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Welcome to the latest ASTL Newsletter.

This is our first newsletter of 2022 and we have a packed edition of news and features, including:

- Latest lending data
- An update on our customer research
- News on our engagement with the FCA
- New lender update
- And features on the return of full-fat lending, sustainability and the buy-to-let market

To begin with, however, given the very serious situation in Ukraine, we would like to make some observations on how this could impact our market.

The war in Ukraine is something we have not witnessed on this continent since the Second World War and undoubtedly it will have a marked effect on our economy in terms of consumables and energy costs and may prove increasingly challenging for consumers and their affordability.

This is likely to be met by increases in bank base rates, the tool used by the Bank of England to calm inflation. This will come at a bad time given the recent and severe hike in energy prices and may well serve to slow the recent boom in house sales, and price rises.

As bank rates, and variable mortgage rates rise, this may prove a challenge to borrowers ability to manage their mortgage payments. If this proves to be the case then borrowers should make an early call to their provider who will always look to be supportive.

It is probable that the financial regulator will increase their already stringent review of Money Laundering activities, given the sheer weight of Eastern European funds which are likely to be washing through the investment and property marketplace. This has been under the spotlight for some years and remains an increasing issue.

This will increase the welter of due diligence lenders have to undertake, pushing approval timescales ever further.

It is understood that some non-high street mortgage lenders may have raised funds, quite legitimately, from Eastern European Banks and financial institutions and it is possible that these supply chains may now dry up due to the sanctions which have already been imposed, and those to follow. This may affect some who have mortgage agreements in the pipeline.

Thank you to our members and associates who continue to provide their expertise through their contribution to this newsletter. If you would like to submit a contribution or have any requests for future content, please let us know.

NEWS INSIDE

ASTL UPDATES

Latest Lending Data

The latest ASTL data shows a record period for bridging lending in the last quarter of 2021, with completions and applications both reaching an all-time high.

The figures, compiled by auditors from data provided by members of the Association of Short-Term Lenders, show bridging applications reached a record high of £12.7bn in the quarter ending December 2021 – an increase of 65.4% on the previous quarter, which itself was a record period at the time.

The value of completions in Q4 2021 increased by 19% on Q3, reaching a new record of £1.2bn. And this led to another increase in the value of loan books, which reached £5.08bn at the end of December, representing a slight on the previous quarter, which was £5.07bn. According to the data, average LTVs increased slightly from 59.8% in Q3 to 61.2% in Q4.

The value of loans in default continued to fall, for the fourth consecutive quarter, showing a decrease of 7.6% over September 2021. The number of repossessions also fell slightly, indicating a continued robust approach to underwriting.

Vic Jannels, CEO of the ASTL says: *"I am often asked to provide my thoughts on the health of the current bridging market, but these statistics are more powerful than my words ever could be. We are in a position where loan books are at a record level, completions are higher than they ever have been and there is a strong pipeline with record and rising application numbers. Even more positive, however, is the indication that this lending is being delivered without any significant advance up the risk curve. LTVs have crept up but remain modest and falling values of loans in default and numbers of repossessions indicate that risk is being well managed.*

"These lending figures are a clear sign that bridging is becoming more established as an invaluable piece of a broker's toolbox for a range of purposes. And, as more brokers engage with this fantastic market, we would always recommend that they seek out ASTL lenders as a benchmark of quality and customer focus."

Consumer Research

We have recently completed our research in conjunction with YouGov amongst more than 2,000 consumers, about their awareness and opinions of the bridging market.

We will soon be circulating the full results of this research to our members as we work on the creation of a White Paper that will include these findings alongside information about the sector and input from our community. The White Paper will then form the basis for our consumer education PR campaign.

In the meantime, here are the headlines:

- Awareness of bridging finance is high (67%).
- However, less than half of people (43%) understand how bridging can be used.
- And only 4% of people would consider bridging for any purpose in the next 12 months.
- Concerns about exiting the loan and high rates are the biggest barriers to people considering bridging.
- However, more than half of people (54%) admit to not knowing how much bridging rates are.

- Only 21% say they would go to a broker to arrange a bridging loan.
- And only 17% say low rates is the most important factor in choosing a bridging lender. This is followed by well-established brand and recommendation from broker (both 11%) and, then membership of a trade association like the ASTL, which was the fourth most important consideration (9%).

Look out for the full results soon.

Compliance update

We recently submitted a response to the FCA consultation CP21/36 – A New Consumer Duty, representing the interests of the short-term lending sector. This response was kindly produced by Ray Cohen and has already gained traction with the regulator. In fact, we have been invited to further discussion with the FCA which is a very positive step in the right direction. If you would like to talk through the consultation and our response, please get in touch with Ray.

New member update

We are pleased to welcome Glenhawk as the latest lender to join the Association of Short Term Lenders (ASTL).

Glenhawk provides swift, competitive short-term property finance to help clients realise opportunities and progress developments. The lender has built its proposition on an accessible senior-leadership team, who are deeply experienced in the real estate and financial worlds with dedicated underwriters able to guide and support every loan from the initial enquiry through to the loan completion.

HAVE YOUR SAY

IS NOW THE TIME FOR A FULL-FAT APPROACH?

For some time now there has been concern that expansion in the bridging market has been as much about the appetite to lend than a natural growth in sensible lending opportunities; with scalability king and margins squeezed.

It was thought and hoped by some, that Covid might reset the market, helping it return to its traditional values and a re-evaluation of the risk, of which established lenders are all too aware, but perhaps newer entrants have not yet experienced.

If anything, Covid appears to have simply turbo-charged demand.

Inflation is on the rise, significantly, as the general media are all too keen to publicise. Equity markets are now showing volatility and vulnerability, and interest rates have moved upwards, twice in succession. Whilst the traditional risks of fraud, valuation and regulatory issues have not gone away.

So, could a much-anticipated reset in the property market be next? And if it is, is now the time to re-think the one-dimensional skinny approach to bridging lending?

Without doubt, it is time for most lenders to remind themselves that this is not the mainstream market, where loans are easily originated and recovered en masse and with a light touch – where margins are thin and costs are stripped down.

The danger in skinny lending is that every part of the process becomes commoditised and transactional to the extent that a damaging individual transaction may meet basic requirements, only to be uncovered by digging deeper.

When volume becomes the main driver, risk control and expertise can be sacrificed. This includes the way in which a lender works with its partners, such as its legal advisers. With a skinny model, documents are produced and contracts are executed to a relatively basic level, with little else by way of added value.

This model can work, in some markets, and does, but in bridging where circumstances can be complex, and flags deliberately concealed from lending principals, relationships are key, as is time, diligence, expertise and experience. A healthy property market disguises mistakes, a regressive one often lays poor judgment bare.

I'm a firm believer that this sector thrives with a multi-dimensional, full-fat approach to lending. This means something that is trusted relationship based and service driven, with thicker margins to allow for sensible process proportionate to the lend and security, caution and diligence. Full-fat is not particularly fashionable at the moment, but in the longer term it can be more nourishing in delivering a healthier more robust and future-proof market.

From a legals perspective full-fat means proper diligence, sensible investigation, and the right level of time commensurate with the value of the transaction. And added value too, lawyers used to be seen as persons of wisdom, not just another service supplier. Lawyers also have a broad range of experience and can support lenders in better understanding the pitfalls of their business and the issues within it, which the lenders may not have experienced themselves; identifying solutions and supporting best practices and development. The standard contractual stuff is a given, but it's in this partnership-based approach that the bonus value lies and a skinny model simply does not allow for this.

A natural response to this might be to say "well, you would say that wouldn't you", but as a provider of legal services to the industry my business is, predicates on the success of my clients.

So, our interests are aligned, In bridging full-fat may be the healthy option in an ailing property market.

Jonathan Newman, Senior Partner at
Brightstone Law

ACHIEVABLE DEADLINES FOR DEVELOPERS TO GO GREEN

Making positive steps towards tackling climate change has been in the spotlight for a while now within the property market. The Government's pledge for the UK to reach Net Zero emissions by 2050 involves all industries and the property market is obviously no exception. Achieving this necessary goal certainly comes with a unique set of challenges, especially as a range of the measures have deadlines before 2030. Landlords and developers alike will need to understand the requirements early and work towards these timescales to avoid potential fines and help the UK meet this important deadline.

Towards the end of last year, we explored the requirement for non-residential commercial properties to have an EPC Level C rating by 2027, increasing to a Level B rating by 2030, in one of our blogs. There are conditions and exclusions around this change to the minimum energy efficiency standard (MEES), such as for listed buildings where compliance would mean unacceptably altering their character or appearance. Gaining a good understanding of the regulations will certainly go a long way towards helping those who provide rentable commercial properties to make plans now. Of course, the success will also depend greatly on tenants and landlords pulling together, and we have helped many maintain those valuable relationships through negotiation.

A more imminent change in legislation is due to come into force this year, requiring all new homes in England – as well as refurbishments in some cases – to have charging points for electric vehicles (EVs). This update to building regulations sets forth that every dwelling with associated parking will have at least one charging point, to aid the roadmap laid out to move away from fossil fuel powered vehicles. Couple this with the banning of gas boilers in new-builds from 2025 and developers have much to think about.

Despite the challenges these seemingly significant eco-friendly changes to property development regulations may present, the timelines for each does appear to have been carefully considered and are therefore realistic and achievable. It is also good to see that consultations have taken place to ensure that those affected have been given an opportunity to provide valuable input. While it may not be an easy path for some to tread, I cannot see anything other than shortages in supply holding developers and landlords back from achieving the goals set for them.

Hari Hirani, Director at [Anderson Wilde & Harris]

CONQUERING THE RISING ISSUES FACING BUY TO LET INVESTORS

The upward rise in property value has led to a growing popularity for the buy-to-let sector. These types of properties are particularly attractive for buyers, due to their combination of capital rise and ongoing rental yields on offer. MFS recently commissioned an independent survey, focusing on what we expect to witness from the property market during 2022 and was carried out by 2001 UK adults. From this, we discovered that 38% think house prices will increase by up to 5%, matching many of the expected rises predicated by Halifax, Rightmove and Savills.

However, the growing interest in the market has opened a door to ongoing complications that borrowers now need to consider when looking for a buy-to-let mortgage.

Delays in the delivery of a loan can cause serious issues for buy-to-let investors. They leave open the door to gazumping tactics, whilst complicating and elongating property chains. Our survey uncovered that 38% of adults asked, agree that complexities and a long wait time are challenging when looking to buy an asset in the current market. However, speed is not everything.

The expertise and flexibility of lenders also needs to be considered by buy-to-let investors. Indeed, many property investors will not satisfy some tick-box application methods, particularly those set by traditional lenders, such as high street banks. For borrowers facing complex circumstances, there are several factors that could hinder their property investment. Perhaps they are first-time buyers looking to invest in buy-to-let, purchasing via a property auction, live outside the UK or are acquiring an asset as a limited or offshore company. In the current climate, buy-to-let investors must find trusted lenders that are knowledgeable and experiences in the market.

Paresh Raja, CEO at [Market Financial Solutions]

UNTIL NEXT TIME

We hope you have enjoyed the latest edition of the ASTL newsletter. Remember, we value your feedback, so if you have any comments, or would like to register your interest to contribute in the future, please contact Alex Hammond (alex@alsocomms.com)