Lloyds cracks down on interest-only mortgages

By Tanya Powley
Published: May 12 2010 19:05 | Last updated: May 12 2010 19:05

Lloyds Banking Group will no longer offer borrowers the option of interest-only repayments if they are borrowing more than £500,000.

The lender has also tightened its list of acceptable repayment vehicles for interest-only loans. It will no longer accept a sale of a house or business, or inheritance.

The move comes as part of a strategic review by Lloyds on its interest-only proposition which saw it increase the **price of interest-only mortgages in March**. Borrowers now have to pay 0.2 per cent more for an interest-only mortgage than a capital repayment deal.

Mortgage brokers said the move sends a "clear message" that borrowers will need to be able to substantiate their repayment plans.

"They are certainly not the first lender to toughen up on the acceptable repayment vehicles but the move to require all lending above £500,000 to be on a repayment basis will certainly create some waves," said David Hollingworth of London & Country, the mortgage brokers.

Interest-only mortgages have grown in popularity among struggling first-time buyers and wealthy City borrowers. Many large loan borrowers prefer to structure their mortgage on an interest-only basis due to the flexible nature of the product which allows the borrower to repay the loan with cash when it suits them.

Aaron Strutt of Trinity Financial Group said Lloyds' move could have a big impact on wealthy borrowers. "It sounds like Lloyds is under quite some pressure to stop issuing interest-only mortgages," he said.

A spokeswoman for Lloyds said the decision to tighten its criteria was not due to an increase in the number of borrowers defaulting on interest-only loans.

"Interest-only as a choice has grown in popularity so we believed it was the right time for us to take a look at our proposition to make sure that everything we're doing in terms of products and policies are supportive of the fact there is a greater risk to the borrower and to us," she said.