

Blow to thousands as Lloyds lifts rates

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Lender blames surprise move on high cost of borrowing and eurozone crisis, writes James Charles

LLOYDS Banking Group, the UK's largest mortgage lender, has become the first big bank to raise standard variable rates (SVRs) since the credit crunch, blaming higher wholesale borrowing costs that have been caused by the eurozone crisis.

More than 175,000 homeowners with mortgages from Bank of Scotland and The Mortgage Business will see their SVR, which borrowers move on to at the end of a deal, rise from 4.84% to 4.95% on November 1, adding £230 a year to the cost of repayments on a £200,000 interest-only mortgage. The move shows the dangers of sitting on a SVR not tied to Bank rate, as the lender can raise it at will.

Bank of Scotland, which stopped lending in 2009, specialised in loans worth more than £1m and self-certification deals, known as "liars' loans" because borrowers did not have to prove their income. The Mortgage Business closed to new business in 2008.

Brokers said that the rate rise would hit thousands of customers who are unable to remortgage to other lenders and are in effect trapped on the SVR. There are no more self-cert deals on the market.

Meanwhile, brokers have warned that other lenders could raise SVRs in the coming months because of a rise in the cost of funding mortgages, caused by the sovereign debt crisis on the Continent.

Three-month Libor, which reflects the rate at which banks lend to each other in the wholesale markets, has climbed from 0.86% to 0.97% in the past two months.

Last week Barclays, Santander and Northern Rock increased the cost of trackers for new customers, which are funded based on Libor, as well as fixed-rates, which are typically linked to swap rates.

Five-year swaps were 1.81% last week, down from 1.90% a week before, but up from 1.63% two months ago.

Brokers warned that it was the first time since the start of



Shock at tracker change

Susy Parkhouse, 56, and her husband Richard, 58, who run a consultancy business, were shocked to receive a letter from Bank of Scotland warning that their standard variable rate was set to rise.

"I was dumbfounded, she said. "How can it be raising interest rates when the Bank rate is expected to stay low for such a long time?"

The couple, who are in the process of selling their house in Cranborne, Dorset, to downsize, took out a two-year tracker deal in 2009 at 0.5 points above Bank rate, so 1% currently, which was arranged by Largemortgage.com, the broker.

the year that fixed-rate deals have gone up in price.

David Hollingworth of London & Country Mortgages, the broker, said: "We haven't seen a big lender raise fixes for months and three have acted this week to raise rates."

Andrew Montlake, of Coreco, the broker, said: "It appears that rates may have bottomed out and the tide is turning. Locking in to a rate seems to be a sensible move."

Barclays is raising the cost of its five-year fixed-rate deal for those with a 30% deposit by 0.35 percentage points, from 3.64% to 3.99%, adding £708 a year in repayments on a £200,000 loan.

Meanwhile, those borrowing more than £1m from Barclays face a 0.65 point rise in the cost of a lifetime tracker, up from 2.74 points above Bank rate, so 3.24%, to 3.39 points above Bank rate, so 3.89%, adding £4,200 a year to the cost of repayments on a £1m loan.

Last week Santander raised fixed-rates by 0.3 points, while Northern Rock raised the cost of its trackers by 0.2 points. Accord Mortgages is raising tracker rates by up to 0.25 points tomorrow.

Will you be hit by an SVR rise?

About 40% of borrowers are sitting on standard variable rates,

according to Which?, the consumer group, leaving around 4m homeowners at risk of higher repayments if lenders are forced to lift rates, even if Bank rate remains on hold until 2013 as expected.

Over the past two years, 13 regional building societies have raised their SVRs, including Skipton, which pushed up its rate from 3.5% to 4.95% in 2010.

Aaron Strutt of Trinity Financial Group said: "I wouldn't be surprised if we saw another lender followed suit and raised rates in the coming months."

He argues that borrowers who are not on an ultra-low SVR pegged to Bank rate should try to remortgage in the coming months.

Halifax and Cheltenham & Gloucester (C&G), along with

Nationwide building society, have introduced higher SVRs for new customers, which can be raised at any time.

However, existing borrowers who took out a Nationwide mortgage before July 2010 or a Halifax or C&G deal before January benefit from an SVR pegged directly to Bank rate.

Ray Boulger at John Charcol, the broker, thinks it is unlikely other lenders will follow Lloyds. "Unless the eurozone crisis worsens significantly, most lenders should resist the urge to increase rates," he said.

Should I remortgage?

If you want to move to a tracker, you should act fast. Ian Gray of largemortgage.com, the broker, said: "Tracker margins are defi-

nately rising. We are seeing other high street lenders follow suit, as well as private banks."

The majority of borrowers taking new deals continue to opt for trackers, pegged to the Bank rate.

HSBC has a best-buy lifetime tracker at 1.99 points above Bank rate, so 2.49%, with no fee and no exit penalties. It requires a 40% deposit.

It also has a similar lifetime deal for those with a 10% deposit at 4.09% above Bank rate, or 4.59%, with no fee.

However, fixed rates are also at record lows. Experts recommend locking in for the longer term to avoid having to remortgage when rates rise.

Should I avoid discounted deals?

There has been a sharp rise in the number of discounted deals, which are pegged to lenders' SVRs, as opposed to trackers, linked to Bank rate. This means the rate could be raised at any time.

There are 404 such deals on the market, said Moneyfacts, against only 193 a year ago.

The best-buy two-year discount deal is from HSBC at 1.95 points below the SVR, so 1.99% — cheaper than its tracker at 2.49%. However, brokers would still recommend the tracker.

The lure of discounts

Two-year discount
HSBC

1.99%
1.95 points
below
its SVR

40% deposit, £999 fee

Lifetime tracker
HSBC

2.49%
1.99 points
above
Bank rate

40% deposit, No fee