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Mind the deposit gap

Why size matters more than ever for UK homebuyers

The size of a deposit now plays a crucial role in securing a mortgage. A larger contribution not only boosts the chances of approval but can also result in lower rates, thereby decreasing borrowing costs over time. As affordability comes under pressure, the gap between buyers with modest deposits and those with substantial savings has widened considerably.

Link between deposits and rates

Mortgage products are partly priced according to the level of risk. A larger deposit reduces the loan-to-value ratio, which decreases the lender's exposure and often results in more favourable rates. Buyers with deposits of 25% or more typically have access to the most competitive products, while those providing only 5% or 10% face higher costs.

The difference is significant. For an average first-time buyer's home, valued at just over £310,000 in 2024, the typical deposit was approximately £61,000, or around 20% of the purchase price^[1]. At this level, borrowers fall into more favourable loan-to-value brackets and benefit from a wider range of deals.

Pressure on first-time buyers

Raising a deposit remains one of the biggest challenges for new buyers. In 2024, a 20% deposit was equivalent to 110% of the

average annual gross earnings, up from 102% the previous year^[2]. This means a household with a typical income would need to save more than a year's salary just to reach the deposit threshold, before considering legal fees, moving costs, and stamp duty.

Some buyers can enter the market with deposits as low as 5%, often with help from family or government support. While this can make ownership achievable, it also results in higher monthly repayments due to increased interest rates. The trade-off is clear: moving sooner with a smaller deposit may secure a home, but it raises financial pressure in the years ahead.

Implications for existing homeowners

Deposit size, or accumulated equity, is just as important for those remortgaging. Households approaching the end of low-rate fixed deals taken out during 2020 to 2022 face significant increases in repayments. For many, the equity built up in their property determines which new products they can access.

Those with higher equity typically secure better rates, reducing the effect of increased borrowing costs. Conversely, limited equity can lead borrowers to less competitive deals, adding hundreds of pounds to their monthly payments.

Looking at the broader picture

The focus on deposits highlights a cautious lending climate. Since house prices remain high relative to incomes, lenders are increasingly favouring larger deposits. For both buyers and current homeowners, the size of the initial contribution, or the equity in the property, directly influences affordability now and financial security in the years to come. ■

Is now the right time to make an informed mortgage choice?

Whether you're a first-time buyer or looking for a more competitive deal, we can help you find a mortgage that's right for you. Speak to us for more information.

Source data:

[1] lloydsbankinggroup.com/media/press-releases/2025/halifax-2025/first-time-buyer-market-rebounds.html

[2] nationwide.co.uk/media/hpi/reports/affordability-special-report-raising-a-deposit-still-the-biggest-hurdle-for-first-time-buyers-despite-affordability-becoming-more-stretched

