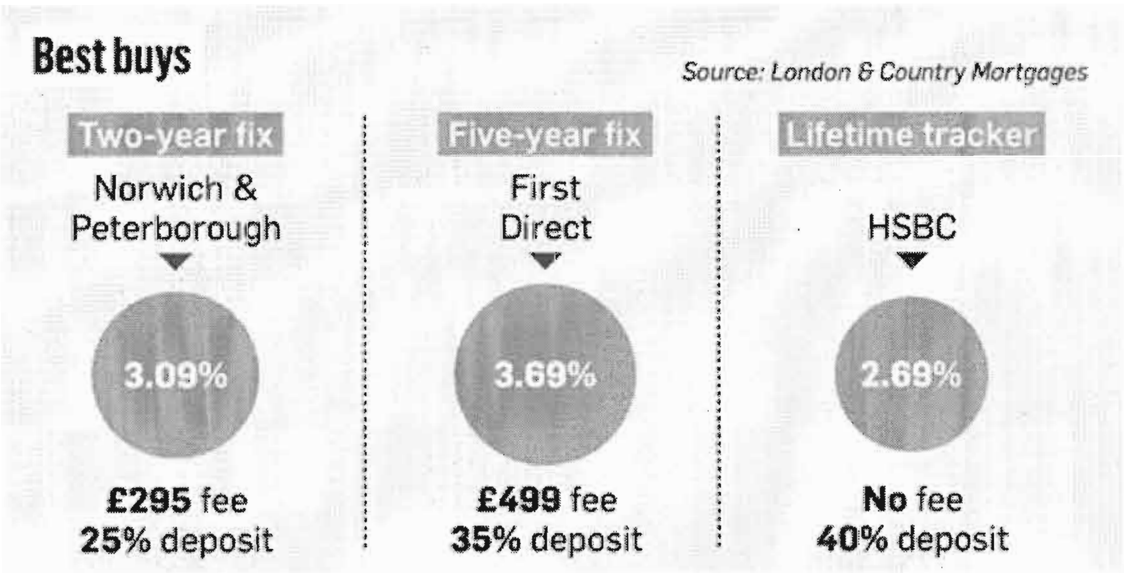
THE SUNDAY TIMES

Borrowers forced to switch banks for best deals

Lenders offer lower rates and fees to existing customers

Esther Shaw Published: 15 April 2012



MORTGAGE lenders are forcing borrowers to switch current accounts or transfer savings to obtain their best deals as banks continue to tighten the criteria for securing a new loan.

Research from Moneyfacts, the data firm, has found there are currently 366 mortgage deals that require borrowers to hold a current account, up from 273 a year ago.

Santander, the second-biggest mortgage lender; HSBC; the Co-operative; and Royal Bank of Scotland are among the high street lenders that reserve their most competitive rates for customers who have held an account for at least three months and pay in £1,000 every month.

Lenders typically offer 0.1-point discounts or more on the advertised loan rate for existing customers, while others promise to reduce fees.

For example, the Co-operative has a best-buy lifetime tracker at 2.29 points above Bank rate, so 2.79%, with no fee, available to existing customers with a 25% deposit.

However, new customers are charged 2.39 points above Bank rate, so 2.89%, with a £499 fee for other borrowers, adding £1,117 to the cost of a £200,000 capital repayment mortgage over five years.

David Hollingworth of London & Country, the broker, said: "In a tough mortgage market, lenders are keen to offer additional incentives to cross-sell other products. Some of these may act as a reward for loyal customers. Others may be packaged as a benefit for those 'upgrading' to accounts that carry a monthly fee."

Ian Gray of largemortgageloans. com, the broker, said: "It is ridiculous that prospective buyers and those remortgaging might need to plan three to six months in advance so they can switch banks and start paying in their salary in order to secure these preferential rates."

Switching your current account to access lower mortgage rates also carries risks. Experts warn that moving banks is no guarantee that you will be accepted for a deal.

Mark Harris of SPF Private Clients, the broker, said: "Just because you go through the pain of opening a bank account with a lender is no guarantee you will qualify for a mortgage. There will be many other requirements borrowers must satisfy."

Restricting loans to existing customers ensures that lenders have more information about those applying for a loan.

This comes as experts say it is increasingly common for banks to reserve better offers for those who apply for deals direct rather than through a broker.

Halifax offers a number of more competitive deals through its branches, at discounts to the quoted broker rates of as much as 0.6% for a two-year fix or 0.5% for a two-year tracker; fees may also differ.

Gray said: "We are seeing a real rise again of banks offering better mortgage deals direct through their branches rather than through brokers."

The trend comes after RBS moved to restrict interest-only mortgages to those with a current account and an annual salary of at least £50,000.

Harris said: "If you want interest-only, you're likely to be better off using a specialist broker or trying a private bank.

"I wouldn't mess about opening bank accounts on the off-chance that this will enable you to access interest-only borrowing."

Advisers have reported a steady rise in remortgage inquiries, with numbers hitting an all-time high last month.

Searches for remortgage advice accounted for almost four in 10 (37%) inquiries on unbiased.co.uk in March, the directory website reported, up from 33% in February and 31% in March last year.

About 1m homeowners on a standard variable rate (SVR), to which borrowers revert at the end of a deal, are set to see their mortgage rates rise at the beginning of next month. Halifax, the Co-operative, Clydesdale and Yorkshire banks and Bank of Ireland will be raising their SVRs on May 1.

This is further evidence that rates are rising as banks and building societies pass on the increasing cost of raising funding for new mortgage lending from the wholesale money markets, which has risen as a result of the continuing eurozone sovereign debt crisis.

Moneysupermarket.com, the comparison website, found that the average two-year fixed rate has climbed to 4.15% from 3.82% in October last year.

The average five-year fix has climbed from 4.57% to 4.72% over the same period.

Clare Francis, mortgage expert at moneysupermarket.com, said: "Mortgage rates are nudging upwards, so anyone looking for a mortgage or whose mortgage deal will end in the next few months should act sooner rather than later to secure one of the current rates in case they rise further.

"Borrowers paying their lender's SVR should also reassess their mortgage arrangements."