

Borrowers could be missing out on the best deals for large mortgage loans

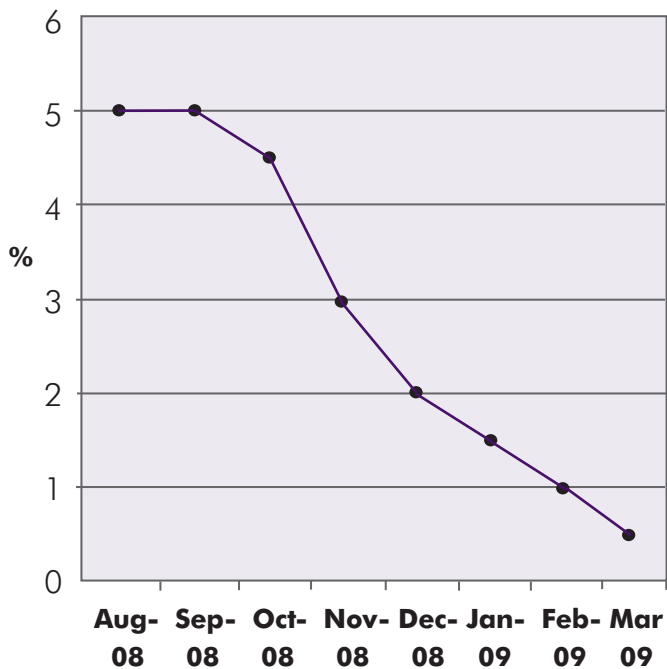


Market intelligence from  
largemortgageloans.com

## Borrowers could be missing out on the best deals for large mortgage loans

Bank Base Rate (BBR) is now at an all time historic low, following the Bank of England's latest rate cut to 0.5%. Borrowers have been waiting for rates to fall before locking into a new deal, so is now the right time? Mortgage rates cannot fall much further (they may even start to rise again if worries about inflation lead to an increase in BBR) and so this does seem to be the right moment for all borrowers to take action. But just how easy is it to find the best deal for those borrowers who need a large mortgage loan, particularly if they are reliant on bonuses, are self-employed or have complex financial affairs?

**Bank Base Rate**



## A change in the treatment of bonuses

With the medium term economic outlook becoming more uncertain, particularly for those who work in the financial services industry, lenders are becoming increasingly concerned about the ability of borrowers to finance large mortgages through the use of bonuses where their basic salaries are insufficient. Mortgage lenders have begun to reject applications from borrowers who are relying on big bonuses as they fear that next year's payouts could fall well below previous levels. Lenders now prefer larger basic salaries and that may mean that, in the long run, remuneration packages may change to enable City workers to get larger mortgages once again.

Brokers specialising in large mortgage loans have seen evidence this year that some high street banks are taking a negative view of bonuses in light of the recent economic turmoil.

As Paul Welch, managing director of specialist broker, largemortgageloans.com, observes, "Cheltenham & Gloucester has signaled that it is unwilling to recognise bonus income in some cases. And the Woolwich has indicated that it would want confirmation that a bonus would be paid before it could be used for mortgage purposes." Other lenders are only willing to take into account up to 50% of any expected bonus; previously they would have recognised 100%.

"Lenders are starting to ignore bonuses," says Welch. "For City people, there have been fewer and fewer options available each week." City workers often rely heavily on bonuses to secure the mortgage they need as their basic salaries are comparatively low. Many will now find their choice of lender significantly reduced. However, brokers who specialise in the large mortgage loan market often use private banks rather than mainstream lenders, and these lenders are still willing to take account of bonuses.



"It's just a question of knowing who to approach in each case," concludes Welch. "Different lenders treat bonuses differently. For example, Kleinwort Benson states that where commission/bonus exceed 200% of basic income, the capital value of the debt should be covered by the existence of independently identified unencumbered investable assets of a significantly diverse and liquid nature."

Just as the employed are finding difficulty in using their bonuses to boost their borrowing, the self-employed are finding it harder to use projected dividends in a similar way. Lenders need to know more about the business and its prospects this year and are less likely to take previous years' dividends into account as an accurate guide to the future.

## **Beware 'equity erosion'**

In the current unprecedented conditions, the very best large mortgage deals require the borrower to have equity in their property of at least 40%, with the next best offers requiring 25%. The Halifax House Price Index showed that the average UK house price declined by 2.3% in February 2009 and was 17.7% lower on an annual basis. The UK average property price has returned close to the level in August 2004 (£159,799). Falling house prices are therefore eroding homeowners' equity, meaning that they may miss out on the best deals.

Borrowers benefiting from a discounted or fixed rate might think that they must wait until the end of the 'special offer' period before they can do anything about this situation, but that is not necessarily the case. If a borrower's present mortgage deal expires within the next 6 months, it is possible to book a new mortgage deal now and benefit from a valuation at today's prices rather than in a few months' time when prices may be lower and the available deals may be more expensive.

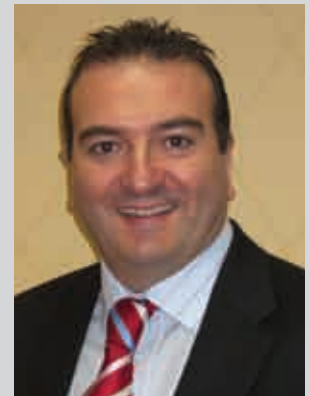
## **Look out for new competitive fixed rates**

When Bank Base Rate was around 5%, which was as recently as last September, there were many fixed rate deals available at around 6% which looked very attractive at the time. However, rates have changed so radically that a borrower with an existing fixed rate mortgage, even one that is not due to expire soon, may find that it is worth paying early repayment charges in order to remortgage to much more competitive rate. Of course, this is particularly true in the case of large mortgages, where the effect of a higher interest rate on the overall costs of the mortgage far outweighs the effect of any fixed costs and fees.

Borrowers currently lucky enough to be on Bank Base Rate trackers or variable rates, many of which have fallen significantly over the past year, should be using the lower mortgage repayments to reduce credit card balances or other unsecured borrowing, then look to reduce the mortgage as well. We may never see rates this low again. But if borrowers spend too long on a variable rate they could miss a fix at a low rate, which could bring them peace of mind for years to come.

## **Case Study**

Richard Waple, managing director of Property Investment Holdings, is one of a growing number of borrowers who have benefited from largemortgageloans.com's expertise in arranging 'million' plus mortgages.



Richard had never missed a payment on his mortgage for the four years it had been running, but when his fixed rate deal ended last summer he had difficulty finding a new competitive rate from a high street lender, even with a low loan to value.

"The credit crunch meant that the number of offers available for a mortgage of that size was significantly reduced", he said.

"Some high street lenders simply refused to lend up to that level, let alone give me a competitive rate. I thought I was going to have to stay with my existing lender at a rate that was much higher than I had been paying previously."

However, largemortgageloans.com came up with an alternative strategy, making use of their strong relationships with the private banks. Mr Waple was introduced to the private banking division of an international bank and his interview with the private bank manager resulted in an offer of a very competitive two year fixed rate.

"The whole process was extremely quick," he said. "And the deal is much better than anything I was offered by the mainstream lenders. Since last summer rates have come down and I have been offered a cheaper product switch."

## Seek professional advice

Self-certificated mortgages have almost disappeared from the mortgage market, with currently only two lenders remaining. These may disappear altogether this year. If this is the sort of mortgage a borrower needs, then expert advice will help them find what is fast becoming an endangered species. Similarly, if their financial affairs are complex, if they need to include tax planning as part of their mortgage considerations, or if their attitude to risk is such that a foreign currency mortgage might be right for them, then they should start by taking advice from a specialist in the field of large mortgage loans.

Lenders are continually repricing their mortgage ranges this year, bringing new opportunities to the market, although lending criteria will continue to be a challenge in the present economic climate. These are unprecedented times. Now, more than ever, seeking professional advice on your mortgage is crucial.

## Tips For Obtaining The Best Deal On A Large Mortgage

- How is your income made up? Basic plus bonus? Self employed plus dividend? You may find that lenders have changed their attitude to such variable income this year. Make sure you get the right advice about which bank to approach for a loan as it is unlikely to be a high street lender.
- Beware the effects of 'equity erosion' where falling house prices reduce the amount of equity you hold in your property. Many lenders are now restricting their best deals to borrowers who have at least 40% equity. Think about booking a new mortgage deal now to benefit from a valuation at today's prices, rather than in a few months' time when prices may be lower and the available deals may be more expensive.
- Look out for new competitive fixed rates, even if you have to pay early repayment charges to get out of the fixed rate deal you may have taken out last summer. If you have a large loan, the effect of a much lower interest rate on your monthly repayments will outweigh the costs of switching.
- Do you have Inheritance Tax considerations? Make sure you take expert advice before investing in property or remortgaging to a cheaper deal.
- For those willing to accept a greater level of risk in search of cheaper overall funding costs, consider foreign currency mortgages.
- Seek expert professional advice. Even experienced high street brokers are finding it hard to source large loans for clients right now. Make sure the broker you use is a specialist in the large mortgage loan market and has close relationships with the investment banks who are more flexible in their lending to wealthy individuals.

**Your home or property may be repossessed if you do not keep up repayments on your mortgage.**

**Changes in the exchange rate may increase the sterling equivalent of your debt.**

**You may have to pay an early repayment charge to your existing lender if you remortgage.**