

Building societies push rates higher

James Charles

February 1 2010 5:47PM

Two more societies increase interest rates as figures show lending by mutuals fell by 50 per cent last year

Borrowers with building society mortgages face a sharp rise in repayments after a further two mutual lenders announced plans to hike standard variable rates (SVRs).

Norwich & Peterborough, which has 53,000 borrowers, is increasing its variable rate by half a point to 5.35 per cent tomorrow. Homeowners with a £150,000 interest-only mortgage will face a jump of over £700 in the annual cost of repayments.

Meanwhile, Holmesdale, a smaller lender, is pushing up the cost of its standard variable rate by 0.35 percentage points to 4.89 per cent.

It follows similar moves by Skipton and Nationwide building societies last week.

Aaron Strutt, of Trinity Financial Group, the broker, said: "A number of building societies are expected to follow suit and raise SVRs over the coming days and weeks. Borrowers should avoid the extra cost by switching onto a cheaper deal from another lender. However, those without a large enough deposit or equity stake in their homes will be stuck."

The Building Society Association (BSA) released figures today showing gross mortgage lending by mutuals slumped to £18.6 billion last year, from £37.5 billion in 2008.

It said that gross lending was £1.8 billion in December, a small increase compared to £1.6 billion in November, but admitted that the spike was due to borrowers seeking to secure a deal before the reduction of the stamp duty threshold.

Paul Broadhead, head of mortgage policy at BSA, said: "Despite this rise, total gross lending in 2009 was only half of that in 2008 and it is likely to remain at low levels until funding conditions improve."

Building societies face unprecedented challenges in the current market as ultra-low interest rates erode their profit margins. Mutuals have come to depend on savers' deposits to fund new mortgage lending because the wholesale money-markets remain frozen in the wake of the credit crunch.

As state-owned and controlled banks, and other lenders, compete for retail deposits, this has pushed up the cost of attracting new savers.

Kevin Morgan, chief executive of Holmesdale Building Society, said: “It is an extremely uneven market at the moment. Building societies are struggling to compete with the rates being paid by Government-supported banks, which are simply not commercially viable for us.”

Homeowners with residential, buy-to-let or self-cert deals from either The Mortgage Works or UCB Homeloans, part of Nationwide Building Society, saw their SVR jump by up to half a point today, in a move first announced last week. The variable rate on residential or self-cert deals will rise from 4.69 per cent to 5.19 per cent, while the SVR on buy-to-let loans will climb by 0.3 percentage points.

Skipton Building Society, the fifth biggest building society, also announced plans to hike its SVR, warning borrowers that from March 1 it will rise from 3.5 per cent to 4.95 per cent. It had previously promised not to raise the rate while the base rate was at 0.5 per cent, but used a clause in the small print of its mortgage conditions to scrap the promise, citing “exceptional circumstances”.

In the last year, eleven building societies have increased SVRs and more are expected to follow suit in the coming days.