

Borrowers face new hurdles as lenders bring in tougher rules

Terraced houses

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Banks and building societies are giving increasingly bizarre excuses and applying ever more draconian terms to deny customers home loans

Buyers returning to the housing market and homeowners trying to remortgage face an increasingly complex maze of rules and criteria imposed by mortgage lenders. Only this week a homeowner from Cornwall was denied a mortgage because he had Japanese knotweed in his garden. Last month banks and building societies rubber-stamped 45,000 applications for new house purchase loans, a 25 per cent rise compared with February and a 45 per cent increase on the same month last year. The number of approvals for homeowners remortgaging also jumped by 23 per cent compared with the month before.

However, brokers have warned that people buying or remortgaging face a series of hurdles when trying to secure a home loan because of lenders' ultra-cautious approach to approving deals.

Borrowers are still frequently hit by damaging and inaccurate down valuations — when a lender decides that your property is worth less than you thought it was — reducing the amount you can borrow, pushing up the cost of your mortgage or leading to loan rejection. Builders complain that buyers of new-build properties, favoured by first-time buyers, are particularly likely to face a down valuation in the current market. Buyers also face a growing blacklist of properties, areas and even developments that are shunned by lenders.

Aaron Strutt, of Trinity Financial Group, the broker, says: “Buyers will really need to do their homework to make sure they can get the finance they need for the home they really want.”

Surveyors have warned that it is difficult to produce accurate house price estimates when there are so little transactions in the market.

Lenders often carry out “desktop valuations”, using automatic valuation models that guess how much a borrower's property is worth using house price data and transaction figures.

David Hollingworth, of London & Country Mortgages, the broker, says: “We frequently see down valuations, particularly on remortgage applications. If a property is slightly unusual or is in a rural area or there are too few sales on a given street or postcode it can lead to a down valuation that is tens of thousands of pounds below what the buyer thinks the property is potentially worth.”

Buyers who want a new-build flat face the greatest likelihood that a mortgage lender will cut the estimated value of a prospective home. A number of lenders insist that valuations of new-build properties are based on the estimated value of the home on the secondhand market. Builders argue that this is difficult to estimate accurately, created uncertainty and confusion for buyers.

John Stewart, director of economic affairs at the Home Builders Federation, says: “Down valuations remain a major concern. Different valuers can give wildly different valuations of very similar properties. When a home builder challenges a valuation and asks the valuer to provide evidence to support the valuation, he is often met with a blank wall. “Similarly, when a developer provides robust comparable evidence to support a challenge, valuers will sometimes refuse to consider the evidence.”

Down valuations can hit borrowers with higher mortgage costs or lead to a loan rejection. Someone who needs to take out a mortgage worth £75,000 to purchase a property costing £100,000 will apply for a deal with a loan-to-value ratio of 75 per cent. However, if a valuation suggests that the house is only worth £95,000, the mortgage exceeds the loan-to-value tier. A lender that will not offer loans with a loan-to-value ratio of more than 75 per cent on new-build properties may reject the application. Other lenders might force the borrower to take a loan with a higher maximum loan-to-value ratio, leading to higher monthly repayments.

Borrowers who suffer from a down valuation may be able to appeal and apply for a second opinion from another surveyor. Lenders that conduct desktop valuations, such as Halifax and Woolwich, will send a valuer to conduct an internal and external assessment of the property, although borrowers are expected to pay the bill themselves. It is also possible to submit supporting information that suggests the original valuation was inaccurate, such as evidence of sales in the same street or new-build developments in the past three months.

It is not only down valuations that can cause major headaches for buyers. Last week Nationwide Building Society announced that it would no longer provide loans to purchase ex-local authority flats or maisonettes in blocks that are more than five storeys high. Other lenders, including Nationwide, will not lend on any type of new-build flat or house that was constructed in the past 12 months. Historically lenders have been willing to lend on flats in blocks lower than 14 storeys.

The new rule introduced by Nationwide will apply from the end of next month. It will be a blow to many first-time buyers, who favour ex-local authority flats because prices are generally lower than equivalent-sized period properties.

Lenders can be nervous about approving loans on a wide range of flats, including studios, those on lower floors with balconies and those above commercial properties. Short leases and certain materials used to build the property can be a problem, too. Brokers have warned that lenders are also increasingly nervous about approving loans to buyers who want to purchase homes in specific areas of the country, and even certain streets.

Mr Strutt says: “Lenders are tightening up on the type of property that they will lend on and the areas they will lend in. Many lenders have blacklisted properties in certain postcodes and impose exposure limits on specific streets or even individual blocks.”

Buyers have expressed frustration at the lack of transparency over what types of homes are acceptable and which ones are on the blacklist.

Sophie Biella lost hundreds of pounds and missed out on the flat she was hoping to buy with her partner, Stephen Holland, after Nationwide rejected her mortgage application. The flat she wanted to buy was above a dry-cleaner.

Ms Biella has been a current account customer with Nationwide for six years and turned to the mutual lender when she needed a mortgage to buy her first property. At the beginning of the week she found the property she wanted. It needed extensive work, but as Ms Biella's father is an experienced property developer she did not foresee any big problems. A previous survey, carried out by an earlier buyer, had not identified any. Ms Biella spoke to Nationwide, spelling out that the property was above commercial premises and describing its condition. She highlighted damp in the building and the extensive refurbishment work that the flat would need. Ms Biella says: "The member of staff said that there would not be a problem with this type of property. But that turned out not to be the case." Ms Biella paid £385 for the valuation and handed over another £99 for the booking fee, confident that she would be able to secure the flat. However, a report by the valuer said that Nationwide should not offer a loan on the property because it was above a commercial premises, which was against Nationwide policy, and "tired". Nationwide says that it may not lend on certain flats above commercial property on a website reserved for brokers. "The whole process has been incredibly stressful and I feel really let down by Nationwide," she says. "We are going to begin looking for another property but I'm definitely not going to apply for a loan with Nationwide. I would rather work with a lender that was open, transparent and offered free valuations so I don't get burnt again."

A Nationwide spokesman said that he could not see anything wrong with the way in which Ms Biella had been advised. "In cases where an applicant describes the condition of the property as poor, this, even in combination with other negative features, is not sufficient to rule out a mortgage. "Nationwide often lends on flats above commercial premises, particularly in the London area where they form a significant part of the first-time buyer market. While we have guidelines for valuers on the factors to be taken into account when assessing them as security, it is ultimately a question of the valuers' judgment — based on not only the condition of the building and the nature of the commercial use, but also the accommodation, access, location and surroundings. This judgment cannot be reached without inspecting the property."

Mortgage experts suggest that buyers should always discuss anything unusual about a property at the beginning of a mortgage application, although this would not have helped in Ms Biella's case. Brokers say that

the largest lenders, such as Santander or Halifax, are more likely to be flexible in the types of properties that are approved. Smaller building societies can be more willing to take local variations in the property market when valuing or purchasing a home.

A broker will also be able to look across the entire market to secure a suitable loan for a client.

Mark Harris, of Savills Private Finance, another broker, says: "If you are buying any property that could be considered non-standard, for example because it is on a flood plain, is a listed building, a high-rise or a new-build, then it is vital to check beforehand. No one lender has a flexible approach. It really is on a case-by-case basis."

Case study

Jamie Bowers, 30, was hit by a down valuation last month while he was trying to remortgage. The car salesman, from Carlisle, Cumbria, applied for a new deal on his three-bedroom semi-detached home with Woolwich, the mortgage brand of Barclays. His home was estimated to be worth £160,000, based on the recent selling prices of other properties on his street. However the lender valued the property at £143,000, throwing his application for a £110,000 remortgage deal into turmoil.

The lenders agreed to carry out a second valuation, including an internal and external inspection, although Mr Bowers was charged £175. The valuer estimated that the property was worth £160,000.

He says: "It was an enormous relief to know that my property was worth more than Woolwich suggested."

Mr Bowers secured a fee-free lifetime tracker deal pegged at 2.84 above base, a pay rate of 3.34 per cent, organised by broker London & Country Mortgages.

House price predictions

- Nationwide Building Society, which issues a monthly house price index, has forecast house prices to remain stable over the next year, with little signs of growth. The average home is worth £167,802.
- It said the limited availability of new loans and rising number of new instructions will keep a lid on values.
- Commentators are divided over the impact of the measures announced by the new Government and prevailing market conditions on the housing market.
- Capital Economics, an economics consultancy, expects prices to drop a further 10 per cent this year.