'I had to get a mortgage with my mum': first-time buyers frozen out by banks take out unusual loans

Mortgages for wannabe buyers with small deposits have vanished since the start of the pandemic

By Adam Williams
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Desperate first-time buyers have resorted to using increasingly obscure and complex mortgages to achieve their dreams of homeownership after being hit by a lending market crunch.

Banks have become reluctant to offer loans to customers with smaller deposits as they fear that house prices may fall and borrowers will be left unable to pay if economic conditions worsen.

A report released this month by Defaqto, the market analyst, found that there were just 28 loans available to customers with a 5pc or 10pc deposit. In normal circumstances there would be hundreds of deals available for young home buyers.

Borrowers who planned to use the so-called Bank of Mum and Dad to help fund their deposit have also had their hopes dashed. Some lenders, such as Nationwide, have also placed restrictions on how much cash they will allow parents to contribute to their child's deposit.

With a growing number of hurdles being placed before first-time buyers, some have been forced to use unusual mortgages to get onto the ladder. But the use of such loans comes at a cost, with higher interest rates being charged to borrowers.

Ada Ologbosere, 37, was searching for a property in north London but quickly realised that she was unable to fund the purchase on her own. Miss Ologbosere is a music lawyer and has additional income as promoter of the Ruby Sings music brand, but this would not cover the cost of buying in her local area.

"I was looking for whatever I could afford, which was in the region of £300,000 to £350,000," she said. "Anyone who's ever looked for a property in London knows that will get you a shoebox, so I realised that I needed to increase my budget."

Miss Ologbosere asked her mother for help and the pair were able to raise enough to purchase a £435,000 property, but only by taking out an unusual joint mortgage. Miss Ologbosere will borrow two thirds of the £348,000 mortgage in her own name, with her mother taking out the remainder.

This structure is called a joint borrower, sole proprietor loan. They have been dubbed "camouflage mortgages" because while the parent contributes to the monthly repayments, they are not named on the property deeds. This means the transaction does not incur the stamp duty surcharge that would normally be applied, given the parent would likely be buying a second home.

A common issue with these loans is that they are restricted by upper age limits, as banks are reluctant to lend to people in their 70s and 80s. However in Miss Ologbosere's case, the loan was structured so that her portion of the mortgage was over a 35-year term while her mother's was spread over 12 years, who will also act as a guarantor.

This is a highly unusual way to structure a loan and comes at a cost. The interest rate of 3.19pc was about one percentage point higher than would have been charged for a traditional mortgage. The pair will have combined repayments of about £1,900 a month. The same loan taken by an individual at a rate of 2.19pc would cost about £1,500 per month, based on a standard 25-year term.

However, as her mother's term is only 12 years, the overall interest paid will be far lower than a longer term deal. It will also be much cheaper for Miss Ologbosere than remaining in rental accommodation.

Although she has been able to purchase a home, Miss Ologbosere said that many others were unable to buy because of high house prices and a lack of suitable mortgages.

"I have friends who are over 40 and still living with their parents, or they are in inadequate rented accommodation," she said.

Daniel Gracie of largemortgageloans.com, a mortgage broker, said borrowers were increasingly having to resort to these complex arrangements to access finance.

"As we're seeing some lenders tightening up on gifted deposits and limiting the help that the Bank of Mum and Dad can provide, first-time buyers are having to get more creative with their mortgages," he said.

As well as these split mortgages, in other cases parents can act as a guarantor to allow their children to take out a loan. However, the parents will be liable if they child fails to repay it.

Another option is a family offset mortgage, where the parent places cash into a linked savings account, reducing the interest charged to their children. Both the Barclays Family Springboard mortgage and Family Building Society's Family Mortgage work this way.

The latter lender also allows applicants to borrow against their parents' home to help them get a cheaper mortgage.

Mr Gracie added: "Guarantor mortgages have always been an option, but structuring them in this way makes them much more affordable in the immediate term, which is ever more important in the current climate."