WealthBriefing

Charting The Changing Face Of HNW Mortgage Lending

Tom Burroughes, Group Editor
26 February 2018

The market for real estate lending to high net worth individuals in the UK is changing, with some specialist firms pushing into the space.

There are signs of change in the UK market for high net worth mortgages and lending. A relatively new standalone player is pushing harder at the space and demand for specialist credit is shaping new offerings.

Butterfield, the group formerly part of the old Bermuda-headquartered cluster of financial services firms, may no longer provide private banking in the UK but its mortgage business continues to keep the name in view. Butterfield Mortgages is growing, targeting high net worth clients with specialist needs, the chief executive of that operation told this publication.

When the bank shuttered its UK private bank in 2016 because of a failure to achieve sufficient growth, it stated at the time that its mortgage business would continue. The business appears to be very much in expansion mode. Alpa Bhakta, CEO of Butterfield Mortgages, who joined the business six years ago, is keen to raise brand awareness around what Butterfield is now doing.

A decade on from the 2008 financial crisis, when conventional lenders retreated for a while from lending, there have been firms returning to the specialist mortgage lending field, but it is not clear they all understand the peculiarities of what high net worth individuals want, she said.

"People understand HNW individuals more than they did…do they understand what they are about? They want to be looked after," she said from her offices in the City.

"We are looking at clients with at least £3 million ($4.2 million) in assets or £300,000 of annual income. This is in the prime residential area and mainly in the premium parts of London," Bhakta said. "All our loans are on a five-year, interest-only basis. Clients can pre-fund the interest for the term of the facility."

The minimum size of a loan is £1 million; Butterfield Mortgages charges an arrangement fee and takes a margin. Most of the referrals for this sort of work will come from brokers, Bhakta said.

Typical issues for HNW individuals are possession of large assets but low liquidity; the fact of assets being held inside trusts and other structures, and cross-border asset/liability complexities. Lending to people with such issues is complicated and they often struggle to persuade a box-ticking conventional bank's mortgage arm to give them a hearing, Bhakta said.

A polarising market

The UK market for HNW mortgages is bifurcating: high street banks are increasingly lending to such borrowers as balance sheets improve, often able to provide mortgages in the single-digit millions where previously only private banks were able to do so, Shaun Church, director at Private Finance, a specialist broker in the space, told this publication. On the other side, private banks are looking for niche areas, such as lending to non-domiciled clients, for example, or those with particular forms of collateral that are tricky for high street lenders to handle, he said.

"Private banks are having to be a bit less picky about who [clients] they'll take on because more and more of their old business is being mopped up by the high street banks," he said. Church gave an example of a wealthy client at a Swiss bank who had re-mortgaged a house with a high street lender at a more competitive rate than would have been possible a few years ago.

Since the period of ultra-tight lending conditions after the 2008 crash, credit is more available and barriers to entry into the field have come down. "Lenders are now mostly well capitalised and they need to earn a profit – which means lending," Church added.

For some time after the financial tsunami, even the wealthiest persons, particularly if their assets were held in complex forms, struggled to get finance on property. The ability to provide bespoke mortgages for such persons where there are complex issues in play is provided by a relatively limited number of banks, such as UK-headquartered Arbuthnot Latham and Coutts, UBS and Brown Shipley. Close Brothers, which in 2007 shut its Close Brothers business, still provides lending for commercial and residential development.

Relishing a challenge

The move to Butterfield and its business has been a challenge that Bhakta – previously at Fortis and BNP Paribas – relishes. The operation has a licence from the Financial Conduct Authority and operates as a standalone business.

Butterfield Mortgages' publicity includes a number of case studies designed to illustrate what it can do. For example, it gives the example of British nationals/residents with property worth £6 million and outstanding mortgage debt of £1.5 million; clients also owned two buy-to-let properties worth £3 million each; they had joint income of £200,000 – insufficient to cover current debt; the clients wanted to refurbish one of the BTL properties, move into it, and sell the main residence. Butterfield Mortgages agreed a two-year, interest-only facility, with clients pre-funding interest for the full term, and used the financing to replace existing debt and refurbishing the property. BML gives a number of other studies where such lending unlocks clients from an "asset-rich/cash-poor" position.

Lending to those with assets but not much available liquidity might not sound like the most exciting business in the world, but it is the very essence of what banking is or should be about. Doing that job well is still, Butterfield hopes, a profitable business and one that will pay dividends over the long haul.