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Brokers paid to favour 'quality' borrowers

By Tanya Powley

Homebuyers are in danger of missing out on the best mortgage deals, after a major lender said it would financially incentivise brokers to put forward only "quality" applicants.

From next month, Abbey for Intermediaries, an arm of Santander, will change the way it pays brokers for submitting mortgage applications – which experts warn could potentially leave some borrowers disadvantaged.

Most lenders typically pay brokers "procuration fees" based on the volume of business they generate but Abbey has now become the first to pay fees based on the perceived quality of business.

How much a broker receives will be determined by the "packaging" of mortgage cases – ie, the supporting documentation, such as bank statements and pay-slips – as well as the number of applications that lead to a mortgage offer, and the overall quality of the cases received.

Abbey said: "We are committed to writing mortgage business that is good quality and to offering borrowers the right mortgage for their needs."

Adrian Anderson of Anderson Harris, the mortgage broker, said the move was aimed at sourcing lower risk clients. However, he pointed out that it was "impossible" for brokers to know who Abbey considered a quality applicant, as the lender would not reveal how its credit scoring worked.

Fixed rates set to fall

Lenders are starting to cut the cost of fixed-rate mortgages following big reductions in the cost of wholesale funding – and brokers say further rate

Some advisers said the new approach could have negative consequences for homeowners if it meant brokers refused to submit applications that earned them a lower fee – even if the mortgage was the best deal for the borrower.

"Abbey has said it will depend on a variety of factors," cuts may be on the way, **writes Tanya Powley**.

Swap rates – the rates lenders pay to borrow from each other and price the cost of fixed-rate mortgages – have fallen to all-time lows in the past week, driven by last week's Greek election results and the announcement of the Bank of England's Funding for Lending scheme.

Some lenders have already responded to the reduction in funding costs by launching cheaper deals.

Nottingham Building Society this week launched a best buy five-year fixed rate of 3.69 per cent, available to borrowers with a deposit – or equity – of 25 per cent or more.

Northern Rock also cut the cost of its two- and five-year fixed-rate deals by as much as 20 basis points, bringing its five-year fix down to 3.79 per cent.

Nigel Bedford of Largemortgageloans.com, said the cut in funding costs should see more lenders start to lower their fixed rates in the coming weeks.

Ray Boulger of broker John Charcol said: "The additional funding available to the market, coupled with the sharp reduction in swap rates, is likely to result in a reversal of the increase in new business rates this year."

Borrowers taking out a fixed-rate mortgage through a private bank might already have benefited from the fall in swap rates, as rates were priced over the cost of funds, explained Bedford.

said Ray Boulger of broker John Charcol. "If any of the factors likely to put you in the bottom tier are present in a case, then there's a danger the broker may not submit it to Abbey – even if that's where it should go."

However, others said it was sensible for a lender to focus on quality lending.

Ben Thompson, managing director of Legal & General Mortgage Club, pointed out that lenders had been trying to attract the best type of customer for some time, through product design and lending criteria.

"Many lenders need to clean up and improve their mortgage books for a variety of reasons," he explained. "Those with the best quality books should be able to access funding more cheaply and arguably lend more competitively and freely to consumers. So that's a good thing."

But Thompson warned that if all lenders decided to favour high-quality low-risk borrowers, it could potentially create a "mortgage underclass" – a large group of customers that both brokers and lenders discriminated against.

"This could work regionally, or even be driven by occupation type," he said. "In this case Santander isn't saying that it won't lend to certain people in certain places, it is merely incentivising intermediaries to submit certain types of mortgage applications. So there is no direct discrimination as such," he added.

Andrew Montlake of broker Coreco said the key question would be what Abbey defined as "quality" lending.

Some believe Abbey's initiative is more an attempt to improve the way brokers present applications. "If the lender gets all it needs at the right time, it can process the application more quickly, saving Abbey time and money," said Mark Harris of broker SPF Private Clients. "It incentivises the broker to send the application in full order and makes perfect sense."

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