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Homebuyers go mutual as trust sinks in banks

By Tanya Powley

Building societies have increased their lending to homeowners by nearly 50 per cent, by offering a series of "best buy" mortgage deals, at a time when confidence in banks has been further damaged by rate-rigging and service scandals.

In the first five months of 2012, the number of mortgages approved by societies increased by 48 per cent compared with the same period in 2011, according to figures from the Building Societies Association (BSA) released this week.

"The mutual sector is giving a strong signal that it is open for business to all types of borrowers whether buying a property for the first time or remortgaging," said Adrian Coles, BSA director-general.

This increase in building society lending was announced as a YouGov poll found 60 per cent of consumers "don't trust high street banks", and another bank said it would be raising its standard variable rate (SVR) – the interest rate a customer must pay at the end of a fixed or tracker-rate term.

ING Direct said it will increase its SVR by 0.49 percentage points to 3.99 per cent from August 1. It will increase repayments by £54 a month – or £648 a year – for borrowers with a £200,000 mortgage, according to Mark Harris of broker SPF Private Clients.

Similar increases to SVRs were announced by Halifax, Co-operative Bank, Bank of Ireland, Yorkshire and Clydesdale Banks this year, pushing up costs for more than a million homeowners from May.

For borrowers looking to remortgage or move home, brokers said that building societies now provided most of the low-cost deals. "Look at any mortgage 'best buy' table, and building societies lead the way with the most competitive rates," noted Jonathan Harris of Anderson Harris, the mortgage broker.

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Nigel Bedford of Largemortgageloans.com agreed: “There is evidence that building societies offer better products than banks, especially at high loan-to-values.”

For example, three of the five best-buy two-year fixed rates for borrowers with a 25 per cent deposit are from building societies.

They include a rate of 3.19 per cent from West Bromwich Building Society, with a £999 fee, and 3.34 per cent from Furness Building Society, with a £399 fee.

Building societies also dominate the best-buy table for 90 per cent loan-to-value mortgages, offering four out of the five most competitive rates.

Chelsea Building Society has a two-year fix at 4.34 per cent, with a £1,495 fee, while Yorkshire Building Society has a 4.49 per cent rate with a £995 fee.

Building societies can be more flexible on lending criteria as they typically use “human underwriters, rather than the tick-box, computer says ‘no’ approach” of major banks, said Jonathan Harris.

They are also more likely to offer more innovative products, brokers said. For example, Skipton Building Society this week launched a seven-year fixed-rate deal at 3.99 per cent and a ten-year fix at 4.49 per cent.

However, borrowers have been advised not to discount banks entirely. According to brokers, most of the competitive mortgages for those with larger deposits are still offered by banks, rather than building societies.

Four of the five best-buy two-year fixed-rate deals for borrowers with deposits of 40 per cent or more are offered by banks. They includes a rate of 2.64 per cent from HSBC, with a £1,999 fee, and 3.09 per cent from NatWest/Royal Bank of Scotland, with a £999 fee.

Similarly, for two-year tracker rates, the Post Office – which offers mortgages from Bank of Ireland UK – has the best rate: 2.89 per cent (Bank of England base rate plus 2.39 percentage points) for up to 75 per cent loan-to-value, with a £995 fee.

“You can’t write the big banks off,” said David Hollingworth of London & Country, the mortgage broker. “The flipside to building societies is that they’ve got a smaller capacity to lend than the banks, so they are unlikely ever to do the majority of lending in the market,” he added.

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