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Wealthy locked out of best mortgage deals on prime property

Mainstream lenders not using exemptions to new lending rules, brokers warn

Egerton Crescent in the Kensington and Chelsea borough of London © Bloomberg

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Wealthy homebuyers are being denied access to the best mortgage deals from mainstream lenders, despite exemptions to affordability rules that should allow them to borrow higher sums at greater loan-to-income ratios.

In April 2014 the Financial Conduct Authority imposed constraints on affordability for mortgage borrowers under the mortgage market review. However it offered an exemption for "high net worth" individuals, defined as those with assets of more than £3m, or earning more than £300,000 a year.

Nearly two years on, high street lenders are failing to make use of the exemption, brokers have warned, forcing wealthier borrowers to turn to private banks and barring them from the best rates and conditions.

"The exemption is out there and available, yet the vast majority of lenders are choosing not to use it," said Mark Harris, chief executive of broker SPF Private Clients. "I think it's fear of getting on the regulator's radar for doing something out of the ordinary."

Another factor behind their reluctance is the automated application systems used by mainstream lenders, which discourage bespoke decisionmaking.

Nigel Bedford, senior partner at broker Largemortgageloans.com, said big lenders tended to take a conservative line. "They're geared up for volume business. They're not going to take the time to pick out the one or two that might qualify for a high net worth exemption — they haven't got the systems or manpower to do it."

Smaller lenders and building societies typically still use individual underwriters to assess loans but cap lending to individuals at about £1m, below many well-heeled borrowers' requirements.

Private banks and specialist lenders offer much greater flexibility to these clients, offering different types of loan such as interest-only, higher loans as a proportion of borrowers' income or lending arrangements to those with irregular sources of income

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The drawback is that, depending on the sums borrowed and the terms of the loan, most will require borrowers to place some of their assets under the management of the bank. However, some lenders, such as Investec and Harrods Bank, offer "dry lending", where no assets need to be handed over.

The big high street lenders remain the most competitive in terms of interest rates and fees, particularly for longer deals such as a five-year fixed term mortgage. Andrew Montlake, director at broker Coreco, said: "It's a shame there's something here that is being ignored when lenders could actually get some good quality business on to their books in a relatively easy way."

Some were looking at increasingly convoluted ways of making sure higher earners squeezed in under mainstream affordability rules, Mr Harris said, such as counting notional rental income from a second home that was not being let out — all to avoid the regulatory attention that might be triggered by claiming an exception to the rules. "They want to be able to say 'we don't do anything that requires an exemption'," he said.

It is not the first time that lenders have come under fire for failing to take up the options made available by regulators. Soon after the mortgage market review came into force, providers were criticised for ignoring transitional rules that allowed them to waive affordability rules when taking on "trapped borrowers" with a good record of repayment, who were not seeking more money and posed no concerns over affordability. However the Financial Conduct Authority last year said it was seeing more lenders make use of transitional arrangements.