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## End of the road for super-low trackers

**As deals close to 0% revert to the standard variable rate, homeowners will see monthly repayments go through the roof**



Elizabeth Colman

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Thousands of homeowners who have been paying the best-ever mortgage rates of 0% are braced for a huge repayment shock in the coming weeks.

They face a tough decision as to whether they should remortgage, especially after the Bank of England's quarterly inflation report last week suggested interest rates could stay lower for longer.

Borrowers who took out "super-low" two-year tracker mortgages with Halifax, the Co-op and Birmingham Midshires in the summer of 2007 have been paying 0% on their loans since Bank rate fell to 0.5% in March. Those on Cheltenham & Gloucester's (C&G) deal at 1.01 percentage points below Bank rate have been paying 0% since rates fell to 1% in February. However, all face a jump in repayments of as much as £8,000 a year as deals revert to standard variable rates (SVRs) as high as 4.24% this month and next.

For example, borrowers who in August 2007 took out the Co-op's tracker at 0.61 points below Bank rate on a typical £200,000 interest-only loan will pay £707 a month or £8,484 a year as their deals revert to the SVR of 4.24%. On a repayment loan the jump would be £415 more a month, or £4,980 a year.

Borrowers are unlikely to be able to get a competitive new deal. The cost of the average five-year fix rose from 5.54% to 5.7% between June and July, the highest level since October 2008, figures from the Bank of England showed last week.

The inflation report suggested rates will stay lower for longer and many analysts now think they will remain on hold throughout 2010. Rates were expected to rise either later this year or the start of next.

George Buckley at Deutsche Bank expects a 0.25 percentage point rise mid-2010. He said: "The markets are more hawkish — they think Bank rate will be 1.25% by June 2010 and 4% by December 2011."

As the best deals end, we look at the options.

### **Stay on the standard rate**

Most of the super-low trackers revert to the lender's SVR but rates differ widely. C&G has the lowest SVR at 2.5%. When its deal expires next month, a borrower on a £200,000 repayment loan would pay £230 more a month if they went on to SVR.

Birmingham Midshires customers do slightly better — their deal at 0.81 points below Bank rate reverts to 1.99% above Bank rate, or 2.49%.

David Hollingworth of L&C, a broker, said: "There is unlikely to be a better product for these customers if they are content to stay on a variable rate mortgage for the time being."

For other lenders, the advice is different. Those on Halifax's super-low deals would be £4,721 better off over two years if they opted for HSBC's tracker at 2.95% rather than staying on the SVR, assuming a £200,000 repayment loan and taking the fee into account.

### Switch to a fix

Borrowers are still switching to fixes in record numbers despite the spiralling cost of the deals, according to Paragon. The lowest two-year fix is 3.34% from First Direct, with a fee of £1,498, while the best five-year deal is from HSBC at 4.95% with a £999 fee. Both deals require a 40% deposit.

Borrowers with the Co-op super-low trackers would be only £599 worse off in the first year if they remortgaged to First Direct's two-year fix assuming rates do not rise, and £2,027 worse off in the first year if they switched to the lender's five-year fix, taking into account the fee.

### Negative equity deals

Millions of borrowers will be unable to take out a new deal, said Ray Boulger of John Charcol, the broker — including his son Ed, who took out Halifax's tracker at 0.51 percentage points below Bank rate in August 2007 when the rate was 5.75%. He paid an initial 5.24% for the mortgage on his home in Lincolnshire and has been paying 0% since March.

However, when he tried to take out a new fix, Halifax's valuation wiped more than 25% off the property's value, leaving him in negative equity. He must now decide whether to stick with the SVR at 3.5%, or go with one of Halifax's offers for existing customers with less than 5% equity in their home.

Among the deals are a five-year fix at 6.19% or a three-year "stepped" fix with an average rate of 5.2%. The deal, however, has a £1,025 fee.

**Take out a hybrid deal** Borrowers with enough equity in their home can reduce repayments by splitting their loan between fixes and trackers.

Ian Gray of largemortgageloans.com, said: "You can avoid paying two arrangement fees if you take out both mortgages with the same lender."

### Brokers sidelined

Lenders are again cutting brokers out of the best deals by raising rates in a sign that the mortgage freeze is not yet abating. Abbey said it is raising rates on some of its best deals through brokers in an effort to "manage volumes" — in other words, limit the amount of business it does. Its five-year fix through brokers rose from 5.79% to 5.98%, compared with 5.69% for those who take the deal direct.

### I'm sticking with my fabulous loan



Debbie Arnold, 50, of Cobham, Surrey, thinks her super-low tracker is "fabulous" and has no intention of switching — even though repayments will soar when the deal expires in the autumn.

The actress, who recently starred in the film *Photo Shoot*, has been paying 0% interest on the Birmingham Midshires loan, arranged by broker Trinity Financial Group, since March. The deal is reverting to 1.99% above Bank rate. It is widely expected to stay at 0.5% for at least the remainder of the year — and possibly until the end of 2010. She said: "My feeling is that the worst that happens is rates rise and my payments go back to what they were when I took out the deal. It's double what I'm paying now, but it was affordable."

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