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## **ARRANGING MORTGAGES COSTS CASH-STRAPPED CONSUMERS NEARLY £3 BILLION**

- **Race to fix: fixed rate mortgages are flooding the market but come at an expensive premium – the average mortgage arrangement fee is £1,044, but the average fee for a fixed mortgage is £1,054 compared to £1,017 for a tracker mortgage<sup>[1]</sup>**
- **Cash-strapped: a third of people (35%)<sup>[2]</sup> have added arrangement fees to their mortgage instead of paying upfront – this rises to nearly half (49%) among 25-34 year olds<sup>[2]</sup>**
- **Losing interest: the biggest arrangement fee on the market is currently £1,875, which could end up costing £3,519 if added to the mortgage<sup>[3]</sup>**
- **Cashing in: Brits pay nearly £3 billion more by adding arrangement fees onto their mortgage<sup>[4]</sup>**
- **Another way: putting arrangement fees on a 0% interest purchase credit card for 13 months would save borrowers on interest on their mortgage<sup>[5]</sup>.**

Fears about an increase to the base rate have led to a flurry of fixed rate mortgage deals hitting the market, but new research from [uSwitch.com](http://uSwitch.com), the independent price comparison and switching service, reveals that consumers are facing a double whammy on mortgage set-up fees. Not only are they being asked to fork out £1,044 on average just to set their mortgage up, but if they then add this to their mortgage the amount could increase to £1,701<sup>[4]</sup>. With 11.4 million mortgages in the UK at the moment, the mortgage industry is raking in an additional £2.6 billion<sup>[4]</sup> on set up fees alone.

Homeowners keen to fix ahead of a rise in the base rate are penalised twice. While the average mortgage arrangement fee is £1,044, the fee for a fixed rate mortgage is £1,054. This compares to £1,017 for a tracker mortgage. If the average arrangement fee of £1,054 for a fixed rate mortgage is added to the mortgage it increases by £720, or 70%, to £1,791<sup>[6]</sup>. But things could be even worse, with the maximum fee for arranging a mortgage currently £1,875<sup>[3]</sup>. Over 25 years, interest of £1,185 will inflate this fee to a staggering £3,060<sup>[3]</sup>.

The average deposit is now £34,000<sup>[7]</sup> and finding the money for fees at an already expensive time is even harder for young Brits. Nearly half (49%) of 18-34 year old

homeowners added the fees to their mortgage compared to just a fifth (22%) of over 55s<sup>[2]</sup>.

If borrowers don't have savings to dip into to cover the fees, one pain free way of paying them is to use a credit card offering 0% on new purchases. By putting the average fixed rate mortgage fee of £1,054 on a standard 13 month purchase card, people could save on interest and would have to set aside just £81 a month to clear it<sup>[5]</sup>. If the same fee was added to the mortgage, it would have already cost £26.36 in interest over the same 13 month period<sup>[5]</sup>. The important thing here though is that the borrower clears the debt within the 0% period, otherwise they will be hit with a hefty interest rate.

**Michael Ossei, lending expert at [uSwitch.com](https://www.uswitch.com), says:** "With a potential base rate rise looming, more people are being tempted to fix their mortgage. But with higher arrangement fees, this is a real catch-22 for consumers who are struggling to find the funds to pay mortgage set-up costs and who fall into the trap of adding them to their mortgage. It may be convenient, but it comes at a hefty cost. For first time buyers especially, these fees could be what stops them getting on the ladder. But adding fees to a mortgage will see the cost snowball.

"Adding arrangement fees to a mortgage should always be seen as a last resort. But if you cannot afford to pay them upfront, putting the fees on a credit card offering 0% on purchases can help spread the cost painlessly. Consumers just need to make sure they can pay the amount off in full at the end of the introductory period.

"Regardless of how and when people choose to pay these fees, they must do their sums carefully. They should also ask for figures to show the overall impact on the amount of interest paid. By doing your homework into what mortgages are available, and what options there are for putting your fees on credit, you can make sure you don't get stung."

#### **Michael Ossei's top mortgage fee tips:**

- **Look beyond the headline.** A Key Facts Illustration (KFI) will provide you with a personalised quote for the total cost of a mortgage. Depending on your circumstances, a slightly higher monthly interest rate with no arrangement fee might be a better deal than a lower rate with a large fee up front.
- **Overpayments can save you money.** The size of most mortgage loans and the standard 25 year term means that the amount paid back in interest is much greater than the amount originally borrowed. Reducing the outstanding capital by even a small amount makes a big difference and this could significantly reduce the overall cost of the mortgage. Overpayments substantially reduce the length of your mortgage and therefore result in lower interest costs. You will however need to check with your mortgage lender to see what kind of overpayments they allow as restrictions often apply.

- **Be in the loop.** If your mortgage advisor automatically adds the fees onto your mortgage without you realising, make sure this is rectified as soon as possible. If you have any problems with this, escalate your complaint to the FOS. If you don't it will cost you extra money in the long run.
- **Do your sums.** Calculate the true cost of the mortgage by dividing the fee by the number of months the mortgage deal lasts. For example, a two year fixed rate mortgage with a £1,000 fee actually costs an extra £41 per month on top of the advertised APR (excluding interest).
- **Opt for a longer term loan.** Lenders are able to extend the length of the loan to up to 30 years which will give you lower monthly payments. However, the longer the mortgage, the more interest you will pay, so the tip is to look at reducing the length of your mortgage as soon as you can.
- **Consider a tracker.** If you take out a tracker but overpay as much as you can (most mortgages will let you overpay by up to 10pc each month without charging you) then that might be a faster way to pay off your mortgage rather than fixing.

For more information visit [www.uSwitch.com](http://www.uSwitch.com) or call 0800 093 0607

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#### Notes to editors

Research carried out online with EasyInsites in March 2011 amongst a sample of 1,019 GB adults.

1. Source: Moneyfacts. Average arrangement fees are: fixed mortgage = £1,054; average mortgage = £1,044; tracker mortgage = £1,017.
2. From the research: Of those who had a mortgage, when asked 'Did you add the arrangement fee to your mortgage, or did you pay it up front?' 35% said 'added it to my mortgage'. Amongst 18-34 year old this was 49%; amongst 55+ it was 22%
3. Based on West Brom BS' 2 year fixed mortgage which charges a 1% arrangement fee.  
[http://www.westbrom.co.uk/westbrom/mortgages.product?id=5183&insearch=true&changingproduct=&category\\_id=1](http://www.westbrom.co.uk/westbrom/mortgages.product?id=5183&insearch=true&changingproduct=&category_id=1) . Based on the max LTV of 75%, on the max amount of £250,000, this means an arrangement fee of  $0.01 \times (0.75 \times 250000) = £1,875$ . If this was added to a 25 mortgage, the total cost would be £3,519, considering an APR of 5.7%. This is an additional £1,644 - using Charcoal mortgage calculator.
4. The average arrangement fee for a mortgage is £1,044. If added to the mortgage, based on an average APR of 4.29%, consumers will pay an extra £657 in interest over a 25 year mortgage [using Charcoal mortgage calculator]. There are 11.4 million mortgages in the UK [<http://www.cml.org.uk/cml/media/press/2861>] and 35% of people add fees to their mortgage. Therefore the total cost is  $£657 \times (0.35 \times 11.4 \text{ million}) = £2.62143 \text{ billion}$
5. If the fees were put on a 0% purchase credit card for 13 month and paid off at the end of the introductory period, consumers would pay off a final bill of £1,054. Putting the average arrangement fee for a fixed mortgage of £1,054 onto a mortgage for 13 months would bring the cost of the fees to £1,080.36. This is an extra £26.36 in interest.
6. The average arrangement fee for a fixed mortgage is £1,054 [source: Moneyfacts]. The average APR for a two year fixed mortgage is 4.59%. Based on these figures, the total cost of adding the fee to the mortgage, over 25 years, would be £1,773. This means the consumer will pay an extra £719 in interest. Using Charcoal mortgage calculator.
7. Average deposit: <http://www.telegraph.co.uk/finance/personalfinance/borrowing/mortgages/8354385/Eight-years-to-save-for-a-deposit-as-first-time-buyers-forced-to-rent-for-longer.html>

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The service is also available via fax and post. Consumers should fax 020 7233 5933 or write to Customer Services, uSwitch.com, Centro 3, 19 Mandela Street, London, NW1 0DU, with their postcode and usage details.

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