

Small societies beat the big banks

By Tanya Powley

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Small building societies are currently offering the majority of the most competitive mortgage rates – dominating this week's tables of the best fixed-rate loans.

Hanley Economic, Monmouthshire, Leek United and Loughborough Building Society are just a handful of smaller lenders offering cheaper fixed rates than their larger bank counterparts.

Research this week showed that the UK's largest lenders only provide 29 per cent of the top 500 mortgages – in spite of having a 75 per cent share of the mortgage market.

According to Moneyfacts, just six of the top 50 two-year fixed-rate products at 85 per cent loan-to-value are provided by the big lenders.

“Borrowers should not assume that their high street bank offers the most competitive mortgage rates simply because of the volumes of business it does,” said Melanie Bien of Private Finance, the mortgage broker.

For example, Loughborough Building Society offers a five-year fix at 4.49 per cent, available up to 75 per cent loan-to-value with a £549 fee. The next best rate is offered by Yorkshire Building Society at 4.79 per cent with a £495 fee.

Similarly, Hanley Economic Building Society has a market-leading two-year fix at 3.70 per cent, available at 80 per cent loan-to-value with a £499 fee.

Nigel Bedford of Largemortgageloans.com said small building societies tend to be the most competitive at high loan-to-values and smaller loan sizes. “The reason they can be very competitive on pricing is that the majority of money lent is still their own – from savings deposits rather than obtained from the money markets,” he said.

This is particularly true in the case of fixed-rate mortgages. Large lenders have had to increase pricing on their fixed rates over the past few months as swap rates – the rate at which banks lend to each other – have increased. This week, one of the big lenders – Nationwide Building Society – increased the cost of a number of its fixed-rate deals for the second time in the space of three days. “It is unusual for a lender to raise mortgage rates twice in such a short space of time and by such a large amount,” said Aaron Strutt of Trinity Financial.

Smaller building societies have not had to increase their rates to the same degree so their loans have become more competitive, said Bedford.

Mortgage brokers point out that smaller building societies can also offer a very good service to match the rates. They are often much more innovative, too.

“As a broker, we have a good relationship with many of the smaller building societies and find that many of them are forward-thinking in their approach to product development,” said David Hollingworth of London & Country. He said National Counties and Bath Building Society have both launched innovative

products aimed at first-time buyers, while other small lenders have partnered with housebuilders to launch high loan-to-value products.

However, there are limitations to the deals from smaller lenders. Many will only have small tranches of funding available for each deal and others may only lend in their local areas.

And the larger banks are not uncompetitive in all areas of the mortgage market. First Direct has the lowest two-year tracker at 1.99 per cent, available up to 65 per cent loan-to-value with a £999 fee. HSBC has the cheapest lifetime tracker at 2.29 per cent, available at 60 per cent loan-to-value with a £99 fee.