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Cheaper deals for borrowers with small deposits

Competition forces Britain's biggest mortgage lenders to cut interest rates by up to 0.74 percentage points

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Mortgage lenders have dramatically reduced the cost of some of the most popular home loans and those aimed at borrowers with smaller deposits, as competition to attract new customers intensifies.

Santander, the UK's second largest mortgage lender, formerly known as Abbey, has cut interest rates by up to 0.74 percentage points on its two-year tracker deals, reducing the cost of repayments on a £150,000 interest-only mortgage by almost £100 a month.

The loans have a new lower rate pegged at 2.75 points above the Bank of England base rate, a pay rate of 3.25 per cent, and are available up to 80 per cent of a property's value.

The Co-Operative Bank has also unveiled a market-leading two-year fixed-rate deal available up to 75 per cent of a property's value at 3.19 per cent, with a £999 fee. It is also offering a new two-year fix available up to 85 per cent of a property's value with an interest rate of 4.49 per cent. The deal has a £999 fee.

Northern Rock, the state-owned lender, and Chelsea Building Society have also cut mortgage rates by up to half a point today.

Brokers have welcomed signs that mortgage lenders are increasingly confident about offering competitive deals to borrowers with smaller deposits after house prices stabilised in the second half of last year.

However, wider activity in the mortgage market remains limited, despite a flurry of interest rate cuts by lenders in recent weeks, as millions of homeowners opt to sit on a standard variable rate (SVR). Many borrowers are delaying the decision to remortgage onto a new deal until the Bank of England raises the base rate, expected towards the end of the year.

Brokers have warned that while a number of lenders, including Nationwide Building Society and Lloyds TSB, have low SVRs, smaller lenders have been raising these rates in recent months. A survey conducted for the Post Office found that a third of homeowners are on their lender's SVR, but 29 per cent do not know what this rate is.

Aaron Strutt, of Trinity Financial Group, the broker, said: "There will be hundreds of thousands of homeowners on SVRs which are not as competitive as the best deals available from their lender. Moving onto a new deal could significantly reduce the cost of monthly repayments for many homeowners."