Lenders diverge on large loan offerings

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Wealthy borrowers seeking large mortgages should consider carefully which high street lender they use – as many will lend substantially less than their peers due to stricter affordability criteria.

Accord, part of Yorkshire Building Society, has been criticised by mortgage brokers for penalising high earners when calculating how much it will lend.

When working out what a borrower can afford, Accord assumes a percentage of income goes on household expenses, rather than a fixed monetary sum, which most other lenders use.

Accord's affordability criteria means that it will lend substantially less to a wealthy borrower than most other major high street banks and building societies.

For example, an applicant with a basic salary of £364,000, married with three children, with school fees of £1,875 per month would be able to borrow £748,000 over a 26-year term with Accord – 2.2 times salary minus assumed commitments.

However, the same client could borrow £1,820,000 from Abbey, £1,592,000 from Halifax, £1,397,000 from NatWest and £1,388,000 from Nationwide Building Society.

"This shows that Accord is still well out of line with other high street lenders looking for £1m-plus loans," says Nigel Bedford of Largemortgageloans.com.

Over the past few years, lenders have been moving away from basing lending decisions on salary income multiples alone and are taking a closer look at what a borrower can afford to pay.

Most lenders now use an affordability calculator, either in conjunction with, or instead of, income multiples. All lenders' affordability calculators will take into account whether it is a single or joint application, the number of dependants, credit commitments and maintenance payments.

However, mortgage brokers point out that lenders' affordability models can vary hugely.

"Affordability is hard to nail down and much more of a moveable feast than strict income multiples so this can make it harder for the borrower to gauge the size of mortgage they could achieve," says Melanie Bien of Private Finance.

All lenders will reduce the amount of borrowing granted to applicants with dependants, but some are more strict than others.

"Most banks and building societies will have some kind of assumption made on living costs based on Office of National Statistics figures," says David Hollingworth of London & Country, the broker.

According to Ray Boulger of John Charcol, ING Direct has a very "onerous" policy on extra children. By contrast, Accord allows the same borrowing whether someone has just one child or 10.

Similarly, some banks will request information on school fees, another factor that could impact the amount of borrowing a wealthy client could attain. Accord, Nationwide Building Society and Northern Rock will ask for details of education fees, but Halifax and NatWest will not take school fee payments into account, says Bedford.

Abbey has recently come under fire for factoring in borrowers' pension contributions but most other lenders will not take this into account.

Credit scores continue to significantly impact on a person's borrowing power, with a high score leading to higher levels of borrowing than a low one. This is one area that is less transparent, says Hollingworth. "Most lenders don't tell brokers about their credit scoring," he says.

According to mortgage brokers, Abbey is typically the most generous in lending to wealthy borrowers, followed by Woolwich and NatWest. Abbey and Woolwich can lend up to five times' joint income – subject to a high credit score, a low loan-to-value and fitting the affordability calculation, says Bedford. "Halifax can be good for sole applicants but are not so good for joint," he adds.

Borrowers relying on bonuses for a big part of their income should also look closely at the restrictions that banks and building societies apply. Aaron Strutt of Trinity Financial points out that ING Direct does not take annual bonuses into consideration at all, and only monthly bonuses can be used on top of a basic salary.

HSBC requires three years' proof of bonuses and then it will only take 50 per cent into account. It will not take shares into consideration because their value can fluctuate. Both Northern Rock and Co-op Bank want two years' proof of bonuses and will then factor in 50 per cent of the bonus.

Halifax is the most generous of the high street lenders as it will take 60 per cent of annual bonus into account, but it will want to see up to three years' proof for larger loans.

Mortgage brokers say higher earners may be better off with a private bank, although some also have quite tight criteria.

Coutts will potentially take an entire bonus into consideration, providing that the client invests £1m in liquid assets with the bank. "They are also happy to look at bonuses paid in a mixture of cash and shares as it is now so common in London," explains Strutt.