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Return of the foreign banks

Chinese, Swedish and Israeli banks are offering the best mortgage rates



Elizabeth Colman

Brokers are recommending cheap mortgages from Swedish, Israeli and Chinese banks as they become increasingly frustrated with poor deals on the high street.

Bank of China, Handelsbanken of Sweden, and Israel's Leumi have begun undercutting the UK high street as British banks remain reluctant to lend. Foreign banks are also relaxing their eligibility criteria, so you are more likely to get a deal if you earn bonus income or are self-employed.

Bank of China is making an aggressive push into the UK mortgage market, offering loans up to £1m direct to customers. It is offering tracker rates from 3% for borrowers who can provide a 25% deposit, with a minimum fee of £995. It is also undercutting UK banks on buy-to-lets, asking for 100% of rental income to cover repayments while most UK lenders require 125%.

Ian Gray of largemortgageloans.co.uk, said: "Bank of China is entering the market in a big way. It has been talking to us for months but is now making its deals available through leading brokers, although you must still have an interview in one of its branches in major cities."

Leumi has the market-leading five-year tracker, at just 1.625% above three-month Libor — the wholesale rate at which banks borrow from each other. With Libor at 0.93% last week, the rate would be 2.56%. While Libor has been more volatile than Bank rate recently, historically the two have moved largely in tandem. On a £200,000 loan, repayments would work out at about £904 a month with a fee of £1,000. There is a minimum deposit of 35%, or 25% for wealthier borrowers.

The next best lifetime tracker on offer is from HSBC at 2.95% with a fee of £799, for borrowers with a 25% deposit, according to Moneyfacts, the financial data firm.

Mark Harris at Savills Private Finance, another broker, said: "We've had clients wait eight weeks to be turned down by HSBC. Buyers can't wait, they'll miss the house. We have therefore been sending a lot of our customers to Bank of China because we know they will issue the offer letter in time, and their rates are extremely competitive."

According to figures from Moneysupermarket, the comparison site, the number of mortgages on offer from UK lenders has fallen 59% to 2,242 over the past year.

Last week, the Royal Institution of Chartered Surveyors said that one in ten home sales had fallen in the past three months as a direct result of buyers being unable to obtain finance. Simon Rubinsohn, chief economist at Rics, said: "The government's attempt to improve the flow of funds is not delivering."

Aaron Strutt of Trinity Financial Group, a broker, said: "The problem is that lenders are pulling rates without warning — borrowers need to be alert, otherwise they will miss out on the deal.

One analyst at a global investment bank said: "There is money to be made from mortgages — large amounts — so it makes sense that foreign banks would come looking for business that Britain's banks are unable to service."

Handelsbanken has lifted its maximum loan size above £2.7m — much higher than the maximum offered by UK banks. It has also made a push for savings, taking big deposits in the Midlands.

However, Moody's, the ratings agency, last week said it was reviewing Handelsbanken's AA1 rating for a possible downgrade.

Handelsbanken is not a full member of the Financial Services Compensation Scheme so savers would have to apply to Sweden for the first €20,000 (£17,000) of savings. Borrowers are, of course, not as vulnerable as savers because they hold the bank's money, rather than the other way round.

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