State-backed banks' blow to mortgage borrowers

ROYAL BANK OF SCOTLAND and Lloyds Banking Group hit borrowers with an interest rate rise in the first week of the new year, even though Bank rate has not budged from 0.5% since March 2009, *writes James Charles*.

The state-backed lenders raised the cost of some of their most competitive home loans by 0.3 percentage points last week, adding £600 a year to repayments on a £200,000 mortgage.

NatWest, which is part of RBS, increased the rate on its popular five-year fixed-rate deal from 4.19% to 4.49%. Two-year fixes have also jumped, from 2.95% to 3.15%. C&G, which is part of Lloyds Banking Group, raised its five-year fix from 4.79% to 5.09%.

Aaron Strutt of Trinity Financial Group, the broker, said: "The cost of fixed-rate deals appears to have bottomed out and rates are likely to climb in the coming months."

The rises came as RBS and Lloyds failed to confirm whether they would renew the mortgage lending targets agreed with the government, which expire next month. RBS, 83%-owned by the taxpayer, agreed to lend £8 billion net — total lending after repayments have been deducted — over 12 months from March last year. Lloyds, 41% owned by the taxpayer, promised to lend £23 billion gross. Both said they had not ruled out new lending commitments but admitted there are no plans to extend the targets.

Analysis by Moneyfacts, the data firm, for The Sunday Times found that Halifax and C&G did not make a single appearance in the mortgage best-buy tables over the past year.