NEWS

Brokers mixed on long-term fixed rate popularity following Perenna launch

by: Anna Sagar

07/09/2023 • 1

The popularity of long-term fixed rates will be dependent on pricing, early repayment charges and attitudes to affordability changes in light of Perenna securing its banking licence today, brokers have said.

Perenna was launched in 2018 and looks to bring long-term fixed rates of 20 years or more to the UK mortgage market. It also has a different funding structure to most lenders as it uses covered bonds, which is a portfolio of loans issued by a bank then sold to a financial institution for resale.

The lender secured its full banking licence today from the Prudential Regulation Authority and Financial Conduct Authority, noting that it would offer mortgages to those on its 5,000-strong waitlist first and then open to the public later this year.

Long-term fixed rates are popular in the US and Europe but have not had the same read-across to the UK as short-term and variable rates are more common. Early repayment charges (ERC) and pricing have also been dissuasive factors to take-up.

Pricing will be 'key factor'

Justin Moy, managing director at EHF Mortgages, said that in hindsight long-term fixed rates would have been "great options for homeowners when rates were low".

However, in the current market they have "less appeal" as customers may be more reluctant to lock into higher interest rates for longer periods.

"Once we return to whatever is seen as a normal market, I would imagine the whole market will need to review the role of short and long-term products, but if we did adopt this idea of longer-term deals, the government would have to find another way of controlling inflation through base rate increases, as they would have little impact in this type of environment," he noted.

Richard Campo, founder at Rose Capital Partners, agreed that pricing would be the "main factor" and as fixed rates were falling and would continue to do so for the next year or so.

"I would be very hesitant to recommend a long-term fixed rate now as it could start to look expensive later," he added.

Gary Bush, financial adviser at MortgageShop.com, agreed that fixing for a long period was a "great idea" and once rates fall further longer-term fixed rates could "gain some traction".

Key issues need to be addressed

However, Bush said that there were key issues such as redemption penalties, additional borrowing and changes in circumstances would need to be addressed.

Perenna has said that it has ERCs for the first five years to address redemption penalty concerns.

Bush said: "If you tie into a lender for a long period and as is the case now you will have a redemption penalty that exists for much of that period of years – what happens if you need to borrow more money or your circumstances have changed and the lender you are tied to won't assist your new circumstances but other lenders will?

"UK lenders' underwriting criteria change frequently, borrowers who were once flavour of the month with a particular lender can suddenly find themselves getting declined – this would be obviously true for self-employed applicants. Obviously, if these products become commonplace in the UK, adjustments would need to be made to make these more palatable."

Scott West, director at Propertyze Consulting, agreed that it may be unlikely that customers would be able to move to another lender "without significant penalties" and added that it was uncertain whether long-term affordability was impacted.

This includes maternity leave, promotions, self-employment, which West said could "conflict with lender criteria to move or rate switch".

Lewis Shaw, owner and mortgage expert Shaw Financial Services, was more cynical, saying that Perenna had "designed a product for a market that doesn't exist".

"The problems for them will be threefold. Most UK mortgage holders don't want long-term fixed-rate mortgages past five years. Secondly, how Perenna Mortgages is funded will often mean they're more expensive than average fixed rates once the market calms down and we return to some equilibrium.

"Finally, many borrowers don't trust new lenders. There's a reason the big six are the big six; everyone knows and trusts them. Those three problems, taken together, seem to me an insurmountable hurdle to getting any traction in the UK," he noted.

Benefits are 'certainty' and 'virtually no management'

West noted that the primary advantage was "certainty" of what you were paying for the duration and there was "virtually no management to consider other than the consideration of overpayments, or product-switching to a lower product rate".

"Every product term has its place, younger families are more likely to move more frequently as incomes and the family grow. The pragmatism of the Perenna product allows this flexibility for families to have the best of both worlds," he noted.

West said that this product could be more popular with first-time buyers and "could lead to a shift over time with the overall mortgage market offering".

Campo noted that long-term fixed rates "have never worked in the UK" and this was mostly due to penalties of the duration of the mortgage.

He explained: "Long-term fixed rates are good for that 'last move'. Indeed, I did that myself as I recently moved to leafy Surrey for my children to go to a good school, so I am set for the next 16 years minimum.

"In those situations, they are great, but that was also in the low interest rate era. As rates are higher now, and set to fall, I just can't see them being as attractive in years to come."

Ranald Mitchell, director at Charwin Private Clients, added that whether long-term fixed rates would catch on "remains to be seen".

"Anyone entering effectively a fixed rate for the term of their mortgages will be keen on the flexibility offered. Can they get out easily and at what cost? What if they want to borrow more and at what rate? What fees are involved to set up?

"Such factors will have a massive bearing on Perenna's success and marketability of their products. There will be a place in the market for this, it is all down to details," he added.

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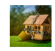
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Yes this whole concept is a minefield, only today I've had a a client locked in with a lender (that shall remain nameless) with a £15k penalty, be offered £140k more borrowing with another, such as the disparity with criteria and affordability. He's facing paying this penalty or not buying his next home. Not a desirable position, It would require a much uniformed approach to the market and a bit of a boring landscape! Although there will be those that it works for too.

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