

Post Office steps up mortgage offer

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Mortgage rationing has eased off this year

The Post Office has stepped up its attempt to become one of the UK's biggest mortgage lenders.

It is offering a mortgage deal that requires just a 10% deposit.

Unusually, the deal is available on an "interest-only" basis as well as the normal "capital-and-interest" repayment method.

This will make it cheaper and easier for some borrowers to afford the initial repayments.

"This is a totally different approach from the rest of the market and will make their mortgages much more open to home buyers," said Aaron Strutt of mortgage brokers Trinity Financial Group.

"Over the last few days, more lenders have reduced their mortgage rates in an effort to attract more business including Nationwide, Abbey, Northern Rock and a number of building societies.

"Virtually all lenders require mortgages over 75% loan to value (LTV) to be on a repayment-only basis - that's why the Post Office rates would be so different," he added.

Easing market

The new 90% loan is part of a revamped range of mortgages from the Post Office .

It started lending in 2007 on a trial basis, but committed itself fully to the mortgage market last October.

"We are looking to be one of the top 10 lenders in the UK," said a spokeswoman.

The Post Office loans, which can be applied for by post, internet and phone or at its branches, are financed by the Bank of Ireland, with which the Post Office has a joint venture.

The average deposit on a UK house purchase still stands at 25%, a level it has been at since the credit crunch and banking crisis of 2007 and 2008 forced lenders to start rationing their loans.

That level of downpayment is still required for 57% of all current mortgage deals on offer.

However, the gentle easing of rationing in the mortgage market since the start of the year means there are now more than 160 deals available that ask for just a 10% deposit.

"Whilst there are existing 90% deals available, many remain out of reach for most borrowers because the rates are too high," said the Post Office's director of personal lending, Marco Hughes.

"Instead, we're offering more affordable rates that will allow more borrowers the opportunity to take out a mortgage with a smaller deposit."

'Not a computer'

The interest charged by the Post Office on its two-year fixed rate, at 90% LTV, is 5.45%.

However, its base-rate tracker at 5.49% is set at a margin of 4.99% over the Bank of England's base rate, with no cap or ceiling.

A spokeswoman explained that while being offered "interest only" deals, borrowers would still have to show they could eventually repay the capital as well.

"We ask all the usual questions any responsible provider would, for example assessing the value of the property, credit history, employment status and salary, plus customers are required to provide details of their repayment plan in order to ensure the loan can be repaid," she said.

"Importantly, each application with the Post Office will be manually underwritten which means it is assessed by a fully qualified human being, not a computer," she added.

Lloyds banking group

Meanwhile the Lloyds banking group, which includes the Halifax, has stopped offering interest-only home loans worth more than half a million pounds.

The lender will now lend sums of this size on a repayment basis only.

And it will no longer accept the promised sale of the house or business, or prospective inheritance, as proper repayment methods for any size of interest-only loan.

"We have recently undertaken a strategic review of interest only to ensure our products and procedures reflect the additional risks and responsibilities associated with this type of lending," the lender said in a message to mortgage brokers.

"It is important that repayment vehicles can provide certainty of their future value," it added.