Thanks for the loan, Dad

British builders and Japanese money men are helping parents to get their children on to the ladder. Francesca Steele reports

Housebuilders are looking for new ways to tap into the bank of mum and dad as it becomes the default lender for the majority of first-time buyers. This week Barratt announced a deal with Hitachi Capital, the financial services group, that will allow parents to borrow up to £50,000 on behalf of their children to help them to get on to the housing ladder. Identical deals with at least five other housebuilders are in the pipeline, according to Arbat Capital, the scheme's middleman.

According to the Council of Mortgage Lenders, 84 per cent of first-time buyers under the age of 30 now have financial assistance. Mark Clare, chief executive of Barratt, said: "Although we already had shared-equity and part-buy schemes, we didn't have anything that enabled customers with parents who wanted to help to take advantage of it." Brokers, agents and buyers agree that moreproducts must be made available to first-time buyers. But is this one a good deal? And will other lenders and developers follow suit?

How does the Barratt/Hitachi loan work?

Buyers must secure a normal mortgage for the majority of the property price and have a 5 per cent cash deposit. Hitachi Capital will then lend up to 15 per cent (up to a maximum of £50,000) to the buyer's parents or legal guardian to meet the rest of the cost. The loan is unsecured (meaning that the borrower does not have to back it up with assets like a property) and payable over a 12-year period, at a fixed-interest rate of 5.4 per cent. There are no early repayment charges and unlimited overpayments are allowed at any time during the agreement. Barratt has consulted major lenders, such as Nationwide, who are happy with the arrangement, although unwilling to lend this kind of loan themselves.

Who can apply?

The scheme is open to parents or guardians who are homeowners and have good credit histories, as well as sufficient income to service the debt (although the child can agree a way to pay off the loan themselves should they wish to do so). Barratt expects there to be enough loans to satisfy current demand, although Mark Clare adds: "Clearly if the scheme is successful we would hope to extend it."

How is this different from other parent-subsidised deals?

Parents do not have to remortgage their home to take out the loan and they are not acting as a guarantor for the entire mortgage. Under normal schemes, the parent is not obliged to pay anything in monthly repayments but the lender will pursue him or her if the child defaults on the loan. There are variations of this, for example, Cheltenham & Gloucester's Lend a Hand scheme, which requires parents to put 20 per cent of the mortgage into a savings account. The lender will then take money from that account if the child misses payments. In the case of the Barratt-Hitachi scheme, the parent is still liable for the loan.

Sounds too good to be true . . .

Well, it's a good option for buyers with helpful parents, says Aaron Strutt, of Trinity Financial, a broker, and the rate of 5.4 per cent is cheaper than most unsecured loans and mortgage rates. But you have to be lucky enough to have parents who can afford it.

Melanie Bien, of Private Finance, a broker, says that the disadvantage is that you are limited to buying a Barratt property. "This tends to be the main problem with such deals. Last year Bovis teamed up with Woolwich to offer a 90 per cent loan-to-value mortgage to first-time buyers, but buyers were similarly limited to purchasing a Bovis home."

Will other developers follow suit?

Taylor Wimpey admits that it has already had discussions with third parties and that various new first-time-buyer products, although it was reluctant to confirm which ones. At least five developers are in discussion with Hitachi about offering similar loan schemes. Many developers are keen to find new ways of enticing the lower end of the market following the end in September of HomeBuy Direct, the Government-backed shared-equity scheme that helped to shift surplus stock during the recession. Patrick Law, director of corporate affairs at Barratt, says: "First-time buyers are the lifeblood of the housing industry. It doesn't function well without them."

Clare says that there is "significant interest" from financial companies such as Hitachi in the first-time-buyer market — especially if the housebuilder sets up a scheme whereby money is put aside to cushion the lender from any arrears.

Another option, according to Richard Donnell, head of research at Hometrack, the property data company, would be for housebuilders to package shared-equity schemes differently, selling off the debt to investors — such as pension funds. Barratt admits that it would love a third party to take on the second loan from its shared-equity scheme but that it is difficult to create a model that is attractive to investors but affordable for buyers.

What else is out there for first-time buyers?

Barratt has a shared-equity scheme (where you get a normal mortgage plus a second loan from the housebuilder) called Dreamstart and Taylor Wimpey and Fairview New Homes have similar schemes called Easystart and Flying Start respectively. Taylor Wimpey also runs a “deposit match” scheme, which will match a 10 per cent deposit with a loan, interest-free for ten years, so buyers get an 80 per cent loan-to-value mortagage.