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Mortgage rates rise further

By Tanya Powley

Most homeowners taking out a new mortgage today are having to pay more than would have done a month ago – in spite of the chancellor's claim that low public borrowing costs had ensured "the security of British families".

Mortgage lenders are continuing to increase the rates they charge on new products, on a weekly basis. In the past five days, Northern Rock, Nationwide, Clydesdale Bank, The Mortgage Works and Skipton Building Society have all raised a selection of new mortgage rates. Tracker mortgages and short-term fixed-rate deals are seeing the biggest increases, according to brokers.

These moves have come as George Osborne argued that the government's strategy to tackle the deficit had kept lending rates in check. The chancellor warned that allowing a one per cent rise in the UK's market interest rates would add £10bn to mortgage bills every year, and see the average family with a mortgage paying £1,000 more.

However, in spite of relatively low public borrowing costs, mortgage rates have been edging higher – and analysts now forecast that they will rise further next year, as the eurozone sovereign debt crisis drives up the cost of wholesale funding for banks. Since August, three-month Libor – the rate at which banks lend to each other – has risen from 0.83 per cent to 1.04 per cent. Then, on Thursday, the Bank of England's Financial Stability Report said that mortgage rates could rise significantly in 2012 as banks pass on higher wholesale funding costs.

“Mortgage rates have been steadily increasing over the last few weeks and some lenders have put their rates up two or three times,” pointed out Aaron Strutt of Trinity Financial, the mortgage broker.
“It’s a continuing story of mortgage rates heading upwards,” said David Hollingworth of London & Country Mortgage Brokers. “Borrowers are slowly becoming more aware that rates are rising.”

ING Direct is the latest lender to increase the cost of its deals. On Friday, the lender raised rates by around 20 basis points and increased the rate of its competitively priced lifetime tracker to 2.99 per cent – Bank of England base rate plus 2.49 percentage points.

“ING Direct’s lifetime tracker has seen several rises over the last few weeks alone and has gone up by nearly half a point,” said Ray Boulger of John Charcol, the mortgage broker. “These rises reflect the increase in the cost of funds in the wholesale markets.”

While most of the recent rate rises have affected homeowners looking to remortgage or purchase a new property, some borrowers sitting on standard variable rates (SVR) have also seen their costs increase.

Earlier this month, Handelsbanken, the Swedish private bank, said it wasincreasing both its base rate and SVR by 0.25 percentage points, to 1.75 per cent and 4.75 per cent, respectively, due to higher funding costs.

Bank of Scotland for Intermediaries and The Mortgage Business – two brands owned by Lloyds Banking Group, but which both closed to new business during the downturn – have also increased their SVRs, from 4.84 per cent to 4.95 per cent, affecting around 175,000 borrowers.

“More of our clients are looking at their options and are getting increasingly more uncomfortable sitting on their lender-controlled standard variable rate,” noted Strutt.

But not all mortgage rates have been rising. Some lenders have reduced the cost of longer-term fixed-rate deals, and rates for high loan-to-value mortgages have remained largely static. Nationwide cut its five-year fixed-rates by 10 basis points this week on loans of between 75 per cent and 85 per cent of a property’s value. Martyn Dyson, head of mortgages at Nationwide, said the cut would help those who have a smaller deposit and are looking for a longer term fix.

Leeds Building Society has also cut its ten-year fix by as much as 1 per cent – from 5.99 per cent to 4.99 per cent.