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The 100% mortgage

Pathway for aspiring homeowners to step onto the property ladder

Once upon a time, before the financial crash of 2008, securing a home loan without a deposit was not only possible but relatively common. Some lenders were even willing to offer loans that exceeded the value of the property in question. These generous lending practices, however, took a drastic turn following the economic meltdown.

Post-2008, the financial landscape underwent significant changes. In the wake of the crash, no-deposit mortgages became a thing of the past. Having faced substantial losses due to defaulted loans, lenders swiftly pulled these types of mortgages from the market. The once easily accessible pathway to homeownership became a distant memory.

Evolution of mortgage lending practices

The financial crash served as a wake-up call for lenders. The aftermath highlighted the inherent risks associated with no-deposit

mortgages and prompted a re-evaluation of lending practices. This shift led to stricter lending criteria and the necessity for borrowers to provide a deposit when applying for a home loan.

Fast forward to the present day, the housing market has evolved significantly. While no-deposit mortgages are no longer the norm, options are still available for first-time buyers struggling to save for a deposit. However, these options come with their own set of stipulations and requirements.

Closer look at 100% mortgages

Historically, 100% mortgages required a guarantor, such as a family member, who would agree to shoulder the loan if the borrower could not repay. However, the latest wave of 100% mortgages making headlines does not necessitate a guarantor. These no-deposit mortgages react to shifting market

conditions and buyer preferences, providing a new pathway for aspiring homeowners to step onto the property ladder more easily.

Despite their appeal for some people looking to get onto the homeownership ladder, several requirements typically apply. For instance, you must be a first-time buyer with a rental history of no less than 12 months. Furthermore, your monthly mortgage repayments cannot exceed your current rent, which limits the size of the mortgage you can apply for. This re-emergence of 100% mortgages also sparks discussions around these loans' potential risks and consequences.

Understanding 100% mortgages

A 100% mortgage, or zero deposit mortgage, allows people to purchase a house without saving for a deposit. This type of home loan covers the entire purchase price of a property, enabling first-time buyers with a minimum





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twelve-month rental history to borrow the full amount needed to buy a home.

You will still have to save up for other fees and expenses, such as solicitor and surveyor fees and moving costs.

However, these mortgages are relatively rare and often carry higher risks for the lender, potentially leading to stricter eligibility criteria for borrowers.

The advantages and disadvantages of 100% mortgages

Advantages:

No deposit necessary

A 100% mortgage enables individuals to enter the property market without having to save for a deposit. This is especially beneficial for first-time buyers who struggle to amass significant savings.

Speedier homeownership

Without a deposit, a 100% mortgage allows borrowers to buy a property sooner than they would otherwise be able to, particularly in a

competitive housing market where property prices may rise.

Disadvantages:

Increased interest rates

Given the perceived risk associated with 100% mortgages, lenders often charge higher interest rates, resulting in larger monthly repayments and increased long-term interest costs.

Fewer lender options

The rarity of 100% mortgages means fewer lenders offer them, limiting your options and possibly making it harder to find a mortgage product that suits your needs.

Tougher eligibility criteria

The heightened risk of these mortgages often leads to stricter eligibility criteria, potentially making it more difficult for certain individuals to secure a 100% mortgage.

Navigating the process of getting a 100% mortgage

Securing a 100% mortgage can be challenging

due to the stricter eligibility criteria. However, by saving for additional costs and building a strong credit history, your professional mortgage adviser could improve your chances of obtaining a 100% mortgage.

Today's mortgage landscape offers alternatives for those unable to afford a hefty deposit. Some lenders may offer schemes where a family member will act as a guarantor or a portion of the property's value is secured against a family member's home. Other options include shared ownership schemes and Help to Buy initiatives. ■

Need qualified mortgage advice help to assess your options?

Please get in touch with us if you require further information or advice to see if you are eligible to apply for a 100% mortgage. Our team of experts is ready to assist you in making the best decision for your financial future. To learn more about how we could help, please contact us.

