

Mortgage rates fall but loan restrictions tighten

Woolwich introduces restrictions to protect against base rate rises as it introduces new deals for borrowers with a 25 per cent deposit

James Charles

Borrowers will find it harder to take out a competitive new home loan from Woolwich, the mortgage brand of Barclays, after it announced plans to tighten its affordability calculations.

The bank, which is the UK's fourth biggest mortgage lender, is cutting the cost of its popular base-rate tracker deals and will introduce new deals for borrowers with a 25 per cent deposit tomorrow.

It will offer a market-leading lifetime tracker at 2.44 percentage points above base, a pay rate of 2.94 per cent, available up to 75 per cent of a property's value. It has a £999 fee.

However, Woolwich is also raising the interest rate that it uses to assess affordability, making it harder for borrowers to secure any new deal. The rate is jumping from 5.29 per cent to 5.69 per cent, forcing new borrowers to show that they can afford a mortgage with a rate of 5.69 per cent to qualify for a loan, even if they are applying for a lower rate.

The changes are a blow to thousands of homeowners who are struggling to get a mortgage deal. Mortgage lenders have been accused of restricting the flow of mortgages to the detriment of the recovery in the housing market by insisting on large deposits and a perfect credit history from new applicants.

The lender defended the changes, arguing that it is acting responsibly by ensuring that borrowers will be able to afford repayments even when the base rate rises in the future. The majority of new loans approved by Woolwich are pegged to the Bank of England base rate, currently 0.5 per cent.

The decision to increase its affordability rate follows a similar move by Abbey, the second biggest mortgage lender, in December last year. It changed its lending rules to ensure that all borrowers would be assessed using an interest rate of 7 per cent, up to 5.44 per cent previously.

Aaron Strutt, of Trinity Financial Group, said: "This will make it harder for thousands of borrowers to get the deal that they are looking for from Woolwich and excludes more borrowers from the most competitive rates. Woolwich is clearly looking to cherry pick the most attractive customers."

A spokesperson for Woolwich said: "The majority of customers are opting for tracker mortgages now so we have changed our affordability rate so that we can ensure that even in this very low base rate environment, our customers will still be able to afford the loan when rates do start to increase. It is important for Barclays from a responsible lending point of view."

Woolwich also launched a two-year fix available up to 75 per cent of a property's value, with a rate of 3.99 per cent and a £999 fee. The lender marginally cut its competitive lifetime tracker deal by 0.02 percentage points to 2.27 points above base, a pay rate of 2.77 per cent, available up to 70 per cent loan-to-value.

The new lifetime tracker deal for borrowers with a 25 per cent deposit puts Woolwich head to head with HSBC, Britain's biggest bank. It is currently offering a similar deal with a pay rate of 2.99 per cent. The two banks are the biggest net lenders in 2009.

Woolwich is not only the lender to have taken steps to address concerns about a sharp rise in the base rate in the future. Yorkshire Building Society introduced a three-year step-tracker mortgage today with a margin above the Bank of England base rate which shrinks over time.

In the first year, borrowers pay 3.49 percentage points above base in year one, a current pay rate of 3.99 per cent. This falls to 1.49 points in the third year, a current pay rate of 1.99 per cent. However, the lender expects the base rate to climb over this time.

Steve McAvan, of Yorkshire Building Society said: "With UK interest rates still at historically low levels, it is widely expected that Bank of England base rate will increase over the next few years."

David Hollingworth, of London & Country Mortgages, another broker, said: "This is a different take on stepped deals that usually try to depress the initial rate. It could help borrowers cope with base rate rises in years to come but ultimately you need to look at the overall value of the product so we'll have to get the correct detail."