

Interest- only deals are becoming more scarce

Buyers with small deposits suffered another blow this week when Nationwide became the latest lender to tighten its criteria on interest-only lending, cutting its maximum loan-to-value (LTV) ratio for interest-only mortgages to 75 per cent. This comes despite seemingly positive data from e.surv, the chartered surveyor, which shows that the average LTV ratio is at its highest level for three years, breaking the 60 per cent barrier for the first time since April 2008. It is now 60.8 per cent, a sixth consecutive monthly increase and up from 56.2 per cent in March last year.

Before the property downturn, interest-only mortgages were a common way of getting on to the property ladder because they are much more affordable than repayment mortgages — and affordability is one of the banks' main lending criteria. The Council of Mortgage Lenders says that interest-only home loans made up 24 per cent of mortgages agreed in 2006, against only 8 per cent last year.

In the past year high street lenders have been tightening criteria on interest-only mortgages in anticipation of new guidelines from the Financial Services Authority. The move by Nationwide follows a similar announcement last week by Lloyds Banking Group, which reduced its maximum LTV for interest-only lending through its Halifax brand from 85 per cent to 75 per cent. The Post Office capped its interest-only loans at 75 per cent LTV (down from 90 per cent) in November and Skipton Building Society will not allow any first-time buyers to borrow on an interest-only basis.

Aaron Strutt, of Trinity Financial Group, the mortgage broker, says: "The way that most lenders have shut the door on interest-only has been swift to say the least. That said, I can't see lenders demanding more than a 25 per cent deposit to qualify for interest-only, and it would be difficult for some to clamp down much further."

There are better options for borrowers considering offset deals, where your savings are set against the mortgage debt when interest is calculated. Woolwich has cut its rates by up to half a percentage point. The largest cut, as usual, is for borrowers with plenty of equity — at 75 per cent LTV, the rate has dropped from 3.29 per cent to 2.79 per cent above base rate.



Melanie Bien, of Private Finance, another mortgage broker, says: "An offset mortgage makes a lot of sense if you have savings earning next to no interest but still want to retain access to them. It is an excellent option for the self-employed, who keep savings to one side to pay their tax bill at the end of the year."

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