Help is long overdue for homeowners trapped in expensive mortgages

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There supposedly has never been a better time to be a homeowner, with lenders falling over themselves to put their capital to work offering some of the lowest mortgage rates ever seen. It means good times for the millions of people on decent salaries, whose homes have risen in value and who can shop around for cheap deals.

But for some this does not apply. About 200,000 people own a home but cannot get a new mortgage, for reasons including their high loan-to-property value, illness, divorce or loss of work. They are stuck paying mortgage rates of about 5 per cent or 6 per cent, double what many who are managing fine are on.

Someone trapped in this way over the past decade might have paid £30,000 to £40,000 more than someone who can shop around, New City Agenda, a think tank, has calculated. That bill could double in the next ten years and the many people in this group on interest-only deals could face repossession if they cannot pay off the capital, which their high monthly interest payments make very difficult.

The roots of this problem lie in the financial crisis, particularly the collapse of Northern Rock. When the Rock was nationalised in 2008, Virgin Money bought the better-performing part of its business. The rest of its high loan-to-value loans to the self-employed and other risky business were put in with the nationalised buy-to-let loans of Bradford & Bingley and were managed by UK Asset Resolution, a government agency created to shrink the business.

UKAR has fulfilled its brief, selling loans over the past decade, and tomorrow it will say that it has paid off its near-£50 billion government loan from funds raised through the sales. There is, however, an increasing backlash over who it has sold to. The most controversy surrounds its £10 billion transaction in 2015 with Cerberus, through which about 100,000 mortgage customers moved to the American private equity firm.

The biggest problem with mortgage prisoners is that, in many cases, their loans are owned by entities that do not make new loans but earn a return from the difference between customers' repayments and the cost of funding. Cerberus, which does not offer new loans despite vague talk at the time of the deal that it would, has received a kicking over the matter.

Yet it is not just a private equity problem. As part of the transaction, TSB took on about 28,000 customers, who are in a separate entity called Whistletree. The Co-operative Bank also has mortgage customers in separate entities called Mortgage Agency Services. Both banks allow these customers to move on to their better rates if they meet affordability criteria, but that is harder if you are paying far more than others every month.

The issue has been off the radar of many in power as the government clawed back taxpayers' money used in the banking nationalisations. Now regulators and politicians are waking up to it.

The Financial Conduct Authority plans to relax the affordability criteria that lenders have to apply to new customers, which will help a few thousand people to escape bad deals. With wider action required, Charlie Elphicke, a Conservative MP, and Labour's Seema Malhotra have formed a cross-party parliamentary group and will lead a debate in the House of Commons tomorrow.

The law needs to be changed to give the FCA much wider power to force private equity players to offer fixed-rate deals to give customers certainty or to make much more effort to move customers to lenders that do.

They also need to be forced to justify changes to their standard variable rates and not merely jack them up because they can.

If the solution is not bold, this terrible price from the failure of bankers ten years ago will continue to be paid by those finding it hardest to make ends meet.

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