

Ways for first-timers to get on the ladder

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Mortgage deals are getting cheaper but lending criteria are still too strict, says Elizabeth Colman

TUMBLING mortgage rates should be benefiting first-time buyers with small deposits but many are still being thwarted by the strict criteria imposed by lenders.

Figures from Moneyfacts, the data firm, show the average two-year fixed-rate deal for those with a 10% deposit has dipped to 5.37% today against 5.78% a year ago.

The fall would cut the cost of repayments on a £200,000 capital repayment mortgage by almost £600 a year.

Mortgage rates have fallen sharply in recent weeks as lenders have come under pressure to pass on their lower funding costs as a result of the government's £80 billion Funding for Lending scheme, which begins on Wednesday. However, the best rates are still the preserve of those with the biggest deposits.

David Hollingworth at L&C, the broker, added: "If you've got a small deposit, it's a double-edged sword: you qualify only for the more expensive deals and it's also harder to get approved because the credit scoring is tougher."

The Royal Institution of Chartered Surveyors (RICS) warned last week that almost 40% of potential first-time buyers are trapped in rented accommodation because they still can't get a mortgage.

Peter Bolton King, RICS's global residential director, said: "Many first-time buyers are facing the prospect of a property ladder with no rungs. With lenders requiring such hefty deposits and affordable mortgage deals out of reach for most, a generation of potential homeowners are looking at an uphill struggle."

An average 16,320 first-time buyers have been granted mortgages each month so far this year, down from 33,900 in the same period in 2007, data from the Council of Mortgage Lenders, the trade body, shows. The British Bankers' Association said last week that mortgage approvals in June had slumped to a record low.

These findings come as house builders are expected to confirm next month that 1,000 first-timers have signed up to the New Buy scheme, which provides government-backed loans to those with a 5% deposit. The figure represents buyers who

PLAYING CATCH-UP



Viv Munday of Streatham Hill, south London, an opera singer and classical music teacher, has bought her first home — at the age of 45.

She had raised a deposit of 15% but John Charcol, the mortgage broker, advised her to find an extra 5% to improve her chances of securing a loan.

Munday was eventually offered a two-year tracker from ING Direct at 3.39 percentage points above Bank rate, so 3.89%. She said: "I struggled without a credit history and there were issues with the type of flat I was buying. I finally secured an offer after three months of applying to lenders."

have "reserved" new-build properties since the launch of the scheme in March, rather than sales. Another six building societies are expected to sign up to the scheme in the coming months, joining Barclays, Halifax, Royal Bank of Scotland, Santander and Nationwide building society, raising hopes that competition will force down the rates on New Buy mortgage deals.

Best lenders for rates

First Direct has the most competitive two-year fix for those with a 10% deposit, at 4.29%, with a £999 fee. HSBC has the lowest five-year fix on the market at 4.79% with a £999 fee. For people with a 5% deposit, Newcastle building society offers the lowest two-year fix at 6.25% with no fee.

Best lenders for criteria

HSBC and NatWest offer decent rates for first-timers, but broker Ian Gray at largemortgageloans.com, warned: "It's one thing to advertise the rate and another to actually approve the loans. HSBC and NatWest can be difficult at the best of times."

"The best rates are really on offer only to first-time buyers with a perfect credit history and easy-to-understand income without bonuses."

Gray said Nationwide was "a bit easier to deal with on first-time buyer loans". Nationwide's rates are higher at 5.99% on a five-year fix, with a £549 fee.

However, it offers concessions such as a £500 discount on the arrangement fee for first-timers.

Best lenders for guarantor deals

National Counties building society offers a guarantor mortgage, fixed at 4.89% for three years, for those with a 5% deposit. It has a £495 fee. However, the society takes a charge over the parents' home to give it additional security in case the borrower defaults on their loan.

Aldermore offers loans up to 100% of the purchase price, with two- and three-year fixes on offer at 5.98% with a £1,298 fee. Again, a charge is taken over the parents' property.

Lloyds offers a "Lend a Hand" scheme, where the parent must deposit cash up to 25% of the property value in a Lloyds savings account. The deal has a rate of 4.49% on a three-year fix with a £1,260 fee. Barclays has announced it will allow parents' income to be considered in assessing how much it will lend on all its standard mortgages.

Best lenders for New Buy

First-time buyers and home movers can apply for loans worth up to £500,000 under the New Buy scheme. Borrowers can secure a mortgage to buy a new-build flat or house with only a 5% deposit.

The best-buy five-year fix is 4.79% from NatWest with no fee. It is available only direct from the lender. Nationwide charges 5.49% for a three-year deal with a £499 fee, available through brokers.

BEST-BUY DEALS FOR FIRST-TIMERS

Lender	Type	Rate	Fee	Deposit
Principality BS	Two-year fix	3.79%	£999	15%
First Direct	Two-year fix	4.29%	£999	10%
Newcastle BS	Two-year fix	6.25%	No fee	5%
HSBC	Five-year fix	4.79%	£999	10%
HSBC	Lifetime tracker	4.79%	£999	10%

Source: Trinity Financial Group