

Mortgage brief

Complex common sense

Lee Jones and Luke Moore report on the emergence of complex prime lending which aims to help people who are being turned away by the big banks but without suffering the problems of the sub-prime sector

A new mortgage product type has come on to the scene to help those who have been turned down by the big banks but is complex prime an example of an industry that has learned nothing from the last two years?

Complex prime mortgages are loans that offer what the providers say are common-sense affordability decisions. Handled on a case-by-case basis by an underwriter, the loans will be aimed at those who have irregular finances and do not fit the scorecard, automated lending procedures of the high-street banks. "Today's complex prime is pre-summer 2007 prime," says Kensington Mortgages public relations manager Alex Hammond.

Since the credit crunch started two years ago, the mortgage lenders that remain have tightened lending criteria to offer loans only to borrowers with exemplary credit records in an attempt to reduce risk and limit supply. This has led to many affluent people being denied a loan.

All Types of Mortgages sales and marketing director Dale Jannels says: "High-street banks are turning away cracking clients. If you have got an asset-rich person with no debts, no credit cards and who might not even have a mortgage, they do not have a very good credit score, so people with assets in the hundreds of thousands or more are struggling to get mortgages on the high street."

Since the credit crunch, banks typically demand between two and three years' audited accounts as proof of income but complex prime will accept some form of proof of income over 12 months.

According to figures from Kensington, there could be as many as 600,000 people who could be eligible for a complex prime loan.

First Action Finance head of communications Jonathan Cornell says: "There is a big gap in the market right now. There are plenty of people who are mortgageable and, in a normal market, would be able to get a loan quite happily but because of a small wrinkle they are currently being denied by the high-street banks."

Kensington and Aldermore have announced complex prime ranges but Atom says it has five lenders on its complex mortgage panel.

As a result, Jannels says complex prime loans are competitively priced with prime mortgages. He says, depending on the complexity of the case and the amount of time it takes to process, complex prime loans can cost a borrower anything between 3.3 per cent and 5.5 per cent.

He says: "That is why we call it complex prime. It can be totally complex but it is totally prime at the same time."

The mortgage industry is confident that complex prime mortgages are akin to mainstream prime products but it is fully aware there may be a media backlash.

Hammond says: "We are worried that people will jump on complex prime as the new sub-prime. We live in a world now where the mortgage industry has moved from the business pages to the front pages and because of that these labels can be picked up and used out of context."

Cornell says that it is important to differentiate complex prime from self-cert or sub-prime to ensure the message is sensible lending.

He says: "Complex prime is not like self-cert at all. Complex prime will have to offer proof of income, it is just that they will have more discretion as to what that proof is. This is not backdoor self-cert, quite the opposite, as it is using common sense. I would be gobsmacked if a complex prime lender ever put a case through without proof of income."

The FSA has recently proposed a blanket ban on any loans passed without proof of income, so there is confidence that complex prime's regulation-friendly proposition will grow as it fills the hole left by self-cert and fast-track mortgages.

Jannels says: "We are getting probably two or three calls a week at the moment from different lenders across the country asking how they can get involved."

But Cornell says it is unlikely that the big banks will move into complex prime.

He says: "The smaller lenders are nimble and are trying to spot gaps that the high street is not catering for. The big banks cannot cater to this common-sense lending, they deal in huge-volume, black-box machine lending."

Hammond says: "We will never be a HSBC or Santander so we have to look at where we can specialise and that is doing a more bespoke underwriting process."

Cornell also says that complex prime loans will be unattractive to bigger banks because they will not help them raise future funds.

Credit Score

Excellent

Good

Fair

Uncertain

Poor

"The big banks are now begin to securitise their loans and within that there will be a set of strict rules that define what those securitised assets look like, which will be defined by the scorecard lending."

Jannels is confident that complex prime will be the next big thing in mortgages.

He says: "The whole picture is common-sense lending. It is trying to educate the adviser that just because a client has failed the high-street credit score they need not chuck them away."

"If it is a good clean case, if there is affordability and if they have got good clean credit, then it is more than likely there is something that can be done."

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