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Threat to 'bank of mum and dad'

Halifax clamps down on guarantor mortgages

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HALIFAX, historically Britain's biggest lender, has been accused of making it more difficult for parents to help their children on to the housing ladder — the latest sign that banks are restricting lending.

From next month, the taxpayer-backed bank will no longer allow brokers to offer guarantor mortgages, where parents stand as security for their child's loan. It is instead focusing on a product that requires parents to put 20% of the purchase price into a bank account at Lloyds, a move that has led to claims it is seeking to "cross-sell" other products.

Halifax was one of the few lenders still offering guarantor mortgages directly and through brokers. The loans provide a lifeline for first-time buyers who do not have a big enough deposit or income to get on the housing ladder themselves.

The number of deals for buyers with small deposits fell by 80% to only 157 during the credit crunch. While banks have been gradually reintroducing them, they are still about 2.7 percentage points more expensive than standard deals, forcing many first-time buyers to turn to parents.

With its guarantor mortgage, Halifax lends about four times the parents' income, rather than the child's, so the buyer can afford a bigger property. However, if the buyer defaults, the parents are liable.

From next month, the scheme will no longer be available through brokers and Halifax will instead focus on the Lend a Hand scheme, launched by Lloyds in May.

Under the scheme, Lloyds will lend 95% of the property value — just over £200,000 on a £211,000 property. The child would need to stump up a 5% deposit, or about £10,550, and the parents would have to contribute £42,200 to the Lloyds account paying 4.15% for 42 months. ICICI pays 4.6% on a minimum investment of £1,000.

Halifax will, from tomorrow, offer a version of Lend a Hand via brokers. The scheme applies only to Taylor Wimpey new-builds — family members "gift" a 20% deposit to the buyer and Taylor Wimpey pays interest of 5% over five years. Aaron Strutt of Trinity Financial Group, the broker, said: "It suits Halifax to bring borrowers into branches. It enables it to cross-sell more products to the borrower — and better still, their parents."

Halifax said it is pulling guarantor mortgages from brokers because of a lack of demand — but brokers deny this is the case. David Hollingworth of L&C said: "In terms of who will help out on guarantor loans, Halifax is one lender that springs to mind first and we certainly point clients toward them."

Halifax is also increasingly encouraging parents to be listed on the title deeds, which can cause them a tax headache. Ian Gray of Largemortgageloans said: "If the parent has another main residence, they may be liable to capital gains tax when the child's home is sold."

We look at the alternatives.

Gift a deposit Parents can simply contribute to a deposit to ensure their child qualifies for the best rates — although the child would still have to have enough income to support the loan.

Brokers generally recommend fixing for at least five years. The best of these deals is from HSBC at 4.64% with a deposit of 40%.

Go for Northern Rock The government lender still offers guarantor mortgages and is one of the brokers' favourites. Two-year trackers start at 2.65% for those with a 30% deposit and 4.79% for those who have a 20% deposit.

Family offset mortgages These allow parents to put their savings against the child's mortgage to reduce repayments. Yorkshire building society offers a three-year fixed offset at 5.89% for those with a 15% deposit.

OVERDRAFT RATE SHOCK FOR MILLIONS AT BARCLAYS

BARCLAYS is raising overdraft rates for 2m paid-for current account customers from April 30. In the same week it announced bumper profits of £11.6 billion for 2009, consumers have been receiving letters informing them of higher authorised overdraft rates.

The increase is particularly galling as those with the seven affected accounts — two of which are no longer available — already have fees of up to £15 a month for extras such as insurance.

The biggest increase is on the Graduate account, which costs £7 a month, where the rate for authorised borrowing is going up from 9.9% to 14.9%. Additions Active, at £15 a month, is rising from 14.9% to 18.3%. Current Account Plus, at £5 a month, is up from 16.9% to 18.3%.

Peter Vicary-Smith at Which?, the consumer group, said: "Any customers who are unhappy with this hike should vote with their feet by shopping around and switching to a current account that suits their needs."

Barclays said: "The majority of our customers will not be subject to any overdraft increases as our standard account remains unchanged."