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MONEY BOX LIVE

Presenter: RUTH ALEXANDER

TRANSMISSION: 13th FEBRUARY 2013 3.00-3.30 RADIO 4

ALEXANDER: Hello. Banks and building societies said they'd be lending more mortgage money in the first part of this year. There's some evidence approvals are on the increase, but lending criteria are still tough and headline mortgage rates are looking very low. But watch out, the arrangement fees can be hefty. If you're trying to work out which type of product is best for you or how you can convince a lender that they want to give you a home loan, give our expert panel a call on 03700 100 444. With me, ready to answer your questions about mortgages, are Joanne Atkin, Editor of What Mortgage magazine; Ray Boulger, Senior Technical Manager at mortgage advisers John Charcol; and Simon Tyler of brokers Tyler Mortgage Management. And the first question is from Adam who's in Cheltenham. Adam, what's your question?

ADAM: Hello there. Good afternoon. I'm self-employed and I work as a limited company and I will be a first time buyer hopefully this year. And basically I've managed to get together finally the 10% deposit, but I'm really struggling to get a mortgage simply because I haven't got 3 years accounts yet. I was just wondering if you know of any sort of method for getting a mortgage in this situation when I've got about 2 years accounts?

ALEXANDER: Okay, so Simon, I'll come to you on this one. Adam's done his bit - he's saved up a 10% deposit - but because of his employment status and the fact he's got his own company that's relatively new, he's struggling to get a mortgage. What

advice would you have?

TYLER: Well first time buyers borrowing at 90% are - if you'll forgive me for saying - from a lender's point of view, they're less attractive than those who are further down the chain. So if you were buying at 60% or 70%, you'd find it's a great deal easier. Easy for me to say that, but those are the figures involved. So your first problem is you're borrowing at 90%, so lenders are going to be a bit tougher in what they'll consider. The second problem is you say you've got about 2 years accounts. If I was a lender, I'd be saying well we'd …

ADAM: Yes, well it will be February, this month, when my 2 years will have been completed, and then the accounts will you know be finalised in about 2 months after that. So roughly in a couple of months time, I'll be in a position where I'll actually have 2 years accounts.

TYLER: Okay, well 2 years is good and there are some lenders who may consider it, but at the moment for most people who are running their own businesses, they're going to want to see a 3 year run. Ray may be able to help us out with a more specific lender who might actually deal with a first time buyer with 2 years accounts early into their business. They're also going to take the average of your income, they're not going to take your best year - which is presum… hopefully your latest year - so you have got a number of problems there.

ADAM: Yes, I mean my first year was lower than my second year - the second year being much better. But I don't know if there are certain lenders that take more projected accounts for the next year rather than previous years' accounts?

ALEXANDER: Ray Boulger, you'll probably have some ideas of the best lenders and products for Adam?

BOULGER: Yeah most lenders, Adam, won't take into account projections, and particularly at this stage of the year when actually you haven't even started the third year yet. Some will tend to average your first 2 years accounts. Some, on the basis

that you have only been self-employed 2 years, may take more notice of the second year. But one question: are you renting at the moment or living somewhere else?

ADAM: I am. I am currently renting in Cheltenham.

BOULGER: Okay, well Saffron have an interesting mortgage whereby if you've been renting for at least 12 months, they will look at how much rent you've paid and they will lend you an amount on a fixed rate whereby your mortgage payments will not exceed the rent you've been paying. So what they're basically doing is saying you've demonstrated that you can pay this amount in rent, so we'll give you a mortgage up to that amount. And actually they do that up to 95% loan to value, so that could be one good option.

ALEXANDER: Any other good options?

BOULGER: Well Halifax will certainly look at 2 years accounts, but I think it all depends on you know what the figures look like. If the first year was quite low, then because most lenders do average it, that could well be a problem.

ALEXANDER: Joanne Atkin, it's been quite difficult for first time buyers for some time now. Do you see things maybe getting easier on the horizon?

ATKIN: It's not really going to get any easier for first time buyers. Lenders are going to want a good deposit, although there are some options for 5% to 10% deposits, but interest rates …

ALEXANDER: *(over)* I mean 10% used to be considered a good deposit. But now really I think most products, you know most lenders, they want 20%, do they, and upwards?

ATKIN: Most lenders want 20% or more, yes, and you will also get a better rate if you've got more of a deposit. But options for lower deposits - say 5% - are the

Government's New Buy scheme, for example, and First Buy. There are also some lenders that will do guarantor mortgages, but you will need to rely on your parents, for example, or some other helper to either guarantee part of the mortgage, although there are also a couple of savings mortgages that have come out. Barclays has recently done the Family Springboard mortgage and Lloyds do a Lend a Hand mortgage, and I think Nationwide have also got a product where you have a savings element. But again that would mean your parents, for example, or grandparents contributing 10% or 20% into a savings account linked to the mortgage for 3 years.

ALEXANDER: Which of course not every parent or grandparent or step-parent can do.

ATKIN: Yeah of course, that's limited as well.

ALEXANDER: Well, Adam, I hope you've got some ideas there. We've also had an email on a similar subject from June. She says, 'My daughter, she's 32. She's a teacher. Wants to buy her first flat. She lives in London and is tempted by the Buy and Rent offers.' She's seen a flat that is on the market at £310,000, but June thinks that is overpriced. Her daughter, if she did buy it, she'd only be owning a third of it and the payment for the rent and the mortgage would be over £1100 a month, and June just thinks this is all just too much and she should buy an older property, one maybe at around £160,000, which in the area she wants to buy in London might be a bit tough. But, Simon, what do you think about these schemes? Are they a good idea? I mean the price looks expensive - £310,000 - but she is only buying part of it.

TYLER: Shared ownership is a great step forward for first time buyers, in particular, and especially in London and the South East where property is so expensive. So you can buy anything from 25% of the value of the property. So in that case if she's buying 30%, she's buying £110,000 roughly, and then she's renting the balance of the mortgage … sorry the balance of the value of the property and paying rent for as long as she likes, and she can buy more of that as her income increases. So it is a good way into ownership. It's slightly more difficult if you come to move. They're not as easy to shift as normal properties because you're obviously selling into a very tight market

of people who want to buy partial payments on a new property.

ALEXANDER: You're also buying a new property which comes at a premium. I mean as a car does, it will lose you know some considerable value over the you know next year or two or when you sell it on again.

TYLER: Well it won't lose value. It just won't make up perhaps the same amount of value as anything else in the same district because there is a premium on the first time buy properties or first time out properties. But generally speaking, they're a good idea. My concern about that particular question is if she's buying at £110,000, then she's going to need a certain amount of deposit. If she's now going to be buying at £160,000, that seems to me a lot more deposit is involved and it might be considerably more expensive than the home ownership.

ALEXANDER: *(over)* She has a £10,000 deposit actually, so …

TYLER: Then she's going to have a lot of trouble buying a £160,000 flat if she's not doing shared ownership. Nobody's going to lend beyond 90% at the moment for that sort of purchase, I don't think.

ALEXANDER: Okay, Simon, thank you. On the line now is Paul calling from London. Paul, what's your question?

PAUL: Yeah, my question to the panel is, is there a straightforward way of releasing equity from your property at a reasonable price because I've had severe difficulties with my current financial institution?

ALEXANDER: What have those difficulties been?

PAUL: I've owned the property for the last 10 years, never missed a payment. I'm on an interest only mortgage. I've sought to get an extra £150,000 releasing equity from the property, which would represent overall a loan to value of about 66%. But they

want to convert all my mortgage into repayment, so effectively from paying £400 a month, they'd now like me to pay £1800, and clearly that's a huge leap.

ALEXANDER: Joanne, interest only mortgages have really fallen out of favour with some lenders, haven't they?

ATKIN: Yes they have. The problem with interest only is that when you get to the end of the mortgage term, you then have to pay the capital back to the lender. So with house prices falling in recent years, there is a problem in that you might not necessarily be able to sell that property for what you think or what you thought you'd be able to sell it for, so a lot of lenders have pulled out of offering interest only mortgages, particularly for new borrowers, and the ones that are left will only offer say 50% loan to value. So they really are trying to pull out of interest only, so if people are on interest only mortgages lenders are trying to get them onto repayment mortgages if they possibly can.

ALEXANDER: Ray Boulger, what advice would you have specifically for Paul?

BOULGER: Well, as Joanne says, interest only is much more difficult and a lot of lenders are now taking the view that if you have an interest only mortgage and you want to increase your mortgage, particularly if you want to take it over 50% loan to value, then the only way they'll agree to do that is if you switch the whole lot to repayment - which, as you say, makes a massive difference. Obviously you need to consider about how you're going to eventually pay this mortgage back and I presume you've done that, Paul. But in terms of lenders who might be able to help you, there are some lenders who will offer interest only up to 50% loan to value.

ALEXANDER: Which lenders are those?

BOULGER: Well there's about half a dozen actually. I mean Santander is one that recently changed its criteria. They will do interest only up to 50% loan to value and then up to another 25% on a repayment basis. And there's a few lenders that offer that sort of thing, so that might be one option. Likewise Clydesdale have just introduced a

3 year fixed rate, which starts off on interest only and then reverts to repayment. So there are a few more options coming into the market now. What I suggest you do, Paul, is talk to a good independent adviser who will be able to look at the various options for you and there may well be a solution. Having said that, if your current interest only mortgage is at a really cheap rate, you have to consider you know whether you want to give that up. You know if for example it's on a cheap term tracker, if you move away then you're going to lose that.

ALEXANDER: Okay Paul, good luck with that. Caroline's on the line from Orpington in Kent. Caroline?

CAROLINE: Hello. Well this might be a bit similar because I'd like to change a repayment to an interest only because I'm probably going to have to retire on ill health grounds, but we don't have anything as a repayment vehicle and really we'd like to use the house as the repayment vehicle. We've got 18 years left on the mortgage and being realistic I'm not going to be alive in 18 years, so it's certainly going to be paid off then.

ALEXANDER: Simon Tyler …

CAROLINE: It really is are there any products really where they can offer us interest only with the house as repayment?

ALEXANDER: Simon, what options has Caroline got?

TYLER: Who is your current mortgage with?

CAROLINE: With Northern Rock Asset Management, so we're … They don't have any products.

TYLER: Okay, well unfortunately … Yeah not only do they not have any products, but they wouldn't encourage you to switch to an interest only mortgage. So your first

problem is the one we've just covered: interest only mortgages are not the order of the day right now. It really depends on the value of your property and the value of the debt outstanding and, if I may say, also your age because there might be a possibility you could investigate a lifetime mortgage which is one in which you make no payments but the interest rates … as the interest charge is rolled up onto the balance - in fact there are some now where you don't have to roll all of that interest, so you could pay some of it - and what would happen is as and when you sell the property, or indeed (as you mentioned) if you have died at that point, then the mortgage would be repaid from the sale of the property. So that might be a possibility, particularly if you're over 60 at present.

CAROLINE: I'm only 53 and possibly won't make 60, so …

TYLER: Then at the moment if you're talking about potentially I think you said at the beginning that you might be involving your children in the mortgage, if they're over 18 and working then you could possibly use their income to allow you to share the ownership and possibly have a new mortgage with them. But I'm afraid I can't give you …

CAROLINE: Oh no, they're still in education, so …

ALEXANDER: Ray Boulger, would you have anything to add?

BOULGER: I think Simon's really covered most of the points. How much equity do you have in that property, Caroline?

CAROLINE: Probably about £100,000. The value of the house is about £350,000 and the mortgage is probably £240,000.

BOULGER: Okay, well at least the fact you've got a lot of equity helps. And I think Northern Rock Asset Management are not really going to be able to help you unless you can prove that you know you're in financial difficulty, which it sounds from what

you're saying as if you know that may be an issue because of your ill health.

CAROLINE: Yeah, I mean I certainly will be, but I'm trying to *(phone line cuts out)* before I get into financial difficulty you know to …

BOULGER: Sure. The problem is lenders react in a rather stupid way in this situation. If you approach them and say look I think I'm going to get into difficulty because of something that's happening, in many cases they actually won't help you. If you then go into a arrears because of what you expected to happen happening, they will then sometimes help you; and the problem with that of course is at that stage your credit status has been damaged. so Although, as Simon says, I think it's highly unlikely Northern Rock will be able to help you, I think in the situation you're in (because it's going to be very difficult for you to remortgage) it's worth talking to them and putting them you know in the picture and just seeing if there's anything they can do to help.

ALEXANDER: Okay, thank you.

CAROLINE: Okay.

ALEXANDER: Caroline, thank you very much for your call and best of luck with that. On the subject you mentioned there, bad credit ratings, we've had an email from Rosemary. She says that she's the sole owner of a property that she rents out. There's a mortgage of £78,000 on the property, which is valued at £190,000. She applied to borrow a further £4,000 for repairs and improvements, but because her husband has a poor credit rating due to difficulties in his business, she's been refused. And she says, 'You know he has no legal involvement in this property, it's mine, and my credit rating is fine, but I'm being affected because of this.' I mean, Joanne, we've talked about difficulties for first time buyers, but is it difficult for people to get extra money out of their mortgage lenders for this kind of thing? Is this common?

ATKIN: Lenders do take into account your partner's credit score. And if there is a problem with a partner's credit score then that will be taken into account,

unfortunately - which does seem a bit unfair, but that's just the way it is. One of the options she could do if she can't get a further advance from her lender is to try a secured loan or an unsecured loan, just take out a personal loan possibly. There are secured lenders out there who will take a second charge for exactly things like this where the first lender won't pay anything, won't you know give a mortgage.

ALEXANDER: Okay well on the line is Travis …

BOULGER: Could I just add to that, Ruth?

ALEXANDER: Oh yes, do.

BOULGER: I agree with what Joanne says there, but in particular I'd suggest an unsecured loan would be sensible here. Unsecured loan rates start at 5.1%, which is actually not much more than you'd pay for a buy-to-let mortgage anyway; and as the amount involved is quite small, that will be cheaper than a second charge loan. Not many lenders offer second charges on buy-to-lets anyway, so I would definitely go for an unsecured loan, which you can do in your own name and it's less likely to be a problem with your partner's bad credit history, although it could still be an issue.

ALEXANDER: Oh that's interesting. Well that's good news for Rosemary. Travis from Portishead in Bristol is on the line. And, Travis, you've also got a question about your credit rating and how that's affecting your ability to get a mortgage?

TRAVIS: Yeah. About 3 years ago I started being self-employed and also had the opportunity to buy a house thanks to my in-laws. I couldn't get the mortgage at the time because I had a poor credit rating, but they could. They've taken out the mortgage in their name. I've since improved my credit rating and I was just wondering you know what would be the next step as to getting a good mortgage?

ALEXANDER: Simon what do you think?

TYLER: Well I think the first thing you need to do is sort out exactly who owns the property and sort that out with the current lender because if your parents-in-law have the mortgage, then that would suggest they own the property.

TRAVIS: Er no.

ALEXANDER: *(over)* Is it quite easy to transfer a mortgage from one person's name into another like that?

TYLER: It can be. There's no reason that it won't be, but there might be some stamp duty issues. But sorry, I think Travis was going to correct me there by the sound of it.

TRAVIS: Yeah my partner … Well they took out a mortgage in … Sorry, the mortgage is in their name; the property is in my partner's name.

ALEXANDER: Simon, you're looking very puzzled by this.

TYLER: That's extremely unusual.

ALEXANDER: Unusual.

TYLER: If they've used the security of that particular property for the mortgage, that sounds unlikely because …

TRAVIS: I think they used their own property as the security.

TYLER: Okay, well then that's a completely different issue. So they've remortgaged their property to raise cash. They've given it to your partner to buy the property. She owns it in her name and now you want to buy into it essentially to pay down the mortgage for your parents-in-law. Well the first thing you need to do is approach another lender or a broker and just check out what they would think about your credit history right now, what they think about your income right now, see what they would

lend you. If that's enough to repay your parents-in-law or pay half of the amount, then great and get yourself onto the deeds of the property as well and your partner would also become party to the mortgage as well. So there are some implications right across there, but there's no reason why you couldn't do that now.

ALEXANDER: Good news, okay. Travis, thanks very much for your call.

BOULGER: Ruth, could I just add …

ALEXANDER: Yes.

BOULGER: … that although I absolutely agree with what Simon said, in practice I suspect that any arrangement you make is going to be more expensive than the one you've currently got. If your in-laws, parents have got a cheap tracker interest only mortgage they took out 3 years ago, that's almost certainly going to be a much better margin above bank rate than you could get now. And so although changing the arrangements may suit your personal situation, you need to recognise that even if you can do it, it will probably end up costing you more.

ALEXANDER: Which brings me onto a slightly different but related subject, which is now the stress testing that lenders are going to have to apply come April 2014 as part of stricter rules on lending. So I think a lot of them are actually bringing these kind of measures in now, aren't they, and actually they're going to be looking at not just what you can afford now but what you can afford in say 10 years time if interest rates go up, Joanne?

ATKIN: Yes lenders are starting to put in the affordability issues, which is what the new mortgage market review rules have come up with - which, as you said, will start in April 2014, but lenders are applying these affordability tests at the moment. So they're not just looking at your income. They'll be looking at your outgoings as well, so any debts you might have - school fees, that sort of thing - and that will all be taken into consideration. But they will also look at not whether you can afford the mortgage today but whether you can afford it in say a couple of years. If the interest rate goes

up, will you still be able to pay the monthly repayments if they've gone up? So they'll be looking at those future issues as well.

ALEXANDER: And you might now be looking at product and the headline rates they offer and think gosh, they're looking quite low at the moment - you know oh perhaps that means I can afford to get myself on the property ladder - but you know a lender will be thinking yes but what if they go up to say 6% or 8%. And also, Ray, you've got to think about arrangement fees, haven't you, behind those duty headline rates?

BOULGER: Well that's right. I mean, as Joanne says, most lenders, in fact all lenders are already factoring in most of the new requirements of the mortgage market review and actually have been for some time because we had the first draft of the mortgage market review 2 years ago. So when assessing affordability most lenders will use an interest rate of somewhere around about 7% or 8% to reflect the fact that when you come off your initial deal, the rate will go up, and that rates may go up in the future. The FSA has clarified, the Financial Services Authority has clarified that lenders need to look ahead 4, 5 years. And of course it's very difficult to forecast what people's situation is going to be even in 2 years time, but there will be certain things which people can reasonably forecast. So I think most of the new rules lenders have already in practice been adopting for some time, but there will be some tweaks and in particular probably the area where I think the tweaks are most likely to happen will be in how lenders look at expenditure.

ALEXANDER: We've got an interesting email from James here. He says that, 'My partner and I were recently charged an application fee of £99 by Nationwide before they told us that we didn't meet their affordability criteria. We've been declined by them, but the application fee is non-refundable.' Evidently he's not very pleased about this. Is that fair?

TYLER: Well, look, what we've just been talking about is responsible lending and the Government and the FSA drive towards responsible lending based on all the problems that occurred 4 or 5 years ago when we hit the crash where people hadn't

been as responsible. But you know it's also about responsible borrowing, so borrowers really need to understand what they're doing when they're getting into a loan, so …

ALEXANDER: But is it usual to go and to have to pay a fee and then if you're turned down, you don't get that fee refunded? Have you heard of that happening elsewhere?

BOULGER: I think it all depends on what this particular borrower was told before they paid the fee. Most lenders who have an application fee do say it's non-refundable. But before you apply, if you go through a broker or if you go direct to the lender, I would expect the adviser (or the lender if you go direct) to actually have looked at your situation to see whether you're likely to qualify. Now if the reason the mortgage was rejected was something that cropped up after the application and wasn't apparent, then I think Nationwide are perfectly within their rights. If, on the other hand, they should have identified the fact that this person was never going to qualify before they took the £99, I think they should refund it.

ALEXANDER: Patricia's on the line from Croydon. Patricia, what's your question?

PATRICIA: Hello there. I'm concerned. For the last 2 or 3 years what I've been doing, I've approached Chelsea & Westminster. Oh can you not hear me?

ALEXANDER: No, we can hear you.

PATRICIA: Oh marvellous. Approached Chelsea & Westminster because I have two buy-to-let mortgages and I've never been behind. And of course because of the recent issues which we've had with banking, etcetera, unfortunately I've been paying quite a high amount for repayment and interest, so what I wanted to know is, is this situation improving, am I able to get a decent mortgage rate elsewhere? I must say my husband and I also … well my husband has a residential mortgage as well, which is very reasonable in comparison to what I pay out.

ALEXANDER: Simon Tyler, any ideas for Patricia?

TYLER: So Patricia, are you asking whether you can get lower than 4% that you're paying at the moment in the market for …?

PATRICIA: I'm sure it's about 4 point something I'm paying - probably a bit more, I'm sure - but I know it's more than 4%.

TYLER: Well the best rates out there when you take into account the fees being charged by new lenders are really around the 4% mark, so the marginal improvement you're going to get if you were to get one by switching your loans to a new lender is probably going to be eaten up by the costs of getting involved. And to be perfectly frank, if these rental properties are not washing their face and making a decent profit at 4%, then you might want to think about selling the properties rather than changing mortgage.

ALEXANDER: Tough advice there, Patricia. Good luck with it. Stephen's on the line from Shepton Mallet in Somerset. Stephen, what's your question?

STEPHEN: Hello. I'm having problems at the moment. I'm trying to port my existing mortgage over. I'm on a good rate at the moment - I'm on .75 above the base rate - and I applied for this in January and it got turned down at the end of January on affordability. When I sent my Experian report back, that was incorrect because it shouldn't have been declined. Now they say that it's still with the underwriter, but every day I email, they just say it's just taking a long time, we're very sorry. And I don't know how long … It seems to me as though they just keep putting me off so that I go elsewhere because the rate is so good, because in the meantime I've walked into a Santander branch, seen the financial adviser and I was offered a mortgage of 2.9% there and then.

ALEXANDER: Joanne, what would you say Stephen should do? It seems a very tricky situation.

ATKIN: I'm not quite sure I understand what the situation is. Your current mortgage is … How much are you paying on your current mortgage?

STEPHEN: I'm paying .75 above the base rate, so I pay 1.25.

ATKIN: And you want to move it?

STEPHEN: Yes because we're moving house.

ATKIN: But you're not allowed to take that rate with you. Is that what you mean?

STEPHEN: I can, yeah. I should be able to, but they just keep stalling me. They just won't give me an answer on it.

ALEXANDER: Ray, you look like you want to come in?

BOULGER: Well yes, I mean the problem with porting is that although lenders say their mortgages are portable, they stipulate that you have to meet their criteria at the time you want to move; and even if you want to reduce the mortgage, we've had situations where people have been declined. And the problem with the credit rating agencies is that lenders treat them as gospel and even though tests have shown that 10% of all the entries on the credit reference agencies are incorrect - if there's a problem there, you know that is an issue. So I think all you can do is keep pressurising Santander and provide evidence that the information is wrong.

ALEXANDER: Stephen, thank you very much for your call. That's all we have time for. My thanks to Joanne Atkin, Editor of What Mortgage; Ray Boulger, Senior Technical Manager at mortgage advisers John Charcol; and Simon Tyler of Tyler Mortgage Management. Thanks to you for all your calls and emails. You can find out more information about mortgages at our website: bbc.co.uk/moneybox. You can also listen to the programme again and in a couple of days time read a transcript. Paul Lewis will be here with the week's personal finance news on Saturday - that's Money

Box at mid-day - and he’ll be taking your calls on managing the costs of long-term care in Money Box Live next Wednesday afternoon.