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Best banks for your mortgage

Santander and HSBC look good value but the state-backed groups such as Royal Bank of Scotland are not doing too well

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Mortgage rates tumbled last week as banks and building societies cut the cost of fixed and tracker deals but Royal Bank of Scotland, which is 84%-owned by the taxpayer, came under fire for bucking the trend.

It raised the rate on its two-year tracker from 4.79% to 5.49% for those with small deposits, only a day after Stephen Hester, the bank's chief executive, appeared before MPs to defend the bank's lending practices.

"We expect to exceed our targets for mortgage lending," he said. "A lot of mortgage lenders have disappeared and we're stepping in."

RBS did cut the cost of some loans but was criticised for lifting its popular two-year tracker deal while Bank rate remains frozen.

The average fix across the market fell for the fifth month in a row in December to 4.88%, according to Moneyfacts, the financial data firm. The average tracker remained at 3.76%.

Brokers said the state-backed banks were increasingly pulling back from the market, despite their comments at the Treasury select committee, with HSBC and Spanish bank Santander looking increasingly good value.

The biggest cuts have come from HSBC and its subsidiary, First Direct, which now offers the best five-year fix and lifetime tracker deals. Santander, Nationwide and Yorkshire building society also cut rates.

Government-backed Lloyds Banking Group shaved 0.2 of a percentage point off its Halifax range but left its Cheltenham & Gloucester rates on hold and still charges above the market average, according to research firm Defaqto. Its average fix is 5.61%, compared with the market average of 5.42%, while its trackers average 3.93% compared with 3.78% for the industry. This gives it the highest rates among the other banking giants — HSBC, Santander, RBS and Barclays.

Eric Daniels, Lloyds chief executive, was also before the Treasury committee this week, alongside Gary Hoffman, chief executive of Northern Rock.

Here, we examine the best of the banking giants.

HSBC and First Direct

Last week HSBC cut its five-year fix from 4.95% to a market-leading 4.73% for those with a 40% deposit, with a fee of £999. Brokers recommend those who are looking to fix do so for at least five years, as rates are expected to rise sharply during that period.

Its subsidiary, First Direct, cut its market leading lifetime tracker — the deal the experts recommend — from 2.68% to 2.58% with a fee of £999, for those with a 35% deposit. This mortgage has no penalties so you can switch to a fix at any time.

First Direct also has one of the best-buy two-year fixed-rate deals at 3.47% with a fee of £498, available to those with a 35% deposit. However, bear in mind the First Direct deals are offsets, which require borrowers to have a current account.

HSBC also has a low two-year tracker at 2.49% with a fee of £999 and a discount at 2.29% with a £1,499 fee, both for those with a 40% deposit.

However, discount deals are pegged to HSBC's standard variable rate (SVR) at 3.94%, rather than Bank rate, so the lender can raise the rate at its own discretion — although it has good form in this area.

Verdict: HSBC is leading the market with the best five-year fix and lifetime tracker from First Direct. It also appears to be rejecting fewer applicants. However, you will need a 40% deposit and, as its deals are not available through brokers, borrowers have to make sure they have the right advice.

Santander

Emilio Botin, Santander chairman, declared he wanted the bank to become the biggest in the UK as 1,000 Abbey and Bradford & Bingley branches were rebranded last week.

Santander cut rates on its mortgages by up to 0.50 points and launched a tracker for those with a 10% deposit.

It offers the best two-year tracker for homebuyers — not remortgagers — through its brand Alliance & Leicester at 2.49% with a £1,495 fee. You must have a 30% deposit.

Through brokers, it offers a two-year tracker at 2.59% with a £995 fee for those with a 30% deposit, including free legal fees and valuation.

It also has the best three-year tracker at 2.69% and a £995 fee for those with a 30% deposit.

However, Aaron Strutt, at Trinity Financial Group, the broker, said: "First-time buyers need to be careful. Santander's new tracker has a margin of 4.29 points over Bank rate — and this will rise."

Verdict: Best for mortgages through brokers, usually offering free valuation and legal fees. Good for those with a 30% deposit, as opposed to 40% at HSBC.

Supermutuals

The credit crunch has given rise to a new breed of “supermutual” while smaller players are also cutting rates.

Nationwide, which now owns Derbyshire, Cheshire and Dunfermline building societies, cut rates on mortgages for those with a deposit of 20% last week.

However, its deals are still largely uncompetitive. For example, its two-year fix for purchases at 3.69% for those with a 30% deposit lags HSBC’s, and it charges more for remortgages at 4.68%.

Yorkshire, which is set to merge with Chelsea building society, cut its fix and tracker deals by up to 0.6 points last week. It is offering a best buy 10-year fix for those with a 25% deposit at 5.69%, with a £495 fee.

Verdict: The supermutuals are not offering mortgage customers much yet, although Yorkshire building society shows promise with its 25% deposit 10-year deal.

Best of the rest

Coventry building society is offering a market-leading two-year fix at 3.45% with a £999 fee for those with a 35% deposit — available only through brokers. It is also offering free valuation and legal fees for remortgages.

Verdict: Smaller building societies are regularly offering best buy deals. However, they usually last only a few days. Your broker is usually best placed to monitor this market.

SETTLED ON A FIXED RATE DEAL



Anthony Hoang, 30, a university technology adviser, pictured with his girlfriend, Elena, 26, signed up to a mortgage with Abbey, now Santander, last month.

Hoang, a first-time buyer, took out a three- year fix on the studio flat in West Kensington, London, at 4.78%. The fee was £999 and a 30% deposit was required.

The deal, available only through brokers, was arranged by his adviser, Trinity Financial Group. Hoang chose the mortgage as it offered the certainty of fixed payments, there were no fees for the lender’s valuation and he received £250 cashback.

“After saving for a deposit, the offer of free fees was attractive,” he said. “The fixed rate means I won’t have to worry with interest rates rising. I didn’t want any surprises.”

