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# Building society borrowers face higher standard variable rates

**Lenders expected to follow the Scottish Building Society, which has raised its SVR by a quarter point to 5.29 per cent**

James Charles

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Building society borrowers on standard variable rates (SVR) face the prospect of rising mortgage costs after Scottish Building Society became the latest mutual to hit customers with a rate hike.

The building society will raise its SVR, which borrowers revert on to at the end of their mortgage deals, by a quarter point to 5.29 per cent on August 29.

The Bank of England base rate has remained unchanged at 0.5 per cent since March and economists now believe it is unlikely that the Bank will increase the rate in the near future.

In a letter to borrowers, Scottish Building Society said that it was forced to increase interest rates because of the cost of handling an increasing number of customers in arrears. It also blamed the levy imposed on the society by the Government to fund the Financial Services Compensation Scheme, which it puts at £600,000.

In June, Ipswich Building Society increased its SVR by half a point to 5.49 per cent and mortgage experts expect other building societies to follow suit in the coming months.

More than 27 per cent of homeowners are sitting on their lender's SVR, according to Moneysupermarket.com, the price comparison website.

Aaron Strutt, of Trinity Financial Group, the broker, said: "The problems faced by Scottish Building Society are the same across the entire mutual sector, so it seems to be only a matter of time before customers of other building societies see standard variable rates creep up."

Meanwhile, Coventry Building Society is introducing a number of new deals tomorrow with the best interest rates reserved for borrowers with at least a 50 per cent deposit.

It is offering a two-year fixed-rate deal with a rate of 3.95 per cent and a fee of £999 to borrowers who need to borrow up to 50 per cent of the value of their property.

It is the only mainstream lender on the market offering deals which require a deposit of at least half the value of the property.

A number of other building societies including Barnsley and Chelsea have increased interest rates in the last month as the margin between swap rates, the wholesale moneymarkets used to fund fixed-rate mortgage lending, and mortgage rates continues to rise.

Research by Moneyfacts.co.uk, the financial website, found that the spread between the average two-year fixed-rate deal and the equivalent two-swap rate was at its widest on record.

Michelle Slade, of Moneyfacts.co.uk, said: "Margins continue to be increased as lenders look to repair dented balance sheets. Normal rules where lenders pass or decrease rates based on the cost of funding seem to have well and truly gone out of the window."

"Lenders have always been quicker to pass on increases rather than decreases, but many seem to be reluctant to pass on any decrease in the current climate."

A number of building societies have recently made changes to their SVRs to ensure that new customers

cannot take advantage of the low rates on offer.

Nationwide, Britain's biggest mutual, which currently has a standard variable rate of 2.5 per cent, has introduced a new rate that new customers will revert onto at the end of their deals of 3.99 per cent.

It is thought to be losing millions of pounds a year because almost half its customers are currently paying only 2.5 per cent on their home loans. Nationwide is unable to raise its SVR for existing customers because the small print of the mortgage contracts promised the rate would never be more than 2 per cent above the base rate.

Skipton Building Society, which had a similar rule, has also said the new customers will revert to a standard variable rate which will never fall below 4.5 per cent. Existing customers will revert onto an SVR which is currently 3.5 per cent.

A spokeswoman said: "Our Society is in a very healthy financial position and has progressed well so far this year. We will continue to provide value for money savings and mortgage products to members without prejudicing the financial strength of the Society."

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