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Millions hit by higher mortgage costs

By Tanya Powley

Advisers are urging homeowners to review their mortgage rates after the UK's second-biggest lender raised rates for existing borrowers this week, resulting in higher monthly payments for about 400,000 customers.

On Wednesday, Santander increased its standard variable rate (SVR), which borrowers revert to after their fixed or tracker-rate deals expire, by 0.5 percentage points to 4.74 per cent.

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This means that up to 1.5m homeowners have been hit by higher mortgage costs this year following similar moves by Halifax, the Co-operative Bank, Bank of Ireland and Yorkshire and Clydesdale Banks in May.

Bank of England lending figures this week show that terms for existing borrowers are getting tighter, despite the base rate remaining at 0.5 per cent. The average SVR rose from 4.23 per cent to 4.27 per cent in August, the highest it has been since spring 2009.

Andrew Montlake of Coreco, the mortgage broker, said growing numbers of homeowners were beginning to consider remortgaging as they are concerned that more lenders will increase their SVRs.

Many borrowers affected by Santander's rate hike should be able to remortgage to a better mortgage deal and save money – provided they can meet a new lender's criteria.

"The greater the amount of equity in your home, the better choice of remortgage deals and rates available," said Mark Harris of mortgage broker SPF Private Clients. "However, with Santander raising its SVR to 4.74 per cent, loan-to-values of up to 80 and even 85 per cent might find better rates by remortgaging."

'We feel we have nowhere to go'

Jo Robertson, a 38-year-old freelance journalist, plans to look at her remortgage options after seeing her monthly payments rise as a result of Santander's decision to increase its standard variable

But homeowners need to weigh up the overall cost of their new remortgage deal carefully. Many "best buy" deals with low headline rates come with large arrangement fees and will therefore not represent the best value for all borrowers.

Mortgage deals that come with free valuation and legal costs or lower arrangement fees may be the better option for those remortgaging to keep their costs down, according to Nigel

rate (SVR).

However, Robertson is worried that she and her husband Duncan, 40, may have no choice but to stay on Santander's high SVR as both of their personal circumstances have changed since taking out their mortgage.

Duncan was made redundant three years ago, but now has a temporary job that finishes at the end of the year. Meanwhile, Jo has recently become self-employed and only has one year of accounts to prove her income.

"We feel as though we have nowhere to go and that we simply have to accept the rate rise," said Robertson. She said she plans to phone Santander to discuss what their options are and will also speak to a mortgage broker.

Although the couple have a decent amount of equity in their property, Robertson knows it could be difficult to remortgage as lenders have tightened their terms for self-employed borrowers. Most banks and building societies now insist on seeing two years' worth of accounts in order to offer a mortgage.

Robertson said she wishes she had tried to remortgage a few years ago when her two-year fixed-rate deal expired. "Part of the problem was apathy. We should have moved mortgage deals earlier," she said.

Bedford of Largemortgageloans.com.

For example, Santander SVR borrowers with 40 per cent or more equity in their property and a £300,000 repayment mortgage could save £274 a month by remortgaging to Woolwich Bank's two-year fix at 2.69 per cent. The deal comes with a £999 arrangement fee, so a borrower would start to make savings after four months.

The same borrower could remortgage to NatWest's five-year fix at 3.09 per cent and save £259 a month, but they would not make overall savings until 10 months later due to the deal's high £2,495 application fee.

Even homeowners with 15 per cent equity in their home could save money each month. By remortgaging to Norwich & Peterborough Building Society's two-year tracker at 3.09 per cent, Bank of England base rate plus 3.49 percentage points, a borrower with a £300,000 loan could make overall savings after two months, due to a relatively low fee of £295.

Those looking to remortgage now have been helped by several lenders cutting rates this week, including the Co-operative Bank. Halifax has launched a best-buy two-year fix at 2.44 per cent for those with 40 per cent or more equity, but it comes with a high £1,995 fee.

Bedford said borrowers should also contact Santander as it has a number of market-leading deals for new clients, for which existing clients may or may not qualify.

Mortgage brokers warned that there will be a large number of borrowers affected by the recent SVR rises that will not be able to remortgage. So-called "mortgage prisoners" are people whose circumstances have changed adversely, have an existing interest-only mortgage, the newly self-employed and those who borrowed at very high loan-to-values.

Listen to Tanya Powley interview Nigel Bedford at largemortgageloans.com on mortgage rates on the FT Money Show podcast

Adrian Anderson of Anderson Harris, a Mayfair-based broker, said these borrowers are likely to have no choice but to stay put on the higher SVR until their circumstances – or lending terms –

improve.