

# Santander LTV cut is a blow for interest-only

13 February 2012 | By [Tessa Norman](#)

Santander's decision to cap its interest-only lending at 50% LTV has shocked the sector.

Last week the lender reduced its maximum LTV for interest-only from 75% to 50% for both its direct channel and Abbey for Intermediaries brand.

It also cut the maximum number of applicants it will accept on a mortgage submitted by brokers from four to two. Mortgage Strategy understands it will now take a zero-tolerance approach to any historic light adverse credit.

David Sheppard, managing director of Perception Finance, says the interest-only change is surprising because Abbey has so far taken a more lenient stance than other lenders.

He says: "Abbey seems to have gone from one extreme to the other, which suggests it may have reviewed its mortgage book and decided the proportion of interest-only lending was too high.

"It was an important player in the interest-only market and this will hit its business volumes hard."

Aaron Strutt, head of communications at Trinity Financial Group, adds: "This has come as a shock and will deter borrowers from going to Santander. We can only hope other lenders do not follow suit."

Stephen Smith, director of external and housing affairs at Legal & General, says December's Mortgage Market Review paper made it clear interest-only lending is still valid for informed borrowers with a credible repayment strategy.

He says: "We support that position and hope other lenders will pause and examine their interest-only portfolios before responding to this move."

An Abbey spokeswoman says: "Following a review we have taken the decision to reduce the maximum LTV on residential interest-only mortgages. This will encourage borrowers with less equity in their properties to choose a capital repayment mortgage and ensure the capital is being paid off in full over the term of the mortgage."