

**HOW HAS COVID-19 IMPACTED UNDERWRITING?**

**BY: Caroline Mirakian, Head of National Accounts at Pepper Money**

In any fast-moving situation, there is always likely to be a degree of speculation and misinformation. So, given that few events that have escalated as quickly as COVID-19, it’s unsurprising that there has been so much conjecture as to the impact it will have on different areas of our lives.

In the mortgage market this has been set against a backdrop of product and criteria changes and low approvals numbers. According to the Bank of England, the number of mortgage approvals for house purchase fell to just 9,300 in May, down from around 15,800 in April, and almost 90% below the level in February. While Moneyfacts said that the number of available 90% LTV deals fell from 183 to 70 between 1st June and 1st July.

Consequently, there has been speculation about the approach that lenders are taking when it comes to underwriting cases. So, what is the truth in how COVID-19 has impacted underwriting?

The first thing to consider is that complex is the new normal. With so many millions of people being furloughed or taking payment holidays on their mortgage and other credit commitments, cases that were previously straight forward, now have different levels of considerations, and this is before you consider the self-employed, contract workers or people who previously had a record of adverse credit. So, a more hands-on approach to underwriting each case individually is now a more frequent requirement for your clients. But is this hands-on approach simply a way of lenders restricting their appetite?

The answer is no – lenders do still have a strong appetite to lend, but in order to build a sustainable long-term recovery, it is important that they take sensible precautions in their lending decisions at this stage. So, with any lender you work with, it is unlikely that they are now following a drastically different path to the one they set out on at the beginning of the year, but they will be mindful of individual customer circumstances and how that customer has been able to weather the storm of COVID-19 and the lockdown.

The principles of underwriting maintain consistent – to understand a customer’s ability to sustainably maintain payments on a loan that they have been advanced. However, the changing circumstances of customers during this period has made it a more involved process for lenders to reach a decision.

As such, it is unsurprising that customers in segments that are to be most impacted by the crisis are subject to an appropriate level of underwriting scrutiny. This is not to say that the self-employed, people working in the hospitality sector or workers who have been furloughed will be unable to secure a mortgage, but a prudent lender might take more steps in its underwriting process to ensure that the mortgage will be sustainable and affordable.

This robust approach to underwriting is not a consequence of reduced lending appetites, but of continued economic uncertainty in an environment where many people have already experienced significant challenges to their finances. And this prudent approach to underwriting in the short term, will ultimately help to achieve the long-term goal of establishing a stronger sector that is better able to deliver the solutions that brokers need to meet the changing needs of a diverse group of borrowers.

Pepper Money have consistently operated a more human approach to underwriting, to enable us to evaluate each case on its own merits rather than relying on a computer. This has certainly helped during the pandemic, as mortgage cases become more complex. Brokers speak with the same contact from Pepper Money right the way from application to offer.

**SOURCES**

<https://www.bankofengland.co.uk/statistics/money-and-credit/2020/may-2020>

<https://moneyfacts.co.uk/news/mortgages/first-time-buyers-see-product-choice-fall-by-more-than-half-in-a-month/>