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Up to 175,000 mortgage customers of Government-backed Lloyds Banking Group are set to see their monthly costs rise as the lender is increasing the standard variable rate (SVR) for borrowers with some of its home loan brands, prompting fears that other banks could follow suit.

From November 1, Lloyds is increasing the SVR, which is the rate that customers revert to at the end of a fixed rate or tracker mortgage deal, by 0.11 percentage points, from 4.84 to 4.95 per cent, for borrowers with home loans from its Bank of Scotland and The Mortgage Business (TMB) intermediary brands.

This equates to an increase of around £10 per month or £120 per year for the majority of mortgage borrowers, the lender said.

Lloyds acquired the brands when it took over embattled HBOS in 2008, but they no longer offer new mortgages.

Lloyds said the move was the result of higher funding costs and the fact the regulator now requires banks to hold more capital to protect themselves against borrowers defaulting.

The Bank of England base rate has remained at its record low of 0.5 per cent for the 32nd consecutive month and traders do not expect it will increase until at least 2013, but mortgage lenders funding costs depend on the rates at which banks are prepared to lend to each other, which are affected by other factors, such as the uncertainty surrounding the eurozone debt crisis.

Three-month Libor rates, which affect the pricing of variable rate mortgages, have been creeping up and are now at the highest level seen since July 2009.

Lloyds said that the majority of borrowers affected are not mainstream customers, because most took out self-certification, adverse credit, buy-to-let, or self-build mortgages.

It said the new rate was competitive for this type of borrower, however many of these customers are likely to be stuck with the lender, because since the credit crisis, mortgages for people who cannot prove their income or who have a history of missed payments can be difficult, if not impossible to obtain.

Aaron Strutt, of Trinity Financial Group, the mortgage broker, said: "If one lender puts up its SVR, there is always the danger that others will consider a move, especially as it has said funding costs are the reason."

Some SVRs are linked to the Bank of England base rate or Libor, meaning they cannot be increased at will, but others are not, which gives lenders more flexibility to raise them as they choose.

Skipton Building Society had an SVR which was supposed to be capped at 3 percentage points above the base rate, but the lender hiked the rate in March 2010, citing a clause from the mortgage contract, which allowed it do so in "exceptional circumstances".