The accounts for a quarter of lending at

Finance

The Bank of England has told the government that a scheme designed to help get first-time buyers onto the housing ladder is no longer needed.

The Help to Buy mortgage guarantee scheme was launched in 2013 to help first-time buyers get on the housing ladder by encouraging lenders to offer 5% loans to borrowers through government support. The scheme is scheduled to run until the end of the year. In a letter to Chancellor Philip Hammond, Bank of England governor Mark Carney said that the closure of the scheme would not affect borrowers with small deposits or the supply of homes." Given the decreasing usage of the scheme over time, the Financial Policy Committee judges that the closure of the scheme would be unlikely, in current market conditions, to affect significantly the provision of finance to prospective mortgagors, including high loan-to-value borrowers," he wrote. Carney said that over the past year use of the scheme had declined significantly, while lending to people with 5% deposits had increased.

In its annual assessment the FPC said loans in the scheme only accounted for 3% of total mortgage lending in the first three months of the year compared to 6% in 2014. For those offering a deposit of less than 10% it only accounted for 25% of lending in the first quarter compared to 70% two years ago. The FPC said that the scheme had not driven up house price growth or posed a risk to the financial stability of the mortgage market. The Help to Buy mortgage guarantee scheme provides a government guarantee to lenders on mortgages where a borrower has a deposit of between 5% and 20% for existing properties as well as a new-build. Under the scheme, the government acts as a guarantor on mortgage loans for 15% of the value of the property. The idea of this is that it will give banks and building societies peace of mind and therefore encourage them to offer larger loan-to-value products of between 80% and 95%.

Patrick Bamford, business development director for AmTrust International, Mortgage and Special Risks, said the closure of the scheme would “ send shivers down the spines of aspiring first time buyers”.” There are worrying signs that lending to buyers with 5% or 10% deposits – which is all many people can realistically save in this low-rate environment – will be left behind as capital requirements for lenders continue to tighten.” Other conclusions from the annual assessment of the scheme make a strong case for it to be continued via the private sector beyond the end of this year – taking the burden off the public purse without damaging access to homeownership. In the FPC’s eyes, Help to Buy has not resulted in riskier lending nor been a material driver of house price growth, with limited risk to financial stability and household indebtedness.” It still accounts for a quarter of lending at above a 90% loan-to-value and has been a vital mechanism for improving competition by helping medium and smaller lenders to compete with the biggest names on the high street.”