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Mortgage hurdles that trip up homebuyers

Borrowers don't know it, but some applications are doomed to fail

Anna Mikhailova Published: 3 November 2013


Jump to it: purchasers may have to use a specialist lender (Blend Images)

MOST homebuyers have a specific set of requirements when picking a home — be it a garden, an extra bathroom, or plenty of storage space.

Few realise that mortgage lenders have their own preferences too, requiring lifts in buildings over a certain height, no pubs or restaurants next door and long leases.

Last week Nationwide tightened its criteria for residential mortgages, especially for those who want to let rooms in their houses. The building society said that anything over two rooms let will now be classified as a bed and breakfast and so struggle to get a loan (previously it defined a B&B as four rooms or more).

It also said that it now may not lend on flats if there is commercial space in the same block. Previously, it was only if the flat was directly above a restaurant or bar, for example.

The lender changed the rules on which buildings require lifts — now anything over four storeys needs one to qualify for a mortgage — even if the flat itself is on the ground floor.

Restrictions such as these stem from the concerns of lenders over resale values should they have to take possession of the properties. However, most homebuyers, particularly first-timers, would not be aware of these restrictions when applying for a loan.

Aaron Strutt of the broker Trinity Financial said: "Some lenders do not even mention that there are limitations on the types of property on which they will offer mortgages."

Here we give the top examples of unusual criteria that could trip up applicants.

No lift

If a property you are thinking of buying is in a block of flats, count the number of floors. Nationwide has set the bar at four storeys without a lift, while Virgin Money will lend on properties up to five storeys; it will not lend in London if a building has more than 10 storeys, even with a lift. It is easier, however, to arrange a mortgage for high blocks in city centres through other lenders, such as NatWest.

A pub next door

It is well documented that lenders can refuse loans for properties above a takeaway, restaurant or pub. However, some banks will not even lend if the commercial space is next door. Strutt said: "If a flat is near a property that makes noise, smells, or has a late-night client base, it will generally not be suitable for mortgage purposes.”

Adrian Anderson at the broker Anderson Harris said: “Borrowers should be concerned about buying a property next to a pub or commercial premises, even if it’s a smart gastro pub, because of the limited resale market.”

Ian Gray of the specialist broker largemortgageloans.com said: “This is causing issues with new-builds, because many luxury blocks put a Tesco Express or something on the ground floor, and even a 17th- floor penthouse is technically a flat above commercial premises and so some banks will decline.”

Halifax is more relaxed about this and will lend to flats above a commercial space, as long as it is not a food outlet.

Ex local authority

Some of the best-buy lenders will not consider former local authority buildings — including Chelsea building society.

Matthew Smith of the estate agent Kinleigh Folkard & Hayward said: “Mortgages can be tricky to obtain in ex-local authority blocks where less than 50% of the units are privately owned. Lenders are primarily concerned with the saleability of any property and a key factor is whether potential purchasers might be put off if the majority of the building is occupied by council tenants.”

NatWest and Halifax will consider lending on ex-council properties, although it is likely to depend on the location, according to Trinity Financial.

Even if your building is only built in the style of a local authority block, it can still be a problem. Brian Murphy at the Mortgage Advice Bureau said: “Lenders typically do not like concrete buildings as they have a limited life span.”

Lease

Leases spanning fewer than 80 years can be problematic if you are trying to get a high street loan. Roarie Scarisbrick of the buying agency Property Vision said: “Some [lenders] have more stringent rules than others and require at least 70 years on the lease from the outset, while the most lenient will agree to 35-40 years.” Those with shorter leases often require a specialist lender.

Freeholds can cause problems where a property has been divided into flats, with each flat having a lease. This can make repossessions messy and banks do not like them.

“Flying freeholds” — where part of a home reaches into, or is built over, another property — can also cause problems. Katherine Wells of Kinleigh Folkard & Hayward said: “These are difficult to get mortgages for, because the owner below may fail to maintain their part of the property.”