

# REAL LIFE BORROWERS.

THE  
**MORTGAGE  
LENDER**  
real life lending

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# THE REAL LIFE BORROWERS.

## Introduction

**The UK has seen a huge amount of change and uncertainty in recent times, with a cost-of-living crisis, high interest rates, and a Conservative government limping towards what seemed like its inevitable demise. Those affected include lenders, landlords, first-time buyers, and renters. For brokers, keeping on top of change so as to be able to best advise their diverse client base has been crucial.**

But while media headlines grab attention with the big picture, it only goes so far. This fails to give us the detail or insight on the behaviors, both current and anticipated, of landlords, renters and buyers - detail which is essential to help us best deliver to our clients' true needs, as well as pre-empt future needs.

That's why we, The Mortgage Lender (TML), conduct proprietary research throughout the year. This ensures our decisions and solutions stay ahead of the fast-changing dynamics of the mortgage market.

It's about understanding 'The Real Life Borrowers'.

And while you'll have seen how our insights are regularly covered by the mortgage and personal finance media, we've brought many of our findings together in this practical white paper. Amongst other areas, it details:

- ◉ **The purchasing plans and intentions of buy-to-let (BTL) landlords**
- ◉ **The challenges and needs of the self-employed**
- ◉ **Where first-time buyers' heads are in an era of higher interest rates**

We hope you find 'Real Life Borrowers' interesting - and useful. If you'd like to discuss how we can support you to have better conversations with your clients and address their individual needs, no matter how complex, please do get in touch.



Chapter 1

# CHALLENGES FACING FIRST-TIME BUYERS



## One in ten plan to stay renting until property prices are more affordable

Research shows how the cost-of-living crisis continues to shape first-time buyers' plans. Higher interest rates are clearly driving renters to postpone their buying plans until property becomes more affordable. Almost one in five (19%) said they couldn't afford to buy now and had put their plans on ice completely. In fact, just 6% said they were still progressing with their original home buying plans.

Interest rates are a clear sticking point. 10% said they would wait for them to come down before acting and 6% said that their decision would be dependent on movements in the Bank of England base rate.

Those that are progressing, however, are making significant compromises on their initial plans.

A quarter of this group say they are now looking to buy away from traditional commuter towns - and 32% have had to look further from city centres.

12% say they are now looking to buy a smaller property than they had originally planned, while 21% say they've decided to buy a cheaper property in need of more renovation work; 16% are now buying in an area with cheaper living costs.

In challenging times, brokers are best placed to help consumers find the best solutions for their needs. And while affordability is critical, they can provide access to solutions - and rates - consumers don't have access to directly, potentially affording less compromise than their customers imagined.

**19%**

said they couldn't afford to buy now and had put plans on hold

**12%**

said they would stay renting until prices came down

**10%**

said they were waiting for lower mortgage rates

**6%**

are waiting for movements in the Bank of England's base rate before making a decision





## Half of all homeowners needed support to get on the ladder

Our research shows one in two homeowners needed a leg-up when it came to buying their first home. The most common form of support was 'The Bank of Mum and Dad', who provided help in just over one in ten of all cases. A further 5% used a guarantor mortgage, many of these again are likely coming from the same source.

Just 6% used government-backed savings schemes such as a Help to Buy ISA or a Lifetime ISA (5%), which may indicate these solutions are not seeing the level of take up anticipated. This is supported by the fact that 42% of all those included in the research findings said they felt that the government has not done enough to support first-time buyers onto the ladder.

As affordability becomes an increasing economic and social issue, we believe it's vital that first-time buyers are supported in their property aspirations. And while brokers have a crucial role in advising clients on the most appropriate and

affordable way of accessing the market, more steps need to be taken by the government to enable first time buyers to get on the ladder sooner.

- 11% said that they had help from the Bank of Mum and Dad
- 6% used a Help to Buy ISA
- 5% used a Lifetime ISA
- 5% benefited from Rent to Buy schemes
- 5% employed a Guarantor Mortgage
- 6% bought using Shared Ownership
- 5% depended on incentives from developers

## Breakdowns in understanding of Shared Ownership are preventing first-time buyers from using it

While a mixture of affordability challenges such as house prices and the cost-of-living crisis have left first-time buyers with significant challenges to getting a footing on the housing ladder, our research indicates that a lack of knowledge surrounding alternative routes to home ownership could also be preventing many from reaching this important goal.

This is particularly true of Shared Ownership, with our research highlighting how many first-time buyers are simply not taking advantage of it, either due to a lack of understanding of the mechanics of Shared Ownership as an option available to them, or an overall lack of awareness of its availability full stop. Yet as the next section shows, when first time buyers are aware of it, they recognise its value.

Two thirds of first-time buyers don't understand what Shared Ownership is. Others imagine it to be something fundamentally different to its reality. In fact, just 35% of first-time buyers could accurately define Shared Ownership.

14% said they didn't understand Shared Ownership at all, but a greater number thought it was something else entirely. Within the group, 17% said they thought it meant co-owning with your family, 14% that it involved you sharing the responsibility of being a landlord on a property and 8% thought that it meant living with a stranger. 7% believed that it meant you owned a few rooms within a house and the same percentage thought that it involved co-owning with a friend.



**think it means co-owning with family**



**think it means sharing the responsibility of being a landlord**



**think it means living with a stranger**



**1 IN 2** FTBs  
would consider Shared Ownership

## One in two first-time buyers would consider Shared Ownership

While many first-time buyers have notable gaps in their understanding of Shared Ownership, one in two of those 'in the know' would certainly consider (or have considered) it as a means of getting onto the ladder.

For many, knowing about Shared Ownership is an eye opener - and a catalyst. We found that more than one in four (26%) said they wouldn't have been able to afford their property without it. And 20% said it meant they could now live where they wanted (this being especially the case for areas such as London).

For others, it vastly improved affordability with 24% of respondents saying their monthly repayments worked out much cheaper than if they'd got a full mortgage or rented.

Those surveyed also commented how it allowed them to think differently about buying a property. More than a quarter (26%) of those that would consider

Shared Ownership, would do so because gradually building up equity, albeit not outright ownership, is particularly appealing.

It is also clear that awareness leads to future intention to use. 11% say that they are likely to buy using Shared Ownership in the future with a further 19% saying they are likely to consider it going forward.



## First-time buyers are unaware of some of the basic costs of buying

While the industry assumes first-time buyers enter the market informed and ready, TML research reveals a marked lack of knowledge in the basic costs of home ownership and the journey to it. While most are fully aware of the deposit requirement, many are hitting hurdles by not factoring in common costs and fees into their budgets, with serious implications for some.

Our research showed that 24% of consumers said they hadn't realised they may have to pay Stamp Duty on their purchase as not all first-time buyers are exempt. This is particularly worrying as this can clearly lead to thousands of pounds needing to be found quickly by homebuyers, or to purchases falling through late in the process.

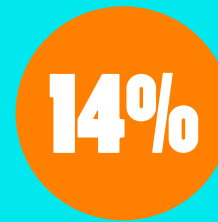
A similar number (23%) weren't aware they may need to pay a valuation fee, with 21% not factoring the amount required into their budget. Other costs that were a surprise included solicitor's fees (19%)

surveyor's fees (19%) estate agents fees and the homebuyer survey (21%).

As a result, 14% had to borrow money from their parents or grandparents and 11% took out a loan to cover the unforeseen costs.

For others it had more serious implications for the entire purchasing chain. 14% of those that failed to factor in costs said they had to put their homeownership goals on pause while they reassessed, 11% said they looked for a cheaper property and 7% had to stop their property search completely.

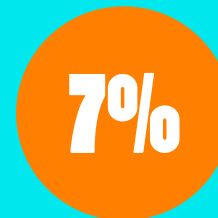
# THE IMPLICATIONS OF HOMEBUYERS NOT BEING AWARE OF COSTS




**put homeownership plans on hold**



**looked for a cheaper property**



**stopped their property search completely**



**“There is evidently a knowledge gap when it comes to what’s involved in buying a house, with many learning the hard way. This highlights the importance of professional advice. Brokers are not only expertly equipped to get the most suitable mortgage for their clients needs, but are also key to informing buyers on other costs that may come their way. This means buyers can enter the property chain with confidence and hopefully achieve their dream of getting on the property ladder whilst encountering as few financial surprises as possible.”**

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**Sara Palmer, Distribution Director at The Mortgage Lender**

Chapter 2

# THE SELF-EMPLOYED





## Fear of rejection is stopping the self-employed from applying for a mortgage

Our recently commissioned research found that 34% of self-employed individuals have never applied for a mortgage. Why? 30% (of those that hadn't applied) said it was because they didn't think they'd be approved for one. And a further 26% hadn't because they'd heard the application process is more challenging for the self-employed. 15% said their business was less than two years old and so didn't feel they had the necessary documentation to prove income.

Not all issues are unique to the self-employed. There are notable common barriers across the wider population: 36% said they hadn't built up their deposit yet, 17% were waiting for interest rates to come down and 10% said they hadn't applied for a mortgage because they thought the process was too daunting.

And while the self-employed's perceptions of challenges are widespread, our research shows that their concerns need

not be so significant. 57% of those we interviewed had applied for a mortgage and been successful and 5% said they were, but not on their first attempt. Just 4% were unsuccessful.

Of those who had been unsuccessful, over a third (38%) said they were told this was because their income was too volatile. 28% said it was because the lender they applied to calculated they wouldn't be able to make the repayments and 27% didn't have the necessary documentation to prove their income. Others had missed or made late payments (11%), or had defaults and/or CCJs on their credit file in the past six years (11%) and 5% were simply not registered to vote on the electoral roll.

Underwriters across the industry often apply stricter affordability frameworks on the self-employed, as they are considered riskier given their incomes can be both more irregular and complex. It is, however, concerning that so many have been put

off by the application process. In many cases specialist lenders, some of whom offer case-by-case underwriting, can offer greater opportunity for the self-employed to get their mortgage approved.



## The self-employed need a little more understanding, expertise and flexibility

We've seen above how many of the self-employed have been put off applying for a mortgage by their expectations of complexity - or potential refusal. To enable solutions, first we ask what they struggled with.

25% said that finding a provider that would lend to them was the most difficult part of the process. A qualified broker will clearly be able to help here and locate a specialist lender, when appropriate. Yet 18% of the self-employed said that finding a broker that understood their circumstances was difficult too.

Self-employed customers acknowledged there were many elements that were challenging and stood in the way when it came to home ownership. Almost half (46%) said the most difficult part of the mortgage process was saving for a deposit, followed by 28% who felt a key challenge was their self-employed status itself and understanding what was required of them specifically within the application process.

Indeed, many found the mechanics of the application challenging. 16% found requiring an accountant to prepare two or more years of certified accounts a barrier, 14% felt the same about having to provide a SA302 form or tax year overview from HMRC, and 11% were

concerned by the need to collate an extended period of bank statements. Just under a quarter (23%) said improving their credit score was a barrier.

We then moved to understand what factors would make the mortgage application process easier for them, the answers given spanned from lender availability to a clearer understanding of the requirements and mechanics of the process.

40% felt greater understanding from lenders of the specific needs of the self-employed would certainly make the application process easier for them. A similar number (38%) said having more specialist lenders that cater for the self-employed was required. Given that there is actually no shortage of lenders in this area, this is perhaps an issue of awareness, over availability. It is also possibly as a result of going direct to High Street lenders and better recognised brands without having employed a broker. This is highlighted by just under 1 in 3 (32%) saying the whole process would be made easier by working with a broker with a specialism in self-employed mortgages.

The simplification of the process was on the wish list too. 34% said having to provide evidence of income for less

time (e.g 1-2 years instead of 2-3) would help and 24% said bringing back 'self-certification' mortgages or a similar type of mortgage would make a difference.

# 25%

**said that finding a provider that would lend to them was the most difficult part of the process**

# HOW CAN BROKERS BEST HELP THE **SELF-EMPLOYED** MAKE THE PROCESS EASIER?

**01**

**A clear explanation on the full needs of the process and it's requirements**

**02**

**Upfront awareness of their ability to help the self employed**

**03**

**Expertise in finding specialist lenders catering for this audience**

**04**

**Guidance on the provision of support materials to streamline the process**



Chapter 3

# BUY-TO-LET LANDLORDS



# Buy-to-let landlords positive about the next 12 months

**After recent ups and downs, specially commissioned research with buy-to-let landlords reveals a positive outlook for their commercial prospects.**

## Confidence in the market overall

Just under three quarters of landlords said they felt confident about the performance of the residential property market, with 27% feeling 'very confident'.

This was particularly the case for landlords who had HMO properties (86%), student accommodation (84%), and portfolio landlords with more than five properties.

## Confidence in the commercials

Landlord confidence also extended to the commercial performance of their own properties' for the coming 12 months. 71% expressed they had high confidence levels, with those with five properties or more expressing the highest confidence at 78%.

And there was a direct correlation between time in the market and confidence, with around three quarters (73%)

of those who had been a landlord for five years or more feeling confident, compared with 69% of those with less experience; this likely being the result of the more experienced recognising buying and selling signs and behaviours that newer landlords have less experience in.

## Landlord experience of client demand

Confidence is undoubtedly being spurred by tenant demand. 73% of landlords confirmed they'd seen demand from tenants rise over the last six months, with 27% saying it had increased significantly.

## Impact on rental pricing

Our research reveals how increased demand has led to landlords being able to increase rental prices over the last 12 months; 73% of buy-to-let landlords reporting they've increased rents by an average of 34% across new and existing tenancy agreements. Over half (52%) of landlords said they had done this to keep up with their own rising costs, while a further 28% had done this in line with wider rent rises in the area.

Chris Kirby, Head of Sales - Midlands, South & Specialist Distribution at The Mortgage Lender says:

**“GIVEN THE PIVOTAL ROLE THAT THE BUY TO LET INDUSTRY PLAYS IN SUPPORTING THE HOUSING MARKET AND ENSURING THE MAINTENANCE OF THE MUCH-NEEDED SUPPLY OF HOMES, IT’S ENCOURAGING TO SEE THESE LEVELS OF CONFIDENCE, DESPITE THE FACT THAT MANY LANDLORDS ARE FACING HIGHER OPERATING COSTS, IN ADDITION TO THE INFLATIONARY PRESSURES THAT HAVE BEEN IMPACTING EVERYONE. THE CONTINUED SUPPLY OF GOOD QUALITY, WELL MAINTAINED RENTAL PROPERTIES IS A MUST.”**

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had seen rising demand  
from tenants



the average increase in  
rents from our research



## Landlords reveal they plan to grow their portfolios in the coming year

For many buy-to-let landlords, confidence is clearly translating into portfolio expansion. Over half (52%) of residential landlords have taken advantage of opportunities, with 25% buying one property, and 27% confirming they've bought two or more.

And our research shows the desire to purchase looks likely to continue unabated. 26% of buy-to-let landlords said they intended to buy an additional property, while 26% intend to purchase more than one.

Increased demand is the primary reason for wanting to add to their portfolios, with 31% of landlords reporting this to be the case, and a further 25% have reinvested given that they had surplus capital to deploy, and were looking to take advantage of opportunities in the market.

Other notable trends emerged such as portfolio diversification across regions (21%) and property type (also 21%).

Properties with a good EPC rating are becoming increasingly more sought after too. A further 20% of those surveyed stated they wanted to buy a property with an EPC rating of A-C.

While growth is clearly on the agenda of many landlords, some have also sold. 31% have divested out of one or more properties in the past 12 months with a further 33% planning to do so in the near term. The most common reason for this was rising interest rates, while 23% said they sold to enable the purchase of another property, which in their view was a better investment.



**26%**  
**OF BTL LANDLORDS**  
said they intended to buy  
an additional property

## What factors are influencing buy-to-let property purchases today?

While the opportunity of purchasing a well-priced bargain will, capital permitting, always prove persuasive, our research reveals a wider set of landlords' motivations.

Price was the primary factor, voiced by almost half (48%) of buy-to-let landlords.

Economic payback was also of particular importance. Expected rent yield was a key purchasing factor for 29% and the property's long-term investment potential influenced 26% of respondents.

Benefits that would enable a stable and potentially premium rent were also in favour. The attractiveness of the property's location was important to 29% of landlords and the inside layout by 16%. A quarter of landlords are prioritising energy efficiency with property's EPC rating clearly influencing renters in the light of the cost of living crisis and energy price rises following recent events.

We also understand through our research the most common models for buy-to-let purchase.

Most said they would buy as an individual investor, 24% via a mortgage and a further 22% as a cash buyer. 10%, however, said they would purchase as a limited company with a mortgage, while 11% would co-buy as a joint investor with a mortgage. As a result, 77% of landlords said that the rate of available mortgages was an important factor when buying.



**77%**  
**OF BTL LANDLORDS**  
said that the rate of available mortgages was an important factor when buying

# FACTORS INFLUENCING BUY-TO-LET PURCHASE

Price:

48%

Expected rent yield:

29%

Energy Efficiency:

28%

Investment potential:

23%

# HOW LANDLORDS ARE FINANCING PURCHASE

Private investor with mortgage:

24%

Private investor with cash:

22%

N/A

13%

Joint investor with mortgage:

11%

Limited company with mortgage:

10%

Joint investor with cash:

10%

Limited company with cash:

9%

Other

1%



# LET'S WRAP IT UP.

“As lenders, we are in the privileged position to support those that have complexities to their situation that make their path to home-ownership less straightforward. We understand that in real life, things don't always go to plan, and the past few years have certainly proven that!

Affordability has been the buzzword, with First Time Buyers (FTB) particularly impacted by the higher mortgage rates now in the market when compared to recent years. With higher house prices, less savings to put towards a deposit and higher rents, many FTBs will have felt the challenges to home ownership were insurmountable. However, the research in this report has revealed there is cause for optimism. Shared Ownership is proving to be a popular choice for FTBs looking to get a foot on the ladder without needing a big deposit, for example.

The importance of brokers was also highlighted within our research, particularly amongst the first time buyer and self-employed groups. Many FTBs were unaware of the costs and processes associated with buying, whilst many of the self-employed assumed home-ownership was beyond their reach. These challenges again highlight the need for specialist expertise to better support these groups.

The Buy to Let market has also faced a unique set of challenges. Rising rents and high demand has benefited professional landlords, but with tax advantages largely eroded; it is this group of landlords who own in their personal names that have remained in the market and continued to grow their portfolios. The private rental sector is much needed within the UK and supporting

professional landlords so that they can continue to offer quality properties to their tenants continues to be a priority.

This report, aims to paint a picture of three key groups; first-time buyers, the self-employed and buy-to-let landlords, how they've navigated recent challenges as well as their plans for the future. Real life will always be full of complexities, but we have demonstrated that specialist knowledge and expertise is available to support each of these groups during both the good, and challenging times for your clients. At TML we pride ourselves in our real life approach to lending, and the partnerships we form with our brokers, so whether it's a complex case or a niche circumstance, we are here to help.”

**Sara Palmer, Distribution Director at TML**



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