



Thursday 9<sup>th</sup> July 2009

## Nationwide offers 125% mortgage

**The Nationwide Building Society has introduced a mortgage allowing borrowers to take loans worth 125% of the value of the home they are buying.**

It will only be available to existing customers in negative equity who want to move house.



Nationwide will only offer 85% loans to new customers

Negative equity means that the value of someone's home is less than the amount they owe on their mortgage.

Nationwide said the deal was a very "niche offer" and that not everyone in negative equity would qualify.

The Financial Services Authority is considering limiting mortgage loans to 100% of a property's value.

### **'No more risk'**

Nationwide only offers new customers mortgages worth 85% of the value of the home they want to buy.

There has been much criticism of the loans above 100% that were available at the peak of the housing boom, which immediately placed borrowers in negative equity.

The most notorious were those offered by the now nationalised Northern Rock bank. Under Nationwide's new product, borrowers would take out a loan for 95% of the value of their new house at a fixed rate of 6.73% for three years or 7.48% for five years. They would then be able to add on the negative equity from their old home, up to another 30% of the value of the new property, at a higher fixed rate of 7.23% for three years or 7.98% for five years.

A Nationwide spokeswoman said that the deal was "not about additional borrowing or additional risk".

"It is a very niche offer. All we are doing is allowing them to carry across the negative equity they already have," she told the Guardian.

"The maximum borrowing we would consider is 125% overall, but that doesn't mean someone can automatically get that.

"We would go through our normal procedures, looking at income, outgoings and so on."

**Wrong again?**

The deal was a "really consumer-friendly move" said Ray Boulger at mortgage broker John Charcol.

He added that at least two other major lenders were looking at introducing something similar for existing customers.

But financial planner Jonathan Davis, of Armstrong Davis, said the Nationwide's new policy was a "joke", and that it exposed the lender to further losses if house prices continued to fall.

"You are taking people in negative equity, pushing more money down their throat to back an asset that is still going down in value," he said.

"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," he added.