Unmortgageable Property, and what you can do about it

Means to a Lend

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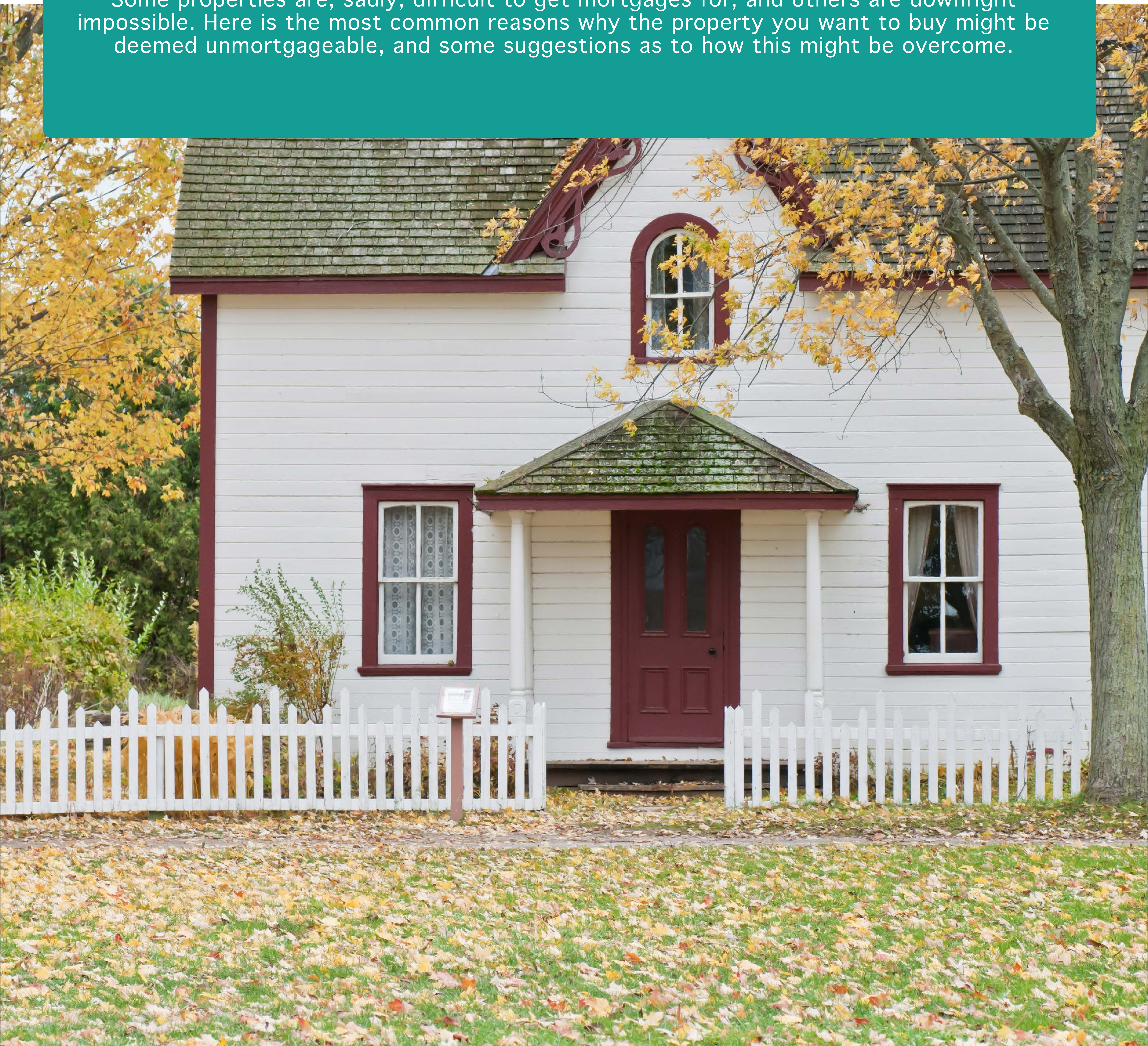
Introduction

If you are a seller, the chances of you selling your property are vastly improved if a buyer can get a mortgage for it. If you are a buyer, it is probably wise to find out whether a lender will be willing to grant you a mortgage on a property before you fall in love with your potential dream home.

Some properties are, sadly, difficult to get mortgages for, and others are downright impossible. Here is the most common reasons why the property you want to buy might be deemed unmortgageable, and some suggestions as to how this might be overcome.



The Property is of Non-Standard Construction

This information should be available to you from the very beginning, either from the seller if it is a private sale, or made clear in the Estate Agents details. Finding out that your chosen lender will not grant a mortgage due to the construction after your application or survey should never happen and has wasted your money and time.

Properties are considered to be “Standard Construction” if they are built of stone or brick, and have a tile or slate roof. Only a tiny percentage of properties built in recent years are not standard construction.

Housing stock however is made up of millions of properties, many of which are over a hundred years old, and consist of many different methods of construction including buildings built of:

- Timber
- Asbestos
- Corrugated Iron
- Concrete Panels
- Mundic
- Cob
- or has a Thatched Roof

In addition to the actual material of construction, there are also System Built Properties which include many local or regional types, many of which enjoy some unusual names such as **Cornish Unit, Dorran, Gregory Parkinson Frame, Stent, Stonecrete, Underdown, and Wates.**

If you are looking to buy a property of non standard construction, you will need to do some research first. While most of the well known lenders are likely to be less helpful, smaller and more specialist lenders may well be more sympathetic. Ask the seller if they have a mortgage and who it is with, after all , if that lender has accepted it before then why not ask them again. Talk to a local surveyor about the property and ask if they are readily bought and sold in the area.

Using a broker who understands the problems associated with a property of non-standard construction, and who has access to the specialist lenders that almost certainly will be needed will give you the best chance of getting the mortgage you want. It has to be acknowledged though, that it is possible that due to many reasons, including the overall mortgage market conditions, it may not be possible to get a mortgage at all in some situations.

The Property has Structural Problems

This is probably one of the most common reasons for a house to be labelled unmortgageable, and the most common structural problem is damage caused by subsidence.
A lot of lenders will just say “no” as soon as they see that a property has suffered from a subsidence problem. However, there are some lenders that will look at things on a case by case basis.

There are a number of reasons for a property to fall victim to subsidence, and there are different solutions used to fix those problems.

If you are looking to buy a property that has suffered in this way then you must get some professional advice. The first two things to do is to ask for all the paperwork relating to the problem so you can see exactly what has happened, when, and why. The next thing, if you are serious about going ahead, is to have a full structural survey done on the property. This will give you all the information you will need in order to decide whether to proceed or not.

Your chosen lender will not take your full structural survey as a valuation, so you can expect to have to get one of those. Your lender may however be interested in seeing your full structural survey as well.

Subsidence, although the most common problem, is not the only issue that can arise. Other problems can include:

- wall tie failures
- lack of a damp proof course
- concrete floors suffering from problems such as a sulphate attack which will cause weakness and rot.

It might be that the structural issues you are faced with are such that no residential mortgage lender would offer a mortgage on the property. In some cases you may want to widen your financing options and look at property development loans, or even bridging finance that will give you the cash to put the problems right before then going on to get a conventional mortgage.

The Property has severe Dry or Wet Rot

The dry or wet rot would have to be pretty severe for a lender to regard the property as unmortgageable, but it is possible.

As with a property with structural issues, before you can consider your options you will need to find out the extent of the dry or wet rot problem. How long it has been there, whereabouts is it, and what is or was the cause.

A specialist survey will give you the answers to all those questions and then you can explore your financing options using a broker familiar with finding specialist mortgage lenders. They may also be able to find a lender offering development finance or who has a specialist product for renovation projects.

The Property is in an area with an History of Flooding or Subsidence

For many lenders a property that has a history of subsidence or flooding is a red flag. For others the fact that the property you want is in an area that has been deemed susceptible to flood or subsidence is enough for them to refuse a loan.
With many new properties being built on flood plains, this is an issue that applies not just to older properties.

The government provide a flood warning information service which allows you to check whether your property is at risk, even if it has never flooded before.

Some areas are more prone to subsidence than others. One major cause is the risk associated with former mining areas.
In reality there is little you can do with regard to this problem as it is a risk inherent to the area rather than the specific property you want to buy. A talk with an experienced broker with local knowledge maybe useful but is unlikely to end with a positive outcome.

The Property does not have a Kitchen or a Bathroom

One of the rules that most lenders impose is that the property should have the basic essentials to live there.

If the property you want is lacking in either of these, there are mainly two solutions.

One: you persuade the seller to put a kitchen or bathroom in or,

Two: you go down the finance for renovation route and put it in yourself, and then remortgage to a conventional residential mortgage as soon as possible.

The Property is otherwise Uninhabitable

The three things to look out for are whether the property is **derelict** (or partly derelict), **not weatherproof,** or **not secure**. There is a little scope for interpretation here, but generally speaking a lender will not lend on a property that does not meet this criteria.

It doesn't mean however, that you cannot find the finance to buy it. It just means you won't be able to finance it with a **standard residential mortgage.**

Once you are looking at properties that are uninhabitable, you are venturing into the area of property development. The good news is that there are a number of lenders that specialise in providing finance for these projects and a good broker will be able to help tailor the funding to your specific requirements.

The Property is Leasehold with a Very Short Lease

Residential mortgage lenders generally regard a lease as being short if it is less than 70 years.

Leases tend to come between 99 and 125 years, though they can be shorter or longer. The value of the property with leases of this length are not that different from their freehold counterparts, that value starts to depreciate once it falls below 99 years and the rate of depreciation accelerates the shorter it becomes. Once it gets to 70, or even 80 years, lenders get nervous about the security of their mortgage and will start to decline applications. Obviously, if you are a cash buyer then buying is not a problem. It might well be a problem though when it comes time to sell and your potential buyers can't get a mortgage.

There are some specialist lenders in the short lease residential market, but you may find their fees and interest rates uncompetitive, plus you will still have a problem if and when you wish to sell.
Often leaseholders have the right to extend their lease and the route to doing this is referred to as being either Formal or Informal. Further information about how to do this is available through a Government Advice Service.

If you want to extend the lease of a property you are buying, you will normally have to wait two years to do so. It is an area that requires proper legal advice, and if you find yourself in this position you should discuss it with your solicitor at the earliest opportunity.

Extending a lease does involve costs and can have consequences for other matters such as ground rent and the value of the property. Before you proceed with any purchase you should establish all these costs and have your solicitor set out exactly what the situation is in writing for you.

Properties Affected by Potential Development Plans

One of the processes undertaken by your solicitor or conveyancer during the buying process is to undertake what is called a "Search". Part of this will entail finding out about any plans that will substantially affect the value of the property you wish to buy.
Some major developments may be well known, if you are looking at a house that is going to be on the doorstep of HS2, then you don't really need to be told what effects it may have on the value of your potential new property. Other planning proposals might not be as well known and finding out that a new road is being build nearby, or an existing road is going to be upgraded to a dual carriageway may well persuade your chosen lender that they do not wish to lend.

Examples of developments are; nearby building developments, or proposed change of use for properties on your doorstep, this can range from residential to commercial. Even an application for a loft conversion by your proposed new next door neighbour may affect the value of your property and have an influence on how much your lender is prepared to lend, if at all.

How you deal with situations that arise from discoveries uncovered through a search is very much a case by case issue. A major development such as a new railway line or dual carriageway is likely to have a serious, if not terminal, consequence for your house buying ambitions. Smaller issues such as a proposed extension to a neighbours property is unlikely to prevent a mortgage being granted, but the figures involved may have to be revised.

The Property has not been Registered with the Land Registry

First of all it might be useful to explain what the Land Registry is and does.

In many ways it is like the property and land version of the DVLA. Its job is to hold the records of ownership for properties and land, rather than cars which is what the DVLA does, owned in the UK. When you buy a property then an application is made to the Land Registry for you to be shown as the owner of that property.

About 90% of all properties in the UK are registered with the Land Registry, this means that in the vast majority of cases the buying and selling of property goes through the registration process quickly and easily.

Situations can arise though where the property you wish to buy has never been registered with the Land Registry.

This can be for a number of reasons, a common one being that a property may have been in a family for a very long time and was acquired before the rules are what they are today. The problem it creates is that without the property being registered with the Land Registry, the person trying to sell the property has to prove it is their's to sell. No mortgage company will lend on a property where there is a legal question mark about who owns it.

In most cases this problem will slow down the sale. Solicitors will know what to do in each case in order to get the property registered and move the sale on. In rare cases however, the problem can remain unresolved and the lender will refuse the loan.

The Property does not have the necessary Planning Permission or Building Regulations Approval

If the property you wish to buy has had any work done on it, such as an **extension, loft conversion,** or even a **porch** then, depending on the rules applicable to that work, it is likely that planning permission from the local authority was required for the work to go ahead.

If work has been undertaken without the required permission being sought and granted it will stop your lender approving your application. It is possible to apply and be granted retrospective approval after the work has been done, and providing this has been done then the lender will look at the application again. This process however may take some considerable time and you may not be in the position, or frame of mind, to wait to see what the outcome may be.

Other work on the property such as rewiring, a new boiler, or replacement doors and windows should have certificates showing that the work has been carried out to compliant standards. If these certificates are not available then at the very least it will slow the process down while the lender satisfies itself that the work done was of a professional standard and complies with all safety regulations.

The Property you wish to buy may have One or More Restrictive Covenants

A number of properties are subject to Restrictive Covenants, these are legal clauses that place rules on such things as who may live there or what the property may be used for.

Quite an obvious one is where a property is part of a development that is limited to older people, and owners are not allowed to be under age 50, or whatever age has been designated for that particular development.

While a condition that prevents the under 50's buying the property is an easy one to see and will mean that anyone under 50 will avoid even looking at these properties, other restrictions may not be so obvious. In some properties found in rural areas, there may be a covenant stating that the property can only be bought by local people or just agricultural workers.

Restrictive Covenants apply to new builds as well as older properties. Some of the ones on new developments might include things such as you may not be able to use the property for commercial purposes or park a commercial vehicle at your property. The term "commercial purposes" can cause some alarm amongst the self employed. It could be argued that a writer, artist, or IT consultant working from home is using the property for commercial purposes. Usually common sense prevails in these situations as these are not the people it is designed to prevent from living there.

These clauses are designed to stop people working from their property in such a way that it causes problems for the neighbourhood, such as encouraging large number of clients or customers coming to the house, tradespeople filling their garden with their tools, and raw materials of their trade or several lorries and other commercial vehicles blocking or partly blocking the road.

Another example would be a restrictive covenant preventing an owner from altering the property by adding an extension or making other structural changes. A property with such a restriction couldn't be bought and then changed into flats for instance.
In most cases a property with a restrictive covenant wouldn't be a reason for a lender to absolutely refuse a mortgage. Some covenants may cause your lender to rethink the amount they are willing to lend as it is possible that the value of the property maybe affected.
It is the job of your solicitor to establish whether any restrictions exist and to explain their importance to you. Your first course of action when faced with a restrictive covenant is to discuss what options are open to you with your solicitor.

The Property has either a Flying Freehold or a Creeping Freehold

This occurs when a property goes over or under your neighbours property.

Typical examples include a property with a room over a neighbours garage, or a balcony overhangs a shared access.

Lenders are not huge fans of Flying and Creeping Freeholds, but many will accept them as long as it affects a relatively small area of the property. Others may have a policy of not accepting them at all. If the area in question is a large area in comparison with the overall size of the property, then there is a possibility your application will be declined.

When you first show an interest in buying the property, the estate agents details should include details of the Flying or Creeping Freehold if there is one. Knowing this from the start should mean you can discuss it with your preferred lender before making the application.

Properties with Escalating Ground Rent or Ground Rent that is perceived as being Too Expensive

Ground rents apply only to leasehold properties and on the whole are set at a very modest or nominal level.

As the leaseholder of a property you may well have to pay this ground rent to the freeholder of the property annually. In some cases it can be a condition of the sale that this ground rent will increase each year by a certain amount, or the ground rent has been set at an amount well above what can be described as a nominal level.

Lenders regard problems with ground rents in a similar way to that of short leases. With short leases, the value of the property can be adversely affected as the years remaining on the lease decrease. In the same way, the value of a leasehold property can be adversely affected by an expensive or increasing ground rent. With the possibility of the property value being negatively impacted, a lender will look very carefully at the long term security of their loan, and in some cases decline to lend.

In recent times a number of new developments have included these types of ground rent and it has been only when these owners have tried to sell that problems have surfaced due to the fact that new purchasers have experienced difficulty getting a mortgage.

If you are looking to buy a property with an increasing ground rent you should not only be considering how easy it will be for you to be granted a mortgage, but also how easy will it be at some time in the future when a purchaser is looking to obtain a mortgage in order to buy your property.

The Property is Too Cheap

Unbelievably, this is possible. If you are looking at a property with a sale price of around £40,000 - £50,000 (and they are out there) then it will pay you to check what the minimums permitted by your chosen lender.

All lenders have their own terms and conditions, and a minimum property value will be one of them. If you find yourself in this situation, then a chat with an experience broker should help you find a solution.

The Property is Situated in an area with a high Proportion of Council Houses or Social Housing

Lenders take into account many factors, one of which being the location.

Buying a house in an area predominantly populated by council houses isn't in itself a problem. However, a lender has the power to specify just what type of business it wants and as such may have terms and conditions that would mean such an application was declined.
The chances are very good that you will find a lender that is willing to help you. It may not be your first choice of lender and the mortgage product might not be the best on the market, but a good broker will be able to help you find the best option from a more limited range of potential lenders.

The Property you want is in a High Rise Block of Flats

Most lenders will decline an application for a mortgage on a property in a block of flats that is more than five storeys high; especially outside a major city such as London or Manchester.

Mortgages are possible on such properties, but they are likely to be at a higher interest rate and from more specialist lenders.

You wish to buy a Listed Building

Listed Buildings come with responsibility, rules, and regulations. There are usually Restricting Covenants and, depending on the degree of Listing, you could find yourself responsible for higher maintenance costs and costs of repair.

Many lenders will not offer a mortgage, but many specialist lenders will.
If you are looking to buy a listed property, you need to do a lot of research first. Talk to a broker that understands your requirements as far as the finances are concerned, and talk to your solicitor about what it means to be responsible for the upkeep of a listed building.

The NHLE (National Heritage List for England) is a searchable register that can tell you if a property is listed.

The Property may not be Insurable

Finding out about how much it will cost to insure and any other insurance related problems prior to submitting a mortgage application is always a very good idea.

One of the conditions of having a mortgage is that the property must be appropriately insured at all times. It is possible that a lender may offer a mortgage on a property, but it is impossible to have it properly insured. This can happen in an area susceptible to flooding or subsidence for instance.

It is a good rule of thumb that if you are looking to buy a property which you cannot insure, then you should think very hard about whether it is worth buying.

The Property is regarded as being a Commercial Property, or Part Commercial Property

This is an easy one to deal with. A residential mortgage will not be granted on a commercial property. Even one with a residential area included within it.
If you are looking to buy such a property, then you need to be looking at commercial finance.

The Property is blighted with Japanese Knotweed or another type of invasive weed

Lenders will not lend on a property that has Japanese Knotweed or similar destructive plants growing on or nearby the property. Fortunately, specialist companies can eradicate the plant at a relatively modest cost. Once that has been done, then a mortgage application can be expected to go ahead.

There’s no such thing as an Unmortgageable Rule

To make things even more complicated, there are no hard and fast rules on whether your house is definitely unmortgageable. It depends on the individual lending policy of each bank or building society.

Some banks and building societies will refuse problem properties outright, while others will consider difficult properties with some strings attached.

But in cases where a lender will lend on problem property, they will often charge a higher interest rate, only offer a lower loan to value (or LTV), or demand a higher deposit. This may mean that mortgage buyers cannot afford to buy your property.

Solutions if your Property is labelled Unmortgageable:

If your property is unmortgageable then there are still ways you can sell your home.

Firstly, you could consider correcting the problem that makes your home unmortgageable so that it will then qualify for a mortgage. If you do this, be sure to consider the time and expense involved carefully. It may take months or years and cost thousands of pounds.

Secondly, you could sell your property to a cash buyer. If you sell to a cash buyer they won’t need a mortgage anyway. The cash buyer will be able to offer you a fixed cash price and guaranteed completion. Your house will be sold and the cash will be in the bank within a few short weeks even though it isn’t mortgageable.

Find Out More

Means to a Lend is committed to helping you make the right financial decision by providing you with the best information.

We have partnered with a number of companies that are specialists in their field, qualified, and happy to give a personal service. All you need to do is get in touch with us, either through our enquiry form on our website, or contacting us at ashleigh@meanstoalend.com