

# A broker's essential guide to Second Charge mortgages



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## Introduction

As one of the UK's largest specialist finance distributors of Second Charge mortgages, Enterprise Finance understands your biggest challenges when it comes to approaching and sourcing these specialist loans for your clients.

That's why we've created this short introductory guide to help you on your way. Inside you'll find everything you need to know, from what exactly a Second Charge mortgage is, right through to how to place one. By the end, you'll have much clearer understanding of Second Charge mortgages so you can make better decisions for your clients.

# What is a Second Charge mortgage?

In a nutshell, a Second Charge mortgage is a secured loan that allows the borrower to use equity in their existing property as security for the lender. The primary mortgage taken out by a borrower is known as a “First Charge”, so these secondary mortgages are referred to as “Second Charges”.

In the past, Second Charge mortgages had a negative reputation as a high-risk, high-rate and heavily subprime option. But this all changed in March 2016 with the introduction of the European Mortgage Credit Directive (MCD), designed to enforce responsible lending.

Today, Second Charges are well-known for offering competitive rates at a small premium to First Charges. With an average loan-to-value (LTV) of 59%, lending is prudent and based on full affordability and income checks. The time from application to completion is often just weeks or even days. And they're fully transparent and regulated by the Mortgage Conduct of Business (MCOB), with clear terms that treat customers fairly.

**It's very important to bear in mind that Second Charge mortgages are subject to the same MCOB rules and regulations that apply to First Charge mortgages.** So even if you don't have Second Charge permissions, you must still tell your clients these loans exist and that they could be an ideal solution for them.



## Second Charge mortgage product reference\*

- ✓ Interest rates from 3.57%
- ✓ Fixed rates available with no extended tie ins
- ✓ £10,000 to £2 million lending criteria
- ✓ Up to 100% loan-to-value (LTV)
- ✓ Buy-to-let (BTL) Second Charge mortgages up to 85% LTV
- ✓ Impaired credit loans up to 75% LTV
- ✓ Five to 30-year terms available
- ✓ Two to four-week completion average, but can be done in a matter of days
- ✓ No costs incurred until completion
- ✓ Interest-only and repayment options may be available
- ✓ Equitable Charges available when your First Charge lender does not consent to the Second Charge
- ✓ Most legal purposes considered, including repayment of personal and business-related tax bills

\*These product criteria are available with Enterprise Finance as of October 2019.

**“Every contact with this company was professional and helpful. Fully explained all options and provided great updates along the way. Would recommend.”**

Trusted Customer



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## When might you recommend a Second Charge mortgage?

In this section you'll find three recent case studies from Enterprise Finance. These illustrate some typical lending scenarios we see for Second Charge mortgage applications: namely home improvements, debt consolidation and additional property purchases.

## Home Improvements

### £35,000 to fund home improvements

Mr. B wanted to transform his property from a 2-bed to a 3-bed house. He also needed to replace the roof, rebuild the staircase and convert the loft into a bedroom with an en suite bathroom.

Here's an overview of the financial products available to fund his project:

#### Further Advance

- Can take up to 6 weeks just for the initial appointment with an advisor
- Their lender may not allow further advances
- They will be subjected to the same restrictions as the primary mortgage. Typically, the maximum mortgage loan for most borrowers is 4.5 times their income, with many forms of income not acceptable (benefits, tax credits, etc).
- Their broker will not receive commission as a further advance requires an advised sale

#### Remortgage

- In this case, their existing mortgage will incur an Early Repayment Charge (ERC)

#### Second Charge mortgage

- Doesn't affect the existing first charge mortgage, avoiding any changes to the mortgage and its interest rate
- Avoids ERCs
- Their broker will receive commission of 1% to 5% of net loan amount, depending on product provider

#### Outcome:

We helped Mr. B fund his home improvement project with a £35,000 Second Charge mortgage, completed within just 7 days of us receiving the application.

## Debt Consolidation

### Consolidating credit card debt of £47,885

With average monthly repayments of £1,120, Mr & Mrs P's accumulated debt was taking up all of their disposable income. The high interest rates on their credit cards meant they could only afford the minimum payments and were not reducing the debt balance.

Here's an overview of the financial products available to consolidate the debt:

#### Further Advance

- Their lender won't lend additional funds solely for debt consolidation

#### Remortgage

- Their existing mortgage will incur an ERC of £6,792

#### Second Charge mortgage

- Doesn't affect the existing first charge mortgage, avoiding any changes to the mortgage and its interest rates
- Avoids ERCs
- Their broker will receive commission of 1% to 5% of net loan amount, depending on product provider

#### Outcome:

We recommended a 5-year fixed rate Second Charge mortgage at 5.05%, with repayments of £389.36 per month. There were no ERCs on the Second Charge, so the couple would have the option of overpayments.

Mr. & Mrs. P completed the application forms that very same day. The case was then completed in just 4 days, lifting the pressure almost immediately. By consolidating their debt, they reduced their outgoings by £731 per month and £9,943 in total cost of credit.

## Additional property purchases

### £32,000 for a deposit on a BTL property

Mr L already had a BTL property and wanted to use that property as security to take out further finance. As the purchase was a time-sensitive opportunity, Mr. L needed to act fast to secure the property, as well as keeping his costs as low as possible.

Here's an overview of the financial products available to fund his project:

#### Further Advance

- Can take up to 6 weeks for an initial appointment with an advisor, which would cost the client the opportunity

#### Remortgage

- Remortgage requires an advised sale and would likely not be quick enough for Mr L to receive the needed funds
- A remortgage may incur an ERC

#### Second Charge mortgage

- Average completion time of 2 to 4 weeks with Enterprise, but often done in just days
- Doesn't affect the existing first charge mortgage, avoiding any changes to the mortgage and its interest rates
- Avoids ERCs
- Their broker will receive commission of 1% to 5% of net loan amount, depending on product provider

#### Outcome:

Mr. L received a £32,000 Second Charge BTL mortgage in just 12 days. Not only was the client able to secure the property, but the monthly repayments of £230.28 made the mortgage a cost-effective solution compared to alternatives.

**“Enterprise are very good to work with, they are knowledgeable on the products and will come up with a solution to help the client. Always recommended.”**

Simon ★★★★★

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# How can you spot opportunities for Second Charge mortgages?

Second Charge mortgages can be used for almost any legal purpose, making them a versatile capital-raising option. But one of the biggest challenges our intermediaries face is identifying when a Second Charge could be the best solution for their clients. This is a particularly common problem for those of you who don't have much experience with specialist finance.

So, when would a Second Charge mortgage be a better alternative to a further advance, remortgage or unsecured loan?

## It could be when the client:

- Needs to raise capital quickly
- Has a bad credit rating
- Wants to avoid paying an ERC on an existing mortgage
- Has a very low interest rate on an existing mortgage and doesn't want to lose it by remortgaging
- Is self-employed
- Needs to borrow more than the maximum limit of an unsecured loan
- Has had an unsecured loan application declined
- Cannot get a further advance from their existing mortgage lender
- Wants the money for something traditional lenders won't allow for, like debt consolidation, business funding, tax bills, school fees or raising a deposit for an investment property
- Wants to carry out home improvements

**In the next section, we'll provide you with our top tips on how to execute your Second Charge proposal effectively and professionally.**

# How do you place a Second Charge mortgage?

Knowing the key steps to placing a Second Charge mortgage should make it much easier for you to approach placing your first one.

Here's how you can prepare for placing a Second Charge mortgage by working in partnership with a Specialist finance distributor like Enterprise Finance. As you'll see, we can do a lot of the heavy lifting for you.

## Stage 1

### Client enquiry for raising capital

The first step is to listen to your client's needs and review their First and Second Charge options. If you feel a Second Charge would be most suitable, inform the client you're referring them to a specialist finance distributor, but that you'll still be in touch throughout the process. Then make the referral to Enterprise Finance.

## Stage 2

### Advising: initial contact

At this point we'll typically work directly with your client to take them through the advice process. We'll identify the best Second Charge product for them, before carrying out initial suitability assessments and explaining the indicative terms to the client. We'll keep you in the loop as much as you want.

## Stage 3

### Advising: fact-find and sourcing

Next, we'll conduct a fact-find with the client. We'll ask them to supply the specific information required for a Second Charge and reassess their case based on this. Then we'll source and confirm the product that's the best fit and explain its terms.

## Stage 4

### Packaging: processing

We'll start the packaging process by sending the paperwork to the client, including the European Standardised Information Sheet (ESIS) and checklist of supporting documents. Once we've reviewed the returned paperwork, we'll instruct a valuation and request consent from the First Charge lender.

## Stage 5

### Packaging: submission

Now we're ready to package the case and submit it to the lender. They'll review and underwrite it, requesting any additional information or actions required. They'll also conduct a security call with the client and confirm their details.

## Final stage

### Completion

We'll prepare the binding offer and get this signed by the client before sending it to the lender. Once completion is confirmed, your client will get the funds. We'll then pay you (and your network, if appropriate) an introducer fee within 48 hours.

## 6 top tips for placing a Second Charge:

- 1 Use plain English to explain to your client why a Second Charge can best meet their needs
- 2 Set your client's expectations in terms of involved costs, fees and charges
- 3 Make it clear to your client what documentation is required
- 4 Explain the importance of the client being transparent and providing complete information
- 5 Get upfront consent from the client to conduct credit checks\* and share their personal data with Enterprise Finance
- 6 Share your fact-finds with us to avoid the client being asked the same questions twice

\*Credit checks for Second Charges are different than for First Charges. We'll only conduct a soft search during the initial stages, with the hard search carried out by the lender at full application stage. The soft search won't leave a footprint, but the hard search will regardless of whether the loan completes or not.

## Document Checklist

- ✓ **Application form:** completed and signed, including affordability declaration and Direct Debit form
- ✓ **Employment details**
- ✓ **Borrower's Authority:** for First Charge lender reference
- ✓ **Proof of ID:** original passport or driving licence (photocopies not permitted)
- ✓ **Proof of address x2:** utility bill, bank statement, recent council tax bill etc.
- ✓ **Proof of income:** 3 months' payslips or, for self-employed, SA302 plus accountant's contact details



# Why and how can a specialist finance distributor help?

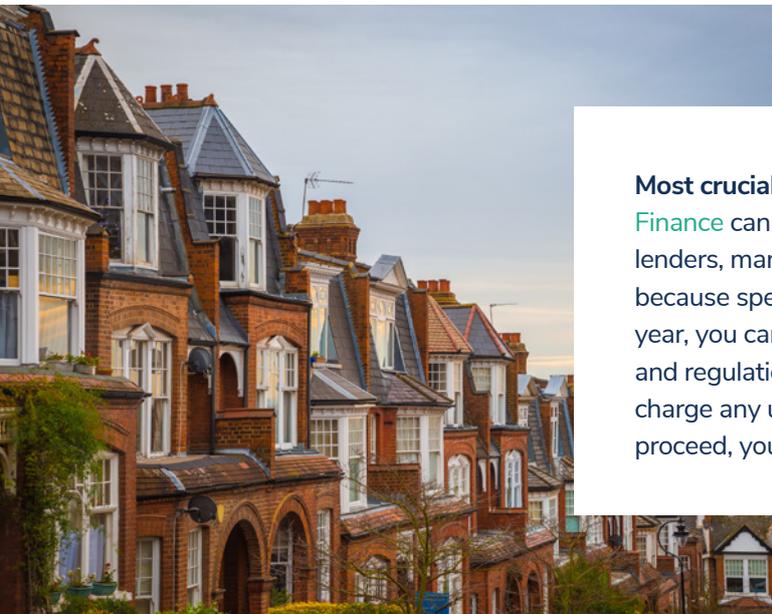
The MCD regulations mean Second Charge mortgages should be treated exactly the same as First Charges. So if you're an intermediary:



**With Second Charge permissions**, you must assess a Second Charge as an option and document evidence of why it is or isn't the best solution. If you feel it's the right option for your client, you can choose to use a specialist finance distributor to package the deal.



**Without Second Charge permissions**, you must still tell clients that the Second Charge option exists and that it may be the best solution for them. You can then choose to refer them to a specialist finance distributor, who can advise the client on Second Charges and take them through the process all the way to completion.



**Most crucially**, working with a specialist finance distributor like [Enterprise Finance](#) can give you access to a full range of specialist Second Charge lenders, many of whom work exclusively with specialist distributors. And because specialist distributors complete countless Second Charges every year, you can rely on them to expertly navigate the nuances, complexities and regulations of the Second Charge world. Enterprise Finance does not charge any upfront Second Charge broker fees – so if the case doesn't proceed, your client pays nothing.

“Excellent service provided by team till the completion. Kept us informed about everything in regards to the loan, also well explained by all the team. Many thanks to all the team. Definitely we will recommend to family and friends.”

Sharwan



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# About Enterprise

Enterprise Finance is the UK's largest specialist finance distributor for Second Charge mortgages, entirely dedicated to intermediaries. With extensive experience since 2002 and a wide panel of over 14 Second Charge mortgage lenders, we can help you find the best solution for your clients.

**Do you have any questions about Second Charge mortgages? Let us know.**

## More info

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