

21st April 2011

FIXED RATE PURCHASES FALL BACK AFTER PEAKING IN FEBRUARY

- Purchase activity picks up
- Full charts available at www.charcol.co.uk/knowledge-resources

The latest mortgage index from John Charcol suggests that the recent sharp increase in the proportion of borrowers choosing a fixed rate has been reversed. Between September of last year and February of this year the proportion of John Charcol clients choosing a fixed rate more than doubled, but this trend was reversed in March, resulting in virtually a 50/50 split between fixed and variable rates. Ray Boulger, Senior Technical Manager at John Charcol, comments on this and other findings.

“In March 2010, exactly 1 year after the historic cut in Bank Rate to an all time low of 0.5%, just 17% of our clients chose a fixed rate mortgage. The proportion then started increasing as the cost of fixed rates fell, reducing the premium one had to pay for security, and as people started worrying about rate increases. With the cost of fixed rates bottoming out around the turn of the year and increasing worries about a rate rise as a result of the surging CPI, fixed rate take up jumped sharply from 32.2% in December to 56.0% in February. In March this figure fell to 49.9% as borrowers were put off fixed rates by the hike in price.

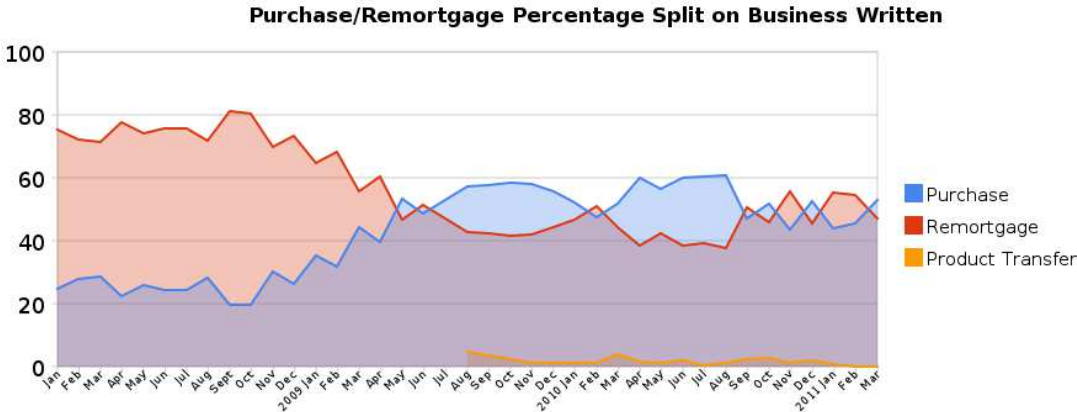
“Looking ahead, the fall in year on year CPI in March has taken some pressure off the MPC and as CPI increased by 0.6% in April last year any increase of less than that this month will result in a further fall in the April year on year figure. That said, in the following 3 months it will be more of a challenge for CPI to continue falling as the previous year’s figure which will fall out of the year on year calculations will be + 0.2%, +0.1 and -0.2%.

“Despite the probability that CPI will remain well above the target 2% for at least another year there are plenty of reasons to expect our economic growth to remain weak and the first estimate of 2011 Q1 GDP figures on 27 April will be a key factor influencing Bank Rate decisions for the next few months. Another negative number, or even one that only just scrapes into positive territory, would significantly increase the likelihood of Bank Rate still being at 0.5% at the end of the year.

“Furthermore, with a Greek Sovereign default increasing looking like a matter of when rather than if, the risk of Eurozone banking contagion from a domino effect which would impact on the UK banks if it reaches Spain is very worrying and will be a factor restraining bank lending as they build up their reserves, and hence inhibiting the recovery.

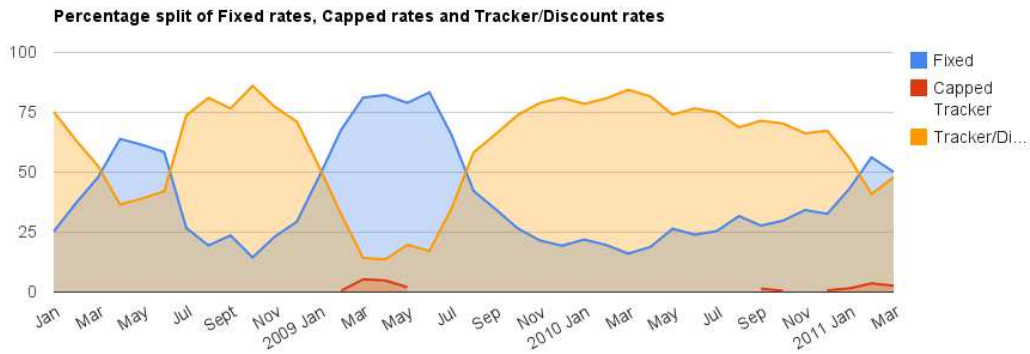
“The stunning advance at the weekend in the Finnish General Election of the Eurosceptic True Finns party from a 4% share to a 19% share will make it more difficult for the EU to agree further bail outs as, unlike our Government, the Finns very sensibly retained the right to approve certain major EU expenditure such as is required for bail outs.

“All this suggests the market is running ahead of itself in terms of the timing and speed of Bank Rate increases and we expect the take up of fixed rates to decline further until the best 5 year rates fall back below 4% to reduce the premium over variable rates to a more acceptable level.



“Remortgage activity predominated in the first two months of this year, partly because of the heightened interest in switching to a fixed rate. However, we saw increased purchase activity from our clients last month, resulting in the share of the market taken by purchases increasing from 45% in January and February to 53.1% in March. However, it is too soon to know whether this is the start of a pick up in activity or just the traditional spring upturn.

“There was little change in the proportion of first time buyers last month but with providers now more activity looking at ways to help borrowers with only a small deposit, both with schemes recently announced and others currently being worked on with a view to being launched later in the year there are likely to be more opportunities to satisfy pent up demand from frustrated first time buyers later this year.”



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 (BoE) are based on completions, which typically take place 2-3 months after the mortgage application is submitted.

The three statistics tracked each month, based on the number of cases submitted rather than the mortgage amount, 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 (available on request)

ENDS

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



follow us at twitter.com/johncharcol

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Notes to editors:

Your initial consultation is obligation free. There will be a minimum fee for our service of £450, of which £150 is payable when you apply, and we will retain the commission from the lender. Alternatively, you can choose the fee only option which is typically 0.65% of the amount borrowed. The precise amount will depend on your circumstances and loan amount, and will be discussed and agreed before you make an application.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON A MORTGAGE OR ANY DEBT SECURED ON IT

'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.

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			
	Fixed	Capped	Tracker/Discount
2009			
Jan	44.4	-	55.6
Feb	67.6	0.7	31.7
Mar	76.3	5.1	18.6
Apr	81.4	5.1	13.5
May	79.1	2.2	18.7
Jun	81.2	-	18.8
Jul	62.8	-	37.2
Aug	39.0	-	61.0
Sept	32.1	-	67.9
Oct	25.6	-	74.4
Nov	20.2	-	79.8
Dec	22.9	-	77.1
2009 TOTALS	56.6	1.4	42.0
2010			
Jan	20.3		79.7
Feb	21.5		78.5
Mar	17.0		83.0
Apr	19.3		80.7
May	28.1		71.9
June	24.0		76.0
July	25.6		74.4
August	31.0		69.0
September	26.6	1.4	72.0
October	30.2	0.7	69.2
November	33.9		66.1
December	32.2	0.5	67.3
2010 TOTALS	25.5	0.2	74.3
2011			
January	43.3	1.3	55.4
Feb	56.0	3.4	40.6
Mar	49.9	2.4	47.7

Purchase/Remortgage Percentage Split on Business Written (Ignoring Bridging Loans, Further Advances and Second Charges)			
	Purchase	Remortgage	Product Transfer
2009			
Jan	34.5	58.4	7.1
Feb	31.8	63.5	4.7
Mar	44.6	46.5	8.8
Apr	40.9	49.3	9.8
May	51.1	39.8	9.1
Jun	50.0	44.3	5.7
Jul	52.6	39.0	8.4
Aug	56.0	37.3	6.7
Sept	55.1	38.8	6.1
Oct	58.7	37.7	3.6
Nov	56.3	42.1	1.6
Dec	53.8	44.4	1.8
2009 TOTALS	48.0	45.5	6.5
2010			
Jan	53.7	44.5	1.8
Feb	46.7	52.2	1.1
Mar	53.7	43.1	3.2
Apr	61.3	38.0	0.7
May	56.4	43.6	-
June	60.7	38.9	0.4
July	62.3	37.4	0.3
August	60.2	38.8	1.0
September	50.2	46.9	2.9
October	51.4	45.3	3.3
November	43.7	55.1	1.2
December	51.6	46.4	2.0
2010 TOTALS	54.5	44.1	1.4
2011			
January	45.0	54.1	0.9
Feb	45.1	54.9	-
Mar	53.1	46.9	-

Percentage of Purchase Cases that are First Time Buyers	
2009	
Jan	6.7
Feb	6.7
Mar	10.6
Apr	9.2
May	10.0
Jun	11.5
Jul	5.5
Aug	6.0
Sept	6.3
Oct	9.7
Nov	7.5
Dec	5.9
2009 TOTAL	8.2
2010	
Jan	8.4
Feb	10.5
Mar	6.5
Apr	8.8
May	6.9
June	4.5
July	10.7
August	15.3
September	7.5
October	7.4
November	5.5
December	5.5
2010 TOTAL	8.1
2011	
January	4.7
Feb	6.7
Mar	7.3