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Brokers sound alert over mortgage perks

By Tanya Powley

Banks and building societies are offering new financial incentives to entice homeowners to take out a mortgage – but this does not make their loans the best value, brokers warn.

"Long gone are the days when lenders gave away plasma televisions or Rover cars to incentivise borrowers to take out a mortgage," said Adrian Anderson of Anderson Harris, the mortgage broker. But he noted that lenders are increasingly likely to offer "more subtle" benefits – such as cashback, vouchers, fee-free deals, free valuations or free legal fees.

This week, Halifax launched a new deal that will see the bank refund a borrower's valuation costs if their property purchase falls through. This refund guarantee will apply to all mortgages offered by Halifax, both through brokers and the bank's branches.

However, the guarantee comes with a number of caveats that homebuyers should be aware of, experts warned. For example, Halifax will only refund costs where the failure to purchase is not the borrower's fault. Borrowers will get their money back if there is a change in their personal circumstances or if the property survey reveals a number of problems and the vendor refuses to negotiate on price. But fees will not be returned if buyers simply change their minds.

In addition, the guarantee will also only apply to the first purchase that falls through – and the borrower still has to complete on an alternative property with a Halifax mortgage to get the initial refund.

Listen to Tanya Powley talk about perks offered by mortgage lenders on the FT Money Show podcast

Mortgage brokers say borrowers can find more competitive deals with other lenders. "The Halifax Valuation Fee Promise is certainly a good idea, with no negatives, but it doesn't make it the best-buy option for first-time buyers or homemovers," said Nigel Bedford of Largemortgageloans.com.

For example, borrowers buying a £500,000 house with a £250,000 mortgage can find a number of more competitive mortgages elsewhere.

Borrowers wanting to fix their rate for two years could pay 2.64 per cent with HSBC, plus a £1,999 fee, compared with Halifax's fixed rate of 3.09 per cent, with a £1,495 fee.

Many lenders that offer cheaper deals will even provide a free valuation. According to Bedford, there are currently 29 lenders offering a free valuation to purchasers on various mortgage deals.

For example, Nottingham Building Society has a five-year fixed rate at 3.69 per cent, with a £1,499 fee and free valuation, compared with Halifax's rate of 4.69 per cent, with a £999 fee, and a £565 valuation charge that may, or may not, be refunded.

HSBC has a cheaper tracker deal than Halifax, too, also with a free valuation. Its lifetime tracker rate is 2.64 per cent, with no fee and free valuation, compared with Halifax's two-year tracker rate of 3.34 per cent, with a £995 fee.

"Many lenders will pay for the property valuation and legal fees when switching lenders," pointed out Aaron Strutt of Trinity Financial. "Woolwich consistently runs a scheme to entice borrowers to remortgage from high standard variable rates, while Coventry Building Society offers a free property valuation on most of their mortgage rates."

Not all incentive deals are poor value, though.

According to Ray Boulger of broker John Charcol, Coventry Building Society has a competitive five-year fixed rate of 5.35 per cent for first-time buyers with a deposit of 10 per cent that comes with a £500 Ikea gift card. It also includes a free valuation. But it is only available to customers who have been members of the building society for the past three years, or their children or grandchildren.

"Borrowers should not be persuaded to take out a mortgage just because there is an incentive: if there is a perk on offer, work out its value and then factor this into the sums when comparing the total cost of deals," advised Anderson.

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