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INTRODUCTION

In April 2014, the Mortgage Market Review (MMR) brought into force new rules that were set to change the mortgage market in the UK, now and in the future. Brought in by the Financial Conduct Authority, the rules were designed to ensure that lenders would be more careful about whether applicants could afford a mortgage, and to ensure that the mortgage better suited the needs and circumstances of the prospective home buyer.

In a report commissioned by Experian in April 2014, it was revealed that three quarters of prospective homebuyers were confused about how the MMR would affect them. Now, one year on from the implementation of the MMR, it seems that there is continued uncertainty amongst potential homebuyers. 37% of those surveyed said that the changes have made them feel less in control of securing the mortgage they need.

The MMR is not the only regulation affecting the market, though. From March 2016, the UK is required to implement a range of further obligations as part of EU legislation called the European Mortgage Credit Directive. Yet, currently, only one in five are aware of the impact the changes might have on them.

This report, *The Mortgage Muddle, One Year On From The MMR*, provides insight into the extent of this ongoing confusion, and highlights some of the issues homebuyers have faced in the past 12 months.
WHO ARE THE ASPIRING HOME BUYERS?

Those who have been looking at buying a home over the past year encompass a broad range of ages and locations. They include everyone from first time buyers, to those who want to move to suit their personal circumstances and people who are buying a second property to let out.

While the types of buyers remain the same, over the past year the highest proportion of potential homebuyers has shifted from those aged 30-34 years old to those between 35-44 years old.

The geographical locations of those who have been looking to buy have also shifted slightly since 2014, with the highest proportion of potential buyers coming from the South East as opposed to London, though the geographical split remains relatively even across the country.

**Age groups**

- 18 to 24 = 4%
- 25 to 34 = 23%
- 35 to 44 = 26%
- 45 to 54 = 18%
- 55 to 64 = 20%
- 65 plus = 10%

**Gender**

- Male = 43%
- Female = 57%
The importance of dependents and the need for more space

It is hard to imagine a financial decision not influenced by dependents, whether that be children, elderly relatives or family with another care need. The majority of aspiring home buyers have at least one person who they identify as a dependent.

While most people revealed they have between one and three dependents – almost 5% of aspiring home owners have more than four dependents to consider in the search for a new home.

Perhaps unsurprisingly, the biggest factor motivating aspiring UK home buyers in the 12 months since MMR has been the need for more space. 24% of people said this was the number one driving force behind their search, closely followed by 23% who were looking for an investment property.

THE MORTGAGE MUDDLE, ONE YEAR ON

The Mortgage Market Review was introduced in April 2014 to ensure more responsible lending both at the time, and for future mortgage applicants. However, one year on, it seems that the continued confusion and lack of understanding is causing disappointment amongst would-be home buyers, with 45% of those who planned to buy a property since the introduction of the MMR failing to do so. A quarter believe that the MMR has impacted their ability to buy a property.

The story becomes even more interesting when we look at the types of buyers. The number of buyers joining the property market for the first time rose by 22% in 2014 to 326,500 people. But with the average cost of a home bought by a first time buyer now over £170,000, younger people are finding things tougher than ever before. As a result, the average age of a first time buyer has been steadily increasing over recent years and is now 30 years old.

Understanding the rules of the game and being clear about personal plans and credit status are now more important than ever. In our survey, younger people show greater signs of a lack of understanding than older groups. Aspiring home buyers from younger categories also feel less in control than older house-hunters.
The issue of control and the MMR

The ‘Financial Capability of the UK’ report from the Money Advice Service in 2013 and government sponsored projects such as ‘Money Lives,’ cite a sense of control as a critically important part of financial health and capability.

This is nothing new. However, this report found that 37% of all aspiring home buyers in the UK feel less in control of getting a mortgage since MMR was launched, with just 16% believing the new rules have put them a lot more in control.

How is the MMR really impacting people’s ability to buy?

According to the research, the majority (63%) of aspiring home buyers felt that the MMR had impacted their application, due to lenders being more careful on whether they could afford repayments while, worryingly, 15% of people believed that the MMR had caused lenders to relax lending rules.

A separate report commissioned by Experian in April 2014, The MMR Muddle, highlighted that a concerning 43% of aspiring home buyers believed that MMR would mean that they could apply for mortgages with smaller deposits than before. One year on, 23% of people still mistakenly believe this to be the case.
The reality of the MMR has hit home for some. 14% of people have now said that they were unable to buy because their deposit size was too small. Of this group the overwhelming majority (73%) were between the ages of 18 and 44. Though a sizable 29% were between 25 and 34, the story was not dissimilar amongst older would-be home buyers. Even in the 35-44 year old age group, 19% are still struggling to raise an adequate deposit one year on from MMR.

It seems that there is a need for further education. Increasing people’s awareness and encouraging them to look at their personal planning will help to ensure that people properly understand the rules of the game and, crucially, what the new rules might mean for our future applications.

Other factors affecting mortgage applications:

Deposit size is not the only factor affecting would-be buyers. Of those who were unable to secure a mortgage, other factors were blamed:

- 12% were unable to secure the size of mortgage they needed
- 5% did not meet the criteria outlined by lenders
- 4% said the interest rate they were offered made buying unaffordable
- While a worrying 11% didn't know why their application had been refused or had not asked their lender

The situation is even more difficult for first time buyers:

- 4% said their deposit was too small
- 17% were unable to borrow the amount they needed
- 8% did not meet the criteria outlined by lenders
- 10% said the interest rates they were offered made buying unaffordable
No appetite for switching

Only 16% of home buyers are looking to switch to a new mortgage in the next 12 months even if that mortgage was at a cheaper rate. The majority (65%) of people plan to remain with their current provider. This lack of movement in the market demonstrates how a desire for stability and caution, compounded by news of tough new rules on the horizon can impact buying decisions. This may also reflect the large number of people who are on interest-only mortgages, who could be likely not to meet the new affordability criteria if they were to try move to a different lender on a cheaper deal.

Rising prices, income and toughening budgets

UK house prices grew significantly (9.5%) during 2014, potentially pricing more would-be buyers out of the market. Mortgage and official house price data for March dispelled widespread predictions that election uncertainty would cause a dip in activity in the market. One year on from MMR the story is still one of a housing market that is growing at a rate that leaves it out of reach for many people.

Most aspiring UK home buyers (60%) surveyed have a combined household income of less than £50,000 per year, while just 15% earn anything over £70,000, even when combining all earners in the household. With the average asking price of a new UK home now at an all-time high of just over £280,000 (Rightmove report April 2015), successfully securing a mortgage does not always mean an end to worry for many UK families.

This survey found that the majority of potential buyers were looking for homes valued between £100,000 and £400,000, increasing slightly in London and the South East where many buyers are looking to buy a property between £200,000 - £500,000 at 55% and 51% respectively.

Many people are working to tight budgets when it comes to how much they can afford to set aside for a mortgage. In fact, 58% of those surveyed cannot afford a monthly repayment of more than £999, increasing to 68% for first time buyers.
THE POWER OF PLANNING – THE IMPACT OF YOUR CREDIT RATING

Once potential buyers have understood the current mortgage market, proper planning will be the key to whether they are able to secure a mortgage or not.

The fact is, homebuyers need to get their finances in the best shape possible to stand the best chance of securing the mortgage they need. Despite this, many are still not preparing adequately when it comes to ensuring that their financial situation is in order.

Fewer than one in ten (8%) potential buyers have checked their credit report in the past six months, much less than last year when one in four (23%) had checked their score over a six month period. This increases to almost two thirds (61%) who have failed checked their credit report in the past year, or at all.

Who is most affected by their credit score?

Having a poor credit rating is often associated with people from the lowest income groups. However, this survey shows how those in the ‘middle’ seem to have been most impacted by their credit score over the last 12 months.
Aspiring home buyers in this middle income group are revealed as twice as likely as lower earners to be turned down for a mortgage due to poor credit scores. Planning is key to overcoming these issues, particularly for middle income families as the scrutiny on UK mortgage applicants continues into 2016/17.

FUTURE REGULATION

The MMR is not the only thing impacting would-be buyers. The imminent implementation of the EU Mortgage Credit Directive (ECD) will prompt even more red tape in the mortgage market for potential buyers and those looking to renew their mortgages. Despite this, just 21% of potential buyers were aware of the impact the ECD would have on their own ability to buy.

Though many of the rules that the ECD will introduce relate to those who are considering buying property abroad, the regulation is also likely to impact those who receive their salary in a foreign currency as well as those who might look to re-mortgage with a different lender.

When it comes to perceptions of these new mortgage regulations, perhaps unsurprisingly those who believe the new rules will help them with future applications tend to be from the wealthiest group.

Income band
[of those who think ECD will help]
HELPING WOULD-BE BUYERS THROUGH THE MUDDLE

As potential buyers look at applying for a mortgage after the Mortgage Market Review, there are several factors that they should keep in mind:

1. **Know what you have to spend**: Consider what funds you can draw together to form your deposit. The size of your deposit will often dictate how much you face in terms of interest rates and lender fees.

2. **Do your research**: Use mortgage calculators and comparison websites or speak to a mortgage adviser to find out where the best deals are and what type of mortgage will suit your circumstances. Work out what you can afford to borrow and repay, both now and if rates rise by 1%, 2% or more.

3. **Scrutinise your spending**: Scrutinising your last few months’ outgoings carefully will help you understand exactly where your money is going. Prepare now by building good habits like increasing the amount you save, clearing overdrafts and cutting back on discretionary spending to ensure you close out the month with even a small surplus.

4. **Check your credit report**: As soon as you make the decision to buy, check your credit report with all three credit reference agencies. Ensure everything is accurate and up to date and reflects your current circumstances. Ensure all of your open credit accounts are recorded and that any old accounts have been marked as “settled”. If you spot anything inaccurate, contact the relevant credit reference agency and ask them to investigate the entry with the lender.

5. **Room for improvement**: If your credit report has room for improvement, take steps now to get it into shape before making your mortgage application. There are a number of steps you can take, including ensuring you’re registered on the Electoral Roll; paying down outstanding balances to less than 50% of your limit; paying off more than the minimum repayments on your credit cards each month and making sure never to miss a repayment.

6. **Don’t fall at the last hurdle**: Right before you make your application, take time to do some last-minute checks. Check your credit report again to make sure nothing has changed and everything is accurate right before you apply. Check the exact way your address and other personal details appear on your credit report. Small inaccuracies could see your application turned down, so don’t overlook the details.