

Customers lose out as banks return to profit

Taxpayers may have made back nearly all their money from their stakes in the state-owned banks, but borrowers are finding they're paying the price

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Customers are paying the price to help banks return to profit (EPA/Andy Rain)Lloyds

Banking Group, which is 41% owned by the government, returned to profit in the first three months of the year with the help of higher profit margins charged back to consumers.

The bank, which reported a loss of £6.3 billion for 2009, said on Tuesday that it expects to remain in the black for the remainder of this year because of lower bad debts and the higher profit margins.

Alistair Darling claimed last week that the government had “made its money back and more” after the share prices of Lloyds and Royal Bank of Scotland surged in recent months. Lloyds shares have jumped 31% to 66p this year, just less than the average price at which the government bought its stake. RBS is up 26% at 55p, against an average of 50p.

Announcing its interim management statement, Lloyds said it had increased profit margins, partly by increasing its share of deposits while keeping lending “flat”.

However, analysis for The Sunday Times by Defaqto, the data firm, shows Lloyds is charging higher margins on its mortgage products compared with the overall industry. It has also raised arrangement fees and cut the amount it will lend as a proportion of the purchase price.

This month, Cheltenham & Gloucester (C&G), which is part of Lloyds, launched a range of three-year fixed-rate mortgages with a hefty £1,494 arrangement fee, above the average of about £900.

Jonathan Cornell of First Action Finance, the broker, wrote in Mortgage Strategy magazine last week: “It feels like Lloyds Banking Group has been pricing itself out of the market for a long time. You could argue that it has the quickest processing and is easy to deal with, but that seems to be coming at a price.”

Northern Rock, the nationalised bank, also announced impressive results this year. Last week, it cut a raft of rates on purchase deals but almost doubled arrangement fees from £595 to £995.

Aaron Strutt of Trinity Financial, the broker, said: “Lenders may be cutting rates but are increasingly hiking their arrangement fees — a sneaky move.”

Barclays unveiled first-quarter profits of £1.8 billion last week, reporting that its UK retail bank — the high street operation — made a pre-tax profit of £238m, up 20%.

However, as Britain’s high street banks squeeze customers, smaller players are increasingly presenting a better deal, offering consumers a way to fight back.

Borrowers

Lloyds is charging above the industry average for its fixed-rate and tracker mortgages. The average two-year fix is 4.84% compared with the market average of 4.67%. The average fee on a two-year Lloyds deal is £1,238 against the market average of £916, according to Defaqto.

Five-year fixed-rate mortgages from Lloyds, which also includes Halifax and Bank of Scotland, are worse at 6.11%, or 0.21 points above the average five-year deal.

The market-leading five-year fix at 4.49% from Britannia is available for up to 75% of the property purchase price, so you need a 25% deposit. First Direct has a lifetime tracker at 2.39% with a £995 fee and no early payment penalty for a 35% deposit.

Savers

Halifax's Liquid Gold account and Lloyds TSB's Easy Saver and eSavings accounts are regularly singled out for dishonourable mention.

While Lloyds' overall savings rates remain above the industry average — chiefly because of better rates designed to attract new customers — loyal savers have been punished.

Halifax took the decision to cut the rate on Liquid Gold from 0.1% to 0.05% in October for customers with deposits of less than £10,000.

The two Lloyds accounts have been criticised for offering an introductory rate of 1.6%, which includes a bonus of 1.5%, so your interest rate reverts to 0.1% after 12 months.

The best savings rate is from Manchester building society at 2.66% on a £1,000 balance. Tesco pays 2.75% on an internet-only account.

Lloyds has also boosted income from current accounts by 53% to £1 billion over the previous year, according to the results published in February, partly from raising costs for fee-charging accounts and unauthorised overdrafts.

Lloyds charges £25 a month for its Premier accounts. In return, it provides benefits such as travel insurance. You can earn 4% if you pay in at least £1,000 a month and hold a constant balance of at least £5,000, otherwise the rate is just 0.1%.

Lloyds has some of the highest fees for unauthorised overdraft usage — it charges £20 on unpaid items, up to a maximum of £215.

Halifax has also come under fire for increasing rates on its authorised overdraft accounts. Its Reward account is one of the better-paying accounts, offering £5 net of basic rate tax if you pay in £1,000 a month.

Alliance & Leicester, owned by Santander, has the best fee-free current account, paying 5% fixed for a year on balances of up to £2,500 — but only if you credit the account with £500 a month. After 12 months, the rate falls to 1%.

A&L's Premier Direct account does not charge interest for the first 12 months on overdrafts of up to £2,000, subject to your credit status. After this, you are charged 50p a day up to a maximum of £5 a month for authorised overdrafts.