

Mortgage and Property

## Advisers and Brokers react to Skipton's 100% mortgage

by Brandon Russell | May 10, 2023

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Earlier this week, **Skipton Building Society** announced their new **100% mortgage** scheme that will allow renters who are struggling to save a deposit the chance to get onto the property ladder.

It's the first no-deposit deal that doesn't require a guarantor's backing to launch in the UK since 2008 and the reaction to the scheme has split opinion across the financial services sector.

Many industry experts have commended the innovation to help first time buyers whilst others have questioned the security of the scheme from both a buyer and lender perspective.

At IFA Magazine we wanted to get further insight into the thoughts of advisers, brokers and mortgage experts so asked our readers what they thought about Skipton's 100% mortgage.

Their thoughts are below...

**Imran Hussain, Director at Harmony Financial Services:** "It's great to see some form of innovation from lenders to help first time buyers onto the property ladder the criteria is very clear from the get-go and as long lenders don't start moving the goal posts and are strict and offer 100% to those who have the income levels and credit profiles they can work one thing no one can control is what property prices will do so the borrower has to go in with their eyes open."

**Gary Bush, Financial Adviser at MortgageShop.com:** "100% mortgages are music to our ears here at Mortgage Shop. As a company, we have had access to two lenders offering 100% mortgages for shared-ownership property transactions for the past 10 years, we have the proof at hand of the benefit that this kind of borrowing can have for first-time buyers. It's a big signal that the brains at Skipton, for all purchases, now agree with us that, although we could be in a corrective period for property values, the medium to long-term outlook is only one way, and that's upwards.

"It's a clear fact that with a shortage of properties to purchase still being the case across the UK, the price of these properties will increase in time, alleviating the potential risk to negative equity occurring. Obviously, Skipton could possibly ramp up its surveyor requirements for the property valuations for these 0% deposit schemes to check that the property stock being included isn't low quality and not in need of substantial improvement for a potential resale."

**Gary Boakes, Director at Verve Financial:** "The skipton mortgage is a fantastic idea, but in reality, it is not going to work in a lot of areas. Currently, in Salisbury, Wiltshire a 2 bedroom house to rent is £875 a month, based on the Criteria over 35 years that is a mortgage/purchase price of £163136. The same house to buy on the open market is approximately £255,000. So it is going to need renters to downsize to what they are used to to get on the ladder, so going to be interesting how it is going to be received by buyers.

"I applaud Skipton for the innovation and this is certainly going to get people looking at the options of buying a home and in a challenging market that would be a great thing. Over the years I have seen many people go from 5 to 10% deposits with help from bank of mum and dad, this 100% mortgage could be just the motivation to look at properties and have those conversations with families or the push to save quicker."

**Scott Taylor-Barr, Financial Adviser at Carl Summers Financial Services:** "A 100% mortgage is not, and never was, an inherently bad idea. After all, not a lot changes in the grand scheme of things if you are putting in a 5% deposit on a property in terms of the risks for the lender or the borrower. As long as 100% mortgages are tightly controlled, with robust underwriting and correctly priced to reflect both the risk and the capital-hungry nature of such loans for the lender, then they have their place. 100% mortgages could help many people who can pay the monthly costs of a mortgage but are struggling to live and save the now eye-watering sums needed as a deposit to buy a house."

**Justin Moy, Managing Director at EHF Mortgages:** "We have had 100% mortgages available for some time, with some formal assistance from family members, but the Skipton offering is the first true scheme that doesn't need any further collateral. Stringent affordability assessment will remain in place, so I don't see the problems from 2008 resurfacing, when mortgage lending was more 'free and easy'."

"Other lenders may offer something similar, especially in the professional market with escalating incomes, or for those such as the Skipton's Tenant option. But don't expect to be able to borrow huge amounts with these schemes. A good idea and respect to Skipton for trying something new."

**Rhys Schofield, Managing Director at Peak Mortgages and Protection:** "Finally, a lender is addressing the catch-22 faced by many renters paying everything to their landlord with no prospect of saving for a deposit. Getting on the property ladder shouldn't depend on how well-funded your branch of the bank of mum and dad is and anyone whingeing about negative equity should maybe think more long-term about the likely situation faced by someone who has worked hard all their life, retires not owning their home with limited social housing options available."

**Kundan Bhaduri, Property Developer and Portfolio Landlord at The Kushman Group:** "The problem with 100% mortgages is that they come with higher interest costs, which, in a high interest rate regime will exacerbate affordability issues. Lenders will also require borrowers to have a guarantor or co-signer, which will be a challenge for many.

"That said, there are lots of potential benefits to 100% mortgages too. For one, they help increase the number of FTBs on the market, which has a cascading effect on the economy by boosting linked trades (removals, agents, tradesmen, brokers etc). With some luck, the FTBs will garner equity in their homes too over time.

"While 100% mortgages may be an option for some FTBs, they must also consider others – such as shared ownership schemes or Help to Buy, which may offer a safer and more sustainable route on the ladder.

Overall, 100% mortgages can be a good idea but only for the right buyer. One needs to consider all the risks and benefits before making a decision. After all, as they say, there's no such thing as a free lunch."

**Ross Lacey, Director & Chartered Financial Planner at Fairview Financial Management:** "We feel this is good news and certainly something we'd recommend where appropriate. Borrowers would still need to meet the affordability tests and be mindful of the increased likelihood of falling into negative equity. Something we'd like to see from any lenders who decide to offer 100% mortgages are also product options that borrowers can fall back onto at some stage. This

secure to offer 100% 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. Ultimately, 100% mortgages won't help everybody but there's certainly a portion of aspiring homeowners who this kind of product is perfect for ie. high earners currently paying high levels of rent. They have the ability to make the monthly payments on a mortgage but can't save enough for the deposit."

**Mark Hosker, Mortgage Adviser at Cyborg Finance:** "Skipton has launched what renters have been demanding for years, a mortgage that takes into account that they have been paying higher rent higher than a mortgage for years. The rental affordability test demolishes affordability concerns I've read by critics.

"We don't know what the future holds for house prices, so negative equity remains a concern. Except if Skipton stands by existing customers not forcing them onto SVR but offering them market rates as they repay the debt. I have little concern, a great product to help people get out of renting."

**Gindy Mathoon, Senior Mortgage Broker at Create Finance:** "Skipton have been sensible around how they will underwrite this, they will cap the mortgage payment inline with the rent the borrower pays or there affordability calculator - whichever is lower. As interest rates are fairly high currently - there will likely be an influx of larger loans."

**Samuel Gee, Director at Manning Gee Investments Limited:** "With rising house prices, saving for a deposit can seem like an insurmountable obstacle for many first-time buyers. Supporters of 100% mortgages argue that they offer a solution to those who would otherwise be stuck renting or living with family indefinitely. By enabling buyers to secure a mortgage without a deposit, 100% mortgages can facilitate access to the property ladder for more people.

"However, lenders must weigh the risks and benefits of offering these mortgages and ensure they don't contribute to potentially irresponsible lending practices. Ultimately, the viability of 100% mortgages depends on economic conditions, lending policies, and the state of the housing market. While in Bristol, where a typical first-time buyer may be paying £1,000pm in rent, the payment cap of Skipton's 100% mortgages means that over 35 years, you could only borrow under £190k giving you very few options; in other areas, this may be a more viable opportunity."

**Amit Patel, Adviser at Trinity Finance:** "Congratulations to Skipton Building Society for their bold and innovative plans to launch a 100% mortgage. Not all borrowers have the luxury of the 'bank of mum and dad', and family or friends who can assist them with a contribution towards the deposit. It will certainly help 'generation rent' finally get onto the property ladder. Renters face a big challenge when they want to transition between renting and buying their own home and this product will finally bridge the gap.

"Skipton will have in place robust procedures to ensure that the mortgage will be affordable for the entire term of the mortgage and that borrowers do not end up in negative equity. I expect demand for this product will be high and other lenders will be watching this space very closely and may launch a similar offering in the days and weeks ahead."

**Samuel Ewen, Managing Director at Rosehill Financial Services:** "Skipton has been innovative with their 100% mortgage, which I'm sure will be welcomed news for many renters. I'm sure that others may also see this as a risky move by Skipton with what happened in 2008. However, there are more stringent regulation in place compared to 2008. Skipton has various criteria in place to be eligible for this product, such as the mortgage payments not exceeding the applicant's current rental payments, and requiring applicants to keep up with rental payments for 12 months.

"With renters having to cover rental payments whilst trying to save for a deposit when property prices continue to increase over the long run, I think that it's a great product and I expect to see other lenders follow. I also expect to see comments about the risk of negative equity, and rightly so, but this is already a risk for those on the relatively low end of the deposit scale. As long as the risk of negative equity is clearly explained, this new offering can be a suitable option."

**Luke Thompson, Director at PAB Wealth Management:** "I think there are definite pros and cons to this new mortgage product from Skipton. The ability to help people who are trapped in the renting cycle is massive and should not be underestimated. The rate seems competitive in comparison to the 95% loan to value products that are available at the minute and the five year fixed aspect will give borrowers longer term security.

"The biggest cons are the concerns around potential negative equity in the future and for me I would also say that although this is potentially a great move by Skipton and will generate them a lot of headlines the way that affordability will be calculated may make it difficult for a family to buy a similar sized property to one that they may already be renting."

**Bradley Lay, Community Builder at Bradley Lay Ltd:** "Homebuyers may be rejoicing, but it looks like the lending industry is ready to play Russian roulette with the housing market again, by offering 100% mortgages.

"Despite the catastrophic consequences of the 2008 financial crisis, lenders seem to be willing to roll the dice once more. While this may seem like good news for first-time homebuyers, it's important to remember that history often repeats itself.

"Offering 100% mortgages is a recipe for disaster, as it could lead to an increase in defaults and an overall decline in the housing market. As lenders rush to get a in on the action, they could be putting the entire industry at risk! While it may be tempting to jump at the chance for a 100% mortgage, it's crucial to approach this situation with caution."

**Julie Bayley, Independent Adviser at Fordham Financial Services LTD:** "In the current economic climate, this may seem an odd decision with a risk of negative equity. However with rents & the cost of living so high, enabling first-time buyers to get on the property ladder, who are finding it difficult to save for a deposit in their circumstances, could be an attractive solution."

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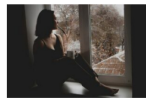
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