Personal Finance

Bonus restrictions hamper City mortgage borrowers

Lenders reluctant to count payments as affordability checks tighten

Those in the banking and finance sector are particularly hard hit by the lending curbs © Simon Dawson/Reuters

James Pickford MAY 7 2020

Bankers and other financial workers who receive much of their overall pay in bonuses have seen their mortgage options narrow sharply as lenders take fright at the risks of variable pay in the coronavirus crisis.

Before the pandemic, most lenders would accept bonus payments when judging whether a borrower could afford a mortgage. If they could show a consistent level of bonuses over three years, between 50 and 100 per cent of the bonus would be added into the affordability calculation, depending on the lender's policy.

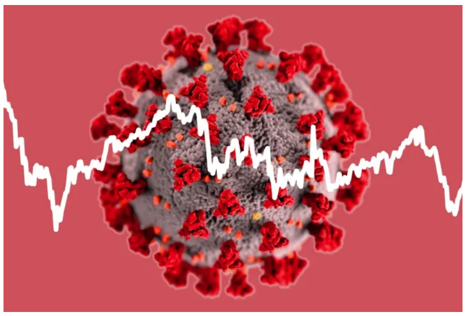
Since April, however, the biggest lenders have been telling mortgage brokers they will either not consider bonus or commission payments or would only consider a much smaller percentage of the bonus than previously.

Mark Harris, chief executive of mortgage broker SPF Private Clients, said Barclays was considering only 25 per cent of bonus payments, down from 50 per cent, and HSBC was no longer considering bonuses at all. "These are pretty draconian measures," he said.

Lenders are nervous about the sustainability of bonus payments as businesses battle the economic impact of coronavirus, with many global banks already stating that their executives will not receive a bonus this year.

The move, which affects remortgages as well as home purchases, has forced borrowers to reconsider their alternatives or put in more of their own funds to secure their preferred home loan.

Coronavirus and your money



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Nigel Bedford, senior partner at mortgage broker Largemortgageloans.com, gave the example of an executive at a FTSE 100 company with a salary of £290,000 and an annual bonus of about £250,000, who was setting up a £2.41m mortgage with Barclays on a property valued at £3.35m before the crisis.

The new restrictions have limited his loan to £2m, obliging him to increase his deposit by £410,000. Mr Bedford said: "Fortunately he can come up with this and still secure the Barclays deal, but not everyone will have spare cash of this quantum."

The measures weigh heavily on property buyers in the banking and finance sector, where bonuses often make up at least as much again as the salary. Others paid by commission, such as sales staff or agents, will also be hit by the lending curbs.

Some lenders have not changed their bonus criteria, but instead reduced the maximum loan size or maximum property value they will consider through their large loan specialist lending arms. Santander has not changed its 50 per cent bonus element when gauging affordability, but has cut its maximum loan size to £500,000.

Barclays and Nationwide offer maximum loans of £2m, while NatWest offers loans up to a notional £10m but in practice that is capped at £1.5m, because of limits on property values for which it will consider automated valuations. Lenders have brought in these caps as they are effectively unable to carry out in-person valuations of an occupied property under the "stay at home" rules.

Mr Bedford said private banks remained more flexible about bonus payments because they were in a better position than high-volume mainstream lenders to make an individual judgment on the likelihood that a borrower would continue to receive one.

He cited a fund manager with a base salary of £150,000 whose bonus was determined by the fund's record, but who was able to take out a £2.3m loan with a private bank after it studied the fund and his record as a manager, taking a view of its likely future performance.

"A banker with a purely discretionary bonus based on the bank's overall performance is likely to be more adversely affected than a fund manager whose bonus is purely related to the performance and profits of the fund they manage," Mr Bedford said.

Chris Sykes, mortgage consultant at broker Private Finance, said lenders were now more likely to take the view that bonuses and commissions would be vulnerable to economic disruption.

But he added that those who received frequent bonus or commission payments would stand a greater chance of having them count towards a mortgage than those receiving an occasional lump sum as these regular payments could be taken as evidence by the lender. "You can more quickly build up a history of monthly or quarterly bonuses than an annual bonus."

Mortgage providers have made a cautious return to the market for higher-risk home loans after pulling hundreds of deals immediately after the lockdown. Lenders including Halifax, Nationwide and Barclays withdrew a wide range of deals, in particular those aimed at borrowers with small deposits and first-time buyers.

Banks and building societies have since adjusted their rules so that they may use more non-physical valuations, known as automated or "desktop" valuations, to give them the confidence to start lending again on these high loan-to-value deals.

Mr Sykes said some lenders were prepared to lend at 85-90 per cent LTV using a desktop valuation, though limits remain on the overall property value under which this is permitted.

Interest rates remain low on mortgages across the market, where those deals can be agreed under the coronavirus restrictions. Nationwide this week reduced rates on its 80 per cent LTV fixed rate remortgage loans, though it also raised the interest rate on a 90 per cent LTV two-year tracker mortgage aimed at first-time buyers and home purchasers.