

Lenders push for lower risk borrowers

By Tanya Powley

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Nationwide Building Society has launched a competitive mortgage deal for borrowers seeking no more than half of a property's value, in an effort to attract low-risk customers. But mortgage brokers said borrowers who can put down large deposits should still check the rates offered by other lenders.

Last week, Nationwide announced that it was introducing a new 50 per cent loan-to-value (LTV) mortgage to reward borrowers for having a larger amount of equity in their homes. Its two-year fixed rate for mortgages of up to 50 per cent LTV is 3.44 per cent, which is 0.35 percentage points lower than its two-year fix for borrowers with a 30 per cent deposit, noted Aaron Strutt of Trinity Financial.

There are only three other mortgage deals for borrowers with 50 per cent deposits, says Moneyfacts, the financial information group. These are offered by the Coventry and Holmesdale Building Societies. Holmesdale is the only lender offering a variable-rate deal.

Lenders' best rates are most commonly available on mortgages of 60-65 per cent LTV, said Nigel Bedford of Largemortgageloans.com.

"Although there is more choice for borrowers requiring higher loan-to-values, lenders still prefer those with big deposits or sizeable amounts of equity in their homes," said Melanie Bien of Private Finance, the mortgage broker.

But while Nationwide's two-year fix is competitive, it is not the best rate currently available. Borrowers with smaller deposits can get a better fixed deal over two years from National Counties Building Society, which charges 3.09 per cent with a £495 fee, available up to 75 per cent loan-to-value. However, this deal will only suit borrowers requiring smaller loans of up to £350,000, compared with Nationwide's £1m.

Bien advised borrowers with large amounts of equity to compare all the different rates available. "A deal restricted to 50 per cent loan-to-value may not be the most competitive so you need to compare it with what else is on the market," she said.

"Don't assume because the lender really wants your business that it is automatically going to offer you the cheapest rate," she added.

Borrowers who prefer to fix for a longer term can also choose from competitive five-year deals. Nationwide has the cheapest five-year fix at 4.39 per cent with a £900 fee, available up to 70 per cent LTV.

Wealthy clients with large loans are also advised to consider private banks. "With swap rates falling back a little over the last couple of weeks, private banks can still be extremely attractive for larger loans for the right clients as they usually price fixed rates on a margin above current cost of funds in the market," said Bedford.

He pointed out that private banks are offering lower fixed and variable rates than the few high street banks that are happy to lend above £1m.