

From The Sunday Times

September 6, 2009

Mortgage rates fall but there are still catches

Banks are introducing record low rates, but borrowers can only get the best deals by switching current accounts



Elizabeth Colman

Mortgage rates may be coming down but lenders are still imposing restrictions on their best deals.

HSBC launched a “record-low” mortgage last week at a rate of 1.99%, but borrowers must provide a 40% deposit — or £80,000 on a £200,000 home loan.

HSBC’s decision to offer the mortgage with a high deposit, when most of its other top deals are available with a deposit of only 25%, takes the mortgage out of reach for most first-time buyers — though it will be attractive to existing owners moving home or remortgaging.

However, the rate is a discount of 1.95 percentage points off HSBC’s standard variable rate (SVR), now 3.94%, rather than a Bank rate tracker. That means there is no guarantee the rate will move in line with Bank rate in future.

There is also a relatively high arrangement fee of £1,199 and the maximum loan size is £500,000.

For those with bigger mortgages, private banks are offering the best deals — although borrowers generally have to take out other products to qualify.

Royal Bank of Canada, a private bank, has launched in the UK, offering a deal as low as 1.53% — or 1 percentage point over one-month Libor (the rate at which banks lend to each other), currently 0.53%. However, deals are available only through brokers and to those who deposit £1m cash with the bank.

Meanwhile, First Direct, Abbey, Alliance & Leicester (A&L) and NatWest are among lenders offering their best rates only to borrowers who switch their current account.

First Direct, for example, offers the market-leading two-year fix at 3.49% for borrowers with a 40% deposit, and a lifetime tracker at 2.95%. However, borrowers must make payments from a First Direct current account and deals are also available on a repayment basis only.

A&L, which offers the best “flexible” tracker allowing overpayments at 2.95% with no fee, requires borrowers to pay at least £500 a month into the bank’s current account.

Aaron Strutt of Trinity Financial, a broker, said: “Banks have always been fond of cross-selling products — acquiring current account customers means they can sell on profitable products such as insurance.

“If customers later switch their savings and salary it gives the added benefit of boosting the cash side of

their balance sheets.

“However, borrowers need to be sure they really need the products — there could be better deals around for those who don’t want to switch.”

We look at what it takes to get the best deals.

TRY A PRIVATE BANK

If you have need to borrow more than £500,000, private banks are offering by far the best deals and they will often lend up to 80% of the property’s value — although you may have to transfer millions of pounds in cash or investments to qualify.

Coutts, part of Royal Bank of Scotland, is offering two-year trackers from 2.99% with fees of around 0.5%.

However, borrowers can only apply through mortgage brokers and are assessed on a “case-by-case basis”.

Coutts generally requires you to put down one-third of the amount you borrow on deposit with the bank.

RBS Wealth, which includes Coutts, more than doubled its share of the overall group’s lending to nearly 10% in the 12 months to June, advancing £400m in loans, according to previously unpublished figures.

Meanwhile, HSBC Private Bank will now lend up to 70% of a property’s value on loans of more than £2m and is offering trackers at 2.7%, while Kleinwort Benson recently lent £1m at a rate of just 2% to a client of Largemortgageloans, the broker.

Ian Gray of the broker said: “He had a house in Primrose Hill, north London, and a buy-to-let flat without a mortgage and was interested in raising a loan where he could draw down funds in the future when certain business opportunities came up.

“The high street wouldn’t have done it as he didn’t have a traditional salary income. We were able to raise a revolving facility with Kleinwort Benson where he can draw down and repay over the years as he needs funds, and it’s at a rate of only 2%.

“As a general rule, private banks usually start to take notice if you offer up at least a third of the lending on deposit, so it really depends on how much we want to borrow.

“This is particularly helpful for those whose cash is tied up in a share portfolio they don’t want to liquidate at the moment, or in offshore funds which can be brought under management with the bank but kept offshore.”

SWITCH ACCOUNTS

If you want a fixed rate, other banks are offering better deals than HSBC’s 3.99% over two years — but again there are restrictions.

NatWest has a standard two-year fix at 3.69% but this is reduced to 3.59% for those who take out an Advantage Private current account, which costs £20 a month, pays 0.5% interest on credit balances and has an overdraft rate of 13.5%. It will lend up to £2m compared with £1m for high street customers.

Someone with a £1m loan would save £1,568 a year by moving their current account compared with the standard deal, including the £20 for the current account.

Gray said: “We find clients with £2m loans are usually content to switch to a paid-for current account as it shaves a few thousand pounds off their loan.”

You need a minimum salary of £75,000, joint income of £100,000 or £50,000 to invest to be eligible. The account offers annual travel insurance, breakdown cover, 25% savings on concert and theatre tickets and a personal “relationship manager”.

However, you could get an even better deal if you moved your current account to First Direct, which has a two-year fix at 3.49% and where current accounts are free. As this is an “offset” deal, borrowers can reduce monthly payments by using the balance in the linked current account.

Alternatively, the best two-year fix where you do not have to move your current account is from Royal Bank of Scotland, at 3.69% with a fee of £798 for those with a 25% deposit. This would cost you just £300 more than the First Direct deal over the two-year term — without the bother of moving your current account.

Strutt said: “Borrowers may be content to pay the extra £300 if it means they don’t have the hassle of switching their direct debits.”

Enjoying the perks

SELINA GOH, 33, an investment banker and her partner, Brett McCulley, 34, a solicitor, remortgaged their two-bedroom flat in Islington, north London, on a two-year fix from Royal Bank of Scotland last month.

The deal, at 3.89%, was 0.10 percentage points less than the high street deal on offer from RBS because the couple opened the bank’s Royalties Private current account, which costs £18 a month and is available to those who have a salary of at least £75,000.

Despite the account fee, the couple will save about £600 in repayments over two years compared with the high street deal. Goh said: “When we came to remortgage, fixed-rate deals were starting to go up and I was worried. Our existing deal from Halifax was 5.19% so I was surprised to get 3.89%.

“The RBS current account gives us perks. We travel a lot so things such as the airport lounge access are a real bonus.

In the end the benefits of the account outweighed the inconvenience of opening a new account and the cost.”

[Contact our advertising team](#) for advertising and sponsorship in Times Online, The Times and The Sunday Times, or place your [advertisement](#).

Times Online Services: [Dating](#) | [Jobs](#) | [Property Search](#) | [Used Cars](#) | [Holidays](#) | [Births, Marriages, Deaths](#) | [Subscriptions](#) | [E-paper](#)

News International associated websites: [Globrix Property Search](#) | [Milkround](#)

Copyright 2009 Times Newspapers Ltd.

This service is provided on Times Newspapers' [standard Terms and Conditions](#). Please read our [Privacy Policy](#). To inquire about a licence to reproduce material from Times Online, The Times or The Sunday Times, click [here](#). This website is published by a member of the News International Group. News International Limited, 1 Virginia St, London E98 1XY, is the holding company for the News International group and is registered in England No 81701. VAT number GB 243 8054 69.

