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Eurozone crisis drives up cost of home loans

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Mortgages Increases in the inter-bank lending rate are being passed on to borrowers. But there are good deals about

There have been signs this week that economic developments in Europe are already starting to push up the cost of mortgages in the UK as a number of lenders increased their rates.

Chelsea Building Society, Yorkshire Building Society and Santander were among the lenders to raise some of their tracker rates this week, by up to 0.2 percentage points. The rate at which banks borrow from each other to fund tracker mortgages, known as Libor, has been steadily climbing since the beginning of the year, leading lenders to pass on their increased costs to borrowers by raising rates.

A number of mortgage lenders also increased the cost of fixed-rate deals for new borrowers.

However, there were also some rate cuts. Britannia cut some five-year fixed rates by up to 0.9 percentage points, and Halifax cut several three-year fixed rates by 0.2 percentage points.

Existing borrowers who have reverted to their mortgage lender's standard variable rate (SVR) at the end of a fixed-rate were also reminded this week that it might be time to consider switching deals unless they are on a capped or a very low rate.

About 14,000 Bank of Ireland customers were warned that they could see their rate increase by nearly 2 percentage points after their home loans were sold on to The Mortgage Works (TMW), which is part of Nationwide Building Society.

The borrowers are currently on, or due to revert to, the Bank of Ireland's standard variable rate (SVR) of 2.99 per cent, but TMW said that it may in the future move them on to its own SVR of 4.79 per cent — which will result in a payment jump of about £150 a month for a borrower with a £150,000 mortgage.

Aaron Strutt, of Trinity Financial Group, the mortgage broker, says: "There have been a lot of rate changes over the last week, but rates for new borrowers are still very cheap. However, the cost of lenders' borrowing is on the rise, which means rates could increase further over the coming weeks."

New data also revealed that mortgage approvals declined for the second consecutive month in October.

Figures from e.surv, the chartered surveyors, found that the number of home loans agreed by lenders dipped 1.1 per cent last month to 50,382. The number was an increase of 6.7 per cent on the same time last year; however, e.surv said that approval levels in 2010 were also weak.

The Council of Mortgage Lenders, an industry trade body, also released data showing a small drop in the number of home loans taken out in September, although the buy-to-let market has been growing steadily.

The Bank of England's Monetary Policy Committee voted to keep rates at 0.5 per cent for the 32nd consecutive month and to maintain its quantitative easing programme — effectively printing money to stimulate the economy — which was started again last month. Ray Boulger, of John Charcol, the mortgage broker, says it was now conceivable that the base rate could remain on hold until 2014, making lifetime tracker mortgages attractive for some borrowers.

However, it may be necessary to act quickly to secure a good rate if new tracker deals continue to be priced upwards.

Mr Boulger says: "The major worry for the UK is not only the negative impact on our economy as a result of the rapidly spreading contagion in the eurozone but also the extent to which UK banks will be forced to curtail lending as a result of the inevitable write-offs from their eurozone exposure."

Mr Boulger adds that first-time buyers with low deposits could be the first to be squeezed out of the market if UK banks have to write down European debt.
"If this results in a reduction in their mortgage appetite it is likely that the first sector to be hit will be the higher loan-to-value mortgages, where there has been a significant improvement in availability and pricing over the past few months," he says.