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Rates rise to deter borrowers

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Mortgage rates continued their slow but steady rise this week as banks and building societies, struggling to process existing applications, took action to deter new borrowers. On Thursday, Nationwide increased its fixed and tracker rates at 85 per cent loan to value (LTV) by 0.2 percentage points. A fee-free two-year fixed-rate mortgage now charges 5.09 per cent. The rate on a three-year tracker has gone up to 4.29 per cent above the Bank of England base rate, or 4.79 per cent. Loans at 75 per cent and 80 per cent LTV have increased by 0.1 percentage points.

Northern Rock and Santander have also upped rates on popular deals.
But it is not all one-way traffic. Both Santander and Northern Rock have reduced the rates on some of their fixed-rate deals. On Monday, Newcastle Building Society will cut the rates on its two-year fixed-rate mortgages at 80 per cent LTV by up to 0.2 percentage points. This will take its lowest rate down to 3.89 per cent, with a £995 fee.

Lenders continue to blame the cost of funding on the money markets for the rate increases. But brokers say that while this may have been fair comment a few months ago, the truth is that lenders are finding it difficult to cope with applications.

Mortgage lending is still at low levels compared with the boom years. Approvals for home purchases fell to 43,450 in March, their lowest level since December 2010, according to e.surv, the chartered surveyors.

But cutbacks during the lean years mean that even at these low levels lenders are finding it tricky to quickly process applications. They are raising rates so that they can deal with the backlog. Incredible as it might sound, they want to put borrowers off.

Aaron Strutt, of Trinity Financial Group, a mortgage broker, says: “Service levels for the banks are a continuing issue and they are raising rates or restricting sales through brokers to catch up with applications.”

Most of the rate rises have been aimed at borrowers with smaller deposits. Despite the fall in overall mortgage approvals, e.surv reports that the number of new loans for homes worth more than £350,000 held steady last month.

Lending to borrowers with large deposits was at its highest since January 2011, with one third of all loans for home purchases in March granted to buyers with a deposit of more than 40 per cent.

But experts say that there are still good deals for borrowers with less money to spare. Ray Boulger, of John Charcol, the broker, says: “Most economists think the base rate will stay at 0.5 per cent until 2014 and I would not be surprised if it is frozen until 2015. If you want the security of a fixed rate, two-year deals do not offer value, but there is a case for five-year fixes, which have not gone up that much.”

ING Direct has a five-year fixed rate at 3.89 per cent at 60 per cent LTV. Woolwich offers 3.99 per cent at 80 per cent LTV.

Mr Boulger adds: “At 80 per cent to 90 per cent LTV there has been an improvement in deals over the past year, so this may be a good time to remortgage.

“If you are are coming to the end of a special deal and moving on to a standard variable rate above 3 per cent, it is worth considering if it makes sense to switch.”