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Beware of competitive mortgages from foreign banks

Attractive deals are being put on hold by State Bank of India

Anna Mikhailova Published: 30 September 2012

BORROWERS are being warned about taking competitive mortgage deals offered by foreign banks after one lender suddenly halted sales.

In the past fortnight, State Bank of India (SBI) has stopped accepting applications for buy-to-let deals, claiming it has been overwhelmed with respondents. Some borrowers have seen their applications frozen overnight.

SBI had launched competitive landlord loans in September 2011 and had announced plans to offer residential deals as well. But it has told one broker that all plans are on hold due to "horrible internal issues".

Sources in SBI say this hiatus is likely to continue for at least four months, after which it expects to start lending again.

One borrower found himself in the lurch after his application, which had been delayed by SBI for more than two months, was dropped last week. He was trying to refinance one of three flats in a building he owned. The property is above a shop, which made it difficult for him to find a mortgage.

Ian Gray of largemortgageloans.com, the broker, said: “We saw this in the private banking arena last year with BNP Paribas, the French bank. They opened and were giving out mortgages of more than £500,000, and then closed shop overnight.”

Most of the affected borrowers were on interest-only deals with a maximum five-year term. Some are now nearing the end of their mortgages and BNP “absolutely refuses to renew”, said Gray. Those struggling to remortgage, because of changes in income, credit history or the property’s value, have come unstuck.

This is a danger of borrowing from foreign lenders, said Gray. “Although it’s still very difficult with the British banks to get a loan, at least you can trust that they probably won’t close up without notice and refuse to complete your mortgage.”

There has been an influx of foreign banks seeking to fill the gap left by Britain’s traditional lenders. Bank of China offers the most competitive lifetime tracker mortgage, at 3.18% with a £1,295 fee, for those with a 30% deposit and a maximum property value of £500,000. For homes worth more than this, the fee rises.

Meanwhile, the Singapore private bank OCBC is offering £1m-plus loans at 2.5%.

Gray said: “We are dealing with so many private banks who are keen to lend here and access the volumes of high-net-worth clients in the UK.”

The benefit is that these banks can process requests quickly. “With one of the large Swiss private banks, we can get 1.60 points above overnight Libor on mortgages greater than £1m and a 35% deposit. Clients normally have to invest at least 50% of the loan amount with the bank,” said Gray.

The best rate offered by Barclays is 1.99 points above Bank rate, so 2.49% for five years, with a deposit of at least 50% and a property worth at £500,00 or more. On a £1m mortgage, a borrower would save £44,500 over the five years with the Swiss bank compared with Barclays.

Handelsbanken of Sweden gives its branches the autonomy to set rates and underwrite applications. A typical rate for a two-year tracker would be 1.2 points for a above Handelsbanken’s 1.75% base rate, so 2.95%, according to SPF Private Clients. Its base rate is due to drop to 1.5% in October. There is a 1% fee and early repayment charges for the first two years.

Often, however, borrowers have to jump through hoops to secure a mortgage from a foreign lender. For example, opening a Bank of China current account is compulsory to get a mortgage there. Interest-only deals are not available and the bank does not like clients with a lot of debt.

Foreign lenders also traditionally charge more — usually a 1% arrangement fee instead of the typical £1,000-£2,000.

Aaron Strutt, a broker at Trinity Financial, said: “It is easier to get a mortgage offer from many of the high street lenders.”