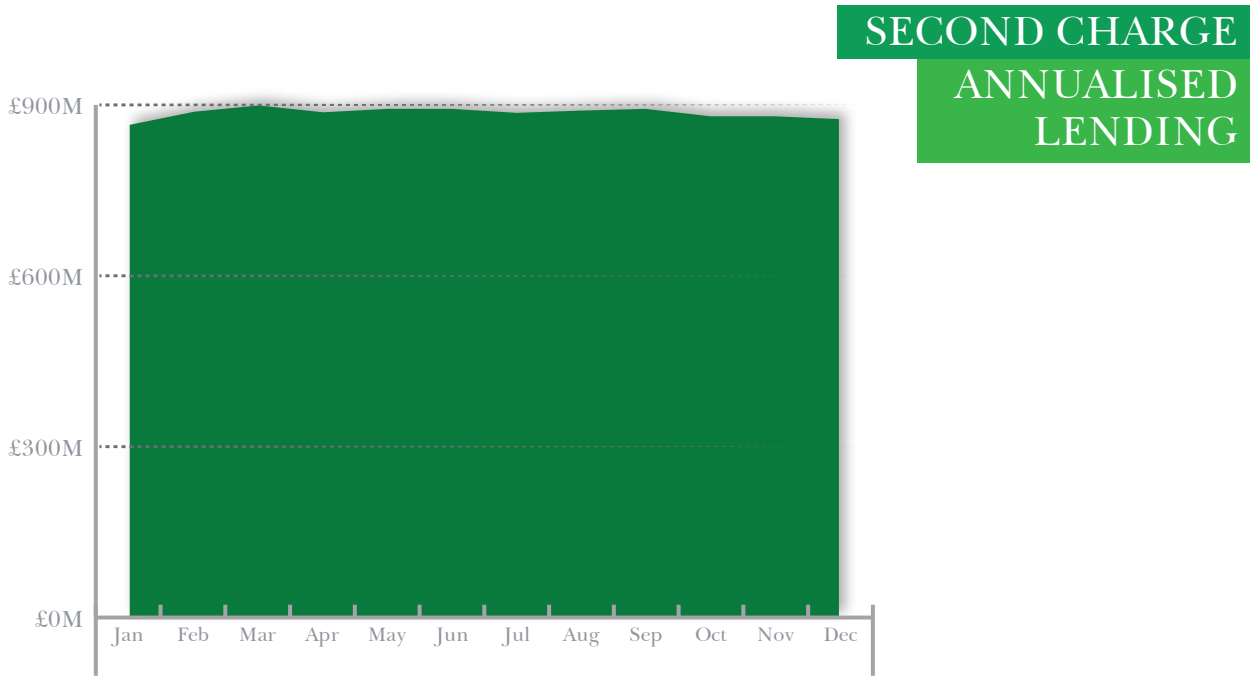
NEED FOR BROKERS TO CONSIDER THE BEST OPTIONS FOR CLIENTS

Best client options

So, despite contributing to a temporary dip in the market, we believe the implementation of the MCD has improved the reputation of second charge mortgages. And this can only be a positive for the sector.

What is imperative now is that brokers are made aware of all the mortgage options available for their clients, including second charge, and not only when regulations oblige them to. Indeed, those brokers who do not consider second charge mortgages when it is appropriate to do so are now in contravention of regulations post-MCD. This is particularly the case for Directly Authorised brokers who applied to the FCA to add second charge permissions to existing first charge permissions in their scope of services. They represent 40% of the DA community, yet the market hasn't expanded in line with this growth in distribution potential.

One practical solution to increasing awareness is focussing on driving better broker engagement. Education will increase brokers' understanding of all the mortgage options, as well as dispel some historical misconceptions that still exist, for example that second charge mortgages are high cost options only suited to sub-prime clients. This will make brokers the drivers of market growth. Improved understanding will further raise the confidence brokers have in the second charge market, and help to bring the sector further into the mainstream as a legitimate, reliable and helpful way for clients to free-up equity in their properties when first charge options aren't suitable.



ABOUT ENTERPRISE FINANCE

Enterprise is a multi-award winning master broker specialising in the safe distribution and packaging of secured loans, bridging finance and commercial mortgages and was established in 2002.

It is widely recognised as one of the largest and most innovative providers of broker services in the UK and its services are offered to many of the UK's major networks. Its network partners include Openwork, Intrinsic, Tenet, HLPartnership, Sesame Bankhall Group and The Right Mortgage and Protection Network, as well as a large percentage of the directly authorised community.

Since its incorporation, it has sourced and managed more than £800m of second charge mortgages, bridging finance and commercial mortgages.

In 2014, Enterprise Finance was named the 15th fastest-growing company in the UK according to The Sunday Times / BDO Profit Track 100 programme and was ranked in The Sunday Times / Virgin Fast Track 100 for 3 consecutive years, 2015-2017.

Enterprise Finance would be grateful for any hyperlinks you could provide. For ease, we've provided these links: Enterprise Finance, secured loans or, preferably, commercial mortgages which you can copy and paste directly into the articles.

Enterprise Finance Ltd is authorised and regulated by the Financial Conduct Authority. Firm Reference Number: 302964. Certain types of loans are not regulated, for example loans for business purposes or certain buy-to-lets.

Enterprise Finance Ltd is registered with the Information Commissioners Office. Registration Number: Z6765361

Enterprise Finance Ltd is registered in England and Wales. Company Number: 04440152. Registered Office Address: 3rd Floor, Premiere House, Elstree Way, Borehamwood, Hertfordshire. WD6 1JH.

NOTES FOR EDITORS

MEDIA CONTACTS:

Matt Jamieson,
Teamspirit PR,
020 7360 7829 / 07875 842112

Emily Rushgrove,
Teamspirit PR,
020 7360 7839 / 07464 985128

Enterprise Finance Sales Director Harry Landy is available for comment on a variety of industry-related topics. Please get in touch for more information.

The Enterprise Finance Second Charge Report is devised using a combination of data from the Finance and Leasing Association, with Enterprise Finance's own management information and data from other market sources.