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Thousands face rate jump in coming weeks

With building societies set to raise their rates, we examine the best deals

James Charles

More than 70,000 homeowners with standard variable rate (SVR) mortgages from building societies face higher borrowing costs in the coming weeks, experts have warned.

Societies look set to follow the Skipton, which raised its SVR last week despite protests from angry customers, many of whom are unable to remortgage to better deals elsewhere. Homeowners that can move mortgage have been told that now is the time to switch to a new fixed-rate deal or tracker.

Nine building societies have already increased their SVRs since March last year, when the Bank of England lowered the base rate to its current position of 0.5 per cent. Some building societies, including Marsden, have pushed up variable rates to as much as 5.95 per cent. Nationwide has announced that it is to raise SVRs by up to half a point next week at its two specialist self-cert and buy-to-let lending divisions, UCB Homeloans and the Mortgage Works. However, borrowers with loans directly from the mutual will not be affected as its SVR is linked to the Bank of England base rate, which is not expected to rise until autumn.

David Hollingworth, of London & Country Mortgages, the broker, says: "Unfortunately, we expect that more building societies will soon be forced to announce increases to variable rates. Borrowers sitting on these pricey SVRs shouldn't wait to switch to a fixed rate or tracker deal. Although rates may still be pushed lower by growing competition in the market, the cost of sitting on a high variable rate will exceed any savings made by waiting."

More than 60,000 Skipton customers already face higher borrowing costs. It wrote to borrowers last week informing them of plans to raise its variable rate by 1.45 percentage points, from the current 3.5 per cent, to 4.95 per cent on March 1. Repayments for borrowers with a £150,000 capital repayment loan will jump from £750 to £872 a month. However, Skipton has waived early repayment charges for those who want to remortgage.

The good news for building society customers on SVRs is that burgeoning competition in the mortgage market — and a growing appetite among banks to lend — has meant the cost of fixed-rate and base-rate tracker deals have dropped considerably in recent weeks. The average five-year fixed-rate deal, available up to 75 per cent of a property's value, has fallen to 6.02 per cent, from 6.24 per cent last September, according to Moneyfacts.co.uk, the financial website. This week ING Direct became the latest lender to cut the cost of its five-year fixes, lowering the rate by 0.86 percentage points to 4.88 per cent, with a £995 fee, available up to 75 per cent of a property's value.

Aaron Strutt, of Trinity Financial Group, a broker, says: "Two-year fixed rates have fallen considerably in recent weeks. Some lenders have also been cutting five-year fixes, but many of the deals are still expensive compared with the rest of the market and prices for longer-term deals could drop further."> Figures from Moneyfacts.co.uk also show that average two-year tracker rates have been squeezed recently, down to 3.68 per cent compared with 3.71 per cent at the beginning of January.

Economists and mortgage experts are divided about the movement of the Bank of England base rate over the coming months. Tracker deals pegged to base are cheaper in the current market, but borrowers are gambling on the base rate remaining low over the coming years. It is currently 0.5 per cent, but experts believe it could climb to 1.5 per cent by the end of the year.

Mr Hollingworth adds: "If a rise in interest rates, and a subsequent jump in your repayments, is a big concern, it is better that you opt for a deal with a fixed rate and set monthly repayments. However, borrowers who can afford the risk could save money by opting for a cheaper tracker deal."

Homeowners with a deposit or equity stake worth 40 per cent of their property's value could opt for the current best-buy tracker deal from ING Direct. It has an interest rate of 2.04 points over base, a current pay rate of 2.54 per cent, with a £795 fee. Borrowers with a £150,000 capital repayment loan moving to the new Skipton SVR of 4.95 per cent would save almost £200 a month by remortgaging on to the ING deal. Likewise, those who want the security of a fixed-rate deal could still cut their repayment costs. First Direct offers a two-year fixed-rate at 3.47 per cent, with a £498 fee.

The cheapest five-year deal for borrowers with a 40 per cent equity stake or deposit is currently available from HSBC, at 4.73 per cent.

Banks and building societies continue to reserve the best-buy deals for customers with the largest deposits, but requirements are easing. Borrowers with only a 20 per cent equity stake or deposit could choose a competitive two-year tracker from RBS pegged at 2.29 points above base, a pay rate of 2.79 per cent, with a £999 fee. Coventry Building Society is also offering a two-year fix with a rate of 4.85 per cent and a fee of £199.

However, borrowers who have little or no equity in their home, particularly those who have been hit by the recent falls in house prices, will struggle to remortgage. Figures from Moneysupermarket.com, the price comparison website, show 140 deals available up to 90 per cent of a property's value, with an average interest rate of 6.17 per cent. There are only 20 deals on the market up to 95 per cent and no deals available at 100 per cent of a property's value. Some lenders, such as Coventry, allow borrowers to switch to a new deal even if they have no equity in their home.

FSA cracks down on arrears charges

Homeowners who fall into arrears on their mortgage repayments are set to get greater protection under new proposals from the Financial Services Authority (FSA).

Most lenders levy fees of up to £55 when borrowers miss a payment. The FSA wants lenders to stop levying the charges when customers agree to a debt-repayment plan. It also said that missed payments should be cleared before the charges are paid.

Times Money revealed exclusively last week that more than 80,000 homeowners in mortgage arrears could receive millions of pounds in compensation for unfair charges. It follows a decision by the FSA to fine Gmac-RFC, the specialist lender, £2.8 million and force it to return £7.7 million to borrowers after ruling that it was guilty of treating customers in arrears unfairly between 2004 and 2008. Customers of other lenders, believed to be Bradford & Bingley, the Derbyshire and Cheshire building societies and specialist lenders, such as Kensington and Morgan Stanley, could also be due a refund.