

# More banks are offering 95 per cent loans, not all through H2B, says Jessie Hewitson

**T**he purpose of the second phase of Help to Buy is to help people who earn a reasonable salary but only have a small deposit to buy a home. It launched in September for purchasers of all types of homes; the Government pledged that 15 per cent of the value of the loan would be guaranteed by the Treasury, allowing lenders to offer mortgages to people with deposits of just 5 per cent.

There is also the old-school route to buying a home with a 5 per cent deposit: applying for a traditional, non-Help to Buy mortgage. An increasing number of loans offer a loan-to-value (LTV) ratio of 95 per cent. According to Moneyfacts.co.uk, the independent comparison site, there are 96 mortgages available that average at 5.26 per cent (in May the number was just 55). Meanwhile, there are 12 Help to Buy products with an average rate of 5.26 per cent. Once arrangement fees have been factored in, the Help to Buy mortgages and non-Help to Buy ones are broadly similar in costs.

So why does Help to Buy 2 exist? What solution is it providing prospective buyers when they have a choice of 96 lenders willing to give them a mortgage with the same LTV at a not-dissimilar rate? Why is something being fixed when it doesn't appear to be broken?

We will have to wait until next year for the answers to these questions. Despite being launched two months ago, the government scheme is still, according to Jonathan Harris, director of Anderson Harris mortgage brokerage, at an "embryonic stage". Indeed, the latest figures from the Treasury show that only ten people so far have completed on their purchases using Help to Buy 2.

Come 2014, however, more banks will join the scheme, increasing competition and inevitably lowering rates. This will have a bigger impact beyond Help to



**Above, it is possible to find a bargain property at an auction house; below, Lauren Fitzgerald and James Millar bought through Help to Buy**

Buy loans, suggests Harris: it will make the banks reassess their current policy of low LTV lending to those with large deposits. "I think we are moving to a climate of high loan-to-values," he says. "The market forces are driving this change and banks will react with more products."

Mark Dyason, director of the Edinburgh Mortgage Advice brokerage, believes lenders are currently poised to jump in but are waiting to assess what rates their competitors will be offering. RBS, Lloyds and — as of last week — HSBC are offering products. Virgin, Barclays, Aldermore and Santander have said they will launch products in the new year. Aldermore has pledged that its rate will be close in price to its 80 per cent LTV, which bodes well.

The next big issue is likely to remain, however. Would-be homeowners have to pass stringent credit checks and satisfy hyper-picky underwriters who are examining

## 'Renting cost too much'

Lauren Fitzgerald, 25, who works in corporate finance, and James Millar, 26, who works in advertising, bought a one-bedroom flat within Barratt's Waterside Dock development, near Canary Wharf, through Help to Buy. The couple paid £250,000 for the property in August. "Our plan was to rent and experience different areas before we bought — then we realised how expensive the rent would be," Fitzgerald says. "I feel lucky to be able to buy with just a 5 per cent deposit. I wanted to do something with my savings, which were sitting in an ISA not earning much interest. This way we can live near Central London without wasting money on rent."



bank statements more closely than ever before. "There is a misconception that Help to Buy would assist the masses," Harrison says. "The reality is that the credit scoring and underwriting is highly rigorous."

Indeed, currently both Help to Buy and non-Help to Buy mortgages seem to be meritocratic — in that they are equally difficult to obtain. The issue, according to Dyason, is the credit history track record necessary. Lenders will usually want to see evidence not only of a current account, but also a mobile phone contract and a credit card (they will need to see proof of all three things, not just one or two); anyone in their twenties with a pay-as-you-go mobile phone or who has never owned a credit card is likely to fail the test. This is an obstacle to homeownership that doesn't look like it will go away soon.

## How much to buy the average home\*?

- ▶ **Mortgage size** £230,294, assuming a 5 per cent deposit. For the purposes of this comparison, we are also assuming a 25-year term and a repayment mortgage.
  - ▶ **Help to Buy loan through HSBC:** 4.79 per cent two-year fixed rate. Monthly payments: £1,318.24. Total to pay over two years, including fee: £31,736.76.
  - ▶ **Non-Help to Buy loan through Chelsea Building Society:** 4.59 per cent two-year fixed rate. Monthly payments: £1,291.84. Total to pay over two years, including fee: £32,549.16.
- \*which is worth £242,415, according to the latest Land Registry figures

**“** Come 2014, more banks will join the H2B2 scheme, increasing competition and inevitably lowering rates