

REAL LIFE MORTGAGE LENDING

THE BROKER'S GUIDE TO A CLIENT'S FINANCIAL WELL-BEING



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INTRODUCTION

Financial well-being is the sense of security you feel from having enough money to meet your future needs. It comes when you have control of your day-to-day spending and finances, and have the freedom to make choices that let you enjoy life.

When it comes to the link between money and mental health, two major findings stand out:

- Half (46%) of people in problem debt also have a mental health problem.
- 86% of respondents to a Money and Mental Health survey of nearly 5,500 people with experience of mental health problems said that their financial situation had made their mental health problems worse.

The importance of financial well-being cannot be overstated, especially for vulnerable customers, and more and more businesses are taking note.

The Money and Pensions Service released a report in early 2019 calling on the whole retail banking sector to put customers' financial well-being at the centre of their corporate purpose.

Currently, nine million people in the UK are struggling with problem debt, 11.5 million do not even have £100 in savings, and a further 24 million people do not feel confident making decisions about financial products and services.

So what can be done?

It starts by placing much more importance on understanding the financial well-being of our customers, and seeing that being a broker offers a unique position of trust.

This guide is aimed at helping brokers gain that understanding, and position themselves to help borrowers find the product best suited to them, thus ensuring their future financial well-being is protected.



Money is a fundamental part of life and is central to people's health and well-being. A population that can manage their money and pensions well is essential, and the retail banking sector has a critical and central role to play in moving the dials for the UK population.

"It is time for the sector to take a much more proactive, holistic approach to financial well-being, shifting the balance from the cost of remediation to investment in prevention.

"We encourage the sector to work with us to develop and implement the changes needed to improve people's financial capability, as well as rebuild trust and confidence in financial services."

Sir Hector Sants, Chair of the Money and Pensions Service



HOW TO BUILD FINANCIAL WELL-BEING



Maintain a low debt-to-income (DTI) ratio

Mortgage lenders look at this to assess your ability to cope with repayments. Spending a lower proportion of your income on car loans or credit card debts boosts not only your resilience, but your chances at getting the mortgage you want. A DTI of no more than 45% should be a starting point.



Purchase adequate life insurance

It's impossible to overstate the value of protection. Should the worst happen, this can not only help you cope with a change in lifestyle, but help your family adapt without necessarily taking on a financial burden.



Maintain an emergency fund

As a rule of thumb, try to build a financial cushion of at least 3 months' essential outgoings available in an instant access savings account. This means if you lose your job, you have the money to pay for bills, housing and food for that period.



Increase your knowledge of financial topics to make smart financial decisions

Knowing a thing or two about how markets work and how to make the most of bank accounts, investments or pensions can go a long way to growing your long-term resilience.



Continue to develop, learn and train (always be employable!)

If you do lose your job, having a set of skills that almost everyone needs to do almost any job will help you avoid any long-term period of uncertainty. Once you have the basics, you can train and specialise so that you will always be 'in demand' in the workplace.



EDUCATING CUSTOMERS ON FINANCES

To begin building a customer's financial well-being, a broker can ask questions that encourage clients to look ahead and be curious about how they intend to afford their lifestyle. Much of this is about building on existing questions that already form part of a broker's fact finding and discovery process.

Customers should be made aware of help and guidance to better understand what they need to do to buy their own home or achieve other goals.

Tools such as the Money Advice Service's Money Health Check can help by asking questions such as:

- How would you describe your attitude towards managing your money?
- Does anyone other than your partner depend on you for money or anything else, such as children or a relative?
- How far does your money stretch?
- How much do you rely on borrowing?
- How are you coping with your mortgage and other borrowing?
- How would you deal with an unexpected cost you couldn't afford to pay yourself?
- Do you and your partner both have up-to-date wills?

Questions such as these aim to dig deep and understand the full picture of a customer's financial situation. The value is in identifying gaps that can be filled with the right advice and action, with every step adding to their financial well-being.

Examples are a powerful way of demonstrating to a customer the long-term impact of making small adjustments in how they manage their money.

For instance, the Money Advice Service found that almost half of UK adults do not have enough savings to cover an unexpected bill of £300. This could be remedied by simply setting aside £25 a month for a year, at the end of which the money could be put in a savings account to grow. Doing this takes away a significant amount of stress were a boiler to break down, or if a car needed an urgent repair.



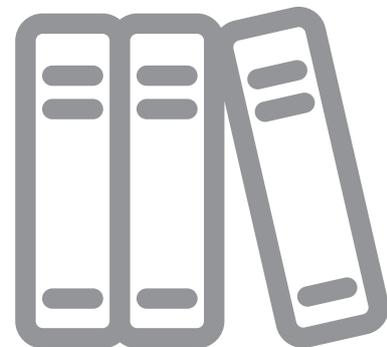


WHAT DOES 'GOOD' LOOK LIKE?

FCA research shows that consumers in vulnerable circumstances need to trust that financial services providers aim to achieve the following:

- Have financial products that are clear and easy to understand.
- Offer a choice of ways of communicating to be available (e.g. audio/braille/face-to-face).
- Ensure customers are treated as an individual and they won't face the 'computer says no' response.
- Be flexible and offer a tailored response should the customer experience a sudden change in circumstances.
- Listen and be flexible enough to let the conversation take its natural course, while being sufficiently trained to spot signs of vulnerability and refer to specialists where necessary.
- Refer on to someone who has the authority and discretion to take a tailored approach to a customer's situation and offer flexible solutions, including the use of specialist sources of help and advice if necessary.
- Proactively contact a customer if they suspect that person is experiencing financial difficulties.
- Provide appropriate action if there is suspected suspicious activity that may signal abuse or fraud.
- Offer consistent advice and treatment if the customer is recently bereaved, has a power of attorney or a third party mandate.

FCA, Occasional Paper No.8:
Consumer Vulnerability, February 2015





SUPPORTING VULNERABLE CUSTOMERS

Much of consumer protection legislation is underpinned by the concept of the 'average' or 'typical' consumer, what that typical consumer might expect and understand, or how they might behave.

However, vulnerable customers are significantly less able to represent their own interests, and are more likely to suffer harm than the average consumer. The FCA has therefore recognised that all regulators and firms need to ensure these consumers are adequately protected.

How to identify vulnerable customers

Vulnerability comes in a range of different guises and can be temporary, sporadic or permanent in nature. It's a fluid state that firms need to respond to in a flexible and tailored manner.

Vulnerability goes further than simply the customer's situation; it can be exacerbated by the actions or processes of firms, with the impact potentially causing stress, further pain or delay.



The impact of vulnerability is strong and many people are trying to cope with difficult situations and limited resources, energy and time.

"Stress can affect state of mind and the ability to manage effectively. In such conditions, being confronted by a complex telephone menu system that gives no option of talking to a person; a 'computer says no' response; a call handler without time or inclination to listen; or a system that fails to record what may be distressing circumstances and forces the customer to repeat themselves at every point of contact, can all create a spiral of stress and difficulty, resulting in detriment."

FCA, Occasional Paper No.8: Consumer Vulnerability, February 2015



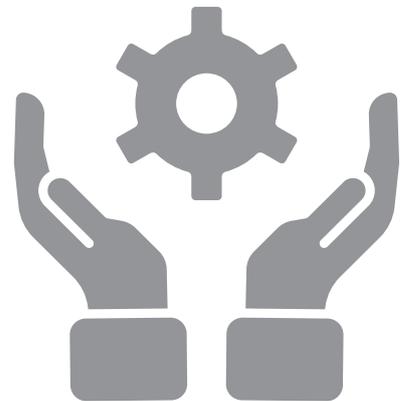
RISK FACTORS FOR VULNERABILITY

Certain risk factors are particularly important within financial services - the FCA identifies the following as warning signs of vulnerability:

- Low literacy, numeracy and financial capability skills
- Physical disability
- Severe or long-term illness
- Mental health problems
- Low income and/or debt
- Caring responsibilities (including operating a power of attorney)
- Being 'older old' for example over 80, although this is not absolute (may be associated with cognitive or dexterity impairments, sensory impairments such as hearing or sight, onset of ill-health, not being comfortable with new technology)

- Being young (associated with less experience)
- Change in circumstances (e.g. job loss, bereavement, divorce)
- Lack of English language skills
- Non-standard requirements or credit history (e.g. armed forces personnel returning from abroad, ex-offenders, care-home leavers, recent immigrants)

Being aware of where vulnerability can creep in is a crucial step in understanding how a broker can begin to build a plan for tackling the issue, rather than simply adding another problem. It starts with having a plan to offer tailored customer service.



Case Study

A mortgage customer who was diagnosed with terminal lung cancer made a claim on a critical illness policy. The customer decided to repay the outstanding mortgage with the proceeds. The customer subsequently received a letter from the lender to say that an early repayment charge was payable. Despite contact being made by the family to explain the situation, it was only with the intervention of a third party that the lender waived the charge.

FCA, Occasional Paper No.8: Consumer Vulnerability, February 2015



WHAT CAN MORTGAGE BROKERS DO?



Part of the mortgage adviser's role is getting people to buy the houses they can afford, not the houses they think they should have."

Jason Butler, Head of Financial Education at Salary Finance

Most people don't have a squeaky clean credit score, but that shouldn't be a barrier to finding a suitable mortgage. Brokers need to consider there's a certain amount of pride involved in wanting a particular home, the 'My home is my castle' attitude.

Brokers have a privileged view of customers' finances. When going through bills, they can provide valuable insight and highlight areas of concern.

With money being such a taboo subject for many, this can be an intimate experience and therefore one that brokers should navigate sensitively. The goal is to clarify the state of finances, and then discuss the impact of taking on a substantial debt.



Customers need appropriate financial protection

Insurance, especially income protection, needs to be fully discussed when assessing the affordability of a mortgage. While the probability that the customer might need financial protection is relatively low, the impact of losing one's job or suffering a disability can have a significant impact on a customer's life, their ability to continue funding their lifestyle, and their family's ability to cope with financial burdens.

The home is not a substitute for a pension

While it's not the broker's role to help customers with wider financial plans, it's certainly worth emphasising that while the home can eventually become a source for wealth, it's not a substitute for retirement planning.

Brokers can then assume a position of trust, and stay with customers for decades, giving advice based on life events. As customers become wealthier, brokers can play a referral role for other sources of financial guidance, robo advisers and so on.



SUMMARY

Financial well-being is about building awareness.

Brokers are in a unique position of being able to make customers, future customers and professional contacts aware of the impact of financial well-being that goes far beyond simply taking out a mortgage product.

Building awareness is immensely valuable, especially to vulnerable customers who need that extra support to ensure their 'big picture' finances are enough to support them and their families.



We all have the potential to experience vulnerability at any stage in our life journey so it's vital to consider existing customers as well as new.

'When delivering advice, brokers need to be aware of life events, such as divorce and bereavement, which can significantly impact people's decisions, both in the short and long term.'

Janis Hambling, Yorkshire Building Society's customer service delivery manager

An important final thought to bear in mind is that people get emotionally attached to wanting a particular home which may be too expensive for them to maintain over the long-term. A broker can dive into the reasons behind the customer's motivation and make product recommendations in the best interests of their overall financial well-being, while also educating customers on the benefits of building financial resilience.

Once trust has been established, the broker can become a life-long adviser and build on the opportunities that centre around their customer's financial wellbeing.



So, how will you support your customers' financial well-being?



HELPFUL LINKS

List of services customers can be referred to for further help, advice and guidance.

Turn2us - A national charity that provides financial support.

<https://www.turn2us.org.uk/>

Entitledto - One of the leading providers of online benefit calculators in the UK today.

<https://www.entitledto.co.uk/>

Citizens Advice Bureau - Giving people the knowledge and confidence they need to find their way forward - whoever they are, and whatever their problem.

<https://www.citizensadvice.org.uk/>

The YBS Personal Budget Calculator - Online Budget Planner

<https://www.ybs.co.uk/savings/personal-budget-calculator>

Money Advice Service

<https://www.moneyadviceservice.org.uk/en/categories/how-to-save-money>

Jason Butler Blog

<https://www.jason-butler.com/blog>

Salary Finance

<https://www.salaryfinance.com/uk/>





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