

# Mortgages: what are banks doing for us?

JULIAN ANDREWS

Move to boost lending could add to the costs facing first-time buyers, writes James Charles

FIRST-TIME buyers with small deposits could be asked to pay a costly premium on their mortgages to get on the property ladder under proposals being drawn up to boost lending from Britain's banks and building societies.

Housebuilders will use an "emergency summit" next week hosted by Grant Shapps, the housing minister, to push for the return of mortgage indemnity guarantees. Migs, used widely during the housing boom, were paid for by buyers but provided protection for mortgage lenders in case a property was repossessed and sold for less than the outstanding loan.

For example, in 2003, the cost of a Mig on a £95,000 loan from Halifax, now part of Lloyds Banking Group, to buy a £100,000 property was £1,450. When this was added to the loan and repaid over a 25-year term, as borrowers often did, interest charges inflated the cost to £3,498.

The push for Migs comes as homeowners were left out of banks' agreement to lend £190 billion to businesses this year, up from £179 billion last year. Some experts even fear less funding could be allocated to homeowners if loans to businesses increase, despite the fact that net lending to homeowners is at its lowest level since records began, Bank of England figures show.

Figures released by the Council of Mortgage Lenders (CML) last week showed 44,400 first-time buyer loans were approved between October and December, a 20% fall compared with the previous quarter.

A letter sent to David Cameron last month signed by the executive chairman of the Home Builders Federation (HBF) on behalf of Britain's biggest builders, including Barratt and Taylor Wimpey, called for the government to step in and provide backing for the reintroduction of Migs to enable first-time buyers to secure loans.

John Stewart at the HBF, the trade body, said: "The government should broker a deal between lenders, insurers and



Sweta Pandya, 26, and husband Sarju, 28, used a 20% deposit to get a two-year fix from NatWest at 5.19% through L&C Mortgages to buy their first home in northwest London

builders to see mortgage indemnity guarantees return to the housing market. Builders cannot continue to fill the funding gap left by mortgage lenders and tie up their capital in shared equity schemes to meet demand."

A small number of regional building societies have quietly reintroduced Migs following the advice of the Financial Services Authority (FSA), the City watchdog, last autumn. The mutuals have typically rolled the cost into the interest rate charged on a home loan.

Hanley Economic, the building society, started offering loans to first-time buyers in north Staffordshire with a 10% deposit last week, backed by a Mig. It is charging 5.29% for a three-year fix, of which it estimates about 0.25 percentage points represents the cost of the Mig. Based on a £150,000 loan, this equates to an additional £6,600 over the term of the loan.

Sue Anderson at the CML said: "Bringing back Migs is one of the ideas to be discussed at the summit next week but is unlikely to provide a quick fix."

Here we show the best ways to get on to the property ladder.

#### Go to investors rather than the banks

Institutional investors are backing a new scheme run by the Mill Group, a specialist prop-

erty company, which promises to help first-time buyers with as little as a 5% deposit to get on to the property ladder without the need for a loan.

However, experts caution that the scheme not only bypasses banks but also the protection offered by the FSA.

Buyers will be required to put down a minimum 5% deposit on any property they choose, with the fund providing the rest of the cash. The buyer pays a monthly rent or "co-investment fee", equal to the cost of a five-year fixed-rate capital repayment mortgage. Based on a £190,000 loan at a best-buy rate of 5.99%, this would be about £1,200 a month.

After a five- to seven-year term, the buyer is expected to buy out the fund. However, one of the biggest drawbacks is that buyers only benefit from a rise in house prices on their initial stake, while investors enjoy the lion's share of the capital appreciation.

Buyers with only 5% deposits may also struggle to secure a deal in five years' time if the current restrictions on lending do not ease, particularly if proposals for tighter regulation of the mortgage market from the FSA are approved.

#### Get a loan from builders

Last month Barratt and Hitachi Capital, a lender, introduced a deal offering unsecured loans

up to £50,000 to the parents of first-time buyers, charged at a fixed rate of 5.4%, to top up their deposit.

Parents repay over 12 years but can make unlimited overpayments. They must be UK residents, homeowners and have a good credit history.

The loans are only available to purchase a new-build property from Barratt, including its brands David Wilson Homes and Ward Homes, but Hitachi Capital plans to roll out the scheme to other developers in the coming months.

#### Buy your house in stages

The popular government shared equity scheme, HomeBuy Direct, closed last year but a number of builders still offer shared equity deals, which combine a loan from the builder, usually up to 15% of the purchase price, with a mortgage for the remaining 85%.

Buyers typically have 10 years in which to repay the loan from the developer.

Depending on the builder, buyers pay no interest for the initial five years, followed by an interest rate of about 3% for the rest of the term.

Shared ownership schemes, such as New Build HomeBuy, the biggest, work differently, with ownership of the property split between homeowners and a housing association.

The schemes, which are

reserved for key workers and those earning less than £60,000 a year, enable buyers to purchase up to 75% of the value of the property with a mortgage and then pay a nominal rent on the remaining share. They can increase their stake until they eventually own the property.

In previous years, high street lenders had been willing to provide a mortgage for the full stake being bought by first-timers but they became nervous about buyers borrowing 100% of the property. The Co-operative is now the only lender willing to offer the deals. It charges 5.49% for a three-year fix, with a £999 fee, available through SPF Sherwins, the specialist affordable housing broker.

#### Mortgages that require parental support

The Lend a Hand deal from Lloyds TSB only requires borrowers to put down a 5% deposit, while parents place 20% of the property's value into a fixed-rate savings account, currently paying 3.81%.

Borrowers can then access deals priced for those with a larger 25% deposit, currently 4.89% for a three-year fix.

Parents' savings are held for three years and they have no access to the cash during this time. Lloyds says that a third of first-time buyer loans approved are via the Lend a Hand offer.