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## Homebuyers may soon be out of woods



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**After three years, 90% mortgages have returned. Rates are down, too - and, if you're lucky, there are no fees...**

For two years, first-time buyers in the capital have struggled in the face of a dearth of affordable properties and lack of mortgage availability. After the credit crunch, banks - scared of defaulting borrowers and negative equity - tightened their lending criteria, forcing prospective home purchasers to build up a deposit of 20%, or in many cases significantly more.

Now, however, banks' miserly funding to first-time buyers looks to be easing. The past fortnight has seen lenders including Barclays return to the 90% mortgage market after a three-year absence, helping the availability of the products to grow by a fifth over the past year.

There are currently 253 mortgages at 90% loan-to-value on the market, up from 101 this time two years ago, according to financial comparison site Moneyfacts. As the same as availability has grown, interest rates have also fallen. The average rate on a two-year fixed-rate mortgage with a 10% deposit has dropped from 6.1% in January to 5.39% today. On a five-year home loan under the same terms, the average rate is now 5.87%, down from 6.55% at the start of the year.

On Thursday, through its mortgage arm Woolwich, Barclays bought more competition to the market by introducing new "zero fee" deals. Buyers with a 10% deposit can secure a three-year, fixed deal at 4.99% with no arrangement fees. Over five years, the fixed-rate rises to 5.49%, with a £499 fee - less competitive than HSBC's currently five-year fixed-rate offering of 4.89% with no fee on 90% LTV. Says Andrew Hagger at Money.net: "A 0.6% difference in interest rate may not sound much in isolation, but on a £150,000 mortgage for 25 years, the HSBC deal is £3675 cheaper over five years."

Alternatively, the Chelsea Building Society has an offset mortgage fixed at 4.19% for two years. It has a hefty £1495 fee, but is a good option for those keen on an offset deal - where the balance of the mortgage on which interest is payable is reduced by the value of savings in a linked account.

These are unusual on large mortgages and mean that overpayments or bonuses can be offset against the outstanding balance. At the same time, borrowers withdraw their savings at any point.

"Lenders are trying harder to offer borrowers with a 10% deposit more help to get on the property ladder, and Barclays' return to the market will provide more competition," says Aaron Strutt, of broker Trinity Financial Group. "We have had more enquiries from first time buyers and we have been able to help them - although they must have an excellent credit score to be accepted."

The cheapest deal at 90% LTV is currently the Chelsea's two-year fix at 4.09%, with a £1495 fee. "It really does pay to shop around," adds Strutt. "To access the most competitive mortgages we advise our clients to try and raise a 15% if possible, as the rates are more competitive, but selected lenders are starting to make life easier for first-time buyers so a 10% deposit is now sufficient."

Those with an even smaller deposit will have to pay a higher premium for a mortgage. Skipton Building Society offers one of the only home loans for buyers who need a 95% mortgage, fixed for two years at 5.99%, although the arrangement fee is low at £199.

Still, more mortgage won't necessarily translate into more buyers in the capital. "It's encouraging to see one of the big players of the mortgage market once again competing seriously for first-time buyers' business," adds Hagger.

"But unfortunately the combination of unemployment concerns and ultra-cautious lending criteria may result in a limited take up of these low deposit deals."