No way out for the prisoners of the last financial crisis

Many homeowners stuck with extortionate home loans will not be eligible for Covid-19 help

Kate Palmer
Saturday April 11 2020, 12.01am, The Times

Economics

Never mind this financial crisis, Nigel and Susan Hawkin from Wakefield in Yorkshire are still feeling the sting of the one before it.

They pay more than £900 a month on an interest-only mortgage that they took out with The Mortgage Business (TMB) in 2008.

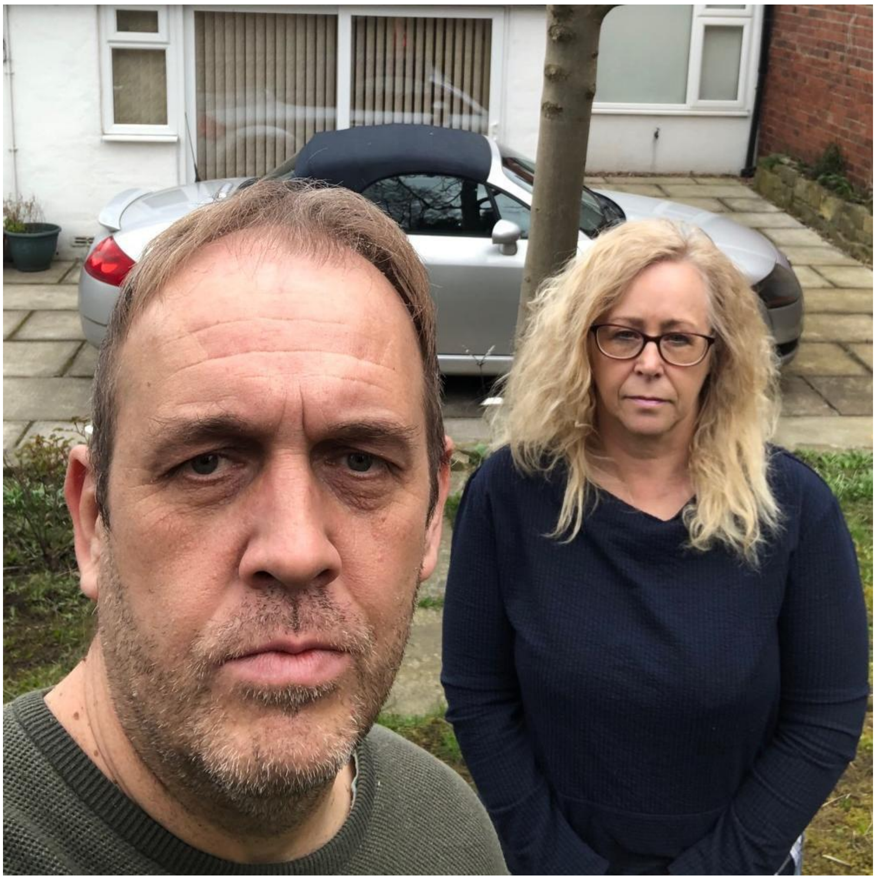
Despite the present average fixed mortgage rate of about 1.5 per cent, they are paying 5.2 per cent. This will drop to 4.7 per cent in April to reflect the Bank of England's rate cut to 0.1 per cent on March 19, but it is far higher than standard repayment mortgages. The cut will save them £90 a month.

The mortgage was for a £248,000 five-bedroom house that the couple bought for Nigel's mother and sister to live in. They raised the 15 per cent deposit by remortgaging their main house, which is also on an interest-only deal, with Santander.

Such interest-only borrowing would not be possible today because of strict regulations placed on the mortgage market after the downturn.

“My mum and sister lived in the house, but now we need to sell it,” says Nigel, 50, who runs a business selling marketing products such as branded pens. “We are struggling to pay the mortgage interest because everything in the business has shut down and there’s no work to do.”

When things got tough Nigel asked to take a mortgage holiday, so that payments would be paused for a while.



Nigel and Susan Hawkin struggled to negotiate a mortgage holiday with TMB

He says that it was simple to negotiate a payment holiday for his main home loan with Santander, which involved filling out a form online, but less so with TMB. “It said it wasn’t offering mortgage holidays, because it is not a mortgage company,” Nigel says.

TMB is part of the banking giant Lloyds. It is no longer regulated to take on new mortgage customers.

Nigel and Susan had agreed to sell the house, but the deal fell through shortly before the government imposed restrictions on people’s movement.

The Financial Conduct Authority (FCA), the City watchdog, has urged lenders to grant customers a mortgage holiday of up to three months if they are in financial difficulty because of the coronavirus crisis, and to avoid marking their credit file for missed payments. However, the FCA does not have as much influence over unregulated companies or lenders that are not authorised to take on new customers.

About 250,000 homeowners have mortgages in this category, and 140,000 are what the FCA classes as mortgage prisoners, which means that they are unable to refinance or remortgage their properties.

Many originally took out loans with companies that failed in the previous financial crisis, such as Northern Rock, and their borrowing has since been passed on to other companies.

They are prisoners because they would have to pass strict affordability checks to get a new deal, and many fail, even if that new deal would mean that they save thousands of pounds a year.

As a result these mortgage prisoners have been paying crippling interest rates for more than 12 years. Many took out risky interest-only loans, with little or no deposits, which no longer exist in today's mortgage market. Some were self-certification mortgages, which have been dubbed liar loans because borrowers did not need to prove their income to get one.

Damon Parker is a managing partner at the law firm Harcus Parker, which is working on a group action for compensation for mortgage prisoners. He says that companies are giving people mixed messages about whether they will get a mortgage holiday.

"Many of our clients are being refused payment holidays or cannot get through to their lenders. Some have reported that they have been kept on hold for two days," Parker says. "This may simply be the consequence of administrative strain, but that does not make it any less stressful."

Britain's mainstream lenders, such as HSBC, Santander, Lloyds Banking Group, Barclays and Royal Bank of Scotland, have agreed to provide struggling borrowers with mortgage holidays. Many have set up helplines and online forms to make the process easier.

Rachel Neale, head of the UK Mortgage Prisoners campaign group, says that it has been a "massive battle" to get unregulated firms to agree mortgage holidays.

"Some people's livelihoods have gone to the wall and they are simply unable to pay," she says. "We're asking these companies to be consistent in giving people holidays."

Over the years, many mortgage prisoners' loans have been sold on to foreign hedge funds and investors. Some high street banks also bought the loans and set up separate trading names.

In 2010 the government set up UK Asset Resolution (UKAR), which took over more than £110 billion of risky mortgages taken out before the financial crisis, with the task of selling the loans for as much as possible. One of the buyers was US-based Cerberus Capital Management, which bought £13 billion of former Northern Rock mortgages and has since sold 34,000 loans to the bank TSB, which set up a brand called Whistletree. It says that it is offering payment holidays to mortgage prisoners.

Barclays Bank bought £5 billion of Bradford & Bingley loans before transferring their legal title to two companies, Siberite Mortgages and Rosolite Mortgages. Other brands, such as Nemo and Topaz, have been set up after various deals, but are not active lenders in the same way as high street banks and building societies. Borrowers have no control over these sales, and are simply sent a letter informing them which company is their new lender.

One borrower, who gave her name as Tracey, says she was initially denied a mortgage holiday with Elderbridge on the basis that it was a secured home loan rather than a first-charge mortgage. She borrowed £100,000 from Firstplus, owned by Barclays, in 2006. “We were told that the only option available to us was to go into arrears, and to do that we would still have to submit an income and expenditure form,” she says.

Kevin Hollinrake, the MP for Thirsk and Malton, told the House of Commons on March 24 that it was an “absolute disgrace” that the government had allowed UK mortgages to be sold on in this way.

“We can’t properly control the activities of those lenders,” he said. “Charging around 5 per cent and even up to 6 per cent is simply unfair.”

He proposed a cap on mortgage interest, in the same way that the government has capped energy prices.

Last year the FCA introduced rules that it hoped would encourage banks and building societies to take on mortgage prisoners, by letting them offer deals without applicants going through affordability tests as long as they were up-to-date on their repayments. However, only 14,000 people are likely to end up better off as a result of the new rules, and the industry has been slow to help those stuck on interest-only mortgages or in negative equity, where their loans are worth more than their homes.

It is unlikely that any mortgage borrower, let alone a mortgage prisoner, will be able to find a new mortgage deal now because physical property valuations are not taking place and banks are overwhelmed with customer queries.

“Lenders are doing really well in fielding a vast amount of calls when their own staff resources are stretched,” says Andrew Montlake, managing director of the mortgage broker Coreco.

However, he says that “mortgage prisoners with regulated and unregulated lenders must be treated in the same way as others. They are already in a vulnerable position, and to be denied access to something that may help to alleviate some pressure would be totally unjust.”

TMB has been approached for comment. Heliodor, Whistletree and Elderbridge, which own mortgage books originally sold off by UKAR, all said that they were accepting customers’ requests for a mortgage holiday, and urged borrowers to get in touch.

Elderbridge is investigating Tracey’s case. Duncan Pownall, the company’s managing director, says: “So far, several hundred customers have been in touch to set these holidays up and we are doing everything we can to help them.”

The FCA has said it expects lenders to stop repossession action during the period of “uncertainty and upheaval” caused by Covid-19.