

## **UK banks tighten purse strings on loans**

Overseas buyers struggle to secure mortgages as lenders feel the pinch of tougher rules

Richard Warren in London  
*Aug 04, 2010*

Non-British investors are finding it increasingly difficult to secure mortgages on British property as many high-street banks and building societies refuse loans to overseas buyers, industry participants say.

Mortgage lending in Britain is less than half what it was three years ago and is forecast to shrink further in 2010 and 2011, as banks' funds are squeezed and lending rules tightened. This may exacerbate a downturn in prices, economists have warned.

Some British lenders will not lend to overseas buyers because it is more complicated than lending to domestic borrowers, a spokeswoman for the Council of Mortgage Lenders (CML) said. Those that do demand large deposits and extensive credit checks.

"[Lenders] need to carry out more checks as there are problems with fraud and money laundering depending on where you are in the world," the spokeswoman said.

British high-street banks that lend to Hong Kong investors will only give loans equal to 60 per cent of the value of the property, buyers have found.

**London buyers' agent Russell Hunt said some of his overseas clients were finding it tough to get mortgages, but were sanguine about it. A Spanish couple had to reapply for their mortgage following changes to their bank's lending rules and a Nigerian client had been refused a mortgage, he said.**

**"Overseas investors seem to understand that times have changed," Hunt said. "The banks and regulators are tightening up the lending criteria. It is not aimed at overseas investors. Some countries are perceived in a more negative way than others, such as Nigeria, but not Hong Kong or Singapore. It is tough for UK people, too. More sales are falling through, because of lack of finance, than we are used to. Buyers need to be mentally prepared for that."**

The Council of Mortgage Lenders had forecast £150 billion (HK\$1.83 trillion) would be loaned to buyers of British homes in 2010, but will revise this figure down. Even before revision this forecast is less than half of the £363 billion loaned in 2007, the year when the British housing market peaked.

Lending dropped sharply following the collapse of Lehman Brothers in 2008, said Ray Boulger, technical manager at mortgage adviser John Charcol.

In 2007, some banks would lend more than 100 per cent of the value of a property to a British owner-occupier, but the limit is now 90 per cent, he said.

The best deals available to Hong Kong investors are from international private banks, who offer loans of up to 75 per cent, Boulger said. A 100 per cent mortgage from these lenders is possible for those with collateral, he added.

"The key issue will always be the rental income," Boulger said, "The rent must be 125 to 130 per cent of the mortgage payments. Applicants will also need a good credit status. Because some credit details of overseas buyers are not always available, the lenders will look much more at income and may want bank references, so overseas investors will have more hoops to jump through."

Life has been tough for British investors, because many buy-to-let mortgages were withdrawn from the market following the credit crunch.

"If anything, overseas investors have been less badly hit than domestic investors," Boulger said.

Although lending has loosened slightly this summer it is likely to become more restricted later this year and next, because British banks must repay debts to the government in 2011 after it bailed them out during the 2008 credit crunch, the CML spokeswoman warned. Also, mortgage demand was falling, because investors were concerned about a fallout from the euro zone's economic problems, she said.

Proposals from the regulator, the Financial Services Authority, to tighten lending rules and ban self-certified mortgages, would restrict lending further if introduced, the CML spokeswoman added. Self-certified mortgages allow a borrower to give details of their financial status with few checks, a procedure criticised for being open to fraud.

Oliver Gilmartin, senior economist at the Royal Institution of Chartered Surveyors, said tighter mortgage regulation and continued low loan-to-value ratios would have a negative impact on property prices, which were already being dragged down by an increase in the number of homes coming up for sale. Many younger first-time buyers needed financial help from parents to raise deposits, because of banks' tight lending practices, he added.

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