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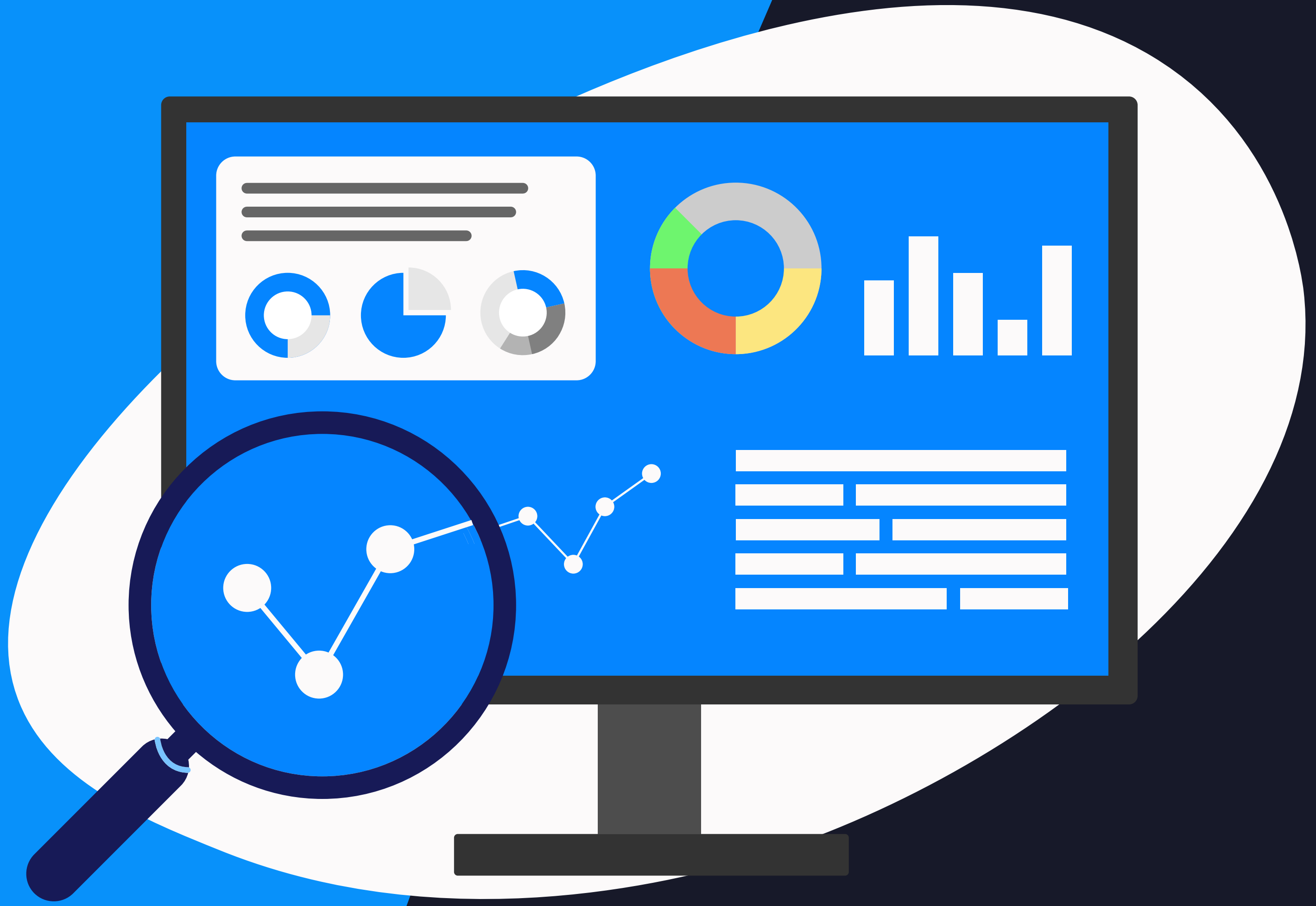
Key insights for your business

What to expect from the mortgage market in 2022



Overview

1. Mortgage rates will rise in 2022 as the Bank of England further increases the base rate
2. The mortgage market is set to remain busy and competition among lenders will be high
3. Borrowers with small deposits are likely to have more choice and access to lower rates, as lenders focus on this segment of the market
4. Affordability criteria for mortgage customers is set to be relaxed
5. Borrowers will have the option to lock into fixed rate mortgages for product terms of up to 40 years
6. April and October will see highest level of maturities
7. Opportunities and challenges for advisers

Following a busy year for property transactions and the first interest rate increase for more than three years in 2021, here's a roundup of what's instore for the mortgage market in 2022.

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Further interest rate rises

The Bank of England's Monetary Policy Committee (MPC) caught the market off guard in December when it increased interest rates for the first time in more than three years, raising the official cost of borrowing from a record low of 0.1% to 0.25%.

But while the timing of the move was surprising, due to the economic uncertainty created by the omicron variant of Covid-19, an increase to the base rate had been on the cards for some time due to soaring inflation.

Inflation, as measured by the Consumer Prices Index (CPI), hit a 10-year high of 5.1% in November, more than double the MPC's 2% target. The minutes from the MPC's meeting show it is concerned that high inflation is set to persist for some time. Meanwhile, it is confident about the state of the UK economy, despite the threats created by omicron.

As a result, we can expect further interest rate rises in 2022. Economists are predicting Bank Rate will end the year at 0.75% or even 1%, with the next rate rise likely to come in the spring. But even if the official cost of borrowing does end the year at 1%, it is important to remember that it remains low by historical standards.

What does this mean for mortgage rates?

When the Bank Rate increases, mortgage rates tend to follow. That said, markets had already been on the alert for an interest rate rise due to high inflation, so much of December's increase had already been priced into mortgage rates before the MPC made its announcement.

As a result of this, combined with the fact that the increase was only 0.15%, lenders are not expected to embark on a large-scale repricing of their mortgages, so new borrowers shouldn't see much impact.

The news is less good for homeowners who are currently on variable rate mortgages, such as tracker deals and lender's standard variable rates. The rise in the cost of borrowing will be passed on to these customers almost immediately, leading to higher monthly repayments.

Going forward, with further interest rate rises expected, mortgage rates are likely to trend up during the coming year, although some of the anticipated future rate rises have already been priced in. Overall, it is fair to say that the era of record low mortgage rates is coming to an end.

Clients who are considering remortgaging this year should lock in a new rate soon, while they remain low. Although lenders have pulled their very cheapest deals, there are still highly completive rates out there, with many leading deals starting at a little over 1%. That said, clients who haven't yet come to the end of their current product term should look out for early redemption penalties if they're looking to exit early.

Meanwhile, it is important to keep interest rate rises in perspective. December's hike of 0.15% adds just £14 a month to repayments for someone with a £200,000. Even if rates rise by a further 0.75% during 2022, mortgage repayments would only go up by £71 a month on a £200,000 loan, assuming mortgage rates rose in line with the official cost of borrowing.

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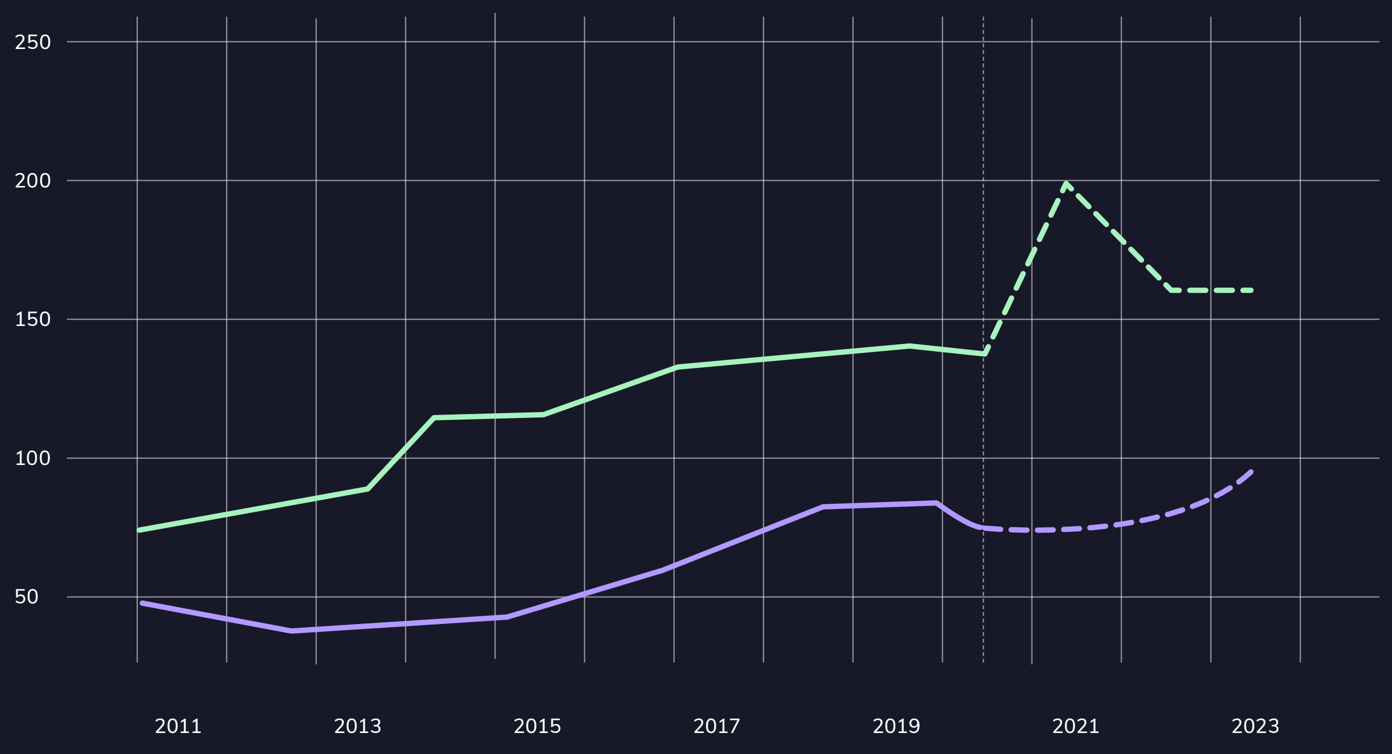
Another busy year for the mortgage market

Rising interest rates aside, 2022 looks set to be another busy year for the mortgage market. Mortgage trade body UK Finance has said 2021 was a record year for mortgage lending, with lenders advancing an estimated £316 billion, 31% more than in 2020. Around two-thirds of this figure was driven by home buying activity, as successive lockdowns caused people to reassess where and in what type of property they wanted to live.

Looking ahead, UK Finance is predicting lending levels will remain buoyant. It expects total advances to reach £281 billion in 2022, slightly down on 2021's total on the back of less frenzied activity in the property market.

Its prediction is good news for borrowers as it suggests lenders remain very much open for business, while competition among them should remain high, meaning they will continue to launch eye-catching deals.

Gross mortgage lending, £ billions



Intense competition for borrowers with small deposits

With competition among lenders already fierce, banks and building societies are increasingly turning their attention to borrowers with small deposits.

This sector of the market has been somewhat neglected in the past 18 months, as pandemic-wary lenders focused on homeowners with large equity stakes in their property, withdrawing many of their products for people with deposits of just 5% or 10%.

But with margins on low loan-to-value business already at razor-thin levels, the tide has started to turn. In December, the average interest rate charged on two-year and five-year fixed rate deals for people with just a 5% deposit fell to a record low, according to financial information group Moneyfacts. At the same time, there was an increase in the number of different deals available for people with low equity stakes or small sums to put down, with products for people borrowing 90% or more of their home's value accounting for 20% of market for the first time since the pandemic struck.

Choice has also increased across the wider mortgage market, with the number of different products available to borrowers to choose from reaching its highest level since 2008. This trend is expected to continue into 2022, as lenders feel reassured that the Covid-19 pandemic is not going to trigger a steep rise in unemployment and, by extension, home repossessions.

£281 Billion

Lending levels to reach £281 billion in 2022

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Looser affordability criteria

A significant change that is expected to come into force in 2022 is an easing in mortgage affordability criteria.

One rule that has long irked potential borrowers is the need to demonstrate that they can not only afford their mortgage now, but that they could continue to afford it if interest rates increased by 3% and they were put on to their lender's revert rate – most commonly known as the standard variable rate – which is typically around 4.5%. The rule was introduced in the wake of the Global Financial Crisis to ensure borrowers could keep up with their mortgage repayments even if interest rates rose, to protect the financial system from high levels of household debt.

To put the rule in context, it means someone who was applying for a fixed rate mortgage with an interest rate of 1.99% would have to demonstrate that they could still afford repayments if they were being charged at a rate of 7.5%. The rule hit first-time buyers particularly hard and led to situations where people were told they could not afford a mortgage, even though their monthly repayments would be lower than the rent they were currently paying.

But things are set to change. The Bank of England's Financial Policy Committee announced in December that following a review, it had decided the rule was no longer needed. Instead, it said a limit on the proportion of lending banks and building societies could advance to people borrowing a high multiple of their income, combined with other affordability rules introduced by regulator the Financial Conduct Authority, were sufficient to ensure financial stability.

It now plans to consult lenders and other stakeholders during the first three months of 2022 on withdrawing the rule.

Longer fixed rate deals

Fixed rate mortgages, under which payments do not change during the product term, are already the most popular type of mortgage in the UK. In fact, 96% of mortgages advanced since 2019 have been fixed rate deals, according to UK Finance.

The popularity of these loans is likely to increase further in 2022 now that interest rates have started to rise again.
While fixed rate products typically have terms of two, three or five years, there has been an increase in the availability of 10-year deals in the past couple of years.

Things went a step further in 2021, with the launch by two lenders of deals that enabled borrowers to fix their interest rate for up to 40 years.

This new breed of long-term fixed rate mortgage is significantly more flexible than traditional fixed rate loans, giving borrowers the option to exit the deal without facing high early redemption penalties under certain circumstances, such as if they moved home.

With ultra-long fixed rate mortgages already popular in a number countries, and two lenders launching in this space in the UK in quick succession, others could well follow suit in 2022.

96%

96% of mortgages advanced since 2019 have been fixed rate deals

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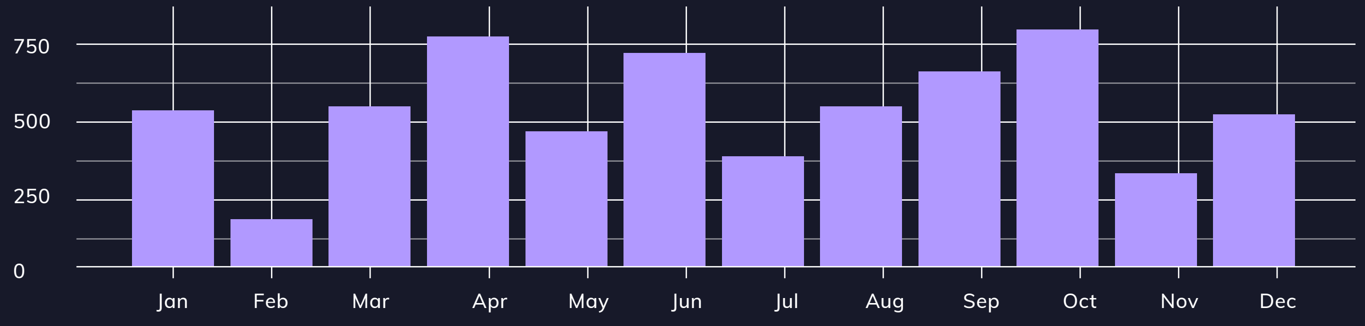
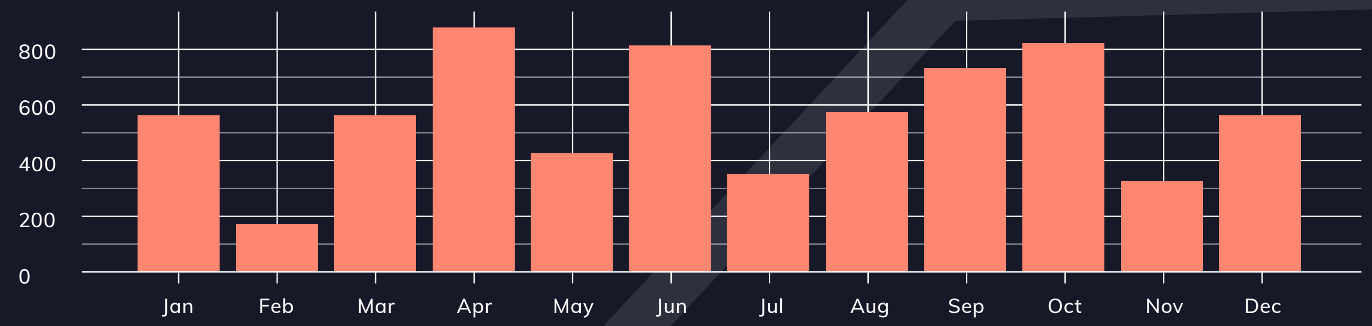
Remortgage opportunities peak

2022 Maturities, £ million



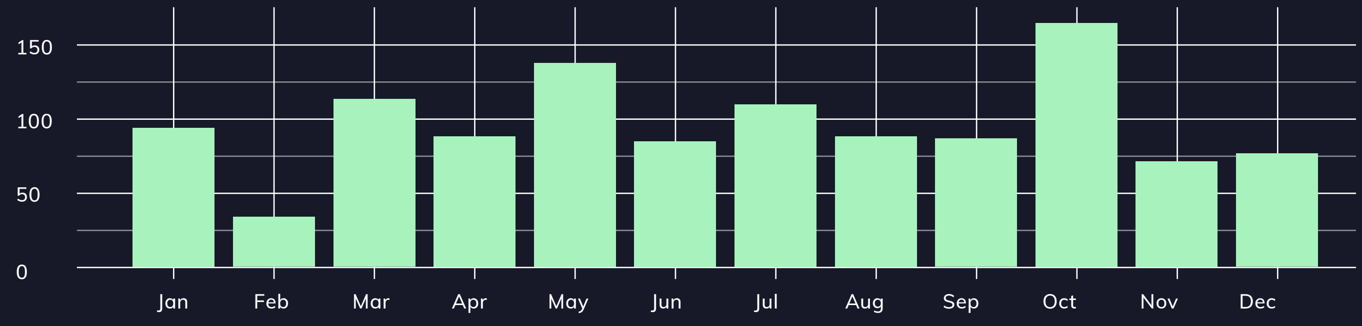
According to our proprietary data*, April 2022 and October 2022 will see the highest volume of maturities for the year. With £925m in April and £949m in October, meaning that October will see the highest volume of product maturities for 2022.

2022 Owner-Occupied Maturities, £ million



For residential (owner-occupied) mortgage maturities, April will see the highest volume of maturities at £835m, closely followed by October with £782m and June with £773m. Most of these products are split across 2- and 5-year initial terms, with 2-year products making up 58.8% of the total residential maturities for 2022 and 50.7% of total combined mortgage maturities.

2022 Buy-to-Let Maturities, £ million



As for buy-to-let maturities in 2022, brokers can expect the first peak of opportunities in May with £139m and the highest volume in October with £166m.

Buy-to-let saw one of the biggest increases in 2021, with purchase activity up 83% to £18bn. Since 2021, the rate of 5 year buy-to-let product maturities has risen by 14.7% with the rate of growth almost doubling year-on-year. Showing an upward trend in the uptake of longer-term fixed deals for landlords and a decrease in, albeit still dominant, 2-year fixed products.

What we can see is the share of maturities on 5-year products is growing steadily for both residential and buy-to-let year-on-year. In 2017, UK finance reported that 3 in 10 borrowers opted for 5-year fixed deals, which has risen to about 45% in 2021 whilst 2-year fixed deals have seen a similar decrease over the same period.

Clients are in favour of longer fixes in lieu of potential interest rate hikes and the increase in cost of living. As the proportion of longer fixes grows, so does the length of the customer journey and the need for multiple touchpoints to nurture this relationship.

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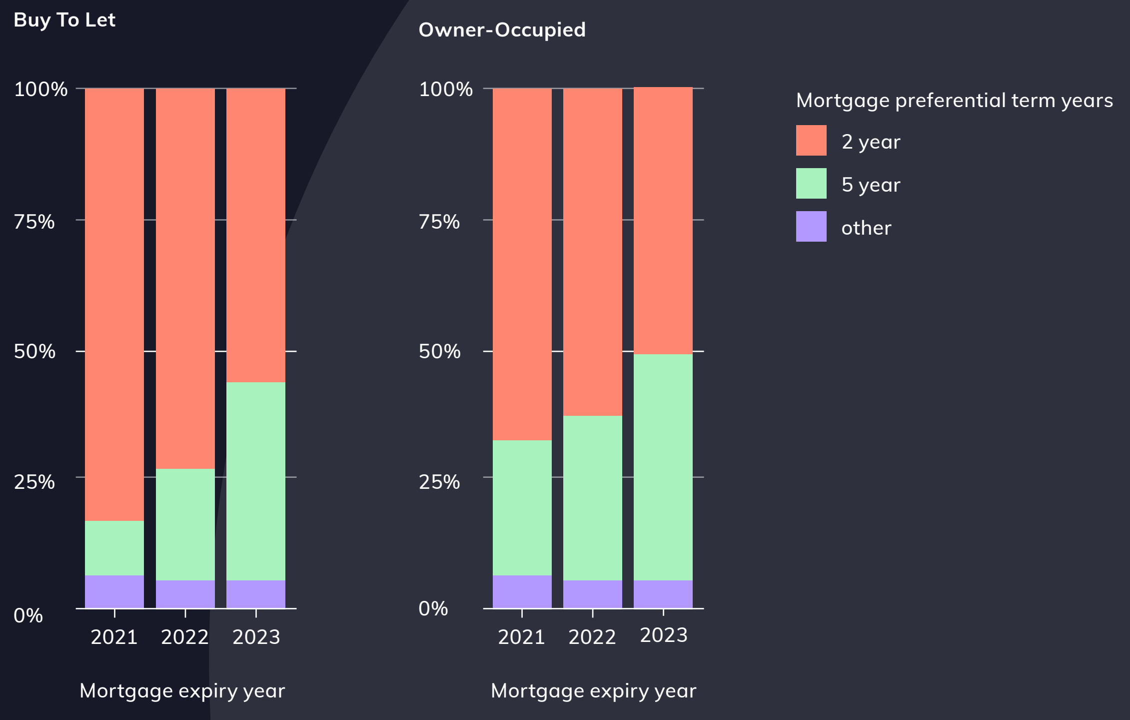
Share of 2,5 & other fixed-term product maturities



According to UK Finance, homeowner remortgaging activity is set to pick up over the next two years, reaching £69bn in 2022 and a significantly greater £93bn in 2023 – which highlights many opportunities on the doorsteps of advisers over the next two years alone.

These peaks in remortgage opportunities for financial institutions prompt the significance of having clear cut, planned, client communication strategies in place to retain business

Challenges and opportunities for advisers in 2022

2021 was the year of opportunity for the mortgage industry, with gross lending reaching a high of £316bn. The year saw one in every 16 homes change hands, making it the busiest year in the property market for 14 years.

While demand is expected to stay strong in 2022, there are a lot of challenges facing the market. The biggest threat is rising inflation, with Consumer Prices Inflation running at 4.2% in October, the highest level for nearly 10 years and more than double the target of 2%. These lower levels of disposable income could act as a brake on the market. And, while omicron may not impact the housing market directly, it could slow the wider economy, particularly if social distancing measures are reintroduced, leading to slower wage growth and even rising unemployment.

The pandemic has accelerated the tech adoption throughout the industry, pushing institutions towards embracing technology in their business. Such technologies have helped improve efficiency surrounding customer journeys for all stakeholders involved. This tech has also contributed to improving client engagement, digitising processes, and growing revenue opportunities despite the lack of face-to-face. As we move into 2022, operational challenges for advisers will continue to surround key themes: efficiency, digitisation, lead generation, hiring and diversification of income.

Gross lending is due to dip by £35bn in 2022 as the market stables which gives firms a chance to catch their breath and an opportunity to set themselves up for sustainable growth. This will give businesses a chance to audit their existing processes and systems and identify where they can innovate with the support of technology, to prepare for opportunities on the horizon.

The most sustainable form of business growth is to retain your existing customers, so no doubt we will see an increase in firm adoption of tools and technology to enhance proposition for their clients. Advisers should already be contacting clients maturing in April's peak (as identified in our data), because it's only 4 months away. With so many fixed deals coming to an end there is also a great opportunity for advisers to cross-sell other products, such as insurance, when they reach out to give advice.

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Conclusion

2021 was the busiest year for the property market since 2007, we know we won't be seeing these levels in 2022. Although we will see a dip in gross lending, the mortgage market is set to remain busy with increased competition amongst lenders, more specialists due to enter the market, with potential introduction of new longer fixed-rate products and affordability criteria set to relax. The latter part of 2022 will likely see mortgage rates rise as the Bank of England further increases the base rate.

The market will see its highest level of maturities in April and October for 2022* and remortgage opportunities are due to increase by 35% in 2023. Highlighting a good opportunity for firms to retain a significant percentage of existing business. These peaks also highlight the significance of implementing long-term client communication strategies, else businesses face losing many clients to competition. Adopting technology can help support businesses to achieve sustainable growth, improve operational efficiency and combat other key challenges - emphasising technological innovation for business growth as the true opportunity for advisers in 2022.

**Eligible proprietary data accurate at time of writing, based on monitoring a mortgage volume of £18bn.*