10 things you may not know about second charge mortgages

By Roger Crocker, Sales and Marketing Director at Mortgage Brain

It's fair to say that second charge mortgages have had a chequered reputation in the past.

But the past is the past. The now and the future is what's most important and these days second charge mortgages are enjoying a renaissance of sorts, with more and more lenders and advisers getting into the market than ever before, coupled with their wider and more mainstream appeal.

Figures from the Finance & Leasing Association state that new second charge mortgage business grew 8% by value and 15% by volume in March 2017 compared with the same period last year. The FLA also reported £76m worth of new second charge lending in February 2017 – an increase of 10% on the previous month.

It would also seem that too many advisers don't know enough about second charges. A recent industry poll found that 50% of respondents said that educating advisers about the second charge loan market was the number one factor that would drive growth.
So, if you're an adviser who's not sure about whether to offer second charge mortgages to new and existing clients, here are 10 things about them that may help you to make up your mind.

1. It's never been easier to offer second charge mortgages

The introduction of the Mortgage Credit Directive (MCD) means that second charges have now moved from the jurisdiction of the Consumer Credit Act (CCA) to being governed by the FCA's Mortgage Conduct of Business rules (MCOB). Advisers must now consider second charge lending when discussing options with their clients, and this gives an obvious 'in' to the conversation. Furthermore, advisers can choose to advise themselves or pass to a professional master broker.

2. There's more choice in the market

With more lenders coming into the market, there are more products available and a wider range of rates giving clients more options and more choice. This also drives competition, which leads to lower rates.

3. Second charge loans are fast

When second charge loans came under the CCA, there was a cooling off period of around two weeks. Now they are under the auspices of the MCD, this becomes a seven-day period that can be waived. In the right circumstances, a loan could be arranged in a matter of days.

4. Fees are coming down

As more lenders enter the market, and more products become available, the whole sector is becoming more competitive. And unlike other forms of secured finance, there is very seldom

a need to get a solicitor involved. This makes the product, as a whole, more attractive to borrowers.

5. Second charge loans can leave the main mortgage undisturbed

Many homeowners will be enjoying very low rates on their mortgage at the moment. This could change if they opted for a remortgage with new rates and potential early repayment or arrangement fees coming into the mix. A second charge loan eliminates this risk.

6. The second charge loans market is for everyone

There was a time when second charge loans were seen as the last hope for those with few to little options. Not anymore. With many people having so much equity in their properties, it's only natural to want to borrow against it, maybe for a holiday home, a buy-to-let property or a business venture. A second charge loan is an extremely viable option.

7. A second charge loan is flexible

A second charge loan can be spent on anything the client desires, as long as it's legal, and – as it is independent of the mortgage – it can have more flexibility, such as different payment terms.

8. A second charge loan can be good for customers whose circumstances have recently changed

Getting a remortgage requires a lot of information and if a customer’s circumstances have recently changed, they may find that they do not meet eligibility criteria. A second charge loan could be the answer as they have wide ranging criteria and would leave the current mortgage in place.

9. Clients can borrow more at a lower rate

The marginal rate of a mortgage can be very high at higher LTV ratios and often in double figures. A second charge loan means that only this element of the loan is at a higher rate. This is not only cost effective but, if the new second charge loan is the first loan to be repaid, the underlying mortgage – with its lower rate – remains intact.

10. The second charge loans market is forecast to grow

Partly due to the impact of the MCD, and partly due to the extra competition, the second charge mortgage market is forecast to grow. The initial forecasts of a boom have not materialised, but over time the market is expected to grow steadily.

Don't miss out! Get educated and realise the potential.