TIP 155 - Mortgage Brokers

Contents

Warning

These notes are not intended to provide an exhaustive or definitive picture. Any tactical tips must be treated with a 'health warning' as the BIU cannot test or validate theories or ideas submitted to it, but merely supplies information to be used with **common sense and discretion.**

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Links to the Internet

There are a number of **references to Internet** addresses scattered throughout this note. These are not linked and need to be accessed separately from this TIP.

Reference to commercial organisations and products

This TIP may contain references to commercial organisations, together with reference to specific products or services. Please note these are included for example purposes only and are not endorsements of the organisations, products and services.

This TIP may also contain information or statements from external Web sites. Links to non - HMRC Internet sites do not imply any official endorsement of or responsibility for the validity of the information, data or products presented. The sole purpose of links to other sites is to indicate further information available on related topics.

Introduction

In August 2004 there were in the region of 11.5 million mortgages in the UK, with loans worth around £800 billion.

CML suggest that the UK has the most “complete” mortgage market in Europe, taking into account the range of mortgages available, consumers served, accessibility of mortgage finance and general advice that is available.

There are also around 12,000 mortgage intermediary firms in the UK.

The housing market re-accelerated in 2004 and house price growth was nearly 20% compared with 15% at the end of 2003, however, data collected suggests a cooling market for 2005, despite general economic conditions being favourable and interest rate increases having been gradual in recent years.

The UK residential mortgage market is intensely competitive and traditional players are trying to protect their customer base, as well as compete for new business alongside an increasing number of new players such as supermarkets, telephone selling and Internet marketing.

Customers now find it easier to switch lenders and are becoming increasingly price sensitive.

Market overview

The following information provides an overview of the housing market for 2004:

- interest rates were kept on hold in November 2004 at 4.75%
- higher than expected house prices mean that gross mortgage lending has been predicted to reach £300bn by the end of 2004, 10% higher than the previous year
- stamp duty has progressively increased
- the Government has pledged £150m to spend on the infrastructure for new housing developments and announced a 50% increase in the budget for social housing
- house price growth and lending have both slowed recently and indicators point towards a more pronounced slow down in 2005
- although the market is clearly weakening, economic fundamentals remain firm
- home-ownership incentive schemes, such as “Right to Buy”, have contributed to the rise in UK owner-occupation to around 70%.

The future of the UK housing market will continue to be affected by the following factors:

- fluctuating interest rates
- employment levels and the state of the labour market
- state of the economy
- availability of suitable land for development

Other new factors introduced, which may effect the market, include:

- Mortgage regulation, and the Financial Services Association’s (FSA) move to a less prescriptive approach, will be major adjustments for the sector.
- The introduction of the government's compulsory home information packs later in 2005 will force sellers to put together a home condition report, which will include local authority and other searches on their property. The Law Society predicts that the introduction of these packs may push up the cost of buying and selling by around £500.

Mortgage Brokers

Mortgage brokers are an individual or company that brings borrowers and lenders together for the purpose of loan origination.

Mortgage brokers typically require a fee or a commission for their services.

In most cases they receive their income from the mortgage lender. This is usually a fixed arrangement fee or is sometimes based on a percentage of the mortgage amount.

Mortgage brokers act as agents for banks, trust companies, credit unions, mortgage corporations, finance companies as well as for private investors.

A Mortgage broker is different from a mortgage lender in that brokers do not lend money. They act as a middleman and often deal with the full range of mortgage lenders; they can provide a much wider choice than a single or tied provider.

A “tied provider” or “tied agent” is basically a broker that only sells the products of one lender.

The mortgage broker’s daily work routine will consist of providing mortgage advice and quotations and arranging mortgages for clients.

Some mortgage brokers may also specialise in finding mortgages for those people who may have difficulty in obtaining a mortgage from a bank or building society, due to bas credit ratings, defaults, mortgage arrears or County Court Judgements (CCJ’s). Statistics suggest that over 3 million people have a CCJ against their name and over 2 million have been in arrears with their mortgage at some point of their life and so brokers specialising in this type of mortgage are likely to have a busy workload.

In addition to dealing with mortgages for residential property, the mortgage broker may also handle commercial deals. Many commercial finance brokers have special offers for different business sectors such as leisure and licensed premises, retailers, manufacturing, agriculture and care homes.

You will find various specialist commercial finance broker websites such as www.nacfg.org and www.startinbusiness.co.uk details of these sites have been included as examples only and are not endorsements of the sites.

Fees

Mortgage brokers typically require a fee or a commission for their services.

In most cases they receive their income from the mortgage lender. This is usually a fixed arrangement fee or is sometimes based on a percentage of the mortgage amount.

The purchaser pays fixed fees to the broker and the lender pays commission to the broker for selling their mortgage.

A mortgage booking fee or mortgage arrangement fee is a commitment or administration fee usually payable to the lender to reserve the mortgage funds, the amount can vary but is typically between £100 and £500.

Remuneration

The mortgage broker's remuneration will be made up of the following:

- salary only
- salary plus commission
- commission only

When the broker is paid purely on commission from the lender, there may be concerns that this might influence their advice.

Mortgage Intermediaries

Mortgage intermediaries fall into two categories:

- Independent Financial Advisers who must provide impartial advice on investment products sold alongside mortgages
- Tied agents of a single life company who can only advise on products of the company

Categories of mortgage intermediaries include:

- smaller local firms
- individual advisers
- mortgage advisers working for an Estate Agent
- insurance company representatives often deal with mortgage business
- some solicitors and accountants offer mortgage advice
- well known specialist mortgage advisers with branches around the country

Association of Mortgage Intermediaries (AMI)

Mortgage Intermediaries are not eligible for membership of the Council for Mortgage Lenders (CML) instead the Association of Mortgage Intermediaries (AMI) was set up in 2003 to provide an independent voice for mortgage intermediaries in the UK.

AMI is the sole trade body for professional mortgage intermediaries and aims to influence the nature and shape of policies, which affect mortgage intermediaries.

Mortgage related products

The broker may also sell mortgage-related products, which may include:

- Mortgage Payment Protection Insurance
- Term Insurance and Decreasing Term Insurance
- Accident and sickness Insurance
- Unemployment Insurance
- Buildings & Content Insurance

Some Mortgage brokers may fail to declare income from some of these related products.

Egg the Internet bank controlled by Prudential commissioned a poll that found one in four homeowners do not have adequate life insurance to pay off their mortgage in full at death.

The average shortfall is £339,778, which is a £113 billion life insurance shortfalls compared with total mortgage debt.

Selling mortgages

In the past mortgage advisers relied solely on commission earned from the sale of endowment policies.

Many now charge their clients a fee, and are prepared to reimburse their clients with commission they earn from selling investment and insurance products alongside the home loan.

Many loans are only available through mortgage intermediaries, and some specialist intermediaries offer their own bespoke products cheaper than those available from high street lenders.

The client may have to purchase either a buildings, contents or accident, sickness and unemployment insurance from the lender in order to qualify for a discount loan. Because these products are not sold on the 'best advice' basis governing the sale of life products, lenders are not obliged to find the cheapest cover available.

Accident, sickness and unemployment (ASU) policies are becoming more popular with lenders and some offer them along with house or contents cover on the basis that borrowers must choose two out of three of these policies to qualify for a discount mortgage.

Lenders make these types of insurance compulsory because of the levels of commission they receive, which can amount to as much as 40 per cent of premiums paid over the policy term.

Qualifications

Prior to October 2004 Mortgage brokers were required to have either CeMAP (Certificate in Mortgage Advice and Practice), MAQ (Mortgage Advice Qualification) or MAPC (Mortgage Advice and Practice Certificate) in order to advise on mortgages.

From 31st October 2004 new regulations were introduced regarding the examination structure for Mortgage brokers, they are now required to display knowledge and understanding of the Mortgage Code of Business's (MCOB) and are required to prove ongoing competency.

The Financial Services Authority FSA) has now passed responsibility and jurisdiction of examinations over to the Financial Services Skills Council (FSSC).

The FSA's 'approved' qualifications have changed under the FSSC to 'appropriate' qualifications. The organisation defines 'appropriate' as 'fit for purpose', whereby the new exams are designed to protect consumers, add value to the firms' business, and add value for those that pass examinations by enhancing career prospects in the sector.

Further changes are likely to be implemented in the future and they will be detailed on the Financial Services Authority website: fsa.gov.uk

Premises and running costs

Premises

Suitable premises will be required for the business, they will vary according to location, size and whether they are rented, freehold or leasehold.

If a business is acquired on lease terms, it will be a totally binding contract for the duration of the lease and will normally contain onerous clauses concerning responsibilities and liabilities.

Some changes may need to be made to the property in order to comply with Fire and Health and Safety regulations; this together with refurbishment of any existing buildings will increase the initial costs.

The Mortgage broker may rent an area in premises with similar sector activities such as in an Estate Agents or Property Surveyors shop or office and they may then work together creating reciprocal trading activity.

The larger Mortgage broker businesses will be in busy locations in both towns and cities, however smaller practices may be above shop premises or in less prominent positions.

Running costs

The following are costs that are not affected by the level of business carried out. Regardless of how much or how little income is generated, these costs will remain constant.

- rental on premises
- business & water rates
- electricity & heating
- insurance cover

General running costs will include:

- cleaning and general upkeep of the premises
- reception area furnishings
- telephone & answer machine
- fax, photocopier, stationery, printing and advertising

Vehicle purchase and expenditure will also require consideration.

Advertising

The best form of advertising for any Mortgage broker is by word of mouth recommendation from satisfied clients.

New FSA rules on advertising:

Advertising will be effected by the new Financial Services Authority (FSA) rules introduced, as all adverts must now give equal prominence to the pros and cons, instead of using attention grabbing interest rates followed by masses of small print in the advertisements.

Lenders must list clearly any penalties for paying off a mortgage early and details of any insurance the buyer has taken out as a condition of the contract.

Factors affecting the business

There are numerous factors, which affect the level of turnover, including the following:

- local competition from other local brokers with similar or larger practices. larger businesses have a number of advantages over the smaller independent broker including a high profile, corporate image and substantial resources
- competition from unqualified mortgage brokers
- the health of the property market
- introduction of new legislation
- level of fees charged
- a change in the size of the practice
- inefficiencies within the practice and poor record keeping

Seasonality – according to statistics most families want to move house in August and this suggests that they are looking to buy in the spring.

Most avoid November and December.

Licensing

Consumer credit licence – Office of Fair Trading (OFT)

Mortgage brokers require a Consumer Credit Licence under Category C (credit brokerage) of the Consumer Credit Act 1974 in order for them to arrange credit facilities for clients. This Act applies in Great Britain and Northern Ireland, and is administered by the Office of Fair Trading

If the business is made up of several different companies or partnerships, each must be separately licensed. However, one licence can cover any number of premises but cannot be transferred; they have a credit licensing number.

A consumer credit licence lasts for five years, although OFT have the power to revoke, suspend or vary a licence at any time.

The OFT has to be satisfied as to the 'fitness' of the person(s) carrying on the business.

Unlicensed trading is a criminal offence, which will result in a fine, imprisonment or both.

The cost of a licence - is £110 for a sole trader and £275 for a partnership, limited company or other organisation.

Consumer credit register – details of everyone who holds a licence, has applied for one, or had one revoked, suspended or varied, is available to the public in the Consumer Credit Public Register.

OFT will check the start date of a licence, the type of activity it covers, authorised trading names and main business of the licence holder.

The Council of Mortgage Lenders

The Council of Mortgage Lenders (CML) is a trade association, which represents and works for the mortgage lending industry.

It has 147 members and 91 associate members. Membership of the association is voluntary and is open to banks, building societies and other mortgage lenders. Associates are from a selection or related businesses with an interest in the mortgage market.

The CML promotes good lending practices, and is the central provider of economic, statistical, legal, research and other market information.

The Mortgage Code

The Mortgage Code was introduced for lenders in July 1997 and for intermediaries in April 1998 and remained in force until 31st October 2004 when the Financial Services Authority (FSA) took over as a new statutory regulator for mortgages.

Financial Services Authority

The Financial Services and Markets Act 2000 gave the Financial Services Authority power to regulate mortgages.

Since 31st October 2004, any person carrying on a regulated activity must be authorised by the FSA to do so: carrying on a regulated activity while unauthorised is a criminal offence.

Those that sell mortgages and who are required to be authorised by the FSA include banks, building societies, and specialist lenders and mortgage intermediaries.

Mortgages entered into before 31 October 2004 will not be regulated by the FSA, but may be subject to the Consumer Credit Act 1974, unless, after that date, the mortgage is varied in such a way that it becomes a new mortgage contract that satisfies the following conditions:

- the borrower is an individual or trustee
- the lender takes a first legal charge over property in the UK
- the property is at least 40% occupied by the borrower or by a member of their immediate family

Further details can be found at: www.fsa.gov.uk

FSA new regulations

Under the new regulations, sales will either be:

- advised
- non-advised

This will simplify the process of choosing a mortgage for consumers and make it clearer from the start whether they are being offered advice or not and the adviser must provide accurate information whether the buyer opts to receive advise or not.

The main difference between the two new levels of service is that, if the buyer takes advise and the mortgage is unsuitable, the buyer may have grounds for complaint.

Buyers who do not take advice will take responsibility for choosing their own mortgage: as long as the information they were given was accurate, there are no grounds for complaint if the buyer decides on the wrong type of product.

When the buyer first contacts a lender or firm of advisers, it should be made clear whether advice will be provided or just information, whether a fee will be charged for this service and which companies' mortgages it offers.

Banks and Building Societies usually only recommend mortgages from their own range, but an intermediary, broker or estate agent will search the complete market or will have links with a selection of lenders.

Under the new FSA rules advisers can only call themselves "Independent" if they select from the whole market and then offer the buyer the option to pay a fee for their advice.

Experts warn that under the new rules, mortgage brokers can claim to be "independent" even if they advise on products from a restricted panel of lenders rather than the whole market. The FSA stipulates only that the panel must be "representative".

For example, one of the biggest networks of advisers offers its members the option of either recommending loans from the whole market or from a panel of 17. In both cases, advisers can claim to be "independent".

Further details can be found at: www.fsa.gov.uk

Trends

The following information provides an indication of trends within the sector:

First time buyers	Right-to-buy
Buying with a friend	On-line buying
Buy-to-let	Buying abroad

First time buyers

Although monthly mortgage payments have remained low, many potential first time buyers were priced out of the market in 2003 because they were unable to raise a sufficient deposit.

The National House Building Council (NHBC) 'first-time buyer ability to buy index', which takes into account mortgage payments, deposits and earnings, suggest that affordability in 2004 was at its worst for over ten years.

Typically, mortgages are based on 3.25 times the gross income of a single borrower. For joint borrowers, the maximum loan is likely to be 3.25 times the first income, plus one times the second income, or 2.5 times joint income.

Some first time buyers may require a 100 % mortgage, which is a loan for the full purchase price of the property.

Very few lenders offer 100 % mortgages and the ones that do, charge a higher interest rate than they would for loans covering a lower percentage of the purchase price.

In addition a bigger mortgage indemnity guarantee (MIG) premium will be charged. Most lenders will allow the purchaser to add the MIG to the mortgage but this means that they pay interest on the MIG for many years.

Single women first time buyers

New figures released suggest that there are a growing number of young women choosing to buy their first homes alone.

Research by the lender Halifax has revealed that the proportion of mortgages taken out by single women has risen from 9.8% in 1981 to 23.1% in 2003.

Buying with a friend

The number of young people buying their first home with a friend is increasing, mainly due to the following factors:

- the average house price across the UK is £129,258, according to Nationwide Building Society, but government figures put the average salary at just £24,164
- the situation is worst in the south-east, with an average house price of £160,000 against an average salary of £26,500

Young people are solving this problem by clubbing together for a mortgage to enable them to get on the property ladder.

All lenders will allow more than one name on the mortgage and some such as the Halifax, will even allow up to four borrowers on one mortgage.

A mortgage broker will play a large part in arranging a “buying with a friend mortgage” due to the complex issues involved, for example:

- It is unlikely that both friends will each put down 50% of the deposit as well as split the home-buying fees and mortgage repayments equally. A mutual agreement will have to be made as to the proportion of the house each should own. The split must be stated on the title deeds, so when it is sold, equity is fairly distributed.

- Registration will be as 'tenants in common' rather than 'joint tenants' to prevent problems in the event of one of the friends dying.
- If one of the friends loses their job and cannot make the payments, both will be in arrears and both friends' credit ratings will be affected. This is where the mortgage broker will recommend Mortgage Payment Protection Insurance (MPPI) which will pay each person's share of the bills if they lose their job or are unable to work.
- The broker may also recommend a short-term deal mortgage with no early repayment penalties in case one of the friends opts out of the arrangement or moves location.

Buy-to-let

Buying residential property to rent out privately has been hugely popular in recent years.

There are currently more than 275,000 properties in the UK with buy to let mortgages.

Popularity has grown due to:

- interest rates being low and therefore making buy-to-let mortgages more affordable
- property being a good longer-term investment
- an increase in demand for rental accommodation

Buy-to-let lending continued to grow in the first half of 2004, but at a slower rate than in 2003.

At June 2004 there were 473,000 buy-to-let mortgages outstanding, worth £46.8 billion, compared with 417,500, worth £39 billion, at the end of 2003.

Lenders suggest that the average total annual returns achieved by landlord's rose in July 2004 from 24.7% to 25.2%.

Although but-to let has grown strongly in recent years and has been boosted by remortgaging, it still represents less than 6% of lending overall.

Purchasers of buy-to-let properties can only borrow 80% loan to value of the property and on average, lenders require income to be 30% higher than monthly repayments.

It is quite common for British expatriates to buy a property in the UK, to which they can return when their posting or tour of duty comes to an end. This is normally done to avoid being left out of the property market when house prices increase substantially, as in the last 5 years.

The short-let market is growing and is highly lucrative, rental properties in this specialist market regularly earn 50% more than the average long term rent. This type of rental property needs to be low maintenance.

Buy to let mortgages

There are various types of Buy- to-let loans/mortgages available, for example:

- loans available for up to five properties, in addition to the main residence
- buyers can borrow up to 80% of the purchase price (or value, if lower)
- a choice of fixed, discounted and variable interest rates are available
- flexible discount options available with a Flexible Variable Rate package
- loans are generally available from £15,000 up to £500,000
- legal and survey fees can be added to the mortgage, reducing up-front costs

Right to buy mortgages

Tenants who rent their property from the local council, a non-charitable housing association or a housing action trust may wish to purchase their property under the “Right To Buy Scheme”.

The Right to Buy scheme was first introduced in 1980 and has since helped nearly 1.5 million council tenants in England to purchase their own homes, with ongoing sales under the scheme now running at around 40,000 a year.

The scheme enables tenants to purchase their homes at a discount price, provided that they have been living in their home for two years and meet other qualification criteria.

There are two options available under the right to buy:

Option 1 - To purchase the property by paying the full purchase price at once with discounts ranging from 32% to 70% dependent on how many years the buyer has spent as a public sector tenant and subject to a maximum discount limit for the area lived in.

- **Houses:** The discount after two years is 32% with an additional 1% for every extra year up to a maximum of 60%.
- **Flats:** The discount after two years is 44% with an additional 2% for every extra year up to a maximum of 70%.

Option 2 - alternatively there is the “Rent to Mortgage” scheme for those who want to buy their home but are unable to pay for it all at once.

The “Rent to Mortgage” scheme allows the homeowner to buy their home by paying just part of the “Right to Buy” price to begin with, by borrowing the money from a bank or building society and taking out a mortgage.

With the “Rent to Mortgage” scheme the homeowner becomes the owner of the property but the landlord (the council or housing association) keeps a share of the property. The landlord’s share is a percentage of the value of the home.

The homeowner does not have to repay the rest of the landlord’s share until a later date; however, the homeowner is responsible for maintaining and property repairs.

Online mortgage market

Sources suggest that homeowners are now choosing to apply for a mortgage online.

E-loan, which is one of the biggest online mortgage brokers in the US, has now opened for business in the UK. They have joined a handful of other mortgage brokers, who compete to sell mortgages online in the UK.

On the E-loan site borrowers can obtain a mortgage from more than 40 UK lenders.

The company makes its money from the commissions lenders make to brokers.

Fresh predictions suggest that there will be a boom in online mortgage lending.

You will need to establish how money transactions are conducted in connection with on-line mortgage broker payments. Details of small e-money issuer certificates and a small e-money issuer list can be found at: ww.fsa.gov.uk/register

Buying - abroad

High property prices in the UK has led to an upsurge in the number of Britons looking to buy a second home abroad.

One UK mortgage broker quoted that it had received 2,000 inquiries in August 2004 from people enquiring about financing the purchase of a holiday or retirement home, compared with just 250 in July 2004.

The majority of people are looking at re-mortgaging their main residence and taking advantage of the considerable equity they now have.

Purchasing property in a “celebrity area”

A further trend in property purchasing is that of buying a property in a “celebrity area”.

A quarter of estate agents suggest that sharing a street with a celebrity could add as much as £4,000 to a purchasers property, and one in 25 believe that having a A-list star in the neighbourhood could increase the asking price by as much as £50,000.

These properties will all obviously be at the higher end of the property market.

Types of mortgage

Mortgages can be divided into two types:

1. Repayment mortgage

With a repayment mortgage each monthly payment goes towards paying off the interest and some of the capital. However in the early days of a repayment mortgage, only a small amount of capital is repaid.

The entire mortgage is paid back over an agreed period of time (this is referred to as the mortgages term) and is most commonly set at 25 years but may vary according to circumstances.

When the mortgage's term has come to an end, providing all the repayments have been met, the property will be the homeowners.

Repayment mortgages are regarded as the safest option and are easily understood and therefore appeal to the more cautious investor.

2. Interest only mortgage

With an interest only mortgage, repayments are made solely on the mortgage's interest. This means that once the mortgage reaches the end of its life, the homeowner must still repay the lender the entire value of the initial loan.

Interest only mortgages are deemed as being more risky because the borrower must take out an additional form of savings such as a personal pension plan or an endowment to cover the outstanding loan when the mortgage finishes. The performance of these investments depends on the stock market and often caused financial problems for the buyer.

If the stock market is buoyant then borrowers stand to benefit, which isn't the case with anyone who has taken out a repayment mortgage. However, if the economy is in decline then there's a very real chance that the investment won't meet the final mortgage settlement.

Mortgage packages

Today's marketplace is awash with many different mortgage packages the following provides details of the most popular options:

Fixed rate mortgage	Cashback mortgage
Standard variable rate mortgage	Flexible mortgage
Capped rate mortgage	Self-employed mortgage
Discounted rate mortgage	Self- certification mortgage

Fixed rate mortgage

With a fixed rate mortgage the monthly repayments remain the same during the lifespan of the loan and the loan is cleared once the term is over.

A choice of terms is usually offered of between 2 and 5 years, although this can vary depending on the lender.

With some fixed rate mortgages the “fixed” bit expires after an agreed period of time (usually 5 years), whereupon repayments are made at the Standard Variable Rate.

This combination of factors is considered to make this type of mortgage the safest form of loan and appeals to the more prudent investor.

Standard variable rate mortgage

With Standard Variable Rate mortgages, interest rates are tied to the Bank of England’s base rate and monthly repayments are to some extent dependent on the fruition of the economy.

Capped rate mortgage

A maximum fixed interest level means that repayments will not be affected if the economy takes a downturn. Otherwise capped loans are similar to a Standard Variable Rate mortgage.

Discounted rate mortgage

With a Discounted Rate mortgage, the loan provider will offer the borrower reduced rates for a specified period of time, usually between two and three years. This will be particularly appropriate for first time buyers.

When the discounted period is over repayments are normally switched to the standard variable rate. However 'lock-in' clauses, such as expensive early redemption penalties may apply to this type of mortgage.

Cashback mortgage

Some financial providers offer a capital lump sum to first time buyers in exchange for taking out a mortgage with them. Usually the 'cashback' comes with strings attached such as steep financial penalties if the borrower wants to change mortgages before a fixed period of time.

Flexible mortgage

Flexible mortgages are popular with self-employed homeowners or anyone who has fluctuating income or changing lifestyles as they allow extra payments to be made, lump sums can be paid into the account at any time in order to repay the mortgage early.

Breaks can be taken in making payments these are often known as 'payment holidays' and usually breaks of up to 6 months are permitted. Flexible mortgages are also referred to as 'Australian mortgages'.

Self- employed mortgage

Self-employed mortgages, self-certification mortgages, non-status mortgages are all appropriate to the self-employed.

Most mainstream banks and building will classify self-employment into two types - those people who have been self-employed for more than 3 years and those who have been self-employed for 3 years or less.

They usually require the self-employed to have at least 3 years' worth of audited accounts showing consistent profitability. The requirement for 3 years' can often mean that the borrower needs to have been trading for in excess of 4 years, as accounts are prepared annually in arrears and most businesses do not make a profit in their initial years.

A further problem is that many business owners pay themselves nominal salaries, but often take substantial dividend payments or a share of the profits, in order to minimise their tax burden, which can often leave their income looking, on paper at least, to be pretty minimal. So while many applicants may actually be earning big money, they will still struggle to get a mainstream mortgage, even with the necessary number of years' worth of accounts.

Self- certification mortgage

For those self-employed borrowers who are unable to get a mainstream mortgage the only realistic option is to apply for a self-certification mortgage.

Self-certification mortgages, also known as non-status mortgages, have increased in popularity mainly due to changing work practices in the last decades.

These mortgages are for people whose income is difficult to assess, using the standard methods adopted by most conventional mortgage lenders, such as bonus, commission and seasonal workers.

Self-certification is the process by which, the amount borrowed is based on what is claimed is income as stated in a signed declaration in an application form and not based on any accounts.

However, the lender will usually take up bank and lender references, credit checks, solicitors' confirmation of previous ownership and landlord's reference.

While self-certification mortgages are available to the self-employed, they are not exclusive to them and some of the following groups also opt for this type of product:

- unsalaried company directors
- freelance workers
- contract workers and those with seasonal earnings
- commission-based workers in sales and recruitment
- airline industry employees, with complicated systems of bonuses and allowances
- low wage borrowers who have an inheritance fund or other family income

However, there have been cases where unscrupulous brokers have unnecessarily pushed clients into expensive specialist mortgage deals, as clients were unaware that they could get a mainstream mortgage. The broker is then able to obtain a higher level of commission.

Example:

A broker may get £1,000 in commission for each client placed with a specialist high-risk lender, as opposed to £150 in a deal from a mainstream lender.

This area of guidance has been withheld because disclosure would prejudice the assessment or collection of tax/duties or assist tax/duty avoidance or evasion.

Registers

There are several sites on the Internet to aid the identification of mortgage broking activities in your area, the following are just a few examples:

The Mortgage Board Register

The Mortgage Board maintains a register of all lender and intermediary firms who have agreed to abide by the Mortgage Code. Further details can be found at: www.cml.org.uk

Mortgage brokers who sign up to the code have to pay a fee to be on a central register.

A new applicant registration fee, which includes a Fitness and Propriety fee, is £117.50 including VAT.

A new registration number is issued when an application has been accepted.

The Mortgage Code Register of Intermediaries lists all intermediaries, who have undertaken to comply with the Code see: www.cml.org.uk

Financial Service Association Register

The FSA Register is provided online to enable firms and consumers to conduct ad hoc searches for authorised firms and individuals.

However, the register is not designed for use by individual parties over an extended period of time. If you do require access to this information on a regular and/or sustained basis, the FSA recommend that you subscribe to a service offered by the them that provides extracts of the Register for a fee. For details of this service, please email data.extract@fsa.gov.uk.

Consumer Credit Register – contains details of everyone who holds a licence, has applied for one, or had one revoked, suspended or varied. OFT will check the start date of a licence, the type of activity it covers, authorised trading names and main business of the licence holder.

Land registry on-line

The Land Registry has set up a pilot website providing details available in their registers. Further details available at: http://www.landregisteronline.gov.uk/

A detailed example of register information can be found at Appendix 4.

Specialist commercial finance brokers register

Details of specialist commercial finance brokers can be found on the National Association of Commercial Finance Brokers (NACFB) website: www.nacfb.org/ by selecting the “choose a broker” section and then “select county” and “select sector”.

Advertising

Mortgage brokers are likely to advertise in the following ways and therefore this information may assist in providing an indication of the trading activity of the business.

Publications such as Yellow Pages and Thomson Directory provide lists of mortgage brokers and consultants.

The broker's own website may be interactive and show a range of services and products available and will Although independent traders entries are usually brief, if they offer a specialist service or financial services in addition to mortgage broking work this will usually be included in their entry. Internet searches should also be made under the following:

- mortgage advice centres & mortgage shops
- mortgage experts and mortgage bureaux

RISK Teams should review Yellow Pages www.yell.com at local level.

www.upmystreet.co.uk can be reviewed for specific local information.

In addition adverts and articles in local newspapers are also a useful source.

Trade magazines

The following trade magazines may all provide useful information:

"Mortgage" magazine at: www.cml.org.uk

"Money Wise Finance" Magazine at: www.moneywise.co.uk

Property Week magazine www.property-week.co.uk/magazine

Other useful websites

Department of Trade & Industry – www.dti.gov.uk

Institute of Financial Services – www.ifslearning.com

Office of Fair Trading – www.oft.gov.uk

www.buytolet.co.uk

www.charcolonline.co.uk

www.yourmortgage.co.uk

This area of guidance has been withheld because disclosure would prejudice the assessment or collection of tax/duties or assist tax/duty avoidance or evasion.

Records

Section 12B of the Taxes Management Act 1970 requires that business records and supporting documents are retained for 6 years.

A range of formal records available to assist in assessing the accuracy of the mortgage brokers SA Return when the enquiry has been opened include:

- copies of credit agreements
- the mortgage agreement
- copies of all additional products sold
- purchase and sales ledgers & fees ledgers
- general day book & petty cash book
- individual client records
- details of any fees paid to external consultants
- appointments diary for meetings with clients
- wage records if staff are engaged

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Computation of profits

It is worth keeping in mind changes in the way profits of professional businesses are calculated for tax purposes. The changes are as result of Finance Act 1998 and came into effect from the first accounting period commencing after 6 April 1999.

Profits are no longer to be computed on a cash or 'conventional' basis, but professional businesses must adopt a basis which gives a 'true and fair view' of profits.'

Reference should be made to Tax Bulletin 38. The guidance set out in TB38 has been produced by agreement between the Inland Revenue and the Institute of Chartered Accountants in England & Wales, together with suggestions from the Chartered Accountants of Scotland and the Chartered Association of Certified Accountants.

Prior to the implementation of FA98 a professional practice could calculate tax on a ‘cash’ basis, declaring profits when they receive payment for work done. This differs from the procedure for other businesses that compute tax on an ‘accruals ‘ basis' i.e. they account for work as it is carried out.

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Appendix 1 - Definitions

Advance – is the mortgage loan.

APR - Annual Percentage Rate takes into account most costs involved in taking out a mortgage. Different lenders work it out in different ways.

Arrangement fee - paid to the lender in return for a mortgage deal.

ASU Insurance - provides a monthly payment if the mortgage owner cannot work for an extended period due to an accident, sickness or unemployment.

Bonuses –Life Assurance Company add bonuses to a 'with-profits' endowment annually, usually with a terminal bonus. Bonuses are not guaranteed and can change annually.

Buildings insurance - covers the cost of rebuilding or repairing the structure of the property. Lenders insist on adequate buildings insurance before giving a mortgage.

Capital and interest - monthly payments partly to pay the interest on the amount borrowed and partly to repay the outstanding mortgage. Also known as a repayment mortgage.

Capped rate – is an interest rate charged for a set period, which can fluctuate with the variable rate, but there is a maximum (capped) interest rate, which it cannot go above.

Cashback - a payment received when a mortgage is taken out. It may be a fixed amount, or a percentage of the amount of the mortgage.

CCJ - County Court Judgement is a decision reached in the County Court often related to debt.

CML - Council of Mortgage Lenders –trade association for building societies and most banks.

Completion - when the sale and purchase of the property are finalised.

Conclusion of missives - in Scotland, this is the same as exchanging contracts.

Contracts - legal documents relating to the purchase and selling of the property.

Conveyancing - the legal process involved in buying and selling property.

Credit search - A check made with a specialist company to find out whether the applicant has any CCJ's or a record of not paying loans or credit-cards.

Date of entry - In Scotland, this is the same as exchanging contracts.

Direct lender - a lender that arranges mortgages by telephone, post, or on the Internet.

Disbursements - expenses - for stamp duty, HM Land Registry fees, searches and faxes.

Discount term - the time that a discounted rate applies to a variable-rate mortgage.

Discounted rate - a guaranteed reduction in the standard variable mortgage rate.

Early redemption charges - a fee charged by the lender if the mortgage is paid up before an agreed date or the loan is moved to another lender.

Endowment - a life assurance policy designed to produce a lump sum to pay off an interest-only mortgage. They may be 'with-profits', 'unit-linked' or 'unitised with-profits'.

Equity - is the amount of value in a property that isn't covered by a mortgage.

Exchange of contracts - the buyer and the seller sign and exchange identical contracts, after which the deal becomes legally binding, and if either party pull out before completion, they have to pay compensation to the other person.

Fixed rate - interest charged on the mortgage for a set amount for an agreed period of years.

Fixtures - any item that is attached to a property, and is legally part of the property.

Flexible mortgage - where extra payments can be made or and even under payments without paying a penalty.

Gazumping - when the person selling the property accepts an offer from a potential buyer, and then accepts a new, higher offer from another buyer before exchange of contracts.

Gazundering - when the person selling the property accepts an offer and then the buyer puts in a new, lower offer just before exchange of contracts.

Ground rent – is a fee that a leaseholder has to pay the freeholder annually.

Income references - is confirmation from an employer of income earned or from an Accountant for the self-employed.

Leasehold - is when the property is owned for a set number of years, after which it goes back to the freeholder.

Licensed Conveyancer - an alternative to solicitors they specialise in the legal side of buying and selling property.

MGI - mortgage guarantee insurance covers the lender in case the property is repossessed and the lender cannot get back their money.

Mortgagee – is the company or organisation, which lends the money under a mortgage.

Mortgagor – is the person taking out the mortgage.

MRP - Mortgage Repayment Protection is insurance that will pay an agreed monthly payment if the borrower cannot work due to an accident, sickness or unemployment.

Mutuals - Organisations owned by and for the benefit of their members (savers and borrowers), with no outside shareholders. Building societies and some insurance and investment companies are Mutuals.

Negative equity - where money owed on the mortgage is more than the value of the property.

Non-status - the lender does not require employment or income references from the buyer - often offered to the self-employed.

Percentage advance - the size of the mortgage worked out as a percentage of the price paid for the property or valuation.

Possession - the lenders' term for repossessing a property.

Remittance Fee - a charge made by the lender for sending the mortgage funds to a solicitor.

Sealing fee - a charge made by lenders when the mortgage is repaid.

Searches - checks carried out during the conveyancing are made with local authorities etc to check planning proposals and other matters that may affect the value of the property.

Self-certified – the buyer confirms their income and the lender does not require references.

Settlement - in Scotland, this is the same as completion.

Tie-in period - as a condition of a special mortgage deal the buyer may have to agree to stay with the lender for a period of years or an early redemption charge may be made.

Term - a period of years over which the mortgage is taken and when it has to be repaid.

Third party buildings insurance - the charge a lender may make if buildings insurance is obtained from someone other than the lender.

Title deeds - documents to show proof of who owns the freehold and leasehold property.

Transfer deed - a document when signed transfers the ownership of the property to the purchaser.

Variable rate - interest rate the lender charges fluctuates with interest payments changing accordingly.

Vendor - is the person selling the property.

With-profits endowment - monthly premiums are pooled together and invested by a life insurance company. The policy will have a basic sum assured which bonuses are added to.

Appendix 2 - Latest Property Prices

The land registry has an interactive website covering various regions and their latest property prices, details can be found at www.landreg.gov.uk/propertyprice/

The following provides an example of what can be found on this website.

Information Level	Periods available	Notes
Regional (North-West - South-East)	Jan - March 1995 Jul - Sep 2004	See Note A
Unitary Authority / London Borough	Jan - Mar 1995 Jul - Sep 2004	See Note A
Local Authority	Oct - Dec 1998 onwards	
Postcode: Area/District/Sector	Oct - Dec 1998 onwards	See Note B
All (Local Authority and Postcode Sectors* from Oct – Dec 1998 onwards)	Jan - Mar 1995 Jul - Sep 2004	% Rises
Postcode Sector	Jul - Sep 2004	Highest / Lowest prices
Unitary Authority/ London Borough	1995 - (Jul - Sep 2004)	Annual
Unitary Authority/ London Borough	1995 - (Jul - Sep 2004)	Selected date ranges
Median and quartile prices	1996 - (Jul - Sep 2004)	Based on Land Registry data and supplied by Office of Deputy Prime Minister
Neighbourhood Statistics	Latest available	Use this site to view or download local area statistics for your ward or local authority on a wide range of subjects.

Appendix 3 - Fees incurred when purchasing a property

Type	The service	Fees charged
Mortgage broker fee	For arranging the mortgage or providing advice	Depends on broker; they might get commission from the lender but some charge a fee for advice
Mortgage booking fee or mortgage arrangement fee	A commitment or administration fee usually payable to the lender to reserve the mortgage funds	Varies but typically £100-500
Valuation fee	To assess that the property is appropriate security for the mortgage	Depends on lender and value of property
Higher lending charge	To obtain insurance cover in case the property is repossessed and it has to be sold at a loss	Depends on how much is borrowed and the size of the deposit
Fee to insure the property	If not insured through the lender	Typically £25 but may be payable yearly or each time the insurer is changed
Telegraphic transfer	For a solicitor if arrangements have been made to transfer the mortgage funds electronically the same day	Typically £40-£50
Re-inspection fee	If the lender needs to re-inspect the property after the original valuation, usually to check completion of agreed repairs	Typically £50-100
Early repayment charge	If the mortgage is repaid early	Depends on the terms and conditions of the mortgage and the size of the loan
Fees to repay the mortgage	For the lender when the mortgage is repaid.	Typically £75-200 as-well as any early repayment charge

The above Table has been based on information from the Financial Services Association (FSA) website: www.fsa.gov.uk

Appendix 4 – The Land Registry Register

The following is an extract from the Land Registry's new pilot website: www.landregisteronline.gov.uk

Details of individual properties in England and Wales can be obtained from the Land Registry database of over 19 million registered records. These represent the majority of English and Welsh properties.

The Register information will generally include: a description of the property, who owns it, the mortgage Lender (if any) price stated (if registered since 1st April 2000) rights of way (not public rights of way) or other rights affecting the property and restrictions or other conditions

The details held by the Land Registry are updated following the receipt of an application at the appropriate local office. For guidance, this can be up to a few months after a property transaction.

Example

Title Number: CS72510

The following extract contains information taken from the register of the above title number. A full copy of the register accompanies this document and you should read that in order to be sure that these brief details are complete.

Neither this extract nor the full copy is an 'Official Copy' of the register. An official copy of the register is admissible in evidence in a court to the same extent as the original. A person is entitled to be indemnified by the registrar if he suffers loss by reason of a mistake in an official copy.

This extract shows information current on [date and time] and so does not take account of any application made after that time even if pending in the Land Registry when this extract was issued.

REGISTER EXTRACT

* Title Number: CS72510 *

* Address of Property: 23 Cottage Lane, Kerwick, PL14 3JP. *

* Price Paid/Value Stated: £128,000 *

* Registered Owners: Peter Andrew Bartram and Susan Helen Bartram of *

* 23 Cottage Lane, Kerwick, (PL14 3JP). *

* Lender: ILKINGHAM BUILDING SOCIETY *

The title number is the Land Registry's unique reference number for this registered land

The price paid/value stated information has been entered in the register since 1 April 2000. It is based on information contained in the transfer or application form lodged with us. It has not been verified by us and may not represent the full market value of the property.

This area of guidance has been withheld because disclosure would prejudice the assessment or collection of tax/duties or assist tax/duty avoidance or evasion.