THINKING ABOUT A LOW DEPOSIT MORTGAGE?

What First-Time Buyers Need to Know

Getting onto the property ladder with a smaller deposit could be closer than you think – but is a low deposit or even a no-deposit mortgage the right choice for you?

For many prospective first-time buyers, saving a large deposit is one of the biggest obstacles to buying their first home. With rising living costs, rent payments and everyday expenses, putting money aside can feel like an uphill battle.

The good news is that there are mortgage options designed to help buyers with smaller deposits, and even some products that allow you to purchase without saving a traditional deposit.

However, before making any decisions, it's important to understand how these mortgages work, what they could cost you and the potential risks involved.

What is a low deposit mortgage?

A low deposit mortgage allows you to purchase a property with a relatively small amount of money upfront.

For example:

- A 5% deposit means you borrow 95% of the property's value (95% Loan to Value or LTV).
- A 10% deposit means you borrow 90% of the property's value (90% LTV).
- A 100% mortgage means you borrow the full purchase price without putting down a traditional deposit.

The smaller your deposit, the more you generally need to borrow. This can affect the interest rate available to you and your monthly mortgage repayments.

Introducing the government's new Your First Home scheme

There is also some exciting news for prospective first-time buyers.

The government has introduced details of a new initiative called Your First Home, designed to help eligible buyers purchase a new-build property with a smaller deposit.

The scheme is expected to allow qualifying first-time buyers to purchase with:

- A minimum 2.5% deposit.
- A 20% government-backed equity loan.
- A repayment mortgage covering the remaining balance.

The equity loan will be interest-free for the first five years. Interest is then expected to apply from year six, increasing over time.

For example, if you were purchasing a property worth £300,000, the proposed funding structure could look like this:

- Your deposit: £7,500 (2.5%)
- Government equity loan: £60,000 (20%)
- Your mortgage: £232,500 (77.5%)

The scheme is intended for eligible first-time buyers purchasing qualifying new-build homes in England through participating developers and lenders.

Applications are expected to open in February 2027, with further eligibility requirements and scheme guidance available through the government.

Important: Although the scheme could make homeownership more accessible, the equity loan is still money that will need to be repaid. The amount you repay is linked to the property's value, so it could increase if your home increases in value.

It is essential to understand the long-term costs and implications before committing.

Things to consider before choosing a low deposit mortgage

While a smaller deposit can help you get onto the property ladder sooner, there are several important factors to consider.

1. Higher interest rates

Mortgages with a higher Loan to Value (LTV) can sometimes come with higher interest rates than those available to buyers with larger deposits.

For example, you may find that a 90% or 95% mortgage has a higher interest rate than a mortgage with a 75% or 80% LTV.

However, this varies between lenders and mortgage products.

It may be worth considering whether saving for a little longer could help you build a larger deposit and potentially access more competitive mortgage deals.

A mortgage adviser can help you compare the options and understand what works best for your circumstances.

2. The risk of negative equity

With a smaller deposit, you start your homeownership journey with a larger mortgage in relation to the property's value.

This means you could be more exposed to negative equity if property prices fall.

Negative equity happens when the amount you owe your mortgage lender is greater than the current value of your property.

This can make moving home or remortgaging more difficult, particularly if you need to sell before property prices recover.

3. Don't forget the additional buying costs

Even if you have managed to secure a mortgage with a small deposit, buying a property still involves other upfront expenses.

You should budget for:

- Stamp Duty Land Tax, if applicable.
- Solicitor and conveyancing fees.
- Property surveys and valuations.
- Mortgage arrangement or product fees.
- Removal and moving costs.
- Initial repairs, furnishings and unexpected expenses.

It's important not to use every penny of your savings towards the deposit.

Having some money set aside for emergencies and unexpected costs can make a big difference once you move into your new home.

Are no-deposit mortgages an option?

If saving a traditional deposit feels out of reach, you may have considered a 100% mortgage.

These mortgages allow you to borrow the full purchase price of a property without putting down a conventional deposit.

Some options include:

Guarantor mortgages

A family member or another eligible person may agree to support your mortgage application by guaranteeing some or all of the debt, depending on the lender's product.

If you cannot maintain your mortgage repayments, your guarantor could become responsible for meeting the agreed obligations.

Depending on the arrangement, their savings or property could also be at risk.

It is therefore essential that everyone involved fully understands the commitment.

Family-assisted mortgages

Some lenders offer products that allow family members to support a purchase using their savings or property as security.

For example, a family member may place a specified amount of savings into an account linked to the mortgage for an agreed period.

This can help you secure a mortgage without needing to save the full deposit yourself.

The arrangements, restrictions and release conditions vary between lenders, so it's important to understand exactly how each product works.

What are the limitations?

Low deposit and family-assisted mortgages can offer opportunities, but they aren't suitable for everyone.

Here are some additional considerations.

Mortgage overpayments

If your financial circumstances improve, making additional mortgage payments could help reduce your outstanding balance and the interest you pay over time.

However, many lenders have restrictions on how much you can overpay without incurring an early repayment charge.

Always check your mortgage terms before making additional payments.

Property restrictions

Some mortgage products have restrictions on the types of properties you can purchase.

Certain lenders may exclude specific new-build properties, impose maximum property values or have additional requirements.

This could affect your choice of home, so it's important to check the criteria before falling in love with a particular property!

Future affordability

Just because you can afford the mortgage repayments today doesn't necessarily mean your circumstances will remain the same.

Consider what would happen if interest rates increased, your household income changed or unexpected expenses arose.

You want to enjoy your new home, not spend every month worrying about making the mortgage payment.

Our advice: Don't jump into anything – talk to us first!

Buying your first home is an exciting milestone, and we want to help you make the right decisions from the very beginning.

Whether you're considering a 5% deposit mortgage, a 100% mortgage, family-assisted borrowing or the government's new Your First Home scheme, it's important to explore all the options available to you.

At Yew Tree Mortgages Ltd, we believe in putting service before sales and quality over quantity.

We'll take the time to understand your circumstances, explain your options and help you work towards finding a mortgage that suits your needs and financial situation.

You don't need to have everything figured out before speaking to us. That's what we're here for!

Ready to take your first step onto the property ladder?

Get in touch with Yew Tree Mortgages Ltd today.

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Let's chat about getting you one step closer to your dream home!

Your home may be repossessed if you do not keep up repayments on your mortgage.

Mortgage availability, eligibility and lending criteria apply. Government scheme details and eligibility requirements may change. Your First Home is subject to the scheme's terms and conditions and participating lender and developer requirements.