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Smaller deposits attract higher rates

By Tanya Powley

Homebuyers are being advised to think carefully about how much deposit they put down, as several major lenders are making their rates less attractive for people requiring a high loan-to-value (LTV) ratio.

Last week, Woolwich limited its mortgage range for borrowers with small deposits. It withdrew its loans for homebuyers with a 15 per cent deposit, leaving them with the option of paying a higher rate for a 90 per cent LTV deal, or finding up a bigger deposit of 20 per cent.

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Those unable to find the extra 5 per cent in cash will be offered just one uncompetitive 90 per cent LTV product: a four-year fixed rate of 6.19 per cent. At 80 per cent LTV, however, the rates fall to 4.49 per cent, for five years or 3.99 per cent for three-years.

“The change by Woolwich really means they don’t want any business above 80 per cent LTV at the moment,” said Nigel Bedford of broker Largemortgageloans.com. He pointed out that all of the major banks, except Halifax, have lower fixed rates at 90 per cent LTV than Woolwich.

Lenders have always offered cheaper rates to lower-risk borrowers with more equity in their properties, but they have widened their price differentials since the credit crisis.

In recent months, they have also started to raise rates generally for borrowers with small deposits, having started to cut them during the course of last year.

Figures from Moneyfacts, the financial data provider, show that the average two-year fixed-rate at 90 per cent LTV has increased from 5.36 per cent to 5.45 per cent in the space of the past month.

“The majority of lenders are repricing upwards at short notice, with bigger increases notable on higher LTV products,” said Jonathan Harris of broker Anderson Harris. “This means that the margin between borrowing at low and higher LTVs is widening, making affordability even more of an issue for those borrowing at 85 per cent LTV.”

This pricing gap is particularly noticeable at the major high-street lenders. For example, at Cheltenham & Gloucester, part of Lloyds Banking Group, a two-year fixed rate for borrowers with a 15 per cent deposit would be 4.69 per cent, but this jumps to 5.99 per cent for those with a smaller deposit of 10 to 14 per cent – a difference of 1.3 percentage points.

Similarly, at Halifax, a borrower with a 15 per cent deposit can get a two-year fix at 4.34 per cent but this rises to 5.99 per cent for those with a deposit of 10 to 14 per cent – a difference of 1.65 percentage points.
Both lenders charge a £995 fee on these mortgages.
Santander also operates differential rates, but cuts its fee for those borrowing more. It has a two-year fixed-rate at 4.24 per cent for borrowers with a 15 per cent deposit, with a £995 fee, or a rate of 5.79 per cent, with a £199 fee, for those with a 10 per cent deposit.

“It is important that borrowers ask how much more they would have to put down as a deposit to qualify for the cheaper mortgage,” said Aaron Strutt of Trinity Financial. “If they don’t, they could be paying much more than they need to for years. Other lenders offer more competitive rates and we explain to our clients how much they can save if they raise a larger deposit.”

However, the price differential is less marked when comparing the very best buy rates available.

According to Ray Boulger of broker John Charcol, HSBC, First Direct and several small building society’s currently offer the most attractive rates, while the big banks tend to be less competitive.

For example, Hanley Economic Building Society has a two-year fixed rate at 3.34 per cent for up to 85 per cent LTV, with a £495 fee, while the best buy rate at 90 per cent LTV is 4.19 per cent, with a £999 fee, from First Direct.

Chelsea Building Society has a five-year fix at 4.14 per cent, with a £1,495 fee, for those with deposits of 15 per cent or more. But the best buy five-year fix for borrowers needing a 90 per cent LTV deal is only 0.6 percentage points higher: 4.74 per cent from Nottingham Building Society, with no fee.