



# A toss up between price and deposit

## More lenders are offering high LTV loans but is this just lip service to competition or will it make a difference to consumers?

**There is no doubt that over** the last 12 months we have slowly but surely seen a small thaw in product availability for first-time buyers and home movers. Further evidence from the Council of Mortgage Lenders in the last two months has confirmed what estate agency distribution has known for a long time: affordability is no longer the key issue for house purchasers. It's gathering the deposit which proves the real challenge.

The average deposit presented by buyers went from an average of £12,000, peaking at over £32,000 and now still remains at around £25,000. That is why it's absolutely vital that in a stagnant house purchase market, higher loan to value products are available to get people moving again.

90% LTV products are now widely offered accompanied by sensible criteria and rates. 85% LTV products at under a 4.5% interest rate have dominated our sourced and lent products throughout 2011.

It hasn't altogether been plain sailing for lenders. For example, there was a wave of idiotic national press hype when Northern Rock re-entered the 90% LTV market.

The biggest issue facing banks is one of liquidity. Capital does seem to be there now and some competition seems to be returning as a result of a drive for market share by some lenders as new senior managements assert their strategies some with an eye on future potential flotation.

However, remember that whilst competition is definitely increasing, there is still an absence of 95% LTV products linked with sensible criteria, offered at a decent rate.

No volume lender is currently in that market, though hats off to the smaller building societies that have entered. It is essential we see the likes of RBS, Nationwide, Santander and Lloyds Banking Group entering with the scale they bring.

I think most disappointingly, lenders continue to penalise the new build sector with no large lender lending 90% on new apartments. So whilst it is encouraging that we have widespread 90% LTV products at more competitive rates and lender competition is

increasing, we still have some way to go until we are back to a 5% deposit for first-time buyers.



**Nigel Stockton,**  
financial services  
director,  
Countrywide

**In the last two years the number** of mortgage products available at 85% LTV or higher is roughly three times the number in 2009.

Is this just lip service? In a word, no.

As product manufacturers, lenders are not generally in the habit of creating products they don't think will sell. The cost of bringing a product to market is too high to do it just for the sake of a headline.

Are these products increasing choice for consumers? A qualified yes.

What we have seen is that many of the higher LTV products come with some sort of guarantee requirement. To some extent this is to be expected given the continued uncertainty over the housing market and the wider economy.

Lenders are looking more closely than ever as to how they balance risk against return. They are in the difficult position of balancing risk with the much higher cost that now attracts whilst making them attractive and affordable.

Many have opted for some sort of parental guarantee but how popular these are is debatable. We have already seen some high profile launches only for the products to be withdrawn.

At Clydesdale we take a different approach – opting for more straightforward products.

We manage our risk through the credit assessment of the borrower. Simply, we lend to people who we believe are a good risk. This allows us to make specific products up to 90% LTV available through our intermediary partners.

The range of products in the market is now there to create choice. It's not what it was before the credit crunch and it's possible that it never will be. Yet the market remains dominated by four or five large lenders despite this.

Why? Distribution. Those lenders with higher LTV products are often smaller with regional networks. Borrowers may be unaware of them or physically cannot access the products. This is why brokers are crucial to delivering real competition and choice. The broker market provides a vehicle to overcome

barriers to distribution and promotes awareness of products available to borrowers who need them.



**John Tooth,**  
head of B2B  
mortgage  
distribution  
and strategy,  
Clydesdale Bank

**The return of higher loan to value** lending to the UK mortgage market should be welcomed. At first glance it is a positive step that should extend the possibility of new or refinanced home funding to more borrowers and is certainly a step forward in the rehabilitation of the mortgage market.

Lenders have been focused on risk management and this expansion in the number of higher loan to value deals is a sign we are moving towards more competitive times.

But don't mistake high loan to value products as a breakthrough for consumers. Loan to value is only one feature of these mortgages. The pricing that accompanies higher loan to value products is, for the most part, just as super-size as the loan to values the products themselves actually allow.

Consequently these mortgages are likely to be regarded by borrowers and brokers alike as loans of last resort. If you need this level of gearing then you are going to pay handsomely for it.

If high LTV loans signal anything at all it is that lenders feel, rightly or wrongly, that property prices have little or no further to fall.

Indeed the boom in buy-to-let secured on rental income and capital value illustrates this point further. This is a subtle point that is clearly not enough to allay consumer fears over their individual job prospects but when accompanied by keener pricing will further embolden buyers.

In the event of an interest rate rise these products will possibly get more attention from remortgaging borrowers but with no sign of rates moving until quarter 2 of 2012, current standard variable rates still provide better value than these new high LTV products.

In isolation, higher LTVs mean little to consumers. Features have to be seen in the context of pricing and benefits. For the majority of already indebted consumers they are a long way from providing a good refinancing option or affordable first home.



**Allison Beech,**  
business  
relationship  
director at  
Spicerhaart

These deals are more a reflection of the growing confidence of the industry than of the consumer.

**It has to be a good sign** that 90% and 95% LTV deals are back in the marketplace, especially, of course for first-time buyers as this is the main mortgage area needing most assistance.

I for one did not see such high LTVs returning so soon but I am not complaining!

In recent times the lack of mortgage availability to those with smaller deposits has meant that the real winners have been those in the buy-to-let market.

Those unable to get onto the property ladder have resorted to renting instead of purchasing and therefore any new product offerings that assist the first-time buyers and stop the owned to un-owned property gap from widening are a welcome addition.

This is of course if lenders are actually lending on these high LTV products. As the LTVs increase, so do the target credit score requirements.

And with an alleged one in four people having missed a payment on unsecured credit in the last 24 months, those who actually pass the higher credit scores may well be few and far between.

However we are now also seeing some of the non-credit scoring lenders joining the party and loan sizes are now available up to £500k. The appetite appears to be there again.

Even more excitement emanates from the growing price war that we are starting to witness as lenders scrap for business volumes and rates plummet. But who knows for how long?

And let's not forget that the bank of Mum and Dad is still very much active and there are sure signs that family gifted deposits are on the increase.

We can't ignore the statistics though.

According to recent research the typical first-time buyer deposit in April was £30k (20%) and the average borrowed was 3.13 times income with an average loan of £120k. Fast forward a few months and only then will we be able to see if the statistics show a marked increase in lenders actually lending to those with a small

deposit or whether the 90/95% LTV mortgages are just a great way to increase lenders' PR and visibility.



**Dale Jannels,**  
managing director,  
AToM

Our experts have had their say, now it's your turn to have yours. Visit [www.mortgageintroducer.com](http://www.mortgageintroducer.com) and vote for the expert you think makes most

sense. Do you want to be a part of the next Bigger Issue? Email [nia@thepublishinggroup.co.uk](mailto:nia@thepublishinggroup.co.uk)