

Lifestyle lending

and income out of the
ordinary



a whitepaper by



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1.

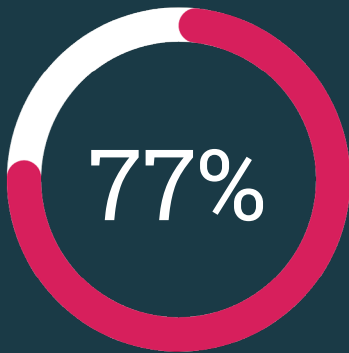
London: the capital of loaning to loved ones

In the bustling heart of London, where the cost of living can be a significant challenge, our recent research found an enlightening trend among the city's residents. Londoners, particularly those over 50, stand out as the most likely to loan or gift money to help family members with day-to-day costs to combat the cost of living.

We asked 1,240 people aged 16 to 80+ about how the cost of living is impacting their finances



The findings show a remarkable **three-quarters (73%)** of individuals aged 50 plus in the capital have either gifted or loaned money to support their children or other family members with day-to-day expenses.

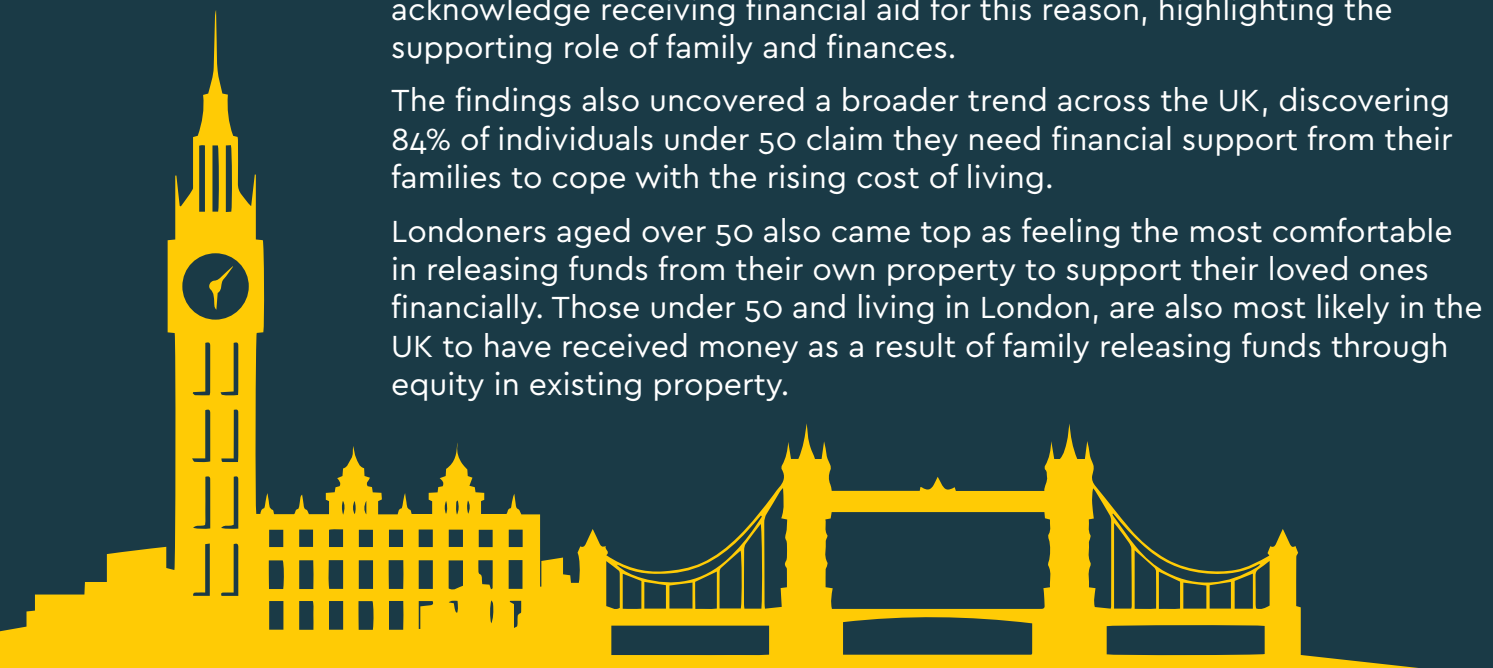


It also found **77%** of those under 50 and living in London have accepted financial assistance from relatives.

The main motivation behind this financial support is to address general day-to-day living costs. Almost half of those under 50 in the capital (48%) acknowledge receiving financial aid for this reason, highlighting the supporting role of family and finances.

The findings also uncovered a broader trend across the UK, discovering 84% of individuals under 50 claim they need financial support from their families to cope with the rising cost of living.

Londoners aged over 50 also came top as feeling the most comfortable in releasing funds from their own property to support their loved ones financially. Those under 50 and living in London, are also most likely in the UK to have received money as a result of family releasing funds through equity in existing property.





Abenaa Afari, business development manager, said of the findings:

"What these results show us is that even though inflation is slowly coming down, people are still feeling the pinch and many are going to family members to ask for financial help at a time of need. The ability to release equity from homes to help in this regard is therefore proving increasingly useful, particularly for those in the capital where, no doubt, higher house prices are making this an ever more attractive prospect."



As part of its ongoing commitment to responding and flexing to fit its customers' needs within the current climate, Hodge previously announced it was removing height restrictions on blocks of flats from its lending criteria on its professional mortgage product.

This means, as of November 2023, Hodge accepts professional mortgage applications on privately built homes including buildings which are more than six storeys high. This is in turn helping more people looking to purchase properties in major cities including London.

Abenaa added: **"Our focus here at Hodge has always been to flex and respond to market pressures in a way that allows us to continue supporting our brokers and their customers in the moments that matter – and we're working harder than ever in light of this research to make sure this continues."**

In a city known for its diversity, we're proud to support the London market with our own diverse and enhanced offering. If you'd like to learn more about how we can support you and your London clients, speak to our **London BDM team.**



2.

Six things to know about income out of the *ordinary*

Securing a suitable mortgage for your high net worth (HNW), career-climbing professional clients can feel like a complicated process. If you asked the average person, they'd think securing a mortgage when you have a high net worth would be pretty straightforward. But, due to the complexity of their income, it's not always as simple as it seems.



James Enos, national account manager at Hodge, unravels the complexity of incomes out of the ordinary with six key insights which tackle the challenges of high net worth mortgages.



High net worth mortgages can't follow a tick-box approach

Finding suitable mortgages for high net worth clients or individuals looking for increased financial flexibility takes expertise and a dedication of time. Something template or rigid affordability checklists and speedy, automated underwriting don't allow for.

The complexity and high-value requirements of a HNW mortgage calls for knowledgeable advisers who can get themselves familiar with more complicated or diverse income streams. They need to work with specialist lenders like Hodge, who have in-house expert BDMs and underwriters, who understand the nuances of non-standard incomes to streamline the application process as efficiently as possible.



Maximise affordability

A high net worth client wants the same as any other borrower, a mortgage to fit them and meet their needs. Ensuring their borrowing capacity matches their financial needs and goals is all about looking at the bigger picture. Specialist lenders like Hodge, understand the limitations of 'loan-to-value based' affordability assessments. Our BDMs and underwriters help advisers take a holistic view of their client's wealth and assets to accurately assess affordability. We don't just look at the monthly salary, we take into account all income streams, from bonuses to dividends, retained profit and even monetising notional income to maximise affordability.

We know the way clients work today is evolving and we know it's important lenders adapt to these changes.



3.

Lending with the future in mind

Often career-climbing clients, or those with multiple income streams, will be on an upward professional trajectory. We'll take this into account, assessing current earnings and when self-employed, assessing accountant projections. This helps us understand if future earnings will positively impact our lending decision when offering the loan and the term. Because we're focused on the future, we only require one year's worth of accounts and our underwriting experts look at each client case manually, so you can be sure our time is being invested in making case-by-case decisions.

4.

Interest only for an interesting income

Our lending philosophy is to align with the changing goals and lifestyle aspirations of our clients. For some individuals, greater flexibility in their monthly outgoings can mean interest only mortgages are an ideal fit and can suit a range of borrowers. For example, interest only mortgages utilised by self-employed individuals or clients with irregular fees or bonuses who have the ability to repay the capital at later date.

We also assess affordability for interest only on an interest only repayment basis, suiting clients who are looking to climb the career ladder and professional ladder at the same time.

As interest only is all about flexibility, it can make sense for some borrowers to make over-payments. That's why we allow up to 10% a year without penalty during their fixed rate period.



Every client has a unique financial story

Many high street lenders and banks may not cater for certain high net worth individuals, those who have a complex income or those who are self-employed (or a combination of all three!) Irregular income and complex or multiple income streams can deter lenders who don't look at the whole picture, or assess applications on a case-by-case basis. Added challenges such as two or three years of accounts required can mean clients and advisers spend a lot of time securing an appropriate lender.

At Hodge, we take the human approach, working closely with advisers on individual cases and getting under the skin of the borrower's financial stories to find the best mortgage solution.



Find the right lender

Our mortgage solutions are designed to truly suit the lifestyle and planned financial path of the borrower. We look at the complex and make it simple, working with advisers to achieve the most appropriate borrowing levels and repayment terms for every client.

Our criteria is designed with maximising affordability and income flexibility in mind:

- Using earned income to age 80
- Assessing interest only on an interest only basis
- Accepting multiple repayment strategies for interest only mortgages
- Using multiple income streams to lend what a customer can truly afford
- Lending to applicants from age 21 – 95 across our range of term based mortgages.



3.

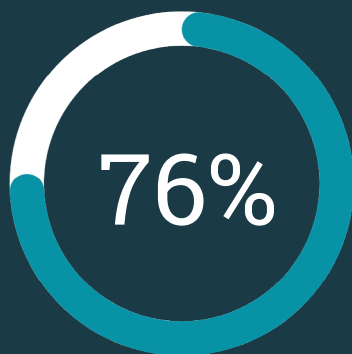
Income multiples and the challenges of maximising *affordability*

Even when inflation gets back to the Bank of England's two percent target, hopefully sometime in 2024, the cost of living will still be significantly above where it was two years ago, and many say their wages haven't kept up (ONS.gov.uk).

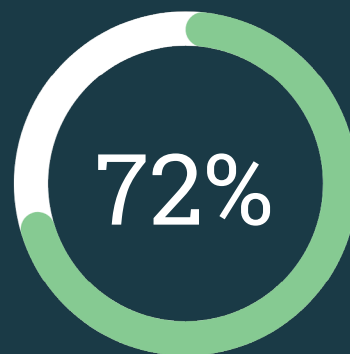


Brad Street, business development manager at Hodge, highlights the ongoing challenges of maximising affordability in today's market.

Our research shows more than three quarters (76%) of British people continue to be concerned about the cost of living, while a similar percentage (72%) aren't confident about managing their finances.



of British people continue to be concerned about the cost of living



aren't confident about managing their finances

Throw in **eye wateringly high** interest rates and this new financial landscape means the reality and the perception of affordability, has its challenges for both customers and brokers. The days of brokers using a rule of thumb affordability calculation by multiplying a customer's income by 4.5 on a calculator, seem almost **nostalgic in its simplicity**.



A review of our affordability model this year showed for an interest only mortgage, a single applicant would need an income of close to £45,000 before affordability would allow at **4.5 times salary**. If we did the same for repayment at 4.5 times salary, household income would need to be closer to £90,000.

It then seems no surprise that we've seen a number of lenders take the unusual step of advertising to the market they're able to offer enhanced loan-to-income (LTI) offering income multiples of 5 or even 6 times salary.

Models will of course differ between lenders, however it seems there is benefit from further understanding around affordability, stress testing and how loan-to-income (LTI) caps are used.



There's a need for advisers and lenders to work together to navigate the complexities of borrowers' financial stories. To support their clients' needs, advisers need to be prepared to take the time to understand the full picture and lenders must get comfortable enough with their own appetite to make it worth them listening. Lenders also need to continue to innovate when it comes to assessing and evidencing the ability of a customer to service their mortgage payment.

On a positive note, we should see less volatility in the mortgage market going into 2024, with inflation decreases and more competitive property prices. The takeaway from what we've learned in 2023 is that once again, as we settle into another 'new normal' and clients' expectations align with the more realistic economic outlook, we need to work together to ensure the delicate balance of borrowers' financial constraints and the products available are matched to best serve their needs.



4.

Our *case studies*

Our case studies are there to create a clear picture of who our products are made for. At Hodge, we put customers at the heart of everything we do. Understanding the moments that matter to them helps us develop products with the person who needs them in mind. Whether that's a newly qualified solicitor looking to buy their dream home, or a GP who has recently become a practice partner and wants to step into their forever home. Having that customer fresh in your mind should help you find the right product for them, making customer case studies invaluable.



Product: 50+ (I0)

Careers: **Optometrist**

Purpose: **Remortgage of residential home**

Term: **22 years**

LTV: **16%**

Loan: **£250,000**

Property Value: **£1,600,000**

Repayment Type: **I/O**

Leon, a 57-year-old optometrist, had a diverse income stream. Leon received £13,000 per annum from his own business, an additional £22,000 generated from a second Holiday Buy to Let property and a substantial private pension of £52,000.

Leon is currently living in a luxurious penthouse apartment on the seventh floor, boasting an idyllic view overlooking the river, located in the southern part of the city.

His current interest only mortgage was coming up for maturity. Leon was keen to keep his financial flexibility and sought an interest only loan of £250,000 against his property valued at £1.6 million, extended to the age of 80. His longer term plan would be to sell the property later in life and relocate out of London, but he wanted the autonomy to choose when the right time for this to happen would be.

His penthouse had recently been renovated, including cladding work. Crucially, the developer responsible for the refurbishment was part of the Government Developer Remediation Contract, which met our guidelines and meant we were happy to help.

The combination of the property's recent cladding work, the interest-only requirement and the desired extension past the age of 70 meant Leon and his broker were struggling to find a lender to meet his needs.

After speaking with one of our helpful Hodge BDMs, we were happy to help. We were able to provide enhanced income multiples for a like for like case, and interest only into retirement. While other lenders hesitated due to the property's unique characteristics, Hodge embraced a common-sense approach. When considering the positive merits of the case, the low loan-to-value, the completion of remedial works through a government-backed scheme, and the highly desirable location of the property, Hodge's Underwriting team confidently supported Leon's case.

Leon's circumstances were seen as unique to other lenders. But at Hodge, we know every customer is unique and we support them on their own personal journey. We understand the importance of financial flexibility in later life. Our tailored approach and willingness to appreciate the nuances of Leon's situation meant we could be there for him in a moment that mattered.



Paul & Sue, age 65 & 60

Product: RIO

Careers: **Retired police officer and office facilities manager**

Purpose: **Move to interest only term to afford early retirement**

LTV: **17%**

Loan: **£100,000**

Property Value: **£600,000**

Repayment Type: **I/O**

Meet Paul and Sue, a married couple planning towards their joint retirement. Paul, 65 years old, is a retired police officer. He now enjoys performing on stage as the lead singer of his band, 'The Long Shadows'. Sue, 60 years old, was working full time as an office facilities manager. Eager to retire and join Paul, spending more time enjoying their passion for music together, but hindered by their financial ties.

Paul and Sue had £80,000 left on their repayment mortgage, set to mature in another five years, against a property estimated at £600,000. Neither wanted to downsize and move from their family home in a great neighbourhood, with ample space for their children and grandchildren when they came to visit.

While looking for a solution to bring Sue's early retirement dreams to life, a friend told them about an interest-only mortgage which has a term that runs past retirement. Paul and Sue realised that an interest only mortgage would significantly reduce their monthly outgoings making it much more affordable and aligning better with their retired income.

Paul and Sue talked to a mortgage adviser to explore this option further. The adviser conducted a full assessment of their needs and presented a few options back to Paul and Sue. They decided on a Hodge RIO Mortgage on a repayment term. It gave them the option to take on a longer term into their retirement years and borrow an additional £20,000 to enable Sue to retire early, make home improvements and go on a dream holiday to Australia.

This mortgage solution meant both Paul and Sue could start living the next chapter of their life today, without sacrifices such as selling their family home. At Hodge, we understand finding the right mortgage is not just about financial comfort, it's also to help customers make more of the moments that matter.



Sarah, age 48

Product: Professional Mortgage

Career: **Doctor**

Loan: **£495,000**

Purpose: **Purchase a new home after divorce**

Property Value: **£550,000**

Term: **24 years**

Repayment Type: **Repayment**

Sarah was looking for a fresh start following her divorce. After nineteen years in the family home, she was keen to make the move to a new house for her and her children.

A registered and experienced Doctor, Sarah had sixteen rewarding years working in a GP practice before it was dissolved in 2022. In readiness for the dissolution, Sarah began working as a Locum and very recently made the jump into Locum work full-time.

With so many changes happening in her life, Sarah was hoping buying her own property would be as stress-free as possible. But Sarah's application was not straightforward. Sarah planned to retire at seventy-four and wanted a repayment mortgage over 26 years. The value of the potential purchase would require a 90% LTV, with a LTI ratio of 3.8x salary. However, when Sarah's current residential house sells, the proceeds would go towards her mortgage loan, reducing the total amount.

As a self-employed, sole applicant in her 40s, with multiple income streams from her partnership and less than 12 months of validated Locum invoices, Sarah's application had many different aspects to consider.

Having been let down by other lenders, Sarah's broker called Hodge. The broker knew, as a specialist lender, we have expertise in complex income and manually assess all applications on a case-by-case basis. So, our dedicated BDM eagerly started working to get a complete understanding of Sarah's needs and situation so that we were able to look for a solution. Which we did.

The Hodge Professional Mortgage offers up to 6x LTI, 90% LTVs and considers all validated income streams, including Locum work whether it's complementing your clients PAYE position or as a main income. We accept applications from self-employed sole traders and will take in earned income accepted up to the age of 75 or planned retirement.

At Hodge, these milestone moments in your client's life are under the care and dedication of our underwriters, experienced in income complexities and assessing each case individually. Our flexible criteria and knowledge of professional income meant we were able to offer Sarah a mortgage within seven days so she could secure a new home for her and her children for the next chapter in their lives.



Matt, age 30

Product: Holiday Let

LTV: 75%

Loan: £218,000

Property Value: £290,000

Repayment Type: I/O

Purpose: Purchase a buy to let to save a deposit for first home

Term: 20 years

For the past several years, Matt, a 30-year-old non-owner occupier based in London, had been saving towards a property near his parents' home and workplace. Despite his commitment, his savings fell short of the deposit required for the home he wanted.

Determined to explore alternative investment options, Matt began considering the potential yield of the Holiday Let market to boost his savings. After some research he had decided that a Holiday Let in Exeter could be perfect - a popular location for short breaks and summer holidays. It was also ideal as he had friends there, allowing him to spend around three months a year living there while renting it to holiday-goers for the remaining nine months.

Matt also researched into the tax implications, EPC requirement and the amount of yield he could obtain per annum to estimate the time it would take to build up a deposit he needed. Once he'd made the decision he knew he'd need a flexible lender who would support his end goal of purchasing a home in London.

Anticipating that he would likely sell the Holiday Let once he saved a sufficient deposit, Matt sought a lender who'd allow him to redeem the loan once the property was sold, without paying any penalties.

Matt found a broker and talked to them about his needs. The broker told him about Hodge and how we'd be a great fit to get him to where he wants to be. As we understand not only understand the Holiday Let market, we take time to understand our clients and what matters to them. Working closely with the broker, Matt is currently spending free time in Exeter viewing potential Holiday Lets.



5.

About Hodge

For more than 50 years, Hodge has helped its customers achieve their financial goals with the skills and knowledge to ensure it creates products and processes for the moments that matter.

Over the years we've created specialist mortgages to support borrowers with varied and complex needs. We've used our experience to grow our product offering to better serve brokers and customers alike.

Whether it's with their personal mortgage, savings, or as a commercial client, Hodge is there to support the thousands of customers who trust us with their finances.



Meet your dedicated *London team*

Whether it's saving for a rainy day or a key life event, taking on a mortgage for a cherished home, or investing in or developing property, we're here to offer support, helping your clients get to where they want to be.

We treat everyone as an individual, we know you're as unique as we are and we make it our business to understand you and your clients' needs. When you deal with us, you'll speak directly to our warm and friendly team of experts. We're here to help.



James Enos

National account manager – South

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James has more than 20 years' experience in financial services, working for organisations including Principality, Sainsbury's Bank and Virgin Money.

James prides himself on providing the highest levels of service and is responsible for maintaining and building relationships with our key distribution networks and mortgage club partners in London and the South region.

Get to know James

Go-to karaoke song: Anything Elvis.

Best piece of advice you've ever received: "No one is your superior, only your senior" advice from my dad on my first day of work when I was 18.

Favourite biscuit: Milk Chocolate Oaty.

Favourite hobby outside of work: CrossFit.



Abenaa Afari

Business development manager – London & South East

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With more than 15 years' experience within the finance sector, Abenaa, or Abs for short, is an integral part of the Hodge team. Abs has worked in pensions, investments, intermediary support and relationship management.

Passionate about supporting and growing Hodge's adviser communities, Abs loves meeting new brokers. Being able to add value and support clients from enquiry to fruition provides a great sense of achievement.

Get to know Abs

Go-to karaoke song: Survivor by Destiny's Child.

Best piece of advice you've ever received: PEACE: Positive Energy Always Creates Elevation.

Favourite biscuit: Border Oat Crumble biscuits are my all-time favourite.

Favourite hobby outside of work: Making beaded jewellery.



Brad Street

Business development manager – M4 Corridor & South

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Brad is a knowledgeable BDM with more than 20 years' experience with both mainstream and specialist lenders.

Communication is key for Brad and he excels at keeping in touch with brokers throughout every client journey, he's always look out for flexible solutions for customers and brokers.

Get to know Brad

Go-to karaoke song: Bohemian Rhapsody by Queen.

Best piece of advice you've ever received: Don't answer on impulse, sleep on it, then go back with your thoughts - as I've got older and wiser, this has never been truer.

Favourite biscuit: Chocolate Hob Nob – amazing invention.

Favourite hobby outside of work: I'm a runner and proud to say I ran the London Marathon at the ripe old age of 55! Bar marrying my beautiful wife and being dad to my three gorgeous girls, it's my proudest achievement!



Joe Morriss

**Senior telephone business development manager
– London & South East**

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Joe joined the BDM team in January 2018. CeMAP qualified, Joe has extensive knowledge and experience in sales and business development.

He thrives on supporting brokers enabling them to help their clients. Joe enjoys supporting key accounts from his desk as a telephone BDM.

Get to know Joe

Go-to karaoke song: Boys are Back in Town, Thin Lizzy.

Best piece of advice you've ever received: Luck is when hard work meets opportunity.

Favourite biscuit: A chocolate digestive.

Favourite hobby outside of work: Gardening and running.

