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Mortgage rates up ahead of ‘double dip’

Lenders raise mortgage costs amid property fears



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Government-backed banks raised mortgage rates and introduced stricter lending criteria last week amid concerns that this year's house-price recovery is not sustainable.

Northern Rock, which has boosted lending in recent weeks, increased its market-leading five-year fix for remortgages from 4.99% to 5.39%, while the equivalent deal for homebuyers went up from 4.99% to 5.29%. Both require a 30% deposit. It also withdrew best-buy three-and four-year fixed-rate deals at 4.39% and 4.79% that were available exclusively via brokers, in an attempt to slow the flow of business.

Royal Bank of Scotland, 84%-owned by the taxpayer, surprised brokers by increasing the deposit required for its popular two-year tracker at 2.89% from 20% to 25% — or an extra £10,000 for a £200,000 property. The deal, which has a £1,499 fee, is rare because it has no penalties for switching.

Ian Gray of Largemortgageloans, a broker, said: "To tighten criteria like this is a way of saying it does not have confidence in the sustainability of house prices."

Industry sources confirmed most of the big mortgage lenders were anticipating a "double dip" in house prices next year.

On Friday, Nationwide, the UK's biggest building society, said in its interim results that it expects prices to fall next year. Graeme Beale, Nationwide's chief executive, said: "The growth in house prices over recent months appears to be driven by lack of supply, and growth in unemployment throughout 2010 will inevitably exert downward pressure."

Average house prices fell 20% from the peak of £186,044 in November 2007 to a trough of £147,746 in February this year, according to the Nationwide house price index. They have since rebounded by nearly 8% to £162,038 in October, although they remain 13% off their peak.

Halifax forecasts house prices will be unchanged in 2010. However, Martin Ellis, its chief economist, said that "clearly there is ... risk [of house prices falls], for example, if we do not emerge from recession".

Last week, Rightmove, a property site, reported a 1.6% fall in asking prices in November — the first decline in three months. Capital Economics, the consultancy, said: "The decline in November was

significantly larger than is typical for this time of year. Over recent months there have been tentative signs of ... renewed weakness in prices ahead. While we are unsure of the exact timing, renewed house price falls still seem likely next year.”

In a move that points to an increasingly cautious view, Cheltenham & Gloucester, owned by Lloyds Banking Group, launched a tracker loan last week for borrowers with a 10% deposit at an eye-watering 5.49% over Bank rate, or 5.99% at present.

Aaron Strutt of Trinity Financial Group, the broker, said: “It is a very risky business for borrowers, especially first-timers, to take deals with this sort of massive margin. While this gives a current pay rate of 5.99%, this will rise to about 8.5% should interest rates rise to 3% within the next two years.

Lloyds said: “It’s up to the customer to decide whether a tracker is for them. However, the general market outlook for rates is that they will not begin to rise until at least the second half of 2010.”

Northern Rock still has the lowest two-year tracker at 2.59% with a £595 fee for those with a 30% deposit. However, if you want a variable deal you are likely to be better off with HSBC’s lifetime tracker at 2.74% for those with a 40% deposit, as you can switch without penalties. First Direct now offers the best two-year fix at 3.69% with a £498 fee, available to borrowers with a 40% deposit. The best five-year fix is 4.99% from Newcastle building society with a £994 fee for those with a 25% deposit.

Northern Rock, which scaled back its lending target for the year from £5 billion to £4 billion, has pledged to lend £9 billion next year. However, Richard Buxton of Schroders, the fund manager — a big investor in Lloyds — dismissed such targets as “nonsense”.

Speaking at a *Sunday Times* roundtable event last week, he said government banks would not be viable businesses that could be returned to the market until 2013. In the meantime, the government is unlikely to pressure banks to act in consumers’ interests until their debt to taxpayers is repaid.