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**THE SUNDAY TIMES**

# New lifeline for 'loan prisoners'

Britain's second-biggest mortgage lender has eased interest-only criteria

*Ali Hussain* Published: 25 November 2012



Santander has halved the deposit required to access an interest-only deal to 25%. (Getty)

THE clampdown on interest-only mortgages eased last week for the first time since the start of the credit crunch, offering hope to millions of borrowers.

Santander, Britain's second-biggest mortgage lender, halved the deposit required to access an interest-only deal to just 25%. Those with less than a 50% deposit will be able to take half their loan on interest-only. The rest must be on a more expensive capital repayment basis.

It also announced that it will allow borrowers to repay the loan through the sale of the property, rather than being required to take out a stock market-linked investment.

The change offers a lifeline for borrowers stuck on expensive standard variable rates who have been unable to remortgage onto a new interest-only deal with their lenders.

The move surprised brokers as Santander led the clampdown on criteria for interest-only deals in February, prompting other lenders to follow suit.

This month, Woolwich restricted interest-only deals to customers borrowing at least £300,000, shutting out less affluent homebuyers. Nationwide building society stopped offering interest-only loans to new customers last month.

| Deal             | Rate % | Fee    | Deposit |
|------------------|--------|--------|---------|
| 2yr fix          | 1.99   | £1,495 | 40%     |
| 5yr fix          | 3.49   | £995   | 30%     |
| Lifetime tracker | 3.59*  | £995   | 25%     |

\*3.09 points above Bank rate  
Source: Trinity Financial

Other lenders, such as Halifax, require only a 25% deposit, but insist that borrowers have a suitable repayment plan, such as an endowment, while the sale of the property is not accepted.

The Financial Services Authority (FSA) released its long-awaited review into the mortgage market last month, and decided against banning interest-only loans or introducing tougher rules for them. This is expected to encourage other lenders to ease criteria in the coming months.

Ray Boulger at John Charcol, the broker, said. "It is particularly significant that Santander is the first of the big lenders to recognise publicly that its interest-only criteria have been tightened too much."

Ian Gray at largemortgageloans.com, the online broker, said: "Banks are reviewing their interest-only policies in light of the new guidelines from the FSA."

The loans allow borrowers to repay only the interest, rather than the capital, on their debts. Moving to interest-only will cut £428 from the monthly payment on a £200,000 loan with a rate of 3.5%.

The FSA estimates that there are 2.4m "mortgage prisoners" trapped on interest-only deals and unable to remortgage because of lenders' tight criteria. Since 2008, the number of interest-only mortgage providers has fallen from 64 to just 32, according to Moneyfacts, the data firm.

### What are the rules on interest-only?

Nationwide building society and Co-operative bank have withdrawn interest-only mortgages for new customers. ING Direct and Coventry building society insist on a 50% deposit. Lloyds TSB, Halifax, HSBC and Royal Bank of Scotland (RBS) have a minimum 25% deposit. However, RBS requires borrowers to have a current account with it for at least three months and have a minimum income of £50,000.

### What is an acceptable repayment vehicle?

David Hollingworth at L&C, the broker, said: "Most lenders require borrowers have a repayment plan in place, such as an equity Isa, an endowment or pension that pays a lump sum." Woolwich accepts a property sale as a repayment vehicle if no more than 66% of the value is borrowed. With Santander, there must be at least £100,000 of equity, meaning the home's minimum value must be £400,000 if you want to borrow up to 75%.

## Mortgage rates cut to record low

Record low mortgages are available to borrowers after banks slashed rates for new customers last week, *writes Ali Hussain.*

Best-buy deals for two, four and five-year fixes are at their lowest ever level, according to analysis by Moneyfacts, the data firm.

It is the latest sign that the Funding for Lending Scheme, which allows lenders to borrow cheaply from the Bank of England in return for offering cheaper deals to customers, is benefiting households.

Santander launched a two-year fix at 1.99% last week, matching the record-low deal offered by Tesco, which withdrew its offer last week after a month. Customers looking to switch to Santander also have to act fast, however, as the deal is available only to those who file their applications by November 29.

You can borrow up to £500,000 and also take advantage of the lenders' new interest-only criteria if you

want to lower payments. You have to have at least a 40% deposit and pay a fee of £1,495.

Meanwhile, the Co-operative launched a record-low five-year fix last week charging 2.79% for those with a 40% deposit and a £999 fee. Again you need at least a 40% deposit to qualify.

Nationwide's four-year fix at 2.89%, requiring a £999 fee and a 30% deposit is also a record low.

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