

How lenders are becoming more like credit card firms

Brokers have accused mortgage lenders of acting like credit card firms by introducing extra clauses into the small print of top deals

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Lenders have been accused of acting in an unnecessarily aggressive manner (NTI) Brokers have accused mortgage lenders of acting increasingly like credit card firms by introducing extra clauses into the terms and conditions of top deals.

Consumers often move their expensive credit card debts to a new card offering a 0% interest rate for balance transfers, thereby avoiding a big interest bill. But the terms and conditions may say that missing or delaying just one payment could mean a fine and lead to forfeiture of the interest-free period, with the card reverting to the typical interest rate.

Mortgage lenders are increasingly copying this tough approach. For example, Coventry building society offers a market-leading capped tracker mortgage. The interest rate, currently 3%, is capped at 4.99% until June 30, 2013, for borrowers with a 40% deposit. However, Coventry has drawn up new conditions for its mortgages, which include moving customers onto its

standard variable rate (SVR) of 4.74% if they miss one mortgage payment. The deal has a £999 fee and free property valuation.

Lenders are also making more use of cross-selling techniques, where they require you to take out another product to qualify for hot deals.

More than a quarter of all mortgages now require another product with the lender, usually a current account, against 9% two years ago, according to research for The Sunday Times by Defaqto, the data firm. Both Abbey, part of the Spanish Santander group, and Halifax offer cheaper mortgage deals if you take out a current account.

The Co-operative bank has an attractive lifetime tracker for borrowers with a 25% deposit, set at Bank rate plus 1.99% — so 2.49% at present. However, it is available only for customers who have current accounts with the bank or with Smile, its online subsidiary. There is no application fee and no early repayment charges.

Also, the terms and conditions state that you can apply only if you have paid at least two consecutive months' salary into the current account. If you stop doing so, the Co-op reserves the right to switch you to its SVR of 4.24%.

Aaron Strutt at Trinity Financial, the broker, said: "Threatening to put borrowers onto the SVR for missing a payment is pretty extreme. More lenders are imposing credit card-type conditions on the mortgage market and borrowers need to read the small print to ensure they don't get caught out."

Coventry said: "We regularly review our terms and conditions and that one is being taken out. We have never invoked it and would always treat customers in financial difficulties in a sympathetic way."

The Co-op said: "Clearly, if a product is available only to a current account customer, it is reasonable that we expect a customer to continue to use their current account. For those who do not do this or do not wish to use our current account, we do have other products that also offer good value where this condition does not apply."