

Big lenders put up mortgage rate to deter new customers

► Borrowers with low equity will pay 7.1%

► Thousands may be left struggling to get a deal

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Two of the biggest mortgage lenders increased their rates sharply yesterday in an attempt to close the door to all but the most creditworthy customers.

The move could lead to tens of thousands of borrowers struggling to get any mortgage deal at all.

Nationwide, Britain's second biggest lender, raised the rate on one of its more popular deals by up to 0.57 percentage points, while if.com, part of Halifax, the biggest lender, increased its rates by up to half a point.

Nationwide said that it did not want to take on many more customers as it would add too much risk. It is thought that if.com is also concerned about attracting too much new business.

One industry source said: "The credit crunch feels like a stomach bug for borrowers. Periods of calm, followed by nasty spasms. This is the start of a spasm."

Within hours of Nationwide's announcement, Norwich & Peterborough Building Society said that it was increasing its rates by up to half a percentage point.

The move came as Britain's best-known mortgage broker, John Charcol, was warned by its auditor that it faced a "material uncertainty" about its ability to keep operating after its investors put in an extra £15 million and deferred loans of £820,000. The auditors highlighted concerns that liabilities exceeded assets by £532,000.

The company insisted that it was not in trouble and would in the next two months decide whether to accept a takeover offer or re-finance its operations.

There are fears that if other lenders follow suit with the rate increases, the housing market could be hit as people struggle to get affordable mortgages.

The number of first-time buyers coming to the market has already slowed. A third fewer mortgages were taken out for house purchases last month than in February 2007, the British Bankers' Association said.

The housing market could be further hit by homeowners selling-up to cash in the value of their home, and renting until house prices fall. Nearly one in five home-movers plan to do this, a survey from iammoving.com showed.

The investment bank Lehman Brothers said yesterday that it expected house prices to fall by 8 per cent by the end of 2009.

Borrowers who have less than 10 per cent equity in their home will pay 7.1 per cent interest for a two-year tracker deal with Nationwide, far above the base rate, now 5.25 per cent.

About 1.4 million borrowers end fixed-rate deals this year, but thousands will have to move to a rival lender to get a new deal because their current lender has stopped offering mortgages or has changed its criteria. Lenders cannot "cherry-pick" customers, so the only way to curb applications and ensure that they have the most creditworthy customers is to raise rates and tighten lending criteria.

Mel Bien, of the independent mortgage broker Savills Private Finance, said: "Lenders are not actively looking for customers, so are competing not to have the lowest prices. This is bad news for borrowers."