Mortgage brokers: www.trinityfinancialgroup.co.uk - 020 7520 9427

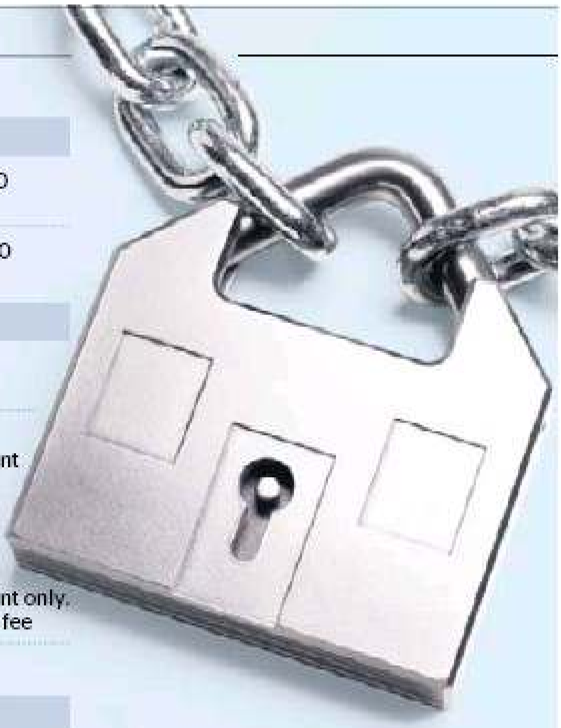
Why the computer says no, no, no

Homebuyers who are solvent and creditworthy are now being denied finance. Susan Emmett explains the reasons

You may think you are credit-worthy, having held down a job, paid the bills and honoured your debts in the past. But as the mortgage squeeze continues, it is not only the first-time buyers who are struggling to secure finance. Banks have tightened their criteria to such an extent that even well-heeled homeowners with plenty of equity are being turned away. As Bricks & Mortar readers know, Jeanette Winterson, the best-selling author, below, has suffered serial rejection in her search for a loan.

Best buy mortgages

	Rate	Deposit	Fee	Details
Two-year fixed				
Abbey via brokers	2.99%	40%	£1,250	£250,000 max loan
Mansfield Building Society	3.09%	25%	£999	£300,000 max loan
Five-year fixed				
Chelsea Building Society	3.99%	25%	£1,995	
First Direct	4.35%	35%	£999	Capital repayment only
Two-year tracker				
First Direct	1.99%	35%	£999	Capital repayment only. £149 exit fee
ING Direct	2.39%	25%	£945	
Term tracker				
HSBC	2.39%	40%	£0	No ERC's*
ING Direct	2.80%	25%	£945	No ERC's*



*ERC = Early redemption charges
Source: Trinity Financial Group — 0207-520 9427

So who is making the grade?

High street banks favour borrowers with good steady incomes in predictable, long-term jobs. A couple of high-earning lawyers who have been in a firm for ten years but have no kids is a dream ticket.

I earn a good living and have never had trouble with debt. Why am I still being turned down?

Banks don't always make it clear, although there is an EU draft directive that will require them to do so once it becomes law. For now, check that your credit reference is accurate by contacting experian.co.uk and equifax.co.uk. Assuming that your files are squeaky clean, you could be suffering from a case of "computer says 'no' ". Ray Boulger, technical director at the broker John Charcol, explains: "The problem with computer underwriting is that it's all black and white when inevitably there will be grey areas. Computers are not good at picking out good-quality cases that may not meet all the criteria."

What don't lenders like?

The list is lengthy. Melanie Bien, a director at Private Finance, a firm of brokers, says that many lenders are now highly suspicious of borrowers who rely on bonuses for a large part of their income. Lenders will take only a proportion of the bonus into account. Borrowers must also be able to prove their income, which may be tricky for self-employed people who don't have the requisite accounts. Banks are also not keen to lend more than £500,000 or higher than 75 per cent of a property's value on an interest-only basis.

Is there more?

The issue may be with the property, not you. Lenders are far pickier than they were before the downturn. The lender might decide that the property is not worth what you are offering or it may be too close to a shop or restaurant.

That's crazy. Aren't banks losing loads of good customers?

With funds still tight in the mortgage market, banks may have only a limited tranche of money to lend and can cherry-pick applicants. Bien says: "HSBC seems to turn away an awful lot of borrowers. We manage to place many who come to us with other lenders, so it's not as if they are a bad credit risk."

Surely having a large deposit helps?

It does. Although in theory there are more loans available at higher loan-to-values (LTVs), the rate of refusal is high because the credit scoring is tougher than for those borrowers with larger deposits. Skipton Building Society says that it is declining three quarters of those applying for a mortgage of up to 95 per cent of a property’s value.

Are all lenders the same?

Not at all. Small and medium-sized building societies often use human underwriters rather than computers. Furthermore, every lender does its sums differently. While lenders base their decisions on affordability criteria rather than straightforward income multiples, what they view as income and what they deduct as living expenses varies. How they treat dependents can affect calculations by tens of thousands of pounds. Hence a couple with dual income and no children will fare better than a family with a stay-at-home spouse, even if the household income is the same.

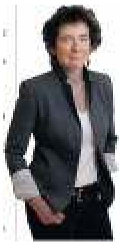
Should I simply keep applying?

No. A series of failed mortgage applications can damage your credit score. Instead, seek advice. A good mortgage broker will be familiar with each lender’s quirks and can help you to target the ones most suited to you.

Will I have to pay a higher rate?

To qualify for the best rates you need a good credit history, a big deposit and a steady job with an obvious income. Bien says: “The LTV bandings tend to be in 5 per cent chunks. So if you are borrowing 82 per cent LTV, try to reduce this to 80 per cent to qualify for a better rate.” For the best rates you need a 25 per cent deposit, although some lenders demand as much as 40 per cent for their best deals.

Is there any room for negotiation?



Really wealthy borrowers may get funding through a private bank, which could provide more f lexible underwriting and more competitive rates.