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## Mortgages set to jump as lenders claw back discounts



The rises will put pressure on families struggling with high living costs and low wage growth David Cheskin/PA

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Millions of home owners are likely to see the cost of their mortgages rise — even though today marks the third anniversary of interest rates being cut to an historic low.

Families with loans from the Bank of Ireland will see their payments rise by as much as £160 a month over the next six months as it lifts its standard variable rate to 4.49 per cent.

The move yesterday, which will affect 100,000 borrowers, comes after the Halifax and the Royal Bank of Scotland announced increases in their variable rates for more than a million borrowers at the weekend.

Experts have warned that other big lenders, such as First Direct, HSBC and ING Direct, are likely to follow suit, putting pressure on families struggling with high living costs and low wage growth. An estimated 5.6 million home owners have standard variable rate mortgages (SVRs) — the rates that borrowers revert to at the end of a fixed rate or discounted deal.

Banks are blaming the rises on the high cost of borrowing from the wholesale funding market, as well as a reluctance to lend to each other — a situation made worse by the eurozone crisis. Three-month Libor, an indicator of banks' borrowing costs, has dropped slightly over the past month, but, at 1.04 per cent, it is still considerably higher than this time last year.

The current average standard variable rate is 4.66 per cent and the increases announced so far bring Halifax, RBS and Bank of Ireland into line with their peers. First Direct, HSBC and ING Direct could be next to act, since their SVRs are well below the average at between 3.5 per cent and 3.94 per cent. Santander, at 4.24 per cent, could also move — although the lenders all say they have no plans to do so at present.

Nationwide Building Society, Lloyds TSB and Cheltenham & Gloucester, meanwhile, have thousands of borrowers on SVRs capped at 2 per cent over the Bank of England base rate. The lenders are understood to have consulted lawyers about whether they could get out of these contracts, but they are unable to do so, so these borrowers will continue to benefit from low rates.

The Bank of Ireland rate will rise from 2.99 per cent to 3.99 per cent in June, and then by a further half a point in September. That would mean a £160 increase in monthly payments on a £200,000 loan. The mortgages were originally sold through Bank of Ireland's own brand and through the now-defunct Bristol & West. Bank of Ireland continues to lend via the Post Office, but these customers are not affected by the move.

Bank of Ireland, which is 15 per cent-owned by the Irish Government, is under pressure to reduce the size of its mortgage book and has been offering cash incentives and waiving exit penalties of up to £10,000 to encourage borrowers to redeem their mortgages. It has also drawn down more than €7.5 billion in cut-price loans at 1 per cent interest from the European Central Bank.

Andrew Montlake, of the Coreco Group mortgage broker, said: "Bank of Ireland has tried to use the carrot approach by offering borrowers cash to move their mortgage away, but with a rate as low as 2.99 per cent, many have decided to stay put. It is now having to resort to using the stick, by increasing rates in order to get them to move on."

Ian Gray, of Largemortgageloans.com, said: "Many borrowers will be able to switch to cheaper deals, with First Direct offering a tracker at only 1.99 per cent and a £1,499 fee for those with a 35 per cent deposit. But others could find they are mortgage prisoners and will have to have no choice but to stay with Bank of Ireland."

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