Finding a decent mortgage can be a long and sometimes arduous quest

- **People in hot air balloons shaped like houses** Corbis

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News that mortgage lending has slumped to its lowest for a decade will further dampen the mood among borrowers looking for a loan

News that mortgage lending has slumped to its lowest for a decade will further dampen the mood among one group of borrowers looking for a loan. These are people with good credit records who have either a decent deposit or equity in their homes, yet they suspect that they might still be turned down by increasingly fussy banks. Their search for finance may be more successful if they change their strategy to take account of changes in the lender league. Some big hitters are no longer competing for business as once they were, while other names have opened the door a little more.

In 2007 Halifax reigned supreme, with its parent company, HBOS, holding a 20.1 per cent share of the market — more than 10 per cent higher than any other lender. Lloyds TSB, with which HBOS merged a year later, and Northern Rock each held 8.1 per cent.

Now the dominance of these traditional players has begun to wain. This year the market share (in terms of gross lending) of Lloyds Banking Group (containing the former HBOS and Lloyds TSB mortgage books) fell from 30.7 per cent in 2008 to 24.1 per cent. Rivals have been quick to fill the gap. Santander's slice has shot up from 13.9 per cent to 18.4 per cent and HSBC, which three years ago had only a 2.8 per share, now has 9.7 per cent.

Melanie Bien, of Private Finance, the independent mortgage broker, says: "The mortgage market landscape has shifted dramatically since the credit crunch hit. Traditional big players such as Halifax and Nationwide have a much smaller market share than they used to enjoy.

"In the case of Halifax, it was forced to go cap in hand to the taxpayer and had to be rescued by Lloyds, while Nationwide relies so heavily on dwindling savings accounts that it is no longer able to facilitate vast volumes of lending. Meanwhile, lenders such as Santander, HSBC and Barclays/Woolwich, which didn't call on taxpayer money, have prospered and now account for the bulk of lending."

The reason for this shift is not only that banks such as Lloyds have less capital available for lending, as they prepare to pay back loans to the State, but that many lenders used to rely on cheap borrowing from the wholesale money markets (in other words, from other banks) to fund their mortgage books. Now those banks with impaired credit ratings are forced to borrow at higher rates of interest. Although wholesale lending has begun to return, Ray Boulger, of John Charcol, another broker, says that "weaker banks" must still borrow at rates up to 25 basis points higher than their rivals.

Meanwhile, Boulger says, HSBC adopted a clever strategy during the recession. "While banks such as Halifax jumped in at very low margins to attract new business, HSBC maintained steadier rates." He added that, though it didn't have as many customers, it was "never lending at a loss, unlike Halifax, which at points was lending at -0.51 per cent".

He also suggests that Halifax's previous strategy — of attempting to cross-sell to customers who had other financial products with the bank — has become less effective as the comparison websites have made it easier to "shop around".
So what does this change in the lending landscape mean for borrowers? Certainly it is the emerging players that regularly grace the "best-buy" mortgage listings.

Many commentators, including the Council of Mortgage Lenders (CML), have pointed out that the big difference in conditions since before the credit crunch is not that the big names have changed, but that many smaller lenders have fallen by the wayside, making the market less competitive and giving first-time buyers no option but to ask larger lenders. These tend to use prohibitive computer-based scoring to assess creditworthiness. The top six lenders now handle more than 90 per cent of gross mortgage lending, according to the CML, against a little more than 60 per cent three years ago. “The impact of this has constrained diversity and competition and the supply of lending overall,” the CML says.

Options may yet improve, however, as new entrants seek to win over customers tired of the old lenders. In July, Metro Bank, the first high street bank to launch in the UK for more than 100 years, opened in Holborn, London, with products offering up to 80 per cent LTV, such as a two-year fix at 5 per cent. Next summer Tesco hopes to launch its own mortgage range.

A spokeswoman for Tesco Bank said it was too early to talk about the details, but added: “It is critical that we design products that are consistent with our brand: namely, products that are simple, transparent and reward customer loyalty.”

Aaron Strutt, of the Trinity Financial Group, says there is space in the market for new lenders and they could make a difference to borrowers if they offer something different.

Boulger adds that the impact of increasingly competitive rates is already evident; there has been a recent increase in the number of lenders offering loans at 80 to 85 per cent LTV, as they try to capture a wider market than the smaller cash-dependent market of recent years.

It remains to be seen whether the kind of brand loyalty that once allowed Halifax to retain customers will help to make Tesco a significant player in the mortgage market.