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HSBC deal raises hopes of mortgage price war

Britain's biggest bank lays down the gauntlet to rival lenders with a new discounted deal at 1.99 per cent

James Charles

HSBC, Britain's biggest bank, has launched one of the cheapest-ever mortgage deals for new customers with an interest rate of just 1.99 per cent, but the deal comes with a catch - only those with a sizable deposit and a perfect credit history need apply.

The two-year deal, which is available from today, requires a deposit of 40 per cent. It also has a hefty fee of £1,199. Mortgage brokers have also warned that the discounted deal is pegged the HSBC's standard variable rate (SVR), rather than the base rate, as with popular tracker mortgages. In theory HSBC could raise its SVR - currently 3.94 per cent - at any time, although brokers acknowledged that this is unlikely.

Aaron Strutt, of Trinity Financial Group, the broker, said: "This is an extremely competitive rate that wipes the floor with the competition. However, HSBC is known to be a very conservative lender and it is likely that it will only be approving the cleanest borrowers with the largest deposits."

The bank said the new deal was an attempt to lure new customers who are currently sitting on a low SVR with rival lenders, which have fallen considerably in the last year after the Bank of England reduced the base rate over six months to 0.5 per cent. Borrowers traditionally revert on an SVR at the end of a mortgage deal.

About 500,000 borrowers with mortgages from Nationwide Building Society are paying just 2.5 per cent on its SVR. Cheltenham & Gloucester, part of the Lloyds Banking Group, also has an SVR of 2.5 per cent, while Halifax, Britain's biggest lender has an SVR of 3.5 per cent.

Martijn van der Heijden, head of mortgages at HSBC said: "Across the market lenders' standard variable rates are at an all time low, as a result we are launching our lowest ever mortgage rate - 1.99 per cent - to appeal to remortgaging homeowners.

"We have also made our higher loan to value mortgages even better value to support the increasing number of home purchasers either move, or step on the housing ladder for the first time."

HSBC was the largest net lender in the first half of the year, with £4.2 billion of new lending. It has committed to lending £15 billion in new mortgages this year.

Britain's biggest bank also gave a boost to first-time buyers with a new deal that is substantially cheaper than those currently on the market. It is offering a discounted variable-rate deal at 3.89 per cent, with a fee of £1,199, available up to 90 per cent of a property's value.

Ray Boulger, of John Charcol, senior technical manager at John Charcol, another broker, said: "HSBC is in a good financial position so will be able to borrow funding from the markets very cheaply. It is still likely to be making a healthy margin on the costs of these deals."

Three-month Libor, the moneymarkets which indicates the cost to banks of wholesale mortgage funding, fell to 0.68 per cent yesterday, compared to 2.71 per cent at the beginning of the year.

Swap rates, upon which fixed rate deals are based, have also dropped steeply in recent days after the market revised predictions of when the Bank of England would raise interest rates.

Five-year swaps have since fallen by around 0.4 per cent to 3.36 per cent, while two-year swaps are now below 2 per cent at 1.97 per cent.

But the margins being charged on fixed rate mortgage deals remain high, with the average two-year fixed rate currently standing at 5.18 per cent, while five-year deals cost around 6.22 per cent, according to Moneyfacts.co.uk, the financial website.

A number of lenders cut mortgage interest rates this morning to reflect lower wholesale borrowing costs. Cheltenham & Gloucester, owned by Lloyds Banking Group, reduced the cost of two and three-year fixed rate mortgages available through intermediaries by between 0.1 percentage points and 0.2 percentage points, leaving a two-year deal at a 60 per cent loan to value ratio at 4.19 per cent. It also introduced a new fee-free range.

The Woolwich also reduced its two-year fixed rate mortgage for people with a 30 per cent deposit who pay a £999 fee by 0.2 per cent to 4.09 per cent, and launched a new deal at 4.19 per cent with a lower fee of 4£99.

There has been a move away from fixed-rate deals by new borrowers towards variable-rate loans after predictions from economists that the Bank of England was unlikely to raise the base rate in the near future.

More than a 30 per cent of mortgage applications were for base-rate tracker deals last month, according to John Charcol, the broker, compared to around 10 per cent in previous months.

Banks and building societies pushed up the cost of fixed-rate deals earlier this year to reflect the higher costs of wholesale borrowing on moneymarkets. However, lenders also said that wider profits on new mortgage deals cover the bill for the rising numbers of borrowers in arrears on the mortgage repayments.

Andrew Haggart, of Money.net, the price comparison website, said: "It's an aggressive move from HSBC and may shake up what has become a rather stagnant mortgage market – we'll be watching closely to see how other lenders respond.

"If there's a flood of applicants chasing the headline 1.99% deal it will be interesting to see if HSBC can manage demand or whether the offer gets oversubscribed and then pulled within a couple of weeks.

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