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Can you remortgage to a better deal?

By Tanya Powley

Homeowners are being advised to review their mortgage payments after several high street lenders raised rates for existing borrowers this week – resulting in higher costs for more than a million customers.

Several lenders, including Halifax, the Co-operative Bank, and the Yorkshire and Clydesdale Banks, increased their standard variable rates (SVRs) by as much as 0.5 percentage points on Tuesday.

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All of these lenders have blamed the rises on the higher cost of funding mortgages from both wholesale and retail markets.

But, as SVRs are the rates that many borrowers have reverted to after their fixed or tracker-rate deals expired, these higher costs will be felt by households all around the country.

About 850,000 mortgage customers with Halifax, the UK's biggest mortgage lender, will see their mortgage payments rise after the bank increased its SVR by 0.49 percentage points to 3.99 per cent. As a result, a homeowner with a £200,000 repayment mortgage will see monthly payments rise by £51, or £612 over a year.

Meanwhile, a further 100,000 borrowers with Bank of Ireland and Bristol and West will see their mortgage payments jump next month when the bank raises its SVR by 1 percentage point to 3.99 per cent.

Mortgage availability set to shrink

Mortgage availability looks set to worsen this year, after two of the biggest high-street lenders signalled they were reducing the amount they lend to homeowners.

Lloyds Banking Group, the

Payments will then rise again in September for these borrowers, when Bank of Ireland raises its SVR by an additional 0.5 percentage points to 4.49 per cent.

However, a FT Money analysis shows there are better mortgage deals available for most of the affected borrowers – provided they can meet a new lender's criteria.

UK's biggest mortgage lender, said this week that it would be shrinking its share of the mortgage market from 27 per cent to 25 per cent.

Its quarterly results showed that it has already started to lend less, with mortgage lending down by 5 per cent to £538bn in the three months to the end of March.

Last week, Santander also signalled in its results that it would reduce its mortgage lending by no longer offering interest-only and high loan-to-value deals.

Brokers warned that this loss of appetite among larger lenders was already having an impact on the mortgage market.

"When big lenders like Lloyds and Santander take their foot off the gas, it leaves quite a lot of mortgage demand for the rest of the market to pick up," noted David Hollingworth of London & Country, the mortgage broker.

He said this is partly why mortgage rates for new customers are continuing to drift upwards. "Lenders are having to increase mortgage rates to stem the inflow of business," he said.

Mortgage choice is also reducing. This week, the Co-operative Bank became the first big lender to pull out of the interest-only mortgage market for new customers.

"Lenders are massively risk-averse right now," said Dominic Hennessy of broker Just Us Mortgages. "This is the latest example of that fear translating into reduced mortgage availability for UK borrowers."

"Most borrowers should be able to move to a more competitive rate," said Ray Boulger of John Charcol, the mortgage broker. "For most, it will be a helpful wake-up call to revisit their mortgage and explore remortgage options."

Borrowers sitting on a Halifax, Co-op Bank, Yorkshire/Clydesdale Bank or Bank of Ireland SVR will find it cheaper to remortgage to a best-buy two-year tracker – even those with only 10 per cent equity in their homes.

For example, Halifax SVR borrowers with 25 per cent or more equity in their property and a £200,000 repayment mortgage could save £128 a month by remortgaging to the best buy two-year tracker rate: 2.74 per cent from Norwich & Peterborough Building Society.

In fact, borrowers with 25 per cent or more equity with any of the lenders that have increased their SVRs this week would save money by remortgaging to any type of best-buy mortgage, including lifetime trackers and a five-year fixed rates.

But not all borrowers will be able to find a better deal.

Some homeowners with a deposit of between 10 to 15 per cent may be better off staying on their lender's SVRs. For example, the best-buy lifetime tracker at 90 per cent loan-to-value – 4.79 per cent from HSBC – would only work out cheaper for those currently on Yorkshire/Clydesdale Bank's SVR, saving those borrowers £17 a month.

Similarly, remortgaging to the market leading five-year fixed rate – 4.74 per cent from Nottingham Building Society – would only work out cheaper for Yorkshire/Clydesdale Bank customers.

Nigel Bedford of Largemortgageloans.com said the homeowners that will be most affected by the recent SVR rises will be those who cannot remortgage elsewhere and are at the "mercy" of their existing lender.

"These will include people whose circumstances have changed adversely, those who have existing interest-only mortgages, those who borrowed on a self-cert basis and those who borrowed very high loan-to-values," Bedford explained.

Experts are divided on whether more lenders will increase their SVRs in the coming months.

"For many lenders, the SVR is the only rate that they can independently set on their back book of mortgages," noted David Black of Defaqto.

Others said the SVRs of the biggest lenders are now broadly in line. "The top six lenders all have SVRs of between 3.89 per cent to 4.24 per cent, so I don't think there's any pressure for them to rise further," argued Boulger.