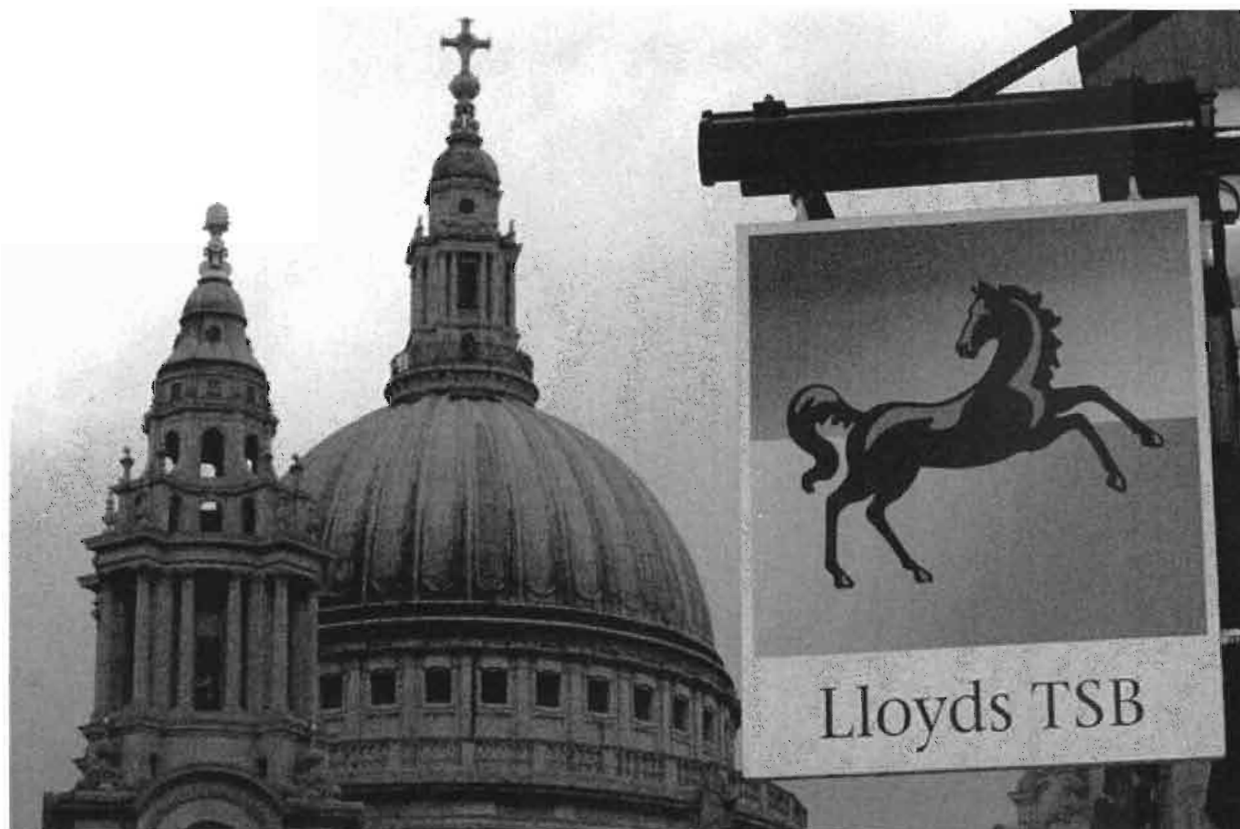
THE SUNDAY TIMES

Banks to avoid for a mortgage

Rates offered by Lloyds could end up costing you dear

Elizabeth Colman Published: 1 July 2012



Lloyds has been charging above-average mortgage rates in the credit crunch (Andrew Winning)

BORROWERS have been warned that Britain's biggest lenders are "taking advantage" of the mortgage drought to fatten their profit margins.

Lloyds Banking Group, the biggest lender, which owns Halifax and Lloyds TSB, has the most expensive loans on the high street, according to figures produced for The Sunday Times by Moneyfacts, the data firm.

The bank, which is 41% owned by the taxpayer, has been charging above-average rates for mortgages throughout the credit crunch, according to experts, and in the past six months has continued to squeeze borrowers with higher costs.

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Lloyds charges those with a 40% deposit — considered the least risky customers — an average

3.86%, compared with 3.42% for the rest of the seven main high street lenders. Borrowers with a £200,000 loan who took a deal at the average rate from Lloyds would pay an extra £565 a year.

It charges 4.5% for the average two-year fix, compared with 4.07% from its big rivals. The best-buy two-year fix is from HSBC at 2.64% for those with a 35% deposit. It has a £1,999 fee.

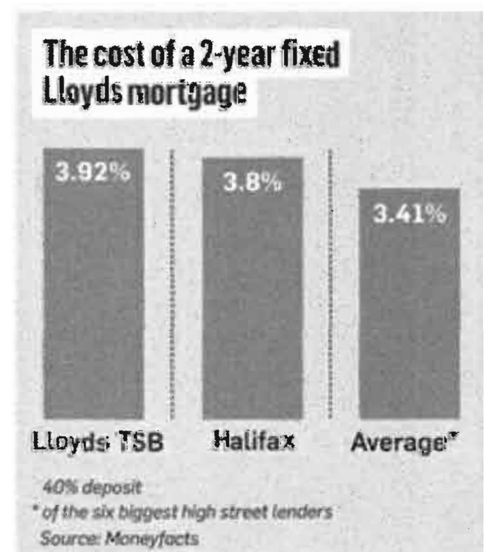
Moneyfacts' data shows the second most expensive lender is Santander, which has retreated from mortgages in recent months. It has an average two-year fix, for borrowers with a 40% deposit, of 4.07%.

Ray Boulger at John Charcol, the broker, said: "Lloyds is taking advantage of the lack of mortgage funding available to charge higher rates. The loans being made will be giving them very good profit margins."

The British Bankers' Association revealed last week that net lending had turned negative for the first time since 1997 — that is, lenders collected more in repayments than they paid out in new loans in May. The total value of mortgages lent dropped £100m.

Experts said that the rates charged by Lloyds partly reflected higher costs of borrowing from wholesale markets to fund new loans. George Buckley, chief economist at Deutsche Bank, estimates that Lloyds pays twice as much as HSBC to borrow from wholesale markets because it has a lower credit rating.

Stephen Noakes of Lloyds said: "We have to do the right thing for shareholders as well as customers and we can't have a loss-making business. We had to increase prices at the back end of the year, we're now at levels more reflective of the cost of funds."



Remortgaging

With mortgage rates at historic lows from some providers, borrowers are being urged to review their deals — even if it means paying a penalty to break a fixed-rate loan.

For example, someone who took out a five-year fix on a £200,000 loan in June 2009 would be paying £1,236 a month. They could cut the cost to £947 a month with the market-leading lifetime tracker from HSBC at 2.99%, which has no fee. They would have to pay an early repayment penalty, typically about 3%. Even so, the tracker would provide a £936 saving over two years, according to L&C, the broker.

Homebuyers

Halifax unveiled a two-year fix for first-time buyers with an unusually high deposit requirement of 20%. The rate is 4.54% with a £740 fee. David Hollingworth at L&C said: "Just because a deal is badged as specifically for first-time buyers, it doesn't make it competitive."

In the past six months, Lloyds has raised the cost of a two-year fix for those with a 10% deposit by 0.75 points while Halifax has increased the cost by 0.17 points.

Private lenders turn screws on wealthy borrowers

Borrowers who took out £1m-plus loans from private banks fear they are being held to ransom as lenders threaten to tear up agreements unless clients invest millions of pounds into investment accounts, *writes Elizabeth Colman*.

In a sign the mortgage drought has spread to the wealthiest borrowers, The Sunday Times has learnt private banks have begun to retreat from lending and are warning customers they will be "reviewing" loans up to 18 months ahead of expiry of their five-year terms.

Brokers said that Standard Chartered and HSBC Private Bank are among those accused of not playing fair, while EFG and ABN Amro are also becoming more "aggressive".

Wealthy borrowers fled to private banks as high street lenders clamped down on big loans, slashing maximum loan sizes to as low as £400,000.

Private banks generally insist that borrowers invest about 50% of the loan amount, or a minimum of £500,000, in the bank's investment platform or equities accounts. In return, wealthy borrowers have secured loans at less than one percentage point over Libor.

Jonathan Harris at Anderson Harris, the broker, said: "Borrowers have been told that their five-year deals are up for review before the end of the term. Private banks are threatening to hike the rates or insist borrowers increase the size of investments under management, or simply refuse to renew the loan."

Ian Gray at largemortgageloans.com, the broker, said: "We have clients with these banks who now feel quite vulnerable and nothing in their circumstances has changed."