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Lenders under fire for mortgage slump

An £80 billion initiative has so far failed to enliven a stagnant housing sector

Anna Mikhailova Published: 7 October 2012


Many house hunters are still finding it hard to secure a loan (Alex Hinds)

BORROWERS are being let down by stubborn mortgage lenders that are failing to pass on savings from cheap money made available by the government.

Lenders have been slammed for ignoring the aims of the Funding for Lending scheme designed to help make it easier and cheaper for homebuyers to borrow money.

The scheme was launched in August, yet the amount of new homeloans fell by £300m during that month, according to figures released by the Bank of England last week.

It revealed that the average fixed mortgage rate for those with a 25% deposit or equity rose by 0.03 percentage points in August and is now 0.52 percentage points higher than at the start of the year.

Ed Stansfield at Capital Economics, the consultancy, said: “Lenders are claiming that the Funding for Lending scheme will help them provide more mortgages, but there is, as yet, no sign of this.”

Ian Gray, a broker at largemortgageloans.co.uk, the loan arranger, said the funding scheme has proved useless so far. He said: "We are simply not seeing significant rate reductions. The steady falls in fixed rates we have seen in the past six months have slowed down, and even those enticing 2.95% and 2.99% five-year fixes are now gone.

"RBS had the best one at 2.95%, but last week they raised it to 3.09%."

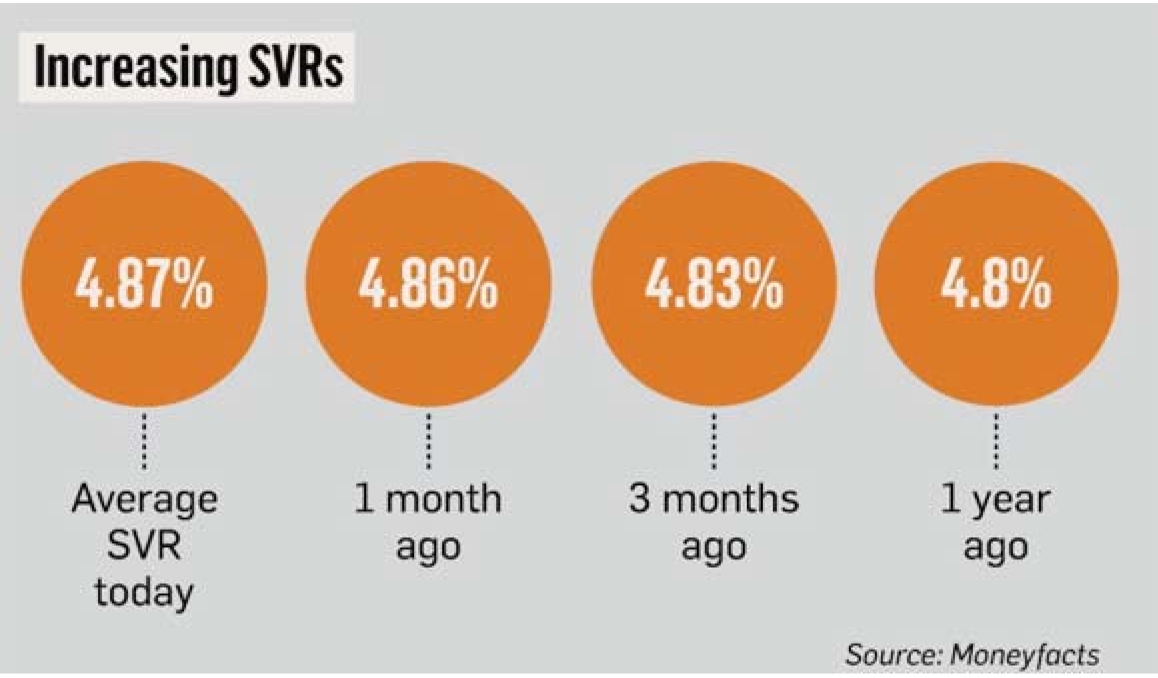
Up to £80 billion of cheap wholesale funding has been offered to banks for mortgages and small business loans over the next four years, to kick-start the stagnant lending market.

In total, 13 banks and building societies have signed up for the Funding for Lending scheme, accounting for nearly three quarters of the UK market for loans to households and companies. But homeowners repaid more debt than they borrowed during August.

The tightening of lending criteria has served to exacerbate the problem of accessing loans. Last week, the news that Nationwide had joined a growing number of lenders that no longer approve interest-only mortgages will add more pressure to an already shrinking market.

Plus, some mortgages are getting more expensive — the reverse of the planned effects of the Funding for Lending scheme. The average two-year fix for homebuyers with a 10% deposit was 5.93% in August — 0.1 points higher than in July. That equates to an additional £200 a year on a £200,000 mortgage.

Andrew Montlake, a broker at Coreco, said: "The effect of the scheme has undoubtedly been more limited than it should have been, with lenders falling back on the same excuses, such as a lack of demand from consumers, which is at odds with many of our experiences."



A crucial problem with Funding for Lending is that it does not encourage banks to improve mortgage availability to those with relatively low deposits, who have been struggling the most to get on the ladder.

Montlake criticises lenders for providing rate reductions primarily for borrowers with high deposits: "Low rates are great, but this needs to be channelled towards those who are finding it difficult to obtain mortgages, such as those at 90% loan-to-value [LTV], rather than further swamping the 60% LTV market where there is less problem.

"We need to see the new lower-priced products at higher LTVs actually converted into solid lending statistics, rather than just being a publicity exercise. That means some relaxation of current criteria, to a level that is still sensible, needs to occur as well."

There are just seven more 95% mortgages available than before the funding scheme started, said Moneyfacts.

Mark Harris of SPF Private Clients said: “The 60% LTV market is over-supplied. If all the scheme does is make these deals cheaper, instead of the 80% or 90% loans, it simply has not worked.”

Securing an affordable mortgage will be especially important for the 400,000 Santander customers who saw their monthly repayments soar last week. The bank’s standard variable rate (SVR), to which borrowers revert at the end of a deal, rose from 4.24% to 4.74%, adding £667 a year to the cost of a £200,000 repayment mortgage.

Brokers expect that at least half the customers with Santander — one of the banks that has made use of the Funding for Lending scheme — will try to remortgage.

As well as Santander, other lenders that have increased their SVRs since the scheme was announced include ING Direct, Bank of Ireland and Cambridge building society. Earlier in the year, the Co-operative Bank and Halifax had also raised their SVRs. More are expected to follow suit. The average SVR is 4.87% today, up from 4.8% a year ago.

Unfortunately for borrowers in need of a new loan, the Bank of England said it does not expect to see any effect from the Funding for Lending Scheme for some time.

One of the problems with the government’s initiative is that there is no mechanism to encourage the banks to lend quickly the money they save, instead only encouraging overall net lending increases.

Many of the best-buys in the market at 60% and 90% LTV are from HSBC, which declared it would not be signing up to the scheme. The failure of other lenders to lower rates further, while making use of cheaper borrowing costs, has been criticised.

Best buys

First Direct offers a two-year fix at 4.29% at 90% LTV, with a £999 fee.
HSBC offers a lifetime tracker at 2.49% above bank rate with a 40% deposit. Again no fee is charged and there is free valuation and free legal work.
Last week, Halifax launched a two-year fix for remortgages at 2.44% on a 40% deposit, with a £1,995 fee. It offers a free valuation and free legal work.
The Woolwich Great Escape deal offers a two-year fix until the end of 2014 at 3.29% on a 30% deposit and a maximum £1m loan.

Case study: Soaring bill
Imogen Miles, pictured with boyfriend James Williams, is one of 400,000 Santander customers whose mortgage bills soared last week after the bank raised its standard variable rate. Miles, 26, bought her three-bedroom house in Cardiff three years ago.


Imogen Miles's Santander mortgage bill has soared (Gareth Everett)