Remortgaging

High street banks offer mortgages up to £10m

Lenders raise upper limit on loans in challenge to private banks

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High street banks are increasingly challenging private banks in the mortgage market for wealthy borrowers, as competition in the home loans market intensifies.

Banks such as Barclays, NatWest, Santander and Nationwide have regained their appetite for the £1m-plus mortgage after beating a rapid retreat from the segment following the financial crisis, brokers said, and were offering much better rates than their private banking rivals.

Simon Gammon, managing partner at broker Knight Frank Finance, said his firm had recently brokered mortgages as high as £10m through mainstream retail banks.

"The high street banks in the last three years have become increasingly keen to lend at the top end of the market, albeit at a more modest loan-to-value ratio of 60 to 70 per cent rather than the 80 to 85 per cent of the pre-crisis era," he said.

High street lenders have raised the upper limit on loans they are prepared to make, even as interest rates have continued to fall. HSBC has no stated maximum limit on loans. For mortgages up to £10m, NatWest offers a rate of 1.19 per cent on a two-year fixed rate for those with a deposit of 40 per cent and an arrangement fee of £995. For loans up to £2m, Barclays has a two-year fixed rate deal at 1.14 per cent for those with a deposit of 40 per cent and an arrangement fee of £1,499.

Private banks dominated the large-loan mortgage market in the wake of the crisis as other lenders were unwilling to extend credit. But their loans typically come with conditions, such as the requirement for borrowers to place a minimum level of investments with the bank.

They would also tend to charge a percentage arrangement fee of between 0.5 and 1 per cent of the loan. On a multi-million pound loan, that compares unfavourably with the flat fees charged by high street banks of around £1,000 to £2,000.

When private banks held sway over the large loan mortgage market, they used home loans as a way to attract new clients, creating a wider investment relationship with wealthy borrowers. David Hollingworth, broker at London & Country Mortgages, said: “It became almost a necessity for borrowers to put assets under management. You reached a point where the private banks were getting so many enquiries they were able to price a bit higher.”

Today the mood is very different. Mr Gammon said he had recently been quizzed by private banks as to why this business had fallen away — and some reacted by easing their insistence that borrowers place other assets with the bank.

Mr Gammon said: “They are definitely having to become more flexible in their requirements for taking on a new client. They have probably not hit their lending targets and so we’re starting to see more flexibility.”

Some private banks were already known for their willingness to engage in so-called “dry lending”, that is, without requiring assets under management. Investec, for example, has a two-year fixed rate deal at 1.89 per cent at a loan-to value ratio of 60 per cent and a fee of 1 per cent. It requires the principal earner to have a minimum income of £300,000 and net assets of £3m but does not ask for assets to be placed with the bank.

While high street banks were prepared to offer tantalising rates on hefty loans, some brokers said they remained less flexible in their judgment of affordability than private banks, which were prepared to consider sources of income other than salary when gauging the ability to repay the loan. "There's less common sense lending in the high street banks," said Gary Festa, executive director at broker HFM Columbus.

However, some high street banks have tried to hone their expertise in serving wealthy clients by building up teams of specialist underwriters for large mortgage loans — allowing them to offer a service that comes closer to the bespoke model of the private bank. "More often deals of this size need a little bit of understanding," said Nigel Bedford, partner at broker Largemortgageloans.com.

Mr Festa said high street banks may be "slaughtering the private banks" when it comes to large loan rates, but he added that the volume of business was substantially down this year, as City clients were holding back from buying and selling in a climate of political and economic uncertainty. "Retail and private banks are chasing the same kind of borrower — but on the whole he's not out there. The £2m-plus market is stagnating."