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HOMEOWNERS PAYING £4,000 A YEAR TOO MUCH BY STICKING WITH A STANDARD VARIABLE RATE MORTGAGE

Homeowners on a lender's Standard Variable Rate (SVR) mortgage could be paying an average of £4,000 a year – or £329 a month - more than they need compared to what they'd pay if they fixed their mortgage now, according to new research from HSBC.

The research also showed that homeowners could:

- in total be paying almost £29 billion¹ more than they need;
- individually make savings of almost £8,000 by signing up to a 2 year fixed rate mortgage now;
- switch to a competitive 5 year deal with savings upwards of £15,000 over the fixed term.

In addition, the research highlighted the potential additional cost to homeowners should the Bank of England increase the base rate by 1%, with the average SVR rate following, homeowners could be £480 a month worse off than fixing now.

The average SVR rate among lenders is 4.82 per cent², whereas a two year fixed rate remortgage (at 90 per cent LTV) can be over 2% lower, including HSBC's at 2.38 per cent. There are currently 1.9 million borrowers on an SVR who are paying a rate above 3%, and would therefore benefit by switching from an SVR. These borrowers could save as much as £329 a month - or £3,948 annually - by remortgaging, or £15,000 over a 5 year fixed deal. As a whole, homeowners could be paying almost £30 billion more than they need.

Commenting on the research, Tracie Pearce, head of mortgages at HSBC said: "Almost two million borrowers have a SVR mortgage rate at over 3% and could therefore benefit from moving off their SVR mortgage to a competitive fixed term deal. A quick call to their lender to find out if they are on a SVR mortgage could not only be the catalyst for families to save a small fortune by switching to a more competitive mortgage, it would also provide certainty for family budgets."

By remortgaging from an SVR to a market leading fixed term deal, a borrower could:

- save enough in the first month to cover five weeks of food shopping (an average £58.80 per week⁴) with money to spare;
- be able to take a family of four on a one week holiday in Lanzarote (£3,132⁵) with the first years' savings;
- save enough over the course of a two year fixed term to buy a new car (Peugeot 108, £7,545⁶).

Unlike tracker products, SVRs do not track above the base rate at a set percentage. However, SVR rates could rise at any time, most likely when there is an increase in the Bank of England base rate, making monthly repayments more expensive. Borrowers remortgaging to a fixed rate product would be shielded from rising rates during the fixed term.

If the average SVR rate was to rise by 1% to 5.82%, monthly payments would increase by £151 a month to £1,608. Borrowers who had remortgaged to a 2 year fixed rate would pay £480 a month less, or £5,760 a year.

Rachel Springall, finance expert at Moneyfacts, said: "Confidence is continuing to return to the housing market, and there are many great mortgage deals available right now for borrowers to choose from. Homeowners who are sitting on a standard variable rate deal could well kick themselves in the long-term if they don't research the market and move to a more competitive deal before interest rates go up, and it is inevitable they will at some point."

Table 1: Monthly mortgage repayments on an SVR versus a fixed term deal⁷

| | 2 year fixed – 2.38% | | | 5 year fixed – 2.88% | | |
|---------------------|-------------------------------|-------------------------------------|--------------------------------|-------------------------------|---------------------------|------------------------------------|
| | Monthly payment | Annual payment | 2 Year Fixed Term total | Monthly payment | Annual payment | 5 Year Fixed Term total |
| Average SVR (4.82%) | £1,457 | £17,484 | £34,968 | £1,457 | £17,484 | £87,420 |
| New Rate | £1,128 | £13,536 | £27,072 | £1,195 | £14,340 | £71,700 |
| Over-payment | £329 | £3,948 | £7,896 | £262 | £3,144 | £15,720 |
| What this could buy | 5 weeks' food shopping (£294) | Holiday for 4 in Lanzarote (£3,132) | New car – Peugeot 108 (£7,545) | 4 weeks' food shopping (£235) | DIY conservatory (£3,000) | New kitchen and bathroom (£14,500) |

Table 2: Fixed terms vs SVR mortgage repayments if rates rise⁸

| | Two year fixed rate – 2.38% | Average SVR (4.82%) | SVR + 0.25% (5.07%) | SVR + 0.25% (5.07%) | SVR + 1% (5.82%) |
|------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Monthly payment | £1,128 | £1,457 (+£329) | £1,494 (+£366) | £1,531 (+£403) | £1,608 (+£480) |
| Annual payment | £13,536 | £17,484 (+£3,948) | £17,928 (+£4,392) | £18,372 (+£4,836) | £19,296 (+£5,760) |

| | Five year fixed rate – 2.88% | Average SVR (4.82%) | SVR + 0.25% (5.07%) | SVR + 0.25% (5.07%) | SVR + 1% (5.82%) |
|------------------------|-------------------------------------|----------------------------|----------------------------|----------------------------|-------------------------|
| Monthly payment | £1,195 | £1,457 (+£262) | £1,494 (+£299) | £1,531 (+£336) | £1,608 (+£413) |
| Annual payment | £14,340 | £17,484 (+£3,144) | £17,928 (+£3,588) | £18,372 (+£4,032) | £19,296 (+£4,956) |

- ENDS -

Methodology

¹ CACI data on the number of SVR borrowers by LTV band (1.9 million with LTV at 90% or over multiplied by £15,720, the potential savings from a five year fixed deal at 2.88% = £29.9 billion).

² Average SVR rate calculated by HSBC, derived from 79 SVRs, including high street and mainstream lenders. 2.38% rate is from HSBC's revised remortgage range (two year fixed rate at 90% LTV, currently available).

³ CACI data shows 2,952,031 borrowers are currently on their mortgage lender's SVR. This is 27% of the number of outstanding mortgages according to the CML (11,111,000 – table MM4, Q2 2015)

⁴ ONS Family Spending Report, 2014.

DIY conservatory – [prices](#) correct at time of research.

New kitchen (£9,600) and bathroom (£4,900) costs from [Zopa](#).

⁵ M&S Bank October half-term holiday research.

⁶ [Prices](#) correct at time of research (October 2015).

⁷ Monthly repayments calculated using the MoneySavingExpert.com mortgage calculator. Based on a 25 year repayment term. Calculations for two year fixed rate include £999 booking fee. Five year fixed rate is from HSBC's revised remortgage range (90% LTV, calculations include £1,499 booking fee). Calculations based on an average loan of £253,800 (90% of the average UK house price of £282,000 – ONS House Price Index, August 2015)

⁸ Monthly repayments calculated using the MoneySavingExpert.com mortgage calculator. Based on a 25 year repayment term. Calculations use average loan of £253,800 (90% of the average UK house price of £282,000 – ONS House Price Index, August 2015).

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