enterprise FINANCE

SECOND CHARGE REPORT

NUMBER 2

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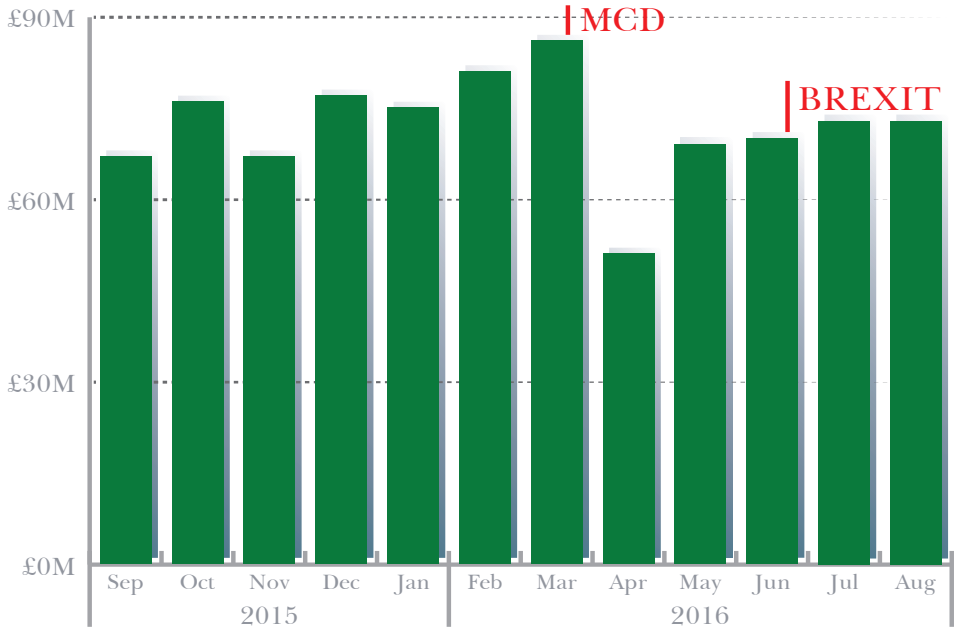
BREXIT SHOCK FAILS TO KNOCK SECOND CHARGE LENDING RECOVERY OFF TRACK

THE HIGHLIGHTS

- Second charge sector continued to shake off post-Brexit troubles, with new business volumes in traditionally-quiet August up 6% on 2015
- Growth follows strong recovery after the implementation of the Mortgage Credit Directive implementation
- Sector seeks to capitalise on fall in base rate

SECOND CHARGE MONTHLY LENDING



HARRY LANDY
SALES DIRECTOR

of Enterprise Finance, said:

"It remains to be seen what the full impact of the vote to leave the EU will be on the second charge market, and the property market as a whole.

Nevertheless, second charge lending actually increased between June and August, and data from the Council of Mortgage Lenders showed a similar growth in the level of remortgaging in that period, reinforced by the Bank of England's latest data release. While would-be buyers may well be less inclined to purchase, homeowners have clearly not been deterred from accessing some of the excellent rates on the market – whether for second charge or remortgage borrowing.

The Referendum's fallout hasn't come close to that of the last recession, which caused a severe liquidity crisis and a huge tightening of risk appetites. Since the vote we have seen deals continuing to go through un-impeded – which the latest data from the FLA backs up."

The second edition of specialist master broker Enterprise Finance's Second Charge Report reveals that the second charge mortgage market has taken post-Brexit uncertainty in its stride, with new business volumes in the traditionally quieter August matching July, and 6% higher than the same time last year. The report – drawing on data from the Finance and Leasing Association (FLA), Enterprise Finance's expertise and wider market input – analyses how the market behaved between May and August, covering both the aftermath of Britain's vote to leave the European Union and bounce-back from April's dip following the implementation of the European Mortgage Credit Directive (MCD)

The UK's vote to leave the European Union on the 24th of June was arguably the biggest political event of a generation. The shock of the Leave vote had severe short-term immediate economic impacts, with Sterling and the FTSE both sliding.

However, in July the total value of monthly second charge lending actually increased by 4% from £70m in June to £73m, post-Vote.

This continued the momentum from May and June's post-MCD rebound. Compared to a year earlier, July's total is comparable with the £74m observed by the FLA in July 2015.

Moreover, August's total also of £73m, 6% higher than August last year, continued that rebound.

On an annualised basis, the market has consolidated at just under £900m (£889m in the 12 months to August) of gross lending after a period of prolonged growth through 2015.

This flattening reflects the period of MCD-related market restructuring, but it also puts the industry on a stronger footing for sustained, longer-term growth in future.

The second charge market is in good health, though it's too early to tell what the long-term effects of Brexit will be on the rate of growth, with months of exit talks and trade deals yet to come.

There are several reasons why the outcome of the Referendum failed to dent an increase in second

charge lending. The economic uncertainty resulting from the vote may have encouraged more borrowers to consolidate their debts, to make their payments more affordable and to avoid potential future shockwaves.

Ahead of the referendum, consumers were increasingly dependent on unsecured debt as a source of finance, with Bank of England figures showing consumer credit had risen £1.3bn month-on-month in April.

With many borrowers already looking to secure their debts, to reduce interest payments and make monthly outgoings more affordable, some additional customers will have taken the uncertainty as a prompt to seek out a this option.

Further, with falls in available interest rates being a feature of the market over the summer, second charges became more attractive options in July and August, and this will continue as rates below 4% have arrived on the market.

Additionally, some homeowners have been deterred from moving house following the Leave vote, somewhat moderating continued growth in residential house prices. As comparethemarket.com survey data recently showed, more people are staying put and investing in home improvements instead. They may then sell in future when the outlook is clearer.

Home improvements are one of the most popular reasons for taking out a second charge mortgage, so this trend has supported the month-on-month growth of second charge mortgages.

HARRY LANDY CONTINUED:

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The MCD’s implementation required lenders in the second charge market to make serious operational changes. The industry was therefore expecting a slowdown in lending during April.

What the latest report makes clear, however, is that lenders were able to come back swiftly from MCD, with gross lending seeing a sharp increase in May as a result of pipelines being rebuilt.

The value of lending over the past 12 months is now significantly higher than it was a year ago, as the second charge sector continues to build on its momentum and challenge conventional remortgaging.

The MCD regulations have ultimately made the sector more efficient and suited to meeting its customers’ needs. Conversion rates are on the up, as brokers become more confident in recommending second charge mortgages for their customers.

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BANK OF ENGLAND BASE RATE FALLS LIKELY TO BENEFIT SECOND CHARGE MARKET

HARRY LANDY CONCLUDES:

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The second charge mortgage market is in a position of strength with the year-end on the horizon.

The industry has adapted well to the challenges that the Mortgage Credit Directive has presented, and is now in much better shape as a result.

Demand for second charge mortgages remains high as a result of underlying consumer needs, and is likely to increase further as a result of the cheaper deals which are trickling onto the market, following the cut to the base rate.

The ongoing Brexit talks mean that there is little macroeconomic certainty, and further shocks are still a possibility.

However, the second charge market is in good health and is robust enough to deal with these if and when they arise.

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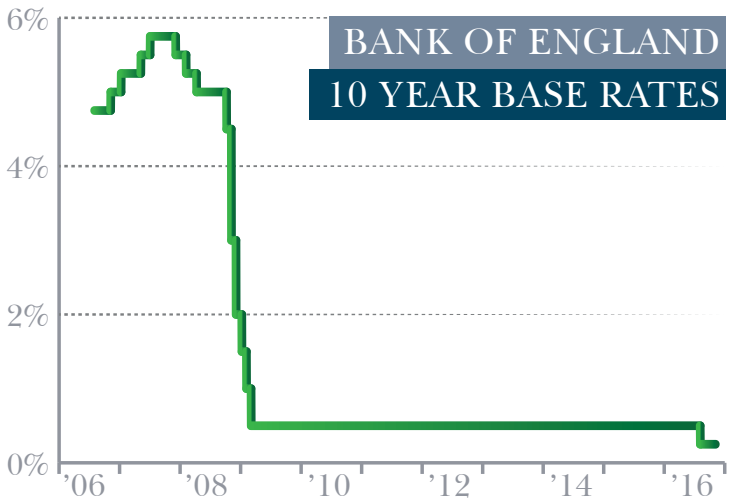
The Bank of England's decision to lower the base rate to 0.25% in August could give the second charge market a further boost in coming months.

In search of greater stability in the wake of the Referendum, the Bank of England decided to lower rates to a new record low. The reduced base rate, along with a raft of other new measures designed to encourage lending like the Bank's Term Funding Scheme, should make it cheaper for lenders to borrow money and facilitate their onward lending.

This is already making second charge borrowing even cheaper, with rates under 4% coming to market. This will both benefit the consumer and increase activity in the sector.

Indeed, the swiftness with which second charge mortgage rates have fallen in recent years increases the opportunity for those with existing second charge mortgages to remortgage their second charges and benefit from reduced rates, further boosting activity.

There is intense speculation that the Bank of England may choose to lower the base rate even further before the end of the year. If this was the case, second charge lending could be boosted once again.



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 in 2015 was ranked 22nd in The Sunday Times / Virgin Fast Track 100.

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.

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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.