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Rates hike sparks a rush to remortgage

As Bank of Ireland and Halifax put up variable rates for existing borrowers, we ask whether others are likely to follow suit

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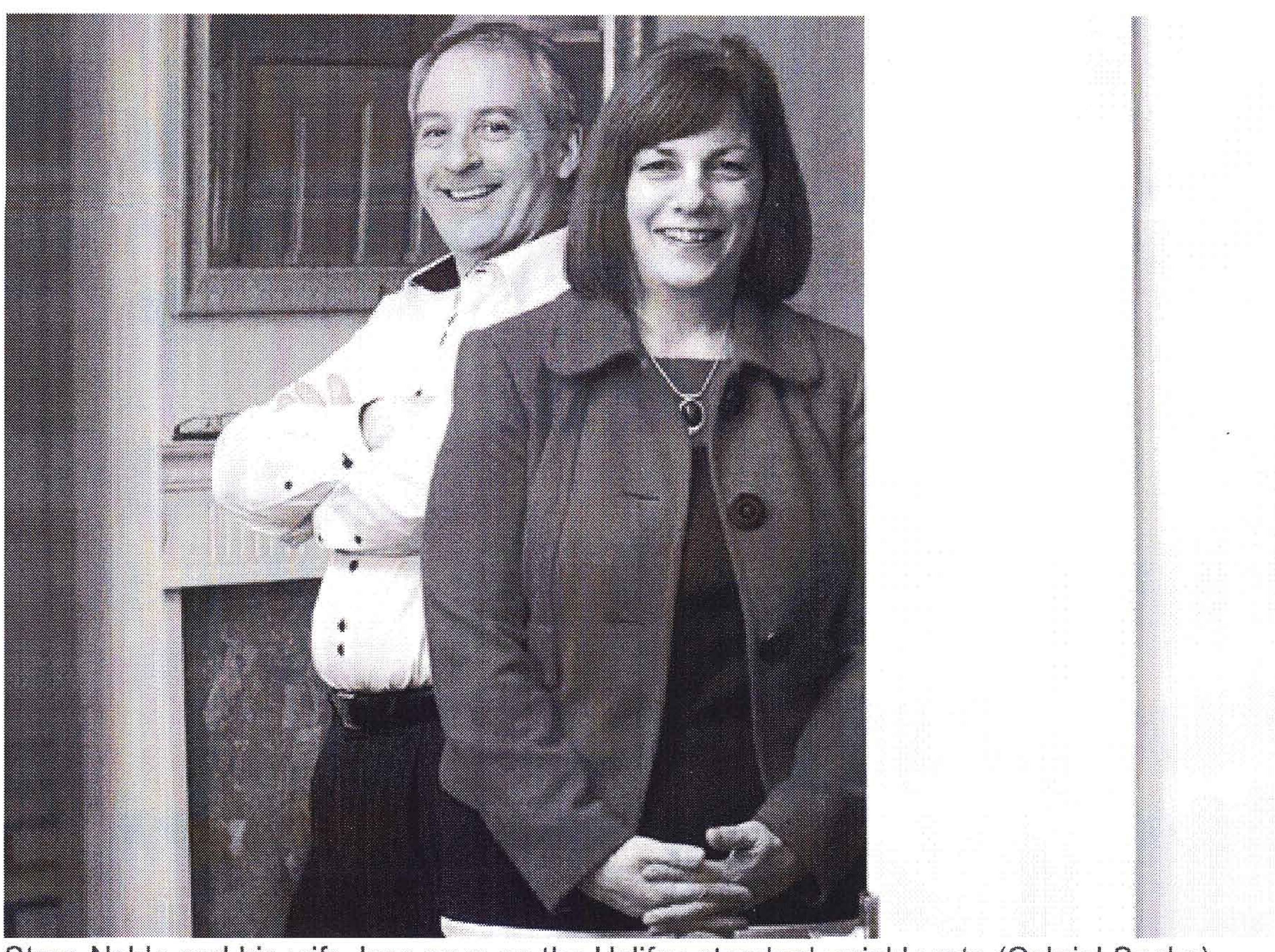

Steve Noble and his wife June were on the Halifax standard variable rate (Gabriel Szabo)

MILLIONS of borrowers are urgently reviewing their mortgages after several lenders followed Halifax in raising their variable rates for existing borrowers last week.

On Friday, Clydesdale and Yorkshire banks became the latest lenders to raise standard variable rates (SVR), to which borrowers revert at the end of a deal. About 30,000 face a jump in repayments when the rate moves from 4.59% to 4.95% on May 1.

Earlier in the week, Bank of Ireland, 15% owned by Irish taxpayers, said it would be raising its SVR 1.50 points over the next six months. Rates for about 100,000 borrowers with loans from Bank of Ireland and Bristol & West will rise from 2.99% to 3.99% in June and then to 4.49% in September.

Someone with a £200,000 interest-only mortgage will see their loan repayments go up by £3,000 a year. Those with mortgages from the Post Office, which are provided by Bank of Ireland, will not be affected and will continue to revert to a variable rate of 3.99 points above Bank rate, currently 4.49%.

It comes after Halifax, which is part of Lloyds Banking Group, 40% owned by the taxpayer, said it was raising its SVR by 0.49 points to 3.99%, also from May 1. It will affect about 850,000 customers who took out loans before January 2011.

David Hollingworth, of London & Country Mortgages, the broker, said: "The decision by Halifax to raise its SVR opened the door for other lenders to follow suit and we could see more lenders make similar announcements."

Before the credit crunch, lenders tended to move their SVRs in line with Bank rate. However, this has been frozen at a historic low of 0.5% for three years, meaning mortgage rates are more influenced by the wholesale markets.

The crisis in the eurozone has pushed up the cost to mortgage lenders of borrowing on wholesale markets, prompting the biggest lenders to raise their variable rates for existing customers for the first time.

In the past three years, 17 lenders, mainly smaller building societies, have increased their SVRs, according to Moneyfacts, the data firm.

An estimated 5.6m homeowners are on an SVR mortgage, according to Legal & General, the insurer. The average SVR is 4.8% and the cheapest on the market is from First Direct, part of HSBC, at 3.69%.

Ray Boulger at John Charcol, the mortgage broker, argued it was unlikely the largest lenders, such as HSBC and Santander, would raise SVRs in the coming weeks.

He said HSBC would not face the same funding pressures as taxpayer-owned banks as it can borrow cheaply.

Instead, Boulger suggested the borrowers most at risk are those with lenders no longer active in the mortgage market.

Last year, for example, Bank of Scotland and The Mortgage Business, both owned by Lloyds Banking Group but closed to new business, increased their SVRs from 4.84% to 4.95%.

By contrast, borrowers who took out a Nationwide loan before April 30, 2009, or a Cheltenham & Gloucester deal before June 2010, need not fear a rate rise. They have moved to an SVR of 2.5%, which is guaranteed to never be more than two points above Bank rate.

Brokers have reported a sharp rise in calls from those worried that other lenders may also raise rates following the flurry of moves last week.

Andrew Montlake of Coreco, the broker, said: "A series of rates rises will inevitably prompt a rush of inquiries as homeowners consider whether to remortgage to a new deal."

Banks have been increasing rates for new customers since the start of the year. Figures from Moneyfacts show the average five-year fix has jumped from 4.58% at the end of last year to 4.67% currently. A two-year fix has soared from 4.24% to 4.54%.

Last week, Chelsea building society raised the cost of its best-buy five-year fix by 0.1 points to 3.29%, with a £1,499 fee for those with a 30% deposit.

Ian Gray of largemortgageloans.com, the broker, said: "Borrowers with a least a 10% deposit should be able to cut the cost of SVR repayments by taking out a new deal.

"However, it depends on the rate they are paying and their financial circumstances."

Experts suggest seeking independent advice before taking a remortgage deal offered by your lender. Halifax is offering customers with a 40% deposit a two-year fix at 3.49%, with no fee. But the equivalent market-leading no-fee deal is from First Direct at 3.19%.

Brokers also say there is little benefit in taking a two-year deal, the most popular in the current market, as rates are unlikely to rise until 2014 at the earliest. Instead, they suggest locking in for five years or taking a cheap tracker pegged to Bank rate.

Figures from London & Country show that borrowers with a £200,000 loan paying 3.99% could save £10,188 by switching to the best-buy five-year fix from Nottingham building society at 3.19%, which requires a 25% deposit.

This assumed a quarter-point rise to 0.75% in Bank rate in 2014 and then further quarter-point rises every quarter until 2017. The total cost of the fix would be £59,597, including the fee of £1,499, against £69,785 for those who stick with the 3.99% rate.

Some experts say Bank rate could stay flat until 2016. In this scenario, the best-buy tracker deal is from HSBC, pegged at 2.09 points above Bank rate, so 2.59%, which would be £8,941 cheaper than sticking at 3.99% and £4,759 cheaper than the five-year fix.

Increase prompts switch

Steve Noble, 52, a sales manager, and his wife June, 50, a teaching assistant, were on the Halifax standard variable rate and would have been hit when it rises from 3.5% to 3.99% in May.

But the couple — who live in North Yorkshire and have two children, Simon, 24, and Edward, 21 — have remortgaged to a lifetime tracker with HSBC at 1.89 points above Bank rate, so 2.39%.

"We originally wanted a fixed-rate deal," said Steve, "but we went for a tracker because the savings were considerable."