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NEWS

Brokers warn of potential problems with self-selected product transfers

By Shekina Tuahene

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Mortgage borrowers are potentially missing out on better deals by choosing a product transfer without advice, brokers have said.

Commenting on people going directly to their lender because of uncertainty in the market, Laura Bairstow, founder at The Mortgage Masters, said borrowers could be losing out on lower rates from alternative lenders.

She added: "I have seen clients fix a rate when they are already struggling to meet their current repayments, leaving them financially vulnerable when they switch to the higher rate. Had they been given proper advice, those clients would have been made aware of alternative options open to them such as extending the term of their mortgage to keep repayments down.

"Furthermore, their current mortgage may no longer meet their requirements. For example, they may wish to have flexible features such as having the option of making overpayments or porting the loan to a new property."

Darryl Dhofer, mortgage expert at The Mortgage Expert, noted that the lender would not notify a borrower if a lower rate was available before a new deal started like a broker would.

Gary Bush, financial adviser at MortgageShop.com, agreed and said lenders had "no obligation to worry about if they are making the right decision when changing rates with them".

He added: "When advice firms, like our own, offer to take on these like-for-like transactions without charge we just can't see why applicants wouldn't double-check by contacting a financial adviser and getting the peace of mind that they are taking the right product for their needs compared to all the other lenders and rates that are available."

Deciding on rate alone

Echoing Bairstow's view, some brokers pointed out that borrowers focused on the rate and sometimes overlooked the features of the mortgage.

Kirsty Wells, director at Blueprint Mortgages and Protection, said the process was very easy particularly because of online banking, meaning borrowers did not always weigh up the options.

She said many did not consider the cost effectiveness of a mortgage over the long-term, arrangement fees or early redemption penalties.

Wells added: "This then leaves customers in some instances needing to pay hefty early redemption penalties or paying large fees when that may not have been the best option for them. Speaking to a mortgage broker and getting impartial advice is vital to weigh up the pros and cons of not only the product length but also which lender is most suitable."

Russell Maggs, mortgage and protection adviser at Maggs Financial Services, said understanding the limitations of a mortgage was "one of the biggest issues" he saw when it came to borrowers choosing products with no advice.

He added: "Some clients may tie into a new mortgage deal with early repayment charges and not truly understand the effect this would have until they come to move home within the fixed rate period. Whilst 'porting' is a nice feature, it's by no means a guarantee of a future mortgage. And small errors like this could potentially cost clients thousands of pounds further down the line."

Scott Taylor-Barr, financial adviser at Barnsdale Financial Management, said the most common mistake he had seen was people looking at the lowest rate without considering how long a deal was or any set-up fees.

"This often means they either select a deal that is not appropriate for their future plans and will potentially cause them an issue down the line, such as taking a 10-year fixed rate but wanting to move house within the next two or three years, or a deal that is actually more expensive for them than it needs to be," he added.

Advice is essential

Some brokers questioned why borrowers would make such a huge financial decision without professional advice.

Stephen Perkins, managing director at Yellow Brick Mortgages, said: "Why would you not get a professional opinion on the best deal on what is most people's largest monthly outgoing? Of course, a rate switch is the fastest and easiest option but not always the most suitable or the cheapest.

"At a time of increasing rates and borrowers wanting to minimise the hardship of the increased rates on offer, fee-free consultation for a whole-of-market review with a broker is a must for all mortgage holders and could create savings of thousands of pounds."

Lewis Shaw, founder and mortgage expert at Shaw Financial Services, also queried why borrowers were required to take advice at the start of a mortgage but were "given free reign" to pick a new deal once they already had one.

Shaw said: "Every broker I know has a story about a client who has switched rates with their existing lender and then comes unstuck. Whether that's because they plan to move and find they're now stuck with their existing lender due to expensive redemption penalties, or they wanted to raise capital to pay off debt or fund home improvements only to find that they now have to either opt for a further advance or enter the second charge market.

"It's far too easy for clients to do this themselves."

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Shekina Tuahene

Shekina is the commercial editor at Mortgage Solutions, YourMoney.com's sister title in the B2B industry. She has over four years' experience in the B2B publishing market, with previous industries including the accounting, pet, funeral, hospitality, retail and jewellery trades. She currently reports on current events in the mortgage market and liaises with financial clients to produce sponsored content. Follow her on Twitter at @ShekinaMS

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Keith Thompson 6 months ago

This is not a new problem, clients not taking advice are always at risk of not getting the best mortgage deal, not just at product switches, but when any mortgage is taken. However, saying they miss out on features such as overpayments and portability is a pretty weak justification for this article - these are generally standard features. The real issue is that the clients do not value the service they received when they got the original mortgage enough, which is an issue that lies with the brokers, not the client.

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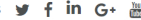
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