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# First UK '0% mortgage' deal launched

By Tanya Powley


The first-ever "0 per cent mortgage" deal was launched this week, as banks and building societies start to compete more aggressively for homebuyers with smaller deposits.

The Welcome Mortgage from Leeds Building Society is aimed at borrowers who would benefit from lower monthly outgoings for the initial period of their mortgage.

It gives borrowers the option of paying no interest for either the first three or six months, freeing up cash to spend on home improvements or moving costs, such as stamp duty.

However, buyers still have to pay back the capital during the 0 per cent period. After the interest-free period ends, the borrower reverts to paying the full capital and interest, fixed for three or five years.

Mortgage brokers said the Leeds deal would be attractive for new borrowers looking for a bit of "breathing space" in the first few months of their mortgage.

Mark Harris of SPF Private Clients, the mortgage broker, said: "The advantage of the Leeds product is that for those using the bulk of their savings for the deposit it would allow a brief respite to purchase white goods or enable them to re-establish some savings."

The deal is available to buyers with deposits of at least 10 per cent. It has a low fee of £199 and includes a free valuation of up to £339.

Ray Boulger of mortgage broker John Charcol said borrowers could opt to pay no interest for the longest period – six months – to give them the maximum flexibility. If they find they do not need the extra money, Leeds allows borrowers to overpay by 10 per cent.

However, brokers said borrowers would pay a higher rate for the flexibility the mortgage offers, with cheaper rates available from other lenders.

For example, Leeds charges a rate of 3.79 per cent for a three-year fix where the borrower opts for an interest-free period of three months. This rises to 4.20 per cent for the six-month option. Both deals are available at up to 80 per cent loan-to-value.

In comparison, Accord Mortgages, part of Yorkshire Building Society, has a three-year fix at 2.59 per cent. It comes with a £975 fee.

“It’s important to look at the overall value and compare it to the rest of the market,” said David Hollingworth of London & Country.

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According to Nigel Bedford of Largemortgageloans, the high-end broker, the Leeds deal will look more attractive for those with deposits of just 10 per cent, rather than those who can access 80 per cent loan-to-value mortgage rates.

There are other options for buyers looking to reduce their monthly costs.

Clydesdale Bank offers borrowers the option to fix their mortgage for three years on an interest-only basis. After this period, borrowers will be automatically moved to the bank’s standard variable rate, currently at 4.95 per cent, on a capital and interest basis.

Borrowers applying for Clydesdale’s Low Start product must be able to afford the loan on a capital and interest repayment basis. The deal will be available to borrowers with deposits – or equity – of 20 per cent or more. It has a three-year fix at 4.29 per cent at 80 per cent loan-to-value, with a £500 fee for those borrowing less than £500,000.

Mr Harris said: “Clydesdale’s mortgage results in payments within the initial three or six-month period working out marginally more expensive, but as soon as the payments revert to the standard payment amount, the Clydesdale deal soon offsets any benefit from taking the Leeds rate.”

However, the highest loan-to-value possible is 80 per cent, so it will not suit all borrowers.

Another option is to take out a shared equity mortgage, either through the government’s Help to Buy scheme or through a private provider.

This week, Castle Trust, a property company, launched a 2.99 per cent three-year fix for first-time buyers with deposits of at least 10 per cent. Under the terms of the deal, Castle Trust provides a loan of 20 per cent of the property value, while the borrower takes out a 70 per cent mortgage from Kent Reliance.

While there is no interest payable during the term of the 20 per cent loan – which can be up to 25 years – Castle Trust will take 40 per cent of any gain in the property’s value when the owner sells it, as well as the repayment of the original loan.

Andrew Montlake of Coreco, the mortgage broker, said the “sting” of the product was the potential 40 per cent loss of equity growth. “It needs to be advised on very carefully, with borrowers fully understanding what they have taken out.”