Non-Confidential

Legal & General Group Plc
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Borrowers hit hardest by COVID risk paying £1000s more in monthly repayments, new research from Legal & General reveals

- 32% of borrowers who have been negatively financially impacted by the pandemic say they are likely to move onto their lender's Standard Variable Rate (SVR) rather than remortgage.
- These buyers could face a £2,500 annual increase in their repayments if they don't consider their remortgage options, impacting their finances which may already be stretched.
- One in two (50%) homeowners are also concerned that their decision to take a payment 'holiday' will affect their future ability to borrow.

UK borrowers who have seen their income fall due to the COVID-19 crisis may soon be paying thousands of pounds more in monthly repayments as one in three (32%) borrowers consider staying on their lender's Standard Variable Rate (SVR) once their existing mortgage product expires, according to new research from Legal & General Mortgage Club.

For homeowners whose finances have been adversely impacted by the pandemic, exploring their mortgage options is essential to understanding where better alternatives are available, but the research suggests that the impact of COVID-19 is deterring thousands of borrowers with maturing loans from remortgaging. This could impact over 700,000 borrowers who will reach the end of their two- and five-year residential fixed-rate mortgages in 2021.[1]

More than half (52%) of borrowers who have seen their income reduced as a result of the crisis are concerned that lenders will now be scrutinising their finances in more depth compared to pre-COVID levels. One in two (50%) are concerned that their decision to take a payment 'holiday' will affect their future mortgage options, and two thirds (67%) believe it will be harder to get a mortgage when furloughed. Perhaps unsurprisingly, those who have seen their incomes negatively impacted by the pandemic are also far more likely to feel 'not confident' about remortgaging compared to borrowers whose incomes have remained stable (14% and 3% respectively).

According to analysis from Legal & General Mortgage Club, moving onto a lender's SVR could increase annual mortgage repayments by more than £2,500[2] when compared to borrowers who lock into an average two-year fixed rate product. This could potentially create further financial difficulty for homeowners at a time when their incomes may already be stretched or reduced, including the precited 4.7 million individuals who remain furloughed.[3]

[1] UK Finance product maturity figures, 2021
[2] Example based on a borrower taking out a 90% mortgage at Which?'s average 2019 fixed rate (Best mortgage rates at 95% LTV revealed – Which? News) on the UK's average house price in May 2019 of £230,049 and a current average market SVR of 4.51%
[3] https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-february-2021/coronavirus-job-retention-scheme-statistics-february-2021

Even among those who don't plan to revert to their lender's SVR, over half (52%) say they are now more likely to stick with their current lender when looking for a new product, with well over a third (37%) doing so because they believe this will be the easiest way to secure a new deal.

"While the coronavirus crisis has undoubtedly affected people's finances in different ways, those who have seen their incomes drop will likely be finding this a particularly challenging time so it's vital they avoid falling onto a reversion rate and paying more when there are other affordable options available. COVID-19 may have dampened the confidence of a large number of borrowers wanting to lock into a new rate, yet the cost of not exploring their refinance options could be significant. Even for those borrowers who have seen a reduction in income, there may well be products available that would save them money in the long term when compared to their lender's SVR.

"There are still thousands of great fixed rate-deals available, including furlough-friendly mortgages for those who have or continue to draw support from the Government's Job Retention Scheme. The UK also has a thriving specialist lending sector designed to help borrowers with complex circumstances, from the self-employed to those who might have experienced a credit blip, many of whom can only be accessed through speaking with an independent adviser who could help these borrowers to save thousands of pounds in their mortgage repayments."

Kevin Roberts, Director, Legal & General Mortgage Club

Notes to editors

About Legal & General

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with international businesses in the US, Europe, Middle East and Asia. With over £1.1 trillion in total assets under management, we are the UK's largest investment manager for corporate pension schemes and a UK market leader in pension risk transfer, life insurance, workplace pensions and retirement income.

Methodology

Based on a borrower who took out a 2-year fixed rate 90% mortgage at 2.65%[4] in May 2019 on a home at the then average house price of £230,049. This equates to £207,044 borrowed over a 30-year period with £834 monthly repayments (equating to £10,008 annually).

The borrower is now approaching the end of their loan term and could either switch onto their lender's SVR or lock into a new fixed rate mortgage. Based on the current average SVR (4.1%), the borrower's monthly repayments would increase to £10,050 (£12,600 per year). This results in a £2,592 price increase.

Further information [journalists only]

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[4] Best mortgage rates at 95% LTV revealed – Which? News