

Case Study

Ben David and Jerry Craig are two friends looking to buy their first property together in London. Their combined income is £47k; Ben has a student loan in the region of £8k and is paying £125 per month; Jerry has no outstanding loans or credit card bills. They have £25k for a deposit and are looking at properties in the region of £220,000. The pair currently pay a combined £1,200 in rent and bills each month. They would prefer an interest-only deal, at least initially, with the view to overpaying. What are the best mortgage deals available?

When first looking at Ben and Jerry's income details and the level of commitment they require it is apparent that the case does not fit standard lenders criteria and income multiples.

Within the £25k deposit they have they will need to set aside in the region of £4k for legal costs, stamp duty and valuation fees. This will leave an available deposit of £21k and a total borrowing required of £199k.

As Ben has a student loan of £8k and does not have the funds to clear this, the commitment will need to be annualised and deducted from his income. Once this has been deducted it leaves their combined income at £45.5k.

With a loan amount of £199k the income multiples needed are 4.4 times joint income, higher than any standard multiples, therefore requiring the income to be calculated on an

"It is not uncommon for friends to decide to buy together to ensure that they get that all-important foot on the property ladder. Using standard income multiples of 2.75 times joint income, the maximum that Ben and Jerry would be able to borrow would be £129,250. Because Ben also has a student loan, some lenders would insist on annualising his monthly payment of £125 a month and deducting this amount (£1.5k) from their overall income, leaving them with a joint income of £45.5k.

For the purpose of this case study I will assume that Ben and Jerry will be using £5k of the £25k that they have saved to cover the cost of fees, etc, leaving them with a deposit available of £20k. This means that they would be looking for a 90 per cent LTV of £200,000 (almost 4.4 times their joint income). AToM would need to source a

"Ben and Jerry are aiming high comparatively speaking to their earned income; they will need therefore to approach a lender who will use an affordability calculator as a means to deciding what the maximum lending will be available. Standard Life, Intelligent Finance and First National are currently the main players known at the time of research to use affordability calculators. Possible additional alternatives to these lenders could be considered if a further breakdown of the incomes between the pair were obtained in view of Ben being (it is assumed) a university graduate. However, for the purpose of this case a joint income will only be used.

Ben and Jerry must choose carefully when



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affordability basis.

Halifax and Abbey could consider this kind of case but it would be an exception to standard criteria and assessed on a case-by-case basis. Halifax and Abbey would need to see that Ben and Jerry have been 'comfortably' supporting their current commitments for a period of time, and would require the last six month's bank statements showing salary credits, commitments and rental payments. Abbey would also require a fully detailed budget planner. They would need to have a clean credit history and full-status documents to support the case.

Halifax and Abbey would both allow them to proceed on an interest-only basis and on a majority of their products overpayments are allowed. Rates start from 4.74 per cent tracker."



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lender that would be prepared to assess the case on an affordability basis, as opposed to using strict income multiples. Ben and Jerry have also specified an interest in finding a lender that will allow them to make overpayments and because of this we would recommend either Intelligent Finance or The One Account.

Both of the above lenders are favourable because their underwriting departments assess each mortgage application on a case-by-case basis. So the fact that Ben and Jerry want to borrow more than standard income multiples would allow them, shouldn't necessarily be a problem. Both Intelligent Finance and The One Account offer flexible mortgages which enable borrowers to overpay if they so choose to, therefore assisting them to reduce their overall loan amount."



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deciding which lender to approach first. Standard Life and Intelligent Finance will offer the most competitive rates, comparable to high-street lenders, however both will not favour the clients if they have any recent or historic credit problems. The third lender, First National will allow a small amount of credit problems although the rates offered by this lender will not be comparable to either of the aforementioned lenders.

Flexibility has been mentioned as being an important factor; this will be available to the clients if they choose a flexible savings vehicle such as an ISA into which they will be able to alter the monthly amounts paid, ideally this will have been started to run alongside the mortgage from inception."