

Accidental landlords are the latest to suffer as banks crack down on mortgages, writes James Charles

HOMEOWNERS should brace themselves for a squeeze on the availability of mortgage deals as lenders batten down the hatches amid the financial storm in the eurozone.

Borrowers are already facing rising interest rates, but now banks are likely to start imposing tougher lending rules on those applying for new deals, experts have warned.

Tony Ward of the Intermediary Mortgage Lenders Association said: "We are likely to see banks pick and choose which parts of the market they want to remain in. However, it is clear rates will steadily rise and criteria will tighten."

Figures from Moneyfacts, the data firm, show that the average two-year fixed rate has jumped from 2.65% to 2.90% in the past month. The rise would add £312 a year to repayments on a £200,000 loan.

The average lifetime tracker has risen from 3.83% to 4.03%, adding £264 to annual repayments, Moneyfacts said.

Andrew Montlake of Coreco, the broker, said: "There are fears we are seeing the beginning of a second credit crunch, but it is still possible to secure a deal."

Accidental landlords

Banks are cracking down on borrowers who let out properties without seeking permission from their lenders.

Halifax, the UK's biggest mortgage lender, has been writing to some borrowers it suspects of letting their properties. The letters warn that if borrowers do not reply promptly, Halifax will assume the property is being let out and impose a higher rate on their loan.

The bank is targeting those who have suggested in telephone calls to bank staff that they might not be living at the address, those who have registered alternative addresses when opening other accounts with Lloyds Banking Group, which owns Halifax, as well as those who have let properties previously.

Halifax requires homeowners wanting to let their properties to switch to a more costly "consent-to-let" rate.

It is currently charging 5.49% for its consent-to-let three-year fix for borrowers with a 25% deposit — about 1.85 points more than an equivalent residential deal, adding £2,256 to the cost of annual repayments on a £200,000 loan. The deal also carries a fee of £999.

Under previous consent-to-let rules, borrowers had to switch to a buy-to-let mortgage if they wanted to continue letting their property for more than three years. Earlier this



MICHAEL POWELL

Saving opens doors

First-time buyers Michael Simmons, 29, a telecoms engineer, and his wife Kirsty, 27, a beautician, secured a mortgage with a 5% deposit through Nationwide building society's Save to Buy account.

Under the scheme, those who put away at least £50 a month for six months qualify for a mortgage worth up to 95% of a property's value. The deposit account pays 2.5% interest and the loan has a three-year fixed rate of 6.14%. The fee is £400.

The couple, pictured with son Finlay, 4, are buying a three-bedroom home in Hull as Kirsty is expecting a second child. They have an £8,000 nest egg for the deposit and will receive £500 cashback as part of the scheme.

More than 10,000 Save to Buy accounts have been opened since their introduction in May.

Don't get caught out as lenders get tough

year Halifax changed the rules so that borrowers are no longer forced to remortgage.

Instead, after three years they will revert to a special standard variable rate pegged at 3.99 points above the Bank rate, or 4.49% currently. However, if they want to remortgage while letting the property, the borrowers will be required to take a landlord loan.

Meanwhile, Clydesdale and Yorkshire banks have written to residential mortgage borrowers, warning that those who are letting their properties would have to move to their standard variable rate — currently 4.59%.

Brokers are warning homeowners to check with their lenders before they even consider letting their properties, as policies vary considerably.

Nationwide building society charges a £50 application fee and adds 1.5 percentage points to mortgage rates — worth £2,016 a year to the cost of a £200,000 mortgage.

Meanwhile, Coventry building society does not allow residential mortgage borrowers to let properties or switch to a buy-to-let mortgage.

Credit checks

Mortgage borrowers have been warned that they could be

subject to multiple credit checks during an application process after the Information Commissioner criticised Barclays, the UK's third largest lender, for carrying out four separate searches on a borrower, damaging her credit rating in the process. It then reportedly rejected the borrower for a loan, in part because of the number of searches on her file.

The Information Commissioner said there were grounds for only one search to be carried out.

Brokers complain that lenders commonly carry out multiple searches on those applying for credit, despite fears that such searches could harm their ability to borrow in the future.

Lenders also routinely carry out a credit search just before a mortgage is drawn down to ensure that an applicant's score has not changed in the weeks since the original application was made.

You can obtain your credit report from one of the three credit reference agencies — Equifax, Experian or Callcredit. The reports are available either online or over the phone.

Income checks

Lenders are also getting tougher about how much they

will lend relative to your income, brokers complain.

Ian Gray of largemortgage-loans.com, the broker, said: "Last week I tried to place a client with Accord Mortgages. He had an income of £250,000, but the maximum Accord would offer him was £750,000, or three times his income."

Bigger loans

Private banks specialising in loans of more than £1m are leaving buyers in the lurch.

Gray said: "We have seen private banks getting cold feet and pulling out of deals at the last moment. These banks are becoming incredibly fussy about to whom they will lend. It's a very difficult market."

Last week, Rothschild said

that new borrowers needed £2m of assets, such as savings and investments, before it would consider an application for a buy-to-let mortgage. Coutts has begun demanding "assets under management" of at least £1m, brokers said.

First-time buyers

Over the past year, loan criteria have been easing for borrowers with small deposits, typically first-time buyers, but experts fear that the worsening credit crunch could hit loans and reverse these improvements.

David Hollingworth of London & Country Mortgages, the broker, said: "Banks will be forced to review the types of deals on offer and may get tougher on their criteria for

offering loans to those with a small deposit."

Falling property prices could also make lenders more nervous about deals requiring only a small deposit. Prices fell 0.9% last month, according to the Halifax house price index.

Gray said: "More aggressive steps by the banks to help those with small deposits will disappear from the market if there are further falls in house prices, so those in need of a deal should move quickly."

Last week, Skipton building society launched a five-year fixed-rate deal for those with a 5% deposit, charging 5.99% with a £199 fee. However, the lender has admitted in the past that three-quarters of applications for its 5% deposit deals are rejected.

Nationwide building society and Barclays have introduced deals requiring a 10% deposit.

HSBC has the market-leading two-year fix at 4.69%, with no fee. It also has a two-year discounted deal at 3.84%.

Best-buy deals

All deals require a 25% deposit

Two-year fix	Lifetime tracker	Five-year fix
2.60%	3.19%*	3.39%
Market Harborough building society £1,595 fee	First Direct £499 fee	Yorkshire building society £995 fee

Source: Moneyfacts

*2.69 points above Bank rate

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