

Lenders launch wave of ‘best buy’ deals

By Tanya Powley

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First-time buyers and landlords could find it easier to finance their property deals from now on, as several lenders launched new “best-buy” mortgages this week, designed for borrowers with smaller deposits.

The Mortgage Works (TMW) – which is part of the Nationwide Building Society and one of the UK’s biggest buy-to-let lenders – on Monday increased the maximum loan-to-value ratio that it will offer landlords to 80 per cent.

While there are already a few lenders offering 80 per cent loan-to-value mortgages for buy-to-let properties – including Yorkshire and Clydesdale Banks and Saffron Building Society – mortgage brokers said that the return of TMW to the higher loan-to-value market would help boost competition further.

“It is certainly encouraging for landlords who have seen the buy-to-let mortgage market tighten enormously in the last few years, both in terms of product availability and in criteria,” said David Hollingworth of mortgage broker London & Country.

TMW’s new range includes a best-buy two-year fixed rate at 5.99 per cent with a 2.5 per cent fee, as well as a three-year fixed rate at 5.99 per cent with a 3 per cent fee. Both deals are available at up to 80 per cent loan-to-value.

But mortgage brokers warned that TMW’s buy-to-let deals all come with a hefty fee.

“There is a real shortage of lenders offering 80 per cent deals so, in effect, they can really charge what they like until more competition returns,” said Aaron Strutt of Trinity Financial Group. “Other lenders like Godiva offer competitive rates with low fees but they still require a 30 to 40 per cent deposit.”

Another difficulty for would-be landlords is meeting the lender’s rental income requirements.

Nigel Bedford of Largemortgageloans.com said buy-to-let investors will need to have a minimum rental yield of 5 per cent in order to be able to afford TMW’s products. But with the average yield on buy-to-let property at 4.8 per cent in April, according to the latest buy-to-let index from [LSL Property Services](#), not many properties are likely to achieve this.

“Hopefully, in time other lenders will follow with 90 per cent deals and rates and fees will come down,” said Jonathan Cornell of First Action Finance.

Owner-occupiers can already take advantage of higher loan-to-value mortgages – and the choice got wider this week as the Post Office [entered the market](#) with a brand-new range of 85 per cent and 90 per cent residential deals.

This move follows the former [Labour government’s announcement in March](#) that it was committing £180m of extra funding to the Post Office for 2011-12. At the time of the

announcement, the government said the proposed increase in the Post Office's banking services would include a new mortgage for first-time buyers.

This week's new products include a best-buy two-year fixed-rate at 5.45 per cent and a five-year fix at 5.99 per cent, both available for loans of up to 90 per cent of a property's value. Both rates come with a fee of £999. The former deal takes over from Britannia/Co-operative's two-year fix at 5.49 per cent – also with a £999 fee – as the best-buy in that field.

“It's good that they have now come good on the promise of the 90 per cent products initially trumpeted by the government,” Hollingworth said. “And the more lenders we have in the high loan-to-value market the better, especially when raising the bar on rate.”

The Post Office's high loan-to-value deals will also be available on an interest-only basis, a popular method of repaying for first-time buyers.

Strutt said that this was a welcome move by the Post Office at a time when most high street lenders no longer allow interest-only repayments if the borrower has a deposit of less than 25 per cent.

For borrowers who would prefer a Bank of England base-rate tracker rate, HSBC has a lifetime tracker special for first-time buyers at 4.49 per cent – bank base rate plus 3.99 per cent. The deal is available up to 90 per cent loan-to-value and comes with a £499 fee.

The rate beats the Post Office's tracker at 5.49 per cent – bank base rate plus 4.99 per cent – with a £999 fee.

Another tracker option includes Cheltenham & Gloucester's two-year deal at 5.99 per cent – ie Bank base rate plus 5.49 per cent – with a fee of £1,094.

Although the rate on this tracker is not the cheapest, Ray Boulger of John Charcol said the lender's low “revert to” rate – the interest rate that the borrower will move to at the end of the two-year deal – of just 2.5 per cent makes the product attractive.