



army families federation

the voice of army families

Briefing

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Removing disadvantage when applying for mortgages

A specific commitment was made within the Armed Forces Covenant to remove disadvantage when applying for financial services, such as mortgages. Families are still reporting difficulties in obtaining the most suitable mortgages, particularly when assigned overseas. AFF believes this commitment requires re-evaluation to remove this ongoing disadvantage.

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Background

One commitment in the Armed Forces Covenant¹ centred on supporting lending to Service personnel. Guidance on access to mortgages and loans was issued in January 2012. Organisations representing the financial service industry committed to removing disadvantage for the Armed Forces Community. In recent months, AFF has been contacted by families who have experienced difficulties in securing mortgages because they are assigned overseas or have previously had BFPO addresses. AFF subsequently conducted a poll in November 2013 which revealed that 84.6% (33 out of 39) respondents experienced problems getting a mortgage or unsecured loan due to the Armed Forces lifestyle.

The Issues

Overseas Assignments

Families applying for mortgages whilst assigned overseas have been told by some companies that they are not eligible because they are non UK residents. This has resulted in a long, drawn out process, with some choosing to wait until their return to the UK. One family overseas was told by several companies that they had to reside in the UK for 50% of the time. Another found that only two lenders were willing to provide mortgages, with other lenders refusing due to a recent two year overseas assignment. This reduced choice resulted in the soldier having to accept a mortgage with a higher than expected interest rate which increased monthly repayments significantly.

It is widely reported that home ownership amongst the Armed Forces is lower when compared to civilian counterparts in similar socio-economic groups. Around 70% of officers own a home compared with 90% of those in an equivalent group. Around 35% of other ranks own a home compared with 65% of those in an equivalent group and in the Army this falls to 27%. Ongoing disadvantage during the mortgage application process will not improve the situation. At the time of writing 16,406 (19%) of Army personnel are assigned overseas². Many more will have had BFPO addresses previously. Potentially many personnel and their families could be affected by this issue.

An AFF review of six of the biggest high street lenders revealed that only half have mortgage application systems that accept and process BFPO addresses. The remainder state that they will manually review applications to remove disadvantage caused by gaps in address history. There is little information about how this works in practice. Assurance is required that staff dealing with applications identify the need to process applications manually. Serving personnel also need information highlighting that these procedures can be put in place to mitigate any potential disadvantage.

Independent Mortgage Advisors

In 2013, Nationwide announced that it would no longer lend via mortgage brokers to those assigned overseas or those who have had a BFPO address in the last three years. Applications will now only be processed directly. Nationwide's internal system is able to process such applications, but due to a simplification of the process, the system for broker business will not accept BFPO addresses. Whilst Nationwide has assured that they will continue to offer mortgages directly to those with BFPO addresses, it does remove the choice for the Armed Forces Community to use advisors whilst

¹ The Armed Forces Covenant 05/11

² Army Service Management Information Cell 01/14

overseas. This is often the most practical solution for families overseas due to the inability to visit multiple potential lenders on the high street.

Letting and Unoccupied Properties

Families living in Service Families Accommodation (SFA) buying their own homes, often choose to rent their property out whilst accompanying the serving member of the family during assignments. Some lenders grant exemptions for military families, providing consent to let on a residential mortgage. However, some lenders will only provide buy to let mortgages which can be more expensive and require a larger deposit. Wider provision of consent to let mortgages could support serving personnel in becoming home owners.

Families who choose to become home owners and do not want to rent out their properties, can find that mortgage companies can be reluctant to lend when the property is left empty for more than a month at a time. This is because of the effects on buildings insurance - a requirement in obtaining a mortgage.

Understanding Armed Forces Life

AFF has learnt of many positive measures taken by individual companies to support the Armed Forces Community. However, AFF's research has revealed a general lack of understanding about the unique nature of the Armed Forces lifestyle amongst lenders. This includes the distinction between those living in Single Living Accommodation (SLA), SFA, assigned overseas or on operational deployments.

Case study

AFF was contacted by a family who had applied for a mortgage to buy a home whilst assigned overseas. The family utilised the services of a financial advisor who identified the most appropriate mortgage lender. During the initial stages of the application the overseas assignment appeared to present no problem. Later in the process, the family was informed that their application had been denied because the serving soldier had not been resident in the UK for the last two years. Despite the financial advisor presenting a robust case about the Army lifestyle, the underwriters maintained that they would not allow an exception for Service personnel overseas in the implementation of this policy.

AFF VIEW:

AFF recognises that the commitment in January 2012 by organisations representing the financial services industry has removed some of the disadvantages Army families face when accessing financial services. Disparity still exists between lenders in understanding the Armed Forces Community and the measures they take to remove disadvantage. It is clear that families are still being disadvantaged when applying for mortgages due to the nature of Army life, particularly if they serve overseas or have a history of BFPO addresses.

AFF would like the Covenant Reference Group to revisit Armed Forces Covenant Commitment 9.2³. Further liaison with organisations representing the financial

³ Armed Forces Covenant Commitment 9.2 - The MOD is working with lenders and their professional bodies to develop guidance for their dealings with members of the Armed Forces

services industry is required to evaluate and develop practices amongst not only large lenders but smaller, specialist companies. The ability of automated systems to process BFPO addresses and improving staff training and awareness are paramount considerations. Financial companies signing the Corporate Covenant should be supported to make specific, tangible pledges which remove these disadvantages.

The on-going provision of detailed guidance to families by the MOD is essential, so that families are equipped with information about their unique situation and secured lending.