‘Loyalty’ mortgages don’t offer best value

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Banks and building societies are offering cheaper mortgages to their current-account customers – but taking up these so-called “loyalty” deals could see borrowers miss out on the best rates in the market.

In the past year, a number of the big banks – including Barclays, Halifax and Santander – have started offering lower mortgage rates to borrowers who hold another account with them, as a reward for loyalty. To qualify for these loyalty deals, banks typically require customers to have had a current account for three months and to pay a minimum amount of money into the account each month.

However, an analysis by FT Money of the loyalty deals on offer shows that most of them provide only a small saving on the rates offered to non-account holders – and all of the loyalty rates offered by banks are more expensive than the best-buy deals in the wider market.

For those looking to buy a new home, Santander offers existing current-account holders a two-year tracker mortgage rate of 2.44 per cent – Bank of England base rate plus 1.94 percentage points – available on loans of up to 70 per cent of a property’s value. But the only saving it for these customers is a £250 reduction in the fee. They are charged £745, while non-account holders are charged a slightly higher fee of £995, but get the same interest rate. In comparison, the best buy two-year tracker mortgage rate is currently 1.99 per cent from First Direct.

Existing current account holders are also limited by the maximum loan size on the loyalty deal, according to David Hollingworth of mortgage broker London & Country. Santander allows a maximum loan size of £550,000 for its loyalty deal, while non-account holders can borrow as much as £1m.

Barclays and its intermediary brand Woolwich will typically offer loyalty rates that are around 0.10 percentage points cheaper than its standard deals.

But, again, while its rates are generally competitive, all of the Barclays loyalty deals are still more expensive than the best buy deals on the market. It offers a five-year fixed-rate loyalty deal at 4.48 per cent, available on loan-to-value (LTV) ratios of up to 70 per cent, with a £999 fee. Today, though, borrowers can get five-year fixes that are 0.49 percentage points cheaper with Yorkshire Building Society – it which charges 3.99 per cent, available up to 75 per cent LTV, with a £995 fee.

This week, Halifax changed its offer for existing customers, making its loyalty deal less attractive than before. While it previously offered current-account customers a 0.20 percentage-point discount on its mortgage rate, from Saturday it will offer every customer the discounted rate but with current-account holders receiving £150 cashback.

“The 0.20 per cent discount would generally look like a more significant offer although clearly this depends on loan size,” said Hollingworth.

Aaron Strutt of Trinity Financial pointed out that Halifax’s rates have not been market leading for a while. “Unless Halifax offers you a mortgage where other lenders won’t, I would suggest shopping around,” he said.

Customers who pay a monthly fee for their current accounts also qualify for loyalty mortgages but these are also more expensive than the best buys in the market, according to Hollingworth.

HSBC offers all customers a two-year fixed rate at 3.89 per cent, available up to 70 per cent LTV, with a £599 fee. Customers who pay £12.95 a month for its Advance account get a £200 reduction in this fee, while Premier account customers – who must have an annual income of at least £100,000 – save £300.

But HSBC’S rate is more than 1 percentage point higher than Market Harborough Building Society’s best buy two-year fix at 2.75 per cent.

Mortgage brokers say borrowers should always compare the loyalty rate they are offered by their bank with other deals in the market.

“Your lender may offer you a slightly cheaper mortgage rate than it does to non-account holders, but often the saving is very small and you could do better by shopping around and using another lender,” said Melanie Bien of Private Finance. “Just because your bank is calling it a loyalty deal, doesn’t mean it’s going to be great value.”