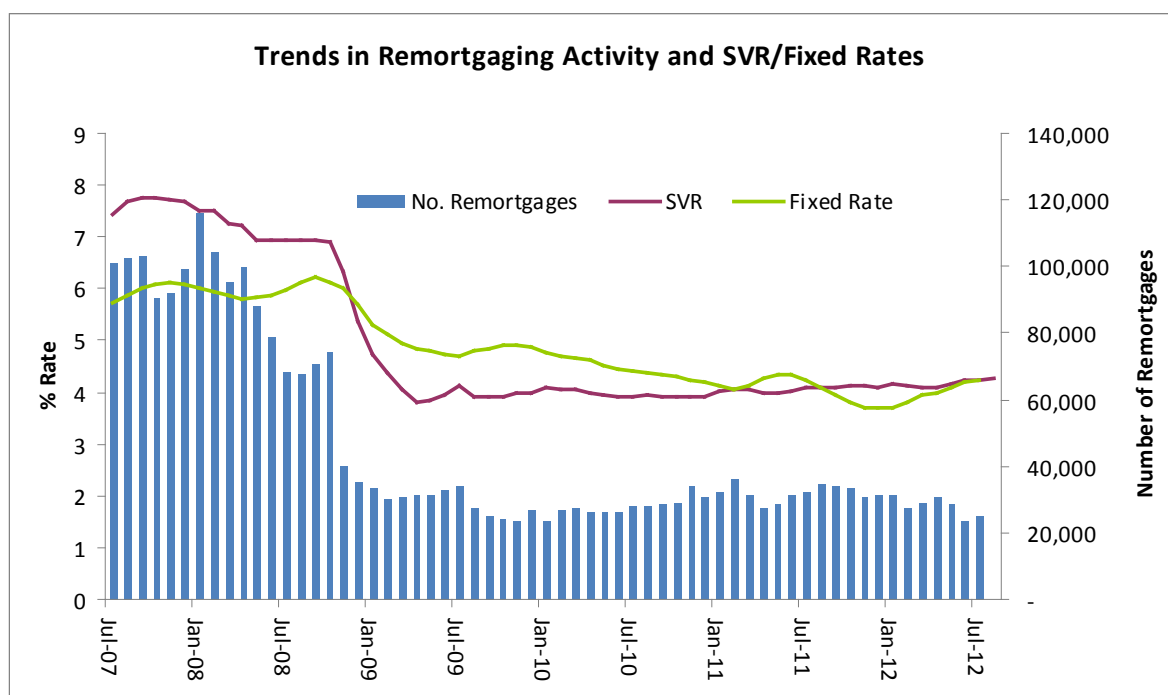


12/09/2012

Fixed rates fall but remortgage market remains stagnant

Despite an ever-narrowing gap between monthly payments for fixed rate mortgages and standard variable rate (SVR) mortgages, borrowers are resolutely staying on SVRs according to latest Halifax research.

Figures show that although fixed rate mortgages have fallen by 164 basis points over the last five years, activity in the remortgage market continues to shrink, with volumes falling by 75% since 2007. Analysis by Halifax has reviewed the changing demand for remortgage deals to see how SVRs and fixed rates have become relatively more or less attractive over the last five years:



This change in demand for remortgaging has had a significant impact on the level of lending in the market:

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- In the second half of 2007, remortgage activity accounted for half of all lending. In the first six months of 2012, remortgages accounted for 39%.
- During 2008, remortgages as a proportion of all mortgage lending averaged 64%.

Further analysis shows that:

- Between July 2007 and November 2008, the number of remortgages averaged around 88,000 per month, representing 44% of lending. In this the same period, fixed rates were 128 basis points (bps) cheaper than SVR. (Fixed rates: 5.98%, SVR: 7.35%).
- From December 2008 to July 2011, there was an average of 30,000 remortgages per month, accounting for 30% of lending. During this time SVR rates were 56bps cheaper than fixed rates. (Fixed rates 4.61%; SVR 4.05%).
- Over the last year, average monthly remortgaging volumes were 30,416, and unchanged from the previous year. However, the average SVR stands at 0.18% more expensive than the average fixed rate. (Fixed rate monthly average 3.95%, SVR monthly average rate 4.13%)

The average monthly payment of a homeowner who took out a 2-year fixed rate in September 2007 would have been £644.36. If they reverted to SVR at the end of this period, their payments would have dropped to £526.90. Over the next two years, to August 2011, they would have saved £1,167 staying on SVR compared to a fixed rate. However, after August 2011, their monthly payment on a fixed rate would be £525.40; compared to an average payment of £534.18 (a difference of just £8.78) on SVR.¹

Research shows that just 10% of borrowers would look to change deals if they saw an increase in their monthly payments between £25 and £50. 13% say that their monthly payment would need to go up by £100 before they consider switching to a fixed deal and 8% of borrowers say that they would only consider switching products if their monthly payments doubled.¹ Therefore, although fixed rates are becoming cheaper, research suggests that the benefit of moving to a fixed deal needs to be greater for the majority of borrowers, some homeowners, however should weigh up the overall cost of remortgaging alongside the certainty provided by fixed monthly payments.

¹ Consumer research – June 2011

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Stephen Noakes, Mortgage Director at Halifax, commented:

"The remortgage market has been slower since 2008, and with SVRs at historically low levels it's easy to understand why. In today's market significant numbers of borrowers feel the right decision is to remain on a Standard Variable Rate, a very different decision to the historical norm where customers who stayed put and didn't remortgage saw a sizeable increase in their monthly payment.

"Over the last few months, SVRs have gone up and fixed rates have come down, but as our customer research shows, borrowers are only willing to consider remortgaging if it means their monthly payments become significantly cheaper. This attitude has fundamentally changed the demand for remortgaging in today's market and points to the reason for remortgage levels being at historical lows."

Ends

Notes to the editor:

Data sources: Bank of England: Monetary & Financial Statistics. (31 Jul 2002)
CML Regulated Mortgage Survey (April 2005 onwards) Figures pre-April 2005 are taken from the Survey of Mortgage Lenders or, prior to 1992 Q2 (annually prior to 1993),

ⁱ *Customer Scenario*

Year	Opted for	Month payment	Fixed/SVR rate	Fixed/SVR monthly payment	Saving over the period
July 2007	2-year fixed (5.27%)	£644.36	7.44% (SVR)	£653.77	£335.72
August 2009	Reverted to SVR (3.93%)	£526.90	4.80% (Fixed)	£575.54	£1,167
August 2011	2 year Fixed rate (4.7%)	£525.40	4.1% (SVR)	£534.18	

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