SECOND CHARGE REPORT

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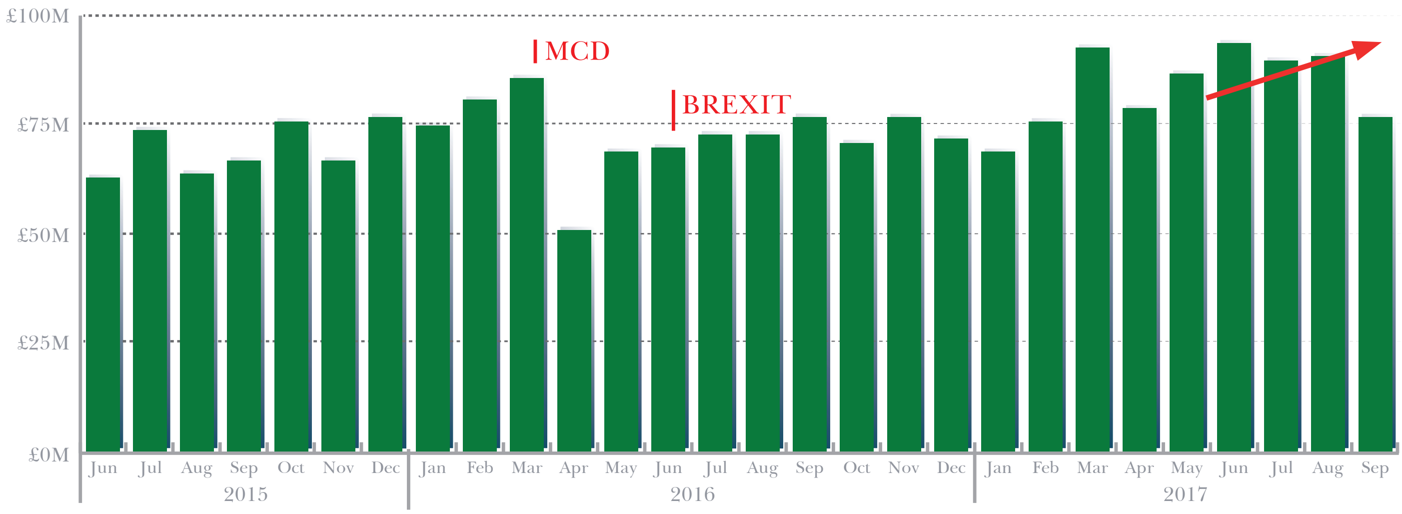
SECOND CHARGE SECTOR SHOWS SUSTAINED GROWTH AS CONFIDENCE CONTINUES TO RISE IN Q3

THE HIGHLIGHTS

- Second charge sector sees seven consecutive months of growth in annualised lending, reaching £979m for year to September 2017, up 10% on the same time last year
- Increases both in transaction volumes and average value
- Quieter month in September at £77m, following strong months in July (£90m) and August (£91m)

SECOND CHARGE MONTHLY LENDING



HARRY LANDY
MANAGING DIRECTOR

of Enterprise Finance, said:

"The second charge market has gone from strength to strength, shown by seven consecutive months of growth. The sector has shown resilience amid ongoing political and economic uncertainty, at a time when confidence in the property sector as a whole seems to be gradually declining.

While we may see a few bumps in the road as Brexit negotiations stumble along, the strength shown gives us real optimism that this upward trend will continue. An increasing number of consumers are taking out second charge mortgages, and of higher value, whether it's to fund renovations, help a family member with a deposit, or consolidate household debts."

The second charge market is showing sustained growth following seven consecutive months of increased annualised lending, as confirmed in the fifth edition of Enterprise Finance's *Second Charge Report*.

Drawing on data from the Finance and Leasing Association (FLA), Enterprise Finance's expertise, and wider industry input, the report is an in-depth analysis of market performance through to September 2017, with a particular focus on the third quarter. It found that despite a period of ongoing political and economic uncertainty, an increasing number of consumers and investors are turning to second charge mortgages, driving the market close to £1bn a year.

When comparing the market year-on-year, £979m has been lent in the 12 months to September 2017, compared with £892m the year before. This represents 7 months of consecutive year-on-year growth from March to September. Alongside this, second charge mortgage new business has consistently increased by both value and volume. Annualised numbers of cases advanced 9% from just over 19,000 in March 2017 to almost 21,000 by September, while the equivalent average loan size increased 3% to almost £47,000. More borrowers are taking out second charge mortgages, and of a higher value.

In July alone, with the start of the holiday season, lending in the month reached £90m. Although this is less than the £94m lent in June, new business was up 23% by value and 21% by volume compared to the same month last year. Similarly in traditionally-quiet August, at the heart of summer holidays, loans increased 25% by value and 11% by volume, with £91m lent in the month.

Following strong performances in monthly lending stretching back to February, September was a notably quieter month by the standards of 2017, at £77m and equal to September 2016. As a single month, it is too early to suggest a reversal of the strongly positive trend seen throughout 2017.

What is driving this growth?

There are a number of significant contributing factors to consider when analysing the reasons behind this growth. The vote to leave the EU sent the UK into a period of prolonged economic and political uncertainty, which is still evident today; however, it's been over a year since the referendum vote, and borrowers are beginning to recover from the fear of getting into debt. Stagnant wage growth coupled with rising inflation is squeezing household incomes, so consumers are needing to raise capital to make large purchases. This to some degree explains the continued growth in second charge mortgages, at a time when confidence in the property market as a whole is declining.

Confirming this trend, the latest figures from HMRC show that activity in the housing market is stagnating. Despite a 1.3% rise in the number of residential property transactions between June and July, volumes fell by 0.5% in August, followed by another 1.8% decline in September. In addition, data from the National Association of Estate Agents (NAEA) published at the end of August suggested that the number of homes on estate agents' books was at its lowest for any July since 2002 . Meanwhile, Rightmove's closely-watched house price index showed the average UK asking price fell 1.2% in the month to 9 September, the third fall in four months.

While we can expect the summer months to be a traditionally quieter period, these figures still paint a rather subdued picture. In July, the Royal Institution of Chartered Surveyors (RICS) reported that market confidence is at its lowest since the Brexit vote 13 months ago, and so fewer homes are on the market. As a result, an increasing number of property owners are choosing to renovate or build on their existing property rather than move, which is often a primary reason for taking out a second charge mortgage.

Another noteworthy factor behind the consistent growth is debt consolidation. Consumers are continuing to be increasingly indebted with unsecured borrowing such as through credit cards, and a key driver for taking out a second charge mortgage can be to consolidate debts and reduce monthly outgoings. Recent data from PwC warned that unsecured personal debt in the UK is now closing in on a record £300bn, while Moneyfacts also warned that interest rates on credit cards are at their highest for 10 years, with the average rate on cards, including store cards and so-called "credit repair" cards, now at 23% APR.

In contrast, second charge mortgages are still offering relatively benign interest rates, making it attractive for borrowers to combine household debts through a second mortgage. With November's Bank of England base rate rise to 0.5% adding to the cost pressure of unsecured debts, securing via a second charge may become a more attractive option.

HARRY LANDY CONCLUDED:

"Moreover, we're finally seeing brokers being more confident with the range of second charge products out there, and advise their clients accordingly. What's important now is that brokers continue to grow this confidence, as fully understanding the role second charge mortgages can play for their clients, and the benefits they can have, will help to unlock further growth for the market."

CONTINUED EDUCATION: THERE IS STILL MORE TO BE DONE.

The importance of education

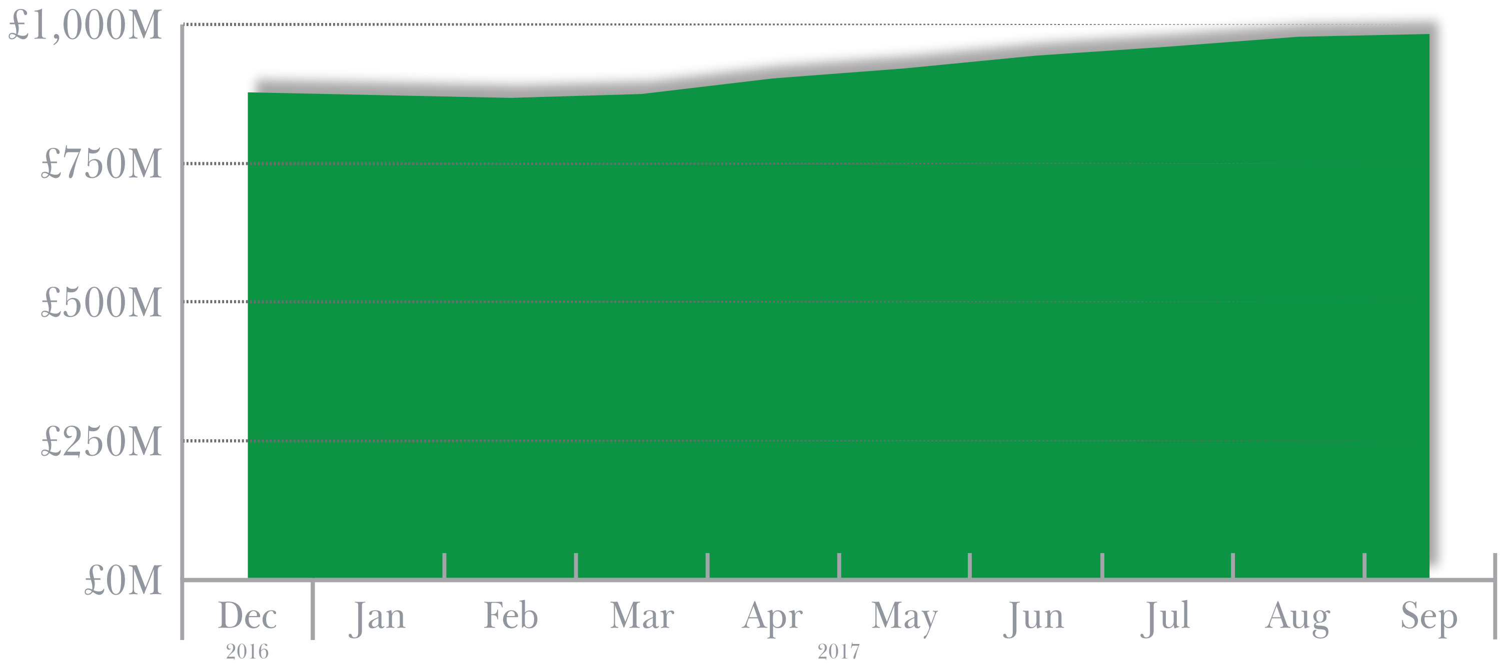
The implementation of the Mortgage Credit Directive (MCD) in March 2016 was predicted to prompt growth on second charge market volumes. However, the immediate effect was that it caused disruption, partly down to a lack of broker education on second charges.

In recent months, brokers have become more comfortable with second charge products, leading to greater awareness of this unique type of financing and finally, market expansion. Through increased education and engagement, more brokers are able to advise on the benefits of second charge, and recommend to clients when appropriate to do so. The market has also become more mainstream, with a wider range of product options, such as fixed or tracker rates, making it easier to fit borrowers' varying needs.

This progress can be demonstrated through the success of Enterprise's own programme of broker education, reaching out to that audience with webinars and educational videos, viewed over 3,000 times, and sponsorship of CPD-accredited training with key trade publications, leading to over 2,200 completions.

There is still more to be done, and greater education among brokers of second charges will help to continue this market growth. By being able to advise accordingly, brokers can help more borrowers see second charge as a reliable and helpful way for raise capital, when first charge options aren't suitable.

SECOND CHARGE ANNUALISED LENDING 2017



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Enterprise Finance Sales Director Harry Landy is available for comment on a variety of industry-related topics. Please get in touch for more information.

The Enterprise Finance Second Charge Report is devised using a combination of data from the Finance and Leasing Association, with Enterprise Finance's own management information and data from other market sources.

ABOUT ENTERPRISE FINANCE

Enterprise is a multi-award winning master broker specialising in the safe distribution and packaging of secured loans, bridging finance and commercial mortgages and was established in 2002.

It is widely recognised as one of the largest and most innovative providers of broker services in the UK and its services are offered to many of the UK's major networks. Its network partners include Openwork, Intrinsic, Tenet, HLPartnership, Sesame Bankhall Group and The Right Mortgage and Protection Network, as well as a large percentage of the directly authorised community.

Since its incorporation, it has sourced more than £2bn of secured loans, bridging finance and commercial mortgages.

In 2014, Enterprise Finance was named the 15th fastest-growing company in the UK according to The Sunday Times / BDO Profit Track 100 programme and in 2015 was ranked 22nd in The Sunday Times / Virgin Fast Track 100.

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