

# Dear DELIA

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*Dear Delia* Dave and Mandy have rented their council house in Suffolk for the past two years and now want to exercise their Right to Buy, plus raise some extra capital. Dave earns £25,000 a year and the house is valued (before the RTB discount) at £95,000. However, their initial mortgage enquiries with high street lenders have been disappointing as they have some historical credit difficulties including CCJs and rent arrears. They need help in sorting out their best options. **DELIA SAYS:** This is a burning issue at the moment and this couple are right to seek advice. Here to help are AtoM's Tim Henson and SPML's John Prust. **Have you got a problem for Delia? Email [mortgage.strategy@centaur.co.uk](mailto:mortgage.strategy@centaur.co.uk)**

## INTERMEDIARY RESPONSE



**Tim Henson, compliance director, All Types of Mortgages**

How much most lenders will be able to advance to Dave and Mandy will depend on the percentage discount the couple will receive from the council when buying their home.

Once this discount has been agreed the potential LTV will be worked out on the property value or purchase price (whichever is the lower). For example, if Dave and Mandy manage to obtain the property for £72,000 (25% discount on the original price of £95,000), the loan they need will be worked out as a percentage of £72,000, not £95,000.

With an enquiry of this type, AToM would usually place the case with GMAC-RFC, as that firm looks on historical credit difficulties more favourably than do many high street lenders.

If Dave and Mandy's CCJs are over three years old

GMAC-RFC will ignore them. Rental arrears are also ignored but the firm would assess the severity of these and, on a case like this, an appropriate loading would be placed on the initial rate to compensate for the fact that Dave and Mandy have had difficulties in the past.

As the couple will be considered first-time buyers, the maximum LTV available to them (because they have had adverse credit) will be 75%.

Assuming this is worked out on £95,000, this gives a maximum figure of £71,250. Dave's income of £25,000 would be enough to cover this using an income multiplier of 3.5.

Although I have not been told of any other defaults in the case of Dave and Mandy, if they do have some, these too will be ignored by GMAC-RFC.

The rate available to the couple will depend on the overall case scenario, as various additional loadings could apply depending on the nature of Dave and Mandy's adverse credit. GMAC-RFC has a range of LIBOR rates that start at 4.86%.

## LENDER RESPONSE



**John Prust, sales and marketing director, Southern Pacific Mortgage Limited**

The Office of the Deputy Prime Minister publishes a comprehensive booklet entitled *Your right to buy your home* which is available on its website [www.odpm.gov.uk/](http://www.odpm.gov.uk/)

Any qualifying tenant wishing to exercise their Right to Buy should look carefully at the pros and cons including the additional costs of home ownership such as insurance and maintenance.

Tenants in Dave and Mandy's situation have the Right to Buy after two years' tenancy. The couple also live in an area where they qualify for a maximum discount of £34,000. In areas such as London, Wales and parts of the Home Counties, maximum discounts have been reduced to £16,000.

Since January 18 a number of changes to the Right to Buy rules have come into effect and tenants who took up their tenancies after this date do not now qualify for the Right to Buy scheme until they have been tenants continuously for five years.

This may dampen the Right to Buy market over the next five years or conversely it could act as a stimulus for qualifying tenants to exercise their Right to Buy before any more restrictions appear on the scene.

The government has said it is committed to the principle of Right to Buy but pressure is mounting – in particular from the Barker recommendations – to safeguard low-cost social housing.

Since the Right to Buy was introduced in 1980 some two

million homes have been purchased by local authority tenants but councils still own 3.4 million dwellings.

There will always be a number of these properties that lenders would prefer not to handle – and tenants would prefer not to buy – but Right to Buy is still a considerable market with plenty of mileage left in it, and plenty of opportunities for brokers.

Dave and Mandy are eligible for a discount of 32% (£30,400) on the purchase price which means they need to borrow £64,600, giving an LTV of 68%. Even without taking into account Mandy's income (if any), 3.5 x Dave's income is £87,500 which means income multiples should present no problem.

Depending on the amount of extra capital the couple needs, SPML has a number of non-conforming Right to Buy schemes, most of which have an attractive discount option of 1.75% to 1 September 2006.

For example, if the extra capital needed was around £6,500 then the total loan amount (£71,150) would be within 75% LTV. If the borrowers' adverse credit factors were no more than £1,000 CCJs unsatisfied, one payment missed in the past year (none in the last six months), a bankruptcy order discharged for one year and an IVA satisfied for one year, the couple would qualify for SPML's Right to Buy Scheme E.

On this scheme, including the 1.75% discount and taking into account the current LIBOR rate of 4.85%, they would be paying an interest rate of 5.85% with income status documented, or 6.35% with income self certified.

SPML will allow capital raising up to 85% LTV but higher LTVs have incrementally higher LIBOR margins.

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