



THE SUNDAY TIMES

Avoid the banks for mortgages

Borrowers should turn to building societies for the lowest interest rates

Anna Mikhailova Published: 7 April 2013



House-hunters are increasingly turning to building societies for loans (Cultura Creative)

HIGH STREET banks have offered fewer competitive mortgage deals than building societies since the launch of the Funding for Lending Scheme, according to figures from Moneyfacts, the data firm.

Under the terms of the scheme, the Bank of England has provided banks and building societies with ultra-cheap loans to fund new mortgage and small business lending. The costs of home loans, particularly fixed-rate deals, have tumbled to record lows as a result.

However, research carried out for The Sunday Times shows that since the scheme was launched in August last year, mutuals have offered the most best-buy rates in 60% of the weeks analysed.

In fact, since the start of this year, building societies have had the most number of deals in the best-buy tables in 77% of the weeks analysed, Moneyfacts said. The figures are based on the top six fixed-rate and tracker deals so in these weeks at least four have been offered by mutuals.

The biggest banks on the high street, including Lloyds Banking Group, which owns Halifax, along with

Royal Bank of Scotland, Barclays and Santander, have been accused of failing to pass on the benefit of the scheme to borrowers.

Last week the Bank of England reported that mortgage approvals for house purchases fell to a five-month low of 51,643 in February, from 54,187 in the previous month.

In the same month, mutuals took a 23% market share compared with 18% in February last year, according to the Building Societies Association (BSA). By continuing to use the site, you agree to the use of cookies. You can change this and find out more by following this link. Accept Cookies

Mark Harris of broker SPF Private Clients, the high-end broker, said: "We are doing more lending with building societies this year as their rates are so much more competitive and they are more willing to lend than many high street banks."

Charlotte Nelson of Moneyfacts added: "Building societies are offering a genuine alternative to banks, which in the past have been steeped in scandal and were worst hit by the financial crisis."

The Bank of England's Credit Conditions Survey, published last week, reported that mortgage deals became cheaper between January and March, and were likely to fall further in the second quarter of the year.

The availability of mortgages improved in the three months to March with further easing of criteria expected in the next three months.

Look for the best fixed rates

The current best-buy two, three and five-year fixed-rate deals are all from building societies, according to Moneyfacts.

Chelsea building society has the cheapest mortgage deal on the market, at 1.74% for a two-year fix for those with a 40% deposit. The drawback is that it carries a £1,545 fee.

Brokers recommend locking into longer-term fixes to secure the benefit of ultra-low rates.

Yorkshire building society has the lowest five-year fix ever, at 2.59% for borrowers with 40% deposits. It has a £1,345 fee. The West Bromwich building society has the best-buy five-year fix for someone with a 25% deposit, at 2.99% with a £748 fee.

Paul Broadhead, head of mortgage policy at the BSA, said: "Nearly a third of mortgages from our members are made to first-time buyers, and mutuals provide more mortgages for 5% and 10% deposits than most others."

The most competitive deal for those with a 5% deposit is from Ipswich building society at 5.49% for a three-year fix with a £1,125 fee, according to Moneyfacts.

Best buys

<div style="background-color: #f4a460; padding: 5px; margin-bottom: 5px;">Two-year fix</div> <p>Chelsea BS</p> <div style="background-color: #f4a460; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; margin: 10px auto;"> 1.74% </div> <p>40% deposit £1,545 fee</p>	<div style="background-color: #f4a460; padding: 5px; margin-bottom: 5px;">Five-year fix</div> <p>Yorkshire BS</p> <div style="background-color: #f4a460; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; margin: 10px auto;"> 2.59% </div> <p>40% deposit £1,345 fee</p>	<div style="background-color: #f4a460; padding: 5px; margin-bottom: 5px;">Lifetime tracker</div> <p>HSBC</p> <div style="background-color: #f4a460; border-radius: 50%; width: 60px; height: 60px; display: flex; align-items: center; justify-content: center; margin: 10px auto;"> 2.38%* </div> <p>40% deposit £1,499 fee</p>
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Source: London & Country *1.88 points above Bank rate

Go to the banks for a tracker

Brokers recommend longer-term fixes because the rates are almost as low as the most competitive trackers on the market. But there are advantages to tracker deals. Some have no early repayment charges, allowing borrowers to overpay mortgages, or switch deals without incurring exit fees. HSBC has a best-buy lifetime tracker at 1.88 points above Bank rate, so 2.38%, for those with a 40% deposit. It has a £1,499 fee.

Watch out for the revert rates

Borrowers should be aware that building societies usually have high standard variable rates (SVRs) – the rate to which a loan reverts at the end of a deal. Compared with high street lenders like HSBC (where the SVR is 3.94%), Halifax (3.99%), Virgin Money (4.79%) or Woolwich (3.89%), the SVRs for societies are much higher: at Kent Reliance it is 6.08%, Chelsea 5.79%, Skipton 5.49%, and Nottingham 6.14%, for example.

House-hunters are increasingly turning to building societies for loans

broker, warned against the effects of a high SVR: “Even though you might get a best-buy with a small building society for a few years, you should look at the fine print because your repayments could jump at the end of your deal when you revert to the SVR. To switch to a new deal you would need the right income profile, a perfect credit history, and your property value having held up, which might not be the case.”

Ian Gray of largemortgageloans.com, the specialist

Better customer service

Smaller mutuals are more willing to consider applications on a case-by-case basis, according to Andrew Montlake of Coreco, the broker.

As well as offering more competitive rates and lower arrangement fees, building societies are providing better service. The Financial Ombudsman Service receives significantly fewer complaints about mutuals than banks.

In February – the latest period for which data is available – there were 40,107 complaints against banks and only 1,959 about building societies.

What’s more, the number of complaints against banks has soared in the past year – nearly doubling from 23,778 – whereas building society complaints have stayed at roughly the same level, despite the spike in loan volumes.

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Robyn Hart

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