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‘Restrictive’ lending could drive up mortgage fraud

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A commercial finance broker is warning that restrictive lending criteria by banks could lead to more mortgage fraud.

Henry Ejdelbaum, managing director for ASC Finance for Business, said he has been turning away investors looking to dodge rules on their residential or commercial mortgages.

He said: “Lending has become centralised. If someone lets out their house and has a residential mortgage, which many do, the lender will be none the wiser.The banks have astute tools but once the loan is underwritten they could check where it’s going but with so many applications it is a big administrative burden.

“People do this because of a lack of choice and because most banks will slap on higher interest rates, saying letting is a higher risk. It’s actually lower, as you have a borrower and tenant, so two sources of income. These people can be in breach of the terms of their mortgages, which can then be called in, or changed to a buy-to-let product.

“Finance is becoming a commodity, like insurance. If you do not fit the pigeon hole you are stuffed. There are many examples where borrowers – business or personal – are forced into such situations, not because they want or intend to. We are not condoning mortgage fraud, just trying to explain that this may happen because borrowers feel there is no alternative.”

Brian Capon, spokesman for the British Bankers’ Association, said: “Banks are not ‘re-stricting’ lending. In fact, most mortgage lending is by banks – new lending is currently running at around £8bn a month and around 37,000 applications are approved every month. But of course, like any responsible lender, they need to be as sure as they can that the customer can afford to repay the mortgage – it does nobody any favours to lend money that can’t be repaid.”