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The new first-time buyer loan puzzle



House keys Andrew Paterson/Getty Images

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Last updated November 18 2011 3:41PM

There are more low-deposit deals on offer, but has the drought really ended?

It's a confusing time for the prospective first-time buyer. On the one hand, the housing market has been looking healthier of late, with Halifax reporting a 1.2 per cent rise in house prices in October and HSBC recently launching a range of fee-free mortgages available to those with just a ten per cent deposit. On the other, the eurozone crisis has increased concerns that such loans will soon disappear.

Ray Boulger, of John Charcol, an independent mortgage broker, says: "The major worry for the UK is not only the negative impact on our economy as a result of the rapidly spreading contagion in the eurozone, but also the extent to which UK banks will be forced to curtail lending as a result of the inevitable write-offs. If this results in a reduction in their mortgage appetite, the first sector to be hit will likely be higher loan-to-value (LTV) mortgages, in which there has been a significant improvement in availability and pricing over the past few months."

So, is it actually worth trying to take advantage of first-time-buyer loans? How many are even available and do you need a broker to get hold of them? We answer your questions below.

What low-deposit loans are available on the high street?

At a first glance, the mortgage market seems filled with loans for first-time buyers. Yorkshire Building Society has an 85 per cent LTV two-year fixed rate at 3.24 per cent, with a £995 arrangement fee. This works out at £1,137.87 a month. Building societies, including Skipton, Melton Mowbray and Cambridge now all offer 95 per cent mortgages, with rates from 5.5 per cent, and in October HSBC launched a selection of 90 per cent LTV loans, such as a two-year fixed-rate loan at 4.49 per cent, and a five-year fixed at 4.89 per cent.

So what's the catch?

Just because these headline rates are available doesn't mean you can necessarily get one. HSBC says it lends to nine out of ten customers who apply for a mortgage and has this year already lent more than double the amount to applicants with a 15-20 per cent deposit than in the whole of 2010. However, an applicant, according to HSBC, is "a potential customer who goes through the formal process — not someone who makes an initial enquiry about a mortgage without taking the matter forward". So the number of people who initially enquire and are rejected could be much higher.

Boulger says: "The 'computer says no' policy operated by the major lenders is a particular problem for first-time buyers because it is based on credit score, and as some lenders privately admit, this doesn't work as well for first-time buyers as for other borrowers.

"The cheapest mortgage chosen without advice doesn't look quite so good when the first-time buyer's application is rejected a few weeks later and they have lost the property as a result, and possibly a valuation fee and some legal fees as well."

What exactly does a broker do?

A good independent broker (rather than an in-house one whose financial advice is limited to the specific lender's products) will have built up good relationships with many different lenders and be able to advise on which loan is best for you — and whether your application is likely to succeed.

Can brokers access exclusive deals?

Yes. For example, the 90 per cent LTV two-year fix at Clydesdale at 5.29 per cent is a broker-only deal. Although this isn't the cheapest, the maximum loan size is £500,000, which is higher than with most other lenders at 90 per cent. Most importantly Clydesdale does not operate a "computer says no" policy. The in-branch equivalent of this loan at Clydesdale is fixed at 5.79 per cent.

Brokers also sometimes have access to loans only available in specific branches that you may not be able to get to. For example, Saffron offers a 95 per cent LTV deal with a fixed rate of 5.79 per cent until March 2015 with a £195 fee — but this is only available either at one of its branches in East Anglia or via a broker.

Will a broker save me money?

Not necessarily, at least not in the short-term. Some brokers get their fee in commission from the lenders themselves; others will charge you a fee, often as a percentage of the property value (generally up to a maximum of 1 per cent). An extra £2,600 for a property worth £260,000 can seem steep when you're already forking out £7,800 for stamp duty plus legal and valuation fees — especially since deals advertised on the high streets are often cheaper. That said, financial advice that secures the best deal for your circumstances can save you money in the long-term.

So are brokers really worth it?

Brokers argue that the independent long-term advice they offer, their knowledge of which loans you are likely to be eligible for and their ability to negotiate with lenders and property valuers when things go wrong make them worth it even if the sums aren't quite as appealing as with larger loans.

Aaron Strutt, of Trinity Financial Group, an independent broker, says that six in ten of their first-time buyer clients pass a lender's credit score first time — and more may do so

on subsequent attempts. “It is quite possible to qualify for a low-deposit mortgage, but borrowers need to meet strict criteria. And just because you pass a decision in principle, there are still more hurdles to jump as the bank assesses the application.”