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EMBARGOED: SATURDAY 25 FEBRUARY 2012

SECOND STEPPERS: TRAPPED IN FIRST HOME

Second Steppers hardest hit by subdued housing market

- The majority (61 per cent) of Second Steppers, those who are looking to move from their first home, have been stuck on the property ladder for 12 months
- One in five now believe it is harder to move up the ladder than get on it in the first place
- Home affordability, negative equity, higher deposits, lack of buyers and cost of moving are just some of the challenges this group of home movers face
- Almost three quarters (72 per cent) of respondents call on the Government to take action to help those trying to sell their first home
- Lloyds TSB provides specialist mortgages to address key obstacles and help Second Steppers move to their second home

Lloyds TSB has today launched its annual **'Second Stepper' report** which tracks the ongoing plight of first time sellers amid a challenging housing market. The report reveals that home affordability for Second Steppers has become much less favourable and declining house prices have led to equity shortfalls for many.

Second Steppers are homeowners looking to sell their first home and move up the ladder. Many potential Second Steppers in today's market would have bought close to the peak of the market and are now finding it increasingly difficult to get off the 'first rung'.

According to Lloyds TSB's report, almost two thirds (61 per cent) of Second Steppers have wanted to climb up the ladder in the past 12 months but have been unable to do so as they face an increasing number of challenges. More than one in five (22 per cent) believe it is now harder to move up the ladder than get on it in the first place, with almost half (43 per cent) also feeling it will be as equally difficult.

The report also revealed general pessimism about the future of the housing market; a third (34 per cent) believe it is going to be harder to sell their property this year than last, with over half (53 per cent) predicting that the housing market will not improve this year.

Second Steppers face more challenges than first-time buyers
A lack of affordable property to buy (35 per cent) and a lack of offers from potential first-time buyers (32 per cent), were cited as key barriers delaying the sale of people's current property on top of a whole host of other challenges.

- *Raising a new deposit* – the majority (71 per cent) of second-time buyers are concerned about the higher levels of deposit needed for their second property often because of a lack of equity, with 36 per cent admitting that the lack of any deposit is the main problem they face in climbing up the ladder. The average deposit for a typical Second Stepper in 2011 was £60,670 more than double the average deposit required in 2001 (£24,783).

- *Decline in the level of equity* – the average house price paid by a first-time buyer has reduced by £32,815 since the typical Second Stepper bought their first home, meaning almost one in five (18 per cent) of Second Steppers do not have enough equity in their current property to move. In Scotland 26 per cent of Second Steppers are in this position. Lloyds TSB has estimated that the typical Second Stepper will be in a negative equity position of almost £10,000 (£9,902). [1]

- *The cost of moving rises substantially* – general fees and charges associated with moving home (49 per cent) was cited as one of the main challenges, especially amongst those living in the South of England (63 per cent). The cost of moving house for a home mover stood at an average of £8,922 in 2011 – an increase of 69 per cent (£3,632) compared to 2001.[2] This is the highest cost since the peak of the housing market and more than three times higher than for first time buyers (£3,334).

- *Decline in affordability* – home affordability for first time sellers is at its least favourable level for over 25 years and is now less favourable than for those entering the housing market for the first time. The Lloyds TSB housing affordability measure – calculated as the average price of a typical second stepper home[3], less their current equity position[4] as a ratio of average earnings – stood at 5.2 times gross annual average earnings in October 2011; the highest ratio since records began in 1987. Home affordability for second steppers (5.2) is also now less favourable than for first time buyers (4.1).

Stephen Noakes, Mortgage Director, Lloyds TSB explains:

"First time sellers are now faced with some very tough challenges when trying to make their next move on the property ladder and many are finding it more difficult than getting on the ladder in the first place. It is vital that this group of home movers receive more support and attention as they play an intrinsic role in getting the housing market moving again.

"To achieve a sustainable housing market we need to see movement throughout the market. If Second Steppers get stuck on the first rung, movement at the bottom half of the ladder comes to a standstill, and this bottleneck will not only restrict the supply of starter properties but will have a knock on effect across the whole of the housing market."

Calling for more support

More help is required to support this important segment of the housing market. Almost three quarters (72 per cent) of respondents are calling on the Government to take action to help those trying to sell their first home and almost half of respondents (49 per cent) would like to see their mortgage provider offer new products to help them overcome some of these challenges.

But, many first time sellers have being taking action to help improve their situation. Almost two thirds (58 per cent) have been saving to help fund their next move and over one in four (27 per cent) have also been overpaying on their mortgage to help build up their equity.

Offering a solution

Addressing the challenges faced by those looking to move home, but suffering from either a reduction in equity or difficulty raising the deposit, Lloyds TSB offers the Equity Support Scheme and Lend a Hand Homemover.

The Equity Support Scheme makes moving home possible for Lloyds TSB customers with low or negative equity, it is designed to maintain momentum in the market. It allows borrowers to move to a property of the same value, buy a bigger home or downsize. Customers can move without increasing their existing levels of borrowing and channel any additional funds in to their new home.

The Lloyds TSB Lend a Hand Homemover product allows borrowers to take out a mortgage with a deposit of just 5%, but can access a rate that is the equivalent of products available for borrowers with a much larger deposit. This is because their funds are backed up with the savings of a helper, such as a parent, grandparent or other family member. At the same time, their helper benefits from a competitive savings rate as a legal charge is taken over the savings to offset the risk. No other major lender offers deals for new customers moving house unless they have a deposit of at least 10%.

Lloyds TSB 'Second Steppers panel' - last year's Second Steppers offer advice to 2012 home movers:

- Build up your savings as much as you can – you may need a higher deposit than you think and may need to take into account a fall in your equity position
- Be flexible, you will need to be prepared to lower your offer, or even look into renting your property rather than selling it
- Present your house to its best: declutter and redecorate – fix any problem areas prior to viewing
- Explore alternative ways to sell your property, such as private buyers or auction. This could save you money but will also open up your options
- Keep at it and be patient, it may take a while for you to sell your house, but there will be a buyer out there
- Stay enthusiastic

ENDS

Notes to editors:

- Data has been sourced from the Land Registry, Halifax House Price Index, Council of Mortgage Lenders, ONS, Moneyfacts and Pickfords.
- All other data is based on Second Steppers consumer research undertaken by BDRC Continental (bdrc-continental.com) on behalf of Lloyds Banking Group. Fieldwork took place in January 2012. Around 400 interviews were collected from a representative online consumer panel. BDRC Continental also conducted in-depth telephone interviews with around thirty 2010/2011 Second Steppers which took part in the research last year.

Further details on the Equity Support Scheme

Like for like property
Current mortgage: £150,000
Current property worth: £140,000
Current LTV: 107%

Lloyds TSB customers in this situation would be able to move to a new home, also worth £140,000, with their existing product rate as the LTV would be maintained at 107%.
This is likely to be a solution for people looking to move location rather than get more space.

Trading up
Current mortgage £130,000
Current property worth £110,000
Current LTV 118 %
New property worth £120,000

New mortgage £130,000
Additional customer deposit £10,000
New LTV: 108 %

Customers looking to move to a bigger property will no longer be prevented from moving because they're in negative equity. Borrowers will still be required to make an additional deposit rather than increasing their existing borrowing. However, the scheme will allow them to direct their savings towards the new property rather than plug the negative equity gap.

This will then move the borrower and the lender into a stronger equity position, as the LTV level will reduce as a result of moving to a more expensive property.

This product will allow Second Steppers with a mortgage from Lloyds Banking Group to move to a bigger property, getting the market moving again.

1. This is due to the £39,979 (-23%) fall in the typical FTB house price since 2007 more than offsetting the equity built through the deposit put down (£17,516) and the capital repayments (£12,561) made over the period. There were 359,900 FTBs who bought their first home at the top of the market in 2007. The deposit figure has been calculated as the difference between the average house price and mortgage advance (derived using average FTB LTV) for a first time buyer.

2. Home moving costs covered in the report are stamp duty, mortgage arrangement fees, estate agency fees, surveyors' fees, conveyancing and removal costs. The costs of decorating and improvement prior to sale, local searches and land registration fees are excluded.

3. The typical second stepper home as assumed to be a semi detached home based on consumer research by Lloyds TSB which found that 60% of people expect to take their second step on the property ladder into a semi-detached home.

4. Current equity position is defined as the sum of deposit, capital repayments (variable rate mortgage using average LTV for an FTB and the average mortgage rate for new business undertaken by UK banks produced by the Bank of England) and change in the average FTB house price over the period. The calculation is based on the assumption first time buyers that, on average, first time buyers move 4 years after their first purchase and is based on our market research.