
From The Times

August 8, 2009

Is the mortgage freeze finally thawing?

Are rates still climbing and should you fix or opt for a tracker? We explain the latest developments in a confusing market

James Charles

Mortgage brokers have predicted that the decision by the Bank of England to pump a further £50 billion into the economy could result in cheaper fixed-rate deals in the coming weeks.

It is hoped that the new round of quantitative easing (effectively the printing of money) announced on Thursday will reduce the cost to banks and building societies of borrowing on wholesale money markets, which could be passed on to homeowners in the form of lower fixed rates.

Ray Boulger, of John Charcol, the broker, says: "If you are remortgaging and want the security of a fixed-rate deal, there would be no harm in waiting to see where the market goes."

The week began with good news for homeowners when Nationwide Building Society reduced the cost of its fixed-rate and tracker loans by up to half a percentage point. The cuts were focused on deals for homeowners needing to borrow up to 60 per cent of the value of their property.

However, a number of other lenders increased the cost of fixes, including the Chelsea, Yorkshire and Principality building societies. Woolwich, owned by Barclays, raised its fixed-rate deals by up to half a percentage point yesterday, though it did cut its tracker deals marginally.

Aaron Strutt, of Trinity Financial Group, another broker, says: "Banks and building societies are still using interest rates to control the volume of new lending."

Lenders have been increasing the cost of fixed-rate deals in recent months to reflect rising wholesale borrowing costs. The average five-year fix has jumped from 5.59 per cent to 6.2 per cent since June, according to Moneyfacts.co.uk, the financial website. However, the average two-year tracker rate has barely moved, edging up from 3.74 per cent to 3.78 per cent in the same period.

The widening gap between best-buy tracker and fixed-rate deals is encouraging a growing number of homeowners to gamble on the economy and remortgage to trackers.

John Charcol says that new loan applications for July showed a sharp swing away from fixed-rate deals in favour of mortgages that track the base rate. Almost a third of new deals last month were for variable-rate deals, compared with only 15 per cent in June.

The most competitive tracker on the market is a three-year deal from the Co-operative Bank, pegged at 1.89 percentage points above the Bank of England base rate, giving a current pay rate of 2.39 per cent. It is available on loan-to-value (LTV) ratios up to 75 per cent and has a £995 fee.

The equivalent best-buy three-year fixed rate from Royal Bank of Scotland has an interest rate of 4.39 per cent. It is also available up to 75 per cent LTV and has a fee of £499.

Homeowners who have a £150,000 interest-only loan would be £9,000 better off over three years if the base rate stays at 0.5 per cent. If the base rate climbs by a full point to 1.5 per cent midway through the term, borrowers would still be more than £6,000 better off with the tracker.

Economists believe that the Bank of England is unlikely to raise the base rate by more than one percentage point in the next year.

Mr Boulger says: "There is a premium on fixed-rate deals at the moment because the market predicts that rates will rise. However, if the base rate remains low for at least the next year, as many economists are predicting, it will be worthwhile opting for a cheaper tracker."

The debate over the merits of fixes and trackers excludes first-time buyers, who are currently offered only fixed rates of about 6 per cent. HSBC, for example, is offering a five-year deal with a rate of 5.99 per cent. This loan is available to borrowers who have a 10 per cent deposit. The deal requires a £999 fee.

Despite encouraging signs that house prices have stabilised, lenders continue to tighten loan conditions for borrowers with smaller deposits. Last week Royal Bank of Scotland joined a growing band of lenders who insist that borrowers with smaller deposits take capital-repayment mortgages, rather than cheaper interest-only deals.

Despite the shortage of good deals, and the growing list of restrictions, mortgage brokers reported a jump in applications from first-time buyers last month. Mortgageforce said that new entrants to the market made up 20 per cent of applications in July, up from 9 per cent in June.

Meanwhile, figures from Halifax this week showed that house prices rose for a second consecutive month in July.

The Council of Mortgage Lenders (CML), the trade body that represents 90 per cent of mortgage lenders, released the findings of a study suggesting that first-time buyers are receiving substantial help from their parents. When researchers at the CML stripped out buyers who were receiving help from their parents, the average age of first-time buyers jumped from 29 to 37.

David Hollingworth, of London & Country Mortgages, another broker, says: "The bank of mum and dad continues to play a crucial role in propping up first-time buyers' ability to purchase, and those unable to get family assistance are being forced to save for longer."

However, the CML believes that optimism in the housing market could encourage lenders to improve and expand their deals for first-time buyers with small deposits. Sarah Robson, of the CML, says: "Banks and building societies have said that they will be more confident about lending to borrowers in higher LTV tiers over the next three months."

[Contact our advertising team](#) for advertising and sponsorship in Times Online, The Times and The Sunday Times, or place your [advertisement](#).

Times Online Services: [Dating](#) | [Jobs](#) | [Property Search](#) | [Used Cars](#) | [Holidays](#) | [Births, Marriages, Deaths](#) | [Subscriptions](#) | [E-paper](#)

News International associated websites: [Globrix Property Search](#) | [Milkround](#)

Copyright 2009 Times Newspapers Ltd.

This service is provided on Times Newspapers' [standard Terms and Conditions](#). Please read our [Privacy Policy](#). To inquire about a licence to reproduce material from Times Online, The Times or The Sunday Times, click [here](#). This website is published by a member of the News International Group. News International Limited, 1 Virginia St, London E98 1XY, is the holding company for the News International group and is registered in England No 81701. VAT number GB 243 8054 69.

