FINANCIAL TIMES

November 23, 2012 6:00 pm

Mortgage price war on the high street

By Tanya Powley

Mortgage costs look set to fall across the board as a price war breaks out among high street lenders and private banks pass on the benefit of lower interbank funding costs.

Among mainstream lenders, the Co-operative Bank cut its range of fixed-rate mortgages and launched a best buy five-year fix at 2.79 per cent for borrowers with deposits – or equity – of 40 per cent or more. The deal comes with a £999 fee.

While many previous low-rate deals from high street banks have been restricted to those borrowing less than £500,000, Co-op's deal has a maximum loan size of £1m. It will also consider lending more on an individual basis.

The next best five-year fix is 2.89 per cent from First Direct, with a £1,999 fee. Like the Co-op deal, this is also available for loan sizes of up to £1m.

Fixing for two years also got cheaper this week. Abbey for Intermediaries, the broker arm of Santander, launched a best-buy rate of 1.99 per cent. It is targeted at those with deposits of 40 per cent or more, but is the maximum loan is £500,000.

Abbey is only offering the deal for seven days, with the deal to be withdrawn next Friday. It comes as Tesco Bank last week pulled its market-leading 1.99 per cent two-year fix.

Lending surges

Lending hit a 11-month high in October, boosting hopes that mortgage activity will continue to improve next year.

Total gross mortgage lending rebounded from its dip in September to reach £12.9bn last month, 4 per cent higher than the same month a year ago, according to the Council of Mortgage Lenders.

Analysts believe the pick-up in activity is a result of the government's Funding for Lending scheme, which is aimed at lowering banks' funding costs and improving

"Abbey will receive a lot of applications for this 1.99 per cent fix. Tesco's rate was around for less than a month," said Aaron Strutt of mortgage broker Trinity Financial.

Abbey's 1.99 per cent rate means fixing for two years is currently the cheapest way to borrow money. The comparable rate for a two-year tracker is 50 basis points more expensive at 2.49 per cent from HSBC, with a £999 fee.

Homeowners wanting to fix their mortgage for longer periods, such as five years, will have more time to apply for Co-op's competitive rate, as the bank has committed to offering its new rates until the end of the year.

Wealthy borrowers requiring larger loans over £1m will find that private banks remain the cheapest option – and their rates have also fallen in recent weeks, according to brokers.

lending to households and small businesses.

Mark Harris of mortgage broker SPF Private Clients believes this bodes well for lending next year.

"As lenders saturate the low loan-to-value market with a plethora of rock-bottom rates, they will be forced to turn to the higher loan-to-value bracket if they are going to do any significant levels of business, which will mean cheaper rates and more choice for first-time buyers," he said.

The cost of funding these mortgages has been cut due to a fall in the cost of overnight and one-month Libor, the interbank lending rate, to below the Bank of England base rate.

This means private banks that price their mortgages based on these rates can pass on lower costs to wealthy borrowers.

"The falls in Libor have been very positive for clients," said Adrian Anderson of mortgage broker Anderson Harris. "The private banks can price in cheaper funding as they are hoping to make money from the client on the other side of their balance sheet through assets under management," he said.

The lowest rates available from private banks tend to be about 1.6 percentage points above overnight Libor, giving a current pay rate of 2.08 per cent.

In comparison, the lowest rate on the high street for those borrowing above £1m is 2.29 per cent two-year fix from NatWest, with a £1,995 fee.

However, competitive rates from private banks are typically restricted to homeowners borrowing over £1m who have £500,000-plus of assets to place under management with the bank, according to Nigel Bedford of Largemortgageloans.com.

Most will typically price between 2 and 3 percentage points over the cost of funds, depending on the borrower's profile.

Private bank mortgages are only suitable for wealthy borrowers with significant assets to invest with the bank. Over the past year, private banks have become stricter in requiring clients to transfer cash or assets to them as soon as accounts are opened in order to secure cheaper home loans.

"The best private bank deals are for very wealthy clients who bring immediate assets to the bank. This is when private banks will undercut competitive high street mortgage rates," explained Simon Gammon of Knight Frank Finance, the mortgage broker.

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