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Brokers call for more lender innovation after Skipton 100% mortgage launch

Brokers agree that more product innovation in the mortgage market is good news for clients. (LanaSweet/Envato Elements)

By Ima Jackson-Obot 0

The launch by Skipton Building Society of a deposit-free mortgage, specifically aimed at renters has taken the headlines by storm.

Although there are some 100 per cent mortgages in the market, they are few and the difference is they all require a guarantor.

So on the face of it, Skipton's offering looks like a game changer.

But will it live up to expectations and will it herald a return to the 100 per cent mortgage?

Skipton's new mortgage offering is fixed for five years at 5.49 per cent over a maximum term of 35 years.

> Realistically, unless mortgage rates come down dramatically this isn't going to open the door to many first-time buyers.
>
> Jamie Lennox, Dimora Mortgages

A key part of the lending criteria is that the borrower must prove they have a minimum of a 12-month good track record rental history.

Additionally, the monthly mortgage payment for each applicant will not be more than the average of the last six months' rental costs that they have paid.

For example, a tenant paying an average of £800 per month over the last six months will have a maximum monthly mortgage payment of £800.

Other key features of Skipton's deposit-free mortgage:

- Tenants can borrow over 95 per cent up to 100 per cent loan-to-value.
- Available to tenants aged 21 and above.
- Available for first-time buyer purchases only.
- Subject to affordability and credit score, plus evidence of a minimum of a 12-month good track record rental history.
- The income multiples factored into the calculation is income times 4.49, and you can be a sole applicant or joint applicants of up to 4 people.

So, if someone wants to buy a property where the monthly rent would be £1,290 – the average rental price in the UK – the maximum mortgage they could get from Skipton would be around £240,509.54, using the calculation provided by Skipton.

Mortgage technicalities

While this will open the door for more borrowers to get on the ladder, it potentially rules out vast swathes people.

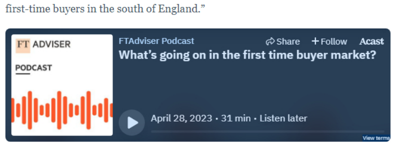
Benjamin Blyth, director at Houz Mortgages, says: "[£1,290] might be realistic when renting a three to four-bedroom house, but at £241,000 [the average house price for a first-time buyer in January 2023] this would not buy a three or four-bedroom house in most parts of the UK.

"[It means] that buyers will likely need to downsize, move to a cheaper area of the country, or already be renting beyond their needs to be eligible for the scheme," Blyth adds.

> We know there isn't one quick solution to addressing this huge societal challenge of tenants being trapped in renting cycles.
>
> Charlotte Harrison, Skipton

"The median rent paid in the UK, according to ONS, is £800 per month. This amount would only be enough to buy a house for £149,000 on Skipton's new scheme – almost £100,000 short of the average house price."

Jamie Lennox, director at Dimora Mortgages, says: "Realistically, unless mortgage rates come down dramatically this isn't going to open the door to many first-time buyers in the south of England."



Charlotte Harrison, chief executive of home financing at Skipton, acknowledges that the product will not be able to help everyone and is only part of the solution for this group of people, but says as a lender, Skipton is "taking a stand" to offer innovation in this space.

"We know there isn't one quick solution to addressing this huge societal challenge of tenants being trapped in renting cycles, with rents escalating faster than mortgage payments and the increasing costs of living, but doing nothing isn't going to solve this UK housing issue," Harrison adds.

"As a responsible lender, we need to be sensible with our approach for bringing this product to the market and ensure tenants don't take on more than they can realistically afford."

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While the risk of properties falling into negative equity has been raised, brokers agree that more product innovation in the mortgage market is good news for clients who have more options to choose from.

Samuel Mather-Holgate, a director and IFA at Mather and Murray Financial, says: “The Skipton product is different as it doesn’t require a guarantor like the other zero equity loans. However, it does cap your repayments at 100 per cent of your rental payments amount.

“This could limit lending in some parts of the country. Understandably, this is one tool the lender is using to ensure affordability and mitigate its own risk of delinquent loans and should be applauded, not criticised.”

> I think other lenders will be watching this market to see how it plays out.
>
> Imogen Sporle, Finanze

Ross Lacey, director and chartered financial planner at Fairview Financial Management, adds: “Something we’d like to see from any lenders who decide to offer 100 per cent mortgages are also product options that borrowers can fall back onto at remortgage time.

“This can provide a safety net to help borrowers avoid being forced to move onto the standard variable rate if they are remortgaging at a time that coincides with being in negative equity.”

The move by Skipton is also being watched closely by other lenders, according to mortgage experts.

Imogen Sporle, managing director – finance property at Finanze, who has already had a number of client enquiries about Skipton, says: “Skipton’s 100 per cent mortgage is different from others in the market as it doesn’t require a guarantor and all the rest do.

"I think other lenders will be watching this market to see how it plays out and if all goes well, I can see more lenders joining this market in the next year or two.

> While it’s a positive step forward, this isn’t going to be a one fix solution.
>
> Nicholas Mendes, John Charcol

“I think a lot more consideration is going in the underwriting compared to in 2008 where such things as self-certification mortgages were allowed.”

The big difference around previous 100 per cent mortgages from the past is that the rules around this product are much stricter than has been seen in the past and should, in theory, help to prevent the issues that were previously seen.

Gary Bush, financial adviser at Mortgage Shop, adds: “The re-emergence of 100 per cent mortgages, albeit at the moment with a rather awkward rental history affordability modelling, is great to see. It’s hopefully the first step to the UK doing what it does best in the mortgage industry: innovate to get around an obvious problem.

“From the look of the new Skipton deal, I see a great rate and hopefully once tested we’ll see some approvals having been achieved.

"We do however think that the lender will need some assistance from the broker community to gain the numbers needed to properly assess and evaluate this scheme.”

Consumer suitability

So who might this type of mortgage suit?

According to Luke Thompson, director at PAB Wealth Management, a 100 per cent mortgage will suit someone who is struggling to raise a deposit and intends to stay in the property they are purchasing for the long term, not for a buyer looking to move within a couple of years.

Meanwhile, Ashley Thomas, director at Magni Finance, says it may work for high earners and if the income multiple is very cautious as it is unlikely that they would have issues paying the mortgage.

Then, if house prices reduce and they have negative equity, they could keep the property for the long term until they increase again as they tend to over the long term.

> This should be seen as a significant milestone and hopefully see other lenders make similar steps.
>
> Nicholas Mendes, John Charcol

Nicholas Mendes, mortgage technical manager at John Charcol, agrees.

While 100 per cent mortgage might ring alarms bells, he stresses that the financial industry is not in the same place as it was in 2008. Property values also tend to increase over the long term despite property dips.

Based on Mendes’ calculations, if we took the average rent 12 months ago of £1,006 per month, assuming no increases, this equates to £60,360 over a five-year period in which equity could have built up, reducing the risk for the lender and homeowner of negative equity.

Mendes adds: “While it’s a positive step forward, this isn’t going to be a one fix solution. There is still an element of affordability, the lender will take the lower of either the track record or the affordability calculator, which means the scheme will only benefit those that can raise the amount required for a property in their area.

“While there are 100 per cent LTV products, they require the support of a family member to provide either equity or a deposit that is held in an interest-earning account and released after a certain point.

“This should be seen as a significant milestone and hopefully see other lenders make similar steps towards supporting first-time buyers.”

Ima Jackson-Obot is deputy features editor of FTAdviser

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