20th January 2010

4 OUT OF 5 MORTGAGES BOUGHT IN DECEMBER WERE VARIABLE RATES

- **Proportion of John Charcol clients taking a fixed rate in December falls below 20%**
- **Full charts available at www.charcol.co.uk/knowledge-resources/john-charcol-index**

Variable rate mortgages accounted for more than four in every five (80.9%) home loans arranged by John Charcol in the last month of 2009. The **John Charcol Index** revealed that the proportion of fixed rates has fallen below 20% for the first time since August 2008.

Trackers are the product of choice for most

"Whilst the split between variable and fixed, at face value, seems dramatic, it is really no surprise as it is absolutely our belief that the best value lies in tracker rates at present. With the average difference between the best fixed rates and the initial rate on the best trackers around 1.5% in favour of trackers, it will currently take a substantial rise in bank rate for a borrower who takes a tracker to be worse off than one who opts for a fixed rate," comments Ray Boulger of John Charcol.

"Of course, some people always prefer the security and comfort that a fixed rate naturally brings, but in the current market you really do need to question whether you are paying over the odds for that security. Generic advice on whether to take a fixed often simplistically states that if you cannot afford a rise in rates then you should take a fixed rate. If rates for both fixed and variable are at the same level then clearly that is a no-brainer, but when there is a gap as wide as in today's market being generic can easily be misleading."

If a borrower cannot afford a rise in a tracker rate then they cannot afford a fixed rate…

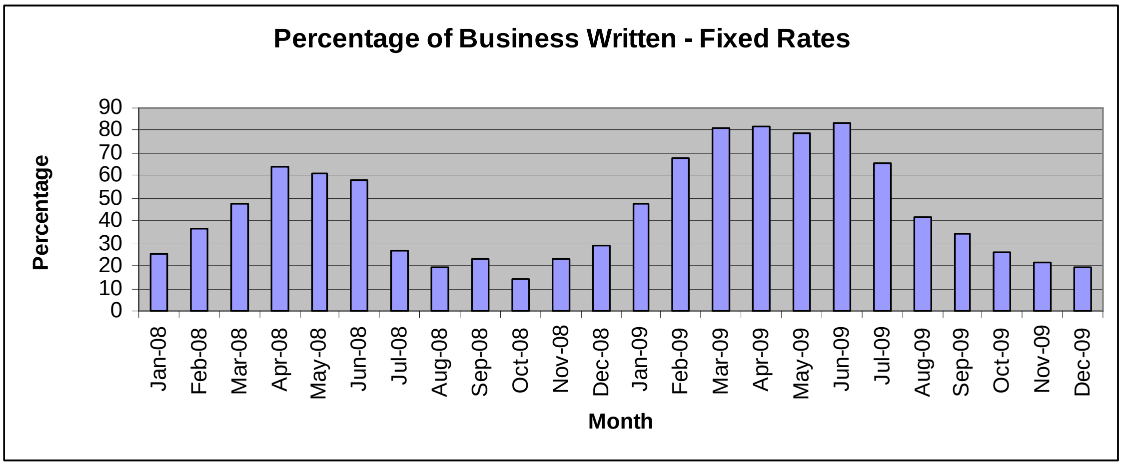
"The key questions are how much rates are likely to rise in the period for which one is considering a fixed rate and what if there is a bigger increase. For example a two year fix only buys security of payments for a very short period, although it does have the benefit that one is only locked in with early repayment charges for 2 years. Anyone buying a 2 year fix will revert to a variable rate after the 2 years, by which time the risk of rate increases will be greater. Not only have they only bought security for a short period but they have paid a fairly high price for it when it is probably least needed.

"Furthermore if rates were to rise within the 2 years the cost of re-fixing in 2 years time will almost certainly be higher. Therefore, although we believe trackers offer significantly better value at present for most borrowers those who want, or need, security of payments should fix for longer, say 5 years. The initial price differential with a tracker will be even greater at about 2.5%, but at least the objective of buying security of payments will have been achieved for a reasonable period.

"A point we make to our clients is that it is vital we understand their whole picture before making a recommendation. As mentioned above taking a fixed rate because you cannot afford a rise in interest rates are somewhat of an oxymoron when tracker rates are priced 1.5% lower. What someone cannot afford is for rates to actually go above the level of the fixed rate. It really highlights that good advice and an understanding of what is likely to influence future interest rate movements is key to getting the most appropriate mortgage," argues Boulger. "With so many things to consider, seeking good quality independent mortgage advice has arguably never been more important, especially for the large majority who do not follow the market."

So when to fix…

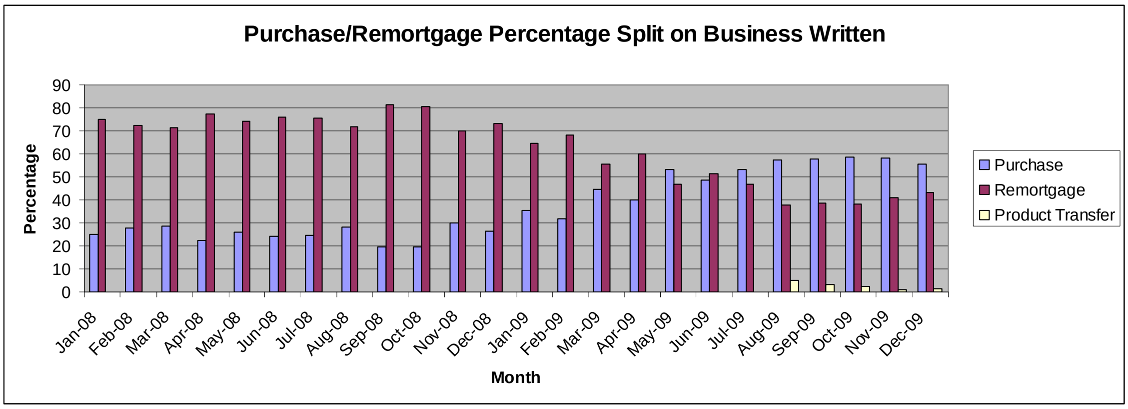
"When the appropriate time will be is the million dollar question but with Bank Rate likely to stay very low, say not above 2.5%, for quite some time, and the cost of fixed rate mortgages still falling, it is not yet. Despite December's unexpectedly large rise in the inflation numbers most economists expect the Consumer Price Index to fall back below 2% by next year, even without a significant increase in interest rates, and the Bank of England takes a 2 year view on inflation. A key part of our service will be to advise our clients when we think they should switch. In the short term the main risk on interest rates is political and so following the opinion polls in the run up to the election will be very relevant to forming a view on interest rates," concludes Boulger.

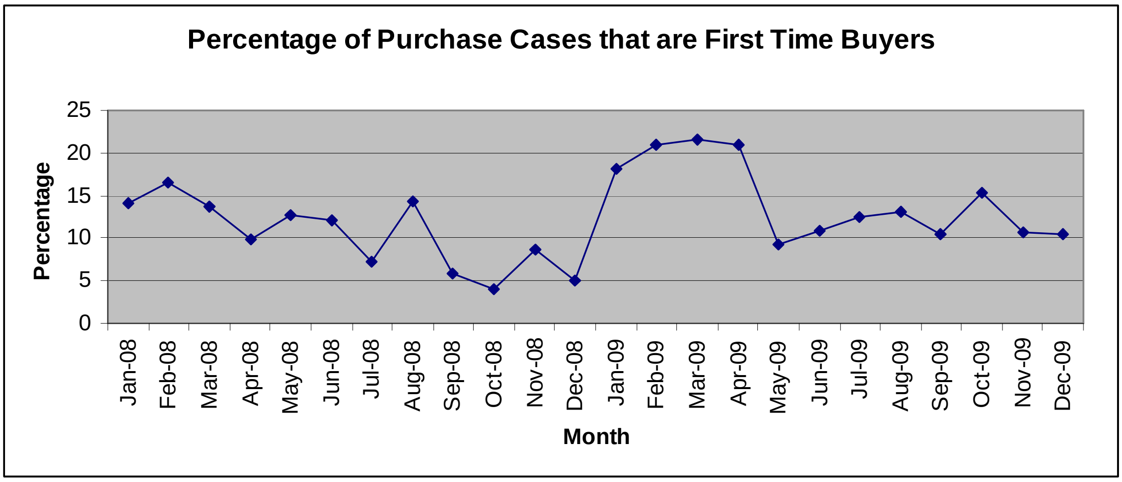


The John Charcol Mortgage Index is published monthly, tracking three important statistics, based on mortgage business written by John Charcol. The index is a leading indicator of trends being based on mortgage applications submitted to lenders, whereas figures reported by the Council of Mortgage Lenders (CML) and the Bank of England (BofE) are based on completions, which typically take place 2-3 months after the mortgage application is submitted.

The three statistics tracked each month are the percentage split:

- Between Fixed rates, Capped rates and Tracker/Discount rates**
- Between Purchases, remortgages and product transfers***
- Of First Time Buyers compared to all Purchasers





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Borrowers should contact John Charcol on 0800 71 81 91 or visit www.charcol.co.uk

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Notes to editors:

‘Borrowers’ is based on John Charcol clients.

** The fixed/capped/tracker split is heavily influenced by the advice given by John Charcol and it is to be expected that the swings between fixed and variable rates will be much greater than the figures from sources such as CML and BofE. Their statistics are made up of a mixture of advised and non advised sales and the advice offered by different brokers and lenders will vary.

*** From August 2009 onwards a further split of mortgage type is included in the figures. Up to then product transfers, i.e. where instead of remortgaging the borrower takes another deal from their existing lender, have been combined with the remortgage figures. However, as product transfers now represent over 10% of the combined remortgage / product transfer business these figures are shown separately. The amount of product transfer business is not published anywhere else, and it is not collected by the CML. Because the lending figures produced by the Bank of England and the CML do not include product transfers (for the very good reason that it is not new lending) the John Charcol Index split between purchase and remortgage/product transfer business can not be directly compared with their figures.

Definition of First Time Buyers

The percentage of the purchase market taken by FTBs varies depending on definition. The Council of Mortgage Lenders treats any purchaser who is not simultaneously selling a property as being a FTB. This means that, for example, anyone who is returning to the property market after renting for a period or after a spell working as an expat will be treated as a FTB, as will someone acquiring a second property. As a result the CML estimates that it overstates the number of FTBs by about 25%, although their method of calculation is consistent and so its figures still provide a good indication of trends.

At one time many lenders offered some additional, and usually cheaper, mortgages for FTBs to choose from and lenders' definition of a FTB varied. A few lenders still offer special FTB mortgages but most don't and so there is now less reason for borrowers to want to be classified as FTBs in marginal cases in order to qualify for a particular mortgage deal. At John Charcol only genuine FTBs are classified as such but there are situations where it is possible to argue as to whether or not a purchaser is a FTB. The most obvious is where a couple are buying and one is a genuine FTB, but the other either currently or previously owned a property. In this situation John Charcol would not normally classify the purchasers as FTBs, with the possible exception being where the actual FTB is the sole or principal earner.

Percentage split of Fixed rates, Capped rates and Tracker/Discount rates			
2008	**Fixed**	**Capped Tracker**	**Tracker/Discount**
Jan	25.0	-	75.0
Feb	36.8	-	63.2
Mar	47.6	-	52.4
Apr	63.7	-	36.3
May	61.2	-	38.8
Jun	58.2	-	41.8
Jul	26.5	-	73.5
Aug	19.2	-	80.8
Sept	23.4	0.2	76.4
Oct	14.2	-	85.8
Nov	22.9	-	77.1
Dec	29.1	-	70.9
2009			
Jan	47.8	-	52.2
Feb	67.4	0.3	32.3
Mar	80.9	5.1	14.0
Apr	82.0	4.6	13.4
May	78.7	1.8	19.5
Jun	83.1	-	16.9
Jul	65.3	-	34.7
Aug	41.9	-	58.1
Sept	34.3	-	65.7
Oct	26.3	-	73.7
Nov	21.3	-	78.7
Dec	19.1	-	80.9

Purchase/Remortgage Percentage Split on Business Written			
2008	**Purchase**	**Remortgage**	**Product Transfer**
Jan	24.9	75.1	
Feb	27.9	72.1	
Mar	28.5	71.5	
Apr	22.4	77.5	
May	26.0	74.0	
Jun	24.2	75.8	
Jul	24.5	75.5	
Aug	28.4	71.6	
Sept	19.7	81.3	
Oct	19.7	80.3	
Nov	30.1	69.9	
Dec	26.2	73.4	
2009			
Jan	35.3	64.7	
Feb	31.9	68.1	
Mar	44.5	55.5	
Apr	39.8	60.2	
May	53.4	46.6	
Jun	48.7	51.3	
Jul	53.0	47.0	
Aug	57.4	37.7	4.9
Sept	57.8	38.8	3.4
Oct	58.5	38.4	2.3
Nov	58.1	40.8	1.1
Dec	55.6	43.2	1.2

Percentage of Purchase Cases that are First Time Buyers	
2008	
Jan	14.1
Feb	16.5
Mar	13.7
Apr	9.8
May	12.7
Jun	12.0
Jul	7.3
Aug	14.4
Sept	5.9
Oct	4.1
Nov	8.6
Dec	5.0
2009	
Jan	18.1
Feb	21.0
Mar	21.6
Apr	20.9
May	9.2
Jun	10.9
Jul	12.5
Aug	13.1
Sept	10.4
Oct	15.3
Nov	10.7
Dec	10.4