

High LTV deals and versatile criteria needed to support FTBs

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We have heard from plenty of brokers and networks about seeing a swell of interest from first-time buyers of late.

The reasoning is pretty understandable - we have seen two base rate rises in three months, with more potentially on the way, and first-time buyers will be carefully considering their options.

As a result, moving now and securing a deal at a lower rate makes a lot of sense. But are lenders really doing enough to provide the funding these borrowers require?

What do first-time buyers need?

The demand is obviously there, which puts the ball in the court of lenders. What do these wannabe homeowners need from us, what sort of products can help them take that initial step onto the housing ladder?

The first, and perhaps most crucial element of delivering products for this borrower cohort is to recognise just how difficult it is for them to get together a sizeable deposit.

Even the most dedicated first-time buyer, squirrelling cash away each and every month, is faced with huge difficulties in getting much of a return on the money they save, particularly if they haven't made use of innovations like the Lifetime ISA.

Couple this with the rapid rate at which house prices have grown since the start of the pandemic. The latest figures from the Office for National Statistics suggest that in the 12 months to November 2021 house prices jumped by 10% to a new record of £271,000 - £25,000 higher than 12 months beforehand.

As homes increase in value, that savings pot that would have been enough for a 10% deposit suddenly shrinks and is no longer enough for many lenders.

Clearly, if lenders are truly committed to supporting first-time buyers, then delivering products at high loan-to-values (LTV) is essential. It's something we take very seriously at Mansfield, which is why we have a range of competitively priced mortgages at 95% LTV, including two- and five-year fixed rate deals.

Getting a helping hand onto the ladder

There is more to meeting the needs of first-time buyers than simply offering products at high LTVs though. There is also a need for some flexibility in the way we assess those applications, including support which may be in place from family members.

After all, financial assistance from a loved one is essential for vast numbers of hopeful homebuyers. Previous studies from Legal & General have found that the 'Bank of Mum and Dad' is involved in around half of housing transactions involving buyers under the age of 35, a significant proportion of the market simply could not take place without additional support.

This financial help takes a range of different forms too, from gifting the deposit to acting as a guarantor or even as a joint buyer. As a result, lenders who want to support these buyers need to be similarly adaptable in providing the funding buyers need, based on a variety of different forms of family help.

At Mansfield, for example, we provide both joint borrower sole proprietor mortgages and our Family Assist range, where a family member provides security equity to 20% of the value of the property, whether through savings or a charge on the equity held in their own home.

Versatility goes a long way

Alongside delivering flexible products, lenders need to incorporate some flexibility on their lending criteria on areas like gifted deposits and guarantors. It's all too easy for lenders to fall back on rigid scorecards, which in effect simply erects barriers that first-time buyers have little prospect of surmounting.

Yet by giving underwriters the ability to get to grips with the real details of a case, to truly understand the borrower as an individual, lenders can avoid this issue. We hear from brokers all the time who have been frustrated with the approach of some big lenders, who have stuck so closely to their criteria that a perfectly good borrower has been denied funding.

A little versatility can go a long way, and ensure that the supposed 'complex' aspects of a case that put off closed-minded lenders that do not act as a hindrance to an application with a more flexible lender.

By developing strong relationships with flexible lenders, through their BDMs, brokers can provide plenty of hope to first-time buyers amongst the inflation and interest rate rises.

A common sense approach

If you've got a case on your desk that requires a common sense approach to lending then please pick up the phone to our Broker Support team on 01623 676360 or visit <https://www.mansfieldbs.co.uk/intermediaries/>.