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Loyalty mortgage rates improve

By Tanya Powley



Banks and building societies are improving their so-called “loyalty” mortgage deals, which are offered exclusively to existing account holders – but most borrowers will still be able to find cheaper deals elsewhere.

In the past two years, a number of the big banks – including Barclays, Halifax and Santander – have started making cheaper mortgage deals available to borrowers who

already hold their main current account with them.

To qualify for these deals, banks typically require customers to have held the current account for two months or more, and to pay a minimum amount of money into the current account each month.

Last week, for example, NatWest launched new deals for existing current account customers, with rates that were 10 basis points (bp) cheaper than the rates on its standard mortgage range.

These customers can now apply for a five-year fixed-rate mortgage at 4.19 per cent, with a £999 fee, if they have deposit of 25 per cent or more, compared with the standard NatWest five-year fixed rate of 4.29 per cent, which is available to any borrower.

“Traditionally, we haven’t recommended a lot of loyalty mortgage deals, as they haven’t been the best option – but rates have got better recently,” observed Andrew Montlake of Coreco, the mortgage broker.



Listen to Tanya Powley talk about the price of a loyalty mortgage on the FT’s Money show podcast

One loyalty deal offered by The Co-operative Bank to existing current account customers is currently the best on the market. This lifetime tracker mortgage has an interest rate of 3.19 per cent – Bank of England base rate plus 2.69 percentage points – and is available at loan-to-value ratios of up to 75 per cent, with no fee.

To qualify for this deal, a borrower needs to have held a current account with the bank for a minimum of two months, and pay a salary into that account each month.

Watch for the fees, say brokers

Not all “loyalty” mortgages work in the same way, or work out cheaper, writes **Tanya Powley**.

NatWest typically offers existing customers a 10 basis point reduction in the interest rate, while Barclays/Woolwich offers the same rates to all, but halves the arrangement fees for Barclays account holders. HSBC also offers the same rates to all, but reduces its fee for existing customers by different amounts, depending on which current account they hold – Premier or Advance.

Halifax, meanwhile, keeps its rates the same but offers current account holders £150 cashback.

But some loyalty deals can be more expensive than banks’ standard offerings. According to Nigel Bedford of Largemortgageloans.com, loyalty deals only benefit those borrowing smaller sums.

For example, Abbey for Intermediaries – Santander’s brand for mortgage brokers – has a standard two-year tracker at 3.59 per cent with a £995 fee for those with a 25 per cent or more deposit. Its equivalent loyalty deal has a higher rate of 3.99 per cent, with no fee. “This means that the loyalty deal will only be better for those with mortgages below £125,000,” noted

In comparison, the best-buy standard lifetime tracker deal is 3.29 per cent from HSBC, available at loan-to-value ratios of up to 70 per cent, with no fee.

Aaron Strutt, of mortgage broker Trinity Financial, pointed out that, with more lenders offering loyalty deals for existing customers, borrowers should check which rates they qualify for. “One of the first questions we now ask our clients is who they bank with,” he said.

But mortgage brokers cautioned against switching bank accounts just to access a lender’s loyalty mortgage rate.

“Most banks have quite stringent requirements – with the borrower required to hold the bank account for several months, for example – and the luxury of time is one most buyers simply don’t have,” argued Adrian Anderson of broker Anderson Harris.

“On top of this, the rates simply don’t tend to be that competitive, so it’s hardly worth it,” he added.

David Hollingworth of London & Country agreed and warned that most banks will not let customers set up an account in order to get a mortgage and then never use the current account. “Banks are very intent on getting people in as a main banking customer,” he explained.

For example, The Co-operative Bank stipulates that mortgage funds will not be released to customers who have not paid in two monthly salary payments. It also warns that it could switch customers to its standard variable rate if they stop paying their salaries into the current account.

While some of these loyalty deals have become more competitive, they are still not typically the best deals in

Bedford.

the market.

For example, the best loyalty two-year fixed rate available is 3.09 per cent from NatWest, with a £999 fee, for those with a deposit of 40 per cent or more. However, this is 45bp more expensive than the best-buy standard deal: 2.64 per cent from HSBC.

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