Habito unveils ‘4 Months’ Notice’ commitment to alert all customers when to switch and urges all mortgage lenders to do the same

Thursday 8 August, 2019

- More than half (55%) of mortgage holders could save nearly £300 per month by switching, costing the UK £15.5billion a year

- Only 1 of the UK’s ‘Big Six’ mortgage lenders commits to giving customers 3 months’ notice, prior to their rate changing
- Habito is promising to alert every customer with a ‘4 Months’ Notice’ before the end of their fixed-rate period, to avoid falling on to their lender’s expensive SVR

Habito, the UK’s first online mortgage broker and lending platform, has unveiled plans to tackle the issue of British homeowners paying over the odds from lapsing on to their lender’s standard variable rate (SVR) by launching its 4 Months’ Notice pledge - a commitment to ensuring all its customers have adequate time to switch their mortgage prior to their fixed rate deal ending.

Habito research found that 55% of mortgage holders could save nearly £300 per month by switching, equating to £15.5billion across the nation every year[1]. And in its Mortgage Market Report published earlier this year, the FCA estimated that more than 2million customers had been on a reversion rate for 6 months or more and that more than half a million consumers had been on one for more than five years[2].

In most cases, a lender’s standard variable rate is typically somewhere between 4.24% and 4.99% meaning that someone paying off their mortgage at a rate of somewhere between 1.89% and 2.29% during their fixed term could see their monthly payments jump by up to a third when they move on to the lender’s SVR.

By signing their mortgage terms and conditions, a mortgage-holder acknowledges that their introductory rate is for a fixed period of time only and that it's up to them to remortgage to a competitive rate, or do nothing and lapse on to paying their lender’s higher SVR rate. However, Habito’s research showed more than two thirds (67%) of people do not read their mortgage contract to the end, meaning many are unaware that the onus is placed on them to switch in time[3].

Currently there are no guidelines for lenders to give their customers any notice that their fixed term is ending, or indicate if they could save by switching to a better deal. Research conducted by Habito found that only one of the UK’s top six mortgage lenders (by market share) commits to giving their customers three months’ notice. Half said they ‘try’ to notify their customers before the end of the term, ‘normally’ via a single letter in the post, while one lender said it could wait as late as one month prior, and one even said it gives no notice whatsoever. The average remortgage takes at least one month, and up to two months to complete.

Daniel Hegarty, Founder and CEO of Habito, said “We’re calling for mandatory communications notices from all mortgage lenders and banks starting at 4 months prior to the initial period ending, and across email and text. As is so often the case in traditional financial services, loyalty is penalised rather than rewarded. The longer you stay with the status quo, the more you pay. People deserve better than that - they need the right information about their mortgage, given at the right time, to make the right choice on what’s best for them.”

“We strongly believe we have a duty of care to our customers to ensure that whoever their mortgage lender is, we help them avoid the trap of spending more than they should on their mortgage. It can take anywhere up to 8 weeks for a remortgage to complete so if a customer is only notified the month before the end of their deal, they’ll most likely end up paying the lender’s SVR. This could see their mortgage payments soar by 30% from one month to the next.”

Varying degrees of communications around a customer’s fixed-rate period ending was also established in the FCA’s Mortgage Market Report, which found that “not all firms engage with all customers”. The report cites, “one large lender appears to segment their customers and focus retention efforts based on an assessment of a customer’s likelihood of switching to a different lender. Another large lender has historically not sought to proactively engage with customers remaining on a reversion rate for longer periods.”

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This situation is not the case in Ireland, where new regulation was brought at the start of this year to force lenders and banks to notify all customers two months before their fixed-rate mortgage term ends and provide details of the new rate and other possible remortgage options. In the UK, standards for communications have been in place since 2017 for insurance firms to tell customers when they could save money by shopping around and similar regulation exists in the annuity market to help customers get the best price for their pension annuity.

Tellingly, 95% of people surveyed by Habito wanted the language used in mortgage contracts to be made simpler to understand and 93% said they want to engage with their mortgage more than once a year[4].

Habito issues text message alerts and emails to its customers with 4 months to go on their current deal, notifying them of its end date and next steps for preparing to switch their mortgage. Before this, as a Habito customer reaches the final 12 months of their fixed term, Habito also sends customers using Google and Outlook, a calendar notification that they can use to diarise the 4 Months' Notice date in their diary.

- ENDS -

About Standard Variable Rate (SVR)

The standard variable rate - or SVR - is the higher rate of interest that a homeowner will pay after their fixed term expires. In most cases, a lender's standard variable rate is typically somewhere between 4.24% and 4.99% meaning that someone paying off their mortgage at a rate of somewhere between 1.89% and 2.29% during their fixed term could see their monthly payments jump by up to a third when they move on to the lender's SVR. For a borrower who took a 2.26% 2-year fixed rate in July 2017 for a £270,000 mortgage, not remortgaging last month would mean that in August their payments would surge by £384, and amount to an extra £4,608 per year in interest payments.

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