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Less choice for large loan borrowers

By Tanya Powley

Homeowners seeking large mortgages are being penalised on the high street according to brokers, with several banks restricting new, historically low rates to those borrowing less than £500,000.

Banks and building societies have been making significant cuts to the cost of their fixed-rate mortgage deals, following a fall in the cost of wholesale funding and the launch of the government's Funding for Lending scheme.

Three lenders – HSBC, Santander and Natwest – now offer five-year fixed-rate loans at under 3 per cent for borrowers with deposits, or equity, of more than 40 per cent.

However, two of these deals – HSBC and Santander – have restrictions in place that penalise large-loan borrowers. HSBC's five-year fix at 2.99 per cent, with a £1,499 fee, is only available for loans of £500,000 and less, while Santander's deal, with a £1,495 fee, is capped at £550,000.

"It can be tricky for those borrowing more than £500,000 as many high-street lenders don't wish to lend above this amount, or they charge a premium on the rate for doing so," said Adrian Anderson, director of mortgage broker Anderson Harris.

For example, homeowners wishing to borrow more than £500,000 on a five-year basis with HSBC will see the rate increase from 2.99 per cent to 3.99 per cent, with a lower fee of £299.

"Borrowers requiring large mortgages should take care as they could well be penalised on the high street," said Mark Harris of SPF Private Clients.

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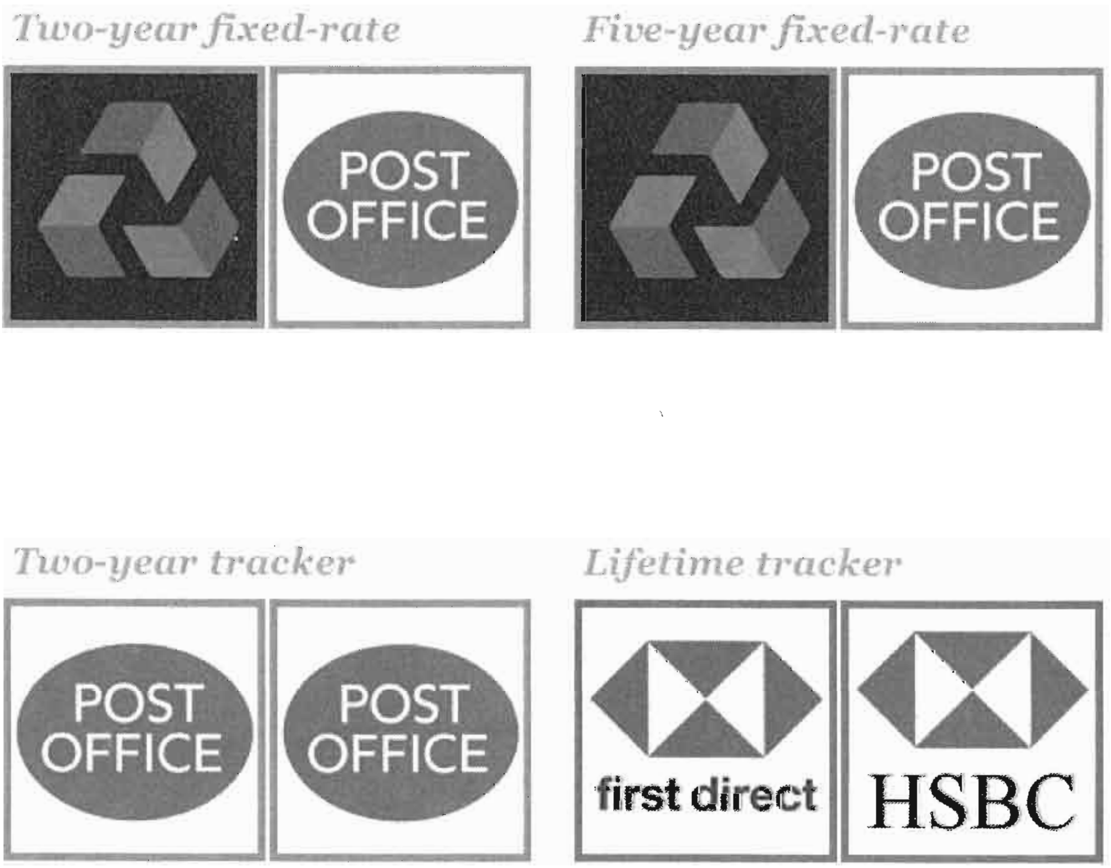

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Other lenders such as First Direct, Leeds Building Society and Bank of China keep the same rates but hike the fee for those borrowing larger sums.

First Direct applies its booking fee to every £400,000 of lending. This means a homeowner taking out the bank's two-year fixed-rate loan at 2.64 per cent, with a £1,999 fee, will see their fee rise to £3,998 if they borrow £600,000.

David Hollingworth of London & Country pointed out that Bank of China, which has a competitive lifetime tracker with a pay-rate of 3.18 per cent, penalises large loan borrowers on two fronts: it increases its fees and restricts the loan-to-value.

But borrowers with larger loans have access to Natwest's cheap five-year deal at 2.95 per cent, which comes with a £2,495 fee. The rate is available on loans up to £1.5m for those with a 40 per cent deposit or equity.

"It's the only sub-3 per cent five-year fix available for larger loans on the high street," noted Ian Gray, mortgage broker at Largemortgageloans.com.

For those looking for a variable-rate mortgage, Woolwich has a competitive two-year tracker at 2.99 per cent available for loans between £500,000 and £2m, according to Harris. It comes with a maximum loan-to-value of 65 per cent and a £1,999 fee.

Experts say most homeowners looking to borrow sums of more than £500,000 will be better off getting a mortgage from a private bank.

"The vast majority of our clients borrow more than £500,000 and we usually end up going to the private banks for cheaper margins, particularly if they wish to borrow more than £1m which most high-street banks don't have the appetite for," explains Anderson.

Gray of Largemortgageloans.com says private banks can offer some borrowers five-year fixed-rates of 2.57 per cent – 1.50 percentage points over the cost of five-year swaps – if they also invest at least £1m.

Alternatively, other private banks will lend up to £3m on a five-year tracker pegged at 1.99 percentage points over base rate, giving a pay rate of 2.49 per cent. Anderson said rates can fall to as low as 2.12 per cent for those requiring borrowing of more than £10m with a private bank.

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