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Nationwide 125% mortgage raises fears of a return to reckless lending

By Olinka Koster
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A new 125 per cent mortgage from Nationwide has sparked fears of a return to the reckless lending of the housing boom.

The loans are available to existing borrowers who want to move house, but who are in negative equity on their current home.

Under the terms of the deal, customers will be allowed to borrow up to 95 per cent of the value of their new home, while putting down a 5 per cent deposit. They will then be allowed to add on up to another 30 per cent of the value of their new property in negative equity from their old home.

'Very niche': Nationwide's 125 per cent mortgage comes despite the much tighter lending criteria introduced by virtually all lenders in the wake of the credit crunch

Today the lender argued the loan was only available to people in a 'unique situation', who find themselves in negative equity but are being forced to move house.

But it raised concerns that the practice could expose the lender to even greater losses if house prices continue to fall.

It could also encourage a widespread return to loans of more than 100 per cent. At least two other major lenders are believed to be looking at introducing similar deals for their customers.

Liberal Democrat Treasury spokesman Lord Oakeshott warned the mortgages must be 'strictly limited' to existing difficult cases.

'Britain cannot return to time-bomb mortgages for more than a property's value - they are the problem not the solution,' he said.

'They pushed house prices well out of the reach of first-time buyers.

'Any loan for more than 90 per cent of a property's value is very high risk and with house prices so fragile, should have "repossession risk" stamped all over it.'

Jonathan Davis, of chartered financial planners Jonathan Davis WM, added: 'You are taking people in negative equity, pushing more money down their throat to back an asset that is still going down in value.

'All the banks and building societies thought they were going to get their money back when they lent gargantuan sums in the run-up to 2007. They were clearly wrong then and they are wrong again.'

Under the deal, borrowers would be given a loan for 95 per cent of the value of their new home at a fixed rate of 6.73 per cent for three years, or 7.48 per cent for five years.

They would then be allowed to add on negative equity from their old home worth up to another 30 per cent of the value of the new property, at an even higher fixed rate of 7.23 per cent for three years or 7.98 per cent for five years.

On this basis, Nationwide argued the product was 'not strictly' a 125 per cent mortgage.

It said borrowers would also have their income and outgoings assessed and be forced to pass a 'stress test' to make sure they would be able to afford their repayments if interest rates rise to 10 per cent once the fixed rate part of the loan has expired.

There has been huge criticism of loans of 100 per cent or more that were available at the peak of the housing boom, which immediately placed borrowers in negative equity.

The now-nationalised Northern Rock bank was slammed for continuing to hand out its 'toxic' 125 per cent mortgages even after it was given multi-billion pound support from the state.

Earlier this year, the Financial Services Authority warned that a total of 2.5million homeowners will be plunged into negative equity this year, leaving many vulnerable to repossession.

At the same time, today's first-time buyers are finding it harder than ever to get a mortgage, with many unable to raise the huge deposits demanded by many banks who are unwilling to lend.

Other brokers gave the Nationwide loan a cautious welcome yesterday, although some said it highlighted the 'hefty' price consumers were having to pay to get a fixed rate deal.

Andrew Hagger, of Moneynet.co.uk, said: 'No doubt shudders reverberated up and down the country when word got out that 125 per cent mortgages were back on the agenda.

'However, the Nationwide deal is certainly not a return to the days where we saw similar loans available via the likes of the Northern Rock 'Together' product.

'Many people will have become negative equity victims through no fault of their own. These are far from normal times in the housing market and it is a positive move from the UK's biggest mutual recognising the needs of their customers.'

Louise Cummings, of moneysupermarket.com, said: 'At a time when overly restrictive and cautious lending practices are holding the housing market back, Nationwide's flexible approach is to be welcomed.'