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Conditions improve for first-time buyers

By Tanya Powley

The mortgage market for first-time buyers is slowly improving as more lenders launch innovative products and house prices become more affordable. But the criteria for granting loans are still tough, mortgage brokers have warned.

According to the Council of Mortgage Lenders, the number of [first-time buyers taking out mortgages](#) hit a ten-month high in June – up 24 per cent from May, to a total of 18,100 loans.

Last week, Halifax also reported that the number of towns in which first-time buyers can afford property is at its highest since 2003. Research from the mortgage lender found the average house price in June was affordable for someone on average earnings in 48 per cent of all local authority districts, compared with 40 per cent in 2010, and just 6 per cent in 2007.

Ray Boulger of John Charcol says the choice of mortgage products for these first-time buyers is steadily increasing, with more lenders launching high loan-to-value deals. Figures from Moneyfacts, the financial data provider, show that there are now 35 mortgages available at 95 per cent loan-to-value, compared with just three at the bottom of the market in February 2009. Similarly, the number of mortgages on offer at 90 per cent loan-to-value has increased to a new high of 275 this month, up from a low of 71 in May 2009.

In recent weeks, [several building societies](#) have launched innovative first-time buyer products at 95 per cent loan-to-value, including a deal from Saffron Building Society that bases affordability on the first-time buyer's rental payment history.

According to Countrywide, the mortgage broker, high loan-to-value mortgages attracted the greatest attention by its customers this week, representing four of the firm's ten most popular products. Santander's 90 per cent loan-to-value mortgage at a rate of 5.69 per cent topped the table as the most sourced mortgage.

“This highlights the appetite from buyers with small deposits for more products in this range,” says Nigel Stockton of Countrywide.

But, while the mortgage market for first-time buyers is slowly improving, brokers point out that it remains hard to meet the criteria for these types of loan.

“Many of the bigger banks still do not offer particularly competitive mortgages for first-time buyers with less than a 25 per cent deposit – and, even if they do, they can be very hard to qualify for,” says Aaron Strutt of Trinity Financial. “One lender recently told me that only 15 per cent of first-time buyers qualified for its 5 per cent deposit range.”

Compared with the peak of the market, the availability of high loan-to-value deals is still low. In August 2007, there were as many as 829 deals available for borrowers with a deposit of 10 per cent, and 986 deals at 95 per cent loan-to-value. By contrast, the number of 85 per cent mortgages has grown significantly. In August 2007, there were only 208 deals. Today, there is a choice of 552 products.

“The key problem for first-time buyers continues to be the difficulty in raising a bigger deposit rather than being able to afford the monthly payments,” says Boulger. “This is beginning to get easier but it’s still tough.”