

Are zero-deposit mortgages a good idea? Fears UK house prices could soar

EXCLUSIVE: Zero-deposit mortgages could prove invaluable to people trapped in extortionately-priced rental cycles, but are they as good as they sound? Express.co.uk spoke to mortgage experts to find out the positives as well as the potential fallbacks.

By **KATIE ELLIOTT**, Personal finance reporter based in London
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Are zero-deposit mortgages a good idea? Fears UK house prices could soar (Image: GETTY)

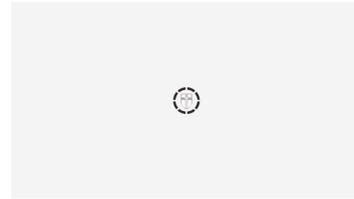
While UK house prices remain at untenable levels for many first-time buyers, lenders are increasingly dabbling with alternative routes to help. Zero-deposit mortgages have been in the spotlight recently following Skipton BS's speculative product, but could they really pave a way for safe and secure homeownership?

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Despite the recent dip in growth rate, house prices are still soaring through the roof with properties in the UK averaging £365,357, according to Rightmove's recent House Price Index.

Both credited and criticised, the Government's Help to Buy scheme offered a strong solution to many first-time buyers who would have initially found such prices unattainable. But with the scheme no longer open to new applicants and no replacement in sight, many homebuyers are turning to different solutions to purchase a property.



From smaller deposits and First Home Schemes, there is an array of options available to eligible homebuyers at the moment. But what about zero-deposit mortgages?

Scott Taylor-Bar, financial adviser at Carl Summers Financial Services, said: "Saving for a deposit is the single biggest barrier for the majority of first-time buyers, so a product that gets around that issue should be welcomed and applauded.

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Experts argue zero deposit mortgages can be beneficial to first-time buyers (Image: GETTY)

"I purchased my own first home with a 100 percent mortgage and there is no way I could have done so without it. Sadly, following the Northern Rock collapse, they all got tarred with the same brush, which is a shame as many only lent up to 100 percent and not up to the 120 percent Northern Rock did."

Kevin Roberts, managing director at Legal & General Mortgage Services, told Express.co.uk: "Any initiatives that can help people get their dream of owning a property are really welcome from our perspective.

"I think the mortgage market is a long way from 2008 when you had self-certified mortgages, 120 percent mortgages and all that kind of stuff. I think we're a long way from that and the regulation that's now in place has been so positive for the market.

"I think now is the time to test things with a little bit of innovation and creativity. But regulation needs to be there just to make sure it doesn't go too far."

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Luton tops the list of first-time buyer hotspots (image: Express)

Describing the prospect of zero-deposit mortgages as "music to our ears", Gary Bush, financial adviser at [MortgageShop.com](#) said: "As a company, we have had access to two lenders offering 100 percent mortgages for shared-ownership property transactions for the past 10 years."

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"We have the proof at hand of the benefit that this kind of borrowing can have for first-time buyers."

Mr Roberts added: "I genuinely think it makes a lot of sense if someone's got a proven track record of spending X amount of pounds a month, a mortgage is going to be similar or cheaper."

However, this kind of borrowing would come with its own issues that would need to be addressed, Mr Taylor-Barr said.

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He explained: "The biggest issue with this type of borrowing is that you need to be very careful about whom you lend to. The credit score should be, quite rightly, tight with only those able to demonstrate good financial management making the grade."

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A counterargument to the concept of zero-deposit mortgages making the property market more accessible could be an influx in demand, which could potentially send house prices soaring.

Mr Roberts said: "If hundreds or thousands more people suddenly have the ability to get a mortgage that didn't have before, that is going to create even more demand on what is a supply-constrained UK housing market, and a result of that could be significant house price inflation."

He added: "I think the regulator will have that in mind. It tries to create opportunities for people that need them, but it also tries to keep a cap on it as well."

"What the regulator will be looking to do is find a balance where we can welcome these really positive ideas and innovation, but also just make sure that we then don't have unintended consequences of house price inflation."

Another prospect floated is the concept a zero-deposit mortgage could send a borrower into negative equity. This refers to the instance when a property is worth less than the mortgage taken out on it, which can make it hard to move house or remortgage.

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Mr Taylor-Barr said: "A lot is often made of the risk of borrowers going into negative equity with any form of 100 percent mortgage, which is a risk, but not materially too much greater than those with a five percent or even 10 percent deposit."

Kylie-Ann Gatecliffe, director at KAG Financial argued that while the main risk of negative equity will always be focused on, buyers would still be in a "better position" than renting a property that isn't theirs.

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She said: "As long as [the prospect of negative equity] is highlighted correctly and the client is not planning to move within the early years of living in the property, there is a strong argument to say that [those] buying with no deposit and actually paying their own mortgage every month are ultimately in a better position than those currently renting and paying their landlords mortgage, whilst not building up equity within their own asset."

"100 percent lending has been available on shared ownership for quite some time - so there is no reason it can't work."

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