

Lloyds loan with a sting in the tail

Bank claims "these changes ensure our products reflect the additional risk of this type of lending"

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security guard enters a Lloyds bank branch (Andy Rain)

Lloyds Banking Group last week launched a two-year tracker mortgage for first-time buyers with a payment shock in the second year.

The Low Start Tracker from Cheltenham & Gloucester (C&G), Lloyds's lending arm, levies an interest rate of 0.01 percentage points below Bank rate — so 0.49% now — until December 31 for those with a deposit of 10% to 15%. But that soars to 5.49 points above Bank rate after that — giving a current rate of 5.99%.

Aaron Strutt at Trinity Financial Group, a broker, said: "This deal will make the first year of buying a property easy but the second will not be quite so much fun.

"To make it worse, the mortgage must be taken on a full capital repayment basis."

Lloyds announced last week that all mortgages above £500,000 advanced by C&G and Halifax would be on a capital repayment basis only. New customers taking out interest-only loans below this amount will also no longer be allowed to rely on an expected windfall from the sale of their home, business assets or an inheritance to repay their home loans.

Strutt said other lenders could start looking into doing the same thing.

Lloyds said: “These changes ensure our products reflect the additional risk of this type of lending.”