Mortgages May 25 2023

'Tidal wave' of uncertainty as lenders pull products

Mortgage experts have said lenders behaviour over the last two days has had "shades of October" and the weeks following the "mini" Budget when lenders pulled hundreds of mortgage products from the market (Mary Turner/Bloomberg)

By Jane Matthews 0

A number of specialist mortgage lenders have pulled products as a result of market uncertainty, with experts warning that high street lenders may follow suit next week if swap rates continue to rise.

The reaction by lenders is a result of the inflation data released yesterday for the month of April.

Although the level of inflation is falling, the 8.7 per cent seen in April came in above the Bank of England's forecast of 8.4 per cent, spooking the markets and causing gilt yields to rise as expectations of further base rate hikes increased.

This in turn caused swap rates - a leading indicator for mortgage rates - to sharply increase also.

On Tuesday (May 23) a two-year swap rate was 4.7 per cent, but today (May 25) this has shot up to 5.04 per cent.

Speaking to FTAdviser, Nicholas Mendes, a mortgage technical manager at John Charcol, explained that because specialist lenders and smaller lenders, such as building societies, do not have the same deposit bank as larger high street lenders, they are the first to price these higher swap rates into their products.

"They're the ones which are making reactions now - pulling deals, making changes or increasing [rates]," Mendes said.

"The high street vendors haven't made that movement just yet because they've basically got the funds aside for the time being, but once these get used up, early next week we might see highstreet vendors making those changes as well," Mendes added.

Sonia swaps

	Current	23 May 2023	24 Apr 2023	24 May 2022
1 Year	5.180%	4.891%	4.743%	1.823%
2 Year	5.039%	4.696%	4.472%	2.106%
3 Year	4.824%	4.512%	4.253%	2.115%
5 Year	4.488%	4.257%	3.967%	2.048%
7 Year	4.279%	4.096%	3.782%	1.957%
10 Year	4.141%	4.000%	3.663%	1.899%
15 Year	4.074%	3.969%	3.621%	1.867%
30 Year	3.908%	3.843%	3.472%	1.751%

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Yesterday, Lendco emailed intermediaries to inform them that it was pulling all of its existing products from sale in order to "reprice upwards" as a result of a return of "severe volatility" in capital markets.

Likewise, in an update seen by FTAdviser, Platform, the intermediary mortgage brand of The Co-operative Bank, told brokers they would have until 5pm today (May 25) to secure any existing rates.

In the update, Platform asked brokers to "set client expectations accordingly" in response to the changes.

The email explained: "Swap rates appear to have jumped significantly this morning following the latest inflationary data. This could be reflected in new lender rates when repricing which can have the effect of making other lenders rates suddenly move up the sourcing table.

"In turn, a sudden large influx of business for those lenders moving up the table can lead to funds being exhausted quickly and having to withdraw/reprice at short notice."

Fleet Mortgages followed suit with an email to brokers this morning informing them it was temporarily withdrawing all of its fixed products from the market, as did Foundation Home Loans.

Meanwhile, Nationwide Building Society emailed brokers this afternoon to let them know that it was increasing selected fixed rate products and its tracker rates by 0.45 percentage points.

> I've been anticipating rate increases over the past week and if I can work it out, why can't lenders give brokers sufficient notice?
>
> Simon Allen, Searchlight Finance

'Shades of October'

Many brokers noted the flurry of activity seen today and yesterday has been reminiscent of the turmoil in the mortgage market following Liz Truss's "mini" Budget back in October.

Dimora Mortgages director, Jamie Lennox said: "It's certainly starting to feel eerily similar to what followed post the 'mini' Budget last year.

"The tidal wave is certainly building and it won't be long until we are awash with most lenders either increasing rates, reducing options available or temporarily pausing lending off the back of the economic outlook."

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Gary Bush, a financial adviser at MortgageShop.com added: “This is the same situation that occurred last October when a large number of lenders literally left the market, causing panic among consumers.”

In Bush’s view, action is required from the Financial Conduct Authority in order to stem any panic.

> It is impossible to process a case compliantly in this kind of timescale
>
> Hannah Bashford, Model Financial Solutions

He said while lenders’ pointed to the “mini” Budget as the reason for the mass removal of products last year, he would be interested to hear how they think that the current state of play really justifies the current response.

“The regulator should have criteria among its enforcement processes that deal with regulated entities working towards creating market chaos. At times like this, we need grown-up thinking from lending institutions, not have them running for the hills,” Bush said.

Likewise, Simon Allen, director of Searchlight Finance said the increase in product rates is not the issue, instead it is the lack of notice from lenders.

Earlier this year, mortgage brokers called for at least a 24-hour notice period on product changes after TSB gave intermediaries just 25 minutes warning of a rate hike.

“As a specialist broker in the buy-to-let market, I've been anticipating rate increases over the past week and if I can work it out, why can't lenders give brokers sufficient notice?,” Allen said.

“It creates stress for a client rushing to get information to process the application and can cause havoc to a broker's workload by readjusting their priorities to ensure rates are secured for their landlord clients.

“Some lenders allow the interest rate to be secured if the decision in principle is issued by a certain time. This gives one or two days to submit the rest of the information. More should offer this,” he added.

Hannah Bashford, director of Model Financial Solutions added that the situation is "incredibly frustrating".

"There are lots of lenders increasing rates with very little notice and it is stressful for us as brokers and clients themselves who have to make rush decisions or lose out on the rates.

"This simply doesn't treat customers fairly as it is impossible to process a case compliantly in this kind of timescale," Bashford said.

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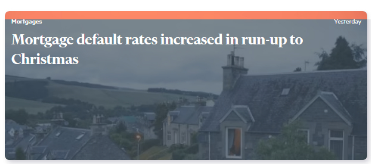

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