

Case Study

Sheila Crabbe's current fixed rate of 3.89 per cent is due to end this month. The amount outstanding on her current mortgage is £104k and she now wishes to borrow £110k to allow for some home

improvements. Her house has been valued at £205k. Sheila's current salary is £25.5k but she also gets maintenance of £700 per month. The maintenance court agreement is for the sum of £1,300 per month but she agreed informally with her

ex that this could be reduced to £700 per month. What are her options? Sheila is concerned that she needs to include the full maintenance amount in her income but doesn't have the evidence to support it.

"If we were to use Sheila's basic income of £25,500, then she would be looking at a possible income stretch of up to 4.3 times her salary. In the first instance it would be AToM's intention to try and find a lender who would recognise and accept that Sheila's maintenance payments form part of her monthly income and therefore look at an affordability calculation as opposed to applying standard income multipliers.

However for the purpose of this scenario I will assume that Sheila does not declare her maintenance payments and that she is in fact looking to find a lender willing to lend her £110k based on her income of £25,500.

Firstly, AToM would approach Northern Rock as it has a fast-track facility available to cases where the LTV is lower than 85 per cent and where the applicant is not a first-time buyer. Assuming Sheila's credit score comes back as a 'high accept' by Northern Rock then she would be able



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to borrow a maximum of £109,650. This means that Sheila would have to fund the additional borrowing of £350 herself if she still needed the full £110k. In some instances Northern Rock may be able to extend the borrowing slightly so that Sheila could borrow the full £110k but this would be assessed on a case-by-case basis.

One of the rates currently offered by Northern Rock is a two-year fixed rate of 4.69 per cent. This product has no over-hanging penalties and has an arrangement fee of £695. It also has a reversionary rate of 6.84 per cent.

Alternatively AToM would place the case with TMB (one of the lenders we use that work on an affordability basis). Assuming we take Sheila's basic income of £25,500, TMB would be able to loan her slightly more as a maximum than Northern Rock (£110,490). The rate offered through TMB is a two-year 5.49 per cent tracker reverting to BBR plus 0.99 per cent (5.74 per cent)."