

INDUSTRY INSIGHTS

How To Service Complex Income

In February, the Office for National Statistics (ONS) reported that the overall employment rate increased by 0.6% year on year (Dec 2018 vs Dec 2019) to a record high of 76.5% (since ONS figures began in January to March 1971). Employment is defined by the number of people aged 16 and over in paid work, and the employment rate is the proportion of people in paid work between 16 and 64. At face value, this looks like a very encouraging sign for the housing market but further investigation reveals that income characteristics have changed significantly.

At Harpenden Building Society, we've been specialising in complex income for many years and have seen a distinct increase in the number brokers looking for support. While complex income used to be non-standard, the frequency of mortgage applications classified as complex is increasing. There are several drivers of this trend.

GROWTH IN NON-STANDARD EMPLOYMENT

The analysis from the ONS and UK Finance clearly illustrates the trends:

- In January, the ONS reported that there was a record 5 million self-employed people, accounting for just over 15% of everyone in employment. This is 145,000 more than a year earlier.
- The ONS also reported that workers aged 65 and older are forecast to be responsible for more than half of all UK employment growth over the next 10 years. Analysis last year from the labour force survey suggested that by 2030 the over 65s will account for 282,000 new UK employees out of a total 546,000.
- UK Finance stated that since 2017, the later life sector has grown by more than 25%. The number of new loans to borrowers aged 55 and over went up by 42,866 in the equity release sector and by 78,514 in the residential lending sector.

CHANGING EMPLOYMENT PATTERNS

Last year, analysts at UK Finance explained that borrower incomes had become more complicated as more people went into self-employment or contractor roles. The ageing population, and more people working longer, have also played a role. More and more people under 30 are doing more than one job to support their lifestyles.

This could be a lifestyle choice, with a desire to work outside the 'day job' for experience or greater satisfaction, or it could be that financial pressures make having more than one job the only way to make ends meet.





IMPLICATIONS FOR THE INDUSTRY

These trends have obviously driven product innovation as lenders try to devise solutions for different customer segments. However, is the development of defined products for specific needs the best way to adapt?

Last year, we had an application from a Performance Psychologist who specialises in developing high performance in business and professional sports. Early in 2019 he began the process of buying a new home but encountered major problems because his income comes through public speaking. His income is never totally guaranteed as there are no long-term contracts.

He was looking to re-mortgage a house so that he could buy another property. For 12 years he'd never missed a mortgage payment, and his new loan repayments would have been the same as he was already paying. He had consistently earned a healthy income and had never been out of work, yet he couldn't find anyone to lend to him. We provided the customer with a satisfactory solution to his needs.

THE RISE OF MANUAL UNDERWRITING

At Harpenden, we believe that relying for guidance on PAYE income and expenditure will never give the true picture of the risk. This data alone is simply not enough. The world of employment is changing, and we believe that more lenders will need to build underwriting teams able to look at the full financial position and speak with customers to understand their plans, asset portfolios and employment circumstances.

Obviously, the largest lenders don't have the appetite for this kind of detailed analysis. But lenders with the infrastructure and the experience to take a proportionate common-sense view, when they have gathered the necessary information, will be able to lend to these complex cases. This means that brokers will be able to look at applications with full confidence that options are available to ensure they can take care of their clients.



Craig Middleton

Craig Middleton, Mortgage Sales & Distribution Manager,
Harpenden Building Society



We individually assess and approach applications.



We offer a manual underwriting process, no credit score involved.



A flexible view on merits of all cases - we're very accommodating.



We provide clear, fair and transparent charges for all cases.



Many types of income are considered when assessing affordability.