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New mortgage lenders fail to sparkle

By Tanya Powley

State Bank of India has become the latest "new entrant" to the UK mortgage market, with plans to offer residential loans alongside buy-to-let deals. But most of the new lenders to have emerged in the past two years have struggled to provide significant competition to established mortgage providers.

Last week, India's largest lender confirmed it would begin offering residential mortgages in the UK from August, following a launch into the buy-to-let market last September. State Bank of India currently has 10 branches in the UK, and follows in the footsteps of Bank of China, which started offering mortgages in July 2009.
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Since then, homegrown names – such as Metro Bank, Aldermore and Precise Mortgages – have also sought a share of the UK mortgage market.
However, most of these entrants have failed to gain significant ground against the big banks. Last November, it was revealed that Metro Bank – which promised to shake up the UK high street banking market when it launched in 2010 – had advanced only 100 mortgages to customers in its first 15 months.

Bank of China, one of the world's largest banks, has offered competitive rates. But its strict lending criteria – which, until recently, involved a compulsory interview for applicants at one of its five UK branches – has led to a limited take-up of its deals.
"It's fair to say that recent entrants haven't shaken up the mortgage market that much," said Ray Boulger of John Charcol, the mortgage broker.

According to brokers, some entrants are failing to price their rates competitively, while others restrict their deals to all but the lowest-risk borrowers.

For example, Metro Bank has a two-year fixed rate at 3.25 per cent, available to those with deposits of 40 per cent or more, paying a £500 fee. However, borrowers can get a cheaper rate with Principality Building Society. It has a two-year fix at 2.79 per cent for those with deposits of 25 per cent or more, with a £999 fee.

By contrast, Bank of China has a best-buy lifetime tracker rate of 2.80 per cent – Bank of England base rate plus 2.30 percentage points – available up to 80 per cent loan-to-value. But its strict criteria can make the application process difficult and much longer than normal.

According to Boulger, this resulted in an application for a "good-quality borrower" in straightforward circumstances taking seven weeks at Bank of China – compared with the standard one to two-week application process at the big high-street lenders. "Their products offer excellent value, but the application process is quite painful," Boulger said. "If a lender's not doing much in the mortgage market, it's because they don't want to. In today's market, if you want to write mortgage business you can do so very easily by either tweaking rates or criteria."

Although new entrants are not competing aggressively for mainstream mortgages, analysts said that some are helping the market – by targeting niche customers, such as those who would struggle to get a mortgage due to an adverse credit history. "Most of the newer entrants are not in a position to offer market-leading mortgages and their aim is to lend where some of the top lenders won't," said Aaron Strutt of Trinity Financial.

For example, Precise Mortgages offers a range of "near-prime" mortgages for borrowers who have some minor form of adverse credit history in the previous 24 months – such as one county court judgment – provided it was not in the past three months. Similarly, Aldermore will also consider lending if a borrower has had late payments on unsecured debt.

"New entrants are not generally going to go storming in to take enormous market share," noted David Hollingworth of London & Country. "They are either looking to differentiate in lending criteria or offer innovative products."

He said Aldermore's 100 per cent mortgage deal is an example of this. It offers a two-year fixed rate of 5.98 per cent for up to 100 per cent of a property's value – but takes a 20 per cent charge on a borrower's parents' property. "This brings something new to the market that wasn't there before," said Hollingworth.