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Banks continue to hold back on home loans

The rise in top-rate tax will put squeeze on cash

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BANKS and building societies are reining in lending to first-time buyers, potentially frustrating the government's attempts to boost the housing market through the stamp duty exemption on properties up to £250,000.

Brokers said the exemption was "no panacea" as the state of the mortgage market was a more pressing problem.

High earners could also fall foul of banks, which are reducing how much they will lend ahead of the government's tax changes.

Santander, formerly Abbey, has adjusted its lending models to take account of the increase in the top rate of tax to 50% for those earning more than £150,000 — the first big lender to do so. Someone earning about £180,000 a year will have to find an extra £25,000 compared with their position until now.

We look at whether it is still possible to get a loan.

FIRST-TIME BUYERS HSBC rushed out two "first-time buyer" mortgages last week in a move to capitalise on the stamp duty announcement. However, the rate on a deal for those with a 10% deposit is 4.49 points over Bank rate. This means the cost of a mortgage could rise to 8.49% when rates get back to 4%.

Brokers warn that first-time buyers with small deposits should steer clear of trackers unless they are certain they can cover repayments when rates start to rise, as margins are much higher than for ordinary borrowers.

For example, the average rate for tracker deals aimed at people with a deposit of 10% is 4.88 points over Bank rate, said Moneyfacts, the financial data firm. This compares with closer to 3% for other borrowers.

While the margin is high, the HSBC deal is one of the best trackers on the market as there are no penalties for early repayment — useful if interest rates rise as you can switch into a fix. However, this is still a gamble because borrowers would have to ensure they had enough equity to get the best fixed-rate deals when the time comes to remortgage.

HSBC also launched a market-leading two-year fixed rate last week, although this was only for those with a 30% deposit, at 2.99% with a maximum loan size of £250,000 and a fee of £999.

Aaron Strutt of Trinity Financial Group, the broker, said: "The best two-year fix for those with a 10% deposit is Nationwide building society's at 5.98% with a £495 fee. However, you need a current account to get this deal."

State-backed Halifax has one of the worst five-year fixed rates for those with a 10% deposit at 7.49% a year with a fee of £999. Royal Bank of Scotland has a better deal at 6.39% with no fee — although the maximum loan is £300,000.

Banks are also increasingly offering their best-buy loans to those who borrow on a capital repayment basis rather than take out an interest-only mortgage. The latter are popular with first-time buyers to reduce repayment costs.

Santander and HSBC require a deposit of at least 25% if you want to take out an interest-only mortgage.

Britannia building society will lend up to 85% of the purchase price on an interest-only basis. Its best deal for those with a 15% deposit is a two-year fix at 4.49% with a £999 fee.

Yorkshire building society has the best five-year fixed rate for those with a 15% deposit at 5.69% with a fee of £495.

LARGE LOANS As a result of Santander's changes last week, someone earning about £180,000 a year will have to find an extra £25,000. For example, Santander was previously prepared to lend someone with a £180,000 income and two children about £813,740 for a mortgage.

However, after the changes last week, it will lend only £789,264, according to figures from largemortgageloans.co.uk, the broker.

In a further blow to those looking to borrow large sums, lenders remain reluctant to offer their best rates for big loans. Earlier this month, Santander unveiled a market-leading rate on five-year loans at 4.6% a year.

The deal has a £995 fee and is available to those with a 40% deposit, and appeared to undercut HSBC's long-standing best-buy at 4.64% with a £995 fee, also for those with a 40% deposit.

However, the Santander deal is available for only up to £250,000. It is also restricted to those who do not use a broker.

Strutt said: "Lenders have been slow to bring down the cost of large loans despite falls in the cost of wholesale funding.

"This deal from Santander looks like a flicker of competition, but if they really want business they are going to have to try a lot harder."

HSBC also sells direct-only but will lend up to £500,000 on its five-year fix at 4.64%. For loans up to £1m, HSBC has a five-year deal at 5.59%.

For loans greater than £500,000, ING has a five-year fix at 4.66% with a £945 fee for those with a 40% deposit. It also has the best two-year fix at 3.19% with a £945 fee for those with a 40% deposit.

HSBC has the best lifetime tracker at 2.49% with a £999 fee for those with a 40% deposit.