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THE SUNDAY TIMES

Sting in tail of cheaper home loans

Anna Mikhailova Published: 7 September 2014



Mortgages are becoming harder to obtain as lenders restrict loans relative to borrowers' salaries

is restricting loans of more than £500,000 to four times the borrower's income. That means, for example, that anyone buying a £600,000 home with a 40% deposit will have to earn at least £90,000 a year.

The change is stricter than the guidance from the Bank of England. Ray Boulger of the mortgage broker John Charcol said: "Four times salary is lower than the Bank's guide for banks, and other lenders could follow suit."

In June, the Bank's financial policy committee (FPC) re-vealed plans for restrictions on banks that lend £100m-plus a year. Loans that are 4½ times a borrower's income or more should make up only 15% of a bank's lending, the FPC said.

The rules are expected to hit hardest in London, where house prices are higher. Ian Gray of largemortgageloans.com said: "All lenders are lowering income multiples. It seems that no lender wants to be left as the only one stretching borrowers to more than four times income."

"Everyone has been used to borrowing at least five times income, but the time has come to adjust expectations. Banks are curtailing lending like we have not seen in a long time."

MORTGAGE lenders continue to cut their rates — but borrowers may struggle to benefit because of tougher lending criteria.

Tomorrow, Skipton will launch a two-year fix with a 1.92% interest rate. The rate is currently 2.35%. On Friday, Halifax cut the rates on its fixed and tracker deals by 0.3 percentage points, while Leeds building society slashed some deals by 0.4 points.

Earlier in the week, Santander cut rates by 0.25 points, and First Direct, HSBC, Metro Bank and Virgin Money also launched cheaper deals. Some have gone to the top of the best-buy tables, including Virgin's five-year fix at 2.99%, which is available only through brokers and has a £1,594 fee.

The average two-year fixed-rate deal is now 2.51%, with a 40% deposit, down from 2.55% a month ago and 2.89% six months ago, according to the data firm Moneyfacts. However, it is becoming harder to qualify for loans because of lenders' minimum income rules.

From this month, Yorkshire Building Society Group, which includes Accord and Norwich & Peterborough,

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