

the banks' desperation for new mortgage business needs to be closely monitored."

'Bad debts could rise'

Mould added that the increase in low-rate mortgages could lead to a rise in bad debts if loans are given to riskier individuals simply to get new business.

That would put pressure of balance sheets and undermine the sector's renewed commitment to dividends, he said.

Challenger banks have come in droves since the financial crisis, shaking up a sector once dominated by the largest banks.

But tough competition has kicked off a consolidation among these challengers.

CYBG, the owner of Clydesdale and Yorkshire Banks, recently snapped up Virgin Money while OneSavings Bank PLC (LON:OSB) and Charter Court Financial Services Group PLC (LON:CCFS) have agreed to merge.

The industry could be braced for further consolidation unless competitive pressures ease.

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