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Turning 'generation rent' into 'generation buy' - New 95% mortgage scheme to help first-time buyers

Lenders are now offering a government-backed 95% mortgage scheme to help more first-time buyers onto the property ladder.

The government is hoping to turn 'generation rent' into 'generation buy' with the help of a 5% mortgage deposit scheme launched on 19 April.

Following the outbreak of the coronavirus pandemic, many lenders withdrew low-deposit mortgages. In just under a year, the number of 95% mortgages available to first-time buyers fell from 391 to just three. It's hoped the scheme will give lenders the confidence to offer low-deposit mortgages again by taking on some of the risks involved.

What is the 5% deposit scheme?

First announced in this year's Budget, the programme offers first-time buyers or current homeowners the chance to secure a 95% loan-to-value mortgage on homes worth up to £600,000. It's available on both new-build and existing properties.

The government hopes the scheme will provide an affordable route to home ownership by helping people who may be renting but are unable to save for a deposit.

Buyers will still only be able to borrow in proportion to their income, typically a multiple of 4.5. As a result, the scheme will particularly benefit buyers in lower-value housing markets such as northern England and Scotland.

There are also a number of lenders offering 95% loan to value mortgages *without* using the government guarantee. With an ever increasing range of options to consider, speak to your financial adviser about the current range of 95% loan to value mortgages.

What's the catch?

There are a few conditions that you'll have to meet under the scheme. You'll need to:

- Buy a property to live in – second homes and buy-to-let properties aren't eligible.
- Apply for a repayment (not interest-only) mortgage
- Pass standard affordability checks, including a loan-to-income test and credit score assessment.

It's worth considering the fact that the higher proportion of the property price you borrow, the higher the amount of interest you'll repay on your mortgage. So it might be good to take a step back and figure out if you can save for a little longer and borrow less.

Speak to your financial adviser about how the 5% mortgage deposit scheme could help you get on the property ladder.

What does loan to value mean?

Loan to value is the percentage of the property value you're loaned as a mortgage – in other words, the proportion you're borrowing. For example, if you have a 95% mortgage on a house worth £200,000, you would put down £10,000 (5%) of your own money as a deposit and borrow the rest (£190,000).

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

Key takeaways

- The government is hoping to turn 'generation rent' into 'generation buy' with the help of a 5% mortgage deposit scheme.
- The programme offers first-time buyers or current homeowners the chance to secure a 95% loan-to-value mortgage on homes worth up to £600,000.
- Buyers will still only be able to borrow in proportion to their income, typically a multiple of 4.5.