IFF Research

How lenders can better support the high street mortgage broker

By Georgina Clarke

A mortgage is one of the most significant financial products that people purchase. With 2018 seeing the highest number of first-time buyers since 2006 this brings plenty of opportunity for mortgage brokers. Use of a broker is common, with estimates[1] suggesting that over 70% of mortgages are arranged through a broker, as borrowers often struggle to understand the process, lack confidence to find the best product or do not wish to spend the time arranging the mortgage themselves.

However, brokers are also facing challenges, particularly the smaller firms where internal processes and systems could be improved while changes to the wider market landscape bring additional pressures. IFF's recent qualitative research with mortgage brokers from firms with less than 10 employees has highlighted some of these challenges and identified how lenders could better support them in increasing their business.

Dealing with a reduction in buy-to-let

Many brokers depend heavily on the buy-to-let market which has recently seen changes that have resulted in reduced business. Since September 2017 any landlord with four or more properties is classed as a 'portfolio investor' where further lending is subject to tougher criteria involving a detailed financial review of the entire portfolio. This not only means that it is harder to get mortgages for additional properties approved, but it has also increased the time brokers have to spend dealing with lenders to get the checks completed, with three months lead time recommended. The increase in stamp duty for buy-to-let properties introduced in 2016 has also had an impact on the market.

> *"Buy-to-let is tough now. It used to be a main part of our business – it used to be 40% – now it is 20%."*

Focusing on other products may be the solution for some brokers, with areas such as equity release being a potential way to help with the downturn in buy-to-let, and lifetime mortgages in particular becoming increasingly popular. However, being able to advise on these products requires an additional qualification, so it is not always a simple solution. Any support lenders can offer to help brokers expand their product offering and deal with the challenges within the buy-to-let market would be welcomed.

Supporting new business generation

Despite challenges in maintaining income levels and generating a reliable stream of new business, among the brokers we spoke to there were rarely defined processes for customer acquisition in place. There is a heavy reliance on word-of-mouth and recommendations from existing customers, as well as the prospect of repeat business as customers return to them when a mortgage deal comes to an end. This may be working well for those experienced and well-established brokers, but those new to the industry are also relying on this approach to grow their business, meaning building up business is a slow process. Business generation is an area where lenders could provide additional support to brokers, particularly those looking to get established in the industry.

> *"Most [clients] have referred me on to someone else. One, two or three times. I've had a referral off of the referral off of the referral... Once you've got a client it's great because you have all the repeat business. But yes, getting new business is quite hard."*

Maintaining the customer relationship

There is certainly the expectation that lenders will support brokers by sign-posting customers back to their broker when a mortgage deal comes to an end, which helps the broker secure repeat business. Lenders do this in most cases (but not all) although the amount of detail provided on the rate and product options varies and there is still possibility that the customer goes direct to the lender and makes the decision themselves.

> *"We see it all the time with people just committing to all sorts and making wrong decisions about things. They just get a letter from their current lender, saying that the fixed rate's coming to an end, then phone them up and just plop in for any old fixed rate that they fancy."*

[1] www.thisismoney.co.uk/money/mortgageshome/article-5855849/More-home-buyers-using-mortgage-broker-right-way-go.html

An issue which is hard to overcome is that the broker relationship with the customer is very remote once the mortgage is set up and, as a mortgage deal is typically two or more years, there is unlikely to be any need for the broker to keep in touch with the customer until the deal comes to an end. Therefore, even when the lender suggests returning to the broker, the customer may not feel they actually have a relationship with them. While lenders should ensure they encourage the customer to return to their broker, brokers themselves could maintain contact with the customer during the mortgage term, if only through informal updates or newsletters to maintain the relationship.

Keeping brokers up-to-date

Our research emphasised that the presence of Business Development Managers (BDMs), so brokers can develop strong relationships with lenders, may increase the likelihood of business being placed with them. Having a BDM helps brokers understand their lending criteria and having someone specific they can turn to for advice and support is a real benefit.

> *I suppose, the lenders that I'm more aware of are the ones where the BDMs come around to see me every year or so, and there are quite a few of those who do that.*

Typically, when brokers are creating a shortlist of possible lenders, they do not solely rely on what is generated by the online sourcing systems (Trigold and MortgageBrain being the main ones used). These tools may be the starting point, but lenders are often rejected because of expectations around lending criteria, so existing knowledge – or perceptions – can impact whether a lender remains on the shortlist.

Brokers recognise that the systems are not perfect, but if they choose to proceed with a particular lender, they may phone them up only to discover that the mortgage is not appropriate due to specific lending criteria. It is important that lenders work to ensure brokers remain up-to-date on their mortgage offering so the selection is made on reliable information and the lender does not miss out on any opportunities.

Helping to manage client expectations

When brokers meet with new clients they often have a challenge managing expectations while ensuring they are positioned to find them the best and most appropriate mortgage deal. Consumer marketing and communications from lenders can support brokers through helping potential customers understand the following so they do not develop a negative impression of the broker:

- Customers often undertake their own online searches so come armed with a view of what interest rate they should be able to get, which is unlikely to reflect what is suitable for that individual
- The different lending criteria and the impact this has can be hard for customers to understand, so brokers have to spend time explaining this
- Making an appropriate mortgage recommendation relies on the customer being open and honest about their full financial situations, so when customers hold back information it can prevent the application process running smoothly and reflects badly on the broker

> *[Some] people concentrate just on an interest rate, without giving me much about themselves. I provide a service to help people buy a house, the best that they can get, the best their family can get, to make sure their family are looked after.*

Is robo-advice a threat to mortgage brokers?

Robo-advice has been evolving over recent years in the investment space with brands such as Nutmeg, Moneyfarm and Wealthify providing investment portfolios tailored to the individual. There have also been robo-advice brands developing in the mortgage space as well, including Mortgagegym, Trussle and Habito. However, only a few of the brokers we spoke to had heard of the term 'robo-advice' and those that had come across the existing brands did not necessarily associate them as offering this. When prompted, brokers acknowledged that it may become a threat in the future but there was limited concern on the basis that customers will always prefer personal contact when taking out something as significant as a mortgage. With this is mind, robo-advice in this market may be viewed simply as a lead generation tool, where the process can begin online but then the customer has to engage with a broker to complete, particularly considering the broker generally handles all the paperwork, as well as finding the most suitable product.

> *I see robo-advice as a lead generation business, where you can get someone who gets so far down the line but they're going to need to speak to someone to get it finalised.*

Further research opportunities

This research has enabled us to identify potential areas for further research which will be beneficial for lenders and help them enhance their broker relationships.

- **Brand perceptions and consideration** - quantitative survey to build a robust understanding of what impacts brokers' views of lenders and how usage can be increased
- **Deep dive into business challenges** - focus groups to explore detailed challenges and support needs undertake in our viewing facility so representatives from mortgage lenders can experience feedback first hand
- **Ethnographic interviews** - shadowing brokers as they go through the selection process to understand the detailed process and the pain-points so lenders can address specific issues to improve the broker experience

If you are interested in undertaking further research with mortgage or learning more about IFF's research offering and financial services experience, please contact us:

Alistair Kuechel
Director
Alistair.Kuechel@iffresearch.com

Georgina Clarke
Director
Georgina.Clarke@iffresearch.com

financialservices@iffresearch.com **020 7250 3035** **www.iffresearch.com**