

MSoS: BREAKING NEWS

Sunak quizzed over plight of mortgage prts

You are here: Home - News -

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 Propertyize 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."

Ronald 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.

Related Posts

- Mortgage Brain and Twenty7tec add Perenna to platforms
- Virgin Money removes interest-only LTI cap
- Affordability, tech and communication key themes for 2024 – Beddall
- Aldermore slashes rates and tweaks criteria; Tandem cuts rates - round-up

Like 0 Share Post

SHARE THIS ARTICLE

EMAIL NEWSLETTER

Register your account and sign up for our newsletter

REGISTER NOW



Brokers bemoan borrower budgets for protection - analysis
JAN 18, 2024

Sunak quizzed over plight of mortgage prisoners
JAN 18, 2024

TSB lowers rates: Furness adds holiday let deals - round-up
JAN 18, 2024

Virgin Money removes interest-only LTI cap
JAN 18, 2024

Mortgage defaults spike in the run-up to Christmas - BoE
JAN 18, 2024

UPCOMING EVENTS

The Specialist Lending Event 2024
JAN 31, 2024
The National Conference Centre, Birmingham

National Conference Centre
JAN 31, 2024
National Conference Centre

The Specialist Lending Event 2024
FEB 01, 2024
East Sussex National Hotel, East Sussex

VIEW MORE

LATEST POLL



Have you seen an increase in customers opting for interest-only mortgages in the last year?

- Yes, to some extent
- Yes, to a large extent
- No

VOTE

> VIEW RESULTS

TAGS

- 20-YEAR FIXED RATE
- 25-YEAR FIXED RATE
- ADDITIONAL BORROWING
- AFFORDABILITY
- BANKING LICENCE
- CRITERIA
- EARLY REPAYMENT CHARGE
- GARY BUSH
- JUSTIN MOY
- LEWIS SHAW
- LONG-TERM FIXED RATE
- PERENNA
- PRICING
- RANALD MITCHELL
- REDEMPTION PENALTY
- RICHARD CAMPU
- SCOTT WEST

Anna Sagar

Anna is a reporter for Mortgage Solutions and assistant editor for Specialist Lending Solutions, both B2B sister titles of YourMoney.com. She has worked as a journalist for over four years, initially in the speciality insurance sector before moving onto mortgages.

THERE ARE 1 COMMENT(S)

ALSO ON MORTGAGE SOLUTIONS

- BSA welcomes second reading of Building ...**
4 days ago
The Building Societies Association (BSA) welcomes the second ...
- The year ahead for first-time buyers -**
2 days ago
2024 promises to be significant with numerous events influencing the ...
- Virgin Money allows interest-only LTI cap**
4 days ago
Virgin Money will remove the interest-only cap for loan to income (LTI), which ...
- Together cuts minimum second ...**
4 days ago
Specialist lender Together has lowered its minimum second charge loan size ...

1 Comment

Login

G Join the discussion...

LOG IN WITH OR SIGN UP WITH DISQUS

Name

Share Best Newest Oldest

S SOX
4 months ago
Yes this whole concept is a minefield, only today I've had a client looked 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.

Reply Share

Subscribe Privacy Do Not Sell My Data DISQUS

YOU MAY ALSO BE INTERESTED IN

- | | | | |
|--|------------------------------|---|-----------|
| Mortgage Solutions:
About Us
Terms and Conditions
Privacy and Cookie Policy
Accessibility
Contact Us | Useful Links:
News | Related:
Specialist Lending Solutions
Your Mortgage
Your Money
B2Lonline | Follow Us |
|--|------------------------------|---|-----------|



© AEB Media Ltd, Floor 7, Lincoln House, 296 - 302 High Holborn, London WC1V 7JH, Company registration number 8938488.

AEB Media Limited is authorised and regulated by the Financial Conduct Authority
The principal business of AEB Media is journalism. As our website contains links through to firms which provide consumer credit we have limited permission to undertake credit broking activities and for these limited activities only AEB Media Limited is authorised and regulated by the Financial Conduct Authority
We take reasonable care to correct errors or omissions on our site as soon as we can after we are made aware of them. However, we do not guarantee that all information is accurate and free of errors and omissions at all times and we do not accept any responsibility or liability for any loss you may suffer as a result of information on this site not being accurate at all times.
We do not recommend or accept any responsibility for any third party provider's products, services, information, advice or opinions provided to you either directly or via their websites. We will not be responsible to you if any product or advice you obtain from a third party is not suitable for you or does not meet your requirements. Any links to a third party provider's website on this site are for your convenience only. If you contact a third party provider advertised or mentioned on this website, either directly or via a link, any use by you of the third party provider's website, products or information will be subject to the third party provider's own terms and conditions. You should read these carefully.

Privacy