CHASEBLUELOANS

A BROKER'S REFERENCE TO SECOND CHARGE LOANS

Introduction

This simple reference guide is essential reading for the mortgage brokers in the face of The Mortgage Credit Directive (MCD) which is a European-wide directive that came into effect in the UK on 21 March 2016.

The MCD was set up to protect consumers by governing first and second charge mortgage markets (as well as consumer buy-to-lets) under the same regulation, and to provide a harmonised approach to mortgage regulation across the EU.

Second charge mortgage advice will have to form part of your sales process if you want to remain independent. You can also simply refer your client to a packager if you'd prefer to fully outsource your second charge loans business.

Whichever way you choose, CBL is set up to make it as easy as possible for you to take advantage of a lucrative additional revenue source.

Descriptive terms

- Secured loan
- Second charge loan
- Second mortgage
- Second charge mortgage
- Second charge secured loan

These are all acceptable descriptions of the same thing. For the purposes of this document we will use the FCA's preferred terminology 'second charge loan'.

The improving economic climate and general house price increases have led to a resurgence of second charge loans following their virtual disappearance following the financial crisis of 2008.

The changing face of second charge loans

Traditionally, second charge loans were seen as a last chance saloon product. Rates were much higher than mortgages and redemption penalties were fairly hefty. But as rates started to drop off in 2006, the pandemic of self-certification of income led in part to the financial crisis of 2008. A £6bn a year secured loans industry quickly became a £150m industry, a trickle of its former self.

Today however, the market is once again robust with packagers and lenders back in full swing, albeit at a much more sensible £1bn a year. Rates (starting at 4.55%) are much lower than ever, redemption penalties are extremely low and coupled with no upfront fees for the vast majority of second charge loans, they are a very attractive solution in a variety of circumstances.

A broker's reference to second charge loans

Despite the new growth in second charge loans and a growing number of people appreciating the flexibility they offer, many brokers and potential borrowers still have very little knowledge of the sector and how the products can be used. Some brokers even display a fear of it.

Chaseblue Loans is one of the UK's leading packagers and accepts business from a large network of finance intermediaries. We have put together this guide to second charge loans in response to a demand from new introducers who want to be involved but are unsure of where to start. From loan uses, time periods and loan amounts to repayments and rates, it provides a detailed and useful overview of how and when to use second charge loans and what to expect when advising on this type of funding.

Take time out to read through this short and simple guide, and you will be able to identify second charge loan opportunities and when they are most appropriate and for whom, so that you can help your clients discover the best possible financial outcome.

What are the main uses of second charge loans?

The reasons for using them are varied, but generally, if a mortgage broker is unable to place a capital-raising remortgage for any reason, a second charge loan can sometimes be the most appropriate alternative, and as a result can end up being a better financial outcome for the client.

Second charge loans can be used for any legal purpose but are mainly used for:

- Home improvements
- Consolidation of credit cards, store cards and unsecured loans
- Purchasing vehicles
- Paying for a wedding/honeymoon
- Injecting cash into businesses
- Paying for school fees
- Paying tax bills
- Cosmetic surgery

How do second charge loans work?

As the name suggests, a second charge loan works very much in the same way as a first charge mortgage in that it is a sum of money lent out, secured against UK residential or investment property via a second charge behind the first charge registered by the main mortgage lender.

On 21 March 2016, most second charge loans became regulated mortgage contracts in the same way as first charge mortgages. This means that the processes, product types and reasons for borrowing are aligned for the first time ever. No broker can afford to ignore the growing influence of the second charge loan when considering a remortgage or further advance.

Indeed the regulator* itself stated:

> WHERE A MORTGAGE SELLER ADVISES A CLIENT ON A CAPITAL-RAISING REMORTGAGE OR FURTHER ADVANCE, HE/SHE MUST ALSO INFORM THE BORROWER THAT A SECOND CHARGE OR UNSECURED LOAN MAY BE A MORE APPROPRIATE SOLUTION.

* CP14/20: Implementing the Mortgage Credit Directive and the new regime for second charge mortgages

Remortgage, further advance or second charge loan?

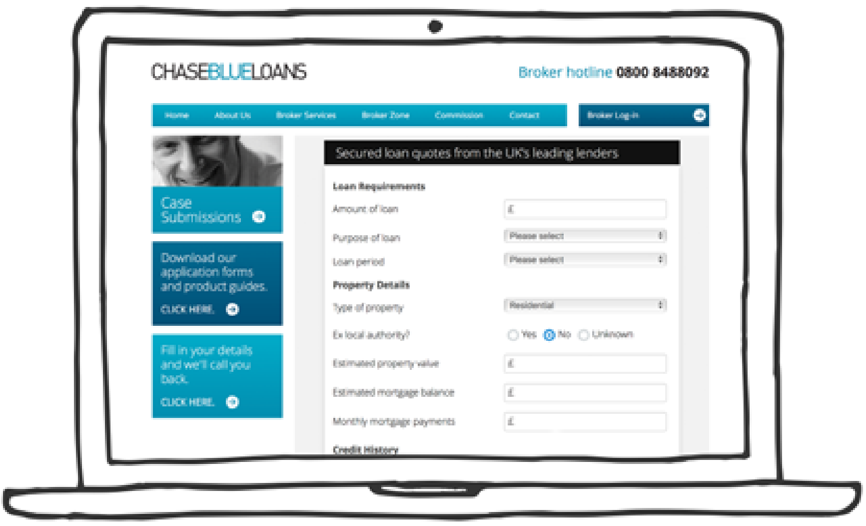
This is the ultimate question that confuses many mortgage brokers and has prevented many getting involved in the past. Most are of course very familiar with the first two, but when would they use a second charge?

As a second charge loan requires much more detailed packaging and used to be put together in a back-to-front way compared with a mortgage, many brokers were unfamiliar with the process, and so the industry was deemed niche and left to specialist credit brokers. Mortgage brokers who do understand the benefits of second charge loans simply introduce them to a quality packager like Chaseblue Loans in order to ensure maximum processing efficiency and conversion of an unfamiliar product.

Ultimately the decision between which of the 3 products will provide the best and most suitable financial outcome for the client will usually come down to cost.

This can of course be done with a sharp pencil, a calculator and a spare 20 minutes, but a much faster and efficient way of doing it would be to use a sourcing tool which can compare the costs of products and demonstrate the savings to be made by either product.

Our own system www.chaseblueloans.co.uk is a free tool to achieve this.



How to identify a second charge loan opportunity

Key to understanding when a second charge loan is probably the best outcome is to know when a remortgage is not likely to work. So, if a remortgage or further advance is not on the menu for whatever reason, then potentially a second charge opportunity has arisen.

Usually when residential clients...

- Want to retain their current low-rate mortgage
- Want to retain their current interest-only mortgage arrangement
- Are self-employed; where only an accountant's reference is available for proof of income
- Have a number of unusual income sources
- Want to avoid large redemption penalties
- Need funds quickly and don't want to remortgage away from their favourable deal
- Want to raise capital against their UK property to purchase foreign property
- Don't want any upfront costs such as valuation or legal fees
- Need to borrow more than the restrictive limit of £25,000 for an unsecured loan.
- Have a personal banker who doesn't want to/cannot help
- Don't want to use their bank or mortgage company to raise funds
- Have been declined for a further advance with current lender
- Want to use the money to pay a personal tax bill
- Have been declined for an unsecured loan online or through their bank

And for property investors to:

- Raise money on their resi or BTL property to buy an unmortgageable property for development
- Leave their BTL mortgage arrangement in place, but still raise money using a second charge facility
- Get quick access to funds, as secured loans are generally much quicker to arrange

And also for business purposes:

- To inject cash into a business
- Capital to pay business tax liabilities or to clear a business overdraft
- Money required to purchase stock or machinery
- Raising money on a residential property to purchase a business property

If you were to 'cut out and keep' any part of this reference guide then the pointers above would certainly be a useful section to keep in your pocket.

The second charge loan process

Although not set in stone, the process with most packagers is fairly similar...

- Once you have identified a second charge loan enquiry, the process is fairly simple; by passing the enquiry to a packager, you can concentrate on your core activities.
- Introducing broker provides loan packager with basic enquiry details (loan amount, purpose, term and contact) by telephone, email or sourcing system.

- Packager provides quotations and mortgage illustration (ESIS), and if acceptable to the broker, goes through detailed application process over the telephone. Compliance checks carried out.
- Once the client is happy with the deal, a mutually convenient time is agreed upon for a document courier to collect signatures and evidences.
- Following receipt of client's signed documents and evidences at the packager's office, references and valuations are organised. Case is re-checked for compliance.
- With references and valuation received, the case is packaged and once a final compliance check is completed, case is sent to lender for final packaging and offer.
- Once the offer has been made, it is sent out to the client by post and/or email to the client. The client then has a 7-day reflection period in which to think about and return the signed offer and in doing so accepting the terms therein.
- Following completion of the loan, the procuration fee is sent to the introducing broker within 24 hours.

What property types can be used as security for second charge loan?

Second charge loans can be secured against UK residential and buy-to-let properties. At Chaseblue Loans, 80% of the second charge loans we arrange are secured against private residential property. The remaining 20% are secured against buy to let properties. Depending on the property, there are myriad reasons why a second charge loan can be more suitable than a remortgage.

Example One

Residential loan for home improvements

Clients in Somerset wanted to move to a larger property as they were pregnant with twins and needed more floor space and bedrooms. They currently live in a much-loved two-bedroomed cottage albeit an old one with fairly large rooms. They were unable to find anything of a similar size and character locally and within their budget, so they decided to extend. They needed to raise £50,000 but were unwilling to remortgage away from an interest-only arrangement, which send their new payments sky-high. Their broker sent them to Chaseblue Loans. We organised a loan for the full amount over the same term as their mortgage saving them £124 per month. They extended their property adding an additional bedroom with ensuite bathroom and a playroom.

Example Two

Residential loan for business purposes

Our client owned a chain of carpet shops but was forced to shut down all but one during the financial crisis. He remained solvent with an excellent credit rating. With business accelerating once again, he saw a chance to expand in late 2015. He found suitable premises, but both Lloyds and HSBC refused to help him with the finances he needed for the acquisition. As the window of opportunity was closing, his broker from Bromley approached us for help.
We arranged a £120,000 second charge loan at 66% LTV on his residential property which allowed him to purchase the premises and open a second shop.

Example Three

Residential loan for property purchase

A broker introduced to us a client who has a house in Fulham valued at £5m with a mortgage balance of £1.5m at 0.99% with the Woolwich. He pays this on an interest-only basis. He wished to raise £900,000 order to purchase a foreign holiday property. It made no sense to remortgage away from the superb mortgage deal he already had. In addition to this, by raising a second charge loan on his London property meant that there was no need to put down a 25% deposit of £225,000 on his foreign purchase if he were to purchase it with a mortgage. The combination of the payment on his first mortgage plus the new second charge loan was many thousands of pounds per month cheaper than the lowest cost complete remortgage.

Example Four

Buy to Let loan for home improvements

A client who owns a small portfolio of buy-to-let properties wanted to renovate them to bring them up to a modern standard and to generate increased rental income. She had not refinanced the properties in many years and benefited from a very low interest only payment on each of them. To avoid remortgaging to a higher rate, her broker introduced her to Chaseblue Loans. We raised £25,000 on each property at £163.07 per month. This allowed her to decorate the properties throughout, change all of the windows and doors, replace the boilers and heating systems, and install new kitchens and bathrooms. This immediately increased the rental income and overall market value in excess of the additional funds borrowed.

How much can be borrowed?

For a loan secured on a residential property, the minimum loan size for a second charge loan is just £5,000 and we arrange loans all the way up to £2.5m.

For buy to let properties, we can arrange loans up to £500,000 but should the requirement be there, we would be able to refer the loan amount if more than this was required.

How long can a loan be taken out for?

Typically a loan is lent out between 3 and 25 years. There are some lenders who offer 30 year terms.

The term of a loan is dependent on several factors, depending on the purpose of the loan.

Example

If a client is borrowing to consolidate his outstanding credit card and unsecured loan balances, thus saving himself money each month, then it makes sense to reduce the term of the loan to an affordable level, but one that allows the borrower to strike a balance between making monthly savings and clearing down the balance over the shortest term.

If a client is borrowing to buy a vehicle then a maximum loan term of 3-5 years is acceptable.

If the reason for the loan is to extend or improve the client's property, then a loan term which matches or is less than their mortgage term would be deemed acceptable.

Second charge loan payments, fees and interest rates

Most second charge loans are repaid on a capital repayment basis, but around a fifth of the business written at Chaseblue Loans is paid on an interest-only basis.

Unlike with a first charge mortgage, taking the interest-only option is purely the choice of the client. However there are fewer options available for interest–only borrowers and as a result, the rates are higher.

A broker fee and a lender fee is chargeable on a second charge loan, and can be paid up front if the client requires. However, all fees can be added to the loan and the client need pay nothing up front if they choose not to.

A valuation fee may be chargeable on a residential loan in some circumstances, and is always chargeable where the security is an investment property.

Residential interest rates start at 4.55% which are comparable with mortgage rates. If a client has some adverse credit, then the rate will increase accordingly.

Rates for loans secured on buy-to-let properties start at 5.75%.

Conclusion

For the broker who wishes to remain independent, it is essential to understand when second charge loans will a better financial outcome for the client. It is even more essential to partner up with the correct packager.

Chaseblue Loans has been a leading UK loans packager for 10 years, and currently holds the Highly Commended title for 'Medium-sized broker of the Year'. Our team of 60 people are experts in taking enquiries from mortgage brokers and converting them into second charge loans.

Our second charge loans advisers are trained to a very high standard and they understand that when you send your enquiry to us you expect us to get on with it with the minimum of fuss.

By entrusting your enquiries to, you can be assured that your client will receive the very best service possible.

We look forward to working with you soon.

CHASEBLUELOANS

Chaseblue Loans,
Palmersvale Business Centre,
Barry, CF63 2XA

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.

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