

Beware flexible mortgage trap

Don't bank on using your home to meet school fees, writes Elizabeth Colman

THOUSANDS of borrowers hoping to dip into their mortgages to pay for big family expenses, such as school fees, have been warned they could be denied access to their money after Intelligent Finance (IF), one of the biggest flexible-mortgage lenders, changed its terms.

With savings rates at record lows, many people have been overpaying their mortgages on the basis that they could withdraw their funds again when needed.

However, IF, owned by Lloyds Banking Group, is preventing some offset mortgage customers from doing so, blaming falling house prices. This is despite property prices rising at their fastest pace since 2006. Nationwide building society said home values rose 1.6% in August to £160,224 — the fourth consecutive month of gains.

Offset mortgages allow borrowers to set savings against their loans, reducing interest payments. With IF's offset, savings can either be put into a linked current account, or used to overpay the mortgage to build up a "reserve", which should be available to draw on if the cash is needed.

However, IF reduced the maximum it would lend to those with a reserve from 90% to 80% in January without informing

Best flexible trackers



* lifetime, offset, 25% deposit, £699 fee
** 2-year, fully flexible, 25% deposit, no fee, £500 per month must be paid into current account
*** lifetime, offset, 30% deposit, £1,499 fee
**** 2-year, offset, 40% deposit, £999 fee
SOURCE: Trinity Financial Group 020 7520 9427

customers. Brokers said thousands of borrowers could be affected.

Maggie Kenney, a Sunday Times reader from West Bridgford, Nottingham, who took out her deal in November 2006, was told last month that she would be unable to access her £44,000 "reserve". She said: "I knew I wanted access to these funds when my car eventually gave up the ghost and

with interest rates being so low, I decided to pay the lump sum into my mortgage. My main reason for choosing an offset was flexibility. I am now going to have to take out a loan to buy a new car at a cost of 8.9% a year, instead of accessing funds that I feel are rightfully mine."

IF refused the advance after a valuation by Halifax, also part of Lloyds, found house prices in the area had fallen by an average 15%. With the new criteria, she did not have enough equity to withdraw her funds.

Halifax has admitted to automatically valuing properties significantly below market prices, adding to the woes of those looking to draw on their mortgages.

IF said: "Customers are able to borrow all or part of the built-up reserve at any time unless we believe that there has been, or is likely to be, a material reduction in the value of the property."

Ray Boulger of John Charcol, the broker, said: "This is very worrying — we urge those who have offset mortgages to overpay into their linked current account, not their mortgage."

He said thousands of borrowers with other lenders such as Abbey, Britannia, Newcastle and Standard Life might also be building up "reserves" on offset mortgages and could get caught out if their lender changed its terms.

The problem could also affect people with flexible mortgages, which generally allow overpayments of up to 10% a year with the option of drawing back the money — unless house prices fall significantly.

Neil Avery of Timothy James & Partners, the adviser, said he had "dozens of clients" with Northern Rock who had intended to overpay to fund school fees and home renovations but who were being refused.

We offer some advice:

If you have an offset

Offset deals usually come with a linked current account, which you can access with a chequebook or debit card. Brokers say you should overpay into the current account rather than the mortgage "reserve" so you can withdraw funds without consent.

If you have a flexible mortgage

Lenders reserve the right to refuse you the money if you want to borrow more than the maximum amount allowed as a proportion of the value of the property — which can be anywhere between 75% and 90%.

Brokers said anyone borrowing less than 50% of the property value who might experience a change in income should think carefully before overpaying.

Maggie Kenney: 'I wanted access to these funds'

