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Rates tumble for larger mortgages

But interest-only deals are rare

Anna Mikhailova Published: 2 December 2012

BORROWERS with £1m-plus mortgages can take advantage of rock-bottom rates from mainstream lenders, but it is getting harder to secure an interest-only deal.

Accord, which is owned by Yorkshire building society, last week launched a five-year fixed-rate capital repayment loan at 3.09% for those with a 30% deposit.

The lender, whose deals are available only through brokers, has relaxed its criteria and now allows loans up to £1.5m. The fix has a £995 fee and is available until Thursday.

It is the latest in a series of loans available to those seeking larger sums. The record-low five-year deal from Co-operative bank at 2.79% for a 40% deposit is also available for more than £1m. It has a £999 fee.

Clydesdale bank and Yorkshire bank are targeting £1m-plus borrowers with their two-year fix at 2.29%. The maximum loan is £2m and a 40% deposit is needed. The deal is available only through specific brokers and it has a £1,999 fee.

The average cost of five-year and two-year fixes fell last week, according to Moneyfacts, the data firm. The typical two-year fix has fallen from 4.48% to 4.31% since October, while the five-year average is down from 4.57% to 4.29%.

A number of the high street lenders cater for £1m-plus borrowers. Halifax, which lends up to £3m, and Woolwich, which has a £5m ceiling, have special underwriting teams to handle big loans.

Brokers said Virgin Money had begun to lend more than £1m and Scottish Widows bank is offering loans of up to £2m to professionals with 25% deposits.

In the past, borrowers seeking more than £1m were confined to private banks, which typically lend only to individuals who transfer £1m of assets to the lender, such as investments. Private banks have tightened their rules, making it harder for borrowers to obtain deals without moving assets.

Andrew Montlake of Coreco, the mortgage broker, said: “There is real choice in the market once more, with borrowers no longer having to tie themselves to a private bank. However, the high street lenders are notoriously tricky to get things through on all but the simplest of transactions. For borrowers who tick the boxes, though, the rates on offer are very competitive.”

The bad news for wealthier borrowers is that many lenders are clamping down on interest-only loans. These are popular with the rich, who prefer the flexibility of being able to pay back debt as they wish.

RBS Group, which owns NatWest, last week became the latest lender to pull out of the interest-only market.

Adrian Anderson of Anderson Harris, the broker, said: “One big disadvantage of the high street is that loans usually have to be on a repayment basis.

“But that isn’t all. There aren’t that many variable-rate mortgages and they often come with penalties during the offer period, which gives less flexibility. The advantage of the private banks is that mortgage terms tend to be more flexible with no early repayment charges as a general rule.”

Ian Gray of the specialist broker largemortgageloans. co.uk said: “High street lenders continue to make tentative forays into the high-value loans market, but I would not say that they are embracing this market quite yet. Often, high-net-worth borrowers need the sophistication of private banks’ lending platforms to meet their needs.”

Brokers expect high street lenders to increase their supply of large loans in coming months because of the conditions set by the government’s Funding for Lending Scheme.

Mark Harris of SPF Private Clients, another broker, said: “High street lenders are restricted in their capacity to handle volume, so writing large-ticket loans is a good way of hitting lending targets without compromising service. It takes the same time to underwrite a £2m loan as it does a £200,000 loan.”