THE SUNDAY TIMES

Charity cash threat to mortgages

Anna Mikhailova Published: 4 May 2014


Mortgage applicants are being asking how much pocket money they give (ONOKY - Eric Audras)

BORROWERS are being advised to cancel any non-essential regular payments before applying for a mortgage, as lenders scrutinise everything from charity direct debits to voluntary pension contributions.

This follows new rules that came into effect last weekend as part of the regulator's mortgage market review (MMR), which is designed to curb irresponsible lending.

Ray Boulger of the broker John Charcol said some lenders were asking specific questions about regular direct debits and standing orders. These can lower the amount customers are allowed to borrow, he said. They come on top of the new affordability forms borrowers have to fill out, which ask about basic expenses and living costs.

He is advising borrowers with charitable direct debits of more than £50 to cancel them temporarily so the payments do not show up in bank statements submitted with applications. Most lenders will ask to see your accounts for the past one to three months.

In one case, a borrower's £1,086 monthly pension contribution resulted in them being turned down for a mortgage by Virgin Money.

Their broker, Ian Gray of largemortgageloans.com, said: "I made the case that these could be stopped, but that did not work."

Virgin Money said: "We review items of regular committed expenditure, including pension contributions, when assessing applications."

Lenders are asking about standing orders to children for pocket money. Some are automatically assuming high childcare costs for anyone who has children under the age of five.

Boulger said: "Non-essential spending is being counted by some in the same way as essential costs, such as gas bills. Some banks don't appear to understand the difference between payments people have to make and ones they choose to make."

MMR rules state lenders must ask about basic expenditures but leave it up to them to interpret the information. The Financial Conduct Authority said: "Lenders are only getting used to the process, and we expect them to ease off as time goes on and MMR beds in."

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