

Families Called Upon To Provide Deposits

Those attempting to purchase their first home are increasingly looking to their family to help stump up the initial deposit needed, it has been claimed.

April 28, 2008 (FPRC) -- Residential property industry commentator the Council of Mortgage Lenders (CML) states that the proportion of first-time buyers looking to parents to help them bring together a deposit is on the rise. The trend has resulted from the credit crunch leading all major lenders to withdraw 100 per cent mortgages (which lend sums covering the deposit required). Lenders in the UK have learnt lessons from the subprime mortgage crisis in the US, which resulted in large numbers of homeowners defaulting on their mortgage payments by borrowing more than they could afford.

While some families might be in a position to help their offspring raise a deposit with relative ease, others might consider secured loans as a means of gathering together the required capital. The equity growth enjoyed by those who have owned their home for a number of years could be helpful in providing the security needed to take on such a loan.

Bernard Clarke, spokesperson for the CML, commented on the trend: “[Family is] increasingly the main option for first-time buyers. It is another option, but it’s only open to those who are able to call upon that help and whose relatives are able to provide it. But we have seen [parents] who have enjoyed equity growth in their own property over a period, being able to draw on that to help relatives who are first-time buyers with a deposit.”

However, he added that the slowing property market was likely to see parents become increasing unwilling to provide financial assistance to their children. As a result, those hoping to raise a deposit in the coming months and years but currently harbouring a number of debts might like to consider a debt consolidation loan as an option. By combining their debts into a single monthly payment, such borrowers could provide more structure to the way that they tackle their debts and work more efficiently to get in a position where saving funds becomes a real possibility.

Alternatively, secured and unsecured personal loans could be taken out by those wishing to raise a deposit without parental assistance - although Mr Clarke stated that anyone doing so would have to consider their situation carefully. “They would need to look at their individual circumstances and see whether that’s an appropriate option or not. Clearly, they would then have two debts to service,” he stated. “That may be an option for those who have a large income, whose problem is ... that they simply haven’t got the immediate liquidity to provide a deposit.”

Loans are becoming an option to consider for increasing numbers of people given ongoing restriction in the financial markets, which is affecting ever larger numbers of consumers’ pockets. Recent figures released by price comparison service MoneyExtra suggested that the impact of the credit crunch was extending beyond the financially vulnerable. First-time buyers who in more favourable circumstances might have considered themselves to be in a reasonably stable state were being forced to borrow increasing sums in relation to their annual earnings.

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